ECONOMIC DEVELOPMENT: FROM ORTHODOXY TO HETERODOXY

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How have some poor countries become quite rich and improved their societal welfare, while others have remained quite poor in terms of both incomes and quality of life? The answer lies in great part on the role that the state has played in conceptualizing and implementing development strategies. The two main waves of development orthodoxy after the Second World War came to opposite conclusions about the appropriate role for the state in the economy but both rested on a faulty conception of the public and private sectors as antithetical to each other. The interventionist wave that came first, from the 1950s through the early 1970s, aimed to solve market failures, advocating for the state to play a heavy role in economic development to substitute for nascent markets and a weak private sector and to adopt a nationalist approach to deliberate industrial transformation. The neoliberal wave that followed from the mid-1970s through the late 1990s took the opposite tack and aimed to solve government failures, demanding that the state be extricated from the economy to enable free markets to flourish and private economic incentives to dictate efficiency and spur growth.

Instead, states and markets should be viewed as complementary in the process of economic development. The key issue is not *how much* state involvement exists in the economy in the pursuit of development – instead, it is *what type* of government involvement is pursued. State capacity must be employed to support markets by securing basic political–economic order and credibly enforcing property rights, and to formulate and implement predictable, accountable, and legitimate public policy that enables markets to flourish in ways that underpin economic growth and benefit society. These forms of state capacity can be built incrementally even in poor countries and be used in a way that prioritizes certain core government functions to aid in equitable and sustainable economic development.

DEVELOPMENT DOGMAS

Why some countries have become rich while others remain poor is the central political–

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economic question of our times. The development economist Lant Pritchett coined the phrase "the Great Divergence" to encapsulate two stylized insights about global growth rates and income levels over the twentieth century.[1] The first pattern is a convergence among rich countries and a divergence of rich countries from poor. The poor world as a whole has grown more slowly than the rich world and fallen further behind, with some countries' economies stagnating or even declining. The second pattern is that growth levels have not been uniform in the developing world. Growth has varied a great deal across poor countries and has been more volatile within them. Some emerging economies have experienced explosive growth rates and caught up with the rich world: for example, the East Asian industrializers in the 1960s and 1970s, Chile in the 1970s, China since the 1980s, and Brazil in the late 1990s. Others have grown more slowly, in fits and starts, including India along with many Latin American and some sub-Saharan Africa countries. And an unfortunate few, especially those mired in conflict and prone to natural disasters, such as the Democratic Republic of the Congo, Haiti, and Yemen, have experienced declining per capita incomes at various points.

Poor countries have attempted a range of developmental strategies since the end of the Second World War in the quest to become rich. On the core question of the role of the state in the economy, the pendulum has swung back and forth in developing countries over the past 75 years.[2] The post-war period offered the competing political–economic models of capitalism in the First World and socialism in the Second World. In most of the Third World, a phenomenon known as statism or "dirigisme" took hold. In the 1950s and 1960s, Keynesian intervention in markets was ascendant even in the capitalist West. Statism in the Third World, as in the industrialized world, involved both Keynesian macro-economic management as well as some measure of government ownership of the means of production in strategic sectors of the economy.[3] Markets were thought to be weak and private sector actors to be immature in poor countries; thus the state needed to step in to provide capital and administer the economy. Such intervention was not an outright rejection of market capitalism, like socialism, but a deliberate attempt to manage the economy in the belief that statism was better for the economy. Statism was also advantageous for political and strategic reasons in the many newly independent countries

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[1] Lant Pritchett, "Divergence, Big Time," *Journal of Economic Perspectives* 11 (1997): 3–17. See, also, Angus Deaton, *The Great Escape: Health, Wealth, and the Origins of Inequality* (Princeton: Princeton University Press, 2013.

[2] John Rapley, *Understanding Development: Theory and Practice in the Third World* (3rd edition) (Boulder: Lynne Rienner, 2007); Jennifer Brass, "Development Theory," in Christopher Ansell and Jacob Torfing, eds., *Handbook on Theories of Governance* (Cheltenham: Edward Elgar Publishing, 2016), 115–25.

[3] Albert O. Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958); Albert O. Hirschman, *Essays in Trespassing: Economics to Politics and Beyond* (New York: Cambridge University Press, 1981).

across the developing world. Left with economies that had been stunted, warped, and impoverished as a result of exploitative colonial practices, political elites exercising their independence were keen to overthrow colonial legacies and channel the full force of the state toward rapid industrialization and socioeconomic progress.

An extreme manifestation of the statist inclination came in the form of import substitution industrialization prompted by dependency theory, a structuralist school of thought that was especially influential in Latin America in the 1960s and 1970s.[4] Dependency theory was grounded in a Marxist, historical materialist understanding of a country's economic situation. Different strands of dependency theory emphasized different causal dynamics but shared the foundational perspective that a country's stage of (under)development is conditioned by its place in the global capitalist system.[5] Dependency theorists characterized the international system as comprising two sets of states: the dominant or core states, that is, the advanced industrialized nations of the world; and the dependent or periphery states, that is, those in the underdeveloped world, in the parlance of the time. *Dependencistas* argued that the international capitalist system had created a rigid international division of labor that was responsible for poverty and underdevelopment in the periphery: the dependent states' role was to supply cheap minerals, agricultural commodities, and cheap labor; while the industrialized core extracted the surplus from what was produced in the periphery. Compounding underdevelopment, some dependency theorists argued, the terms of trade would constantly decline for dependent countries (i.e., they would have to export successively more commodities to sustain their import levels), making them even worse off over time.[6] Third World countries would not, as modernization theory would have it, catch up to the richer countries once their socio-cultural systems evolved and they put the right policies in place. They were poor because they were coercively integrated into the global capitalist system led by the industrialized nations, in most cases via violent and unjust colonial exploitation.

The prescriptive implications of dependency theory encouraged poor countries to pursue policies of self-sufficiency that would allow them to control their interaction with the global economy

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[4] Andre Gunder Frank, *Capitalism and Underdevelopment in Latin America* (New York: Monthly Review Press, 1967); Fernando H. Cardoso and Enzo Falleto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979); Stephan Haggard, *Pathways from the Periphery*: *The Politics of Growth in the Newly Industrializing Countries* (Ithaca: Cornell University Press, 1990).

[5] For a recasting of dependency theory as a still relevant research program focused on a global historical approach to the polarizing tendencies of global capitalism and the constraints faced by peripheral economies, see Ingrid Harvold Kvangraven, "Beyond the Stereotype: Restating the Relevance of the Dependency Research Programme," *Development and Change* (2020): 1–37. https://doi.org/10.1111/dech.12593

[6] Raul Prebisch, The Economic Underdevelopment of Latin America and its Principal Problems (New York: United Nations, 1950).

and alter their economic production structures. One of the most important of such policies was the statist practice known as import substitution industrialization (ISI). Across the developing world, governments restricted imports through tariffs and non-tariff trade barriers, while giving domestic industries favorable terms through subsidies and cheap credit to build their competitiveness. Political and economic elites sought to implement autonomous national development strategies that made the state the agent of industrial transformation. Governments mobilized the capital necessary for industrialization and growth, implementing five-year state planning targets to shift their countries up the economic value chain from agriculture to manufacturing. In some parts of the developing world, this state-led industrialization started out fairly successfully – resulting in high growth rates in some countries, for example, 7 percent in Turkey and 6.5 percent in Mexico from the 1950s to the 1970s, as well as some particular industrial successes, such as a six-fold steel production increase in India over the same period.[7] The developing world also achieved food self-sufficiency by the 1970s, helped along by the increased crop yields achieved in the Green Revolution of the 1960s and 1970s.

Yet these successes relied to some extent on favorable international conditions. Demand for commodities from the developing world was driven by the high postwar growth rates of 5–6 percent in the industrialized world. The global economic stability and favorable interest rates engendered by the United States' economic hegemony and the new international financial architecture incarnated in the Bretton Woods regime also aided growth globally. In the 1970s, several economic shocks – including the 1973 oil crisis, interest rate hikes in the industrialized world, and collapsing commodity prices – derailed progress in the developing world, culminating in the nadir of the Latin American debt crisis of the late 1970s and early 1980s.

By the 1970s, too, the accumulating economic inefficiencies and political–economic consequences of state-led and managed production that substituted for markets had become apparent. In many developing countries, a lack of competition with imported goods led to inefficiency and waste, eventually slowing growth. Heavy government involvement in the economy and ownership and management of an extensive range of state-owned enterprises led to rent-seeking and entrenched political interests that made reform near impossible. One common tactic, for example, had been the use of agricultural and commodity marketing boards, which set primary sector prices artificially low domestically and then sold goods at the global market price to siphon surplus from the agricultural sector and channel it into the manufacturing sector. This attempt to accelerate the natural process of industrialization with a heavy state hand undermined rural economies. The political logics that often

[7] Rapley, Understanding Development, 41–2.

drove pseudo-economic decisions about pricing created adverse incentives for rural farmers that led to poorer economic outcomes.[8]

The pendulum had already begun to swing in the industrialized world away from Keynesianism and toward the ascendance of neoliberal economic prescriptions. This occurred for practical reasons, since government intervention had failed to reign in stagflation in the 1970s, in which both unemployment and inflation steadily increased. The motivation was also conceptual, as a new group of leaders came to power across the world who leaned toward market liberalism in their beliefs that free markets were a cornerstone of liberty as well as the correct route to efficiency, economic growth, and collective welfare. Margaret Thatcher, for example, who became the British Prime Minister in in 1979, often declared, "There is no alternative" to capitalist market economics. Her beliefs and policies were soon matched in the United States with the onset of Reaganomics in the early 1980s.

Mainstream neoclassical economists started viewing economic policy in developing countries through the same lens. Deepak Lal summarized much of the criticism against the statist paradigm, arguing that development economics wrongly propagated the "dirigiste dogma," or the view that governments must intervene in the economy to aid development.[9] He recognized that governments must provide the foundation on which markets rest – but argued that the dirigiste dogma falsely maintained that government intervention to supplant the price mechanism in markets could improve welfare. In Lal's perspective, the most serious distortions in developing economies came not from the inevitable imperfections of the market but from government intervention in those markets.

The neoliberal approach to development was premised on the need to remove the obstacles in place, many of them believed to be created by government, that were preventing markets and rational individual incentives from achieving efficient gains. Extricating the state from the economy in order to improve economic efficiency became the central development agenda pursued by international financial institutions such as the World Bank and the International Monetary Fund (IMF). Developing countries that sought their help, suffering stagnation and debt crisis, had no choice but to follow their prescriptions. A wave of structural adjustment thus took hold in the developing world, sometimes implemented by domestic elites (e.g., the "Chicago Boys" in Chile, trained in neoclassical economics in the United States) but most often imposed as conditionalities for financial and technical assistance from the international financial institutions. This ascendant neoliberal view of markets and economic

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[8] Robert H. Bates, *Markets and States in Tropical Africa* (Berkeley: University of California Press, 1981). For a critique of the neopatrimonialism lens often applied to economic outcomes in African and other developing countries, see Thandika Mkandawire, "Neopatrimonialism and the Political Economy of Economic Performance in Africa: Critical Reflections," *World Politics* (May 2015): 1–50.

[9] Deepak Lal, *The Poverty of "Development Economics"* (London: Institute of Economic Affairs, 1983).

development was dubbed the Washington Consensus, after the location of its three biggest proponents, the World Bank, the IMF, and the United States Treasury Department.[10] The core spirit of the Washington Consensus was encapsulated in three dictums of reform: *stabilize the macroeconomy*, by enacting fiscal austerity measures to get a grip on inflation and runaway unproductive state-spending, which was thought to "crowd out" private investment and stifle the economy; *liberalize prices and the economy*, by removing price controls and deregulating the economy in both domestic and trade realms, thereby enabling markets to function freely; and *privatize property ownership*, by shedding state-owned enterprises and direct state involvement in the economy and putting property ownership into the hands of private economic actors.

As with earlier waves of development dogma, the results of the neoliberal turn were mixed.[11] Structural adjustment policies resulted in a great deal of socioeconomic dislocation, as governments across the developing world slashed their budgets by downsizing the public sector workforce and cutting government spending in the social sectors. Structural adjustment programs were found, as a result, to have increased poverty and inequality in many instances. Facing contradictory incentives, political elites often only implemented partial reforms to their own benefit, which led to even higher degrees of rent-seeking and corruption as economies underwent reform.[12] In some countries, such as Mexico, Chile, Ghana, and later India, the short-term socioeconomic pain imposed by liberalization and structural adjustment is believed to have been followed by positive long-term economic outcomes resulting from deep reforms, although inequality persists. Overall, however, structural adjustment did not lead to the enhanced growth and economic success it promised. Instead, the neoliberal principles intended to usher in market efficiency introduced new and unanticipated inefficiencies.[13] The macroeconomic stability prized by market liberals, for example, proved necessary but not at all sufficient for growth. Some dimensions of government spending often work to "crowd in" private economic activity: infrastructure investments, in particular, can be crucial to igniting productivity and growth in nascent sectors of the economy. Similarly, some types of public enterprise enable necessary

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[10] The phrase is attributed to John Williamson, at the time an IMF official, who enumerated a list of ten key policies that made up the endorsed reforms. John Williamson, "What Washington Means by Policy Reform," in John Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington, DC: Institute for International Economics, 1990).

[11] Rapley, Understanding Development, 87–92.

[12] Nicolas van de Walle, *African Economies and the Politics of Permanent Crisis, 1979–1999* (Cambridge: Cambridge University Press, 2001).

[13] William Easterly, The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics (Cambridge: MIT Press, 2001).

economies of scale and confer positive externalities and public goods that the market would not provide by on its own.

Crucially, markets require complementary market infrastructure to work well, which in turn calls for some form of government involvement.[14] Yet, as Kiren Aziz Chaudhry observed, developing country governments are often too weak to create this institutional infrastructure.[15] She argued that dirigisme in the developing world was a result of this administrative crisis: governments that were unable to adequately provide rules and regulate the market took the relatively easier route of directly producing and distributing goods and services. In Chaudhry's analysis, the problem in developing countries was not too much government intervention but too little government capacity and hence too little market infrastructure. In this context, the market-liberal impulse to undo statist mechanisms for governing developing economies "without replacing them with effective alternatives encourages economic, administrative, and even political fragmentation."[16] In the worst-case scenario, blindly following neoliberal economic orthodoxy without considering the consequences could lead to state collapse in the developing world. The harshest critiques of structural adjustment viewed it as neocolonialism, deliberately designed to oppress the developing world.[17]

STATES AND MARKETS INTERTWINED: THE DEVELOPMENTAL STATE

In the aftermath of the waves first of statist intervention in developing economies, followed by the neoliberal push for less government and more markets, the pendulum swing between states and markets started to settle in the mid to late 1990s. Development economists came to emphasize what was unique about low-income countries, especially the fact that they experienced more market failures and needed greater capacity and infrastructure to facilitate markets. In part, this meant recognizing developing countries as industrial and technological latecomers that needed the state to assist in

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[14] Douglass C. North, Structure and Change in Economic History (New York: W. W. Norton, 1981); Karl Polanyi, The Great Transformation: The Political and Economic Origins of our Time (Boston: Beacon Press, 2001).

[15] Kiren Aziz Chaudhry, "The Myths of the Market and the Common History of Late Developers," *Politics and Society* 21 (1993): 245–74.

[16] Chaudhry, "Myths of the Market," 265.

[17] One vocal proponent of this view was the Malaysian Prime Minister, Dr. Mahatir Mohamed, in the context of the conditions imposed on IMF bailouts during the Asian Financial Crisis of 1997–1998. See *Commanding Heights: The Battle for the World Economy* documentary. Available at: https://www.pbs.org/wgbh/commandingheights/hi/story/index.html

overcoming the hurdles associated with industrialization and development.[18] It had become apparent that both the statist impulse to substitute for weak markets and private sector capacity as well as the "more markets, less state" dictum of the neoliberal era had framed the relationship between states and markets incorrectly. The more appropriate approach was achieving the right balance between the two, with a particular emphasis on employing state capacity to support and enhance markets.

This realization was prompted, in no small part, by the East Asian Miracle, in which a number of newly industrializing countries (NICs) in the region had by the 1980s effectively escaped the capitalist periphery and joined the ranks of the industrialized world.[19] The strategies adopted by these East Asian governments – especially Japan, South Korea, and Taiwan, as well as Singapore and Hong Kong – were striking and the region became fertile ground for the states-versus-markets debate. The most successful East Asian economies had moved in the 1960s from ISI to an export-oriented industrialization strategy that embraced global markets and resulted in two decades of rapid industrialization and blistering growth. Some attributed the success of these countries to their having implemented the core prescriptions of neoclassical economics.[20] Other scholars challenged how true to free-market economics the East Asian NICs really were, pointing to the unique political–economic compact between governments and industrial capitalist concerns that came to be known as the "developmental state."[21] Clearly, in the East Asian industrialization and development experience, the state played a more active role in the economy than that advocated by neoclassical theory. The real debate was over to what degree the East Asian state was involved in the economy, in what manner, and to what ends – and whether those forms of government management were truly the key to the success story.

The East Asian economic experience delivered a vivid counterpoint to the experiences of many other developing regions in the 1980s – contrasting directly, for example, with Latin America's "lost decade" and relative stagnation in most of sub-Saharan Africa. Why had East Asian nations succeeded while other developing countries remained mired in underdevelopment in the periphery? Stephan Haggard argued that one of the problems with dependency theory is that, in its structuralism, it missed

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[18] Alexander Gerschenkron, "Economic Backwardness in Historical Perspective," in B. F. Hoselitz, ed., *The Progress of Underdeveloped Areas* (Chicago: University of Chicago Press, 1962).

[19] Haggard, Pathways from the Periphery.

[20] Bela Belassa, "The Lessons of East Asian Development: An Overview," *Economic Development and Cultural Change* 36 (1988): S273–S290; Helen Hughes, ed., *Achieving Industrialization in East Asia* (Cambridge: Cambridge University Press, 1988).

[21] Chalmers Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–75 (Stanford: Stanford University Press, 1982).

the wide variety of state responses to "dependence."[22] He laid out a comparative analysis of two types of development strategies – one focused on self-reliance and domestic industrialization through ISI in developing countries such as India, Brazil, Argentina, and Mexico, and the other the East Asian model of an initial period of ISI followed by a deliberate transition beginning in the early 1960s to export-led growth. Haggard's analysis of why these different strategies were chosen and how they were implemented rejects the notion that the East Asian NICs embraced neoclassical prescriptions. He points instead to the importance of understanding how developmental alliances emerged and the institutions through which state involvement in the market took place. Stronger, more centralized states in the East Asian NICs – in part resting on their authoritarian control – adopted the mercantilist strategy of pursuing national economic interest on the global stage.[23] East Asian governments were better able to structure their partnership with domestic capitalist concerns, finding ways to incentivize and reward efficiency gains and, eventually, performance on global markets. In contrast, landed elites and other vested interests in Latin America protected domestic infant industries, which remained relatively inefficient and vulnerable to being used as sources of patronage and rent distribution to favored social groups.

In short, the East Asian governments were thought to have found the right recipe for active economic transformation, pursuing existential survival through economic success via a deliberate move up the economic value chain and technology ladder – especially timely as American aid and economic openness to the region were beginning to wind down in the 1960s. The most revisionist takes on the East Asian Miracle, such as Alice Amsden's, held that governments "led the market," using industrial policy and intervention in financial markets to guide capital to where it would generate the highest overall return for the whole economy and using other policy and institutional measures to deliberately alter market incentive structures and boost specific industries and firms within them.[24] Yet such arguments did not give quite enough credit to the role of the market in providing signals to producers and generating efficiency gains overall. Instead, the heart of the story was an adaptive, evolving process of states attempting to support and nudge private economic actors. In this vein, Robert Wade proposed "the governed market theory of East Asian success," in which elements of both state-direction and market-based resource allocation complemented each other. [25] The South Korean and Taiwanese

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[22] Haggard, Pathways from the Periphery.

[23] James Fallows, "How the World Works," *The Atlantic* (December 1993), 1–16.

[24] Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1989).

[25] Robert Wade, Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization (Princeton: Princeton University Press, 1990).

governments, according to Wade, treated particular industries as public goods, too critical for the general welfare to be left to the market – especially, in mercantilist fashion, those industries necessary for military self-sufficiency and national survival – and guided the market processes of resource allocation to produce different investment and production outcomes than would otherwise have occurred. At the same time, however, the focus was on achieving results in export markets: it was the targeted, market-*conforming* interventions (e.g., performance-based export credits, subsidies, tax incentives, and duty-free imports for exporters) that worked, not those that were blunt and intentionally market-*distorting* (e.g., direct credit and devalued exchange rates).

These policies were supported by a specific growth alliance between authoritarian political and corporatist business actors, whose interests and very survival were supported by productive investment and industrialization. Although governments were committed to broad-based public education to support the developmental project and ensure that society shared in its fruits, the region's authoritarian governments generally limited societal input into policymaking. Insulated from the demands of societal interest groups and embedded in partnerships with the domestic capitalist class, technocratic government agencies focused on implementing the necessary policies to advance nationalist economic goals without the same political constraints experienced in many other developing countries.[26] Meritocratic bureaucracies with centralized economic policymaking powers pursued a dynamic approach to creating comparative advantage in their economies, shaping both the macro-structure or industrial profile of the economy as well as the micro-operations of specific sectors and firms. Chalmers Johnson described this complex of political and economic arrangements dedicated to industrialization and growth as the *plan-rational* or *developmental state*, identifying it firmly as a capitalist system while distinguishing it from the market-rational or regulatory state thought to be the norm in capitalism.[27] Johnson argued that the developmental state rested on a "soft authoritarian–capitalist nexus" – a strong state, insulated from societal pressures, focused on industrialization and development with a market orientation and a capitalist base in society.[28] The crucial underpinning of success in the East Asian economies was a state–market partnership with a shared long-term commitment to growth, a "cohesive-capitalist" pattern of state intervention that Atul Kohli described as two horses acting in

[26] Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).

[27] Johnson, MITI and the Japanese Miracle.

[28] Chalmers Johnson, "Political Institutions and Economic Performance: The Government–Business Relationship in Japan, South Korea, and Taiwan," in Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987), 136–47.

harmony to pull along the chariot of the economy.[29]

Yet the developmental state was not meant to be seen as a new orthodoxy of its own, as was clear in the analyses of the original scholars of the phenomenon. Johnson explicitly identified the developmental state as an approach for late industrialization and catch-up development.[30] In East Asia, the developmental state was a feature of its time and its place. It was enabled by a particular moment in the international economy, with an industrialized world willing to keep markets relatively open, transfer technology, and invest increasing flows of foreign capital, as well as a particular geopolitical moment marked by the hegemony and protective security umbrella of the United States in the region. Domestically, too, the colonial history of much of the region followed by its devastation in the Second World War enabled the particular brand of right-wing, capitalist authoritarianism that served as the political basis for the developmental regimes.[31] Once the East Asian economies had caught up and claimed their place in the industrialized world, they were forced to restructure their economic strategies to be nimbler on global markets. The single-minded pursuit of growth also came with its own social costs, especially for unskilled labor, unfavored regions, immigrants, and the environment. More recently, from the 1997–1998 Asian Financial Crisis onward, East Asian governments have had to pay more attention to and invest more resources in the societal groups whose interests had been downplayed.[32]

REDEFINING DEVELOPMENT

The statist, neoliberal, and developmental state approaches were all primarily focused on industrialization and economic transformation to generate growth in gross domestic product (GDP). Increasingly, scholars and practitioners advocate for a definition of development that encompasses more than simply increases in per capita income. Some believe that GDP is an entirely imperfect measure of development. Marilyn Waring, for example, observed that GDP does not count most housework or carework, the vast majority of which is carried out by women, nor is the environmental cost of economic activity factored into GDP.[33] Simon Kuznets, an originator of the concept of GDP,

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[29] Atul Kohli, State-Directed Development: Political Power and Industrialization in the Global Periphery (Cambridge: Cambridge University Press, 2004).

[30] Johnson, MITI and the Japanese Miracle.

[31] Minxin Pei, "Constructing the Political Foundations of an Economic Miracle", in Henry S. Rowen, ed. *Behind East Asian Growth: The Political and Social Foundations of Prosperity* (New York: Routledge, 1998), 39–59.

[32] Stephan Haggard, *Developmental States* (Cambridge: Cambridge University Press, 2018).

[33] Marilyn Waring, *If Women Counted* (New York: Harper & Row, 1988).

argued in his 1971 Nobel Prize acceptance speech that national accounts like GDP fail to measure pollution and the other negative effects of industrial production and that the production of military armaments should be discounted in GDP because of their destructive intent.[34] Critiques like these have led to a number of alternative indexes being designed to measure societal welfare in ways that are not encapsulated in GDP, including, for example, the UN's Human Development Index, which capture health and education outcomes as crucial elements of development.

Other critical perspectives have directly challenged the "development model" and its focus on industrialization and growth. The "post-development" school, for example, rejects the development paradigm itself as a Euro-centric universalist view, centered around material accumulation, that maintains the global capitalist division of labor. The goal, instead, should be to find more sustainable and equitable alternatives to development that call on the benefits of traditional political–economic practices.[35] Other scholars call for the decolonization of the study and the practice of development aid and the adoption of more race-conscious lenses in development studies.[36] Growth in the developing world has also traveled hand in hand with environmental degradation and the climate crisis. The contemporary de-growth movement has emerged out of the recognition that the pursuit of growth above all else has come with damaging consequences to the environment and human well-being. De-growthists advocate for slowing down our economic systems to both produce and consume less, making the case that putting bounds on material accumulation will improve ecological and societal welfare.[37]

Even from the more common epistemological perspective that views economic growth as necessary for improvements in the quality of life, albeit far from sufficient, it is incontrovertible that the pursuit of increased per capita income has unequal consequences for different social groups. In any developing country success story, there are women, people of color, ethnic and regional groups, migrants, disabled people, and other marginalized groups who have not shared in the full fruits of economic development, even when it is relatively equitable in the aggregate. It is essential to recognize that development is not simply a process of capital accumulation and industrialization. Amartya Sen's

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[34] Adam Davidson, "The Economy's Missing Metrics," *The New York Times* (July 1, 2015).

[35] Aram Ziai, "Post-Development 25 Years After the *Development Dictionary*," *Third World Quarterly* 38 (2017): 2547–58.

[36] Olivia U. Rutazibwa, "On Babies and Bathwater: Decolonizing International Development Studies," in R. Icazwa, O. Rutazibwa, and S. de Jong, eds., *Decolonization and Feminisms in Global Teaching and Learning* (New York: Routledge, 2018); Kamna Patel, "Race and a Decolonial Turn in Development Studies," *Third World Quarterly* 41 (2020): 1463–75.

[37] See, for example, Giacomo D'Alisa, Federico Demaria, and Giorgos Kallis, *Degrowth: A Vocabulary for a New Era* (New York: Routledge, 2015).

concept of "development as freedom," for example, emphasizes capability expansion – for which core freedoms such as social justice and political rights are necessary in addition to economic well-being.[38] More attention is paid today in development circles to the importance of inclusive growth that is as equitable as possible across social groups. As with achieving progress on earlier definitions of development, strategies more attuned toward the impact of growth on economic and social justice require particular forms of political settlement and state capacity.

FROM DEVELOPMENT ORTHODOXY TO HETERODOXY

A government role in the economy and some degree of state capacity are necessary for growth and development – and, eventually, to mitigate the negative consequences of and inequalities associated with development and to achieve its more expansive aims. The more technocratic notions of governance and institutional capacity that were a central feature of the scholarship on the East Asian developmental state have become major elements of contemporary development thinking.[39] As Jennifer Brass describes, the "good governance" paradigm that took hold at the World Bank and other development agencies in the 1990s has largely displaced the earlier dogma of the Washington Consensus and represents a sort of synthesis between the statist and neoliberal dogmas that preceded it.[40] In this line of thinking, where countries are on the state intervention spectrum is less important than how the core governance functions that bolster markets – for example, predictability, credibility, and accountability – are served.

The insight that market development in poor countries requires a state-provided institutional infrastructure has also become more prevalent since the early 1990s. The World Bank's *World Development Report* of 2002 imported the concept into conventional development wisdom, declaring that market-enhancing institutions are necessary to make markets more effective in delivering growth and reducing poverty in developing countries.[41] Others have elaborated similar recipes for market development in poor countries that hinge on the reduction of transaction costs to facilitate economic activity. Hernando De Soto, for example, observed that in the developing world, many assets have not

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[38] Amartya Sen, *Development As Freedom* (New York: Anchor, 1999).

[39] The World Bank, World Development Report 1997: The State in a Changing World (New York: Oxford University Press, 1997); Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington, DC: The World Bank, 2008).

[40] Brass, "Development Theory."

[41] The World Bank, World Development Report 2002: Building Institutions for Markets (New York: Oxford University Press, 2002).

been converted into productive capital because of a lack of formal property rights.[42] If states could formalize property rights – often established via customary norms rather than title in developing countries – and establish the legal systems to regulate them, De Soto argues, the economic potential of those assets could be unleashed. Other scholars have cautioned that formalized property rights are not likely to make a dramatic difference in the absence of other necessary market infrastructure.[43]

An emphasis on the institutional foundations of markets, the tailoring of institutions to different national environments, and even the role of government in building market institutions, is a far cry from the neoliberal prescriptions of the 1980s. It is also a much more subtle and targeted view of the appropriate role of the state in the economy than that represented in the dirigiste wave that dominated the 1960s. Equally important in contemporary development thinking is the need to get incentives right, along with the recognition that states can distort incentives no matter how laissez-faire or interventionist they are with economic policy.[44]

Some development economists and agencies have taken a radically micro tack in the way they think about development and poverty reduction, focusing on individual-level incentives and analyzing how various interventions affect those incentives through randomized, controlled experiments.[45] Such work focuses on understanding the decision-making calculus of poor people in low-income countries, with the goal of shifting incentives to lead to more optimal outcomes. More macro thinkers have countered that the effects of such interventions can only be marginal – and that what is necessary to transform developing countries is high-capacity institutions that support markets along with concerted government policymaking oriented toward the collective good.[46]

Looking at the experience of the East Asian NICs, what might appear to be optimized institutional solutions have actually emerged from a long process of trial and error, accompanied by political struggle and settlement. The appropriate forms of state involvement in the market and the growth coalition that ties the state to corporate and societal interests in developing countries in shaping that involvement are the consequences of country-specific, path-dependent processes that reflect

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[42] Hernando De Soto, The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else (New York: Basic Books, 2003).

[43] Singumbe Muyeba, "Does Strength of Tenure Rights Among the Urban Poor Improve Household Economies? Contrasting Matero and George in Lusaka City." *International Journal of Urban Sustainable Development* 10 (2018): 16–31.

[44] Easterly, Elusive Quest for Growth.

[45] Abhijit V. Banerjee and Esther Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* (New York: Public Affairs, 2011).

[46] Timothy Besley, "Poor Choices: Poverty from the Ground Level" *Foreign Affairs* 91 (2012): 160–7.

distinct pathways to political–economic order in different states.[47] In other words, timing and context is crucial and the outcomes will necessarily be heterodox. Institutions must perform certain functions and achieve certain goals in terms of supporting markets and promoting industrialization and development – but that does not dictate their form, or what they look like and how they are designed, in any given place at any given time.[48]

Most countries in the developing and emerging world have weak state capacity. Matt Andrews, Lant Pritchett, and Michael Woolcock observe that these low levels of capability in turn make building more state capability a slow and uneven process.[49] They offer two reasons for this capability trap in the developing world. First, echoing Dani Rodrik on the issue of form versus function, they identify the problem of "isomorphic mimicry," whereby development agencies have spent a great deal of resources making states in the developing world "look like" states in the advanced world on the assumption that if they look the same they will perform the same. Second is the burden of "premature load-bearing," or placing too much responsibility on the state before it is ready, which reflects Kiren Chaudhry's analysis of administrative weakness in the developing world. These unrealistic and premature expectations set states up for failure in terms of outcomes and the stresses placed on them actually compromise their capacity even more. Compounding these more technocratic considerations is the fact that – as noted by Chaudhry and many scholars of the East Asian developmental state – building state capacity is equally, if not more, a political challenge that requires the sustained commitment of a political coalition.[50]

Although the reality of a low-level capability trap is sobering, it leaves the possibility that state capacity can be built incrementally. The key is that tasks must remain within the bounds of what the state is actually capable of doing and be sequenced in a way that prioritizes what states must absolutely be able to do. Yuen Yuen Ang demonstrates one example of how this is possible when there is political commitment to do so via the example of China's decades-long reform experience, which she describes as a result of the gradual "co-evolution" of states and markets.[51] What do developing countries need their states to be able to do in order to support and sustain markets in the pursuit of

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[47] Dan Slater, Ordering Power: Contentious Politics and Authoritarian Leviathans in Southeast Asia (New York: Cambridge University Press, 2010).

[48] Dani Rodrik, "Fifty Years of Growth (and Lack Thereof): An Interpretation," in Dani Rodrik, ed., *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton: Princeton University Press, 2007), 13–55.

[49] Matt Andrews, Lant Pritchett, and Michael Woolcock, *Building State Capability: Evidence, Analysis, Action* (Oxford: Oxford University Press, 2017).

[50] See, also, Miguel Angel Centeno, Atul Kohli, Deborah J. Yashar, and Dinsha Mistree, eds., *States in the Developing World* (Cambridge: Cambridge University Press, 2017).

[51] Yuen Yuen Ang, *How China Escaped the Poverty Trap* (Ithaca: Cornell University Press, 2017).

industrialization and economic growth? State capacity is necessary to secure a foundational level of political–economic order and to credibly enforce property rights. Governments must also be capable of formulating and implementing predictable, accountable, and legitimate public policy to support private sector activity and safeguard societal interest. If markets are nascent, then state capacity, too, can be basic; as the economy evolves, so, too, can the state's role in enhancing it in ways geared toward the collective good. Developing countries must approach this task not via the orthodox impulse to order and engineer but in the heterodox spirit of humility and flexibility to enable experimentation.[52] When we view the state–market balance in developing countries through this lens it becomes clear that how states can successfully support and intervene in markets to promote economic growth and improve societal welfare is constantly evolving and adapting in ways that are specific to time and context.

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[52] See James Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed* (New Haven: Yale University Press, 1999); and Albert O. Hirschman, "The Principle of the Hiding Hand" *The Public Interest* 6 (1967): 10–23.