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What Development Strategies after the Demise of the Washington Consensus?

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INTRODUCTION: BACK TO SOME BASIC ISSUES

During the early Nineties, the analyses, theorizing and strategies concerning development had taken a new configuration, shaped by the Washington consensus even if, in retrospect, the coherence of such a framework might be an illusion or a misinterpretation (Williamson 1997). In any case, this vision of development has been challenged by the succession of financial crises since the mid of the 1990s: the management of the Asian crises has triggered the dissenting views of well known theoreticians previously associated to the elaboration and implementation of the strategies promoted by the World Bank or the International Monetary Fund (Stiglitz 2002 ; 2003). Nowadays, Jeffrey Sachs (Sachs, Radelet 1998) is himself among the dissenters about the relevance of the development strategies and structural adjustment programs sponsored by the International Organizations. Paul Krugman (2003) too challenges the conventional wisdom that a free market strategy is the best, including for the US economy. Therefore it is time to discuss three pillars of the Washington consensus.

Development: a branch of growth theory...or an exception?

Development economics offered a double specificity when it first emerged as a separate discipline at the end of the Second World War. For some analysts, it constituted an exception to the theories that were assumed to be operative in the developed economies. Others felt that the developing world could become a new zone of application for such theories - as long as they were adapted to its main characteristics. However, in both cases, development economics was only of secondary importance. As Axel Leijonhufvud humorously wrote in 1973:

"The priestly caste (the Math-Econ), for example, is a higher "field" than either Micro or Macro, while the Develops just as definitely rank lower…. The low rank of the Develops is due to the fact that this caste, in recent times, has not strictly enforced the taboos against association with the Polscis, Sociogs and other tribes. Other Econ look upon this with considerable apprehension as endangering the moral fiber of the tribe and suspect the Develops even of relinquishing modl-making."
(cited in Bardhan 2000: 1)

This sort of tongue-in-cheek attitude fell out of fashion in the late 1990s, when development issues found themselves at the heart of some bitter controversies. Even more importantly, development studies have made a great deal of progress at the conceptual level, with many of its advances working their way into the very core of general economic theory. There are a number of examples. Theories of imperfect information and of "principal-agent" contracts (Stiglitz 1987) have nurtured thinking about the basic characteristics of a rural economy (Bardhan 1989b). Externalities relating to co-ordination problems have led to formalisations that deal as much with endogenous growth (Lucas 1993) as with the existence of multiple equilibria whenever preferences and strategies are interdependent (Hoff et Stiglitz 2001). As such, both the developed and the traditional economies' characteristic problems can be dealt with as part of a unified framework.

However, in the end, a number of these strategies for development turned out to be failures, causing the world's top theoreticians to raise questions as to why so many theories, based as they were on mechanisms that were simple and unique, had such limited capacities for explaining development. In the words of Irma Adelman:

Like chemists' futile quest for the philosopher's stone, over the past half-century the search for a single explanatory factor guided both theoretical and empirical research into development. As a discipline, economics seems incapable of recognising that this sort of factor does not exist, and that a policy of development requires an otherwise more complex understanding of systems, one that combines economic, social, cultural and political institutions, whose interactions themselves change over time. That as a result, interventions must be multiform. That what is good for one phase of development can turn out to be unfavourable at a later stage. That some irreversibilities create path-dependency. In sum, that the prescriptions a given country receives at a certain moment in time should be rooted in an understanding of its situation, and of the trajectory that has led it to the present through a long period of history.
(2001b: 104-105)

A number of similar statements can be found in recent stances taken by top experts in development, as well as by other pacesetters in the field of economics (Meier 2001, Sen 1997, Emmerij 1997a, Stiglitz 1998, *Revue d'économie du development* 2001. This convergence raises two other issues.

Outward versus inward strategies: a reappraisal

In a sense, the research program on development goes back to the interwar period. On one side, the Keynesian theory develops the hypothesis that free markets are not necessary leading to full-employment, and this is a major challenge to previous classical theory. On the other side, the near collapse of the international economy induces some developing countries to adopt a strategy based upon the building of a domestic market under the protection of high tariffs and barriers to foreign direct and financial investments (Prebisch 1950 ; 1971). This has been interpreted as an import substitution strategy, especially relevant for interpreting the trajectory of many Latin-American countries from the 1930 to the early 1970s. At that time, some industrialization and development actually took place.

But precisely, the strong limits experienced by countries such as Argentina or Mexico during the 1970s and 1980s have induced the emergence of a quite opposite vision of development. Given the progressive opening of developed countries to external trade, some Asian countries have designed a genuine development strategy based on the competitive advantage of some exporting sectors, not related to natural resources but to the low wage of recently enrolled blue collar workers. In many cases, technology was imported either via reverse engineering (Japan, Korea) or directly via the good conditions offered to large multinationals in order to delocalize part of their production out of ageing fordist sites (Taïwan and more recently continental China).

The 1997 Asian crises, or more recently Argentina's collapse have suggested that linking the domestic economy to the quite uncertain and unstable world trade and financial globalization was not without risk. Therefore the theory of development has to discuss again the relative merits of inward or outward looking strategies (figure 1).

FIGURE 1 NEAR HERE

State versus market: farewell to a black and white picture

A similar dichotomy is observed about the coordinating mechanism that should govern developing economies. As previously mentioned the general perception of economists after the Second World War was that market mechanisms were not exempt from some dramatic failures. After all, this was the central message of Keynesian theory for mature economies and the post Keynesian growth theory (Domar 1957) implied that the growth process was by nature unstable and therefore needed clear and vigorous State interventions in order to bring back some structural stability to capitalist economies.

Similarly, Third world economists perceived that a fast opening to the international economy and the reliance to pure market mechanisms would generate adverse trends for most economies belonging to the periphery. If a society wanted to overcome such an under-development trap, a developmentist States was needed in order to compensate the initial weaknesses, especially in the manufacturing sector that was recognized a leading role in the process of development.

But this was only the starting point of a long wave that has been transforming drastically the conception of development. If inward looking strategies were closely associated with strong State interventions back in the 1950s and 1960s, the very limits experienced have triggered an impressive reversal that culminates in the 1980s and 1990s into the so-called Washington consensus. Basically, it used to combine the promotion of a large opening of the domestic economies with the faith in the self adjusting property of markets and the superiority of typical market economies (see figure 1, supra).

The need for a retrospective analysis

Such a black and white approach has lost steam during the last decade. Therefore, the present paper proposes to analyse how and why did development theories converge, in the late 1990s, toward a more balanced view, i.e. a systemic and institutionalist conception diametrically opposed to a "purely economic approach" that usually focuses on technologies, demography and markets. It is illuminating to carry out an analysis, however brief this may be, of the stages that development economics passed through from the end of the Second World War until modern times. Development is a concept with a long history. The same can be said of those factors that are considered to be crucial in terms of the perpetuation of under-development – they too have changed greatly over the course of the past half-century.

At the same time, it would also be useful to revisit the period's main governmental strategies: sometimes characterised by trust in a 100% state system, and sometimes by the temptation to leave resource allocation - and even certain strategic choices - up to the market.

As regards the theories that are involved, the most notable studies into the potentiality of (and conditions underlying) a market economy have revealed a whole array of structural limitations that can undermine the efficiency of the market's allocations (Ingrao and Israel 1990) or of its very functioning (White 1981) - not to mention the problem of its institutionalisation (Fligstein 1999). In short: A market is a social construction. In return, and quite symmetrically, public choice theoreticians have concluded that it is not necessarily possible for the state to compensate for market failures, given that it suffers from the opportunistic behaviour of politicians (and of the senior civil servants in charge of implementing their decisions).

Therefore, if we are to answer the issue that lies at the heart of the present article with any confidence, we will have to show that there are a multiplicity of reasons today why we should kick this habit of alternating between a belief in the state as an agent of development, and the belief that all we have to do is respond to the market's signals! In other words, we do not in fact have to be slaves to the cyclical Kondratief-like thinking that seems to have marked the history of ideas, doctrines and economic theories on development-related matters. There may be another way of formulating this paradigm.

A HALF-CENTURY OF TRIALS AND ERRORS

The development concept's long history

From the outset, economic policy-making was dealing with problems that today come under the heading of theories of development. The founding fathers often wondered (and argued) about the respective roles that the state and the market should be playing in this complex process. William Petty, François Quesnay and Adam Smith raised some significant questions: Does the market need the state; or to the contrary, will the market's success deprive the state of its attributes? To encourage development, do we need more or less of a state? (Sen 1988: 10).

FIGURE 2 NEAR HERE

Development theory per se was only seen as a distinct discipline after the Second World War. Since then, the development concept has gone through an endless series of redefinitions and reinterpretations. To carry out a forward-looking analysis of development, it would be useful to take a quick look at the different definitions that have been attributed successively to the processes at work in those economies that were once described as "peripheral" (see Figure 2).

The first and most elementary definition stresses the self-perpetuating nature of growth, as opposed to simple phases of acceleration in a transient economic situation. This criterion relates to an important aspect in development, i.e., a country's entering a phase of permanent growth as opposed to its tendency to stagnate, or to experience the sort of slow increases in output that were rife during the XVIth century (Braudel 1979, Bairoch 1995).

Of course, growth could be a product of demographic changes rather than of rising standards of living. Hence a second definition stressing a quasi-continuous rise in per capita consumption as a criterion of development, considered here in the strictly economic sense of the term. It is this definition that theories of growth usually use, in line with a tradition that goes all the way back to Harrod or Domar models – although the canonical form is found in a neo-classical type of emblematic formalisation (Solow 1956, 1957).

Still, neither of these meanings accounts for a third essential component, the transformations of technologies, organisations and institutions that accompany the economic growth process per se. The development concept itself introduces the idea of a qualitative transformation and finds a significant reference in the Schumpeterian theory of development, as long as this application is not limited to entrepreneurs alone or to an entrepreneurial frame of mind.

This notion can be extended further by incorporating one of the main findings of historical demographics, to wit, the spectacular human development that has taken place over the past two centuries. This has occurred at different levels: physical (growth in people's average size); health-related (longer life expectancies at birth); and intellectual (rise in collective and individual knowledge through training in reading and mathematics, and more generally by learning to think analytically and abstractly).

It is important to note that these variables define the objectives and contents of development, and not just one of its pre-conditions as has been assumed in recent studies of endogenous growth (Lucas 1988, 1993; Romer 1990). This received wisdom is the basis of the human development indicators the World Bank uses. Published at regular intervals, these indicators lend themselves to a ranking that is somewhat different from classifications based on per-capita income (e.g. World Bank 1998) This demonstrates the multidimensional nature of development.

An analogous divergence crops up when national performances are measured by growth rates or by reductions in levels of poverty. Of course, economic dynamism provides the necessary resources for reducing distribution-related conflicts (Collier et al 2001), but nothing guarantees that the least well off will receive their fair share of the fruits of growth. Much depends on the distribution of property - and on the institutions that shape the pricing and rewards systems (Adelman 2001a: 84). Hence a sixth definition of development as a reducer of poverty - the latter term being defined here as when people are deprived of a decent life.

Development analyses and theories of justice can be linked in an attempt to come up with a more general definition. According to Rawls (1971), development can be defined as the recognition that all individuals have basic rights, notably the right to operate in a framework that enables everyone to fulfil his/her potential as far as possible. This conception finds its extreme version in a definition that is radically opposed to a purely economic vision, and which assimilates development with freedom in the social, political and economic order (Sen 2000).

Lastly, increasing environmental problems have caused certain analysts to stress the ecological sustainability of a given mode of development. This is the criterion that is ultimately transplanted into the idea of the primacy of the economic regime's social acceptability and political sustainability. This final definition has a distant origin in the Malthusian interpretation of development as a conflict between an economic dynamic and the exhaustion of nature resources. It has however taken on new forms, first when oil and raw materials prices skyrocketed during the 1970s (Meadows et al 1972), and later during the 1990s, due to the fear of global warming (Godard et al 2000).

All in all, over the past half-century, the development concept has been considerably transformed, to the point that it now encompasses a whole series of objectives relating to: the quality of the economic policy being followed; the investments being made in health and education as part of the reproduction of a society's overall structure; political acceptance of a given economic order; without forgetting the economic activity's place in the ecosystem. From its original ad hoc and limited relevancy in a domain that was purely economic (and even economistic) in nature, the concept's definition has been extended to cover most of the orders that comprise a society, as well as the interrelationships between them. This has been achieved through the use of a systemic approach – even if this term has been rarely used (Adelman 2001a). An analogous trend has been observed with the different schemes for interpreting development, as well as systematic non-development.

From technology to modes of government: the progress made in the explanatory factors of development

Figure 3 highlights a remarkable parallelism between the changes in development-related ideas and the changes in the explanatory factors that theoreticians and analysts use.

At first, development economists drew their inspiration from the advances that had been achieved in the various theories of growth. Whether inspired by Keynes or by the reaffirmation of a balanced growth model, they saw the investment rate as the key factor over the long and medium term. In fact, cross national econometric studies asserted that this was one of the most robust explanations for differences in growth rates over a period of one or several decades (Bradford de Long and Summers 1991).

The optimal growth theory shows that this type of relationship is not linear. Moreover, the experience of the Soviet economy confirms that it is important for social and economic institutions to define incentives to encourage the productive utilisation of the resources that have been allocated to investment and to innovation. Society's ability to absorb technologies and innovations also cropped up as a key variable explaining differential rates of growth (Abramowitz 1986). Industrialising countries' ambitious but unsuccessful development plans were sometimes attributed to a lack of talent in economic management, not to mention a shortage of entrepreneurs.

This raises a major issue, to wit, the main institutions of an economy that is being run according to market logic. On one hand, economists tend to stress mechanisms such as price-based allocations, where non-development can only stem from the blocking of market mechanisms (Schultz 1964). On the other hand, the new institutionalism infers the need to transcend a logic that is based on property rights alone (North 1981) so as to focus on the constitutional and legal support system in those societies where the level of economic activity reflects all of these incentives and constraints (North 1990).

One interpretation decries the hindering of a market logic; the other highlights the importance of policy and law. Ultimately, both incorporate the mode of government, or "governance" using current jargon. This refers not only to the way in which the state is being governed and managed. It applies more generally to the distribution of power throughout the entire social order, including in the economic sphere (Théret 1992). Roughly speaking, the idea here is that development stems from good governance, which can mean for example the application of an appropriate pricing system for those goods whose production and allocation can be structured to match the markets' organisation.

It remains that good governance can be analysed in a number of different ways. The World Bank believes for example that this should entail an efficient management of public goods and of externalities (World Bank 1997, 2001). For other analysts, the key to the inhibition or blocking of development lies in the corruption that can be caused by state intervention (World Bank 1995, Rose-Akerman 2000). Other economists focus on the complementarity between democracy and development, once a threshold of per-capita income has been surpassed (Barro 1996). As for those economists who draw their inspiration from the advances that have been made in political philosophy - but also those who chart the basic characteristics of under-development - individual rights are the key to overcoming the poverty and shortage that is generated by an unequal access to basic goods (Sen 2000).

FIGURE 3 NEAR HERE

Finally, given the persistence of famine in certain countries, people become periodically aware that deteriorations in the natural environment can undermine the economic activities of a traditional society. Together with rapidly rising raw materials prices, this reminds them that in the long run ecological constraints will determine the future of the planet and therefore of economic activity.

It is clear that a half-century on, the term "development" no longer refers to the same definitions nor to the same explanatory factors. We should thus try to verify whether the same changes apply for all of the vectors and strategies of development.

Theories of development: historical controversies, recent convergences

At first, development economists were highly sceptical about the market's aptitude for promoting a steady accumulation of capital in developed economies, and especially about other countries' ability to catch up with them (Meier 1987). For Marxists (e.g. Preobrazhenski 1924), and later for structuralists (e.g. Prebisch 1971), market extension should be a limited phenomenon involving neither capital goods nor credit. Quite the contrary: it is up to planning and/or state intervention to promote a type of growth that respects national autonomy as well as a modicum of social justice.

Neo-classical economists were quick to rebel against this vision, putting forward the idea that the impoverished state of farmers in the Third World in no way constitutes an impediment to the development of a *homo oeconomicus* type of rationality – meaning the ability to respond to the price signals that are conveyed by a market (Schultz 1964, 1980). Here the problem is framed the other way around: the developing countries are said to be suffering from not enough of a market orientation rather than from an excess thereof.

Between these two extremes, the early (e.g. Domar 1957) and later Keynesians (e.g. Stiglitz 1988) stressed that the market creates an unbalanced allocation of credit and labour. In so doing, it affects investment whilst providing a satisfactory outcome for most standard goods, i.e., merchandise whose quality has been clearly defined independently of its price (see Figure 3). Market extension should neither be too great nor too small. This contradicts both the neo-classical and the structuralist points of view.

Similarly, the state's relationship to the market is the subject of a wide variety of conceptions. For the founders of development economics, whether Marxists or structuralists, it is up to the state to replace the market inasmuch as the latter is usually unable to pilot accumulation with any degree of success. This view also holds the market responsible for a whole series of crises that can be damaging to almost all members of society: capitalist entrepreneurs, wage earners and bankers. It is therefore imperative to resort to planning, be this of the authoritarian or the indicative variety, so that governments can promote an orderly type of development.

It is just as necessary that a collective authority intervenes in areas such as land and raw materials management, i.e. in environmental matters. This is an idea that goes back a long way (Malthus specifically refers to it) and was rejuvenated after the first oil shock. The first ecological models tended to demonstrate that pure market adjustments would be unable to keep humankind from running out of natural resources, thus leading to a no-growth situation (Meadows et al 1972).

There is an even stronger argument concerning threats to the environment, specifically the deterioration of the ozone layer, as demonstrated in the 1990s by the Rio and Kyoto international conferences. Still, it is difficult to convert this concern into instruments of intervention that can be used for environmentally related economic decision-making: should there be norms and rules, or instead should market mechanisms (i.e., pollution rights) prevail? This again raises the question of the relationship between collective choices and the market, all the more poignantly so inasmuch there is no World Government to tax polluters or to determine norms that can be applied to everybody.

Observing the functioning of Soviet-type regimes (or of economies featuring strong state interventionism), neo-liberal theoreticians have concluded that statist *constructivism* is condemned to fail since it is unable to manage the complex information flows that are characteristic of modern economies, and which only a myriad of decentralised markets are capable of handling (Hayek 1973). This theory was primarily applied to the older industrialised economies, but it also has major implications for the developing countries. In lieu of "planning", this school of thought recommends "allowing market pricing to do the work". In this view, a frugal and modest *state* is the best way of supporting development. It remains that the neo-liberals' argument does not refer to a Soviet-type of authoritarian planning alone, inasmuch it tends to question the efficiency of almost any type of state intervention.

In this view, as long as agents are entirely rational and can extrapolate the consequences of government decisions, the state loses all ability to disturb market equilibrium, which is deemed to operate independently of any one individual's wishes. The rational expectations hypothesis can therefore be said to have given a second wind to the classical school's pro laissez-faire" arguments, despite the existence of temporal interdependencies (the phenomena for which planners have traditionally been responsible (see e.g. Lucas 1983)).

This reasoning is also applied to environmental problems: as long as all actors are familiar with the model governing the interdependency between the economic system and environmental processes, the pricing system will be responsible for revealing and then resolving whatever imbalances may emerge. This is all the more valid since rising standards of living will supposedly raise general awareness of environmental matters (Bhagwati 1993).

Research carried out since the mid-1980 has enabled us to transcend this relatively Manichean dichotomy. On one hand, having witnessed for example the transformation of the Soviet economy (World Bank 1996), theoreticians - even neo-liberals - and international organisations now recognise that the state has a significant responsibility in building the institutions that the market needs if it is to fulfil its potential. It also is responsible for providing a supportive framework for entrepreneurship: a stable currency, an efficient system of payment, codified accounting practices, business law, a stable legal system, state monopolisation of legitimate coercion and a minimum of transport and communications infrastructures to reinforce the unity of the national entity. All of these factors are necessary pre-conditions for setting up a market (Hollingsworth and Boyer 1997: 55-93). The considerable economic problems that have arisen in Russia and to a lesser degree in the rest of Eastern and Central Europe are merely an expression of a lack of understanding of these institutional conditions (Boyer 2001a).

On the other hand, theories that focus on the asymmetrical nature of information generally conclude that market equilibrium has been suboptimal, for example when price is both a mechanism of resource allocation as well as an indicator of quality. This leads to rationing in the labour and credit markets, the end result being that corrective state interventions can improve the lot of all economic agents (Stiglitz 1994). This argument is entirely applicable to the developing economies, characterised as they are by relatively shallow financial markets and by atypical employment contracts (Stiglitz 1988, Bardhan 1989a).

Can finance be totally controlled via market-based adjustments? Does speculation always enable convergence towards a security's or a financial asset's true value? Keynesian theories of finance provide convincing arguments for a negative response to this conjecture (Tobin 1978; Shiller 2000). Central Bank interventions, prudential regulations and the existence of a lender of the last resort are all factors that sustain the viability of a developed financial economy. The state's function in this case becomes to correct market failures.

There is however another corpus of literature that is more directly related to development itself: the theory of endogenous technological progress, which stresses the role played by those positive externalities that are associated with innovation and with the human capital which is being trained within an educational system or a firm. Given that the social returns are greater than the private returns in this case, growth optimisation is predicated on state intervention – e.g. on the subsidising of R&D expenditures or on the guarantee that basic education remains free of charge (Romer 1990).

This issue is a particularly poignant one for the developing countries, inasmuch as the knowledge or technologies that they use are usually imported at such times as they make a purchase of capital goods and patents. Thus the general framework that is applicable to endogenous growth has to be adapted to the developing countries' circumstances. Even the Asian Tigers, during the halcyon days of their era of growth, seemed to be unable to increase their total factor productivity (Lau 1996). As a result, developing countries' economic and technological policies should probably be distinct from the developed world's, instead of being a mere carbon copy of it (World Bank 1998).

In modern theories, the state retrieves a role, one that the market is incapable of fulfilling. Not only does it correct the markets' failures but it also institutes a number of market systems, thanks to its promulgation of highly specific rules that ensure their viability (one model being today's financial markets). Neo-institutionalist theories also highlight the key role that is played by the constitutional and legal order, which shapes the incentives system, hence forms of organisation and innovation, and therefore the economic dynamic itself (North 1990).

This makes it difficult to imagine that only one form of market economy exists, possibly gravitating around a Walrasian equilibrium. A wide range of forms already seems possible. As long as economic institutions are congruent, their changes cannot be explained by the efficiency principle alone. Moreover, these institutional architectures will be all the more successful if they encourage market adjustments for standard goods, whilst recognising that credit and employment contracts will for the most part be unaffected by such adjustments - this being another source of diversity for modes of development (Aoki, Okuno-Fujiwara 1998, Aoki 2001).

All in all, modern research has revealed a significant convergence, resolving the somewhat Manichean debates that had presided over the emergence of development economics.

Most theoreticians agree that the market can allocate and produce standard goods efficiently, but that labour and credit cannot be completely run by a market logic, meaning that state interventions or collective agreements are needed for their management. This is even more important for the financial markets (Shiller 2000, Orléan 2000) and for any process that implements significant indivisibilities or complementarities. This configuration crops up frequently in traditional rural economies (Bardhan 1989b), but also in the industrialising economies (Hoff and Stiglitz 2001). It is paramount to have a form of co-ordination that operates outside of market strictures to govern the choices that are being made in terms of public infrastructure, the environment or education and research policies.

The theory of endogenous technological progress recycles some of the main intuitions that can be found in the structuralist theories of development (Rosenstein-Rodan 1943) when it shows, for example, that a country with an initial handicap can be permanently stuck in a poverty trap in the absence of any forms of co-ordination that have been organised by its state or collective entities (Hoff and Stiglitz 2001, Murphy et al 2000). Inversely, by synchronising investment or innovation, this obstacle can be overcome. This generates stronger growth and benefits all of society. As such, the state can spur a creation of additional wealth, and is no longer a simple predator in a zero sum game.

In theoretical terms, the modern era has witnessed the abatement of the radical conceptions that had long dominated discussions about development economics. Neither authoritarian planning nor a full-scale generalisation of the market system is being looked for. All that is at stake is a very moderate balance between state intervention and decentralised adjustments. A range of World Bank annual reports illustrate this growing awareness (World Bank 1993, 1996, 1997, 1998, 2001) and seem to herald a turnaround - even a bifurcation - in the development conceptions found in the international organisations themselves.

This conception can be broken down into two diverging conceptions of the state's role. For neo-Keynesian theoreticians, the authorities' function is to correct the market's imperfections (Stiglitz 1988). For some of the new institutionalists, the political order is a catalyst for economic incentives. Here the economy's overall performance is deemed to be derived from its incentives system. There is no absolute criterion of efficiency guiding the development and selection of economic systems (North 1990).

For this reason, most governments across the world have adopted a stance that had been expressed for the American economy by the Council of Economic Advisers (CEA):

The role of government … is not to stimulate economic activity through public expenditures but, in a more subtle fashion, to provide individuals and companies with the tools they need to prosper thanks to their own efforts … Government should be used to supplement and not to replace the market and the private sector. This is the basic principle guiding the economic strategy of this administration.
(CEA 1998:87)

"100% state" and "100% market": two failed development strategies

Leaving theory aside to concentrate on the strategies that dates have been pursuing, it is reassuring to note that a number of convergent lessons can be drawn from the history of the 20th century. Development plans that bet everything either on a complete organisation of economic life by the state or on a total delegation of collective responsibilities to the market have all failed more or less miserably (Théret 1999). In the absence of any exhaustive analysis, this can be illustrated by a number of national trajectories (see Figure 4).

FIGURE 4 NEAR HERE

There is no better example of the failure of the "100% state" approach than the changes in the Soviet economy. Centralised economic power was supposed to engender rapid growth and allow the USSR to catch up with the living standards found in the rival capitalist economies. However, one should not underestimate its initial successes in building up a heavy industry and in diffusing the most essential collective services. The Soviet regime's maturity process was eventually stunted by a complete evaporation of productivity gains and its inability to make a successful transition to mass consumption - not to mention the political tensions that arise in an authoritarian system (Sapir 1989). It is no surprise that reforms initiated in the mid-1980s to overcome these obstacles triggered a major structural crisis, accompanied by a deep recession that lasted for nearly a decade (Sapir 1996).

Still, the subsequent trajectory of the Russian economy does offer a second lesson, one that is almost symmetrical to the first. It is not enough to simply banish the monopolisation of political power by the Communist Party, or the role of the Gosplan in economic management, for a market economy to prosper. The country's recurring difficulties provide proof that a market does not possess the property of being self-implementing (Fligstein 1999). Without a legitimate state endowed with the power to establish the rules of the game, what ends up prevailing is a trend towards autarky and the fragmentation of the economic and social space.

In contrast, the dynamism of the Chinese market shows how very important the state can be in the emergence of a market economy. Far from being the enemy of the market, the state can be a catalyst. On the one hand, it sets up the necessary institutional foundations: property, contracts, currency and market supervision. On the other hand, it supports agents during their internalisation of a market-based logic.

This somewhat extreme example can be reinforced by an analysis of other national trajectories (Pieper and Taylor 1998, Aoki and Okuno-Fujiwara 1998, Emmerij 1997b, Ranis 1997). In the 1980s and 1990s, state-driven growth strategies experienced difficulties that were aggravated by the conflict between national regimes that were undergoing strong governmental supervision and accelerated financial deregulation. Recent developments in Japan and later in Korea are good examples of this. The suddenness of the 1997 crisis that broke out in South East Asia raises an important theoretical question. Many analysts had believed that this area's earlier success had been the result of an economic policy that had encouraged the advent of a market system (World Bank 1993, Aoki et al 1998). Yet when they opened up to financial innovation, what became apparent was the deferred impact of this extension of the market. It had been efficient for standard goods, but its impact was much more problematic in terms of credit and financial products (especially derivatives, see e.g. Boyer 1999a) and labour (Boyer 1994).

Following another path, modern theoreticians have thus recycled those intuitions that once served as a foundation to Karl Polanyi's analyses (1983).

It remains that there is probably no better example of the limitations of a "100% market" approach than the Chilean trajectory (Pieper and Taylor 1998: 46-47). After 1973, Chile adopted a strategy that was highly geared towards a market-based logic, broken down into every sphere of economic activity. This strategy led to the destruction of most of the state's previous interventions, yet this is not what drove the "Chilean miracle". In actual fact, from the 1980s onwards the state was forced to correct the imbalances that were the product of the previously extremely neo-liberal strategies, so as to develop state structures that could encourage exports, regulate short-term capital inflows and above all maintain control over the proceeds from copper exports. This led to the reintroduction of a complementarity between state intervention and the market (Odaka and Teranishi 1998). Much more systematic comparative studies have confirmed that many Latin American countries' past successes did not stem from their adoption of "100% market" friendly strategies, but, to the contrary, from an earlier correction phase that had reintroduced a modicum of state control (Inter-American Development Bank 1996).

Thus, analysis of development strategies confirms the lessons derived from changes in theories.

There is convergence towards a balanced conception of the relationship between state and market, moving away from the succession of radical positions that had previously dominated this field.

Interventionists and neo-liberals: an ongoing battle?

If we put the development strategies that were being pursued during the interwar period into perspective, what shows up is a series of contrasting positions: vigorous state interventions designed to be a response to the failures of deregulation, and inversely, the limitations of a state-driven type of development triggering a reorientation in favour of market-based adjustments. Looking to the future, it is worthwhile remembering the reasons for this swing, which is somewhat reminiscent of the long waves Kondratief thought he had identified in his study of the history of capitalism (see Figure 5).

The interwar period was marked by the unfavourable repercussions of the crisis in the industrialised economies on other countries' development potential. This is exemplified by the Latin American countries, which at the time were very open in trading and financial terms to the international economy. The consensus back then was that neo-liberal strategies had failed, causing Cambridge economists (including John Maynard Keynes) to look for a new theoretical framework. For countries on the periphery, external dependency was considered an impediment to national development, and financial capital as a destabilisation of their earlier specialisation. Governments who supported open door policies and deregulation lost legitimacy – and often power.

This was the breeding ground that nurtured, from the 1950s onwards, a developmentist state conception that was supported by structuralist theories (Prebisch 1950, 1971). Here the state and the public sector are meant to take the initiative for those strategic decisions that will have an impact over the long run, for example via planning procedures or by controlling access to credit or to imported capital goods. To avoid having to suffer from the uncertain nature of the international economy, the domestic market is highly protected by a policy of high tariffs, with exceptions possibly being made for capital goods destined for priority sectors. Capital flows are subject to state controls and certain financial transactions are prohibited or severely restricted.

In the 1960s and 1970s, governments following this orientation enjoyed a great deal of legitimacy, if only because strong growth generally allowed for a resolution of those tensions that inevitably accompany the changes in industrial structures and social equilibria which lead to development. This success was generally forgotten during the 1990s but it was a reality and it transformed a number of societies, including in Latin America.

FIGURE 5 NEAR HERE

Paradoxically, it is the very success of the developmentist state that led to criticisms thereof, starting in the 1980s. The multiplicity of state interventions causing corruption and authoritarianism meant that democracy movements began to rise up. In addition, given the growing uncertainty that the international system was transmitting via raw materials prices, interest rates and market growth rates, governments committed strategic errors and planners were guilty of an ever-greater variance between forecasts and actual performances. The state sector seemed to be more and more inefficient, often because it was impossible to implement the import substitution policies any further than they had been. Lastly, slower growth and the ensuing economic instability exacerbated distribution-related conflicts, provoking major imbalances in state budgets - and often in external accounts as well. The need for an alternative strategy became clear to governments, regardless of their ideological orientations or initial policies.

Development projects therefore adopted a strategy that involved supporting the market in most areas of economic activity. People felt that it was necessary to open up to productive capital and to international financing. This meant that the domestic market was supposed to open up and deregulate, with exports becoming increasingly viewed as the main driver of growth. Then came a plethora of privatisations and company-friendly incentive schemes, both domestically and abroad. Price mechanisms tended to replace state interventions, resulting in a considerable transformation of the state and of the economy.

Not only were these convergent efforts meant to diminish the amount of money that the public sector was taking out of the rest of the economy, but the state also turned itself into a promoter of the market system and of entrepreneurship. It was during this period that an opposition arose between the trajectories of those Latin American countries that had belatedly taken to this path and the changes in those South East Asia countries (see e.g. Boyer 1994, Marques-Pereira and Théret 2001) that had supposedly been pursuing company-friendly policies since the 1950s (Aoki and Okuno-Fujiwara 1998). In the end, and up until the mid-1990s, the newly industrialised countries' successes were attributed to their having adhered to a market principle, and to their successful insertion into the international division of labour.

And yet, once again, the euphoria brought by past successes is an early warning for the next crisis. Countries pursuing this sort of strategy experienced a whole series of crises. Mexico was severely hit in 1994 by the divorce between the slow transformation of its productive apparatus and the speed with which foreign capital was withdrawn. Most of the countries in South East Asia suffered a complete reversal of fortunes in 1997, again because the international financial community changed its opinion regarding the stability of these economies and markets, which were said to be "emerging".

Governments were subjected to major social and political tensions. Their adherence to a market orientation was a problem, including in those countries that were most in favour of free trade and laissez-faire attitudes. The influence of the international financial markets increasingly came under fire, given that it was wreaking havoc on countries' social and industrial organisation. Their firm footing in the international division of labour, previously considered to be a boon, seemed to undermine their ability to control their national economic situation, and more generally, their own style of development. There were open discussions about the limitations of a strategy that was entirely run according to a market orientation, a debate that took place both in those countries that were suffering from the crisis as well as in international organisations such as the International Monetary Fund and the World Bank (Stiglitz 1998).

The late 1990s were somewhat reminiscent of the interwar period: Were governments again going to shift towards strategies that gave primacy to the state as an alternative to the market?

From the market's failures to the state's limitations: the contributions of "big theories"

In all likelihood, such a conclusion would be precipitous. On one hand, the two periods featured productive structures, social and political conditions and international economic configurations that were quite different, so it was highly improbable that there could have been an identical repetition of the catastrophic chain of events that took place between 1929 and 1932. In addition, we should not underestimate the clarifications that have been provided by theoreticians' research into the respective merits of the market and the state (Stiglitz 1987, 1994; Wolf 1990) and of organisations (Arrow 1974).

Symmetrically, note should also be taken of the advances that were being made in multidisciplinary approaches (Hollingsworth and Boyer 1997) that put the role and the power of the market into perspective, taking other forms of co-ordination as a benchmark. Indeed, above and beyond the passion of these political debates and the ideological oppositions involved, economic theory and political science concluded that there can be a durable coexistence of state and market failure, and that neither of the two co-ordination procedures should pretend to be the only one capable of organising and managing modern economies (see Figure 6).

FIGURE 6 NEAR HERE

It is important that we present the essential characteristics of this approach - developed to a greater extent in other studies, see e.g. Boyer 1997 - inasmuch as it has had a definite impact on development issues.

General equilibrium theoreticians have, in this respect, done a great deal of work. They have demonstrated under which conditions Adam Smith's assertions can be verified, particularly his notion that the search for individual interests can ensure a favourable collective outcome as long as the market is mediating these interactions, without any other interference (Ingrao and Israel 1990). The net result is that the existence, stability and optimality of a market economy's equilibrium is much harder to guarantee than we have been led to believe by the founders of political economy since Adam Smith.

Among other things, money has to be exogenous, competition must be perfect, quality assessments have be seamless, no public equipment can exist, production techniques must feature constant returns, innovation cannot manifest any positive externality, no more than pollution can produce any negative externalities. It is also important that the disruptive effects of expectations be nullified thanks to the creation of futures markets for all goods, covering all time periods, and operating in every country of the world - even though, in the real economies, a small number of financial markets actually ensure all by themselves the co-ordination of people's views of the future. Last but not least, considerations of social justice cannot exert any influence on the allocation of resources and on the conditions of a Pareto-type of efficiency.

If one or the other of these seven conditions is not satisfied, other co-ordination mechanisms become necessary. Each will create its own pathology, something that should be compared with the reassuring image of an invisible hand: absence of equilibrium, multiple equilibriums, variance versus Pareto optimum.

In this view, collective interventions to organise the markets or ensure an alternative form of adjustment derive their legitimacy from all these advances in economic theory. They therefore have an effect on the analysis of development. First of all, money is a collective institution that is the basis of all market but which does not itself stem from a market mechanism (something that Karl Polanyi already discusses in his work 1983). Similarly, the preservation of competition depends on actions taken by state authorities: It does not stem from some unadulterated and automatic adjustment that may or may not be taking place in a decentralised economy. Furthermore, markets for goods, even the most traditional ones, can only function if there is already some agreement about quality and technical norms, generally reached by organisations that operate outside of the market (certification authorities, trade associations, etc.). As for the supply of public goods, something that is so important in today's economies, this infers the existence of procedures of collective choice that cannot be based on market procedures.

Externalities, whether positive or negative, presuppose either regulation or else incentive mechanisms that are intended to create a convergence between private and collective interests, and between social and private returns. Since only a very small number of contingent markets actually exist, and given that financial markets are capable of disturbing macroeconomic equilibrium, there is a need for collective procedures that can ensure a modicum of co-ordination between decisions whose effects can manifest over several time periods. This was one of the specific objectives of the indicative planning that has taken place in both the industrialised economies (Shonfield 1965) and the developing countries.

Lastly, if economic efficiency is predicated on a minimum of respect for social justice, economic decisions and political options can no longer be separated, something that justifies, for example, transfers relating to taxation or social protection. All in all, from a modern economic point of view, state interventions, if they are adjusted correctly, make it easier to obtain an equilibrium that is more satisfying in both economic and social terms.

As for public choice theoreticians, they contest economists' suggestion that the state should be analysed as a functionalist entity, emphasising instead that state interventions have also encountered a number of limitations (Buchanan 1979). These limitations would seem to be different from the ones that the market has had to face, but potentially they are just as formidable (Wolf 1990). Governments can in fact use monetary policy (and by extension, budgetary policy) towards purely political ends that have nothing to do with the quality of the macroeconomic equilibrium or with the stimulation and regularity of growth. The entities responsible for the supervision of competition can be "captured" by the private interest groups they are responsible for; the magnitude of the state's economic interventions would then be offset by a rise in corruption. The quality norms that the state authorities have set up could turn out to be barely functional and quite harmful, for example, to the dynamism of innovation.

It will not necessarily be possible to come up with a satisfactory solution for determining the volume of public services via mechanisms of political arbitrage. This is because the theory of social choice shows that no convergence towards stable and unambiguous outcomes can be achieved when a society is comprised of autonomous individuals with highly heterogeneous preferences.

Nor is it easy to correct externalities, since to do so people need to have at their disposal detailed information that state entities are not necessarily able to gather - especially in light of the fact that economic agents often behave opportunistically and hide whatever private information they may possess. Furthermore, it may well be that the compilation and processing costs, and the time that is needed to carry out such operations, would be so significant that the state's actions would always be lagging behind events. Finally, political action intended to correct market-generated inequalities might in turn create other sources of inequality through its distribution of privileges and of the conditions for accessing power. An extreme form of egalitarianism could also be harmful to economic efficiency.

All of these lines of thinking countermand what the general equilibrium economists have been suggesting about the market's limitations. All in all, public choice theoreticians and new economic policies reveal the failures of collective action, distinct from market failures but just as numerous and no less daunting.

Research programmes in the 1990s often studied the effects of an introduction of more competition and of a great number of market mechanisms in an effort to overcome the shortcomings of collective action. This strategy could be broken down into the various areas of state intervention. For example, macroeconomic theories proposed the abandonment of discretionary monetary policies and the search for rules to stabilise private expectations and ensure the credibility of the central bank. This conception was widely diffused throughout the developing countries, often leading to the redefinition of a regime of growth.

"Principal/agent" theories renewed both conceptions about the organisation of public services, attempting all the while to reconcile collective objectives with incentives for greater efficiency, such as the ones that are traditionally conveyed by the market. Models that formalised technological choice (in the presence of increasing returns) suggested that, under certain conditions, the determination of technical norms and/or quality assessment could be the products of an unfettered competition between firms vying for one and the same market, such that direct public intervention would not always be necessary.

Externalities can be partially internalised thanks to subsidies or taxes that compensate for the gap between private and social outcomes (two examples of this being innovation and pollution). In certain situations, the creation of a market (of technological expertise, of environmental pollution rights, etc.) changed the conditions surrounding public action. Similarly, given the specificity that is the wont of each area of intervention, modern theories suggested the creation of independent agencies raised doubts as to whether an all-encompassing type of planning could be efficient. Lastly, certain theories of justice broke with the Rawlsian tradition (which emphasised improving living conditions for the worst-off) and tried to build upon the hypothesis that in the end the market price system is a fair one, with regards to products and to factors of production, inasmuch as it records and evaluates individuals' competencies.

Three lessons can be derived from this extremely rapid review of literature. First of all, the renewed interest in market mechanisms (meant to overcome some of the shortcomings of state intervention) does not mean that we should forget the basic findings harvested from theories of general equilibrium: the market must be supervised by state interventions and will only deliver outcomes that are favourable for society if the products involved are standard ones; and under certain well-defined conditions.

Second, a spotlight should be cast on the similarity between two chronologies: the first relates to the various strategies of development (see Figure 5), the second to the different ways in which general economic theory has changed (see Figure 6). It is tempting to hypothesise the co-development of theories and of modes of development, via mediations that in reality are very complex. Do theoreticians exert a critical influence on the policies that are being pursued, or conversely, does economic theory, however abstract it may be, seek to elucidate the consequences of strategies that have been selected totally independently of governmental input?

Last but not least, this analysis tends to deny the hypothesis that the same sort of debate is destined to take place time and again, inasmuch as economic theories have clearly been making progress at a conceptual level (even if their forecasting capabilities remain as problematic as ever). The development strategies of the 1990s are in no way, shape or form the same as the ones that prevailed a half-century ago.

DEVELOPMENT THEORIES HAVE BECOME SYSTEMIC AND INSTITUTIONALIST

The 1990s as a crossroads

In actual fact, many different lines of reasoning, relating as much to theoretical precepts as to the correction of erroneous development strategies, argue in favour of the emergence of a more balanced conception of development. We cannot help but acknowledge the role that institutions play – and the need for a more systemic approach (see Figure 7).

At a theoretical level, researchers are no longer handcuffed and forced to talk solely about the limitations of the market. This is because they have explained the role played by extra-market co-ordination mechanisms in the appearance of growth paths or in the emergence of types of equilibrium that are more favourable than the ones which would result from a mere interaction of market-based strategies functioning in the marketplace alone. This allows us to interpret the emphasis that has been placed on imperfect information; the interdependent nature of actors' strategies; and of course those externalities that are associated with education, research, or even with some of the public infrastructures that can be found in traditional rural economies (as well as in many developed ones).

By so doing, today's researchers are returning to intuitions first held by the founders of development studies – with the novelty that they are now in a position of producing formalisations that can enable a clear explanation of the logic driving interactions which can lead, for example, to societies' becoming stuck in a poverty trap, or to equilibria being based on low levels of education and on high fertility rates (and therefore on low income levels). As Hoff and Stiglitz have stated:

In many respects the theory of development has gone the full circle. 30 or 40 years ago, there was an emphasis on the different links between the social and economic spheres … Nowadays formalised theory has been extended to a number of areas relating to imperfect information and incomplete contracts. These studies have shown that, in a variety of configurations, extra-market interactions lead to complementarities that can be associated with multiple equilibria. … These no longer only involve endogenous types of institutions, choices and prices – but also preferences and technologies.
(2001: 427)

This type of approach also incorporates one of the main self-styled facts to have appeared over the past fifty years, to wit, the great diversity of the national experiences of development - something that cannot be accurately reduced to a simple opposition between a pure canonical model and various degrees of imperfection. In addition, the allegedly impossible economic development of those countries that are "lagging beyond" took place in a certain number of national configurations.

Nevertheless, even within those countries that were able to initiate a process of development, it took on forms that varied from one country to the next, given that, in the words of Adelman:

The process of economic development is simultaneously multidimensional and essentially non-linear. It leads to dynamic transformations not only in the modes of production and technology but also at the level of its social, political and economic institutions, as is the case with human development models.
(2001a: 67)

Examples of this abound. It suffices to compare the different countries of Latin America to notice major differences (Quemia 2000), even greater than the variations that can be accounted for by the traditional opposition between a typical Latin American industrialisation strategy (based on import substitution) and the South East Asian preference for an export-driven type of growth.

Similarly, the Asian countries' 1997 financial crisis did not fit into the same model as the Latin

American countries' crises, since each involved differing styles of development, political choices and types of finance-driven disruption (Marques-Pereira, Théret 2001). Lastly, the Eastern European countries' development clearly reveals contrasting trajectories in terms of privatisation, the reconstruction of the state and economic restructuring, with the political environment playing an essential role in the economic and social system's capacity for transformation.

Thirdly, we should not neglect the way in which the Asian crisis led to questions being asked about the Washington consensus, which had been trumpeting the general principles that it considered to be valid everywhere: budgetary discipline, fiscal reform focusing on economic incentives, financial deregulation, elimination of barriers to international trade and to competition, privatisation and liberalisation. As stated by John Williamson, considered the father of this conception of development, such principles are not necessarily erroneous – but they have to be applied flexibly, and rounded out by at least two more ingredients.

First of all, there is a need "(to build) key institutions such as an independent Central Bank, a strong budgetary administration, an independent and incorruptible judiciary and agencies to develop such productivity missions". Secondly, it is important to "increase spending on education and to redirect this towards the primary and secondary sectors" (Williamson 1997: 58). By so doing, it should be possible, in this view, to fill the gap that has steadily arisen between advances in economic research and the prescriptions of international organisations such as the World Bank and the IMF – even if this current inevitably created a degree of tension within these very same organisations (see e.g. Joseph Stiglitz's resignation from his post as head of the World Bank).

FIGURE 7 NEAR HERE

All of these factors have made it increasingly likely that there will be no return to previous conceptions of development. First of all, the main issue is no longer one of choosing between alternative and unilateral principles of co-ordination: the market or the state? An ever-increasing number of analysts recognise that "an appropriate mix between the state and the market is necessary to the promotion of development. This mix has to be adapted dynamically so that it can stay in tune with advances in development" (Adelman 2001a: 103).

Furthermore, no single factor can explain the blocking of development, since a whole range of factors are generally at work in any trajectory we observe. The diagnostic therefore needs to reflect the context. Finally, the development process is characterised by its strong sense of history, inasmuch as "the choices that are being made give birth in turn to the initial conditions of later development" (Adelman 2001: 72). This is an economic historian's point of view, one of whom concluded by calling for " a little more history and a little less of a regression-based interpretation of growth" (Crafts 2001: 326).

A final quote summarises the road that has been travelled by a half-century of development.

Development processes and policies are interdependent and present a multiform, dynamic and non-linear nature. Development thus continues to infer a modification of the mechanisms, modalities, agents and institutions that are necessary for its promotion. The only constant in development is systematic dynamic change.
(Adelman 2001: 108)

The title of the present article can be explained by these sorts of considerations. However, there are also a number of other reasons relating to changes in economic theory itself.

Multiplicity of co-ordination mechanisms and the rise of institutionalist theories

The aforementioned developments are largely part of the state-market axis, assuming that these are the two only forms of co-ordination currently operating in the world's economies. Quite symmetrically, both of these pure and unadulterated forms are limited. The concept of a mixed economy has therefore become a meaningful one, even if its usage has dropped dramatically since the 1970s (Shonfield 1965). This is the view that one way to reconcile the two approaches is to look for an optimal combination of market mechanisms and state-driven co-ordination. It is the first approach to try to reconstruct a theory of development capable of accounting for all of the lessons that we have learnt from economic history – as well as the diversity of national configurations.

It remains that modern research offers at least two other forms of co-ordination that are capable of playing a significant role in these economic changes: the organisation (or the firm) on one hand; and civil society on the other (see Figure 8).

FIGURE 8 NEAR HERE

The fact that firms fulfil a resource allocation role to complement, or else to accompany, the market may already have been recognised in Adam Smith's *The Wealth of Nations* – but it is also a topic that Karl Marx dealt with in *Das Kapital*. It was not until the interwar period that economists began to wonder why firms actually exist (Coase 1937). Nearly 40 years elapsed before this original form of resource allocation drew their attention - first at an organisational level (Arrow 1974), and then at a more general level of the institutions of capitalism (Williamson 1985).

The contribution that this school of thought made was to show that in the presence of significant transaction costs resulting from an (over-)reliance on the market, or where it has been difficult to compile and to process information (Simon 1982), organisations can develop internal resource allocation and information circulation routines that are potentially superior to those that the market can deliver. This is especially true in those instances (i.e., if there are quality problems and/or increasing returns) where there is no possibility of organising a viable market (White 1981). Lastly, insofar as individuals develop specific competencies within their organisation, this can become an arena for the accumulation of idiosyncratic knowledge and know-how whose production or allocation cannot be governed by market logic. This is nothing other than a straightforward neo-Schumpeterian vision of the reasons why firms exist, one that has propped up many of the trials and errors that have been committed in the field of innovation and technological change (Nelson and Winter 1982).

Over the past twenty years, research into explanations for differences between regional, national or even firm performances has revealed the importance of a fourth entity, civil society. The main idea is that this is the matrix within which agents will act to forge a whole series of agreements, rules and habits that then enable and facilitate purely economic transactions by shaping networks (Granovetter 1978); by creating and preserving the trust that is needed for successful market trading (Fukuyama 1996); or by helping co-operation to emerge (Axelrod 1984).

However, civil society also maintains relations with organisations, inasmuch as the rules it imposes on them are not necessarily recognised by the state or conveyed via the market, i.e., in employment-related matters (Akerlof 1984). The democratic process (Held 1987) is not unrelated to the maturation of sociality at a local level (Putnam 1993), whilst concern for social justice has had an obvious impact on the demands being made of the state (Rawls 1971). This fabric of social relationships maintains multiform relations through transactions that are purely economic in nature, meaning that in certain cases this factor is key to explaining the real economic dynamism of a given region or country.

Figure 8 shows both the extremely simplistic nature of the canonical opposition between state and market as well as the way in which the enrichment of these categories of analysis can help us to understand the various styles of development's diversity. The main issue no longer relates to the exact location of a cursor such as a mixed economy. Instead it is the compatibility of a whole set of behaviours that unfold simultaneously in different spheres and according to varying logics.

Moreover, the state has a rejuvenated role to play in this process: it is at the heart of the distribution of power, and it is key to the way in which the constraints and incentives that other actors are having to face will be shaped. In a sense, this is the convergent conclusion of historians' studies (North 1990) and political scientists' research projects demonstrating the importance of the constitutional order, derived from the political world, as a means for creating a coherency between (and transforming) a whole set of forms of logics and organisation (Sabel 1997) - not to mention studies from the field of economic sociology that have revealed the importance of such societal constraints for firm's strategies and innovation drives, and by extension, for their forms of competitiveness (Streeck 1997).

The diversity of institutional arrangements and the need for a multidisciplinary type of research

Accounting for these different forms of co-ordination infers the need to progress beyond strictly mono-disciplinary approaches that usually revolve around political factors, the role of law, the nature of the social contract and the general logic underlying a given action – and no longer principles of economic rationality alone. A first effort in this direction has already made. It is possible to put together a taxonomy of forms of co-ordination, which can be put to good use by the various disciplines of social science (Hollingsworth and Boyer 1997). Roughly speaking, most of the forms that have been observed can be described using a double characterisation (see Figure 9).

FIGURE 9 NEAR HERE

First of all, it is important to contrast purely horizontal relations between agents who are basically endowed with the same powers, and relations that to the contrary are vertical and based on unequal status, information and wealth. Typically, a market, which is a form of horizontal co-ordination, exists in opposition to a private hierarchy, whose flagship form is the firm.

The logic underlying the action itself can be part of two clearly distinct registers. Either purely individual interests guide actions, as indicated in both economic theory and in rational choice analysis, or else it is the strength of the social, moral and cultural contract - in short, the obligation, that determines the actions of a *homo sociologicus*, traditionally contrasted, on a trait-for-trait basis, with *homo oeconomicus*.

These two criteria make it possible to come up with at least six major types of institutional arrangements. The market combines a form of horizontal co-ordination with an action logic that is governed by individual interest, usually apprehended in its utilitarian form. Private hierarchies such as the firm apply this same conception to unequal relationships, inasmuch as their drivers (in this case, their owners) possess a power that enables them to dispose of their employees' time at work.

Inversely, the community operates within the register of an obligation that is attached to the strength of the social contract - in theory at least, it is based on relationships that are supposed to be egalitarian. It is within this space that a subtle process of trust is born. Networks occupy a central role within this typology since they combine obligations and interests (in variable proportions) and can be broken down according to a variety of modalities that are predicated on the more or less egalitarian nature of the relationships that exist between the various members of the network.

This form of co-ordination is central in modern innovation processes. Partnerships have very often been involved in the development of those rapidly changing new technologies that have come out over the past few years, advances that infer large-scale investments that, from a rational point of view, it would be best to share. Along these lines, associations, whether trade groups or labour unions, generally combine a defence and promotion of interests that can be economic, political and social in nature. As opposed to networks, which operate according to a market-based production logic, an association's function often involves the management of collective goods: codes of conduct, technical norms, vocational training for a given sector of activity, the representation of the constituency's interests to the state. Last but not least, the state has a unique position, combining an obligation principle (citizens are not free to rid themselves of its authority and have to pay taxes) with a clearly asymmetrical type of power (laws apply to each citizen, whereas not everyone is involved in the making of laws).

FIGURE 10 NEAR HERE

All in all, modern economies can no longer be only defined on the basis of the extent to which they mix market and a state-oriented logic. Instead, the focus should be on the variety and complementarity of these six institutional arrangements. Indeed, it is possible to show that no form of co-ordination, in and of itself, is capable of replacing all other forms, without taking into account the sector, era, and social, political and technological environment (see Figure 10).

First of all, each form necessitates highly specific conditions of implementation. For example, building a market in good and due form is in no way an automatic undertaking, nor is it feasible at all times and in all places. It infers a stable monetary regime, an acceptance by all of society of a market-based logic, and an agreement on trading rules (i.e., the quality of goods).

Secondly, all forms can complement any other form that satisfies its prerequisites. Using the same example, institutionalising a market infers the involvement of associations (i.e., agents authorised to trade on securities markets such as Wall Street), networks (such as those that define quality or technical norms) or state entities (led by those that control the banking and payment system, without forgetting the crucial role played by business law).

Furthermore no institutional arrangement has shown itself to be superior to all other arrangements or to be dominant in the long run. Depending on the circumstances, assessment will be made according to criteria such as the efficiency with which resources are allocated, the aptitude for supplying collective goods and for "internalising externalities" or the ability to satisfy the desire for justice that will be more or less implicit or explicit, depending on the society in question. A similar demonstration as the one carried out with respect to the markets can be reiterated for almost all of the other types of institutional arrangements, and is briefly summarised in Figure 10.

As such, the issue no longer involves choosing between the state and the market or selecting those institutional arrangements those are going to be the most efficient in absolute terms. Each arrangement satisfies a different objective, and overall macroeconomic performance is the product of the combination thereof. In this case, it is the quality of the institutional architecture that is the main determinant of the viability of a strategy of growth.

This type of approach is particularly relevant to development, inasmuch as the interaction between political determinants, economic change and cultural factors is frequently evoked as an explanation for both success and failure (*Revue économique du développement* 2000, 2001). Approaches to development have been given a second wind by this realisation, and there is no reason not to believe that this (re)discovery of the importance of institutions and organisations is a great deal more significant than a simple shift in economists' research orientations.

Politics at the heart of development

This vision is not without consequences for the relationships that tie the economic sphere to the political arena. Traditionally, economists will analyse conditions of development without any explicit mention being made of political processes. Political scientists on the other hand focus on the general shaping of policies, without referring to economic factors. Both assume that the two spheres are independent of one another. Recent interest of international organisations in corruption attests to an increased awareness of certain interdependencies – with a large proportion of whatever surplus may exist being lost because of corruption (and spent in a non-productive manner), chances for an endogenous type of development are lessened.

The theoretical approach confirms the existence of a close interdependency that can be played out at several levels.

Historical studies of the way in which markets are formed (Braudel 1979) and political science research into competition policy in the United states (Fligstein 1999) have clearly highlighted the crucial role played by governmental authorities and by the state itself in the emergence of markets in good and due form, i.e., which possess a modicum of viability. An acknowledgement and precise definition of the property rights that are associated with each good and with each asset; shared quality assessments, currency units and means of payment; a commercial jurisdiction that enables the resolution of legal disputes – all of these are pre-conditions for the existence of a market and can only be satisfied by an authority operating externally to supplier and buyer interest.

In terms of development studies, in some of the countries that are deemed to be lagging behind, the state has been the driving force for the institution of markets. On one hand, this is because it is the guarantor thereof - on the other, it is because it organises the teaching of those types of behaviour that are necessary if such markets are to function efficiently. In a certain sense, this is an analysis of a configuration in which state and market are complementary, as recognised in the classification adopted in Figures 3 and 4.

However, a much more general approach to economic systems does exist, one which makes the role of the state central to its analysis. Although economic theories derived from Walrasian analysis focus on the interaction between preferences and technological potentialities (mediated only by a complete set of markets), current research recognises the role played by different institutional arrangements in price formation, income distribution and even innovation dynamics (Amable, Barré and Boyer 1997). Carrying on from the preceding analysis, a constitutional order will define the framework of the constraints and incentives that serve as a basis for the various institutional arrangements that can be deployed.

In turn, organisations (both public and private, i.e., firms) are only viable insofar as they fit in with the constraints and incentives that are conveyed by these institutional arrangements. Agreements, born out of spontaneous and recurring interactions between agents, have also come to play an ever-increasing role, one that is often important for agents' socialisation and for organisations' viability. As a result, scarcity constraints no longer appear in a direct form, insofar as they are partially mediated by a myriad of institutional arrangements that codify the relationships that exist between organisations and individuals (see Figure 11).

FIGURE 11 NEAR HERE

The usefulness of the new institutionalist theories (Aoki 2001) is that they have shown how, in these sorts of circumstances, neither institutional arrangements nor organisations are being chosen any longer on the basis of changes in pure economic efficiency. On one hand, the basic role of institutional arrangements is to define actors' positions, reduce the uncertainty that is inherent to strategic behaviour and orient general behaviour. This is a major contribution to the viability of an economic system (North 1990).

On the other hand, these arrangements are characterised by significant path-dependency and by the primacy of the past, something that, in certain aspects, is governed by mechanisms that are functionally equivalent to the ones which drive changes in norms and techniques, typified by their increasing returns (Arthur 1994; Boyer and Orléan 1992). These mechanisms are combined in a way that brings about a lasting and significant diversity of economic institutions, even in the developed countries, in an era of financial globalisation (Boyer and Souyri 2001). There is no better example of the persistence of differing institutional architectures than Japan's trajectory throughout the 1990's (Boyer and Yamada 2000).

This allows us to interpret development successes as well as failures.

For some countries and at certain moments in time (often after wars or major political upheavals), the institutional architecture (which is a product of past and present political compromises) engenders dynamics for organisations and for economic actors that result in a continuous process of wealth creation and social transformation. Remember the fallout of the Second World War in several European countries and in Japan – they were able to largely catch up with the lead that the USA had taken in technology (Boyer 1999c). The same has happened in certain South East Asian countries: the differences between the economic trajectories of countries such as Taïwan and Korea versus the Philippines suggest a preponderance of political (and not just cultural and religious) factors in development dynamics.

Inversely, for other countries (i.e., those that are the victim of an inherited specialisation and dependency to the world economy, one which is based on raw materials exports and/or on major inequalities left over from the colonial period), the political order actually encourages the sharing of rents rather than the creation of wealth. This is why some theoreticians have spoken of the "development of under-development", an image that is in no way excessive when we consider the highly unfavourable development of most African countries over the past few decades (Bourguignon and Atkinson 2000).

More generally, the political consequences of the financial crisis in South East Asia (Contamin and Lacu 1998) has cast renewed attention on the relationship between the political and the economic spheres (Boyer 1999b). On one hand, an ever-greater number of observers agree that the state, which is the guardian of the general interest and which possesses sufficient resources, is a necessary prerequisite for the implementation of a development strategy. The example of Russia is a timely reminder of how the disintegration of a former Soviet-type state can compromise the transition to a market economy. Note the absence of monetary stability and of a satisfactory definition (and effective guarantee) of property rights; the lack of a payment system covering the entire national territory; the inability to collect the tax revenues that are needed to sustain the expenditures that should be made in the collective interest, etc.

China and Poland exemplify the paramount nature of state and government in market transition situations, and for carrying out economic, technological and social modernisation. Yet private organisations and institutions are necessary since by their decisions they channel resource allocation and so they galvanise a dynamic of wealth creation. It is difficult for the state to play its role when it does not have the power to collect the resources it needs to operate (Théret 1992). In other words, the political and the economic spheres must develop hand-in-hand. The very success of a growth strategy depends on this synchronisation. It may be imperfect – but in the long run it is indispensable.

Conclusion: The next development frontier

This panorama of the theories and strategies of development lends itself to certain fundamental conclusions that will allow us to answer the questions that were raised in the introduction to the present paper.

Towards an anthropogenetic model

Observing the growth trajectories during the 1990s, many economists have been impressed by the *role of ICT* in the long American boom, by contrast with the modest growth that took place in Europe and Japan (Boyer 2004). This new technological paradigm was supposed to exert a strong influence on development. On one side, some countries such as India could benefit from the delocalisation of the software industry, whereas China tended to become the factory of the world. But on the other side, poorer societies could be struck into a new poverty trap due to the "digital divide" associated to the use of ICT. Some of the grand illusions about the new economy are now dissipated, but it is clear that the decline in the cost of transmission of information will exert some influence upon the localisation of modern industries and services, such as call centres. Thus the development strategy of many countries will be affected.

In the early 2000s, the emphasis has shifted from the hardware of ICT to the software i.e. the ability to master modern technologies. The motto would be: redesign all public interventions in the direction of education and research in accordance with the vision of an irreversible move toward *a knowledge economy* (OECD 2001) and more generally a *knowledge society* (figure 12). But again, such a development mode may enlarge the divide between Centre and Periphery: across nations, the concentration of intellectual property rights is still more skewed than the distribution of human capital, itself more unequal than income. Given the attractiveness of American universities and research centres, the most talented researchers may converge toward this country. Quite a paradox indeed since this is a form of subsidy from many poor countries to a single rich one. Given the current state of inequality across nations and the high mobility of talents, the knowledge economy paradigm is not very promising for developing or still not developing countries.

FIGURE 12 NEAR HERE

By chance there is another and more promising structural change based on the recognition that development is precisely defined by the *enhancement of capabilities* of the people (Sen 2000). What was previously conceived as the consequence of development is now perceived as the very condition for it: access to food in order to fight malnutrition, importance of water supply for public health, diffusion of simple methods in order to maintain health within families, access to education for any child, specially for educating future mothers to raise their children, as well as learning of efficient methods for farming and getting the food for survival.

This model might well be crucial, including for mature economies. One has to remember that *education* is the main matrix for human capital formation, and that a democratic access to primary and secondary education alleviates inequalities, that have been exacerbating during the era of free market ideology. Similarly, the ageing of population as well as the potential of biotechnologies calls for more spending for *healthcare* and research in this area. Last but not least, the *leisure industry* is part of this general model that could be roughly characterized as *anthropogenetic*, i.e. centred on the production "mankind by mankind[1]".

There is thus a surprising convergence between the emerging development mode both for developed and developing countries. But the issue is then: what kind of institutional arrangements are best in order to monitor the emergence and prospering of such a development mode? Again the choice is not necessarily between State and markets but between a whole set of institutional arrangements and coordinating mechanisms. Taken separately none of them delivers optimum results but when combined they may deliver far more satisfactory performance.

An institutionalist and systemic approach to development

Thus, development economics have become systemic and institutionalist, given that this field has benefited from the lessons learnt from history and from theoretical advances; and also because it is now imbued with its own conceptual foundations.

Comparative development analysis and modern economic theory constitute useful antidotes

[1] Just to paraphrase, the title of Piero Sraffa's famous book « The production of commodities by commodities », French edition 1962, Paris: Dunod.

against those dogmatic visions and ideologies that attempt to pit interventionist conceptions against the neo-liberal vision. The end result is that no pure and unadulterated strategy, i.e, one that is based either on "100% state" or on "100% market", has been successful – and theory has confirmed the innate limitations of any economic regime that is based on only one of these two mechanisms of co-ordination. A first step towards a solution thus consists of offsetting market failures by the appropriate state interventions and, vice versa, transcending the state's limitations thanks to processes that mimic market competition wherever possible. Not to forget the flexibility and merits of communities, associations and many other institutional arrangements (see figure 10, supra).

The crises that were observed throughout the 1990's reinforce this diagnosis. Whereas in the 1980's certain instances of under-development could be attributed to excessive interventionism, the financial crisis of 1997-1998 showed that the extension of the market to the financial sphere (and to derivative financial products) could also lead to a destabilisation of even the most dynamic modes of development (e.g., South-East Asia). Too much market can be harmful to development. It is specially so for financial globalization: whereas opening to external trade seems to benefit to welfare of people (less infant mortality, higher life expectancy) it is not at all the case with financial opening (Prasad, Rogoff, Wei, Kose 2003). The 1998 disintegration of the "Washington consensus", which had previously dominated international organisations' conceptions of development, attests to this awareness. Political leaders and experts have been looking for a new doctrine (in the noblest sense of the term). Most have recognised the need for a new institutional architecture, or at least for new rules for running the international financial system.

Tailoring development strategies to local opportunities and needs

This is the path that is opened by the up in our attempt to solve the state--market dilemma (see Figure 13). On one hand, we now know that successful development depends on the complementarity between these two logics, and not on the affirmation of one or the other. Remember that the market is a social construction whose emergence and viability are predicated on a rich set of legal rules, codes and supervisory bodies. In addition, modern institutionalist research has stressed that the many institutional arrangements, other than the state and the market (i.e., associations, communities, partnerships, etc.) can play a crucial role in reconciling the imperatives of dynamic efficiency (such as higher productivity or living standards) and social justice, construed here as aiming at a more egalitarian distribution of the fruits of growth (World Bank 2000).

FIGURE 13 NEAR HERE

It is therefore illusory to blame one single factor for the hindrance of development. An approach that is based on interdependency, externality and complementarity is far superior. The systemic and changing nature of development has to be acknowledged.

All in all, development economics have become a favourite field for research into different economies' institutional foundations; for exploring the conditions that give birth to path-dependency; and therefore for analyses of the reasons underlying the persistence of a wide variety of different institutional configurations (hence of modes of regulation). This research programme also applies to analyses of the older industrialised economies. How long will people who agree that the developing economies have been experiencing a variety of different trajectories refuse to grant this same diversity to other economies, under the pretext, for example, that ICT was supposed to create some sort of " one best way" at the core of all social and financial organisation?

Would it not be preferable to look for an institutional architecture that is suitable for a particular country in light of the specialisation which that country has inherited from the past; of its general conception of the social contract; and of the political choices it wants to make as regards its international insertion strategies? Surely the road to success involves synchronising institutional and organisational sophistication with a deepening of the division of labour. This lesson would also appear to be universal in nature, since it applies both to the developed and to the developing countries.

Development strategies can either opt for an endless repetition of the canonical opposition between state and market - or innovate through the advent of theories that are more respectful of the diversity of local circumstances and cognizant of the lessons derived from long run history.

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Figure 1. *Two dividing lines in development theory*

Strategy Governance institution	Inward Looking	Outward Looking
State	Soviet Union Algeria Latin-America Prebish Preobrazhenski Harrod/Domar	Japan after WWII Korea Developmentist State Led Growth
Market	America after 1867 Neoclassical Growth/develop. Theory (Solow, Schultz)	Chile after 1973 Taïwan Market induced Export led Growth

Figure 2. *A historical look at the substance and at the purpose of development*

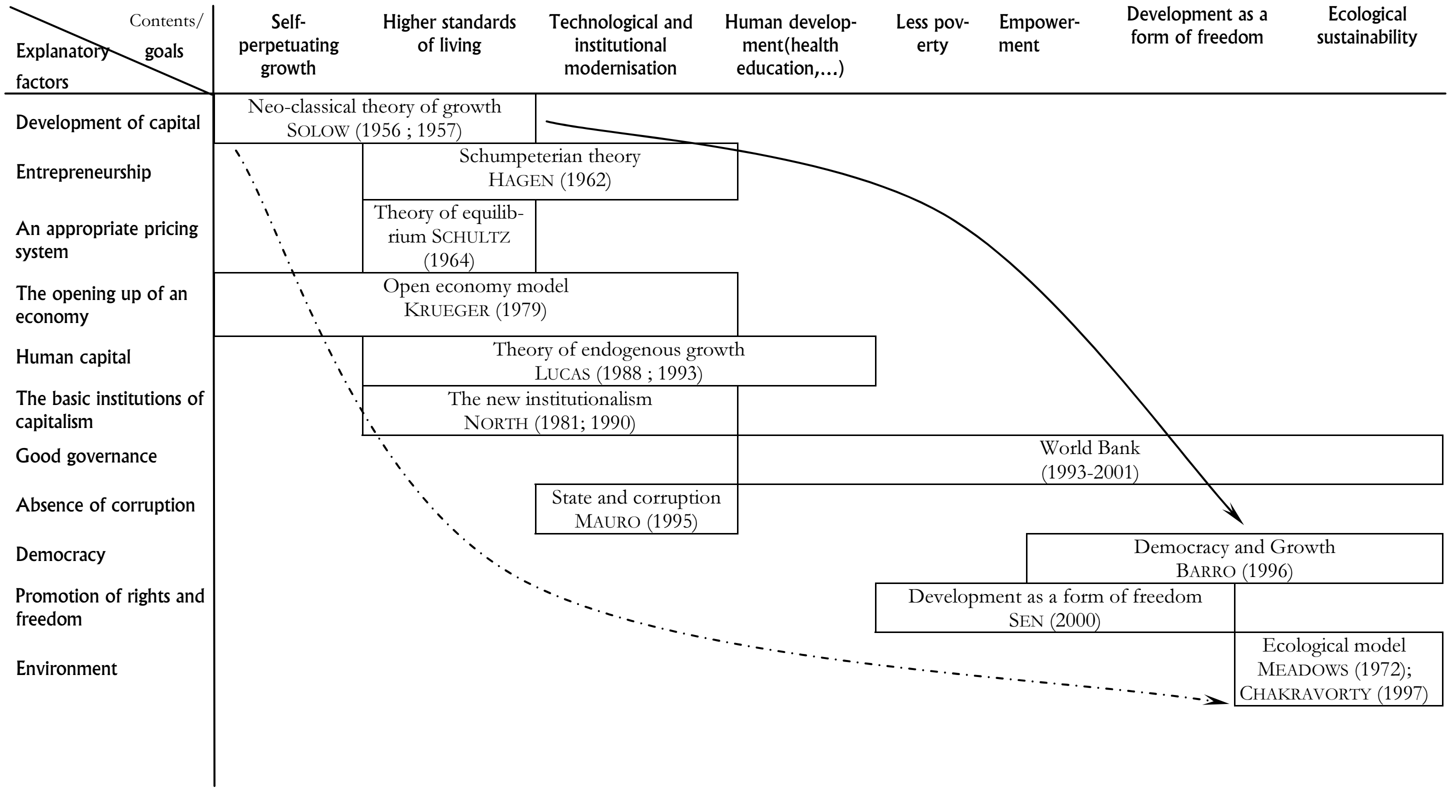


Figure 3. *Various conceptions of the State's role and extension of the market: the changing theories of development*

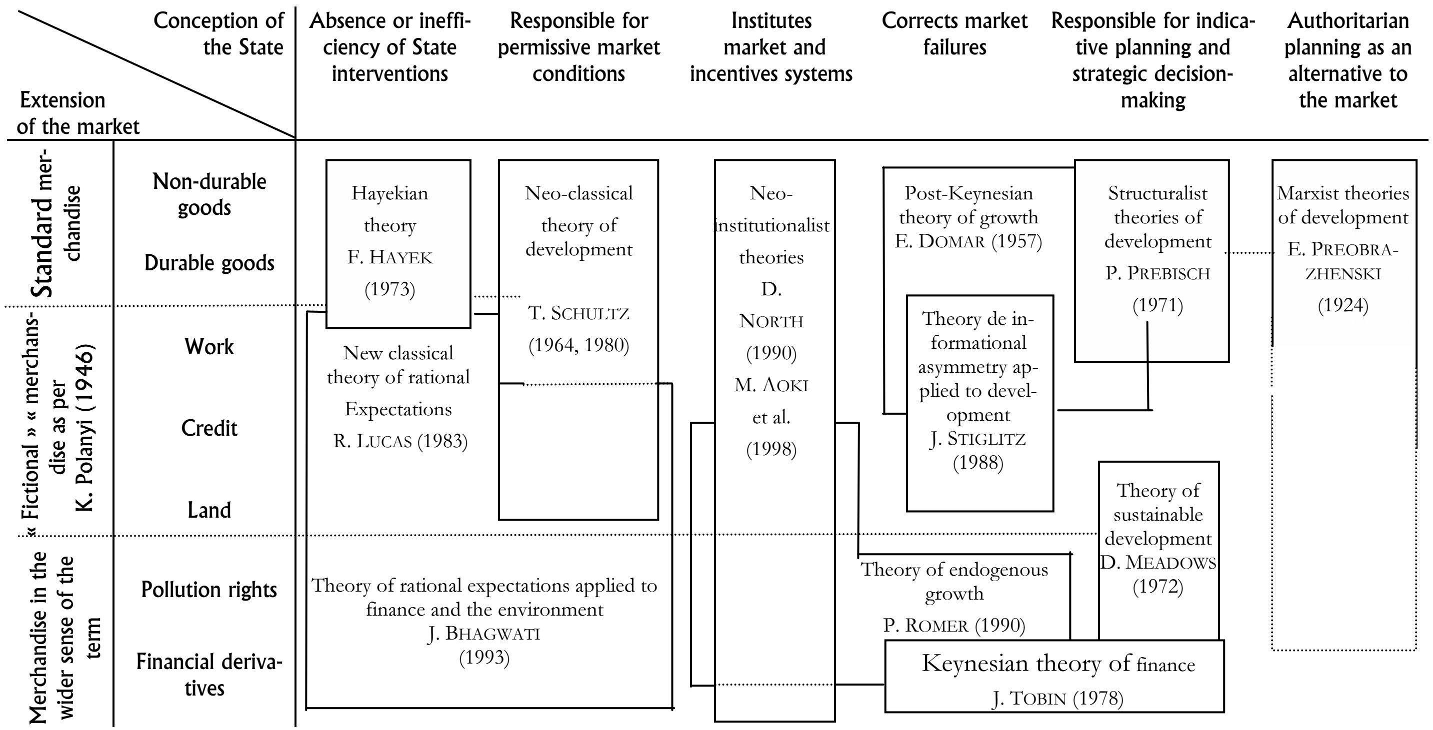


Figure 4. *Various conceptions of the relationship between State and market – and impact on national development strategies*

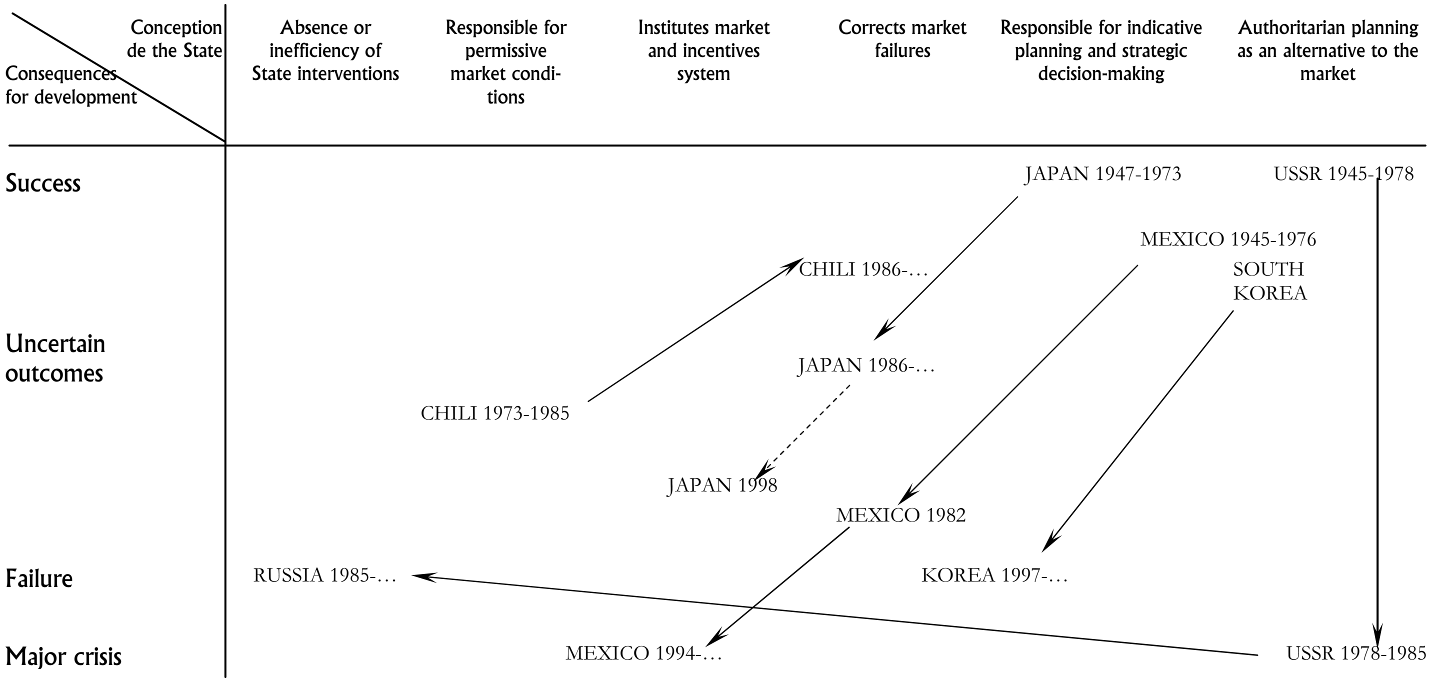


Figure 5. *A succession of strategies of development: the historical perspective*

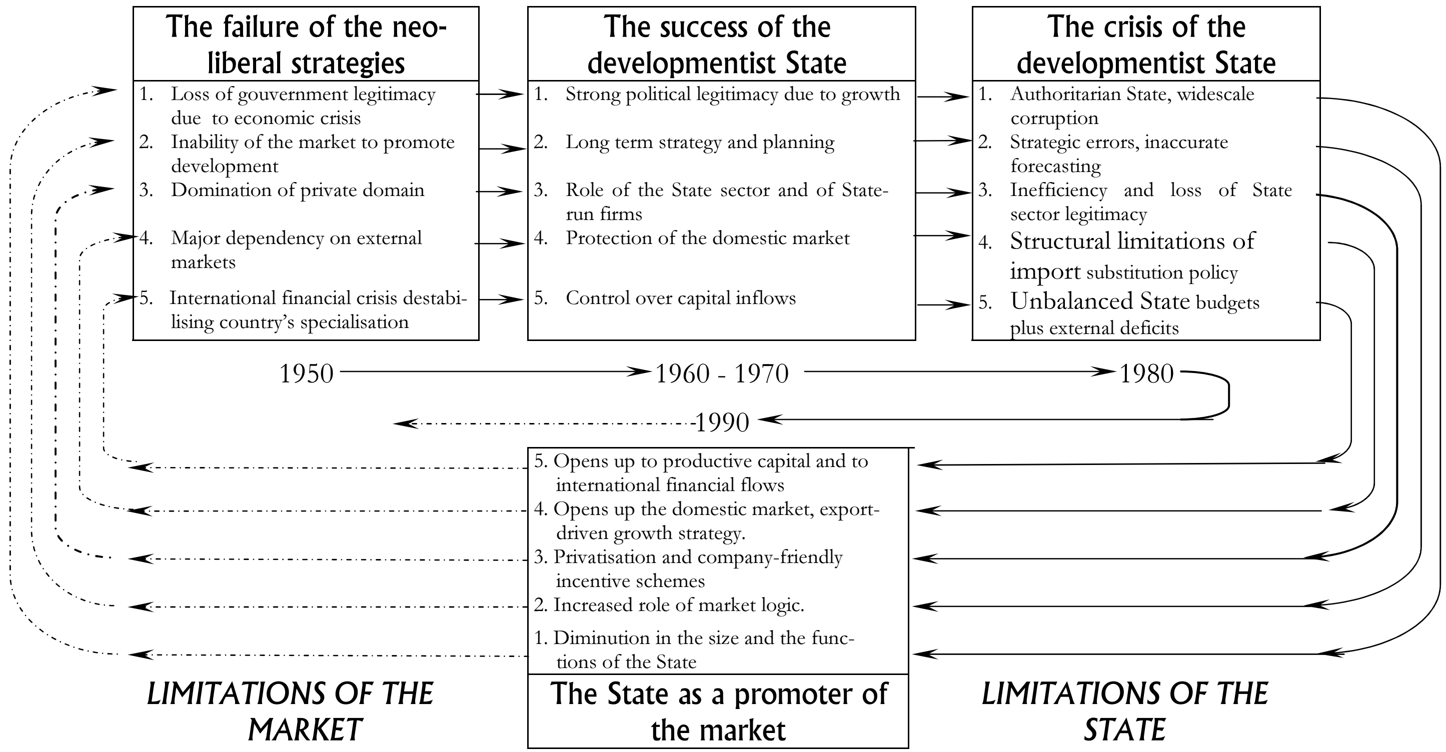


Figure 6. *Market and State failures: the lessons of modern theory*

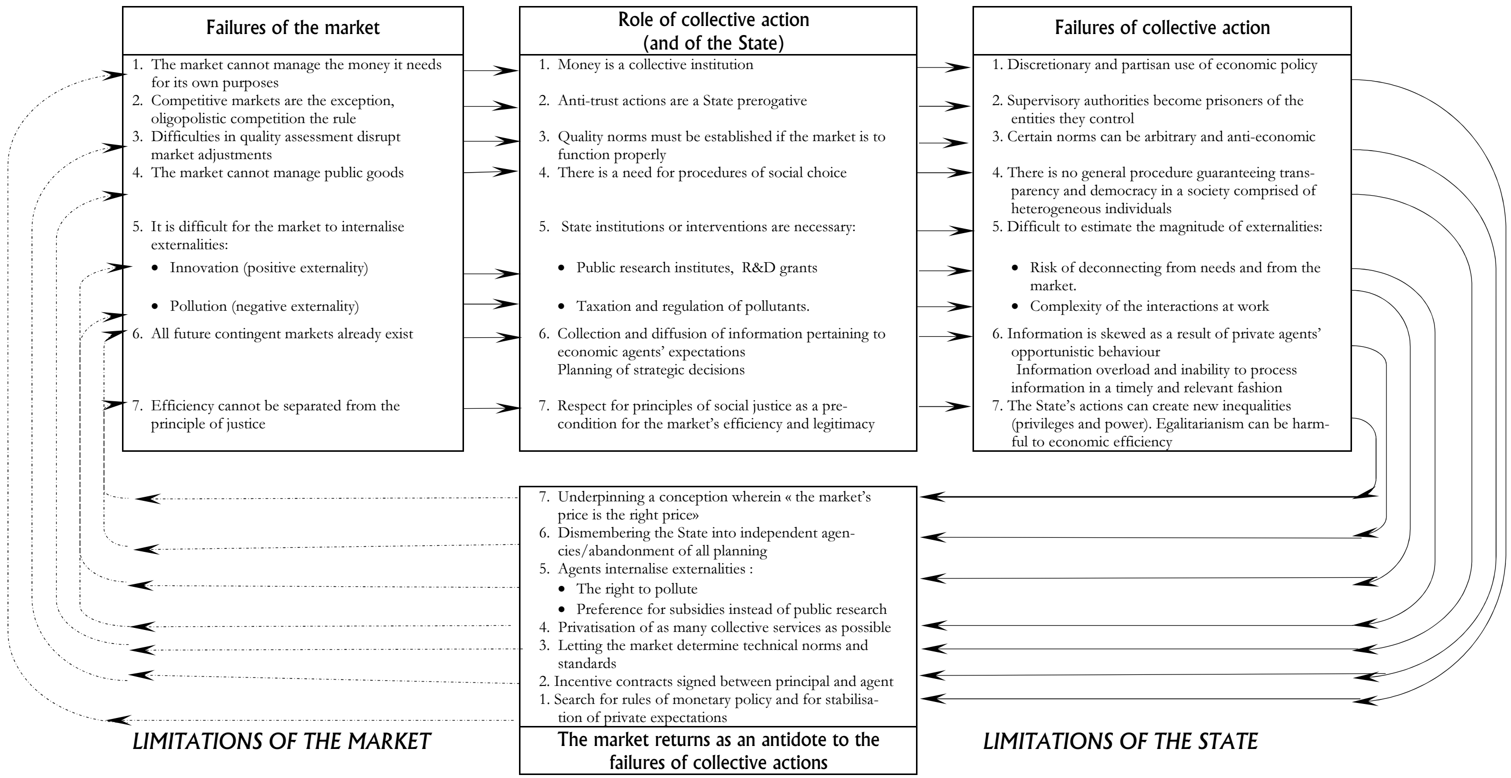


Figure 7. *Towards a systemic and institutionalist approach to development: sea changes during the 1990s*

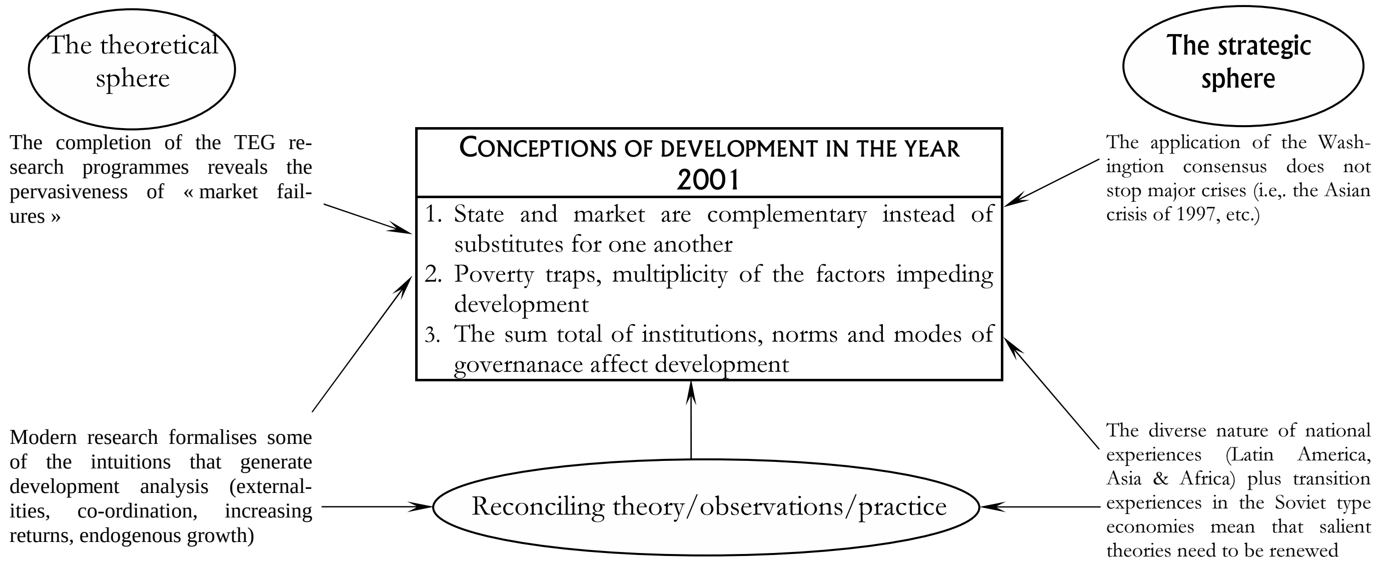


Figure 8. *Beyond the opposition between State and market: the «diamond » of institutional economics*

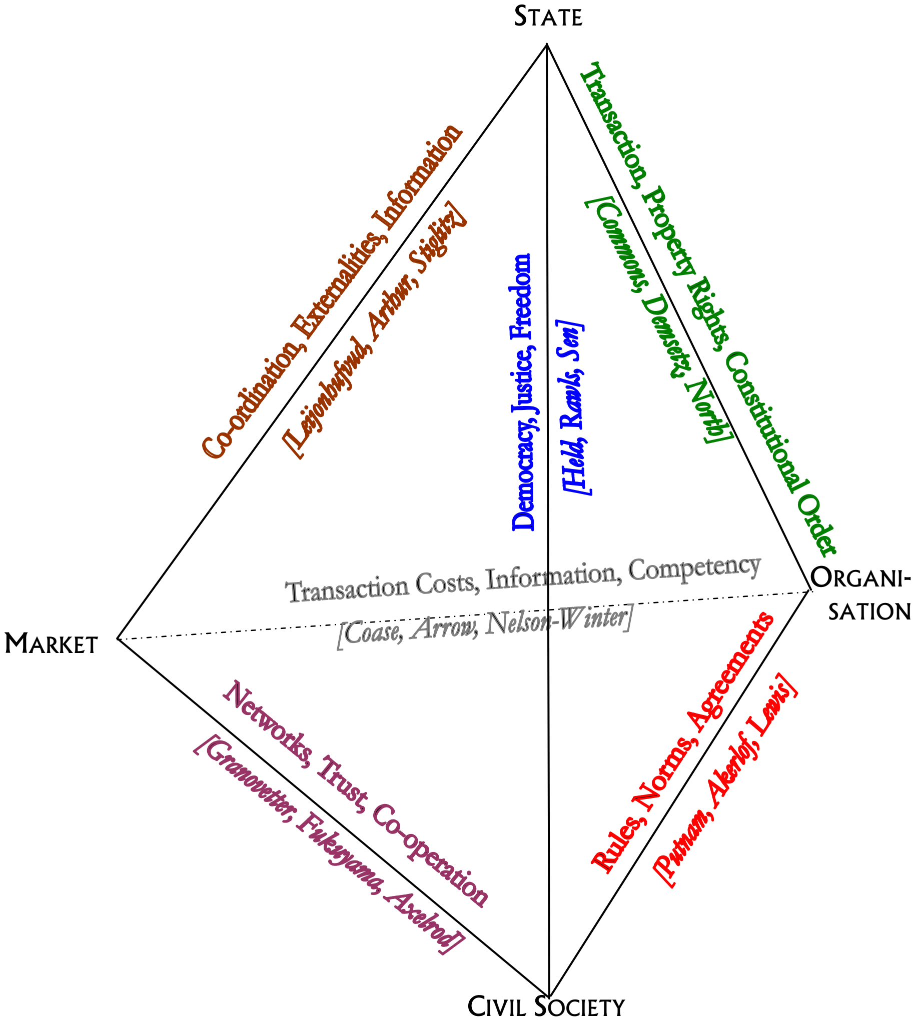


Figure 9. *State and market are nothing more than two specific forms of co-ordination and institutional arrangements*

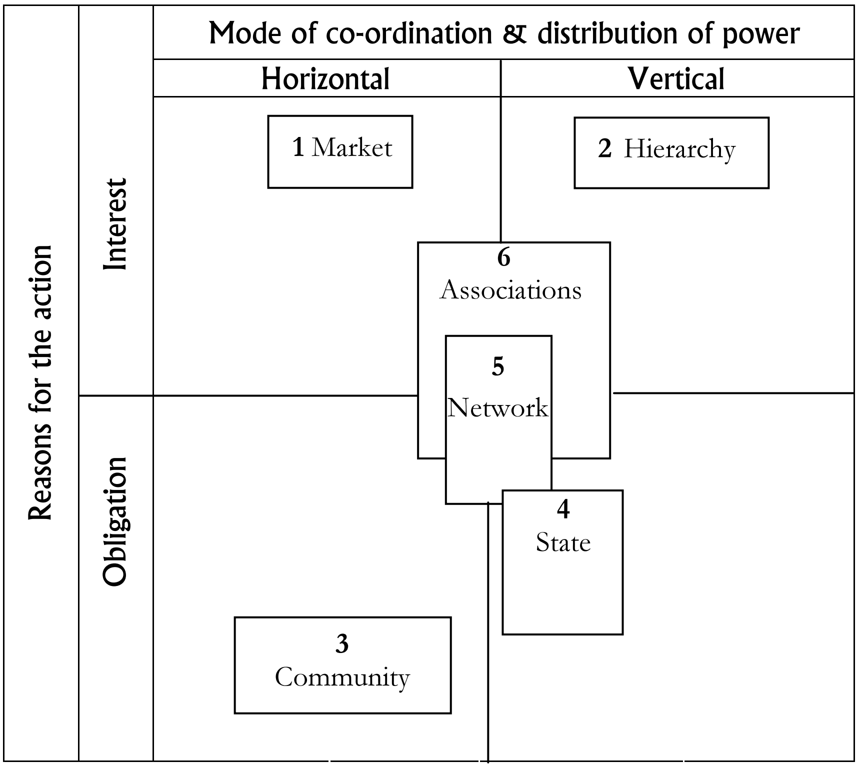
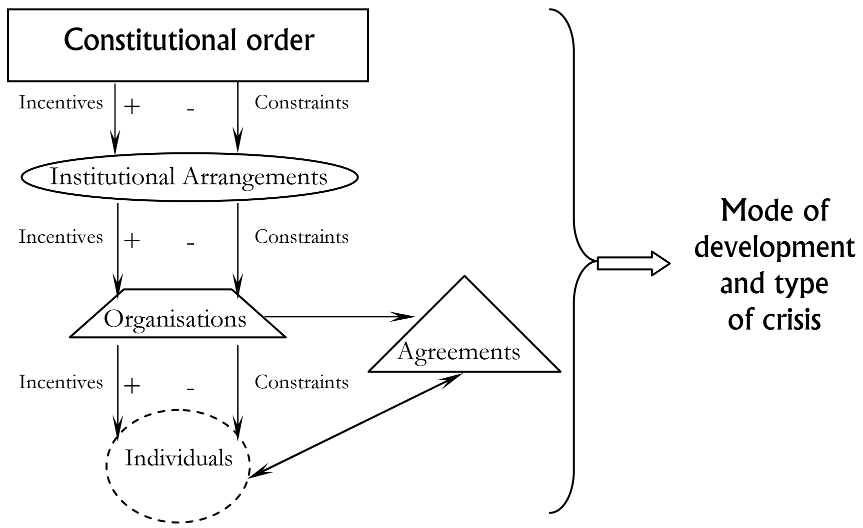


Figure 10. *Each institutional arrangement has its own strengths and weaknesses*

Property / Co-ordination mechanisms	Conditions of implementation	Aptitude for supplying collective goods and incorporating externalities	Efficient allocation of resources	Suitability for objectives of social justice	Possible contribution to development
Market	Stable monetary regime Acknowledgement of a commercial logic Agreement re: rules of trade Agreement re: quality of goods	Extremely difficult in general, except where suitable schemes have been implemented by State authorities (taxation or subsidies)	Significant with regards to the allocation of standard goods that are fungible and whose quality is recognised	Difficult in a pure market since it carries with it an implied principle of justice (people are assessed as per their market value)	Stimulates supply of essential goods (food, etc.) not featuring any externalities
Community	Feelings of trust and loyalty, based on feeling of belonging	Internalisation of those collective goods that manifest externalities in the community space	Moderate since limited by the size of the group and dominated by the stability of the social relationship	Ensured by integration of the economic sphere into the fabric of social relationships	Ambiguous. Supply of local collective goods, causes solidarity, but limited in terms of the search for efficiency and innovation
Network	Strategic complementarity between the different members' contributions	Good as long as externalities can be internalised within the network	Good as long as the network manifests a modicum of stability	Possible as long as the network supersedes the economic sphere	Positive role in innovation matters, once a certain threshold of development has been breached
Association	Recognition that interests and objectives are shared	Good with respect to the establishment of norms and rules or for the supply of specific collective services (i.e., vocational training)	Good for the supply of collective services; moderate for standard goods	Problematic is there is a balkanisation of associations, with each having its own explicit aims	Relatively positive but ambiguous; implementation of collective services but potential appropriation of rents
Hierarchy	Recognition of the asymmetrical nature of power. Beneficial effect of internalising the division of labour	By definition, inexistent or weak, except in case of State intervention	Generally large in production matters, but the organisational costs limit the degree of advantage	Complete deconnection except in exceptional circumstances (cooperation and performance)	Acts in association with the market, positive role as regards the divison of labour and innovation
State	Recognition of the legitimacy of the political order Balance of power (executive, legislative, judiciary, administrative)	Significant if information is perfect or sufficient, more problematic for highly differentiated services	Conditioned by relationships between citizens/the people in power, or between the political sphere/ the administration	Possible if clearly identified by the political process, and if a coalition makes it possible to achieve this	Socialisation and diffusion of relevant information Supply of basic collective services (education, health, transport) Actor in catching up process; blocking agent if strategy is not adapted to overall trends

Figure 11. *Politics help to shape economic dynamics*



Source : Loosely taken from Douglas North [1990] and Charles Sabel [1997].

Figure 12. *The next development strategies and their institutional requisites*

STRATEGY / ABILITY OF INSTITUTIONAL ARRANGEMENTS TO MANTOR	INFORMATION TECHNOLOGIES LED	KNOWLEDGE ECONOMY	ENHANCING HUMAN CAPITAL ABILITIES
STATE	Supervisory role only	Enforcement of intellectual property rights	Provision of basic goods: education, health
MARKET	Limit of competition facing increasing returns (monopoly, path depndancy)	Trend toward the widening of inequalities	Does not warrant access to less priviledged populations
ALTERNATIVE ARRANGEMENTS	Cooperation among networks if ICT producers	Community, network, associations	Community and Associations

Figure 13. *A conception of development that revolves around institutional innovation*

The crisis of the Washington consensus	State and market : complementarity within diverse institutional arrangements
1. Instability or political crises	1. Re-legitimisation of the State as a promoter of growth and justice
2. Unemployment/growing inequality as a consequence of market adjustments	2. The market co-ordinates decisions on a day-to-day basis, the State makes strategic decisions
3. Fragility of financial and social institutions and weakness of certain actors	3. Encourages a density of institutional arrangements as well as actors' organisational capabilities
4. Under--investment in collective infrastructure	4. The public sector is reponsible for social cohesion and collective infrastructures
5. Major dependency on the international environment	5. Preservation of a balance between domestic needs and external competitiveness
6. Destabilisation of growth regimes as a result of capital flows	6. Differentiated opening up to the international economy, depending on national goals or the domains concerned
In the late 1990s	*In the early XXIth century*