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DEVELOPMENT THEORY ON RELATIONS BETWEEN THE STATE AND THE MARKET AND ON THEIR EFFECTS ON THE PERIPHERIES OF THE WORLD ECONOMY

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SUMMARY

This paper sums up the ideas of the great figures in the international literature of development economics.

There are three main trends in the theory of development economics. (1) The reform trend, which is more closely connected with the Keynesian background, emphasizes the way international conditions generate inequality and therefore need to be reformed in the end, while (2) some of the representatives of the New Left habitually use Marxist rhetoric, but place their arguments on a Keynesian basis, saying that the inequality of international exchange could be terminated by reducing wage differentials between the developed and underdeveloped world. (3) The neo-Marxists emphasize the inequality-producing effect of international ownership conditions, the unequal exchange, monopoly prices and other factors, but they do not consider that the existing international economic conditions can simply be reformed. The various trends in development economics agree that a very strong and effective economic-policy contribution by the state is needed. In this respect, their opinions resemble those of the expansion school and neo-Keynesianism, but they call for even more active state intervention, at least in less developed countries.

Like the Keynesian-based concepts in general, development theory went on the defensive in the 1970s. However, the period of 15–20 years in which liberal-orthodox development theories and the dependency schools dominated have become up-to-date again in some respects. After the 1980s, which were a lost decade for most countries in the developing world, the structuralist description of the world system as a hierarchical structure came to the fore again. However, the structuralism of the 1990s differed from its forerunner in many respects and became known as neo-structuralism.

From the geographical and historical aspect, this paper analyses the practices of economic policy in such developing countries as the NICs, Neru's India, Nasser's Egypt, the radical and non-radical countries of Africa, and the countries of Latin America after World War II. The main conclusions are as follows:

Development theories did not appear *a priori*, in isolation from reality. Briefly it can be said that the increased state contribution was necessary in peripheral countries that were short of capital and seeking new ways of development. Within the scope available, capital shortage and weakness of the entrepreneurial stratum had to be offset by state support for industrial development. There was also a desire to compensate for the inequality-producing, differentiating effects of the international economy. Few people queried this theory in the 1950s and 1960s, which was supported by the international institutions and the specialized agencies of the UN, including the World Bank and the IMF. In the developed capitalist countries, too, increased state intervention on Keynesian grounds was also on the agenda.

Except in the underdeveloped countries that took the state-socialist path (China, North Korea, Vietnam, Cuba), the state intervention stayed within the frames of state capitalism and was designed, with

some limitations, to stabilize the market conditions. However, important differences of emphasis occurred in the certain cases. It is clear from the examples given that the expressed or implicit aim of the intervention in these countries, even initially, was to assist in the emergence of a domestic stratum of entrepreneurs, to encourage foreign capital investment, and to promote integration into the world economy. In other countries the subjective endeavours of political leaders were to reduce the inequality-producing and income-withdrawing effects of market forces and the international conditions amongst them, and to ensure certain basic social rights (subsistence, general education, improved health care, *etc.*) by governmental means. However, they had diminishing success in doing so.

Today, the effects of the economic contribution of the state in most developing countries, regardless of what politicians initially envisaged, have been changed by the prevailing international economic and political power relations, as the liberal paradigm has come to the fore and pressure has built up from indebtedness. Within the frames of adjustment and stabilization policies agreed with the IMF, the reduction of the state economic contribution began in the 1980s, through privatization, deregulation and the opening of domestic markets. This, however, cannot be related to development theory at all and even contradicts them. In the eyes of development theorists, the liberalization and globalization of the last two decades have exacerbated defencelessness and helplessness in less developed peripheral and semi-peripheral countries, causing a slowdown in economic growth, falls in per capita income over vast regions, and greater risk factors in the existing world.

The 'political relevance' of development theory may have lessened under the conditions of globalization, however, the urgent issues discussed for decades within the theory are coming to the fore at present-day international economic and political forums. They include the debate on the inequality-inducing effects of globalization, the profits of globalization, income concentration in general, the impoverishment of certain social strata and groups of countries, and the weakening of the state.

The scepticism of the most radical development theorists seems increasingly to have been vindicated. The inequality-inducing market conditions of the world economy cannot be reformed under the prevailing power relations and structures. The peripheral countries cannot strengthen the economic contribution of their state or apply the more protectionist economic strategy required for them to close up and also manage the social injustice at home.

INTRODUCTION[*]

Tamás Szentes calls development economics 'differing opinions about the main factors determining the development or underdevelopment of certain countries or societies, and concepts explaining the faster or slower economic development of certain countries, the international "development gap", and the unequal development of world society and the world economy. These are generally are of an interdisciplinary nature and concentrate, unlike "growth theories", on quality changes instead of quantity changes' (Szentes, 1995, pp. 744-5). The indirect conclusion of all this is that development economy is primarily the study of the economic-development opportunities of less developed countries, and secondarily their social-development scope in a wider sense. It deals with the roots of underdevelopment, the development of such countries and groups of countries, what factors lie behind that development, the obstacles arising from underdevelopment, and especially the world economic conditions of underdevelopment and the ways of overcoming it.

The contours of development economics and development theories are not easy to describe. The often-overlapping opinions of countless politicians, ideologists, theoretical economists and other specialists could be listed here. This interweaving and interrelation are among the factors making the categorization of the various trends in social scientific theory superficial and open to criticism.

This paper examines development theories under three heads. It considers especially the opinions dealing with the market conditions and the economic role of the state and the relations they have with the practice of economic policy. The author considers examination of the last to have fundamental importance.

Chapter 1 sums up the ideas of the great figures in international literature. Chapter 2 attempts to draw an albeit sketchy picture of the relations that the leaders, governments and 'official' ideologies of underdeveloped countries have borne to the development concepts, in the various geographical regions in previous decades. Chapter 3 summarizes the exciting Latin American experiences in more detail. There the most consistent attempt was made to apply one of the development theories.

Finally, Chapter 4 contains some reflections on the relevance of development theory: their grounding, topicality and adaptability.

1. THEORETICAL TRENDS IN DEVELOPMENT ECONOMICS

Behind the evolution of the theory of development economics lies the collapse of the colonial system. Under what circumstances did the question of development economics arise most urgently? How can the underdeveloped countries overcome their backwardness? Have they any historical chance of succeeding at all?

Development theories were fed by two perceptions. Perhaps the more definite of the two was the perception that the position and the development prospects of countries other than the most developed countries, especially the least developed ones, were connected with the bias of their economies towards the production of raw materials. Such countries participated in the international division of labour under world economic conditions that favoured the developed countries, through ownership structures, market monopolies, technical dependency, and the regulations and trends in in-

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ternational commerce and finance. According to Celso Furtado, 'The theory of underdevelopment is in fact the theory of dependency' (Furtado, 1971). François Perroux underlined the need to analyse the dependency of economies, because 'neo-classical theory disregards automatically the relations between economies as units and the Keynesian approximation disregards the possibilities of the confrontation of political want dominating certain national economies, so that the equitable judicial role of world market prices cannot be fully effective' (Perroux, 1972, quoted in Szentes, 1976, pp. 12–13). Development theories arose, expressly (in the case of R. Stavenhagen, Osvaldo Sunkel and Frank, for instance) or often implicitly in dispute with so-called modernization theories. The latter (from Emile Durkheim, Hoselitz, Walt Rostow, Alexander Gerschenkron and many others) rested on a theoretical base of classical economics and linear development. They stated essentially that the underdeveloped countries, though lagging in time, follow the same course of development as the most developed countries of today did in previous centuries.

The theoretical background for development theory derived mainly from the ideas of J. M. Keynes. Yet they cannot be considered simply as a mechanical application of this theoretical basis to the cases of underdeveloped countries. The Keynesian policy proposals referred to the period of the Depression, suggesting that economic growth is sustainable and unemployment eliminable by increasing aggregate demand (consumption and investment). The Keynesian concept approached the problem of macroeconomic equilibrium in the short run, and as Perroux noted in the remark just quoted, paid no attention to international factors on the level of a model level. However, the question of development and improvement ('modernization') occurred for underdeveloped regions as an epochal problem, while economic dependency and defencelessness against foreign countries were present as an everyday limiting factor. There were also influences from Marxism and the practice of the socialist countries, which are discussed later.

Development theories do not analyse the situation of economies within a close system. They usually abstain from mathematical modelling. Instead, they examine the national and international factors of the economic processes together, in most cases placing the latter to the fore, often rather one-sidedly. An important aim is to analyse economic processes in their social and political context.

The antecedents of this paper appear in a study in which the author sought to summarize the macroeconomic theories of previous decades (Farkas, 1999). That included a presentation of development-theory opinions on the international economy, which is summarized in what follows. There are three main trends in the theory of development economics. The reform trend, which is more closely connected with the Keynesian background, emphasizes the way international conditions generate inequality and therefore need to be reformed in the end. Based on experience, it rests on the classical, liberal theory that business can only be done if it brings advantages to both partners. In opposition to the idea of proper competition, the theorists of this trend (Perroux, Furtado, Balogh) point to the inequality between the partners and speak of a backwash effect of international economic conditions (Gunnar Myrdal). They note the difference in bargaining power, the pressure on export-sector wages, changes in the terms of trade to the advantage of developed countries, the international income drain (Raul Prebisch, W.A. Lewis), the differentiated consequences of technological adaptation (Hans Singer), and the 'perverse' nature of capital transfers counted with capital incomes, so that net flows are towards the developed countries (Hirschman, Prebisch). These observations conclude in the theory of an income drain through the international trade (Prebisch), in emphasis on the fact that the advances from productivity growth are realized in the developed countries (Lewis, Myrdal, Singer, Balogh, Prebisch), and in the argument of the irreversible process in a cumulative equation (Myrdal, Balogh).

To sum up, 'It has been pointed out that international trade, where conducted between unequal partners, has a cumulative effect of producing inequality' (Szentes 1995, pp. 42-43. and 86). In connection with the subject of this paper, the aspect to focus on is the assertion that there are detrimental effects for less developed countries where there is an international predominance of market conditions. It is therefore argued that international economic relations should be reformed in such a way as to impede the mechanisms that give an advantage to the developed countries. This school of thought (Singer, Furtado) has been saying the most explicitly and for longest – fifty years now – that spontaneous market forces need regulating at the level of the world economy (Szentes, 1995, p. 252).

Some representatives of the New Left habitually use Marxist rhetoric, but place their arguments on a Keynesian basis, saying that the inequality of international exchange could be terminated by reducing wage differentials between the developed and underdeveloped world. (This obviously is a Utopian aspiration, since the developed countries need no option but to compete with depressed real – productivity-related – wages. The arguments of Imanuel Wallerstein and Arghiri Emmanuel can be cited here.)

Finally, the neo-Marxists emphasize the inequality-producing effect of international ownership conditions, the unequal exchange, monopoly prices and other factors, but they do not consider that the existing international economic conditions can simply be reformed. They argue that without a fundamental change in these, including a transformation of ownership conditions, it will be impossible to make international economic conditions more equitable. At the same time, they speak of for 'disengagement by the underdeveloped countries (Oscar Braun, Samir Amin, André Gunder, Frank, Charles Bettelheim).

The second perception on a theoretical level, on which development economics drew as it became stronger after the Second World War, was that economic maturity and wealth are closely connected with industrialization and the development of the related infrastructure and service sector. This was first expounded comprehensively by Kuznets and Maddison. Of course, the idea came to the fore because ex-colonial countries gaining their political independence wanted to decrease and combat their lag behind the developed countries. These theories received practical backing from the rapid industrialization of Asian countries that began in the 1950s and the industrial development of the African countries in the 1960s. According to Prebisch, Singer, Myrdal, Jan Tinbergen and others, economic development and alleviating the inequality-producing effects of international trade (*e.g.* compensation for worsening terms of trade suffered by raw-material exporters) are preconditions for industrialization and a structural development that transforms the export-import structure. Advocates of this trend, especially in Latin America, are also called structuralists. (As early as 1945, Kurt Mandelbaum was suggesting the transformation of agrarian economies into industrial economies, in a study of the industrialization of backward regions that Singer later described as a pioneer. See: Hettne, 1995, p. 273). They cite straitened resources as the reason why an active state contribution remains indispensable to structural transformation and industrialization. The various trends in development economics agree that a very strong and effective economic-policy contribution by the state is needed. In this respect, their opinions resemble those of the expansion school and neo-Keynesianism, but they call for even more active state intervention – at least in less developed countries – to promote 'long-lasting economic growth and development… in legislation and law enforcement, resources allocation, income distribution and macroeconomic stabilization. This means in practice that the state must add to its monetary, fiscal, exchange-rate and welfare policies a deliberate and consciously coordinated policy of economy development (including sectoral and infrastructural policy) – and adequate administrative, legal and economic means for the realization of these policies' (Hoós 1996, p. 10). Development theory's 'main message was that development necessitated plans, written by economists, and strong, active governments to implement them' (Hettne 1995, pp. 37–8). This very diverse role for the state is primarily intended to correct certain anomalies and spontaneities in market conditions: ameliorating the foreign-economic and serious social effects of income concentration, mobilizing the scarce resources, notably investment, restraining the dual structure of the economies, *etc.*

Lewis wrote in 1954, 'The central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 per cent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 per cent of its national income or more' (Lewis, 1954, p. 155). The direct relation of development to investment makes the development theory cognate with the Keynesian approach that crystallized into the Harrod–Domar Growth Model and with the Marxist approach. Myrdal was already drawing attention in the 1960s to the fact that the state in the underdeveloped countries was too soft and weak to have the administrative capacity or political and financial power to implement development plans (Myrdal, 1968 and 1974).

Problems of the market and macroeconomic equilibrium take second place in development theories to those of development and growth. A. Hirschman suggested 'unbalanced growth', while Perroux emphasized the pull of the growth poles. Advocates of development theory were reckoning with the dual structure of economies and the resulting imbalance over the longer term. The subsequent chapters of this paper analyse how the practical application of the nationally based economic-policy proposals offered by development theory gradually became restricted by the conditions of globalization. Singer admitted to some disappointment with the results of industrialization in underdeveloped countries, which created new, self-reinforcing conditions of dependency and produced geographical displacement of industrial plant, not real development (Singer, 1971).

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Neo-structuralism emphasizes international and intra-national power relations, international and national institutional limits, institutional and economic structural rigidities, the need to reduce income differences and poverty, and the creation of jobs and the associated conditions of economic growth.

On this ideological base, Sunkel and E. Fuenzalida devised the theory of transnational capitalist system, which on a global level displays transnational structures (not international ones any more), and by disintegration on a national level. These processes are inevitable. Isolationism is not possible, so that Latin America has to be integrated strongly into the world economy. This calls for a 'new interventionism' that is said to go beyond an extreme state role and simplifies laissez-fair policy, as well. The same kind of attempt at balance is reflected in the way the neo-structuralists, under the conditions of globalization, deem it necessary to combine outward and inward-looking economic policies and policy measures. (On neo-structuralism, see Hettne, 1995, pp. 135–8.)

The rapid growth in newly industrializing Asian countries and recognition of the state's role in this contrasted with failures and ambiguous results for liberal adjustment programmes. By the late 1980s, this had increased the interest in the possible role of the state in economic development, including industrial policy, as a means of 'managing the deficiencies and failures of the market', easing social tensions and so on. This shift of emphasis was dubbed the 'counter-counterrevolution' by P. Krugman at the beginning of the 1990s (Krugman 1992). This revision of the state contribution did not only influence the certain trends of development theories (like for instance neo-structuralism discussed above), but even the opinion of the leaders at the World Bank.

2. Theory and practice in the underdeveloped world

The colonial system in Asia and Africa had disintegrated by the middle of the 1960s. The leaders and social scientists of the newly independent countries were faced with the question of how far it was possible to adapt to their underdeveloped conditions the economic theories and the economic policies devised in the developed countries. The initial reaction was usually outright rejection of these. It was not to be expected that the leaders and theorists of a radical liberation movement would use the ideas of their former oppressors as a starting point. In most cases, they rejected them as 'Western' and 'bourgeois', and preferred radical schemes for nationalization and transformation of society. The American observer P.E. Sigmund wrote at that time, 'The rejection of capitalism and the favouring of socialism originate in moral and economic reasons. The developing countries think that the base of their socialism is a society built on truth rather than on profit, on rational planning rather than on blind market activity, on forced economic growth and industrialization rather than on raw material production to the advantage of foreign companies. These aims are accepted by almost all leaders of Asia, Africa, Latin America and the Near East' (Sigmund 196?, p. 12).

At the beginning, everything seemed very radical, but in the event, rejecting the models of the developed countries and pursuing a policy of isolationism proved to be fuelled by rhetoric and a transitional stage in most cases. The economies of the underdeveloped countries were dominated by market (pre-capitalist) conditions. Even in those that nationalized foreign property to some extent, there arose a layer of entrepreneurs closely associated with strong political leaders and wealthy by local standards. The more up-to-date (in some cases nationalized) manufacturing sectors of the dual economies in underdeveloped countries continued to operate under the aegis of multinationals based in the former imperial power and under world market conditions. In most post-colonial countries, members of the managerial stratum that had attended Western universities adapted to the new conditions rapidly and their *comprador* mentality became stronger, even at the expense of their national interests. This process began to accelerate in the mid-1960s, when the growth and expanding political power of the Soviet bloc, primarily the Soviet Union, suffered a setback. The men who had led the liberation struggles proved unable to adapt to the new conditions and were gradually ousted. In most countries, total rejection of Western economic theories and radical concepts of socialism gave way to calmer, more pragmatic ideas of increased self-assistance, independent industrialization and emphasis on cultural identity.

Most leaders and governments of the Third World ceased to expend resources on deepening and propagating the radical concepts blended with socialist thoughts that had dominated the early transitional years. No independent economic trends of note were established in most of the liberated Asian and African countries, where universities and colleges mainly taught Western economic theory, in departments often headed by imported European professors.

The economic policy of the developing countries essentially remained within the frames of state capitalism, whose market mechanisms tended to dominate their practice, even if their thinking had some anti-market aspects. The conditions in their country and the need to bolster their position gave the leaders of developing countries a predilection for development concepts that incorporated the idea of a strong state and a big state role. They were also influenced strongly by the practice in the socialist bloc countries. 'The state capitalist strategy was basically a response to the modernization imperative ("industrialize or perish"); the Soviet strategy could draw prestige from the success of Soviet industrialization; while the Keynesian strategy ensured the economists a position as the high priests of growth. It is therefore only logical that comparatively few countries in the Third World were attracted by the economic recommendations implied in M. Friedman's neo-liberalism, not so much because the social consequences were considered problematic, but rather because they were less consistent with the existing power structures in the Third World' (Hettne, 1995, p. 38). For a long time, Keynesian-based development concepts dominated. Liberal models only came to the fore later, in the 1970s, through mechanisms imposed by globalization (*e.g.* debt management) and pressure from the developed countries.

Of course, the account just given is rather simplified. Most regions produced theoretical or theory-simulating trends of economic strategy that were independent or home grown to some extent and influenced by local conditions. However, these bore rather specific relations to practice. They could be called improvement conceptions rather than concepts of development theory, even though they often derived from institutional or university research. In other words, what lay behind them in most cases were governmental strategies and plans for economic development. Some links are apparent between these and the theoretical trends discussed in the previous chapter, but they were often indirect. In general, the conditions and pragmatic considerations of the interests of local elites were dominant, not the theoretical bases. These remain important, even where the ideological and theoretical background to the economic strategy chosen was clearer and the views of development theorists about a stronger state sector and contribution had greater influence (*e.g.* in various concepts of socialism and in Latin American 'Cepalism'). In such cases, the influence of theory was confined to the government concepts. Even where a relatively strong state sector had been established, the conditions of the free market (sometimes complemented or blended with a natural economy) dominated everyday reality and economic processes.

The paragraphs that follow set out to identify the essence and specific characteristics of certain regions and convey the assessments of competent persons on the economic role of the state there. The regions are arranged from East to West.

The newly industrializing Asian countries concentrated on local adaptation of the Japanese model and imitation strategy. In this model, market forces are complemented by formal and often informal practices of resource allocation, relying on negotiation between big companies and the government sphere and on external market defences (protectionism). However, this approach is not often seen in terms of development theory. This is partly because there is a specific model of developed Japan and partly, if tacitly, because the geopolitical and world strategic situation of these countries (unlike that of the Asian socialist countries) left them able to pursue market-protecting, protectionist practices without eliciting protests from developed capitalist countries. Moreover the successes of the 'tigers', seen through neo-liberal, pro-modernization eyes, appears to resemble a laissez-fair development strategy, relying on cheap labour and assured comparative advantages, since it is export oriented and confirms the Rostow Model. (See, for instance, Balassa, 1971.) Except for the socialist (and perhaps some 'socialist-oriented') countries, the newly industrializing countries underwent the strongest state intervention in free market conditions, through regulation and through control over capital processes and capital reallocation. (The state-owned production sector was inconsiderable, but the state had a determining stake in the banking sector in some cases.) Experts in those countries lay emphasis on this to this day, as one of the circumstances contributing to the Asian crisis. The position of the state is explained in relation to Asian historical and cultural roots and experiences and to the position and scope of the region in the world economy. Korean Professor Yeon-Ho Lee (1998, p. 384) calls state intervention the only possible means by which the developing countries of East Asia can manage their economic growth and unstable market conditions. This paper does not attempt to study in depth the theoretical and actual connections between the South-East Asian models and development theory. However, it is certain that the interaction between them is more complex than is generally realized. Furthermore, the experiences of these countries have been cited with increasing frequency by 'developmentalists' in recent years.

India exemplifies well how terminology and practice can diverge and the concept of economy development become adapted to the ideas and interests of the economic and social elite. Jawaharial Nehru said in 1946, 'I am on the side of socialism and I hope that India stands for socialism and is marching towards the constitution of a socialist state' (Nehru, 1961, pp. 7-8.) In 1948, the Bombay Plan for industrial policy envisaged nationalizing several basic industries within ten years, including manufacturing industry. The private sector was to be limited to consumer-goods production and agriculture. At the same time, there was much discussion about nationalizing foreign property and about radical land reform. In the event, not much was done. Official minds worked within a market model, although it was adapted to the caste system and emphasized the state's economic contribution. This is illustrated by a planning document of 1956, which argues that a socialistic society cannot be seen as a set, rigid structure. It was neither necessary nor desirable for the economy to become monolithic. Extending the state sector would not necessarily entail a concentration of decision-making rights or of power. (Second Five Year Pla, 1956, pp. 24-25.) The socialist emphasis lay in raising living standards and engendering fellow feeling in every layer of society. The rhetoric and the essence were at variance, because the outcome could at best be called state capitalism (combined with traditional conditions). No wide-ranging nationalization was carried out. Where nationalization occurred, full compensation was given. The national economic contribution of state-owned property was 6–7 per cent and the contribution of the state sector to industry remained around 10 per cent (Köves, 1966, pp. 192–3). As in most developed countries, the state contribution was high in the provision of investment resources, where it exceeded 50 per cent. The planning was of indicative nature. Only state-owned companies had compulsory plans to carry out. State-owned companies also maintained market relations with each other. The state contribution to the economy steadily weakened in subsequent decades. In the 1990s, an economic policy of liberalization, supported by the IMF and including privatization, came to the fore. India, compared with other underdeveloped countries, developed quite serious and relatively independent economic research in its universities and research institutes. This included microeconomic modelling of liberal aspects and Marxist trends, which had a considerable effect on state planning in some periods. Ceylon (Sri Lanka) and pro-American Pakistan also experienced a shift of emphasis over the economic role of the state. Indeed, the Indian example just described can be considered more or less typical for the Third World at that time.

In the more radical Arab world of Iraq, Syria and Nasser's Egypt, and in some other Arab countries, the state-owned sector of industry stood in for the absent entrepreneurial stratum in industry. So 40–50 per cent of industry was described as 'socialist', or rather non-capitalist, by the politicians and analysts concerned with it, although this was rather questionable. The real question in that period in the sixties was whether these countries would move towards a socialist type of development and which power bloc they would join. Actually, despite illusions and fears of the opposite, there was no real domestic social basis for the socialist path of development. The Arab varieties of 'socialism' had no ambition to limit commercial capital, which was strong by Arab standards, or the market conditions this required. Nasser made this clear in a lecture to the Moslem Youth Association in November 1963, although the socialist countries did not want to listen at the time: 'We are not building our socialism… divorced from real conditions… We do not believe in domination by one class. We want democracy for the whole nation. We do not believe using violent means to liquidate a class. On the contrary, we believe in peaceful means of resolving conflicts' (Nasser, 1963, pp. 354–8). (How similar this was to the remarks in the Indian five-year plan!) Egyptian Finance Minister El-Kaissouni, in January 1964, called private property a criterion for 'economic democracy and a centrally planned economy' (el-Kaissouni, 1964). In the monarchies of the Gulf region, the contribution of state property had been even greater than in the group of countries just mentioned, but it has always functioned as the personal property of the ruling family. Research into world economics takes place at many universities in the Arab world and there are specialist research institutes in most countries. These are more or less subservient to the prevailing governmental policy.

Socialism was also discussed widely in almost every African country, even those in which a clear, hardly restricted market economy was built. Some examples were Nigeria's 'pragmatic socialism', 'socialism' as interpreted by Tom Mboya, which heralded Western-oriented development in Kenya, the 'socialism' of the Ivory Coast, and the Senghor-type socialism of Senegal. The theory of the last had an essentially racialist basis of 'negritude'. It idealized traditional conditions and equated them with socialism, something that several other African leaders did as well. At the same time, Senghor did not limit the activity of private capital in any way. He himself told the magazine *West Africa* in 1961, rather contradictorily, 'We did not prohibit by statute private capitalism, even though it is a phenomenon alien to our country' (Csenahor, 1961). Then in 1963, the same leader ordered the strikes and demonstrations of city workers to be dispersed by the armed forces. The terminological confusion is well represented by Ivory Coast's Minister of Finance, speaking to the International Reporters' Club in Washington DC in September 1966. He suggested that the Ivory Coast, of the many African countries that had followed the doctrine of African socialism, had shown itself best at proving the success of the capitalist system and free business activity (Bedre, 1966). According to Nigerian ex-President N. Azikiwe, in a 1963 interview in *Présence Africaine*, their particular socialism was a 'welfare state', not communism, Marxism or Fabianism. It was the form best adapted to our way of living. It was not obstructed by the fact that most of our people believed in free commerce. This, however, was not to be equated with profit at any price' (Azikiwe, 1963). In Tanzanian President Julius Nyerere's 'tribal socialism' or '*ujamaa* (communal) socialism', the idealization of tribal conditions was combined with a kind of Christian 'charitable' socialism. He did not seriously consider limiting business freedom either, arguing in his book *The Basis of African Socialism* that the main difference between socialism and capitalism did not lie in the method of producing goods but in the method of distributing them (Nyerere, 1962). Nyerere's conception did not differ much from that of Tom Mboya, Senghor or many other African leaders, who idealized traditional tribal conditions and the elements of solidarity in them, while actually allowing the economic processes to proceed spontaneously. This remains true even though the capital-allocation role of the state became relatively strong in Tanzania, the state supported certain industrializing efforts, and the solidarity of the extended family and tribe is strong in traditional societies. The World Bank in that period also accepted the economic policy of the state making an economic contribution, which was normal development practice in the Third World. In that case, why was Tanzania generally seen as a socialist-oriented country? It was primarily because it established better political, and in some respects economic relations with the Soviet Union than did the countries discussed in the previous paragraph. Nyerere spoke very positively of socialism and the economic and social results achieved in the state-socialist countries. Thus the actual economic orientation and the world political alignment became mixed in the categorization applied.

African socialism also had a radical strand, present in Nkrumah-led Ghana before the coup d'état, in Sékou Touré's Guinea, in Mobido's Mali, and later in Angola, Mozambique, Guinea-Bissau and Algeria. The typical voice was Nkrumah's in the 1960s, arguing that socialism postulates common ownership of the means of production, the land and the mineral wealth and their use for the advantage of the people (Nkrumeh, 196?). However, the transformation of the economy was not very radical in any African country, with the possible exception of Algeria. In the countries just mentioned, some of the natural resources underwent nominal nationalization, and so did banking, insurance and public services in some cases. In several African countries, half of those employed outside agriculture worked in the state sector, but their contribution was fairly small when compared with the total labour force. The main economic-policy means used by the state was economic planning. The free market was only under constraint within a narrow range, mainly in state-sector production and state administration (*e.g.* the distribution of basic materials according to plans and at market prices, or payment of wages in kind as well as cash). On the one hand, three-fifths to four-fifths of the population pursued subsistence farming. On the other, exportable production was not nationalized (bauxite in Guinea or petroleum in Angola) or still run by its former owners and multinational companies even after formal nationalization of the mines (*e.g.* in Zambia), under service contracts. Foreign trade was usually controlled by companies in the former imperial power. So the dominating conditions were essentially those of a free market. 'Socialism' only appeared in slightly greater social sensitivity, in the development of education, in economic planning, and in some industrial and other investment by the state. (These in some cases were prestige projects aimed at strengthening national feeling.)

Most of the more radical African countries had gained their independence after fierce and protracted struggles, generally led by intellectuals from none-too-wealthy families, who had studied in Europe and moved close to the European communist movements. These circumstances had much to do with the radicalism of their ideas. However, the political leaders who wished to limit the spontaneous operation of the market did not possess a stable national (class) base. Their support from the masses resulted from successes they had achieved in the independence struggle, after which it gradually ebbed away. Their economic power was necessarily limited under the conditions of underdevelopment. Their political enemies gathered support from foreign companies and ex-colonials, while their support came mainly from the socialist countries (including supplies of arms, although these usually had to be paid for). Their radicalism necessarily decreased as their domestic struggles became more intense. The number of political about-turns increased and the economic role of the state was confined. All these developments were joined by a surge of liberalism and an increase in the foreign-policy and economic pressure placed on their regimes.

The most independent economic approach of any African country was taken by Algeria, where most of the radical ideas were realized in practice over a period of three decades. The background to this was the war of independence, which spread over the whole country, the relatively high level of economic development achieved as an overseas department of France, and the neo-Marxist attitude of the wartime leaders, who became the driving force in the initial period of independence. The Algerian model of 'socialism' can be seen as a radical case of autarky. The extent of nationalization was greater than in any other African country, or excluding the state-socialist countries, anywhere else in the world. Algeria was probably the only country where the state was able to control the flow of goods and assets to a considerable extent and defy spontaneous market forces in many fields. The 'socially owned' sector (central government, local government and the cooperatives) covered 80 per cent of the industrial production, 60 per cent of agriculture and logistics, and 40 per cent of the services. However, these did not attain the extent reached in the socialist countries. Certain industries, such as light industry, remained in private ownership. Households were served mainly by private traders, who even contributed to foreign trade. Private capital did not feel especially constrained, since light industry and trade are the traditional fields of Arab private enterprise. The private firms were often owned by managers of the several thousand state-owned companies. The real theoretical antecedents to the Algerian model were Perroux's growth poles and Roger de Bernis's industrializing industrialization, rather than Marxism. It is symptomatic that experts from the World Bank assisted at the birth of Algeria's first long-term, 15-year plan of economic development, alongside Soviet experts. Although the Algerian experiment lasted longer and went further, it too failed, like the other experiments in more independent national development.

This, as mentioned before, was a result of internal shortcomings. These included low levels of productivity and international competitiveness, especially in 'industrializing', machine-making industries, opposition from social strata who were becoming richer, which opposed any curbs of market forces, and passiveness or opposition from ordinary people, due to the failures, difficulties and income differences produced under the prevailing conditions. Equally important were the changes in international economic and political conditions and power relations. T. Mkandawire, in his recent analysis of the history and situation of the African 'developmental state', pointed to the 'dramatic superiority of liberalism' and the globalization process, compelling governments to pay homage to market forces (Mkandawire, 1998, pp. 2–3). His ideas are worth studying because the continent's defencelessness has left many African politicians and experts wary of exposing their opinions in public, although many share his opinion. He highlights how the economic policy of the state, in socialist or capitalist countries, used to play an outstanding role in mobilizing domestic resources. Savings rates in African countries grew from 15 per cent to 20–25 per cent by the beginning of the 1980s, before sinking below 15 per cent again by the early 1990s, as the power of the state became weaker. But according to Mkandawire, the inward-looking economic policy was never tantamount to isolationism. Legal measures to protect industry were often taken at the specific request of foreign investors. The external pressure, as the so-called Berg Report (World Bank, 1981) pointed out, demanded 'repression' of the economic power of African states. This emerged when the financial bases of the state were shaken by international financial processes and the state's role underwent 'drastic erosion'. However, after the unfavourable experiences of the 1980s, the 1989 Africa report (World Bank, 1989) again emphasized the necessary contribution of the state to the management of economic development and social transformation. However, Mkandawire underlined, in relation to these external expectations, that the state would have to be autonomous – isolated from its social roots and the servant of external 'agents of restraints', through the conditionality stipulations of the subventions and technical cooperation received. He added glumly that neither the laissez-faire path nor the World Bank's new idea of the state was going to strengthen domestic entrepreneurship. He concludes from African historical experience and the examples of other, more successful economic developers that most arguments suggest it is impossible to launch an economy-developing state in Africa. African experience tends to be misunderstood mainly because the expression 'weak state', formerly used by Myrdal concerning Asia, is taken to be confined to Africa at present. Free scope is given to unlimited foreign intervention and all hope that local people may do something to further development is lost (Mkandawire, 1998, pp. 5, 21, 25, 29, 32 and 33).

Finally, there was a major workshop in Africa analysing the specialities of the 'developing countries', established at Dar-es-Salaam University, with the help of the British Institute of Development Studies (Sussex), with noted foreign teachers as participants. This operated until the end of the 1970s. The questions and approaches it took linked the workshop with the dependency school, which had arisen from Latin American roots. A similar direction was taken by the research institute in Lagos (IDEP), dominated by Samir Amin.

There was a special situation in Latin America. The UN Latin American Economic Committee (CEPAL), headed by Prebisch, gave rise to a system of development and modernization theory far more independent than those of other regions of the Third World of that time. It could be traced to the Great Depression (or even to World War I), when countries of the region chose an inward-looking economic policy in reaction to unfavourable foreign economic effects, mounting worldwide protectionism and a payments crisis. The 'Cepalist' economic trend was a more focused manifestation of the concept of self-sufficiency. By integrating the international structural dependency of less developed countries integral, Cepalism took an important step towards becoming a relatively independent concept reflecting the special position of the group of countries. It changed much over the decades and was partly directed by the interests of upper social strata and classes. It produced several variants of economic policy, in theory and practice, which are now, due to economic pressures, open but defensive at the same time. Its opinions confronted and interfered with in various ways the modernization theories represented in and by developed capitalist countries. These are discussed in detail in the next chapter.

The dependency school, which has many links with Cepalism, had two theoretical sources: the structuralist economic concept and Marxism. Many representatives of Cepalism and the dependency concept have gained international fame and proved their independence. Apart from Prebisch, they include Fernando Henrique Cardoso, Furtado, Sunkel, Dos Santos and others. Noted development-theory experts of other continents have also been involved in the discussion: Frank, Giovanni Arrighi, Emanuel Arrighi, Amin and others, like Tamás Szentes. (See also Hettne, 1991.)

* * *

Development theories did not appear *a priori*, in isolation from reality. Briefly it can be said that the increased state contribution was necessary in peripheral countries that were short of capital and seeking new ways of development. Within the scope available, capital shortage and weakness of the entrepreneurial stratum had to be offset by state support for industrial development. There was also a desire to compensate for the inequality-producing, differentiating effects of the international economy. Few people queried this theory in the 1950s and 1960s, which was supported by the international institutions and the specialized agencies of the UN, including the World Bank and the IMF.[1] In the developed capitalist countries, too, increased state intervention on Keynesian grounds was also on the agenda.

Except in the underdeveloped countries that took the state-socialist path (China, North Korea, Vietnam, Cuba), the state intervention stayed within the frames of state capitalism and was designed, with some limitations, to stabilize the market conditions. However, important differences of emphasis occurred in the certain cases. It is clear from the examples given already that the expressed or implicit aim of the intervention in these countries, even initially, was to assist in the emergence of a domestic stratum of entrepreneurs, to encourage foreign capital investment, and to promote integration into the world economy. In other countries the subjective endeavours of political leaders were to reduce the inequality-producing and income-withdrawing effects of market forces and the international conditions amongst them, and to ensure certain basic social rights (subsistence, general education, improved health care, *etc.*) by governmental means. However, they had diminishing success in doing so.

Today, the effects of the economic contribution of the state in most developing countries, regardless of what politicians initially envisaged, have been changed by the prevailing international economic and political power relations, as the liberal paradigm has come to the fore and pressure has built up from indebtedness. The beneficiary, increasingly, has been capitalist, market economic, world economic integration of national economies. Even in countries formerly oriented towards socialism, the social objectives have faded. (The extreme example is Chile, where social and state-economic reform that surpassed state capitalism was preceded by an authoritarian coup d'état conducted with foreign assistance. Algeria, Jamaica and Nicaragua were not successful in their attempts at greater economic independence and self-sufficiency because of foreign economic dependence and political intervention.) Within the frames of adjustment and stabilization policies agreed with the IMF, the reduction of the state economic contribution began in the 1980s, through privatization, deregulation and the opening of domestic markets. This, however, cannot be related to development theory at all and even contradicts them. In the eyes of development theorists, the liberalization and globalization of the last two decades have exacerbated defencelessness and helplessness in less developed peripheral and semi-peripheral countries, causing a slowdown in economic growth, falls in per capita income over vast regions, and greater risk factors in the existing world.

3. Latin American market concepts and the economic role of the state[2]

It is worth analysing the relations of the Latin American development theories and the political practice in more detail, as this is the continent where the economic policies

[1] See, for instance, the first UN publication on problems of development, *Measures…* (1951), among whose authors were advocates of development theory.

[2] I have relied strongly on the studies of Zoltán Kollár (1992 and 1996) in this analysis of the Latin American theories and economic processes.

have come closest to the theoretical constructs.

Latin American development theory originated in the independence struggles waged around the turn of the 20th century. It reflects the emergence of an entrepreneurial stratum, mainly of descendants of *conquistadores* and immigrants. This stratum had an interest in the plantation economy and raw-material production and strove to get rid of the patronage of foreign capital. Such endeavours were represented most clearly between the two world wars by the Peruvian Victor Raul de la Torre and his 'revolutionary' movement. According to a statement in 1924, the aim was protection 'through the anti-imperialist state, which turns definitively to state capitalism by nationalizing and progressively socializing the sources of production, and thereby preserving the middle classes from becoming oriented towards big private capital, which would mean a return to imperialism' (Torre, 1924). The post-World War II Latin American development theories and economic political attempts also show signs of endeavours by the entrepreneurial stratum to gain more independence.

The world historical antecedents of 'Cepalism' were the anti-liberal, defensive economic policies of Germany and the United States in the 19th century. Prebisch can be compared with Friedrich List, the classical figure in the German economic historical school. He already had the experiences of Argentina in the 1930s behind him when he said that countries at a lower level of economic development had to be protectionist until their industrial development caught up with more developed nations. The starting point for the structuralist approach of Prebisch and CEPAL was the centre–periphery relation. Citing Latin American experience, they insisted that no favourable structural changes were taking place, the macroeconomic disequilibria were serious, and so were the social consequences. They saw as the primary cause their defencelessness in the world economy (*e.g.* the worsening of the exchange rate), from which originated their idea of the necessity of protection and catching up. So Prebisch, like List, did not reject outright the idea of opening up to foreign markets. When protected industry had reached an adequate level of development, a policy of free trade might ensue.

According to this concept, it is necessary to execute structural changes in the economy and other fields of society, to improve economic and social development and international competitiveness. We can mention here the debate between structuralists and monetarists about the nature of inflation. This emerged in the 1950s and continues to this day. The former attributed inflation to the money supply and the latter to the rigidity of the economy and its institutions. This meant that structuralists advocated improving the adaptability of the economy as the main weapon against inflation, which indicates that they were not opposed to the market as such and interpreted state intervention within the market conditions.

Thus structural development for catching up necessitates a state contribution: foreign economic regulation and market protection on the one hand and subvention of the industrial development process on the other. The theoretical basis for the concept of inward-looking economic development *(desarrollo hacia adentro)* was devised in the 1930s and applied in many Latin American countries. It was basically an adaptation of Keynesian economics, but more than that as well. As A. Gurrieri, an internationally renowned analyst pointed out in the *CEPAL Review* in April 1987, the scale of the state intervention described by CEPAL was greater than suggested by the Keynesian model, since its targets were not confined to ensuring total employment, stimulating economic growth (production volume) or distributing incomes more equally (defining distribution). It was also intended to restructure the economy to the advantage of industrialization (what to produce) and to promote utilization that considered the quantity of the production factors available (how to produce). It was to do all this while the country was in a peripheral position in the world economy, which demanded stricter control of foreign economic contacts and the effects of them. CEPAL, he argued, did not go on to pose the question of whether Latin American countries could really carry out these tasks successfully' (Gurrieri, 1987). Indeed, the Latin American structuralist conception, having preserved its roots, changed greatly over the decades.

In its original form, the theory simply considered that Latin American development had happened late. It was thought to be possible to implant domestic industry simply by expanding demand. Thereafter, the countries of the region were expected to be able to repeat the classic course of capitalist development, aided by strong isolation and an inward-looking economic policy. This was classical *desarrollismo* (classical development doctrine). Policies of isolationism and import substitution did indeed bring considerable results during the Great Depression and subsequent years.

Critical *desarrollismo* evolved after World War II under the aegis of the CEPAL. It had soon turned out that strict isolation was impossible, because of the import demands, export pressures and shortages of capital. Partly because of the extreme income inequalities, the domestic market was narrow. Imports of production equipment increased financial (and technological) dependency on foreign countries. The disequilibrium in the real economy, the import pressures (one component of which was prestige consumption by the rich) and the limited exportability of the goods produced led to severe foreign economic deficits. In this region as well, it was typical for the entrepreneurial stratum and the political elite that did not own substantial property were susceptible to foreign pressure, due to their own direct interests.[3] Foreign capital, mainly from North America, became very active.

The main issue in the critical *desarrollismo* known as CEPALISM for fifty years has been the relation between the macroeconomic balance of the economy and development, in other words, the relation between stabilization and 'modernization' and harmonization of these. Actually, CEPALISM has been searching for a middle way between two theoretical trends that represent extreme values. One is orthodox liberal economics, with its emphasis on stabilization. The other is formation theory or development theory, which puts modernization, or in its radical form, social revolution to the fore. According to a Hungarian commentator, 'CEPALISM, in the centre, has not managed to perform a theoretical synthesis of stabilization and modernization, although it has always made efforts in this direction. CEPALISM has seen the possibility of creating a synthesis in the structuralist position' (Kollár, 1992, pp. 18–21).

It must not be imagined (influenced by the stance of liberal orthodox economics, which has gained hegemony in the last two decades) that CEPALISM in the 1950s was an extremist trend unacceptable to the central countries in each of its elements and as a whole. First, it stood on a basis of market capitalism. Although there were cases of nationalization, they were not extensive. On the one hand, raw material resources had long been state-owned. On the other, an increasing state role in ownership and economic management was a worldwide tendency at the time. State capitalism 'also had a mediating function, being used by the state to subsidize private capital' (Kollár, 1996, p. 18). Moreover, critical *desarrollismo* certainly did not advocate absolute isolation from the world economy. At most, it wanted relative constraints to protect certain industries. Far from rejecting foreign capital, it supported imports of this 'short production factor' through state economic policy. It was much less restrictive than the orthodox, inward-looking economic concepts of earlier periods. Its approach to development included modernizing and extending export sectors and more resolute selective opening of markets. In practice, the means of state

[3] A.G. Frank's concept of a *Lumpenbourgeoisie* was taken further by Cardoso, who used the expression 'state bourgeoisie', based on Latin American experience (Hettne, 1991, p. 33).

intervention went less and less beyond Keynesian ideas, exceeding them only in market protection. Last but not least, it was generally accepted at that time for underdeveloped countries basing their development on industrialization to indulge in limited market protection. As already mentioned, this was backed even by the World Bank until the 1960s.

Cepalism reflected the inconsistent world economic positions of the Latin American countries and less developed countries in general, and its results were inconsistent as well. Detailed analysis of this cannot be included in this study. Apart from producing certain positive symptoms of industrialization and development in the export sector, it did not lessen technical backwardness or foreign economic dependence. The terms of trade worsened and the foreign economic balances collapsed. Inflation in most countries was high. Despite the limited degree of introversion, the business cycle on the continent was determined by developments in the US. The Latin American economy followed the North American into recession at the turn of the 1950s and 1960s. It became clear that dependency had not decreased. Even the protected industries were forced to cut back their production, for instance due to weak domestic demand and high production costs. Social discontent swept over the continent.

The conditions of recession in the early 1960s brought changes in the means and concepts of development. Cuba moved towards state-socialist development (dominant state ownership, central economic management and minimization of relations with the capitalist world market). At this juncture, the Latin American dependency school gained strength as a theoretical trend.

The Cepalist-structuralist school also became more radical, at least among its theorists, who demanded ever-stronger state intervention in response to the short-term imbalances that arose. The strategic element behind this concept was the general, state-backed economic expansion that would ensue in the end. The so-called neo-structuralists preceded thinkers in other continents in opposing the orthodox economic criteria (*Ibid.*, pp. 36–7). After the failure of such structuralist economic policies, which can also be seen as neo-Keynesian, there naturally followed a reinforcement of the orthodox economic arguments, supported by interests in North America. Increasingly strident Neoclassical voices and pressures demanded monetary equilibrium, liberalization, retrenchment of the state, and privatization. This was the theoretical basis for introducing the early IMF stabilization programmes in Argentina, Chile, Peru and Columbia, then for stabilization of the Brazilian economy from 1964 onwards, and after some years, the start of a rather strangled Brazilian 'economic miracle'.

The main practical trend in Latin America in the 1960s and 1970s was a reformed Cepalism,[4] reflecting the explosive situation and the way the structural, linear connection of the traditional and modern economic sectors was placed into the centre of the renewed Cepalist program. The prime area of modernization that had to be completed by the state through structural reforms covered dismantling the structural bounds between sectors, transformation of landed property, partial opening of markets and increased export activities. However, some import curbs were to be retained, along with sector-specific inducements to foreign investment and amelioration of personal-income differences. The economic role of the state was also adjusted. On the one hand, 'the state as a collective capitalist institution played a central role' in managing the crisis and easing social tensions, 'because it had emerged that the power and capabilities of private capital were inadequate to solve the problems'. On the other hand, it was also clear that the spontaneous activity of social actors had to be steered in

[4] The US also supported the structuralist reforms, including its industry-boosting priorities, through the Association for Progress Programme, largely out of fear of social unrest.

the right direction, although CEPAL was still emphasizing the importance of economic planning (*Ibid.*, p. 43). CEPAL declared an anti-inflationary policy centred on control of supply, since it emphasized the structural elements in the depreciation of the value of money. There was concurrent emphasis on improving the flexibility of the economy, to contain the effects of inflation. The new trend proved to be reformist also in bringing reform of the state budget into its programme. By that time, the importance of stabilization was being emphasized more, but structural reforms were considered very important to it. So the modernization of fiscal and monetarist policy became part of the programme, but as an element subordinate to the structural changes. As Kollár points out (1992, p. 42), 'The modernizing and the stabilizing concepts were strongly entwined in the 1960s, with modernization dominant.'

The liberal and the modified structuralist policies applied in the 1960s, supported by favourable trends in the world economy, stabilized the region's economy, bringing rapid GDP growth in the late 1960s to late 1970s. At this stage, economic growth was based primarily on expanding the domestic market and consumption, with contributions from the foreign investment. Multinationals concentrated on domestic markets, but they began transplanting some of their production capacity, especially pollutant or labour-intensive processes, to underdeveloped regions, including Latin America. The period of economic prosperity was moderated, but not terminated by the oil-price explosion and world economic recession of 1974–5. The policy of state interventionism ensured that state expenditure remained buoyant, with decreasing revenues being offset by printing money. In the second part of the 1970s, the Latin American countries again faced the payment difficulties and accelerating inflation typical of the region.

The crisis of structuralism is dated by André Gundar Frank to the 1970s, whose remarks contain many relevant ideas, although they are one-sided and lacking in subtlety at times. He emphasizes the usefulness of structuralism, but notes that dependence and new independence theories of development seems to have been undermined as guides to policy by the world crisis of the 1970s. The Achilles' heel of these concepts of dependence, he argues, was the implicit and sometimes explicit notion of some kind of separate alternative available to the Third World. Frank asserts that this never existed, either as a non-capitalist path or, it now emerges, through so-called socialist revolutions. He states that the new crisis of real world development renders such partial development and parochial dependence theories and policy solutions invalid and inapplicable (Frank 1981, p. 27). Thus in practice, there never has been a possibility of devising a more independent economic policy, he suggests. In fact, the example of Latin America (and of the socialist and the newly industrializing countries) proves that conscious government efforts at development achieved some albeit limited results in certain periods, when world economic conditions were favourable. That applies even though the Latin American countries did not take the difficulties of their conflict-ridden peripheral or semi-peripheral situation seriously enough in the 1970s, or adapt consequentially enough to unfavourable changes in the world economy.

The toned-down structuralist economic policies applied in this period and the way they were implemented were not radical enough to end the duality of their economies, the backwardness of the countryside and the extreme income differences. They concentrated on rapid GDP growth supported by rapidly increasing external indebtedness and accelerating inflation. However, it must be stressed again that the developed countries and the international financial institutions supported and even insisted on this economic strategy in the 1970s, at least on maintaining growth and foreign borrowing. The gathering tensions were obscured by relatively favourable growth rates. The CEPAL development programme for the 1980s (passed at its 1979 congress in Bolivia) did not include any conceptually new elements. It focused on sustaining growth and ameliorating biases in foreign economic dependence. Neglecting the problems proved to be a grave mistake. Open crisis arrived when Mexico defaulted in 1982. Fulfilment of international payment obligations, macroeconomic stabilization and curbs on the mounting inflation called for policy solutions that would bring rapid success. This effectively ruled out a Cepalist, structuralist policy of accelerating out of danger and concentrating on long-term structural transformations. Latin American crisis management in the 1980s followed orthodox economic policies centred on improving the balance of payment. These were supported, and in the case of debt relief demanded by creditors and the IMF, according to the so-called heterodox economic concept (concentrating on monetarist reform and anti-inflation policy).[5] There is no Chinese wall between the two solutions, and in effect, several combinations of them were applied.[6] At the same time, the heterodox theory was to some extent open to the structuralist development conception, although this was not realized in the short-term crisis-management programmes. On the other hand, the heterodox concepts also emphasize the need for a strong state to implement the adjustment (measures such as price and wage stops), which do not support liberalization, or only do so partly.[7]

In the new phase, liberalization and de-etatization became essential policy elements, especially in countries pursuing orthodox economic policies. State investment and social expenditure were considerably reduced, which reduced demand and the market. However, although privatization was urged by the IMF, it was of no great extent. (At the end of the 1970s, the contribution of the state-owned corporate sector in Latin America was between a fifth and a third of the total.) There was a continuing budgetary need for export earnings from the state-owned raw-material industries (such as copper in Chile). The demand from weak private capital was small, especially for low-profit state-owned companies, and transferring raw-material wealth into foreign property was still seen as a limitation on economic independence. In the early 1980s, state investment decreased rapidly, but no substitute resources emerged, the investment and economic-development spending of the budget rapidly again in the second half of the decade (Kollár, 1996, pp. 57 and 58).

The economic situations on the continent were not improved by the ensuing economic policies of shock therapy. Growth ceased, economies destabilized, net capital withdrawal became typical, and social tensions mounted. According to Kollár, the foremost Hungarian expert on the Latin American economy, 'In the 1980s … it became clear that the neo-liberal, monetarist paradigms of stabilization do not obviously serve the interests of the Latin American economy. However, it emerged eventually that the heterodox, autonomy-expressing theses also describe the imbalances of the Latin American economy and effect mechanisms of the therapy starting from the developed market economy. It can be stated that other trends in economics (such as structuralism) simply apply the operation of the developed economies (or more precisely developed market conditions) and at best deduce from it the operational regularities

[5] Orthodox economic policy was typical in Bolivia, Costa Rica, Dominica, Columbia, Mexico, Panama, Paraguay and Venezuela. Heterodoxy was found mainly in Argentina and Brazil, but from the mid-1980s onwards, there were experiments also in Bolivia, Columbia, Peru and Venezuela. Effects can be discerned in several countries, even Chile.

[6] In addition, there were successive orthodox, structuralist and structuralist-Cepalist governmental programmes in the Latin American countries, the last reappearing at the end of the decade.

[7] Orthodox economic policy also postulates a strong state, although its devotees may deny this even among themselves. On the one hand, monetarist tightness and demand constraints manifest strong governmental demand. On the other, suppression of social opposition often calls for a state that looks strong and uses force occasionally. The examples are not confined to Chile, which had a US-backed fascist-like regime for almost 20 years. 'Tough' regimes also administered shock therapy in other Latin American countries in the 1980s.

of less developed economies. At least structuralism, despite many contradictions, can be said to try to describe the "bridge" between the less developed and the developed economic conditions in some way, and does not rely merely on a kind of economic automatism' (*Ibid.*, pp. 111–12).

Through Cepalist eyes, the stabilizing economic policies, especially the shock therapies, were one-dimensional, concentrating only on effects at the expense of causes. However, the failure of the orthodox and heterodox programmes again induced attempts in some countries[8] to devise structuralist development programmes in the mid-1980s. The heterodox and orthodox economic policies were blended and spiced with structuralist elements, but the positions of the continent as a whole did not improve. Only with the balance of payment was there partial success.

Again owing to the failures of the orthodox and heterodox efforts, CEPAL in the 1980s maintained the core of its development-theory concept, arguing that structural reforms of the domestic and the international economy were needed. It continued, or would have continued to favour economic growth and structural improvement of the economy, but everyday economic pressures led to increasing acknowledgement of the need to stabilize the economy in the short run. At the CEPAL congress in 1986, Prebisch in his last speech spoke of the need to combine policies of import substitution and export orientation. It is worth noting that he stood for selective protectionist policies, even when one-sided import substitution had proved impossible for a long time and world economic pressures had forced Latin American countries to open and liberalize more strongly. He still considered there was an irresolvable contradiction between the conditions in the continent (and the underdeveloped countries in general) and the position of the world's economic structures.

[8] Uruguay, Nicaragua, Peru, and Trinidad and Tobago.

After the liberal experiments had ended in contrary or weak results and heightened the social problems, intermediate, ostensibly balanced opinions were formed in Latin America about the role of the state, also reflecting the ideological and practical offensive of liberal monetarism. Enrique Iglesias wrote that the temptations of the populists and the laissez-faire state had to be combated and a state created that combined economic efficiency with social balance (Iglesias, 1985, p. 72).

CEPAL laid increasing emphasis in its documents in the 1980s on the demand for debt relief. Rightly, in the author's opinion, it took the processes of the world economy to be the main culprit. The economic philosophy of CEPAL had always included efforts and suggestions about reforming the structure of the world economy. Now, unsurprisingly, the debt problem was placed at the centre of these. CEPAL also forced partial modification of the debt-management notions of the IMF. In the light of the Baker Plan of 1985 and the Brady Plan for 1989, increasing numbers of countries coupled stabilization and IMF-interpreted structural adjustment with certain incentives to growth and a stronger welfare net, was greatly supported by the debt relief.

Since the condition for the IMF-conducted debt relief was to apply partially modified orthodox economic policies that included heterodox and structuralist elements, these were adapted again in most Latin American countries at the end of the decade. After a 'lost decade' of wriggling and writhing, the adoption of orthodox models coupled with debt relief saved the continent from total collapse and perhaps a social explosion at the end of the 1980s, allowing Latin America to gain some respite at the beginning of the 1990s. The early 1990s indeed brought some prosperity to Latin America. The recession in the developed countries at the beginning of the decade produced an increased capital inflow. This along with debt reliefs and some liberalization-induced improvement in competitiveness contributed to the prosperity. Owing to the liberal economic policies that had strengthened at the end of the 1980s, the economic contribution of the state in Latin America rapidly weakened in the 1990s. Privatization of state-owned companies and banks reduced the state's ability to exercise economic control through institutional structures for planning. Nonetheless, the situation remained fragile. The international financial crisis and capital speculation that began at the beginning of the 1990s shook Mexico in 1995. The Brazilian crisis started in the summer of 1998 and worsened early in 1999, with knock-on effects across the continent. These do not seem to be soluble even with external help, so that the continent today faces a severe economic recession. In addition, the already extreme social and income differences have increased further. It seems that liberalization and an orthodox economic policy of relegating the economic and social role of the state cannot stabilize the position of Latin America in the long term.

The debate on the alternatives for Latin American development policy continued at the beginning of the 1990s under conditions of relative prosperity. One view was the liberal one, named the 'Washington view by L.C. Bresser Pereira, a former Brazilian minister of finance, which continued to urge the minimization of the state. Opposed to this, Pereira concluded from specific Latin American experiences and opportunities, was the social democratic or 'crisis-of-the-state' approach taken by most Latin American economists, which balanced one with the other, rather as Iglesias had done a decade earlier. As Pereira wrote, 'Now, when the crisis of the 1980s is terminating, a new synthesis is taking shape… The crisis-of-the-state approach originates directly from the new dependency theory, but it takes the market-oriented reforms and dual coordination of the market-state a step forward. It acknowledges that populist fiscal disorder is a real problem… It acknowledges that the state has grown too big… Privatization may also contribute to the solution of the fiscal crisis of the state… The economy must become strongly market-oriented… However, economic coordination must be composite. The allocation of the resources must be entrusted to the market, but reform of it must be left to the state… The crisis is a consequence of the great weakness of the state, not of its strength… of the fact that the state has become unable to complement the market in the way it should… For this reason, the structural reforms should not be targeted at a "minimal state", but at strengthening the state, and elaborating a new development strategy in accordance with the new and limited forms of state intervention.' However, the budgetary deficits that had weakened the state were not primarily connected with lack of fiscal discipline, according to Pereira. They arose out of world economic effects and indebtedness, which swelled the interest burden of the state budget, and because the rich traditionally paid very little tax. 'In this I see the autocratic and partly democratic nature of the Latin American state, due to the state's subordination to the rich' (Pereira, 1995, pp. 542–4).

With stronger disadvantageous world economic effects, deepening social problems, the scope for the rich to assert their interests, liberal pressure from creditor countries, and inconsistencies in the model described (small, but strong state being more liberal and stricter at the same time), there seems little chance of realizing what Pereira describes, although it reflects a fairly general way of thinking.

4. THE RELEVANCE OF DEVELOPMENT THEORY

Björn Hettne, an acknowledged expert on development theory, points out, 'The relevance of a discipline is of course partly dependent on its quality (theoretical relevance), but also on its relations with the centres of power (policy relevance). In the latter sense development studies have been increasingly marginalized due to the intellectual and political changes in the real world referred to above, although it is questionable whether it ever had a very strong position in political terms. Anyhow, the marginalization continues and development studies may end up as a fighting church.' He, however, completed this pessimistic analysis by saying, 'Development theory may not always have come up with the correct solution on the policy level, but on the other hand, the problems identified and analysed have not disappeared either. Instead, new problems have been added' (Hettne, 1995, p. 11).

The author agrees that development theory identify real conflicts in the real economic and wide-ranging social conditions. They include the mechanisms of economic imbalance and income shifts, and those of international economic conditions. Then there is the dependence and defencelessness of the peripheral and semi-peripheral countries, and in general, the limits of free market conditions in extending consumption, promoting economic development and applying social justice. Most of the conclusions reached by development economists were not radical (except for the neo-Marxists).

The examples of India, Egypt, Black Africa and Latin America show that when development theories were used in any form as an ideological and theoretical basis for modifying reality, domestic and even foreign entrepreneurial practice and market conditions were not generally constrained to any considerable extent, even in so-called socialist-oriented countries. The most frequent form of constraint was a ban on private capital entering certain sectors, usually ones in which domestic entrepreneurs showed little interest, for want of capital and traditions. (For example, even where raw material production was formally nationalized, in most cases in the 1960s, former foreign and multinational owners received rent incomes continually, similar in amount to the profits they had earned, through supplier contracts and distribution on world markets.) Although there were also radical trends, especially in the beginning, in the 1950s and the 1960s, development theories and primarily the economic policies referring to them essentially and basically represented the interests of the domestic entrepreneurial strata. The radical conditions in which these strata evolved and their desire to obtain greater power meant that they also contained populist elements, including even socialistic ideas in some cases. Their radical rhetoric was often the consequence of their effort to make use of the conflict between the developed capitalist and the state-socialist countries to squeeze maximum support out of both camps.

In the world economic and political situation after World War II, development theory was more or less relevant in practical terms, as well. It still seemed feasible then that the less developed countries would move towards industrialization, vindicating the interests of their national bourgeoisie. They seemed to have the potential to do this through a selective-contriving connection with the world economy and the world market, with limited market protection, with various measures to assist import substitution, and by strengthening the role of the state as an organizer and resource-concentrator for the economy. Indeed, some limited successes were achieved in this respect in the 1950s and 1960s.

However, the countries that could be related directly or indirectly to development theory were not the ones that made most progress with industrialization. That title belongs to the groups following two other models: the state-socialist countries (the European ones up to the 1970s, but China up to the present day), and the newly industrializing Asian countries. In the author's opinion, this is easily understood, since the two latter were sheltered from external competition by market protection, while the contribution of the state became even greater in resource concentration, financing the infrastructure, education and training, technical development and modification of economic processes. (Of course, there were great differences between the two groups, since one was dominated by state ownership and the other by corporate private ownership.) There is no sharp dividing line between the development strategies realized by these two groups and by other less developed countries, but the former were, in their own ways, more consistent and resolute in offsetting spontaneous world economic processes.[9] Certain historical preliminaries and conditions made the relatively 'separate way' of development more feasible for them than for other regions.

Meanwhile, globalization conducted by the multinational corporations and financial groups evolved with increasing speed. Goods, services, and above all, capital flows encountered ever fewer obstacles between countries and regions. For this reason, the external conditions for realizing more specific and more or less protectionist economic policies steadily deteriorated. They worsened because the markets became more open and domestic goods produced in a less productive way proved uncompetitive against imports from the developed countries. (Capital strength and the demonstrative effect important in marketing also contributed, as did, for instance, the general indebtedness that developed in the less developed countries.)

Under the conditions of globalization, the chances of pursuing more independent, inward-looking policies were exhausted first in countries with weakly developed economies and industries, mainly because of their indebtedness. These are the countries generally associated with development theories in some way. Thus the continents of Africa and Latin America stagnated in the 1980s. Nor were the European socialist countries able to match the international competition in productivity, for other, complicated sets of reasons. That failure was among the direct antecedents and reasons for their transition to capitalism and reintegration into the world economy in the early 1990s. The newly industrializing countries, on the other hand, managed to hold out until the mid-1980s. Then, as they approached the level of the most developed countries, the reserves inherent in their model ran out at the same time as their relatively favoured position (market protection and a strong state) became increasingly irksome to the repositories of globalization, the most developed countries. Primarily through pressure from the United States, their integration into the system of liberalized 'rules of the game' was placed on the agenda, by exploiting the financial crisis they were undergoing.

It is worth referring back here to lines by Björn Hettne cited earlier. Although the 'political relevance' of development theory may have lessened under the conditions of globalization, the urgent issues discussed for decades within the theory are coming to the fore at present-day international economic and political forums. They include the debate on the inequality-inducing effects of globalization, the profits of globalization, income concentration in general, the impoverishment of certain social strata and groups of countries, and the weakening of the state. This applies to the structuralist trend, including the 'new interventionism of Sunkel and Fuenzalida, to the previously discussed 'crisis-of-the-state' concept of the former finance minister, and to Mkandawire's ideas about Africa. These views are mutually consistent. On the one hand, they indicate that the 'weakening' of the state in the developing countries was primarily the consequence of world economic effects derived from globalization and disadvantageous to the peripheries. They also emphasize that with peripheral and semi-peripheral countries, an enhanced state contribution to the economy is essential, even under market conditions. Finally, aware of the real power relations, they accept a 'limited' and 'non-excessive' economic position for the state, which 'exceeds the simplified laissez-faire politics'. However, international conditions in fact do not favour the concept of a state of medium strength either. Some leaders of the international financial institutions and other bodies, noting the heightened economic and social conflicts, almost incline theoretically to reinforce certain functions of the state (control of capital flows, social contribution,

[9] In this respect, the state-socialist and the newly industrializing countries can be said to have been the most radical implementers of development theory.

etc.). In reality, however, they generally stick to their monetarist concepts of liberalization. (This emerges when the conditions for debt management are discussed.)[10]

Can it therefore be said that in abandoning development theory and practice, the basic problem has not been the development theories, but the constraint mechanisms of practice and reality? Or does the problem lie in the globalization of the world economy, since the narrow (profit) interests of multinational capital are being vindicated and brush aside everything in its path, such as the development endeavours of the peripheries and the more protectionist economic policies that serve those efforts? The scepticism of the most radical development theorists seems increasingly to have been vindicated. The inequality-inducing market conditions of the world economy cannot be reformed under the prevailing power relations and structures. The peripheral countries cannot strengthen the economic contribution of their state or apply the more protectionist economic strategy required for them to close up and also manage the social injustice at home.

[10] Concessions are only made where social tensions have grown very strong, as in Algeria or Russia.

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