

NATIONAL DEVELOPMENT STRATEGY: THE KEY ECONOMIC GROWTH INSTITUTION

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Abstract. Economic growth is almost invariably the outcome of a national development strategy. Effective economic development occurs historically when a nation is strong, and the different social classes are able to cooperate and formulate an effective strategy to promote growth and face international competition. A national development strategy is essentially an institution or a cluster of institutions which stimulates capital accumulation and technical progress. It follows a discussion of the main characteristics that such strategies, first in the central or developed countries, that never faced the colonial condition, and, second, in the developing countries. The paper closes with an analysis of the conflicts or tensions involved in national development strategies.

Keywords: strategy development economic growth hegemony

The past two centuries' experience shows that when an economy is enjoying full growth it is a sign that politicians, business entrepreneurs, bureaucrats and workers are operating within the framework of a concerted strategy. When an economy starts to grow slowly, or even stagnates, it is a sign that it lacks a national development strategy. A nation's strength is expressed in its commitment to the great political objectives of contemporary societies — security, freedom, economic development, social justice and protection of the environment — and in its ability to gather together and formulate strategies to achieve these objectives. None can be achieved on the basis solely of the market forces. Economic development can be facilitated by a free market that fosters efficient allocation of factors of production, but is, historically, the outcome of a deliberate approach of raising living standards, adopted by a nation using the state as its principal institutional instrument of collective action. It is the result of a national

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strategy whose main actors are business entrepreneurs, where capital accumulation and the incorporation of knowledge into production is the practical means of achievement, and where the government is responsible for mediating interests and making policies adopted based on a national agreement that involves the countries leading social groups that are committed to development.

In modern democracies, the state is the nation's instrument of collective action, and the government or the administration, the body of people – of elected officials and high-ranking bureaucrats – who rules it in name of the citizens.¹ The strategic nature of economic development arises, on the one hand, from a nation's need and opportunity to organize efforts in order to raise its living standards and, on the other, from the high correlation between this development and the achievement of other major political objectives. Even though development may, in the short-run, often take place at the expense of social justice and environmental protection, the correlation is undisputable in the medium term. The importance of a national growth strategy is also due to the highly competitive nature of capitalism. Today, within the framework of globalization, where commercial and technological rivalry among nations holds sway over the entire logic of international relations, the need for a national strategy becomes evident just by reading the newspapers. The domestic news from each country shows that a large portion of their politicians' efforts and of the struggles they have revolve about how to best promote the country's development. And on the economic relations front, in regard to trade mainly, but also connected with technological and financial relations, nations experience massive competition, with each government defending the interests of its national firms.

I will argue in this paper that economic growth implies a national strategy, which, in turn, assumes the existence of a nation whose constituent social groups — politicians, bureaucrats, business entrepreneurs and workers — have been able, despite their internal conflicts, to back a national agreement when it comes to competing internationally. As the

¹ In English, the language of most economics books, the term 'government' is often used synonymous with state, while 'administration' denotes what I am calling here government. Note also that I distinguish state from nation state. The state is the basic institution existing within a nation-state which is also formed by a nation or national society and a territory.

basic logic behind the society viewed as ‘civil society’ are the civil liberties, when it is viewed as a ‘nation’, it is economic growth (Gelner, 1983). When a nation is able to agree on a national development strategy, this is a signal that this nation is strong and lively. In contrast, “when a nation no longer defines a historical horizon to be pursued with courage and hope, it enters the unhappy state of awareness that Hegel referred to: the inability to take a harmonic stance before life.” (Comparato, 2005: A3).

This paper is divided into five sections. The first one defines a national development strategy; the second emphasizes the institutional character of a national development strategy and how it is more effective in promoting capital accumulation and technical progress than just the guarantee of property rights and contracts; the third examines the strategies that central or developed countries, which never were dependent, adopted to grow; the fourth examines peripheral countries’; and the fifth deals with the stresses or contradictions these strategies involve.

National development strategy defined

What is a national strategy? This is not an easily answered question, as national strategies vary widely across time and space. National development strategies must not be confused with economic planning or even with a national project, unless flexible, broad concepts of planning and project are used. In most cases of successful national development strategies there was some sort of planning, particularly in the early stages, for the establishment of the heavy industry. Later on, the market, despite its limitations, becomes a requirement and general planning may be indicative at most. Plans will tend then to become more specific – to deal with given industries that are viewed in the moment as strategic. The national strategy persists, but particularly in global capitalism it will be rather a national competition strategy. It must always consider the reactions of ‘adversaries’, which will be either the other national competitors, or any new facts that demand a policy change. A national development strategy is the result of a collective decision making process. It is, therefore, a means to manage the national economy, to pursue alternatives capable of steering it competitively towards development. As firms plan their activities strategically, so nation-states outline national

development strategies, led by the government, and with the involvement of business entrepreneurs, bureaucrats and workers.

Herbert Simon (1979: 42) identified strategy with program, and regarded the latter as a means by which economic actors with incomplete information and limited rationality appraise alternatives and make choices, instead of permanently ‘optimizing’, as assumed by neoclassical economics. Based on the analysis of a chess match, he tells that “a program or strategy is a series of decisions carried out in a well-defined manner that enables vast economy in terms of memory and the assessment of alternatives. On defining a strategy, the player must take three principles into consideration: (1) the attacker must consider ‘strong’ games only (like checks on the opposite King)... (2) all alternatives available to the opponent must be explored...; (3) if any of the games that the attacker is considering, regardless of how strong it may be, allows the opponent make moves in response, the attack move is abandoned for lack of promise”. It is no different with national strategies. Strategists must begin by diagnosing the situation, then search for alternatives, always bearing in mind the fact that they cannot pursue ‘every’ alternative, but, within the framework of a program, only those that appear more promising or satisfactory. Strategists are under no illusion as to optimization, but know that they have limited time to make a decision, to choose under uncertainty. In order to implement the eventually defined strategy or program, those in charge of it use all means available: they will write laws, adopt economic policies, and all sorts of other institutions; they will try to make the most of the markets’ resources or possibilities, but not hesitating to intervene as needed.

All national development strategies have certain traits in common, despite an enormous variation among central and peripheral countries. Firstly, early national strategies — those that involve the transition from a pre-capitalist to a capitalist system — are initially based in a greatly increased capital accumulation rate, as a country’s pre-capitalist status is a direct result of the absence of accumulation. This is what Marx referred to as primitive accumulation. To this end, the nation that establishes itself alongside the state will use a combination of forced savings mechanisms manager by the state itself with policies to assure high interest rates and reinvestment of profits. The agents of the accumulation process are business entrepreneurs, but, mainly in the first stages of development, the state plays a

strategic role in promoting ‘forced savings’ through either social security funds, or taxes on primary goods exporters (which may be straight or disguised),² or investment into monopolist state-owned enterprises or enterprises profiting of large rents (as oil industries) whose profits are sufficient to fund reinvestment. On the other hand, the national development strategies involves channeling the funds thus obtained towards public investment or transferring them to business firms for investment by all means of incentive or subsidy. In almost every country, the state, through the device of forced savings, played an important role in the creation of the basic infrastructure of the economy and in increasing the rate of capital accumulation from less than 10 to more than 20% of GDP. Yet, as the economy’s complexity and diversity increase, state forced savings become less necessary, and state allocation of resources proves inefficient as compared with the market; when this happens, the nation, usually after a crisis, will have to devise new national development strategies in which the role of markets and entrepreneurs increase. In any circumstance, however, the state will have to conserve its capacity to achieve public savings that will finance in sound fiscal terms the always required public investments. In the more advanced stages of growth the share of public investment in total investment tends to diminish, but become remains strategic.

Secondly, all national development strategies, be they at the center or the periphery, were initially protectionist. First, because, given the infant industry argument, the new entrants hardly will be capable of competing without such protection. This was true even in England, who protected its wool textile industry strongly for several centuries, in addition to bringing about the demise of India’s competitive craftsmen industry. Secondly because in most cases an industry can only become competitive if it forms an industrial cluster or pole in which positive externalities increase the overall productivity level and enable the high profits required by the businessmen who are investing.

Thirdly, national development strategies promote technical progress, the introduction of new production techniques, new forms of corporate organization, the development of new products and the opening of new markets. In this case, as science and technology advances

² In the 1950s, in the case of Brazil, taxes were disguised under the form of multiple exchange rates. Coffee exporters, however, soon understood that this was a form of transferring income from them to industrialists, and called the system, ‘exchange rate confiscation’.

exponentially, the role of state agencies becomes increasingly strategic. Again, innovation — for these are Schumpeter's classical forms of innovation — lies in the hands of business entrepreneurs. Be it the classical individual entrepreneur, be it the collective, techno-bureaucratic, executive-entrepreneur present in large companies. Note that the common feature that ties innovations together is not increased productivity, but the creation of monopolistic advantages that increase profit opportunities and enable investment. In many cases, the monopolistic advantages is secured by means of new technologies or new ways of organization production; in others, however, as in the opening of new markets, or the organization of cartels (which Schumpeter did not hesitate to include among forms of innovation), there is no direct technical progress, but investment and development.

On the other hand, in contemporary capitalism it became clear that development results not only of increase in productivity, or of the launching of new products, but also of the transference of the labor force from industries with low value-added per capita to industries of higher value-added per capita. If economic growth may be understood – with all the reserves taken into account – with increase in income per capita, it may also be defined by increase in value-added per capita. Thus, when the first industrial countries transferred part of their labor force from agriculture do manufacture, while importing from developing countries agricultural commodities, this process was taken place. In the second part of the twentieth century, the deindustrialization process that is happening in the rich countries, while China leads the production of relatively low value-added manufacture and India, the supply of low value-added services is part of the same process: deindustrialization is not meaning unemployment but transference of the highly educated new labor force existing in rich countries to more sophisticated services.³

At all development strategies, investment must be financed. Thus, a fifth characteristic of national strategies is to develop a national financial system able to finance investment and technological progress. As shown by Gerschenkron (1962), in the early stages of growth, the state's role tends to be decisive in this respect; further along, the privately sector's banking system enters stage by means of investment banks and the stock market. Still, funding is

always less important than self-financing, that is, the reinvestment of profits in the firm. Although conventional economics has trouble acknowledging this, every analysis of the problem reiterates it. Besides, funding can be a two-edged sword. Foreign finance is particularly problematic for developing countries because their debts are in their own money but in some hard currency. Like a firm, a country may easily get into more debt than might be wise; it may, in particular, become indebted at interest rates higher than its growth rate. In this case, it risks severe crises, as those we saw strike developing countries, mainly in Latin America and Africa, since the 1970s. Thus, a common feature to development strategies is that it must count with domestic resources. As Barbosa Lima Sobrinho (1973) well put it in the title of his book, 'capital is made at home.' That is, in practice, development is funded with domestic savings, be it from self-financing, state financing or bank financing. In virtually all cases, this was the main form of financing. At certain times, when a country was growing at an extraordinary pace and interest rates were high, such a country would have resorted substantially for foreign loans, as was the case of the United States at certain points of the 19th Century. However, incurring current account deficits, that is, growing with foreign savings, was something to be done in a limited way because countries were aware of the hazards such financing entailed. As the experience of the dynamic Asian countries showed, the fastest-growing countries tend to grow not with foreign savings, but with foreign negative savings: most of the time they report current account surpluses instead of deficits.

The secondary role played by foreign savings in national development strategies may also be explained in theoretical terms. After a possible phase of import substitution growth in global capitalism will tend to be export led, and a relatively depreciated foreign exchange rate is crucial for this. The foreign exchange rate, even where managed, will tend to relatively depreciate the larger the current account surplus. In contrast, an appreciated foreign exchange rate, compatible with the foreign savings or current account deficits, will foster consumption and imports, leading to a substitution of foreign for domestic savings. Thanks to the inflows of finance or of direct investment, the country looks as if it is increasing its capital accumulation rate, but, in fact, it is artificially raising wages, consumption, imports and

³ Unemployment is only high in Europe, but for other reasons. Japan and United States are full employment economies, and the latter remains an immigration economy.

foreign debt and foreign obligations. A relatively depreciated foreign exchange rate, in turn, encourages savings, investment and exports. This is why only at times of great growth, when the expected profit rate is very high, do current account deficits not cause the substitution of foreign for domestic savings: the real wage increase will not go all to consumption, as a significant portion also reverts to investment. Thus, national development strategies rarely are successful if they include in their menu what ‘conventional orthodoxy’ presses developing countries to do: ‘to grow with foreign savings’. If either the worse does not happen (balance of payment crises), or the second worse (financial fragility and the constraint to involve in confidence building toward creditor countries), an adverse outcome will be in force: a high rate of substitution of foreign for domestic savings as a consequence of an evaluated exchange rate. This only will not happen if the economy is already undergoing a fast growth process so that the capitalist and the professional middle class reduces its marginal propensity to consume (Bresser-Pereira, 2006).⁴

A sixth institutional reform which became crucial for growth after the state became developmental and welfare oriented is public management reform. The modern state that appears with the capitalist revolution has undergone two broad reforms that had great significance for development strategies. The first one, taking place in Europe and the United States in the second half of the 19th Century, was the bureaucratic or civil service reform, which turned the public bureaucracy into a professional bureaucracy selected and promoted based on merit. This reform assured the state effectiveness. Since World War Two, however, states began realizing that the classical bureaucratic system was far too rigid and a developmental bureaucracy emerged, particularly at the level of state companies. Since the 1980s, this trend became the second major state organization reform in the history of the modern state. It is called public management reform, or the state’s managerial reform. It decentralizes the State, transferring certain specific state functions to autonomous agencies, while transferring social and scientific services to non-state public service organizations in civil society. This draws the practices of public managers closer to those of private ones, giving them greater autonomy and accountability before society, thereby making the state’s

⁴ See Bresser-Pereira, 2002, 2004d; Bresser-Pereira and Nakano, 2003; Bresser-Pereira and Gala, 2005.

apparatus not just more effective but more efficient.⁵ The countries that originally adopted such reforms, such as Great Britain, New Zealand and Australia, have been reporting favorable development rates. Given the clear superiority of this form of managing the state organization when compared with the classical or bureaucratic one, an increasing number of principally OECD countries are following, as the survey by Pollitt and Bouckaert (2004) demonstrate.

Last but not least, the seventh characteristic of national development strategy is to be implemented in the context of macroeconomic stability. The attempt to oppose growth to stability is essentially flawed, usually involving a false concept of macroeconomic stability, just limited to price stability. Real macroeconomic stability implies, additionally, intertemporal equilibrium of the fiscal accounts, of the foreign accounts, and a reasonable full employment, or, put just in terms prices, besides control of inflation, it involves a sound differential between the expected rate of profit and the interest rate, and a competitive and stable exchange rate. Economic growth is not achievable at the expenses of stability but because macroeconomic stability is actively and competently secured by fiscal and monetary policy.

National development strategy as the key institution

A national development strategy is always an effectively concerted action by a nation; an institution by means of which the nation drives the actions of national economic actors and reduces their uncertainty; an informal, somewhat loose agreement among classes that does not prevent domestic conflicts, but assumes collective action or cooperation before foreign competitors; a set of values and norms whose essence is to defend domestic labor, knowledge and capital, be it by protecting them from international competition, be it by making policies to make them better able to compete. In capitalist societies, where the modern nation-states rose as the central political actor and economic growth became a central political objective, national development strategies became the key informal institution behind economic growth. It is the institution that creates and assures investment opportunities and organizes the

⁵ Bresser-Pereira, 2004a.

competitive economic actions by business entrepreneurs, workers, the private professional middle-class and the state bureaucracy or civil service.

Since Douglas North (1990) wrote his book on institutions trying to make neoclassical economics understood broadly consistent with institutional analysis, and won a Nobel Prize, institutions were brought back to mainstream economics. Yet, this happened at a high cost. At that moment, the pro-market ideological wave came to a height with the collapse of Soviet Union, and the approach present in his book – growth would take place whenever a society guarantees property rights and contracts – gained soon scientific currency. Yet, this was either a commonsensical observation devoid of any predictive character – societies that develop are capitalist societies –, or a reductionist view of the relation between institutions and economic growth. Economic development is a historical phenomenon that turned reality with the capitalist revolution and rise of the modern nation-states. Thus, it is a capitalist phenomenon where the protection of capital – or of property rights and contracts – is essential but not sufficient. For some time, bureaucrats in Soviet Union or in China showed that they could promote economic development without a capitalist class, but we know that this was a limited experience – eventually, just a more radical example of a rather common experience in capitalist industrial revolutions: the economic leadership of the process being assumed by a bureaucratic and quasi-aristocratic class in association with an emerging bourgeoisie.⁶

A national development strategy is always made up of a set of new institutions: new laws that should be relatively permanent; new, temporary, more specific economic, political and social policies; and business and associative practices that lie beyond the scope of the state but still have normative power. Marx regarded development as a process where institutions, which tend to change at a slower pace than economic and technological relationships, were eventually subjected to a revolutionary updating process. As a result, institutions were an obstacle, rather than an incentive to development. During the 20th Century, however, as societies learned how to implement national development strategies through institutions, they became a tool for the advancement of development. Marx, living in the times of the liberal not of the democratic state (which would only prevail in the twentieth

⁶ I think principally of Japan, and the role that the samurai class played in industrialization.

century) did not see the state as an instrument of democratic collective action but just of political domination. Even in his times, however, the state was already being the nations' main instrument for promoting economic growth. In the twentieth century, despite the neo-liberal attempt to diminish the economic role of the state, his active responsibility for advancing economic growth was eventually enhanced. The forms of state intervention are not only cyclical, as I showed in a previous work (Bresser-Pereira, 1993), but changes depending on the level of development of the world competitive system, and principally on the stage of economic growth of each individual country. In all circumstances, however, the state is only effective in this role when its administration is able to lead a national agreement around an economic development strategy, that must be understood as an institution or a cluster of institutions: laws, policies, informal orientations, shared beliefs. The state itself, besides being an organization with monopoly of legitimate force (Weber), is an institution: it is the constitutional matrix of the other formal institutions; it is the law system or the juridical order. When this complex institutional system that is the state gets dynamic, oriented to promote hard work, innovation and investment, we will be in presence of a national development strategy. To guarantee property rights and contracts is just one of the institutional aspects and not necessarily the more important. Individual entrepreneurs and group of executive-entrepreneurs within large corporations are the real investors and innovators, not non-active or rentier capitalists: they are motivated rather by profits and by personal achievement than by security. Today they will invest in a country like China that is not an example of legal security, while rentier capitalists will put their money in Switzerland, or in a fiscal paradise.

Contrary to the argument posed by the neo-classical new institutionalism of transaction costs, developmental or historical institutionalism don't see the market as the original, 'default', system, and don't regard intervention as a means to cause the economy to draw close to this mythical, ghostlike perfect competition market. If national development strategies do not suppose overarching planning experiences, except in the early moments of development, neither will those responsible for the strategy count with self-regulated markets capable of allocating resources with no need for state intervention. The neo-classical assumption that the market is the default form of production coordination, while organizations and institutions are second-best means of coordination that become needed where transaction costs are too high, is alien to the reasoning of successful national development strategy's

practitioners. In order to start working to draw a strategy, they do not part from a general equilibrium situation and abandon successively the assumptions that are not realistic, as neoclassical economists are supposed to do, but part of a mixed reality which will be the reality of the country involved. Equally alien is the statist assumption that the state should be able to manage or plan the entire economy. National development strategies are always pragmatic institutions that arise from social practice and, therefore, cannot be driven by ideological dogmatism, be they interventionist or neo-liberal. The market is an extraordinary institution for resources allocation, but, as Polanyi (1944) remarked, it is just one of the institutions existing in a given society, and it is intrinsically limited in its capacity to coordinate the economic system. It, first, must be regulated and protected by the state, because it requires frequent corrections, but second, and more important, it must be continuously complemented by strategic decisions made by the administration. This is not to deny the leading role markets play, which gain in importance with an economy's growth and complexity, but neither is it to turn the market into an ideological weapon.

When we think in the causes behind economic growth, there is a reasonable consensus that the two direct causes are capital accumulation and technical progress. A national development strategy is the institution that is immediately behind these two forms of economic activity and can stimulate them. The other institutions that foster growth should be thought of as part of the national strategy, but situated in a previous or medium term relation with growth. Take, for instance, education. Out of the main institutions that national states have used positively to promote economic development the place of public education is outstanding. Education is always an essential part of a national development strategy, but its results only materialize in the medium term. Another crucial institutional reform that is part of national development strategy is the reform of the state as an organization or an administration. The state does not just embody the rules of the game – it is also an organization formed of politicians, state bureaucrats and military. If the state plays such a strategic role in development, it is important that the state organization be effective and efficient, but, again, the outcomes of public management reform will be necessarily lengthened in time. In the short term, the institution behind capital accumulation and technical progress is the national development strategy.

National development strategies involve the participation of the different social classes in the nation. Thus, it implies class negotiations where government is supposed to play an intermediary role. The strategy must at the same time be able to provide more profits to business entrepreneurs, higher wages and salaries for the workers and the professional middle class – something that only can be achieved if growth itself is taking place. Thus, we have here another example of the classical chicken and egg problem, where there is no simple formula to begin the process. If the negotiations do not count with growth, they will become impossible. The more advanced economically and the more democratic is a country, the more attention to equality and freedom will be required from the strategy. In a developed country, the social justice constraint and the democratic constraint will be stronger than in developing countries, but in none they can be ignored. In other words, a national development strategy involves politics, and politics implies compromise. Strategists may always count on the rationality of economic agents, but no one has the monopoly of such rationality, nor is reasonable to expect from the several groups that make up society that informal negotiations do not take place and compromises are not agreed upon.

National strategies at the developed center

National development strategies will vary from moment to moment, and from country to country. Two countries that in the last 20 years experienced national development strategies – China and Ireland – could not be more different. National development strategies must be regarded in terms of broad phases that differ depending on whether the nation-state at hand is a central or peripheral country. A basic distinction is between center and periphery, in the classic tradition of the works of Prebisch and Furtado. For central countries who were not colonies to capitalist countries, there was no underdevelopment; at most, there was a lag in comparison to England, the first country to develop, and their strategies still today reflect this. Peripheral countries, in turn, who were subject to imperialist domination by great countries, still endure massive hegemonic pressure from these powers to adopt policies that ultimately may do them more harm than good. The fact that they have experimented underdevelopment (which makes their economies dual in addition to poor), and, mainly, the fact that they still experiment dependence (understood to mean the subordination of their elites to the center), strongly condition any development strategies they may conceive.

The great divide between center and periphery occurs with the capitalist revolution. To quote Landes, “the industrial revolution fragmented the globe by dividing it into winners and losers.”⁷ Some countries, particularly those in Western and Northern Europe, as well as a few former British colonies where the metropolis’s population was replicated, capitalist development undergo three development phases or stages: primitive capital accumulation and formation of the nation-state or national revolution in the realm of an agrarian and merchant society; industrial revolution or capitalist revolution *stricto sensu*; and consolidated capitalist development. At peripheral countries, on the other hand, mainly in Latin America, the first phase is colonial: the mercantile agrarian or mineral economy is based on latifundia and internally organized according to patriarchal patterns; this is followed, in the beginning of the nineteenth century, by formal national independence which does not change the dependent character of society; much later, in mid twentieth century, some countries profit from the crisis in the developed center to formulate national development strategies, and the industrial or capitalist revolution takes place in certain countries that, so, become medium income developing countries (Brazil and Mexico), while the others remain just poor countries (Haiti and Bolivia); after that, however, and particularly since the 1980s, medium income developing countries continue to grow but slowly, at a much smaller pace that the convergence to the levels of growth of rich countries would require, while dependency from the rich North remains a basic characteristic. In the case of Asia and Africa, political independence is just achieved after World War II. In Africa, most countries were not yet capable of devising a national development strategy and making their capitalist revolution: they remain just poor countries. The exception lies in a growing number of Asian countries that proved less dependent than the Latin America, and, although departing from a lower level of growth, achieved national autonomy and development since the second quarter of the 20th Century: these countries are growing fast in the framework of national development strategies.

Each stage has its priorities. At phase where the nation-state is formed and primitive accumulation occurs, the two core challenges national strategy faced, historically, are suggested by its very name. It was about forming a state capable of enforcing the law, assure order and defend or widen national boundaries. And it was about using non-market means to

⁷ Landes, 1999: 195.

promote primitive accumulation, that is, to create the initial stock of capital under the control of the infant bourgeoisie so that it might profit by means of the exchange in the market and productively reinvest its earnings. English mercantilist monarchs, in particular, were very competent in their deployment of this strategy.⁸ Imperialist exploitation, through the association of metropolises with colonial elites, will play a decisive role in the development of countries such as England and the Netherlands. On the other hand, if the only purpose of the colonies is consumption by the aristocracy, as was the case in Spain and Portugal, the outcome will be disastrous, as the appreciated foreign exchange rate will prevent any productive activity. To quote Landes (1999: 173), “Spain became (or remained) poor because she had too much money”. It is during this phase that ‘world-system’ is formed (Wallerstein, 1974). Since the time of the discoveries, European countries will for the first time establish a grand world economic system, where a division appears between those, at the center, that will develop and those, in the periphery, that will remain stagnant, subject to different degrees to the imperialist yoke, with no glimpse of a national development strategy.

The second phase, industrial revolution, will rely, mostly, on strong protectionist strategies, even in the case of Britain, who only eliminated its protectionist barrier much after the industrial revolution. This phase will also require, as did the former, a foreign exchange rate that prevents early consumption and favors investment in the local industry, thereby complementing the tariffs protection. This phase will imply a marked proletarianization process, as wage labor grows and is kept at subsistence level. It further requires legislation capable of protecting private property and contracts, within a context of increasing class struggle. In the third phase — consolidated capitalism, in the case of central countries — tariffs protection is gradually reduced and human rights are slowly granted: political ones first, then social ones. Wages detach from the subsistence level and grow with productivity, so as to constitute the demand that is essential to firms’ increasing production. In this phase, the first and foremost national strategy is the implementation of a public education capable of endowing the society with the cultural and technical principles that development needs. Farther along, the state’s investment in technical progress and the university will be fundamental. Throughout the

⁸ See Chang, 2002, where the author lists a large number of interventions made by these monarchs, promoting original or primitive accumulation and England’s industrialization.

period, the state is clearly shoulder-to-shoulder with firms in their international activities, trying to increase their competitiveness in every way it can. The economist discourse, however, is increasingly liberal contradicting their governments' practice. There is logic behind this, however. The government's strategic intervention on behalf of firms is not something open for discussion — it is just done — and, therefore, not threatened or less threatened by neo-liberal preaching. This preaching, however, serves both the internal struggle to limit social spending and the tax burden so as not to squeeze profits, and the foreign struggle to neutralize the attempts of competing medium-development countries to develop their own industries. This is where the classical 'ladder kicking' strategy comes in, having been detected by Friedrich List, concerned with Germany's late development, in England's behavior in the first half of the nineteenth Century, and recently analyzed by Ha-Joon Chang.⁹

National strategies in developing countries

During the colonial phase at peripheral countries, within the framework of the world-system that establishes itself after the great navigations, there is no reason to speak of national development strategy. These are societies directly subordinated to imperial countries, divided into two paradigmatic situations: that of societies that remained pre-capitalistic just having contacts with Western nations through colonial trading posts like Goa or Macau, as was the case mainly in Asia and Africa, and that of Latin American countries, where an European colonizer becomes the dominant social and ethnic group, and a mercantilist-patriarchal system is established to produce, under the 'plantation' model, goods that demanded soil and weather complementary to Europe's.¹⁰ In the early 19th Century, since the industrial revolution at the center, societies of the former type, which had remained independent so far, are subjected to direct imperial domination, while Latin-American societies, formed under the leadership of the Spanish or Portuguese, win their political independence. For these, a long period begins

⁹ List, 1846; Chang, 2002.

¹⁰ A 'third case' – that of populating colonies as the ones that were established in the Northeast of the United States – falls in the category of growth at the developed center. For these three patterns of colonization, see Prado Jr. (1945[1956]): chapter 1-3.

during which they are in fact semi-colonies that fail to devise a national development strategy. Their abundant natural resources facilitate forms of the ‘curse of natural resources’ or the ‘Dutch disease’ that evaluates the local currencies and hamper development.¹¹

We can only speak of national development strategy since the 1930s, when the great depression creates an opening for them to begin or boost industrialization. The national revolution, which had began with formal independence, only then gets moving. Actually, the national revolution coincides with the first real national development strategy. In Brazil, in Mexico, and, at a lesser degree, in other Latin-American countries, a national-developmental strategy is drawn in an attempt to emulate and adapt the experience of late-development central countries, such as Germany and Japan. Fundamentally, the strategy involves protection of the domestic industry through the import substitution model. The use of multiple foreign exchange rates to transfer income from export agriculture and mining to industrial firms is also important to explain the extraordinary development that then occurs. Countries also try to recover from the absolute decay public education, and invest into science and technology. At first, this national development strategy uses local resources to finance development. However, since the early 1970s, it increasingly resorts to foreign loans and to direct investment, while maintaining the protectionist strategy and preserving pessimism towards exports of manufactures that no longer made sense. These two mistakes lead to a great crisis in the early 1980s, which Latin-America countries have yet to overcome. Again subject to economic and cultural domination, now from America, these countries were left without a national development strategy: characterized by dependent elites, they accept an imported growth strategy – conventional orthodoxy.

In contrast, some Asian countries that remained in some way subject to European imperialism until World War Two, gain autonomy at this moment.¹² At first they use an

¹¹ The “Dutch disease” is the result of an artificial appreciation of the foreign exchange rate as a result of the low cost of exported goods that make use of cheap natural resources. The difference between the price in US Dollars for this product in the international market (determined by the least efficient producers) and its cost is a form of “economic income”, that is, a gain that bears not relation with productivity, but exerts pressure no the foreign exchange rate in the sense of appreciating it before a rate compatible with the export, by the affected country, of goods it produces a international efficiency standards.

imports substitution strategy, but, be it because their natural resources were limited, be it because their elites, being indigenous instead of transplanted from Europe, were better able to state their national interests, they change to an export-led strategy as early as the 1960s. Instead of substituting imports, they implement a strategy based on manufactured goods exports, copying the Japanese strategy that had proved its effectiveness in promoting great development. Then begins in Asia what was termed the ‘flying geese strategy’, where countries acquired the conditions for development in successive waves: first was Japan, followed by Korea, Taiwan, Hong Kong and Singapore, then Malaysia, Thailand, Indonesia; in the 1980s, China, and, a bit later, India begin to grow at an extraordinary pace. In all of these countries, industrial policies were markedly active and the foreign exchange was kept competitive, thus avoiding the foreign indebtedness that paralyzed development in Latin America. The dynamic Asian countries, with their manufactured goods export-led strategy, had two crucial advantages over Latin-American countries: their market was not limited to overseas, and the efficiency criterion remained clear — only firms capable of exporting deserved support. This strategy endured a crisis in the early 1980s because these countries also resorted to foreign finance, but their indebtedness levels were much lower, the crisis was soon overcome, and the countries resumed rapid growth.

At the second phase, which then begins for more advanced countries like Korea and Taiwan, intervention gradually drops. This was due, in one side, to the higher stage of growth, but, on the other, to the enormous pressure for neo-liberal reforms from rich countries; unlike in Latin America, however, they make relatively small concessions. The foreign exchange rate, in particular, remained firmly under control, and they did not resort to foreign savings. Quite the opposite, in order to maintain a competitive foreign exchange rate, Asian countries resisted the pressure for admitting equity and credit capitals and reported increasing current account surpluses and international reserves. It is true that some of them bowed to pressures and fell into the 1997 crisis, but immediately depreciated their currencies and return to growth. Today, some of these Asian countries, like Korea and Tawyan, are already regarded as developed, while Latin-American, African, Middle-Eastern and Central-Asian countries

¹² Japan was never a colony, and this was one of the reasons why it was the first Asian country to be part of the center.

remain indebted, dependent and accepting the advice of rich countries instead of devising national development strategies.

Tensions

The fact that development strategies share characteristics in common is not to say that development is a linear, harmonic process. Quite the opposite, it is marked by important breakthroughs implicit at points of transition: technological breakthroughs, political breakthroughs. And it is also marked by fundamental tensions or contradictions. And these tensions and contradictions are not opposed to development: they are just the means by which development takes place.

There is, first, a tension that is essentially economic in nature: that between supply and demand, which is real, but manifests itself equivocally through the false contradiction between growth and stability. Aggregate supply and demand are always at odds. The most generic of all macroeconomic laws — Say's law — affirms the compatibility of supply and demand as supply creates demand through income. But ever since Keynes we have been aware that this is only true in the long run. In the short run, supply can often exceed demand, leading to unemployment; or demand may exceed supply and, once full employment is reached, inflation ensues. Maintaining the aggregate supply and demand equilibrium, therefore, is the great challenge macroeconomic policies face. The easy solution is to maintain greater supply and keep a 'comfortable' level of unemployment, so that inflationary pressures remain low; the difficult solution is to avoid inflation while keeping investment rates and employment levels high. In addition to the easy and the difficult solutions, there is also the irresponsible or populist one: to increase government expenditures to grow demand at the expense of inflation.

A national development strategy always implies the application of historical-institutional economics to the analysis of development problems — the application of a pragmatic, developmentalist theory that steers clear out of both the conventional theory's orthodoxy and the populism of phony Keynesianism. Conventional wisdom, however, often puts development, which is assumed to be inflationary, at odds with 'monetarism', or the

economic orthodoxy that would supposedly defend macroeconomic stability. This is another instance of senseless ideological reductionism. The primary obligation of a national development strategy is to assure macroeconomic stability. It is mistaken to argue that there is a contradiction between development and macroeconomic stability. Even if we were to reduce macroeconomic stability to price stability, the contradiction does not exist except in the very short run, as the Philips curve clearly shows. In the slightly longer run, controlling inflation only fosters development. As Ignácio Rangel (1963, 1985) put it, high inflation rates for relatively long periods are usually a symptom of economic crisis, a perverse means by which the economy adapts to crisis.

A second basic stress national development strategies face is the one among social classes. Not just between capital and labor, but also among middle-class professionals, capitalists and workers, and, within the capitalist class, between business entrepreneurs and rentiers. This stress expresses itself in the distribution of income across profits, interest, wages and salaries. Development strategies may occasionally distribute income, that is, favor wages and lower salaries and profits of medium and small firms. A golden period of central capitalist development — the so-called 30 glorious years after World War Two — was characterized by a deliberate distributive effort. Welfare states were then formed. But strategies are most often concerned with the growth of profits and salaries than that of wages. Wages and salaries also increase as a result of the strategy, but do so with the profits, rather than in opposition thereto. It is increasingly important for development strategies to distinguish workers' wages from the professional middle-class's salaries, as the latter have grown substantially more than the former inasmuch as, throughout the 20th Century, capitalism became a capitalism of professionals, or a knowledge capitalism — leading to a huge increase of the number of members of the professional middle-class, its income, and its power. On the other hand, we must distinguish profits from interest, as an increasing number of rentiers exist that live on the interest and dividends paid through financial markets. Ricardo distinguished profits from rent; today, it is important to distinguish profit from capital income. In both cases, however, rentiers pose an obstacle to development. For development to occur, the important thing is the profits of active capitalists or business entrepreneurs, not the interest earned by rentiers. When income concentration favors rentiers, it is a clear sign that no national development strategy exists.

A central problem that national growth strategies face today is in relation to the conflict or the supposed conflict between business entrepreneurs and state bureaucrats. A national strategy is only in place when these two strategic classes are in agreement. Good reasons for accord rather than conflict are not lacking. Yet, it is not on the interests of local rentier-capitalists and international groups that agreement prevails. Thus, the whole ideological pressure is in saying that state bureaucrats are only interested in increasing their power and salaries, in increasing state expenditures and taxes, instead of working in a coordinated way with business entrepreneurs and capitalists in promoting economic growth.

A third fundamental stress that marks development process is that between developed countries and medium-development countries. There is no reason to speak of conflate with a third type of country — the poor — because they are not competitors. For centuries central countries have ruthlessly exploited peripheral countries through imperialism, with no significant reaction by the exploited. Since World War Two, however, this kind of imperialism disappeared with the demise of colonial empires. Meanwhile, some poor countries achieved medium development and began to pose hard competition against rich countries, even on manufactured goods exports, using the advantage of their cheap labor. Rich countries reacted positively to this transferring labor from low per capita valued-added industries to high value-added services, and negatively by developing new forms of imperialism that may be called hegemonism or hegemonic domination, inasmuch as they did not imply colonization, but the ideological submission of local elites. As they defended their trade interests on all international fronts, hegemonic countries sought to disorganize the new economies that threatened with cheap labor, by exerting ideological pressure for them to adopt the growth with foreign savings strategy and other policies that stood against development. To this end, they used international agencies like the World Bank and the IMF, and took advantage of developing countries' weakness caused by the great foreign debt crisis of the 1980s to, at the World Trade Organization, approve the 'Uruguay round', which severely harmed developing countries. As Robert Wade (2003) argued, the policies rich countries adopted in their trade talks were less aimed at opening their own markets, which are already open, than at reducing developing countries' ability to put national development strategies into practice. But, as with other tensions, the conflict between rich and poor countries does not prevent cooperation. As there are win-win games among workers, techno-

bureaucrats and business executives and entrepreneurs by means of increased productivity, there also are also well-known greater-than-zero-sum games in foreign trade: the problems is that since trade and more generally economic international relations remain strongly managed by national governments, negotiations are not easy and improbably even.

Conclusion

National development strategies therefore differ, depending on the development stage of the relevant country and on whether or not it faces imperial or hegemonic opposition from others. In an attempt at synthesis, I would say that, at the early development stages, the two main strategies countries adopt to develop are forced savings and protection of the infant industry; at later stages, a relatively depreciated foreign exchange rate and exports of manufactured goods.[#] In the meantime, the main ideological weapons brought to bear by hegemonic countries who attempt to neutralize such strategies are, first, the law of comparative foreign trade advantages, and, later on, the strategy of growth with foreign savings. The first hegemonic neutralization strategy is exhausted around the 1970s, when the law of comparative advantages had not only been duly criticized, but also, and mainly, developing countries had ignored it, achieved industrialization and become, in some cases, NICs (newly industrialized countries). At this point, the second hegemonic strategy — growth with foreign savings — becomes prevalent, but its practical rejection by dynamic Asian countries and the systematic criticism I have been offering indicate that it, too, is close to exhaustion.

Economic development is relatively self-sustained, inasmuch as firms, in an environment of rapid technological change, have no choice but to reinvest their profits. It is, however, perennially subject to crises, low growth rates and eventual long-term stoppages, as was the case in Latin America since 1980. It speed up at times, indicating the presence of a national development strategy; at others, it becomes semi-stagnant, because the previous strategy has become exhausted or been neutralized by competitors, particularly more powerful ones. The challenge each nation faces lies in overcoming these difficult phases, reestablishing agreements among classes, redefining the strategy and resuming development.

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