

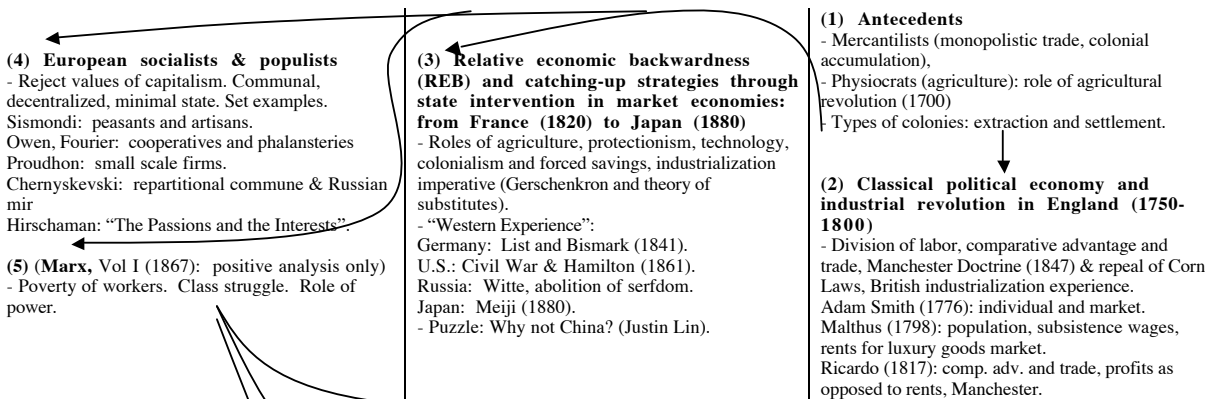
**State, Market, and Civil Institutions:  
History of Thought in Development Economics**

**Principles of analysis of history of thought in development economics**

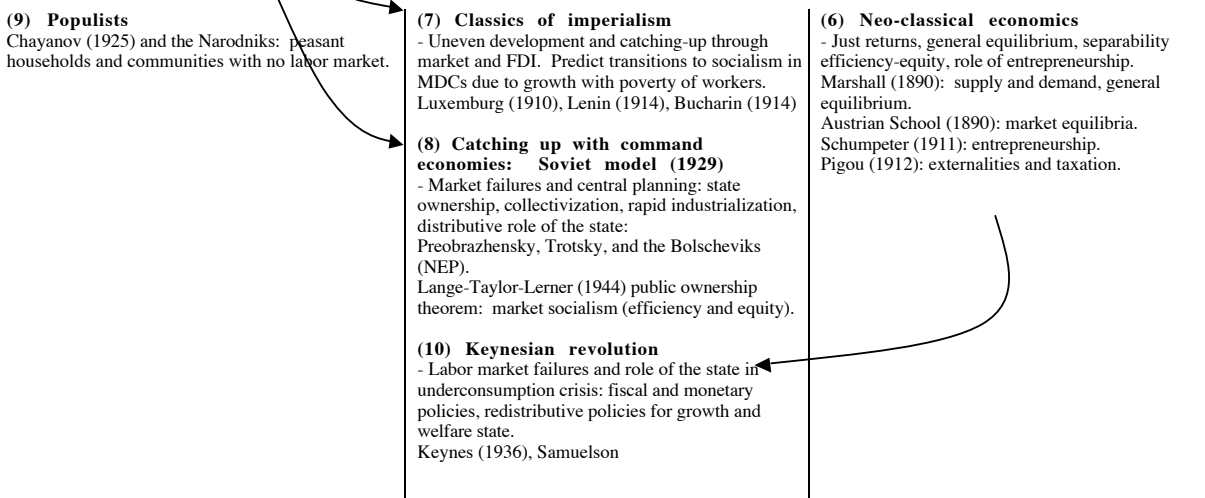
1. Link development and underdevelopment: part of a single process (from Jared Diamond to Carlo Cipolla and Paul Bairoch: world systems)
2. Schools of thought have both positive and normative components:
  - Positive: explain underdevelopment (growth/stagnation, poverty, inequality, vulnerability, basic needs, sustainability, quality of life): theories, models, and data systems
  - Normative: development strategy (social project endorsed by specific group, ideological, political): objectives, strategies, policies & programs.
3. Link to periods of history of development: four historical periods, five major reversals in thought.
4. Not a classification of people (multifaceted and changing) but of ideas.
5. All theories feature a certain balance between market, state, and civil institutions. They are classified here according to the element among those three on which greater normative emphasis is placed.

Civil institutions	State	Market
Emphasis on: - Corporate organizations: firms. - Associative organizations: households, communities, corporatist organizations, grassroots organizations, NGOs, lobbies, political parties, and social classes. - Market <u>and</u> government failures, contracts between explicit agents, structure of institutions and organizations. Determinants of cooperation. Power, bargaining, and struggles	Emphasis on: - Market failures: eco of scale, spillover effects, incumbent advantages, imperfect information, transactions costs, social discount rate. - Activist state for growth and equity. - Non-separability efficiency-equity (asset ownership affects both efficiency and equity). - Role of quality of governance. - Role of initial conditions: institutions, assets inequality	Emphasis on: - Behavior (consumers, firms, households, politicians, bureaucrats) - Anonymous transactions and complete markets: Pareto efficiency. - Harmony and just returns. - Separability efficiency-equity (asset ownership affects equity but not efficiency). - Government failures (non-poverty reducing inefficiencies).

**I. 1700-1890: Classical industrial revolutions. (1) 1700-1750-1820: "British Experience". (2) 1820-1890: from France (1820) to Japan (1880): "Western Experience".**



**II. 1890-WWII: Colonialism and classical imperialism: First liberal period and "Soviet Experience"**



(continued on p.2)

### III. WWII-1980: Growth and development decades: the “Asian Experience”

Marshall Plan, Cold War, Third World, Keynesian revolution, United Nations and Bretton Woods institutions, decolonization of Africa, East-Asian miracles

#### (16) Neo-populism

Nyerere: African populism.  
Schumaker & Bhuddist economics: small is beautiful.  
Lipton: urban bias and smallholders.

#### (17) Group formation & collective action for social incorporation

- Hirschman “Getting Ahead Collectively”, “Exit, Voice and Loyalty”.  
- Poverty due to social exclusion: need social incorporation.

#### (13) Third World socialism & radical dependency theory

Mao, Ho Chi Minh, Castro, Che Guevara, Debray, African socialism (Nkrumah), N. Korea. Role of the Soviet experience.  
- Explain and escape from stagnation: capitalism = market integration = underdevelopment. Hence, need delinking, collectivization, forced-pace industrialization, central planning, basic needs.

#### (14) Development economics: state for growth, development planning

State for catching up: protectionism for import substitution industrialization (ISI) given market failures (entry costs and eco. of scale).

#### 1950s: Accelerate aggregate growth

- Harrod-Domar model: role of savings & investment, role of quality of inv. (ICOR).  
- Mahalanobis: mixed economy planning.  
Aggregate investment.  
- Aid for capital, investment, and growth within planning.

#### 1960s: Growth, balance of payments, employment

- Two-gap models (domestic and foreign savings): McKinnon, Chenery. State to relax gaps.  
Three-gap models (same plus government budget deficit): Bacha & Taylor.  
- Role of agriculture: Kuznets agricultural surplus (generate, transfer, invest)  
- Dual economy models with surplus labor: Lewis, Ranis&Fei: role of savings (inequality) and low nominal wages.  
Lele & Mellor: role of technological change in ag. to lower nominal wages.  
- Role of sectoral complementarities: linkages and multipliers: Hirschman. Tipping policies.  
Leibenstein: critical minimum effort to escape Malthusian trap.  
- Role of market complementarities: Nurkse.  
Rosenstein-Rodan: big push. balanced growth, domestic market creation (complementarities, coordination).  
- Reformist dependency theory: ECLA, Prebisch, Cardoso: ISI.  
- Modernizing elites (individual traits and social values): capture the state, leadership.  
- Aid for two gaps: relax savings and current accounts constraints. Aid for agriculture (Green Revolution).  
(Critique of development economics: neglect of behavior, of macro fundamentals, of political economy of reform).

#### (15) Growth-with-equity (1970s): poverty and inequality, state for welfare

CGEs, sectoral models (Ag)  
- Redistribution-before-growth (Asian experience, land reform, mass education): Adelman.  
- Redistribution-with-growth (tax GDP growth): Chenery, WB 60s.  
- Agriculture-led growth, trade pessimism: Mellor (Green Revolution, Ag-Ind linkages), Adelman’s ADLI (non-tradables and SAM multipliers)  
- Appropriate technology and informal sector: ILO, labor intensive growth, Tokman (dual informal).  
- Integrated rural development: WB, IFAD  
Women in development  
- Basic needs and human development: welfare state. Streeten, UNDP (HDI), UNICEF.  
Keynesians under the tropics!  
- Aid for poverty reduction: basic needs, integrated RD

#### (11) Modernization theory

- Eurocentric and universalist, evolutionary (diffusion).  
- Stages of growth: Rostow  
- Normal patterns: Chenery & Taylor, Kuznets  
- Diffusion of innovations: Rodgers

#### (12) Neo-classical economic development (1960s)

- Behavioral microfoundations; government for public goods, externalities, competition, property rights, transactions costs, and equity.  
- International convergence (Solow): decreasing returns and technology as an international public good.  
- Role of agriculture and technological change:  
Jorgenson: dual economy with full employment, role of technological change in agriculture.  
Schultz: peasants poor but efficient with perfect markets; role of tech change.  
Hayami & Ruttan: induced technological innovations, role of prices in inducement.  
- Pluralist theory of the state, political markets, and government capture: Stigler, Peltzman, Becker (Chicago School).  
- Project evaluation.  
- Poverty due to marginality (marginality theory): need social integration for participation and trickle-down.

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**IV. 1980-today: Debt crisis, stabilization, and adjustment. (1) 1980-97: Second liberal period (globalization), neo-liberal response and Washington Consensus. (2) 1997→: Critique of globalization, beyond the Washington Consensus.**

Debt crisis, stabilization and adjustment, end of Cold War, economic recoveries, China boom, democratization, proliferation of NGOs and GROs

**(25) New institutional economics**

- Role of civil institutions in context of market and govt failures: households, extended family, firms, ROSCAS, group lending, village banks, service cooperatives, sharecropping contracts, interlinked transactions, mutual insurance networks, water users associations, etc. Role of locally public information and social capital. Role of property rights, role of culture and social norms.

- Second generation of reforms (Stiglitz), linkage local-global institutions.

**- Transactions costs approach**

Coase, Williamson, North, Bowles.

**- Imperfect and asymmetrical information approach**

Stiglitz, Akerlof, Eswaran & Kotwal, Bardhan, Basu, Bell, Besley.

**- Microeconomics of gender, households, contracts, communities, and agrarian institutions**

Rosenzweig & Foster, Udry, Fafchamps, Behrman, Strauss, D. Thomas, Newbery, Hayami & Otsuka. Heterogeneity and differentiation.

**- Comparative historical institutional economics**

Nugent, Ostrom, Wade.

**(26) Grassroots development:**

- New actors, new social movements, GROs and NGOs, informal sector, cooperative organizations, RD beyond the welfare state, decentralization of governance, community participation. Role of social capital.

- Local responses to globalization (Voices from the Commons, SID).

- CDD approach.

- IFAD, IAF: new approaches to rural development.

- Wade, Ostrom, Baland-Platteau: determinants of cooperation and management of CPR vs. Hardin's tragedy of the commons.

- Critique: communities can fail (lack of democracy, strong redistributive pressures). Devolution can fail. Decentralization can fail (elite capture)

**(27) Beyond development**

Deconstructionists: Escobar

De-development: reduce consumption.

**(21) Endogenous growth:** Spillovers and multiple equilibria. Role of initial conditions. Role of state due to market failures.

- Increasing returns (I in physical K: Arrow, Arthur) & externalities (R&D, education: P.Roemer, Lucas, Mankiv); private underinvestment. ISI successfully used in E.Asia (Rodrik).

Market externalities/demand linkages & **Big Push:** (coordination of I, redistribution (e.g., land reform): Krugman; Murphy, Schleifer, & Vishny).

- Institutional change: financial intermediation, lower transactions costs on markets (D. North).

- Barriers to the international diffusion of innovations (Baumol)

- Wrong initial definition of comparative advantage in ag (no eco of scale): Matsuyama lock-in.

- Endogenous technology and human capital; role of income distribution for savings, incentives, and market size: efficiency-equity complementarity (Aghion, Bénabou).

- Location theory: positive agglomeration externalities, clusters (Krugman).

- Divergence (critique of Solow) and conditional convergence (initial conditions, good policy): Solow, D. Roemer, J. Sachs, R. Hall).

"Counter-revolution in development theory" (Krugman) or nothing new?(Bardhan).

"Reversal of fortune": good institutions in settlement colonies, bad in extraction colonies, vs. geography (Acemoglu, Robinson).

- Critique of role of TFP vs capital deepening: Young.

**(22) New international trade theory**

Strategic interventions for eco of scale (subsidy to domestic firms if international monopoly: Airbus. Krugman). Industrial policy beyond WTO (Rodrik)

**(23) New political economy**

- Endogenous government behavior (policy making), political institutions, constitutional economics. Role of good governance

complementing markets (Stiglitz).

- Aid following good policies instead of conditionality lending. Seek greater aid effectiveness.

- **Public choice and collective action approach**

Determinants of cooperation: Olson, Tullock, Buchanan, Zusman, Applebaum & Katz.

- **Time consistency approach**

Credibility, commitment, delegation, reputation, overshooting. Tabellini, Alesina, Persson, Staiger.

- **Endogenous regulatory mechanisms**

Incentives and endogenous regulators: Baron, Noll.

- **Comparative historical political economy**

East-Asian developmental state and bureaucracy, public firm incentives: Westphal, Evans (embedded autonomy (and corruption?)), Gold, Wade.

- Transition strategies: political economy of reforms.

- **Decentralization strategies.**

**(24) Sustainable growth and environmental economics**

Sustainability as inter-generational equity. Weak and strong sustainability constraints in projects.

Brundtland Commission, Pierce.

**(18) Neo-liberal response (1980s)**

- Efficiency objective through market forces.

- Critique of government intervention: government failures and inefficiencies, corruption.

Rent seeking, rent dissipation, and social waste: policy distortions (Tullock, Krueger, Baghwati (DUP))

Incentive and informational problems of govt intervention: cannot solve market failures (Hayek).

Effectiveness of government interventions doomed by private sector response: rational expectations (Solow, Lucas).

- Critique of ISI: Anti-ag & unprotected T-sectors (price distortions: direct and indirect (e): Krueger, Valdés), anti-L, foreign exchange crises & stop-go cycles, rent seeking blocks ISTE (Balessa, Little, Krueger).

- Open economy industrialization (OEI): role of trade (WB, Edwards). Role of FDI, WTO.

Trade liberalization to reduce rent seeking (Bates).

**(19) Stabilization policies**

- Debt crisis and exhaustion of ISI: inflation, BofCA deficits, Gvt budget deficits.

- Stabilization: Real devaluation, fiscal austerity, restrictive monetary policy, wage repression: IMF.

**(20) Adjustment policies, Washington Consensus**

- Liberalization of trade and foreign investment (GATT, NAFTA), competitive exchange rate (floating), financial liberalization (emerging financial markets, banking sector reforms), balanced budget & fiscal discipline, privatization (reduce soft budget constraints, raise revenues), domestic market deregulation (DeSoto), tax reforms (VAT instead of trade taxes): Washington Consensus, J. Williamson.

- Role of macrofundamentals but neglect of micro reforms and institutional reforms (Africa). Globalization and backlash.

- Aid for stabilization and adjustment, structural reform loans, conditionality lending (WB, IMF), privatization of aid (NGO, FDI).

"New economics of aid" (Dollar, Collier): failure of conditionality. Good governance and fundamentals as pre-condition.

Safety nets: social funds.