

# Developmental State and Economic Development: Prospects for Sub-Saharan Africa

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## Abstract

This paper will argue that the demonization of sub-Saharan African state proposed and enacted by neoliberal institutions during and since the era of structural adjustment has no historical foundations. In making this argument, the history of development thinking prior to and after World War II will be analyzed to show that the state was and continues to be instrumental in economic development. Finally, drawing on the contributions of heterodox development economists, prospects for re-integrating the sub-Saharan African state to bolster economic development will be assessed by drawing on the development experiences of East Asia's high performing economies.

**Keywords:** developmental state, history of development, sub-Saharan Africa

## 1. Introduction

Economic development as a bona fide field in economics was born after World War II (WWII). The focus of this new field was to broaden the understanding on the necessary steps needed to increase capital accumulation and the general well-being of war ravaged countries in Europe as well as Japan. The rise of newly independent countries particularly in Africa increased the importance of this new field. In the earliest literature on development, little emphasis was placed on how development in these countries had occurred in the past and what lessons that past held for the future. Defining the appropriate role of the state in development has been a central concern of policymakers since the beginning of capitalism. The rise of development economics after WWII made this more important as the debate on the role of the state has continued in earnest (Chang, 2003). Neoclassical economists contend vehemently that the state's role should be limited to nothing but a 'facilitator' or 'custodian' (Evans, 1995; Lin & Chang, 2009). Heterodox development economists argue strongly that the role of the state in development goes beyond the scope defined by neoclassical economists. They have challenged the literature on comparative advantage by drawing on the empirical evidence particularly from East Asia (Wade, 1990; Amsden, 1989, 2001; Evans, 1995; Fine, 2006; Chang, 2003; Lin & Chang, 2009; van Donge et al., 2012).

As the discord continues, some scholars have attempted to trace the history of development thought as well as the practice of development to help broaden our understanding of the interaction of the state in the business of development. These scholars have sought to not only provide a historically grounded account of development but also an alternative way of theorizing and understanding the process of development. In their work, they have shown that earlier scholars and practitioners of development (such as Rosenstein-Rodan & Hirschmann) focused on ways through which government-engineered growth could be achieved given the superiority of Keynesian economics (Note 1). The declining importance of Keynesianism and the rise of neoliberalism in the 1970s shifted the focus of scholarly and practical work in development towards market (in the neoclassical sense) inspired growth (Chang, 2003; Toye, 2003; Jomo & Reinert, 2005; Fine, 2006). Heterodox scholars have shown how the neoliberal agenda manifested in programs such as structural adjustment have failed to provide sustained economic growth and development. Further, they have documented how such programs have had deleterious effects for several nations in sub-Saharan Africa (SSA) (SAPRIN, 2004).

This paper is rooted in the heterodox tradition and aims to add the ongoing discussion on the role of the state in development particularly within the context of SSA. The paper will use a historical-comparative methodology to discuss the development experiences of now developed countries in Europe and East Asia. The goal of this

method is to highlight important characteristics of the state-development relationship from a historical perspective and identify their implication for countries in SSA. The analysis in this paper not only adds to continuing discussions but will provide a historical grounding for scholars and policymakers interested in the topic of the role of the state in the development of SSA. The remainder of the paper is organized as follows. The second section traces key themes in the development thought prior to WWII. The third section discusses the development state paradigm. The fourth section draws important parallels between development thought prior to WWII and the developmental state paradigm which developed in the midst of the East Asian development miracle. The last section concludes the paper and identifies lessons for development.

## 2. History of Development Thought

In thinking about development economics, 'what happened after WW II was only a separation (rather than a birth) of 'development economics' from the body of economics in general' (Szentes, 2002). Sen (1988) argued that the roots of development thinking and its entire tool of analysis can be traced back to William Petty. Goodacre (2005), further argued that Petty's experiences in and around the Cromwell period in Ireland qualify him as one of the foremost thinkers in development economics. A careful look at the classical development economics of Arthur Lewis, Albert Hirschmann and others show an astonishing continuity of thought since the mercantile period (Jomo & Reinert, 2005).

### 2.1 Mercantilist Thought on Economic Development

Mercantilism was dominant until Adam Smith sharply criticized its logic and usefulness in his *Wealth of Nations* (1776). In the mercantile period, government-created monopolies ruled, and the exchange of goods and services through international trade was important. The accumulation of bullion and a focus on exports rather than imports were essential to national wealth. The mercantile system was an import substitution system, the main goal of which was to create and sustain comparative advantages in areas of the economy where increasing returns to scale existed. Once comparative advantages were achieved, free trade was to follow (Porter, 1990; Reinert & Reinert, 2005b).

In the context of development, mercantilist thought pointed to three important facts about the development process. First, mercantilism involved setting national benchmarks. Second, it involved the identification of backward and forward linkages in and between various sectors of the economy. Development was activity-specific, and targeting those activities with the most connections to other sectors of the economy was important. Third mercantilist thought justified the protection of local industry on the grounds that it created employment, wealth and the capacity for the country to increase its accumulation.

#### 2.1.1 National Benchmarking

Benchmarking richer nations was a key feature of the mercantilist period. Using Spain and the Dutch Republic and accounts from mercantilists and scholars of mercantilism, Reinert and Reinert (2005b) showed that the Spanish economic failure and the success of the Dutch served as important benchmarks for England and other nations in Europe. Appropriate policy initiatives and actions from the Spanish and Dutch experiences were carefully studied for their adoption in England and elsewhere. Josiah Child, a former Governor of the British East India Company and a staunch advocate for mercantilism argued that the economic progress of the Dutch, presented a great opportunity for England. He noted that:

'The prodigious increase of the Netherlanders in their domestick and forreign trade, riches, and multitude of shipping, is the envy of the present, and may be the wonder of all future generations: and yet the means whereby they have thus advanced themselves, are sufficiently obvious, and in a great measure imitable by most other Nations, but more easily by us of this Kingdom of England... If we intend to have trade of the world, we must imitate the Dutch, who make the worst as well as the best of all manufactures that we may be in a capacity of serving all markets, and all humors' (1668[1959], p. 41; 1693, p. 90).

Child and many other mercantilist scholars realized that benchmarking successful nations with similar characteristics was an important piece to development.

#### 2.1.2 Activity-Specific Development and Backward and Forward Linkages

Mercantilist scholars recognized that some activities were more beneficial for capital accumulation and development than others. These scholars stressed the importance of identifying backward and forward linkages and noted that 'it was clear to most astute observers that the wealth of Holland rested on the synergic interdependence of manufacturing, long-distance trade and fisheries, where one factor gave strength to the other and vice versa' (Serra [1613], in Jomo & Reinert, 2005). Furthermore, 'starting in the 1700s, great emphasis was

put on the beneficial synergies between manufacturing and agriculture: only where there was manufacturing, was there successful agriculture' (Reinert & Reinert, 2005b).

### 2.1.3 Industrial Protection

Industrial protection in the mercantile system was context specific. Once government-granted monopolies were deemed necessary for development, they were aggressively pursued with the goal of creating comparative advantages. Once comparative advantages were gained, protectionist tendencies were abandoned and firms were allowed to participate in international trade. Protection and support particularly for the manufacturing sector were justified on the grounds of wealth and employment creation and the overriding goal of mercantilism was to align public and private vested interests in such a way to promote production in increasing return industries (Reinert & Reinert, 2005b).

## 2.2 Classical Political Economy and Development

### 2.2.1 Adam Smith, Mercantilism and Economic Development

Adam Smith is credited for his fierce attack on mercantilism (especially in his *Wealth of Nations*). However, a careful look at all of Smith's work presents a confused Adam Smith who is arguable at best 'a misunderstood mercantilist' (Reinert & Reinert, 2005b). Smith was a supporter of the Navigations Acts which were designed to protect English manufactures from the Dutch. He argued for the wisdom embedded in these Acts in spite of them being protectionist. Such support was inconsistent with his push for free markets domestically and internationally.

When *The Theory of Moral Sentiments* (1759) and the *Wealth of Nations* (1776) are taken together, Smith's view on development is riddled with contradictory positions. Smith wished for the United Kingdom to be as prosperous as Holland and thus pushed for different policies at different times to reflect that desire. In spite of his contradictory positions, Smith's message on the division of labor, capital accumulation and the role of the state in the economy have had tremendous implications for the conduct and practice of development. In the *Theory of Moral Sentiments*, Smith is an ardent supporter of the government particularly with regards to its role in adding and promoting new manufactures but in his critique of the mercantile system, he takes the position suggesting his rejection of the economic system being supported by that same government (Reinert & Reinert, 2005b; Peet & Hartwick, 2009).

### 2.2.2 David Ricardo

Ricardo's theory of comparative advantage underlay his push for free trade and reflected his thought on development. Using the example of two countries (England and Portugal) and two goods (cloth and wine), he demonstrated the advantages that would accrue to each country if they specialized in the production of those goods in which they had the lowest opportunity cost or comparative advantage. Growth and economic development come from Ricardo's system because any inefficiency particularly in the area of wasted time and effort in the production of goods in which a country does not have the lowest opportunity cost will be simply eliminated. Ricardo recognized that manufactures yielded more wealth than agriculture especially when marginal land was being brought under cultivation. In his chapter 'On Machinery' in the last edition of his *Principles of Political Economy and Taxation*, he noted that the incidence of machinery had the potential to increase the incidence of poverty while worsening the plight of the working class since the source of income for capitalist and workers differed (Note 2) (Ricardo, [1821]1973; Patnaik, 2005; Peet & Hartwick, 2009).

### 2.2.3 John S. Mill

John Stuart Mill's view on development can be seen from his writings *On Liberty* (1859), *Utilitarianism* (1863) and in his *Principles of Political Economy* (1909). Mill accepted Bentham's utility theory and agreed that the encroachment of the government on individual's rights to pursue their own happiness was never justified unless in the pursuit of an individuals' happiness, they harm others and pose a danger to civil society. The government was to be a minimalist government which guaranteed that individual rights will be protected at all cost.

In his *Principles of Political Economy*, Mill made one of his most important contributions to classical political economy. He argued that state intervention was necessary especially in the area of distribution. He recognized that such redistributive efforts had to be society-specific if they were to be effective. Furthermore, Mill's recognized the antagonism between workers and capitalists. He argued for an increased participation of workers in the accumulation process, improved child labor laws, increased education, worker ownership of factories and worker-capitalist partnerships. 'Mill was a radical liberal who believed that capitalism would eventually give way to cooperativism' (Peet & Hartwick, 2009). His contribution brought questions of ethics, general well-being and distribution of wealth to the fore. Mill would be more interested in the social indicators of development.

#### 2.2.4 A Note on Karl Marx

According to Patnaik (2005), Karl Marx was perhaps the first development economist because he not only studied development under capitalism but also the development of capitalism. Marx's thought on development emerges from the articles he wrote on British rule in India for the *New York Daily Tribune* in 1853 and later in his chapter on *The Modern Theory of Colonization* (Capital, Volume 1). In these writings, Marx pointed out that colonization was an extension of the arm of capitalist whose quest for surplus value had no boundaries. The draining of surplus from India was immense with little obligations on the part of England: As noted in Marx [1887]1974 in Patnaik, 2005:

'India alone has to pay £5 million in tribute for good government, interest and dividends on British capital, etc., not counting the sums sent home annually by officials as savings of their salaries or by English merchants as part of their profits in order to be invested in England' (p. 590).

Furthermore Marx in a letter to N. F. Danielson (on February 19<sup>th</sup>, 1881) described surplus drain from India as 'a bleeding process with a vengeance' (Habib, 1963 in Patnaik, 2005).

In spite of these harsh observations of Marx, he noticed that the process of development in India necessitated the provision of basic infrastructure such as roads and railways. He also noticed that in the process of transforming India into a viable raw material production center for English manufacturing firms, tremendous destruction and exploitation occurred. Traditional social systems such as the self-sufficient village community where agriculture and industry were intertwined were destroyed (Patnaik, 2005). Marx's perspective on development brings to the fore the negative aspects of the penetration of social formations distinct from capitalism by capitalist interests.

#### 2.3 Italian Origins of Development Thought

Development thought in Italy emerged in the 13<sup>th</sup> century with the realization that manufactures and industry enhanced national wealth at a much faster pace than agriculture. Italy holds a unique place in development thought because "of the four largest European cities in 1500, only Paris was not in Italy" (Vries, 1984). Also, other countries of Europe adopted the economic practices of the Italian city-states at various stages of their development (Wallerstein, 1974, 1980; Reinert, 2005a). The decline (Note 3) of Italy as an economic power and the movement of the country into the semi-periphery necessitated a search for new approaches to development (Cippola, 1970; Wallerstein, 1980).

Key features of the scholarly works directed at developing Italy are similar to the views of mercantilist scholars discussed earlier. Italian scholars knew that industry and manufacturing needed institutional support particularly from the government if they were to grow and become an important part of the economy. For example, the Duke served as the 'entrepreneur of last resort' in the silk industry of northern Italy since it was difficult for individuals to enter that industry (Reinert, 2005c). This is similar to the demiurge role advocated by Evans (1995).

Italian scholars contended that the engine of growth and development laid in the synergic relationships between industry, services and agriculture. Thus protecting industry and identifying these synergic relationships dominated the work and views of these scholars. Serra (1613 in Reinert, 2005c) noted that the growth of industry helped cities and urban areas by virtue of agglomeration economies:

'The number of manufactures also benefits the city, in which diverse causes produce a great gathering of people, not only because of the manufactures (which would then be the cause of it all), but insofar as the two causes reinforce one another: that is to say that the number of manufactures increases the desirability of the place, as well as the volume of urban traffic, while on the other hand the number of manufactures in turn is a product of the said traffic and gathering of people' (Serra, 1613, p. 18 in Reinert, 2005c).

Pietro Verri's axioms (Note 4) of development emphasized the need for industrial protection. He argued that the judicious use of tariffs was necessary if industrial capacity and comparative advantages were to be built up across Italy.

#### 2.4 German Origins of Development Economics

As a backward country in catch up mode, Germany and German thought on development holds important insights for many countries in SSA and around the world. The German economic tradition was born out of the occupations of its scholars, many of whom were involved in public service in various small states across Germany. This tradition shared the belief of the mercantilists and Italians that the state was an important facilitator of growth and development and occasionally needed to serve as an entrepreneur of last resort (Reinert,

1999). The main characteristics of the German tradition in economics as it relates to development thought can be summarized from the work of Dreschler (2004) and Reinert (2005a). They are:

- 1) *Erfahrungswissenschaft* (empirical science) and *Praxisnahe* (practical): actions and policies must be based on experience and must be close to reality. There is little to no room for metaphysical speculation and high abstraction (Note 5). History matters and the realization and understanding of the role of cumulative causation and context specific policies are important. Qualitative '*verstehen*' approaches to policy making are favoured and a non-mechanical understanding to the world is preferred (Dreschler, 2004).
- 2) *Strukturzusammenhänge* or structural coherence and interdependencies characterize the economic system and understanding such interdependencies is a key step in the development process.
- 3) *Gottesähnlichkeit*: there is embedded in man, entrepreneurship and creativity. Man is always thinking and finding new ways to match experiences with existing knowledge to create new things. From this conception, economic progress and harmony is man-made through hard work and commitment. 'Passivity' is more likely to create 'spontaneous disorder' than 'spontaneous order' (Reinert, 2005).
- 4) Technology, new knowledge and a focus on production are keys to economic growth and development. A focus on the production of high value manufactures was important.

The discussion of development thinking from the mercantilist to the Germans reveals three important facts. First, industry adds more to national output than agriculture and structural change is an important indicator of growth and development. Second, national benchmarking, industrial protection and the identification of important synergic relationships in an economy are fundamental to that economy's ability to grow and develop. Third, the state has a far more important role to play than is espoused in neoclassical theory. The state must act as an entrepreneur of last resort as in Italy and must facilitate the building up of comparative advantages as in England. Further, the state must be committed to and justify its legitimacy by its commitment to the development of its people as in the case of Germany.

### 3. Developmental State Paradigm

Chalmers Johnson is credited with establishing the developmental state as an additional conception of the state alongside the liberal and Stalinist perspectives (Cumings, 1999). Johnson (Note 6, 1982) argued that credit for the exceptional development of Japan after WWII should go to the tactful government policies dating back at least to the 1920s. He credited the work of Castells (1992) and Onis (1991) as advancing and refining the concept of the developmental state (Johnson, 1999). Onis (1991) added to the understanding of the concept with his summary of Johnson (1982), Deyo (1987), Amsden (1989) and Wade (1990). He provided a better understanding of the 'institutional and sociopolitical bases underlying the capacity of the East Asian states to implement effective and coherent development strategies' (p. 110). He concluded that 'the logic of developmental state rests precisely on the combination of bureaucratic autonomy with an unusual degree of public-private cooperation' (p. 115). Castells (1992) argued that 'a state is developmental when it establishes as its principle of legitimacy, its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and its relationship to the international economy' (p. 56).

As a concept, the developmental state has been described as anti-economics and passé (Hollerman, 1983; Yamamura, 1983; Beason & Weinstein, 1995). It has been accepted as different but non-altering of neoclassical economic theory. 'In large measure, the HPAEs [High Performing Asian Economies] achieved high growth by getting the basics right...In this sense there is little that is miraculous about...the superior record of growth' (World Bank, 1993; Lin & Chang, 2009 [particularly Lin describes the state as 'a facilitating state' and Chang stresses that the state's action go beyond the facilitating characteristic described]). And finally, it has served as an important framework for other scholars to further query the role of the state in economic development (Amsden, 1989; Wade, 1990; Evans, 1995; Stein, 1996; Chang, 1999; Reinert, 1999; 2005; Mkandawire, 2001; Kohli, 2004; Fine, 2006; Khan, 2007).

The work of the latter group of scholars has identified several important attributes of a state that make it developmental. First, a developmental state is consistent in its pursuit of developmental objectives and it is committed to those objectives. Failure in developmental objectives does not mean an abandoning of those objectives altogether. Secondly, the developmental state is an activist state. The state is not relegated to the role of an overseer. The state actively participates in the development process, often serving as an entrepreneur of last resort. The state goes beyond the minimalist state in neoclassical economic theory and development practice because it is not asocial. The developmental state evolves as the needs of the society in which it is embedded

change. Change is welcomed so long as it does not detract from the overall development objective of which the state is an active partner. Finally, the developmental state is well-staffed, risk-taking, socially legitimate and democratic within the individual national framework.

### 3.1 The Developmental State in East Asia

Apart from the obvious example of Japan's developmental state, accounts from Korea, Taiwan and other countries in the second tier of East Asia's newly industrializing economies also carry important sway. Amsden (1989) discussed South Korea's developmental state. In chapter 4 of her seminal work 'Asia's Next Giant', she made a case for the South Korean state as an entrepreneur of last resort and showed that even though the canons of conventional economic theory were violated by Korea, its economy was able to grow at astounding rates. Like Johnson, Amsden credited the judicious use of intervention from the Korean state for their economic transformation. As an example of government intervention, Amsden used the example of the creation of the Pohang Iron and Steel Company (POSCO) (Note 7). She showed that POSCO was instrumental in making Korea a world power in the production of steel and steel products all of which helped the country's automotive and shipbuilding industries. Amsden noted that the strength of the Korean bureaucracy allowed for excellent relationships to be established between the state and industry (*chaebols*). Further, the bureaucracy was staffed with the brightest students from the top universities across the country. According to Castells (1992) East Asian developmental states succeeded because of their ability to construct an efficient and technocratic state apparatus. He stressed that 'the fundamental element in the ability of developmental states to fulfill their project [of development] was their political capacity to impose and internalize their logic on societies' (p. 64). Thus the ability to control state-society relationships was essential to success in these nations.

Wade (1990) discussed the central role of the Kuomintang government in the economic transformation of Taiwan. He showed that Taiwanese institutions like the Council on Economic Planning and Development (CEPD) and the Industrial Development Bureau (IDB), acted like Japan's MITI. Bureaucrats, planners, engineers and technicians from the top universities in Taiwan formed the staff at these institutions. The main objective of the CEPD and IDB was to ensure that public and private sector activity was in accordance with national development plans. He showed that state-owned enterprises (SOE's) were used at a great extent but not to the detriment of private sector activity. As in Korea, SOE's were instruments of industrial and economic development. Wade added that strategic interventions in increasing return sectors and the ability of the state to *govern* (Note 8) the market created the atmosphere for rapid accumulation and development.

As a response to the rising tide of literature on the role of the state in the economic transformation of East Asia, the World Bank published its famous *East Asian Miracle: Economic Growth and Public Policy* in 1993. The treatise accepted the role of the state in the economic transformation of first and second tier East Asian economies but argued that this role had been overemphasized in some circles. The report argued further that if East Asian states had not intervened as much as they did, development in the region would have been even faster especially since they had the basics right; a claim vehemently opposed by Evans (1995), Stein (1996), Fine and Jomo KS (2005) and Chang (2003, 2007 and others).

Evans (1995) critically assessed the neo-utilitarian view of the state accepted by mainstream economists. He argued that this model was simplistic, asocial and insufficient in explaining the dealings of the state in the process of economic transformation especially in East Asia and suggested that a newer model based on the insights of economists like Polanyi, Gerschenkron and Hirschmann was needed. He suggested a comparative institutional approach and introduced the concept of embedded autonomy:

'What the comparative institutional tradition offers is a spelling out of some roles that the state might be called on to fulfill if the process of economic transformation is to move forward, and some suggestions as to what kind of institutional characteristics might be necessary for the state to have a chance at playing these roles' (Evans, 1995)

Evans identified four important roles that the state might be called on to fulfill within this comparative institutional approach. These roles were custodial, demiurge, midwife and husbandry. As a custodian, the state serves as a regulator and provides caretaking in the sense of protection and policing. The neoclassical 'minimalist state plays the custodial role' (p. 78). In the demiurge role, the state becomes directly involved in the production activities. The states' involvement may be complementary to private enterprise although it is often a complete replacement for private enterprise. 'Playing demiurge implies strong assumptions about the inadequacy of private capital' and 'SOE's are the concrete embodiments of demiurge' (p. 79). As Amsden (1989) showed with the example of POSCO, the role of demiurge was particularly important in Korea. Rather than playing the role of demiurge, Evans argues that the state can assist entrepreneurs in risk taking. The state can achieve this

by guaranteeing credit and by helping reduce the uncertainty that surrounds the activity. Wade (1990) and Brautigam (1996) presented several examples of the careful use of credit by the Taiwanese state to promote private sector entrepreneurial activity. This role of the state is referred to as midwifery by Evans (1995). The fourth role is husbandry. This role involves cultivating, nurturing and prodding those entrepreneurial activities that have been awakened by the 'midwife' state. Husbandry is a more refined midwifery role. Midwife involves drawing entrepreneurs into particular sectors, and the role of husband takes those entrepreneurs further to make them successful. Husbandry is less demanding than midwifery because it represents more of a public-private initiative but it is more difficult because of the risk of vested interests capturing the state (pp. 80-81).

Evans (1995) argued that the ability of states' to effectively execute their roles depended on the 'embedded autonomy' they had. Embedded 'implies a concrete set of connections that link the state intimately and aggressively to particular social groups to whom the state shares a joint project of transformation' (p. 59). Autonomy refers to the states' ability to 'provide institutionalized channels for the continual negotiation and renegotiation of goals and policies' (p. 59). Thus embedded autonomy requires strong state-society relationships, a strong commitment to developmental goals and a strong and efficient bureaucracy with the ability to execute those goals. To further explain his concept, Evans discussed three different states: predatory, developmental and intermediate. The predatory state 'preys on its citizenry, terrorizing them, despoiling their common patrimony, and providing little in the way of services in return' (p. 45). The predatory state is a strong state, but lacks the bureaucracy necessary for it to execute its roles. The predatory state is also autonomous if we define autonomy as the ability simply do whatever it wants, however, this autonomy is not embedded because it is not shaped by societal forces. Evans noted that neoclassical economists often lump all states in with the predatory state and unfairly judge the state's capacities as was effectively done across SSA during the structural adjustment programs.

In the developmental state, 'individual maximization must take place via conformity to bureaucratic rules rather than via exploitation of individual opportunities presented by the invisible hand' (p. 49). The developmental state has a strong and efficient bureaucracy that allows for exceptional delivery of services that engender, support and sustain private sector ingenuity to meet overarching developmental goals. Further, the developmental state has the highest level of embedded autonomy. Finally, the intermediate state lies between the predatory and the developmental states. Embedded autonomy in this state is stronger than the predatory state but less than the developmental state. 'Imbalance could take the form of either excessive clientelism or an inability to construct joint projects with potential industrial elites' and 'joint projects may be possible in certain sectors or certain periods but degenerate into clientelism or isolated autonomy in other sectors or other periods' (p. 60). Thus in the intermediate state there is incoherence and inconsistency of policies.

The policy spaces of the predatory, developmental and intermediate states vary by the intersection of 'embedded' and 'autonomy'. The greater the intersection, the closer that state is to fulfilling its roles and achieving developmental state status. In predatory states, there is a disjoint between 'embedded' and 'autonomy' such that none of the state's roles are executed. In intermediate state, some of the functions are executed but with limited success and finally in developmental states, all of the state's roles are implemented.

### 3.2 *Glimmers of Hope: Achieving the Developmental State in SSA*

Mkandawire (2001), Ikpe (2008), UNCTAD (2007) and UNECA (2011) have advanced knowledge on developmental states in Africa and called for a serious consideration and adoption of the concept of developmental state. Mkandawire (2001), sought to clarify the characteristics of the developmental state and ponder on its possibility in SSA. He noted that the developmental state should 'not be deified into some kind of omnipotent and omniscient leviathan that always gets what it wants' (p. 291). He stressed the importance of the social engineering process that creates developmental states and dispelled attacks by neoclassical theorists that the call for developmental state theory was a call to dirigisme. Mkandawire presented convincing arguments on the possibility of democratic developmental states in SSA. He pointed to the fact that during the 1960s, SSA had states that were developmental in their aspirations as well as in their economic performance. He argued that developmental states were consistent with democracy and democratic developmental states such as Botswana and Mauritius pointed to their possibility in SSA (Note 9).

Ikpe (2008) asserted that the developmental state paradigm continues to be a powerful tool in explaining structural change in developing countries even in the era of globalization (which pushes for a greater role of the market over the state). She noted that dynamism has characterized the developmental state especially in the era of globalization. Ikpe takes the discussion further by engaging the issue of the developmental state and agriculture by arguing that the successes of developmental states were heavily based on the ability of their states

to channel surplus generated in the agricultural sector into the industrial sector. Drawing on the insights of Clute (1982), Akyuz et al. (1998) and Francks et al. (1999), Ikpe (2008) argued that agricultural development is very important to the developmental state's ability to implement industrial policy and achieve structural transformation in SSA.

UNCTAD (2007; chapters 3 and 4) and UNECA (2011; chapters 4 and 5) strongly advocated for the developmental state and a reclamation of policy space in Africa. The argument was made that the demonization of the African state during the neoliberal era was unfounded. These publications stressed that developmental states in SSA will require a complete redefinition of the state in several sectors of economies in the region. Like Mkandawire (2001), these reports stress that the call for an increased role of the state is not a call to dirigisme and a signal for the alienation of private enterprise. Rather it is a request to shift the discussion towards one in which private enterprise and markets are one of the tools to development but not the only tool. These publications represent an important glimmer of hope for SSA. These documents point to the changing attitudes at the policy levels that there is a shift towards embracing the state back into the discussion of economic development. Furthermore, it is verdict on the neoclassical inspired market oriented policies that have devastated many countries in SSA and show that there is recognition among important institutions that the state is not an enemy to development but rather a potential entrepreneur of last resort and an agent of positive social change.

#### **4. History of Development Thought and the Developmental State Paradigm**

The discussion above thus far points to important similarities from the history of development thought and the developmental state. First, the state is and can be a catalyst for development. The state can in fact serve as an entrepreneur of last resort. Second, strong-state society relationships and embedded autonomy are crucial for development. Third, effective bureaucracies are necessary for development. Fourth, agricultural development and industrial transformation must occur together. Fifth, in light of current international conditions, democratic developmental states must be pursued and economic development in SSA will be premised on the ability to 'create new ladders' of development as old ones have been kicked away. Chang (2003) argued that Friedrich List's *Kicking Away the Ladder* is what characterized the development experience of now industrialized countries. That is violating laws of free trade were used at various stages in the development of the UK, US and many other European countries however, in the aftermath of their development, a push for free trade and free markets is pursued to maintain and continue their existence as dominant economic powers. Thus after climbing the ladder towards growth and development, these countries kicked away the ladder to prevent others from climbing. The point of relevance here is that international conditions of trade and labor were violated by many countries and the experience of East Asia was no different. In fact Amsden (1989) noted that, 'getting prices wrong' and in general getting the precepts of conventional economic theory wrong was what led to the rapid industrialization of South Korea.

Grabel and Chang (2004) and Ikpe (2008) showed that current international conditions imposed by the World Trade Organization and others made it difficult for countries to pursue certain initiatives. They argued that this limitation does not make it impossible to pursue other avenues since ways to circumvent stringent international conditions exist. For example, Kearney (1990) and Meisenhelder (1997) showed that in the case of Mauritius, bilateral agreements with European countries for the export of sugar and sugar products, aided in the structural transformation of the island nation. They showed that Mauritius secured preferred status for its sugar and through time increased capacity for sugar processing, thereby replacing the export of crude sugar with processed sugar and a reliance on raw material production with manufacturing.

#### **5. Conclusions: Re-integrating the State in the Development Process in SSA**

The political and economic problems facing SSA are well documented. The region has the greatest number of fragile and failed states and many of the countries in the region are among the poorest in world. Historically, these challenges have created the notion that government failure is at the heart of the demise SSA. This notion fueled the introduction and subsequent implementation of structural adjustment programs across SSA. One of the key tenets of structural adjustment was limiting the role of the state and enhancing the role of the market by touting the ability of the latter to resolve all problems regarding growth and development. As has been argued in this paper, the notion that the state has very limited roles to play in economic development is unsubstantiated by the historical evidence from all now developed countries. In fact in the history of development in SSA, the fastest rates of economic growth and development were achieved in the period soon after independence where there was relatively more state involvement (Akyuz & Gore, 2001). States in SSA have exhibited traits in the past that would qualify them as developmental states. For example during the first decade of independence in Ghana, significant development projects such as the construction of the Akosombo hydroelectric power dam

were completed to facilitate industrial upgrading. Mkandawire (2001) also cites Botswana and Mauritius as examples of states in SSA that have pursued and achieved various developmental objectives. Instead of demonizing the state as was the case particularly starting in the early 1980s, policy initiatives should seek to refine the state in ways that allow it to execute its developmental functions while becoming a stronger partner of the private sector (UNCTAD, 2007; UNECA, 2011).

A new approach to development in SSA must embrace the elements from Wade (Note 10, 1990) and other heterodox development economists such as Amsden (1989, 2001). This approach must draw on important lessons from the East Asian experience. Lessons from this part of the world are important because that region has been the fastest growing region of the world in the last five decades. Also, many of the countries in East Asia had similar conditions to countries in SSA five decades ago (for example Ghana and Malaysia) and thus comparative analysis of development experience can yield valuable lessons. Below are some of the important lessons from Wade (1990) that many countries in SSA can adopt, adapt and implement where possible:

- 1) Use national policies to promote industrial investment within the national boundaries, and to channel more of this investment into industries whose growth is important for the economy's future growth for example agro-processing.
- 2) Use protection to help create an internationally competitive set of industries.
- 3) If the wider strategy calls for heavy reliance on trade, give high priority to export promotion policies.
- 4) Welcome multinational companies, but direct their sales toward exports and their inputs purchases towards local suppliers to facilitate local learning and production of high technology processes.
- 5) Promote a bank-based financial system under close government control.
- 6) Carry out trade and financial liberalization gradually, in line with a certain sequence of steps such that local access to credit is not compromised.
- 7) Establish pilot agencies or economic general staffs within the central bureaucracy whose policy heartland is the industrial and trade profile of the economy and its future growth path.
- 8) Develop effective institutions of political authority.
- 9) Develop corporatist institutions.
- 10) Make piecemeal reforms even in soft states so as create an institutional configuration better able to support a modest industrial policy.

The adoption of the above lessons depends on the commitment of the various nations and the manner in which the democratic process will be allowed to support the creation of states that pursue broad-based development objectives. Simply put, the role of democracy cannot be short-changed (Mkandawire, 2001; Nega, 2011). SSA countries such as Ghana and South Africa have tremendous potential to achieve democratic developmental states given their histories.

The applicability of the developmental state concept for SSA is an important issue that affects whether or not SSA can in fact replicate the lessons from East Asia. As Mkandawire (2001), Chang (2003), Ezema and Ogujiuba (2012) have all discussed, the notion that the experience of East Asia cannot be replicated because of country-specific institutions assumes that institutions are immutable and that countries such as Malaysia and South Korea somehow invented their own policies rather than adopt, adapt and implement policies from neighbors such as Japan. Malaysia's entire look east policy was based on replicating lessons from South Korea and Japan and South Korea's industrial upgrading was based on lessons from Japan. Many of Japan's policies were based on lessons learned from Europe and America.

The history of development points to the fact that an important part of development is state action. State action in industrial upgrading, employment generation, asset creation and redistribution and of course the protection of civil liberties is necessary if SSA is to escape the doldrums of underdevelopment. In Ghana, state action in areas such as youth employment and industrial upgrading through the National Youth Employment Programme and Presidents' Special Initiatives are steps in the right direction however, to become a developmental state, more of such action is needed in other areas of the economy.

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## Notes

Note 1. Simon Kuznets (1971) and others attempted to provide a detailed account of past development patterns, however, their efforts were not the main focus of the newly found field in economics. The dominant theoretical force in the post WWII era was Keynesianism given its triumphs during the Great Depression. Given that Keynesianism was blowing through the air, most of the early theories of economic development were heavily influenced by the contributions of John. M. Keynes (see Toye, 003).

Note 2. If workers and capitalists are rewarded from different sources and income inequality is likely, then there is room for the state to attempt to resolve some of these income discrepancies. One could take it further and argue that the state will be needed to protect society from the accumulation process that has improved its situation but yet threatens its very existence as Karl Polanyi did in his 'A Great Transformation'. It is important to note that serious critiques of Ricardo's comparative advantage and variants of it (like the Heckscher-Ohlin model) have rendered it a contentious theory. The model 'contains a logical fallacy when used to argue that mutual benefit necessarily results from trade', because it 'assumes that both goods can be produced in both countries' (Patnaik, 2005).

Note 3. The decline was so severe and represented more than a 50% decline in the industrial activity in cities like Venice, Como, Milan, Genoa, Cremona, Florence and many others. For example in 'Milan at the beginning of the seventeenth century there were between sixty and seventy firms making woolen cloths, with an overall output averaging 15,000 cloths a year. By 1709 there was but a single firm with an average annual production of around 100 cloths' (Cipolla, 1970, p.197). The decline in industrial activity in Italy coincided with the rise of Dutch, English and French economies and a movement of the core from Italy farther west.

Note 4. On manufactured goods, Verri argued that tariffs on exported manufactured goods were bad for commerce and tariffs on imported manufactured goods were good for commerce. On raw materials he argued that tariffs on imported raw materials needed for domestic industry were bad for commerce while tariffs on exported raw materials needed for domestic industry were good (Verri [1764]1998 in Reinert, 2005c, pp. 38-39).

Note 5. Ricardo's work was criticized as being highly abstract and full of metaphysical speculation (Reinert, E 2005).

Note 6. His 'MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975' was the seminal work in developmental state theory. He also coined the term developmental state to refer to those policies of the Japanese state that led to its rapid industrialization and economic development.

Note 7. In the 1970s and 80s, POSCO became one of the largest producers of steel products in the world and surpassed all of the steel producers in the US. POSCO was also efficient haven't benchmarked and borrowed production technologies from Nippon Steel in Japan. Further, POSCO was able to capture over half of the market share for imported steel from Japan. The Kwangyang Steel plant also made tremendous strides in making Korean one of the world's leading producers of steel products. See Amsden 1989 (pp. 295-297). Kwan S. Kim (1995) argued that Korea's development success was brought forth by a neo-mercantilist model which was characterized by a series of government interventions which go beyond the minimalist advocated by neoclassical and market-oriented economists.

Note 8. Wade (1990) argued that the Taiwanese state was involved in a variety of sectors and its ability to 'filter out' unnecessary investments ensured that the developmental focus was always intact and those private sector activities were governed in such a way as to maximize the social benefit. The bureaucracy was crucial and an apt civil service was essential to the execution and success of the governments' initiatives.

Note 9. Using Botswana and the island nation of Mauritius as examples, Mkandawire presented evidence on the growth rate of real GDP in SSA and East Asia to show the superior performance of many countries in SSA.

Note 10. Wade (1990) focused his analysis on the economic transformation of Taiwan and argued that the ability of the Taiwanese state to 'govern the market' was instrumental in their economic development.