Understanding Development: Theory and Practice in the Third World

THIRD EDITION

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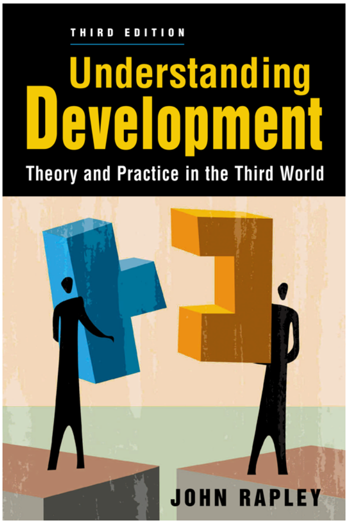

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The Progress of Development

Development has come a long way in the past six decades. As both an enterprise and a scholarly discipline, development became significant in the period immediately following World War II. The Western world confronted the new challenge of rebuilding countries—and in Europe, a continent—that had been shattered by war. The institutions that would help manage this process, such as the International Bank for Reconstruction and Development (which soon came to be known as the World Bank), were created for the task. Alongside them arose a tradition of theorizing about the special challenges facing backward regions and countries, and the means by which these challenges could be met in such a way as to put these areas on sustainable paths to industrialization.

In those days, development was considered largely synonymous with industrialization. Its ultimate goal was fairly clear: to raise incomes and in the process give poor people access to the range of goods and services then widespread in developed societies. It was, in short, about getting richer or more prosperous; and prosperity was measured in dollar figures. Moreover, given the state of the industrial countries at that time, and the lessons their experiences had taught, industrialization—and in particular, the creation of a country's capacity to manufacture finished goods—was seen as essential.

Another new reality lent force to this push to industrialize: the coming of independence to the former colonial empires of Europe, a process that picked up speed in the wake of the war. By and large, Asian and African countries came to independence poor, and were eager for two reasons to speed up their development. One was the obvious fact that they sought to provide better lives for their citizens. The second was the obvious need to consolidate their independence, to convert newly won nominal political equality with the rich countries into an economic equality that would earn them the respect and sense of self-dignity they felt had been denied them under colonialism. And the lessons of the early postcolonial age, particularly those recently learned in Latin America (where independence had come in the previous century), crystallized around a common set of assumptions. The scholarly literature of the time only reinforced this push: development was about using the state to spearhead the process of modernizing the society and raising its incomes.

If one were to use the conventional ideological spectrum to measure where a school of thought would lie, development thinking would then have started out among the more left-wing branches of the social sciences. In the twentieth century, the left—which included not only socialists and communists but also modern liberals—generally, if not always, favored using the state as an agent of social transformation. The state, it was held, could both develop economies and alter societies in such a way as to make them suit human needs. Underlying this was a belief that the state could embody collective will more effectively than the market, which favored privileged interests. Although the old right, from conservatives to fascists, also favored strong states and held an equal suspicion of the market, as a political force it declined throughout the post–World War II period. In its place emerged a new right based on resurgent classical liberalism that regarded the state as a potential tyrant and venerated the freedom and productive potential of the market.

However, by the early postwar period, development thought, like conventional economic wisdom, was really neither left nor right, for the simple reason that a broad consensus had come to coalesce around certain core assumptions. Its thrust was that economies needed more state intervention than they had been given in the past (in fact, in Latin America it was right-wing authoritarian regimes that began employing statist development strategies). Meanwhile, the horrors of the Depression and postwar political developments had given Keynesian economics pride of place in both academic and policy circles in the first world. This influenced both third-world academics and foreign advisers to newly independent countries, whose confidence in the state was further reinforced by the emergence of structuralist economics. Aware of the imperfections in the market and the world economy, and confident that the state could overcome them, development theorists proposed models that assigned the state a leading role in the economy. Many third-world governments, some of which had just won their independence, eagerly adopted the models, for they seemed to promise a rapid journey into the industrial age.

At first, the models seemed to deliver just that. With the postwar world economy booming, demand for third-world products rose. This provided third-world governments with the capital they needed to develop their industry and infrastructure. However, as time went by, problems in these strategies came to light. It became increasingly clear that many third-world economies were growing more slowly than required to continue improving the standards of living of the world's poorest citizens. The industrial development that took place consumed more resources than it generated, a waste exacerbated by inefficient states. When the postwar boom came to an end in the 1970s, the shortcomings of state-led development became plain.

It was around this time that the right began to resurface. Dissident voices belonging to an old-school, neoclassical theory had for decades been firing occasional volleys from the sidelines of development studies. They claimed that the main problem in the third world was the state itself, and that rapid development could only come about if the state was rolled back. At the same time, as earlier development models became compromised, new left-wing schools of thought—in particular, dependency theory—arose to claim that the market itself was the problem, and that if anything was needed, it was a greater role for the state. The development debate polarized. By the late 1970s the left had become politically weak, its theorists engaged either in internecine squabbles or in strident defenses of orthodoxy. The time was ripe for neoclassical theory to start a revolution. First-world electorates and governments, anxious for solutions to the worsening economic situation in their countries, looked to the new ideas and turned to the new right. This initiated a long attack on the state and the other institutions, such as unions, that were seen to be hindering the operation of the market. First-world donor agencies began pressuring third-world governments to make similar changes in their policies. Many third-world governments acceded reluctantly, because the debt crisis had weakened their bargaining power with their creditors. Others rolled back the state more eagerly, because local constituencies had already started pushing for reform.

Less state, more market: this was the essential thrust of the strategy known as structural adjustment, which was soon applied in much of the third world. The idea seemed sound, but as time would tell, structural adjustment contained its own problems. Its shortcomings, which grew more evident with the passage of time, shed a new and damaging light on neoclassical theory. Structural adjustment yielded some positive gains in some of the more advanced third-world countries. However, in the poorer countries, those most in need of rapid change, it was less effective, and in some places actually did more harm than good. While out of power, neoclassical writers, like any opposition, could proclaim their theory's perfect virtue and point to the imperfections of the governing party. Once in power, though, neoclassical theorists had to defend policies that were not working in quite the way the public had been led to expect. Meanwhile, the left had been liberated by its journey through the political wilderness. No longer required to defend sacred truths and orthodoxies, it was free to begin a new debate. Whereas neoclassical theory remained dominant in practice, in the academic realm the pendulum began to swing back toward the left—though perhaps not as far as it went in the postwar period, and not even toward the same corner. For if the old left had died, what had arisen to take its place was a new left.

From its statist, modernist, and essentially liberal beginnings, development thought had gone through an imperfect neoclassical phase. But the problems encountered by neoclassical thought did not long cause the pendulum to simply swing back toward an old left of state-led development. On the contrary, by the 1990s, a wholly new critique had emerged. Influenced by postmodern currents of thought, and finding its popular voice in the antiglobalization movement that mushroomed in the course of the decade, this type of thinking, in development studies, came to be known as postdevelopment theory. Because of its staunchly modernist credentials, the initial reaction of development studies to the postdevelopment critique was skepticism, even outright hostility. But as the twenty-first century drew nearer, the ideas of the postdevelopment thinkers were gaining an ever wider audience. Besides, some of their concerns actually dovetailed with some emergent trends in the more conventional literature.

Left-wing statism and right-wing free-marketeering were united by a common goal: the attainment of development. The means were what differed. Postdevelopment thought broke from this strained agreement. It questioned the whole concept of development itself, arguing that it was never intended to better citizens' lives. Development was charged with being unconcerned about prosperity; rather, it was said to be geared toward establishing external control over citizens' lives. Development was allegedly preoccupied with drawing citizens into the formal networks of circulation, where they could be taxed, thereby consolidating the state's control over their lives. To reject development was therefore now redefined as a celebration of individual or subaltern emancipation.

And the rallying cry of some in the antiglobalization movement was a clarion call to reject the sirens of development and allow a million voices to contend.

As is often the case with new currents of thought, postdevelopment thought has been more heard than implemented. Yet that is not to diminish the impact it has had on the field. If its wholesale repudiation of development has gained little traction, research on the economy has tended to cast a positive light on some of its general ideas. To begin with, its call for a more decentralized and participatory approach to development has actually fit nicely with neoclassical calls for such, since both are animated by a desire to weaken the hold of centralized states over citizens' lives. Although China's recent boom continues to fascinate the world, its model of authoritarian state-led development is increasingly treated as exceptional, if not undesirable;[1] elsewhere, state planning is increasingly seen as the relic of a bygone age, and it seems unlikely it will come back into fashion anytime soon. In the 1990s, the continued success of East Asia in the wake of the apparent failings of neoclassical policies led to a brief burst of popularity of the so-called developmental-state model, which seemed to justify a return to state-led development in some form. The model's general applicability was overstated, though. In any event, it arguably came to an end during the 1997–1998 Asian financial crisis. Then, the specter of fiscal collapse briefly augmented the power of the International Monetary Fund (IMF) and, with it, that of the US Treasury Department.[2] Together, they exploited moments of weakness in East Asian governments to force neoclassical theory onto their agendas. And while liberalization enjoyed an imperfect reception in these countries in the years that followed, the variation in its adoption simply revealed that there was never a developmental-state model as such, but simply variants of a common theme that seemed peculiar to a particular time and place.[3]

Partly as a result, development theory is today less programmatic, and more concerned with flexibility and adaptability. Discussions of the state, particularly the large body of literature that flows from the World Bank and aid community, revolve less around the question of whether more or less state is good for development; rather, there is a widening agreement that "better," rather than more or less, is what matters when it comes to the public sector, and the literature has turned to the more mundane but all-important matter of how to improve administrative and technical capacity in third-world public sectors. This kind of localized, particularistic, and flexible approach to development is, in the end, not that far from what postdevelopment thought has advocated.

Equally, postdevelopment thought has called for a return to the stress on people as both the measures and the determinants of development. In the past, the single-minded determination to rapidly develop economies and strengthen states led to abuses, at times, of individual freedom; ordinary lives could quite readily be sacrificed on the altars of national independence. Saddam Hussein's draining of the marshes of southern Iraq, which destroyed a people's way of life (not to mention the lives of a good many of the people themselves), could find justification in some of the more energetic reasoning in the canon of development thought. But the call for people to be restored to the front and center of development thought was not peculiar to postdevelopment thought. After all, neoclassical economics, with its call for macroeconomics to be replaced by microeconomics, always placed its faith in the operations of an economy filled with liberated individuals, even if its practices paradoxically sometimes led to the loss of liberty by those same individuals.

Moreover, the very concept that justified national development—the principle of state sovereignty—has come into question in a global age. Sovereignty, the basic principle that there is an ultimate authority in every country—the state—and that it not only enjoys authority over all other authorities in its land, but can also resist the efforts of all foreign sovereigns to meddle in its affairs, has arguably had a rough ride of late. Postdevelopment suspected its intentions, and neoclassical theory tended to celebrate its perceived demise in a "borderless world."[4] But the reality is that in a global age, sovereignty has increasingly come to be contested by agents both above and below the state who have gnawed away (often with its consent) at its powers. Even if it wanted to spearhead national development along Keynesian lines, a state today would find it difficult to do so.

So out of this seemingly unlikely meeting of postdevelopment thought and neoclassical economics, a new consensus seems to be emerging. Just as the radical left's call to smash capitalism was in the postwar period subsumed into the moderate left's campaign to use the state to make capitalism more humane, so too has postdevelopment theory's call to reject development remained marginal, while its calls for decentralization, participation, and emancipation have gained widespread acceptance.

At the same time, some of the evident failings of neoclassical theory in practice have caused its theorists and practitioners alike to reconsider some of their assumptions. In the wake of the Asian financial crisis, a wave of unrest in developing countries, coupled with the vehemence of street demonstrations at international financial gatherings, drew attention to the inequitable gains of the age of free markets.[5] At the same time, third-world countries began to balk at a world trading system that had been operating largely in favor of the rich countries. At the 1997 summit of the World Trade Organization (WTO), refusal to go along with a US-imposed fast-track approach that threatened to further marginalize developing countries brought the talks to collapse. Subsequent WTO meetings reinforced this refusal by third-world governments to go along with trade negotiations that they believed excluded their concerns. Eventually, the rich countries came to accept the necessity of putting the concerns of third world countries on the agenda if there was to be any hope of rescuing the trade talks. Hence the Doha round came to widely be seen as the turn of the third world.

Meanwhile, the management of the Asian crisis by the International Monetary Fund, which for a brief time seemed to become a virtual arm of the US Treasury Department, came under harsh criticism from within the ranks of neoclassical thought, the most powerful and influential critique being Joseph Stiglitz in his book *Globalization and Its Discontents*.[6] Although the IMF would respond to this attack in a celebrated media exchange, it did appear to shake the confidence of the institution in its neoclassical remedies. Concern at the harsh social effects of structural adjustment, as well as at the iniquity of a global financial system that spreads risk between borrowers and lenders in private markets but compels governments to bear the full risk involved in bond issuance, began to percolate into even the IMF.[7]

Finally, the concern with individual well-being also began to work its way into development theory. In his highly influential book *Development as Freedom*,[8] Amartya Sen returned the focus of scholars to the human individuals who were to benefit from the greater freedom that development was to bring. Raising incomes was one way to augment individual liberty, but there were others as well, and repressing those liberties in a blind quest to raise output was exposed as a Pyrrhic victory. Meanwhile, the neoclassical focus on decentralizing administration to make government leaner, more flexible, and better adaptive left room for the sort of participatory development celebrated by postdevelopment theorists.

This coalescence of scholarly opinion around the needs of both people and poor countries, away from programmatic commitments to more (or less) government and toward pragmatic commitments to better government, happened to occur at a time when the power balance between the first world and the third world had shifted in important ways. The key factor driving this new development was the rise of China and, more recently, India. Following China's gradual reinsertion into the global economy, beginning in the late 1970s, its resurgence has been nothing short of spectacular. From a relatively small and isolated economy at the height of its Maoist phase, China is on track to resume its place as the world's largest economy in the coming decades. More recently, India has been powering ahead, recording growth rates well in excess of what had long been derided as the "Hindu rate."[9] These developments have had two significant effects on the world economy, both of which have conspired to open a potentially beneficial window to developing countries. China's surging manufacturing sector has dramatically expanded the globe's manufacturing capacity, while driving up demand for primary commodities. The result has been a global disinflation, and even deflation, for many manufactured goods, at the same time that commodity prices are rising. In short, the terms of trade may have shifted in favor of primary products for the first time in decades. This effect may only be cyclical. Meanwhile, the terms of trade may have shifted particularly strongly against *labor-intensive* manufacturing, which will have negative implications for some developing countries. But for the time being, countries that rely on primary exports for much of their revenue—which is to say, many third-world countries—may enjoy a few bright years.

Meanwhile, in both China and India, diasporas have played vital roles in the resurgence of their countries. Much of the capital driving the China boom has come from offshore Chinese, while Indians have been instrumental in forging linkages between service firms in India and contractors back in the industrial countries. This would seem to offer a model for the future, and it is interesting to note the context in which these émigré-driven investment booms have occurred. During the Asian financial crisis, masses of capital fled the third world and parked in the safe haven of US Treasury securities; this was what produced the great US boom of the late 1990s. But this capital drove security prices higher in the US, lowering rates of return. It was to be expected that, sooner or later, this "global saving glut"[10] would go into reverse, bringing a flood of investment capital back into the third world. The early signs of this began to emerge at the start of the twenty-first century as "emerging markets" came back into vogue among US investment houses.[11]

Taking all this into account, it is not out of the question that a new development age, as propitious as the two decades that followed the Second Word War, may have begun with the twenty-first century: world prices began to favor the third world; a palpable desire to make trade operate to its advantage emerged; the major multilateral agencies began showing a growing sensitivity to the plight of poor people at a time when neoclassical academics had equally started to place them back in the center of development thought;[12] capital flows started to move in favor of the third world; and development theory as a whole became more people-focused, or certainly more people-sensitive, than it had been for a long time.

Still, all is not rosy on this morning horizon. Grave challenges have emerged to confront not only developing countries, but indeed the entire planet. Most significant is the environmental challenge. Two decades ago, environmental issues were still fairly marginal in development thought. Now they are front and center. And while theorists may generally agree on the problem and its solutions—that rapid economic growth has led to pollution at rates the planet cannot presently absorb, and thus that capping and ideally reversing these emissions are central—practitioners have so far found it difficult to confront the difficult decision involved.

But so, too, the reinsertion of China into the world economy has altered the prospects of many third-world countries. China's resistance to democracy has enabled it to repress labor, keeping wages low and giving it an important comparative advantage in low-wage manufacturing. Many countries cannot compete. The traditional model that was employed in many third-world countries—moving up the product lifecycle chain by doing what first-world countries had already done, but more cheaply—will no longer be an option for all but the lowest-wage economies (that is, unless and until Chinese wages begin to catch up with the country's growth). Moreover, the consistent rise of the knowledge quotient of manufactured goods, globally, will attach a growing skills premium to output. Cheap labor alone will not be the asset that it was to many poor countries in the twentieth century. They will need cheap labor that is also increasingly skilled. This will raise the cost of human capital formation for governments that already struggle to adequately educate their people.

Furthermore, a case could be made that the sensitivity of the multilateral agencies has come too late, and is too little to make a difference. The International Monetary Fund is currently a shadow of its former self. The World Bank's influence has diminished greatly too: outside Africa, fewer and fewer governments borrow from the Bank to the extent that they look to it for guidance. The increased recourse by the world's governments to bond issuance (itself a by-product of financial globalization) and self-insurance—governments that once could have turned to the IMF during payments crises but now have accumulated large foreign reserves to do the task themselves—has reduced the influence of the IMF. The World Trade Organization has become more marginalized by a growing tide of protectionist sentiment in many first-world countries, which coexists with an increasing skepticism among academics toward the benefits of trade agreements.[13] Development theory may have gone a long way toward consensus. But its ultimate implementation depends on political leadership, including global leadership. And it remains to be seen if the twenty-first century will produce the kind of leadership required to truly bring an end to the kind of poverty and oppression that so filled the twentieth.

Outline of the Book

Chapter 2 charts the rise of statist development theory in the early postwar period, and Chapter 3 charts the theory's failures in practice. Chapter 4 looks at the neoclassical prescription for remedying the third world's underdevelopment, and Chapter 5 considers the uneven results that the neoclassical recipe produced. Chapter 6 examines the contemporary development debate, focusing on the "last stand" of state-led development, which arguably ended with the Asian financial crisis. Chapter 7 considers the feasibility of this statist model in a globalized world, and concludes that its time has more or less passed. Chapter 8 looks at postdevelopment thought, assessing both its feasibility in practice and the insights that it has given to the discipline of development studies. Chapter 9 concludes the book by looking at the elements that current research tells us will have to be brought into development theories, examining in particular the capacity of the global political economy to meet the challenges of environmental degradation.

Notes

1. Leong H. Liew describes China as being engaged in a "loose hug" at best of neoliberalism. Its large market gives the government bargaining power in international negotiations over industry support and market access, while the Chinese Communist Party has effectively co-opted the new middle and entrepreneurial classes that its reforms have created, and which elsewhere have served as the natural constituency for liberalization and democracy. This, he says, accounts for the persistence of a state-led (and successfully so) economy where elsewhere it has fallen from fashion. See Leong H. Liew, "China's

Engagement with Neo-Liberalism: Path Dependency, Geography, and Party Self-Reinvention," *Journal of Development Studies* 40,4 (2004): 167–192.

2. During the Asian financial crisis, the number of conditions imposed on borrowing countries reached unprecedented levels, with many of them having nothing to do with traditional measures of creditworthiness. For example, in order to access aid, the Indonesian government had to stop assisting its emergent automobile and airplane industries. See Morris Goldstein, "IMF Structural Programs," paper presented to the National Bureau of Economic Research conference "Economic and Financial Crises in Emerging Market Economies," Woodstock, Vermont, 19–21 October 2000, http://www.iie.com/publications/papers/goldstein1000.pdf. This particular condition owed less to the fiscal impact of these programs and more to the desire of US firms to penetrate a previously protected market. The US Treasury enjoys such clout because its voting strength at the International Monetary Fund has resulted in the practice that all policies are vetted by a US Treasury representative before they are presented to the board, in order to determine if they will win the all-important US approval. For details, see United States, Department of the Treasury, *Report to Congress in Accordance with Sections 610(a) and 613(a) of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1999* (Washington, DC, 2000), http://www.treas.gov/press/releases/docs/imfrefor.pdf.

3. For discussion, see Peter Evans, "Development as Institutional Change: The Pitfalls of Monocropping and the Potentials of Deliberation," *Studies in Comparative International Development* 38,4 (2004): 30–52; Stephan Haggard, "Institutions and Growth in East Asia," *Studies in Comparative International Development* 38,4 (2004): 53–81.

4. Kenichi Ohmae, *The Borderless World,* rev. ed. (New York: HarperBusiness, 1999).

5. For a further discussion, see John Rapley, *Globalization and Inequality* (Boulder: Lynne Rienner, 2004). See also the pioneering work of Frances Stewart, who measures inequality not by standard measures like the Gini coefficient, but assesses its distribution across groups—horizontal inequalities—and finds tensions emerging in places where standard measures of distribution might not reveal problems. A summary of work can be found in Frances Stewart, *Horizontal Inequalities: A Neglected Dimension of Development,* WIDER Annual Lecture Series no. 5 (Helsinki: United Nations University World Institute for Development Economics Research, 2001). See also Amy Chua, *World on Fire: How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability* (New York: Doubleday, 2002); Chua's argument, while based largely on personal observations and inferences, apparently finds confirmation in Stewart's research.

6. What made the book so sensational was the fact that it came from within the "inner sanctum" of the community that had produced the Washington consensus, Stiglitz having been the chief economist at the World Bank. See Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: Norton, 2002).

7. Ziya Öniş and Fikret Şenses, "Rethinking the Emerging Post-Washington Consensus," *Development and Change* 36,2 (2005): 263–290.

8. Amartya Sen, *Development as Freedom* (New York: Anchor, 2000).

9. After a decade of annual average growth of about 6 percent, India's

growth rate moved up to 8 percent in 2006. See *Financial Times* (London), 10 October 2006.

10. The term "global saving glut" was coined by US Federal Reserve Board governor (now chairman) Ben Bernanke in a speech he gave in March 2005. His argument, subsequently refined, was that during the Asian crisis there was a massive flood of capital from around the world into the safe haven of US financial markets, and particularly Treasury paper. This excess of supply drove down returns on capital in the United States, and created the conditions for a reverse wave of capital movement seeking higher returns in emerging markets. Fairly soon, declining risk premiums and stock-market booms in developing countries suggested that his prediction may well have turned out to be correct.

11. A similar vogue emerged in Europe as well, but it tended to favor the newly liberalized economies of Eastern Europe over those of the third world.

12. In this respect, it is telling that an economist like Jeffrey Sachs, who once trumpeted the virtues of "shock therapy" for economic adjustment, now calls for global campaigns against poverty. See his recent book *The End of Poverty* (New York: Penguin, 2005).

13. There is now considerable agreement among economists that trade is good for development (though that does not mean it is without difficulties, as this book will show). What is less clear is whether the World Trade Organization has itself played an instrumental role in the rise of trade in the past few decades, with some scholars suggesting that other factors—higher rates of productivity in tradeable goods, falling transport costs, regional trade associations, converging tastes, the global shift from primary production toward manufacturing and services, growing international liquidity, and changing factor endowments—might be behind the rise in trade. See Andrew K. Rose, "Do We Really Know That the WTO Increases Trade?" *American Economic Review* 94,1 (2004): 98–114.