Ministry of Science and Higher Education

POLITICAL ECONOMY OF DEVELOPMENT

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Chapter One: A General Overview On Political Economy of Development

1.1. The Notion of Development

How do you define development? Is it synonymous with the terms like progress and modernization? (Use the space below to write your response.)

The term development has gone through a very long process and evolution before acquiring its present meaning and connotation. Different scholars, writers and politicians have been using the term to denote ideas or intentions that seemed right for them. Because the term development may be different thing to different people, it is important to have some working definitions or core perspectives on its meaning.

Undoubtedly speaking, the word ‘development’ is one of the most commonly and frequently used concepts in your daily life. Despite this, there are mis-conceptions and differences in meaning attached to it. It is a complex concept because the term development may mean different things to different people. Scholars in the field believe that, definitions of development reflect the current values of those making the definition. This means that, with the passage of time, the given definition necessarily changes.

In strict economic terms, development has traditionally meant the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its *Gross national product (GNP*) at rates of perhaps **5% to 7% or more**. A common alternative economic index of development has been the use of rates of growth of income per capita or per capita GNP to take in to account the ability of a nation to expand it output at a rate faster than the growth rate of its population. Levels and rates of growth of real per capita GNP (Monetary growth of GNP per capita minus the rate of inflation) are normally used to measure the overall economic well-being of a population-how much of real goods and services is available to the average citizen for consumption and investment.

Economic development in the past has also been typically seen in terms of the planned alteration of the structure of production and employment so that agriculture’s share of both declines and that of the manufacturing and service industries increases. Development strategies have therefore usually focused on rapid industrialization, often at the expense of agriculture and rural development. Prior to the 1970s at least, development was nearly always seen as an economic phenomenon in which rapid gains in overall and per capita GNP growth would either ‘’ Trickle down’’ to the masses in the form of jobs and other economic opportunities or create the necessary conditions for the wider distribution of the economic and social benefits of growth. Problems of poverty, discrimination, unemployment, and income distributition were of secondary importance to ‘’ getting the growth job done.’’

The experience of the 1950’s and 1960’s, when many developing nations did realize their economic growth-targets but the level of living of the masses of people remained for the most part unchanged, signaled that something was very wrong with this narrow definition of development. An increasing number of economists and policy makers clamored for the ‘’ dethronement of GNP’’ and the elevation of direct attacks on widespread absolute poverty, increasingly inequitable income distributions, and rising unemployment. In short, during the 1970’s, economic development came to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy. ‘’ Redistribution from growth’’ became a common slogan.

Development is not purely an economic phenomenon but rather a multi-dimensional process involving reorganization and reorientation of entire economic and social system. Development is process of improving the quality of all.

According to Giarry Jacob, development is an upward movement of society from lesser to greater levels of energy, efficiency, quality, productivity, complexity, comprehensiveness, creativity, master, employment and accomplishment.

In common understanding, development is the process by which members of a society increase their personal and institutional capacities to bring improvements in their life through efficient mobilization and management of resources. It is mostly explained in terms of economic and social development.

Economic development is a necessary condition for the improvement in the quality of life. Without sustained and continuous economic progress at the individual as well as societal level, the actualization of human potential would not be possible. Rising per capita income and lessening income inequalities constitute necessary conditions for development.

Development as Economic Growth- too often commodity output as opposed to people is emphasized-measures of growth in GNP.

Development as Modernization- emphasizes process of social change which is required to produce economic advancement; examines changes in social, psychological and political processes;

- How to develop wealth oriented behavior and values in individuals; profit seeking rather than subsistence and self sufficiency.

- Shift from commodity to human approach with investment in education and skill training.

Development as Distributive Justice- view development as improving basic needs

- Interest in social justice which has raised three issues:

1. Nature of goods and services provided by governments
2. Matter of access of these public goods to different social classes
3. How burden of development can be shared among these classes

Target groups include small farmers, landless, urban under-employed and unemployed.

Social development: is enhancing human capabilities for enlarging human choices. The social development (Human development index) measures a country's combined achievement in life expectancy, education, literacy and basic income.

Paul Street (1992) maps social development (human development) as a three dimensional process. These are:

- ***social service***(health, education) and ***social transfer*** (social security, safety nets);
- ***economic access and productive return*** (livelihood generations and remunerative employment) and
- ***social integrations*** (peace, absence of violence)

Social development is holistic- encompassing the physical and psychological well-being, a healthy polity and harmonious social relations- not simply because of the abundance of material goods.

Development must, therefore, be conceived of a multidimensional process involving major changes in population attitude at national level. In addition to this, it involves acceleration of economic growth, eradication of inequality and poverty. Development in its essence must represent the whole aspect of changes by which an entire social system achieves the diverse basic needs and desires of individuals and social groups within that system moved away from a condition of life widely perceived as unsatisfactory towards a situation of life regarded as materially and spiritually better.

In short, development is improvement in human welfare, quality of life, social well being and satisfying the needs and wants of the population.

1.2 The three objectives of development

Whatever the specific components of this better life, development in all societies must have at least the following three objectives:

- To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection.

- To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.

- To expand the range of economic social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation states but also to the forces of ignorance and human misery.

1.3 Three Core values of development

Sustenance: The ability to meet basic needs

All people have certain basic needs without which life would e impossible. These life-sustaining basic human needs include food, shelter, health, and protection. When any of these is absent or in critically short supply, a condition of absolute underdevelopment exists. A basic function of all economic activity, therefore, is to provide as many people as possible with the means of overcoming the helplessness and misery arising from a lack of food, shelter, health, and protection.

Self-Esteem: To be a person

It is sense of worth and self respect, of not being used as a tool by others for their own ends. All peoples and societies seek some basic form of self esteem, although they may call it authenticity, identity, dignity, respect, honor, or recognition. The nature and form of this self-esteem may vary from society to society and from culture to culture.

Freedom from servitude: To be able to choose

It is related to the concept of human freedom. It is to be understood in the sense of emancipation from alienating material conditions of life and from social servitude to nature, ignorance, other people, misery, institutions, and dogmatic beliefs, especially that one's poverty is one's predestination. The concept of human freedom should also encompass various components of political freedom including, but not limited to, personal security, the rule of law, freedom of expression, political participation, and equality of opportunity.

1.4. Dimensions of Development

We have said earlier that development is a multi-dimensional process, thus its scope is very broad. It ranges from economic, political to sociocultural. It also includes factors like national infrastructure, technology, transportation systems, information communications and technology, and military preparedness.

Economic Development: This is a dimension that readily comes to mind whenever development is mentioned. This is because of the primacy of the economy in shaping other sectors of human society. The economy is the foundation of a society, and if it is strong, it will have positive impact on the political system which is the super-structure.

However, if the economy is weak, it will have inimical effects on the political system. In fact, it is the economic system that produces the resources to be allocated. And if the resources are not produced in the first place, there will be nothing to allocate.

Economic development entails increase in the wealth of a nation through expanded production of goods and services. It includes the rise in agricultural production, manufacturing and construction as a result of the introduction of better skills, techniques and technology. Also, it includes, but not limited to increase in GDP, rise in exports, job and wealth creation, high per capita income cum high standard of living.

Political Development: This aspect of development is also very important. Politics is not only central to the making of development, but also vital to its sustenance. Political development is attained when a political system is able to enjoy popular legitimacy, articulate and aggregate public interests, authoritatively allocate resources as well as maintain law and order through strong and functional institutions. In the opinion of Lucian Pye, equality, capacity and differentiation are the three important features of political development. Gabriel Almond described political development as the capacity of the political system to effectively perform rule-making, rule adjudication and rule application functions. A society is said to have political development if there is accountability and transparency in political leadership, respect of the rule of law, constitutionalism, and periodic free, fair and credible elections or selection process as well as political stability.

Most importantly, political development entails strong institutions that have legitimate authority to guarantee equilibrium in the system through proper management of identity crisis, political participation crisis, distribution of resources crisis and national integration. It involves optimum performance of the institutions of state such as the legislature, the executive, the judiciary, the police, the military, etc.

Socio-Cultural Development: This is another essential dimension of development. It entails improvement in social infrastructure. Regular supply of power, potable water, good road networks, functional and quality schools, sound communication network, good health care system and adequate security, are some of the characteristics of social development.

Also, human capital falls under socio-cultural development. This entails optimal harnessing of human potentials which translate to increased human knowledge and skills. Human capital is very vital because without it neither economic nor political development is possible. Lack of development in the Third world has been largely attributed to the dearth of human capital. In a knowledge economy where ideas and skills are necessary catalysts, human capital is inevitable. It is the fulcrum of societal development.

Moreover, socio-cultural development involves the evolution of national norms, values and identity. All these are pre-requisite for nationbuilding and national integration which are in turn necessary for total societal development.

1.5 Meaning and concepts of sustainable development

The concept of sustainable development is of recent origin, perhaps not older than a couple of decades or so, which sees the survival, continued progress, and maintenance of the human community as dependent on the continued health and viability of the earth's life support systems. The term "sustainability'' derives from the Latin root sus-tinere, which means to "under-hold" or hold up from underneath. Accordingly, sustainability depicts a paradigm that seeks to protect the planet's life support system to endure longevity for humans and other species.

Most definitions of the terms 'sustainability and sustainable development' center on the relationship between human beings and the resources they depend on for all their developmental activities.

Although there are many definitions, sustainable development refers to a development, which meets the needs of the present generation without compromising the needs of future generation to meet their own needs. It can be also defined as the strategic processes of changes in our social systems and institutions needed in order to achieve sustainability. For economists, a development path is sustainable "if and only if the stock of overall capital assets remains constant or rises over time. It is a continuous and thought provoking concept. To respond to the challenge of finding ways in which all members of the human family can live satisfying life's within the means of nature, would require collaborative efforts from a multiplicity of talents: thinkers about society, scientists and practitioners, business leaders, farmers, governments and citizens.

Sustainable development is concerned with the development of a society where the costs of development are not transferred to future generations, or at least an attempt is made to compensate such costs. Sustainable development, sustainable growth, and sustainable use have been used interchangeably, as if their meanings were the same. But, they are not the same. Sustainable growth is a contradiction in terms: nothing physical can grow indefinitely. Similarly, sustainable use is only applicable to renewable resources. Whereas sustainable development is used in this strategy to mean: improving the quality of human life whilst living within the carrying capacity of the ecosystem.

The followings are the causes for the emergence of sustainable development:

The fundamental premise that underpins the concept of sustainable development is that the peoples of the world depend for their survival on an ecological system that is both global and finite. Therefore, observing nature's limits is important in order to prevent an irreversible depletion of the life support systems. Until recently the concept of the earth as a finite system was not easy to understand and convey, for the earth and had always seemed so vast and limitless.

- Future growth and quality of life are critically dependent on the quality of the environment.
- The natural resource base of a country and the quality of its air, water and land represents a common heritage for all generations.
- Destroying endowments indiscriminately in the pursuit of short-term economic goals penalizes both present and especially future generations. In this regard, policy makers should incorporate some form of environmental accounting.

The advent of space travel brought a new awareness. Margaret Mead asserted that the first image of the earth as a small lonely blue ball in space, looking "vulnerable and needing protection from the ravages of the technological man'' provided impetus for the environmental movement. Canadian astronauts noted the rising smoke from the burning of the Amazon forest, and others the high-energy use portions of the earth's surface literally glowing at night. All these images have given new visual meaning to the metaphor "spaceship earth," which was coined by Kenneth Boulding in the 1950's.

The significance of Sustainable development

Sustainable development is about how to mobilize successfully international, national, community, and human intellectual resources in general, towards solving problems that are overall degrading the life support system, compromising the viability of local communities, and hunting the health and well-being of individuals. It is about creating a better alternative to the system at work, because, based on our present understanding, the business as usual scenario will bring great disasters to humankind, and is not sustainable.

The sustainable development premise revolutionizes the traditional view of sustainable development management, which sees the dynamics of society consisting of the interaction and transaction of spheres: economic sustainable development, social, and so on. And accordingly, sustainable development management is about making advances within the sustainable development sector (for instance pollution monitoring and mitigation technologies) and in areas where the sustainable development interest is seen as overlapping with other sectoral priorities (for example, employment in resource extraction and processing industry; new housing in suburbs).

Mechanisms to achieve sustainable development

To achieve sustainability, society needs to stop putting knowledge into separate compartments (silos or stovepipes), acting on the mistaken premise that issues can be dealt with discretely. It has to overcome the myopia of over-specialization, and look at the world as one planet, with an integrated set of systems, where “every thing is connected to everything else.’’ In this regard again, in the words of Brundtland Commission:

> The earth is one but the world is not. We all depend on one biosphere for sustaining our lives. Yet each community, each country, strives for survival and prosperity with little regard for its impact on others. Some consume the Earth’s resources at a rate that would leave little for future generations. Others, many more in numbers, consume far too little and live with the prospect of hunger, squalor, disease, and early dead.

The shift of paradigm from present practices to holistic thinking ad strategic actions that link immediate to long-term needs and priorities depends on the successful mobilization of community and human intellectual resources. The transformation depends on aboard base of trust and cooperation. Community solidarity rests upon some basic conditions of human dignity and social cohesion. The challenge, therefore, is to bring all sectors of society (government, business, farming and agriculture, the civil society) into some kind of basic agreement on values and concerns, a new perspective based on a common understanding of sustainability challenges and opportunities. This will facilitate the sharing of resources that is important for the making of wise decisions by countries, communities and individuals in facing the daunting task of “bending the curve’’ toward sustainability.

1..6 Economic growth and development

1 .6.1 Concept of economic growth

Economic growth is the increase in the value of the goods and services produced by an economy. It is conventionally measured as the percent rate of increase in real gross domestic product, or GDP. Growth is usually calculated in real terms, i.e. inflation-adjusted in terms, in order to net out the effect of inflation on the price of the goods and services produced. In economics, “economic growth’’ or ‘’ economic growth history’’ typically refers to growth of potential output, i.e., production at ‘’ full employment,’’ which is caused by growth in aggregate demand or observed output.

As economic growth is measured as annual percent change of national income it has all the advantages and drawbacks of that level variable. But people tend to attach a particular value to the annual percentage change, perhaps since it tells them what happens to their paycheck.

- **What is the difference between Economic growth and development?**

The word ‘development’ signifies changes that are permanent. It is true that actual growth can sometimes lead to a ‘ratchet’ effect, where a country permanently achieves a higher level of

welfare than it had previously. However, it is quite possible for actual growth to be short lived: during war, for example, a country might achieve remarkably high growth rates: but the physical output is immediately turned to dust as bombs and missiles are exploded, and at the end of this growth period the country as a whole could well be worse off than before.
The word 'development' implies that growth in one sector has substantial effects on other sectors as well. As far as potential growth is concerned however, a country's productive capacity might be expanded by growth in just a single sector: An oil producing country which expands its oil-related industries and discovers new reserves will experience potential growth.

Economic growth, whether actual or potential, is a concept that centers on 'quantity', whereas *development also considers quality. Growth* takes place when there is an increase in the per capita income or output of a country; *development* occurs when the cost of growth is minimized, and when the benefits of growth are distributed among the whole population. Development cannot be said to have taken place unless there have been improvements in the quality of life; improvements such as better living conditions, health care, improved diets, increased literacy and lower infant mortality rates. Cultural, recreational, and social amenities are also widely regarded as essential components of the quality of life. This implies that economic growth could take place without any economic development. An example is provided by those oil-exporting countries, which experienced sharp increases in national income but saw hardly any changes in their economic structure.

Many development economists would today agree that in the past too much attention has been paid to economic growth, and not enough attention has been paid to the reasons for encouraging development: Reducing poverty, increasing life expectancy, improving health, allowing people the freedom to take part in the decision making, feeding the people.

What are the critiques on equating development with economic growth?

In the 1960s scholars identified development with economic growth came under increasing criticism. They came to the conclusion that development involves more than economic growth and changes in economic structures. It was formulated three additional requirements for the use of the term development, namely that there should be a decrease in poverty and malnutrition, that income inequality should decline, and that the employment situation should improve. Other critics went even further and challenged the too narrow focus on the economic dimensions of development alone. A country can grow rapidly, but still do badly in terms of literacy, health, life expectancy and nutrition. The environmental costs of growth are insufficiently recognized. Economic growth does not necessarily make people more happy or satisfied. Criticism of growth fetishism led to the emergence of so-called 'social indicators': Life expectancy, literacy, levels of education, infant mortality, availability of telephones, hospital beds, licensed doctors, availability of calories, and so forth. Some authors even went so far as to posit an opposition between growth and development. Sri Lanka or the Indian state of Kerala, where growth was not very rapid but welfare facilities and the level of education were improving. When we compare this with countries like Brazil where extremely rapid growth had hardily affected poverty levels. Still, most authors reached the conclusion that, especially in the poorest countries, growth is a prerequisite for development, while development involves more than just growth.

Social scientists have stated that development should not be viewed in terms of economics only. One should also pay attention to changes in family structures, attitudes, and mentalities, cultural changes, demographic developments, political changes, and nation building, the transformation of rural societies and processes of urbanization. The Swedish Noble prize winner Gunnar Myrdal has argued that the discussions of economic development have implicitly been based on a series of modernization ideals or values. Opinions may differ on the way in which these ideals should be pursed. Nevertheless, according to Myrdal, there was a widespread consensus on the ultimate objectives of development among the members of political elites in developing countries involved in developmental policy. The broad concept of development therefore involves a change of the entire society in the direction of the modernization ideals. The lists of modernization ideals compiled include:

- Rationality (in policy, in the application of technological knowledge, in structuring social relations, in thinking about objectives and means).
- Planning for development; searching for a coherent system of policy measures I order to change situations that are considered undesirable.
- Increases in production per capita and production per worker, primarily through industrialization and increased capita intensity of production.
- Improvements in the standard of living.
- Declines in social and economic inequality. Development ought to be for the benefit of the people, the masses.
- Consolidation of the national state integration.
- National independence
- Political democratization
- Increased social discipline.

Developmental goals cannot be attained if governments cannot impose obligations on their citizens.

1.7 Measures of development

Although difficult, of course, development is measurable. There are several techniques on how best to measure development. Some of the commonly used methods are discussed below.

Economic wealth

In practice to those living in western industrialized society economic development tends to be synonymous with wealth. Wealth, professionals in the field say, is a means of explaining a country's material standard of living. It is measured, or explained as the Gross Domestic product (GDP) or Gross National Product (GNP).

GDP is the total monetary value of goods and service produced by a nation/region in a year. Gross Domestic Product per capita or Gross National Product per capita income is calculated by dividing the total monetary value of all goods and services produced in a country by its total population. Taken a measure of wealth nations, GDP per capita income varies considerably for different countries. Though, not always dependable, NDP per capita incomes of MDCs are much higher than that of LDCs.

? What are the drawbacks of using GDP in measuring the standard of living?

Although GDP and GNP per capita income figures are easier to measure and obtain than other development indicators such as social wellbeing, there are limitations to their use and validity. However, there are some problems in using growth in GDP per capita to measure general well being.

Some critics (drawbacks) of using GDP in measuring development

- GDP per capita does not provide any information relevant to the distribution of income in a country.
- GDP per capita does not take into account negative externalities from pollution consequent to economic growth. Thus, the amount of growth may be overstated once we take pollution in to account.
- GDP per capita does not take in to account positive externalities that may result from services such as education and health.
- GDP per capita excludes the value of all the activities that take place outside of the market place (such as cost-free leisure activities like hiking).
- It does not consider some service for example home services by women
- It requires huge financial and human capital to carryout and gathers data.

Economists are well aware of these deficiencies in GDP; thus, it should always be viewed merely as an indicator and not an absolute scale. Economists have developed mathematical tools to measure inequality, such as the Gini coefficient. There are also alternate ways of measurement that consider the negative externalities that may result from pollution and resource depletion. The flaws of GDP may be important when studying public policy; however, for the purpose of economic growth in the long run it tends to be a very good indicator. There is no other indicator in economics that is as universal or as widely accepted as the GDP.

In 1990, the United Nations Development Programme (UNDP) launched a new Human development index (HDI) which is published each year in the Human development Report (HDR) with information for each of the 160 countries.

The UNDP defines human development as a 'process of enlarging people's choices'. Three choices are deemed to be critical:

- *Access to resources* (purchasing power, which is calculated from GNP per capita and a calculation of the cost of living).
- *Long and health life* (reflected by figures for life expectancy).
- *Education (*measured by the adult literacy rate*).*

Figures are available for each of these, and they are combined to give a number, which varies between 0 and 1: the closer to 1, the higher the level of human development

The UN has developed a widely accepted set of indices to measure development against a mix of composite indicators:

- UN's Human Development Index (HDI) measures a country's average achievements in three dimensions of human development: Life expectancy, education attainment, and adjusted real income ($PPP per person).
- UN's Human poverty Index (HPI) measures deprivation using the percent of people expected to die before age 40, the percent of illiterate adults, the percent of people without access to health services and safe water and the percent of underweight children under five.

Traditionally economists have made little if any distinction between economic growth and economic development using the terms almost synonymously. Economic development can be seen as a complex multi-dimensional concept involving improvements in human well being.

Critics point out that GDP is a narrow measure of economic welfare that does not take account important non-economic aspects such as more leisure time, access to health and education, the environment, freedom and many others as well. Thus economic growth is a necessary but not a sufficient condition for development.

Human development is a complex concept, which incorporates various aspects of well-being and opportunities of people. The Pakistan economist Mahbub ul Haq said that the basic purpose of development is to enlarge people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives. In this understanding human development is and economic theory which merges ideas from ecological economics, sustainable development, welfare economics, and feminist economics.

? How do we measure human development?

The most prominent and worldwide-recognized attempts to measure human development in recent years have been made by the United Nations Development Program (UNDP) in the Human Development Index (HDI). The human development index is a comparative measure of life expectancy, literacy, education, and standard of living. The different parts are summarized in a single measure. It is thus a standard means to measure the impact of economic policies on quality of life. The index was originally developed in 1990 by Mahbul ul Haq and has been used

since 1993 by the United Nations Development Programme in its annual Human Development Report.

The Human Development Index (HDP) measures the average achievements in a country in three basic dimensions of human development:

- A long and healthy life, a measured by life expectancy at birth.
- Knowledge, as measured by the adult literacy rate (With two-thirds weight) and the combined primary, secondary, and tertiary enrolment ratio (with one third weight).

A decent standard of living, as measured by gross domestic product (GDP) per capita at purchasing power parity (PPP) in USD.

1.2. The Notion of Political Economy

1.2.1. Political Economy Defined

Political economy studies the basis of the development of societies. This centers on the production of material wealth and the mode of production, that is, it studies production and the basis of society from the point of view of the economic relations between people in the production process.

The subject-matter of political economy focuses on, the production (economic) relations between people, the relationship of various social classes to political power and the interplay of politics and economy in the determination of power relations within the comity of nations. These includes:-

i. The forms of ownership of the means of production;

ii. The position of the various classes and social groups in production and their interrelations;

iii. The forms and socio-political implications of the distribution of material wealth; and

iv. The interplay of politics and economy in the international division of labour and exchange

From this, it is obvious that political economy is the science of the development of socio-production, that is, economic relations between people. It clarifies the laws governing production, distribution, exchange and consumption of the material wealth in human society at various stages of its development. Political economy therefore takes to account the relationship between the productive forces and relations of production.

Although the study of political economy has a long and proud history, its importance has grown over the past several decades. Recent developments such as the dramatic changes in the price of oil and other minerals, currency value fluctuations, the impact of regional and international trade agreements (such as the World Trade Organization (WTO) and the European Union, as well as the shifting dynamics within major international groups such as the G-8 and the G-20, have initiated some of the most profound changes political and economic governance.

At the global level, the impact of the financial crisis of 2008, growth slow-downs in all major industrialized countries of the world, the economic rise of China and India, and the challenges of regulating international flows of people, goods, funds, and technology, have fuelled an increasing interest in international political economy. The consequences and challenges posed by the subsequent restructuring will have to be researched and studied for years to come.

Additionally, transformations wrought by globalization as well as the new information and communications technologies (ICTs) make it vitally important that students understand both local political and economic relations and their connections to global change.

1.2.2. The Nature of Domestic and International Political Economy

The core of the domestic-international connection is the impact of domestic institutions and interests on international interaction, and vice versa. One approach to domestic-international interaction looks directly at how the international economy affects domestic interests, institutions, and information in ways that then feed back to national policies. The international economy might affect national foreign economic policymaking by two related channels. The first runs directly from the global economy to the preferences of national socioeconomic and political actors. In this variant, international economic trends directly affect the interests of domestic groups, leading them toward new policy preferences, or to change their domestic political behavior. For example, the expansion of world trade can have a powerful impact on firms' or industries' trade policy preferences. New export opportunities can lead previously protectionist firms to turn toward free trade, as some argue was the case for American manufacturers after World War Two; alternatively, the opening of new export markets can lead free-trade firms to redouble their lobbying efforts. The expansion of world trade strengthens owners of nationally abundant factors, such as labor in poor countries and capital in rich countries. Similarly, the state of international capital markets can have a big impact on the preferred policies of groups in potential borrowing countries: the prospects of access to thriving global financial markets can lead firms and sectors to champion national trade, monetary, or exchange-rate policies they might not otherwise support. Again, all these involve a common causal mechanism: change in the international economic environment affects the policy preferences and behavior of domestic groups, and thus has an impact on national policymaking and foreign economic policies.

In addition to affecting domestic interests, the international economy might also affect domestic institutions, for example by making a previously feasible policy difficult to sustain. For example, national capital controls are relatively easy to impose and enforce when the world's capital markets are dormant or barely active, as was the case until the middle 1970s. However, the explosion of international financial activity in the 1980s and 1990s made it extremely difficult for national governments, especially in the more financially developed industrial world, to sustain controls on cross-border investment. While this process reflected previous policy choice by some major governments, it can be taken as the exogenous result of economic and technological trends for most countries, and it dramatically altered the set of policies feasible forgovernments to contemplate.

One variant of analysis of the impact of the international economy on domestic institutions is about the effects of "globalization". Economic integration has reduced the ability of governments to tax capital, thus limiting the scope for government policies to deal with the social dislocations that globalization itself creates. Others believe that these effects are less limiting, still allowing for different national economic-policy paths. All these arguments share a common causal approach connecting the international and domestic levels: globalization, understood as developments in international economic integration alter the choices available to national governments, which in turn affects national policy (and, one could continue, international outcomes).

While these perspectives look at the impact of international factors on domestic interests and institutions, this can be turned around to look at how the structure of international economic institutions alters the information available to and policy incentives for some domestic actors. It has been argued, for example, that this is the secret of the effectiveness of WTO provisions allowing one country to retaliate for WTO-illegal policies by another country by excluding some of the violator's exports.

This will lead exporters in the violator to lobby domestically against national trade policies that might lead to such retaliation, even though in the absence of the prospects for retaliation they would be indifferent. For example, if country A obtains WTO permission to sanction country B for its barriers to A's clothing exports, and country A then puts a tariff on country B's grain exports to A, this will give B's grain farmers an incentive to lobby within their own domestic political economy for a reduction in B's barriers to clothing imports. In fact, some scholars argue that one important effect of international institutions is to change domestic informational and institutional conditions so as to permit such linkages among domestic policies, mobilizing exporters against their own government's trade protection. The chain of causation goes from international institutions to domestic institutions, information, and interests, then to national foreign economic policies. In all these approaches, international factors affect national policy by way of their direct effect on the domestic political economy. This effect may take place by restricting the set of feasible policies, by constraining domestic institutions, by altering domestic information, or by changing the preferred policies and behavior of domestic actors.

On the other hand domestic economy and politics affect international political economy. International political economists mostly agree that state preferences are the product of domestic politics (Lake 2009); they disagree over which aspects of politics are most important. Differences in factor endowments or in the characteristics of specific economic sectors are likely to shape actors' preferences over international outcomes, and hence their willingness to form coalitions supporting or opposing trade liberalization These accounts frequently suggest that state institutions and policies are a simple reflection of the aggregated interests of social actors Different forms of state institution may not only shape the way in which social preferences are expressed, but may also *shape those preferences themselves*. Thus individuals and groups within society should be treated as "analytically prior to politics." Although he occasionally suggests that politics may create feedback loops to preferences. State actors seek to maximize the chance of re-election, and are thus likely to be responsive to the demands of social groups, whose preferences over cooperation are an exogenous product of the distributional consequences that cooperation would have.

Chapter Two: Contending Theories/ Perspectives of Development

The main objectives of this chapter is to explore the main aspects of major theories of development which are the principal theoretical explanations to interpret development effort carried out especially in developing countries.

Theory is a set of ideas (propositions) which explain about something in a systematic and organized manner. Theory can be developed from critical observation (experience) or else from assumption (ideal reasoning). In either case, theory helps to understand about something serving as plat form in a systematic and organized manner. Here we discuss major theories of development.

2.1. The Modernization Theories

Modernization refers to a total transformation of a 'traditional' or pre-modern society in to the types of technology and associated with social organization that characterize the advanced and economically prosperous and relatively politically stable nations of western world.

Modernization theory is socio-economic theory that highlights the positive role played by the developed world in modernizing and facilitating sustainable development in less developed nations.

Several branches of theory exist today, and it is generally viewed as model where by the third and second world are seen benefited (with aids, and guidance from the first world) economically, politically, culturally, and demographically through the accumulation of the modern policies of the western world.

Modernization theory is the first theories of development. It have been popular in 1950s and 1960s.The very foundation of this theory is the idea of having model or taking exemplary to undertake development. Accordingly, the theory regarded the Western Europe (such as Britain and France) and USA as a model to follow. The developing world states which have been recently decolonized needed the already mentioned states as a model to carry out development.

The basic assumptions of modernization theory are:

a. Western world countries are the most developed and the rest of the world (mostly former colonies) are on the earlier stages of development and will eventually reach the same level as the western world

b. Development stages go from the traditional societies to developed ones.

c. The world countries have fallen behind with their social progress and need to be directed on their way to become more advanced.

Traditional versus Modernity

Constructing their accounts of development, theorists drew some distinction between tradition and modernity dichotomy. These theorists placed most emphases on the values and norms that operate in these two types of society and their economic system. These theorists believe that there are some antagonistic values of 'modern' and 'traditional' societies: particularistic versus universalism, ascription versus achievement and diffuseness versus specificity. The problem of underdevelopment could, therefore, be solved as particularistic, ascription and diffuseness since they are the values of traditional society replaced by universalism, achievements and specificity. Development then depends on 'traditional' primitive values being replaced by modern ones.

In traditional society, three crucial features are noted:

1. The values of traditionalism itself is dominant in that the people are oriented to the past and they lack the cultural ability to adjust to the new circumstances

2. The kinship system is decisive reference point for all social practices being the primary means through which economic, political and legal relationships are controlled. One's position in the kinship system is ascribed, not achieved status because everything is determined by virtues of kin relationships. Thus, jobs are not allocated and rewarded on the basis of achievement or hard working but on the basis of to whom one belongs.

3. Members of the traditional society have an emotional, superstitious and fatalistic approach to the world; "what will be, will be things have always been in this way".

In contrast, 'modern' society is made up of completely opposite characteristics:

1. People may still have traditional values and practices but they are not slaved to them and will challenge any anything that seem unnecessary or get in the way of continuous cultural progress that means, they do not suffer from 'traditionalism'.

2. Kinship has a very much less important role in all areas of society (even within the family) because of the need for geographic and social mobility which weakened family ties. Moreover, one's position in economy, polity etc, is earned through hard working and high achievement, and not determined by kinship.

3. Members of modern society are not fatalistic but forward looking and inventive, ready to overcome the obstacles they find way, particularly, in business affairs, reflecting a strong entrepreneurial spirit and rational and scientific approach to the world.

The theorists of modernization viewed the process of development as series of successive stages of economic growth through which all countries must pass. One of the development economists called Rostow has provided a more elaborated 'stage' model. He argues that, it is possible to identify all societies in their economic dimensions, as lying within one of the given stages (categories). According to him, all societies had to proceed through these stages in order to reach a self continuous economic growth. The stages are:

1. The traditional society stage
2. The pre-conditions for Take-Off stage
3. The Take-Off stage
4. The road/drive to maturity stage and
5. The stage of high mass consumption

1. The traditional Society Stage

In this stage, the level of technological knowledge was so low that imposed an upper limit on per capita income (production). This traditional society transforms into the other stage of growth, the pre-condition for take-off.

2. The pre-condition for take- off stage

The economic pre requisites for a take-off were created during this stage and many of the characteristics of the traditional society were then removed and some modern changes, but limited were developed. These changes may include:

- the rise of new entrepreneur
- the expansion of market
- the development of new industries
- building of an effective centralized state
- rapid increase in agricultural productivity
- a more effective infrastructure was created

There was a decrease in death and birth rate of expansion of population size. The society at this stage also developed a new mentality as well as a new class (the entrepreneurs).

3. The Take-off stage

The third stage, take-off, was the most crucial for furthering development. It was during this period, covering only a few decades, that the last obstacles to economic development were removed. The most common features of the take–off stage include net investment and saving in national income raise from 5% to 10 % or more. A certain sector assumed a leading role and Modern technology disseminated from the leading sector and the economy moved forwards.

The take-off stage could be reached if the following three criteria satisfied.

I. the country has to increase its investment rate;

II. the country has to develop one or more substantial manufacturing sectors;

III. Political, social, and institutional framework has to exist or be created to promote the expansion of the new modern sector.

4. The road/drive to maturity stage

This stage is characterized by economic structure changing continuously but certain industries stagnating while new ones created. The society in this stage is engaged in various economic activities as opposed to other stages. There happens diversity of sectors to lead the country's economy.

5. The stage of high mass consumption

This stage is gradually reached as it is the ultimate goal in economic development process. The citizens could now satisfy more than their basic needs and consumptions shifted towards durable goods and services.

According to Rostow, economic growth is measured by rising per capita income. It is achieved by increasing saving and investment. He further suggested that the transfer of capital and technology from North to South in order to fulfill the deficiency.

Modernization theory view development as homogenizing process. In this sense, we can say that development produced tendencies toward convergence among societies. .For example, Levy (1967, 207) maintains that "as time goes by, they will increasingly resemble one another because the patterns of modernization are such that the more a society modernized, the more they would resemble one another".

Another argument of this theory is that modernization is Europeanization or Americanization process. According to modernization theory, the history of development of industrialization in the west is no longer regarded as something unique, but as a blue print of development through out the world.

Historically, modernization is the process of change towards those types of social, economic and political systems that have developed in Western Europe and North America from 17th to 19th c.

In addition, modernization is an irreversible process. Once started, modernization cannot be stopped. In other words ,once third world countries come in to contact with the west, they will not be able to reset the imputes toward modernization . Modernization is a progressive process which in long run is not only inevitable but desirable. According to Coleman, modernized political systems have higher capacity to deal with the function of national identity, legitimacy, penetration, participation and distribution than traditional political system.

Lack of development is seen as condition prior to development, that is, the present day underdeveloped countries are gradually moving towards modernity. This may seem self-evident; however, as we shall see, this lack of development may not reflect obstacles apparent from the internal history of these countries but instead the result of the relationship they have had over the past few centuries with outside countries.

Lack of development is the 'fault' of Third World countries socio-economic systems that create obstacles to modernization and encourage little ambition or incentive among individuals, particularly in the field of work: they tend to have little interest in commercial production and rationally planned long-term enterprise being content to work only as long as they need to satisfy their immediate demands.

Development occurs not only along western lines for Third World societies but also for those countries which were then socialist states (for example Soviet Union & China) whose future paths will, because of the forces of industrialization, converge with the road beaten out by the pioneer.

The western economies continue to grow and develop so that in Rostows (1960) term, they enjoy the prosperity of the period of high mass consumption. There is no sign given of the possible collapse or steady decline in the fortunes of those economies.

In order to fulfil the capital deficit in developing countries, theorists suggested that the injection of capital to aid both 'take-off' and commercialization of agriculture, the training of entrepreneurial elites in values and motivations most likely to promote free enterprise, the expansion of education programs, and assisting 'democratic' countries in the Third World.

The Critique of Modernization Theory

Modernization theory claims to identify those factors crucial for economic development such as achievements, motivations and a decline in the significance of extended family relation. While it may be the case that substantial economic growth cannot occur without changes in technology, the level of capital investment and social demand. It needs to be the case that such growth requires major alterations to value systems and social institutions as the modernization theory claims. Indeed, there is good deal of evidence to contrary.

Firstly, many critics have pointed out that the principal terms of the theory (the 'traditional' and the 'modern') are too vague to be of much use as classifications of distinct societies. The two terms do not give any indication of the great variety of societies that have and do not exist: instead, the 'traditional' label is offered as a blanket term to cover a range of pre-industrial societies that have existed in different socio-economic and political structures such as feudal, tribal and bureaucratic empires.

Secondly, for some theories of modernization, social changes such as splitting off or 'differentiation' of kinship from the economy has been as the crucial or determinant factors of development. However, we have no idea, which a mechanism it is that brings about the process of social differentiation of which so much is made.

Thirdly, even if, for the sake of discussion, one is to accept the use of the term ‘traditional’ and ‘modern’ societies, is it the case that they are as mutually exclusive as the theory states. Remember, the claim is that, as societies develop, the ‘traditional’ world gets squeezed out by the force of modern values and attitudes. Yet, there is wealth of evidences to indicate that economic growth and the advent of modernity does not necessarily mean the abandonment of the so-called ‘traditional’ pattern of action. There is also evidence that shows in ‘modern’ industrial society, ‘traditional’ values do not only persist but also actually play an important role in keeping it goes. The norms of ascription (judge people according to their family background, age or sex) still play significant role in modern society. Even in the countries which are economically and politically developed, the traditional values, norms and practices still persist. Indeed, this fundamentally disproves the basic base of modernization.

Fourthly, the most forceful criticism of modernization is that it entirely ignores the impact of colonialism and imperialism on the third world countries. This is a staggering omission. In general, therefore, most writers of modernization theory had little to offer by way of analyzing power in general and nothing about the specific impact of the imperialism in the third world.

Fifth, the modernization theory seems more ethno-centric in the sense that it believes there will be no other path of development except the one followed by the west.

2.1. 1 The Harrod-Domar Growth Model

Every economy must save a certain proportion of its national income, if only to replace worn-out or impaired capital goods (buildings, equipment, and materials). However, in order to grow, new investments representing net additions to the capital stock are necessary. If we assume that there is some direct economic relationship between the size of the total capital stock, K, and total GNP, Y—for example, if $3 of capital is always necessary to produce a $1 stream of GNP—it follows that any net additions to the capital stock in the form of new investment will bring about corresponding increases in the flow of national output, GNP.

Suppose that this relationship, known in economics as the capital-output ratio, is roughly 3 to 1. If we define the capital-output ratio as k and assume further that the national savings ratio, s, is a fixed proportion of national output (e.g., 6%) and that total new investment is determined by the level of total savings, we can construct the following simple model of economic growth:

Saving (S) is some proportion, s, of national income (Y) such that we have the simple equation

$$S=sY \text{ (equation 1)}$$

2. Net investment (I) is defined as the change in the capital stock, K, and can be represented by ΔK such that

$$I= \Delta K \text{ (equation.2)}$$

But because the total capital stock, K, bears a direct relationship to total national income or output, Y, as expressed by the capital-output ratio, k, it follows that

Or

$K/Y=K$ or $\Delta k/\Delta y=k$

or, finally,

$$\Delta K =k\Delta Y \quad \text{(equation.3)}$$

3. Finally, because net national savings, S, must equal net investment, I, we can write this equality as

$$S=I \quad \text{(equation 4)}$$

But from Equation 4.1 we know that S = sY and from Equations 2 and 3 we know that

$$I= \Delta K = k\Delta Y$$

It therefore follows that we can write the "identity" of saving equaling investment shown by Equation 4.4 as

$$S=sY= k\Delta Y =\Delta K =I \text{ (equation.5) or simply as}$$

$$sY=k\Delta Y \text{ (equation.6)}$$

Dividing both sides of Equation 6 first by Y and then by k, we obtain the following expression:

$$\Delta Y /Y = s/k \quad \text{(equation.7)}$$

Note that the left-hand side of Equation 7, $\Delta Y/Y$, represents the rate of change or rate of growth of GNP (i.e., it is the percentage change in GNP).

Equation 7, which is a simplified version of the famous equation in the Harrod- Domar theory of economic growth, states simply that the rate of growth of GNP $\Delta Y /Y$) is determined jointly by the national savings ratio, s, and the national capital-output ratio, k. More specifically, it says that in the absence of government, the growth rate of national income will be directly or positively related to the savings ratio (i.e., the more an economy is able to save—and invest—out of a given GNP, the greater the growth of that GNP will be).

The economic logic of Equation 7 is very simple. In order to grow, economies must save and invest a certain proportion of their GNP.

Critique of Harrod-Domar models

Unfortunately, the mechanisms of development embodied in the theory of stages of growth did not always work. And the basic reason they didn't work was not because more saving and investment isn't a necessary condition for accelerated rates of economic growth—it is—but rather because it is not a sufficient condition. The Marshall Plan worked for Europe because the European countries receiving aid possessed the necessary structural, institutional, and attitudinal conditions (e.g., well-integrated commodity and money markets, highly developed transport facilities, a well-trained and educated workforce, the motivation to succeed, an efficient government bureaucracy) to convert new capital effectively into higher levels of output. The Rostow and Harrod-Domar models implicitly assume the existence of these same attitudes and arrangements in underdeveloped nations. Yet in many cases they are lacking, as are complementary factors such as managerial competence, skilled labor, and the ability to plan and administer a wide assortment of development projects. But at an even more fundamental level, the stages theory failed to take into account the crucial fact that contemporary developing nations are part of a highly integrated and complex international system in which even the best and most intelligent development strategies can be nullified by external forces beyond the countries' control.

2.1. 2 Structural-Change Models

Structural-change theory focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern, more urbanized, and more industrially diverse manufacturing and service economy. It employs the tools of neoclassical price and resource allocation theory and modern econometrics to describe how this transformation process takes place. Two well-known representative examples of the structural-change approach are the "two-sector surplus labor" theoretical model of W. Arthur Lewis and the "patterns of development" empirical analysis of Hollis B. Chenery and his co-authors.

2.1.2.1 The Lewis two-sector model

Basic Model of Arthur Lewis theory of development

One of the best-known early theoretical models of development that focused on the structural transformation of a primarily subsistence economy was that formulated by Nobel laureate W. Arthur Lewis in the mid-1950s and later modified, formalized, and extended by John Fei and Gustav Ranis. The Lewis two-sector model became the general theory of the development process in surplus labor Third World nations during most of the 1960s and early 1970s.

In the Lewis model, the underdeveloped economy consists of two sectors: a traditional, overpopulated rural subsistence sector characterized by zero marginal labour productivity—a situation that permits Lewis to classify this as surplus labour in the sense that it can be withdrawn from the agricultural sector without any loss of output—and a high-productivity modern urban industrial sector into which labour from the subsistence sector is gradually transferred. The primary focus of the model is on both the process of labour transfer and the growth of output and employment in the modern sector. Both labour transfer and modern-sector employment growth are brought about by output expansion in that sector. The speed with which this expansion occurs is determined by the rate of industrial investment and capital accumulation in the modern sector. Such investment is made possible by the excess of modern-sector profits over wages on the assumption that capitalists reinvest all their profits. Finally, the level of wages in the urban industrial sector is assumed to be constant and determined as a given premium over a fixed average subsistence level of wages in the traditional agricultural sector. (Lewis assumed that urban wages would have to be at least 30% higher than average rural income to induce workers to migrate from their home areas.) At the constant urban wage, the supply curve of rural labour to the modern sector is considered to be perfectly elastic.

Criticisms of the Lewis Model

Although the Lewis two-sector development model is simple and roughly reflects the historical experience of economic growth in the West, its key assumptions do not fit the institutional and economic realities of most contemporary developing countries.

First, the model implicitly assumes that the rate of labour transfer and employment creation in the modern sector is proportional to the rate of modern-sector capital accumulation. The faster the rate of capital accumulation, the higher the growth rate of the modern sector and the faster the rate of new job creation. But what if capitalist profits are reinvested in more sophisticated laboursaving capital equipment rather than just duplicating the existing capital as is implicitly assumed in the Lewis model? We are, of course, here accepting the debatable assumption that capitalist profits are in fact reinvested in the local economy, but what if it is sent abroad as a form of "capital flight" to be added to the deposits of Western banks?

The second questionable assumption of the Lewis model is the notion that surplus labour exists in rural areas while there is full employment in the urban areas. Most contemporary research indicates that there is little general surplus labour in rural locations. By and large, development economists today agree that Lewis's assumption of rural surplus labour is generally not valid.

The third unreal assumption is the notion of a competitive modern-sector labour market that guarantees the continued existence of constant real urban wages up to the point where the supply of rural surplus labour is exhausted. Institutional factors such as union bargaining power, civil service wage scales, and multinational corporations' hiring practices tend to negate competitive forces in LDC modern-sector labour markets.

We conclude, therefore, that when one takes into account the labour saving bias of most modern technological transfer, the existence of substantial capital flight, the widespread nonexistence of rural surplus labour, the growing prevalence of urban surplus labour, and the tendency for modern-sector wages to rise rapidly even where substantial open unemployment exists, the Lewis two-sector model—though extremely valuable as an early conceptual portrayal of the development process of sectoral interaction and structural change—requires considerable modification in assumptions and analysis to fit the reality of contemporary developing nations.

2.1.2.2 The "patterns of development" empirical analysis of Hollis B. Chenery

Structural Change and Patterns of Development

Like the earlier Lewis model, the patterns-of-development analysis of structural change focuses on the sequential process through which the economic, industrial, and institutional structure of an underdeveloped economy is transformed over time to permit new industries to replace traditional agriculture as the engine of economic growth. However, in contrast to the Lewis model and the original stages view of development, increased savings and investment are perceived by patterns of development analysts as necessary but not sufficient conditions for economic growth. In addition to the accumulation of capital, both physical and human, a set of interrelated changes in the economic structure of a country are required for the transition from a traditional economic system to a modern one. These structural changes involve virtually all economic functions, including the transformation of production and changes in the composition of consumer demand, international trade, and resource use as well as changes in socioeconomic factors such as urbanization and the growth and distribution of a country's population.

Empirical structural-change analysts emphasize both domestic and international constraints on development. The domestic ones include economic constraints such as a country's resource endowment and its physical and population size as well as institutional constraints such as government policies and objectives.

International constraints on development include access to external capital, technology, and international trade. Differences in development level among developing countries are largely ascribed to these domestic and international constraints. However, it is the international constraints that make the transition of currently developing countries differ from that of now industrialized countries. To the extent that developing countries have access to the opportunities presented by the industrial countries as sources of capital, technology, and manufactured imports as well as markets for exports, they can make the transition at an even faster rate than that achieved by the industrial countries during the early periods of their economic development. Thus, unlike the earlier stages model, the structural-change model recognizes the fact that developing countries are part of a highly integrated international system that can promote (as well as hinder) their development.

The best-known model of structural change is the one based largely on the empirical work of the late Harvard economist Hollis B. Chenery and his colleagues, who examined patterns of development for numerous developing countries during the post war period. Their empirical studies, both cross-sectional (among countries at a given point in time) and time-series (over long periods of time), of countries at different levels of per capita income led to the identification of several characteristic features of the development process. These included the shift from agricultural to industrial production, the steady accumulation of physical and human capital, the change in consumer demands from emphasis on food and basic necessities to desires for diverse manufactured goods and services, the growth of cities and urban industries as people migrate from farms and small towns, and the decline in family size and overall population growth as children lose their economic value and parents substitute child quality (education) for quantity, with population growth first increasing, then decreasing in the process of development.

Criticism of Structural Change and Patterns of Development

The major hypothesis of the structural-change model is that development is an identifiable process of growth and change whose main features are similar in all countries. However, as mentioned earlier, the model does recognize that differences can arise among countries in the pace and pattern of development, depending on their particular set of circumstances. Factors influencing the development process include a country's resource endowment and size, its government's policies and objectives, the availability of external capital and technology, and the international trade environment.

One limitation to keep in mind is that by emphasizing patterns rather than theory, this approach runs the risk of leading practitioners to draw the wrong conclusions about causality, in effect, to "put the cart before the horse." Observing developed country patterns such as the decline of the share of the labour force in agriculture over time, many developing-country policymakers have been inclined to neglect that vital sector. But that is precisely the opposite conclusion that should be drawn. Observing the important role of higher education in developed countries, policymakers may be inclined to emphasize the development of an advanced university system even before a majority of the population has gained basic literacy, a policy that has led to gross inequities even in countries at least nominally committed to egalitarian outcomes, such as Tanzania.

Empirical studies on the process of structural change lead to the conclusion that the pace and pattern of development can vary according to both domestic and international factors, many of which lie beyond the control of an individual developing nation. Yet despite this variation, structural-change economists argue that one can identify certain patterns occurring in almost all countries during the development process. And these patterns, they argue, may be affected by the choice of development policies pursued by LDC governments as well as the international trade and foreign-assistance policies of developed nations. Hence structural-change analysts are basically optimistic that the "correct" mix of economic policies will generate beneficial patterns of self-sustaining growth. The international-dependence school to which we now turn, is, in contrast, much less sanguine and is in many cases downright pessimistic.

2.2. The Marxist Perspective of Development

Karl Marx lived during a period when the overwhelming majority of people in industrial societies were poor. This was the early period of industrialisation in such nations as England, Germany and the United States. Those who owned and controlled the factories and other means of production exploited the masses that worked for them. Relations of production are exploitative: Capitalists – owners of means of production exploited the workers. The working class was exploited by selling their labour power.

According to Karl Marx, capitalist economies expand through export of capital and the contradictions between capital and labour leads to the downfall of capitalism. The rural poor were forced or lured into cities where employment was available in the factories and workshops of the new industrial economies. In this way the rural poor were converted into an urban poor. Marx tried to understand the institutional framework that produced such conditions and looked for a means to change it in order to improve the human condition.

On development of society Marx argues that the entire history of human societies may be seen as the history of class conflict the conflict between those who work for them the exploiters and the exploited. He believed that ownership of the means of production in any society determines the distribution of wealth, power, and even ideas in that society. The power of the wealth is derived not just from their control of the economy but from their control of the political, educational, and religious institution as well. The dialectical approach to knowledge and society defines the nature of reality as dynamic and conflictual. Changes are due to class struggle and the working out of contradictions inherent in social and political phenomena.

The second element of Marxism is a materialist approach to history. The development of productive forces and economic activities is central to historical change and operates through the class struggle. Struggle over distribution on the social product surplus is the primacy of class struggle. Marxist believes that socialist society is both the necessary and desirable end of historical development. This will be achieved through overthrow of the establishment of proletariat rule.

- **Marx's 6 Stages of Development of Society.**

1 Primitive Communalism 2. Slavery 3. Feudalism 4 Capitalism 5 Socialism 6 Communism

(1) Primitive Communalism/ Communal mode of production.

The first socio-economic formation was the primitive communal system, which lasted for many hundreds of thousands of years. The development of society began from this stage. At first, people were in a half-savage state, powerless before the forces of nature. This mode of production emerged about two million years ago and existed as the longest period of human history. The era ended only about seven to nine thousand years ago. It marks the rise of society from sheer animal to human society. Stones and sticks were the main instruments of labour. They were later supplanted by the use of fire, axe, bows and arrows. The invention of the bow and arrow constituted a new era in the development of primitive people's productive forces. As a result, people began to hunt animals and meat was added to their diet. The development of hunting gave rise to primitive livestock breeding and the hunters began to tame animals. People improved their skills and accumulated useful work experience.

The beginning of land cultivation was another step forward in the development of the productive forces. In primitive societies, people worked in common because the productive forces were poorly developed and no individual could provide all his needs single handedly. The work of each individual was through direct social labour and simple cooperation. It is within this framework that the division of labour based on sex and age was based. Men specialised in hunting and women in gathering of food, which sometimes increased labour productivity.

As instruments of labour developed, human population began to live in clans. The basis of the relations of production in the clans was through collective ownership by individual communes of the primitive means of production, in particular, instruments of labour. Their economy was mainly based on hunting, farming and fishing on joint basis. With the passage of time, gathering led to the emergence of arable farming as men cultivated grains with nutritional values while hunting gave rise to the breeding of domestic livestock. Arable farming and breeding of livestock became the dominant economic activities towards the close of the era. This separation of livestock breeding from farming was the first major social division of labour in history. Decline in primitive communalism however emerged as the productive forces developed. This led to change in the relations of production and men began to obtain more means of subsistence than were essential for their immediate survival. As communities began to specialise in the production of agricultural and animal products, division set in within the tribes and pastoral tribes as distinct from farming tribes began to emerge.

Under these conditions, it became possible to employ more workers. Wars prisoner being made into slaves provided them. At first, slavery was patriarchal (domestic) in character, but later it became the basis of a new system. Slave labour led to a further rise in inequality, household using slaves quickly grew rich. Later, as property inequality increased, rich people began to enslave not only captives, but also members of their fellow tribesmen who had become impoverished or were in debt. Thus arose the first class division of slavery into slave owners and slave. Exploitation by man began. Productive forces: The instruments of labour were crude, underdeveloped; due to this the primitive man was unable to engage in production alone i.e. Without the help of others. Ownership of the means of production was communally owned.

- Relations of Production: The relations of production were collective; people lived together and jointly conducted their economy for survival.
- Labour Productivity: It was low with no surplus, equal distribution of the products.
- Organization: No classes and therefore no states, kingdom etc
- People organized themselves in clan or family.

2. Slave-Owning Mode of Production

The growing inequality between people led to the formation of the state as an institution of oppression of the exploited class by the class of exploiters. Thus slavery grew up on the ruins of the primitive communal mode of production. Slavery was the first, most flagrant and avert form of exploitation. It existed virtually everywhere. The slave owing system reached the peak of its development in the period from 2nd Century BC to the 2nd Century AD.

The relations of production in slave society were based on the slave owners having in their possession both the means of production (the land, instrument of labour and so on) and the production worker-the slaves. The slaves were considered as no more than a thing; he was completely and undividedly at the disposal of his master. The exploitation of slaves was extremely severe

The slave mode of production contained deep contradictions, which eventually led to its collapse. Above all, the slave form of exploitation destroyed the slaves- the main productive forces of society, so the slaves then rose up against these barbaric forms of exploitation.

As the slave economy developed, the class struggle between the oppressed and oppressor grew in intensity. This struggle developed into slave uprising against the slave owners. Free peasants and artisans, who were exploited by the big landowners and the slave state, joined the slaves in their uprising. The most significant of the many slave uprisings was that led by Spartacus (74 – 71 BC). Such development led to the final collapse of the slave owing system.

3. Feudalism/Feudal mode of production:

Feudalism dominated the political structure of the medieval era just as city-states were prevalent in the Greeko-Roman era. However, the structure and processes of feudalism was unequally developed in different times and places. For instance, the notion of serfdoms existed as early as the 5th century. However, the developed structures of feudalism emerged in the 11th and 12th centuries following the collapse of the Frankish empire. It is sometime estimated that the feudal era lasted for as long as twelve centuries in history.

The feudal epoch was characterised chiefly by land ownership held as fief (consisted of inheritable lands or revenue-producing property granted by a liege lord, generally to a vassal, in return for a form of allegiance, originally to give him the means to fulfill his military duties when called upon) by serfs (member of the lowest feudal class, attached to the land owned by a lord and required to perform labor in return for certain legal rights). The productive forces under the feudal era were more advanced than what existed under slave owning mode of production.

It was based on class antagonism Conflict /struggle between opposing classes. It was based on private property in land, it consisted of two classes: the landowners and the serfs. Serfs were not slaves because they had a land holding from the landlord. However, the serfs owned their means of labour. The landlords exploited the serfs. The landowners exploited the serfs and the serfs struggled to free themselves from this exploitative relationship. Contradictions and growing class struggle led to the disintegration of feudal system.

4. Capitalism

Emerged as the result of industrial revolution in Europe. Capitalism led to the emergence of commodity production. Under capitalist commodity production is central point. All products became commodities being produced for exchange. Human labour also became a commodity that was sold. Relations of production are exploitative: Capitalists – owners of means of production exploited the workers. The working class was exploited by selling their labour power. According to Karl Marx, capitalist economies expand through export of capital. The contradictions between capital and labour leads to the downfall of capitalism.

Marx further contends that capitalism will inevitably lead to socialism. His argument is that technological advances enable capitalists to replace workers with machinery as a means of earning greater profits. He observed that the increasing accumulation of capital has two contradictory consequences. For instance, as the supply of available capital increases, the rate of profit on capital falls. At the same time, with fewer jobs, the unemployment rates rise and wages fall. In Marx terms, the reserve army of the unemployed would grow, and the working class would become increasingly impoverished and their working conditions would deteriorate and workers would grow progressively alienated from their jobs. The business climate will become more violent as mass poverty will increase the incidence of under-consumption.

The continued decline in profit margins and investment opportunities at the domestic level will compel the dominant bourgeois class to resort to imperialism. Marx maintained that the capitalist system would not continue with this unbalanced growth forever. As such, he predicted that the increasing inequality would result in the intensification of classconsciousness among the proletariat. Finally, a cataclysmic depression will sound the death knell of capitalism which like feudalism, contains the seed of its own destruction.

5. Socialism

This is established after the overthrow of the capitalist system. It establishes the dictatorship of the proletariat /working class. All means of production are in the hands of the working class. Relations of production are non-antagonistic, non-exploitative relations. the replacement of capitalism by socialism cannot, however, take place spontaneously. The only way that an end can be put to the bourgeoisie system is through a nationwide struggle, a proletarian revolution that deprives the capitalist and their supporters their power and the opportunity to oppress and exploit the proletarian class. As such, he maintained that socialism cannot be realized without revolution. Revolution is needed in order to eliminate private ownership i.e. to take all the basic means of production out of the hands of the capitalist and the bourgeoisie state and transfer them to the whole nation, to establish public socialist ownership.

The transition from capitalism to socialism is governed by laws common to all countries that set out building socialism. These are:

i. Conquest of political power by the working class and establishment of a dictatorship of the proletariats.

ii. A union of the working class and the bulk of the peasantry and all other strata of the working people.

iii. Elimination of capitalist property and establishment of public ownership of the means of production.

iv. A gradual socialist transformation of agriculture on the basis of cooperation .

v. Planned balanced development of the national economy geared to building socialism and communism and raising the working peoples' standard of living.

vi. A socialist revolution in spheres of ideology and culture and the creation of a numerous intelligentsia devoted to the working class and the working people, as well as the cause of socialism.

vii. Elimination of national oppression and establishment of equality of rights and fraternal friendship between nations.

viii. Consolidation and development of the socialist state, defence of the gains of socialism against attacks by external and internal enemies, and

ix. Solidarity of the working class of a given country with that of other countries, i.e. proletarian internationalism.

x. Nationalization of the means of production.

6. **Communism.**

This is supposed to be the highest level of social development. Under communism there is Absence of exploitative relations of production. In a communist or socialist economy, investment and consumption are primarily determined by the national plan.

Proponents of this ideology maintain that communism fulfils the historic mission of freeing all people from social inequality, from all forms of oppression and exploitation, from the horrors of war, and establishes peace, labour, freedom, equality, fraternity and happiness for all people on earth. In its evolution, the communist society passes through two stages in its development: the first called socialism, and the second, higher stage, called communism. The ultimate goal of the working people's liberation struggle in all countries is to build Heaven in communism. From a Marxist perspective, development is seen as the unfolding in human history of the progressive emancipation of peoples and nations from the control of nature and from the control of other peoples and nations. A major task then becomes that of explaining why this process has progressed much more with some peoples ad nations than others.

Communist society cannot be built immediately after the working class has seized political power. The building of communism requires considerable time and hard work by the working class, peasantry and intelligentsia. Society cannot transfer to communism directly from capitalism. It makes the transition from capitalism to socialism because of a resolute struggle and only then can socialism develop into communism.

The central features of the communist society are summarized as follows:

i. Dictatorship of proletariat
ii. Abolition of private property
iii. Existence of a classless society
iv. The state withers away as an instrument of oppression
v. Social surplus will be shared from everyone according to ability to everyone according to need.

Critique of Marxist Analysis of Development.

Marxist theory is often criticised by bourgeois theorists for concentrating too much on conflict – class struggle and change and too little on what produces stability in the society. They are also criticised for being too ideological based. Those who put forward this argument however fail to refute the existence of conflicts and class struggles in the society.

The celebrated African theorists and political activists, Amilcar Cabral, argues that those who affirm that the motive force of history is the class struggle would certainly agree to a revision of this affirmation to make it more precise and give it an even wider field of application if they had a better knowledge of the essential characteristics of certain colonized peoples, that is to say people dominated by imperialism.

What Cabral is pointing out is the inadequacy of Marxism in providing essential knowledge on the characteristics of imperialism in underdeveloped and about the motive force of development in colonized countries particularly those in Africa.

Marxist analysis thus does not make a critical analysis of Africa's unique situation. For instance, what kinds of classes existed in Africa, the nature of the relations of production, the nature of class struggles in Africa etc. Therefore one can argue that Marxist theory of underdevelopment is not complete. This task has been taken over by Neo – Marxists who attempt to provide answers to the prevailing state of underdevelopment and backwardness at third world countries.

Marxist emphasis is that on the working class as the leading force for social economic development. African countries do not have a significant working class / proletariat with the majority being rural farmers/peasants.

This makes it difficult to relate the Marxist theory to the African context. Many of the poor countries particularly those in Africa have not yet experienced any significant degree of agricultural improvements as the basis for industrialisation.

The failure to have yet undergone an agricultural revolution makes the present problem of accelerated development far more difficult than it was for the now developed countries when thy entered upon their industrial revolutions.

Although this prescription remains valid for the developing world, Marxist theory does not highlight the unique and varying situation of the developing countries. The universality of this theory makes it difficult to be put into practice in different third world countries.

2.3. The International-Dependence Revolution

During the 1970s, international-dependence models gained increasing support, especially among developing-country intellectuals, as a result of growing opposition to both the stages and structural-change models. While this theory to a large degree went out of favour during the 1980s and into the 1990s, versions of it have enjoyed a resurgence in the early years of the twenty-first century, as some of its views have been adopted, albeit in modified form, by theorists and leaders of the anti-globalization movement. Essentially, international-dependence models view developing countries as beset by institutional, political, and economic rigidities, both domestic and international, and caught up in a dependence and dominance relationship with rich countries. Within this general approach are three major streams of thought: the neocolonial dependence model, the false-paradigm model, and the dualistic-development thesis.

2.3.1 The Neocolonial Dependence Model

The first major stream, which we call the neocolonial dependence model, is an indirect outgrowth of Marxist thinking. It attributes the existence and continuance of underdevelopment primarily to the historical evolution of a highly unequal international capitalist system of rich country–poor country relationships. Whether because rich nations are intentionally exploitative or unintentionally neglectful, the coexistence of rich and poor nations in an international system dominated by such unequal power relationships between the center (the developed countries) and the periphery (the LDCs) renders attempts by poor nations to be self-reliant and independent difficult and sometimes even impossible. Certain groups in the developing countries (including landlords, entrepreneurs, military rulers, merchants, salaried public officials, and trade union leaders) who enjoy high incomes, social status, and political power constitute a small elite ruling class whose principal interest, knowingly or not, is in the perpetuation of the international capitalist system of inequality and conformity by which they are rewarded. Directly and indirectly, they serve (are dominated by) and are rewarded by (are dependent on) international special-interest power groups including multinational corporations, national bilateral-aid agencies, and multilateral assistance organizations like the World Bank or the International Monetary Fund (IMF), which are tied by allegiance or funding to the wealthy capitalist countries. The elites' activities and viewpoints often serve to inhibit any genuine reform efforts that might benefit the wider population and in some cases actually lead to even lower levels of living and to the perpetuation of underdevelopment. In short, the neo-Marxist, neocolonial view of underdevelopment attributes a large part of the developing world's continuing and worsening poverty to the existence and policies of the industrial capitalist countries of the Northern Hemisphere and their extensions in the form of small but powerful elite or comprador groups in the less developed countries. Underdevelopment is thus seen as an externally induced phenomenon, in contrast to the linear- stages and structural-change theories' stress on internal constraints such as insufficient savings and investment or lack of education and skills. Revolutionary struggles or at least major restructuring of the world capitalist system are therefore required to free dependent developing nations from the direct and indirect economic control of their developed-world and domestic oppressors.

One of the most forceful statements of the international-dependence school of thought was made by Theotonio Dos Santos:

Underdevelopment, far from constituting a state of backwardness prior to capitalism, is rather a consequence and a particular form of capitalist development known as dependent capitalism. . . . Dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can expand through self-impulsion while others, being in a dependent position, can only expand as a reflection of the expansion of the dominant countries, which may have positive or negative effects on their immediate development. In either case, the basic situation of dependence causes these countries to be both backward and exploited. Dominant countries are endowed with technological, commercial, capital and socio-political predominance over dependent countries—the form of this predominance varying according to the particular historical moment—and can therefore exploit them, and extract part of the locally produced surplus. Dependence, then, is based upon an international division of labor which allows industrial development to take place in some countries while restricting it in others, whose growth is conditioned by and subjected to the power centers of the world.

Curiously, a very similar but obviously non-Marxist perspective was expounded by Pope John Paul II in his widely quoted 1988 encyclical letter (a formal, elaborate expression of papal teaching) Sollicitude rei socialis (The Social Concerns of the Church), in which he declared:

One must denounce the existence of economic, financial, and social mechanisms which, although they are manipulated by people, often function almost automatically, thus accentuating the situation of wealth for some and poverty for the rest. These mechanisms, which are maneuvered directly or indirectly by the more developed countries, by their very functioning, favor the interests of the people manipulating them. But in the end they suffocate or condition the economies of the less developed countries.

2.3.2 The False-Paradigm Model

A second and a less radical international-dependence approach to development, which we might call the false-paradigm model, attributes underdevelopment to faulty and inappropriate advice provided by well-meaning but often uninformed, biased, and ethnocentric international “expert” advisers from developed-country assistance agencies and multinational donor organizations. These experts offer sophisticated concepts, elegant theoretical structures, and complex econometric models of development that often lead to inappropriate or incorrect policies which in many cases merely serve the vested interests of existing power groups, both domestic and international.

In addition, according to this argument, leading university intellectuals, trade unionists, high-level government economists, and other civil servants all get their training in developed-country institutions where they are unwittingly served an unhealthy dose of alien concepts and elegant but inapplicable theoretical models. Having little or no really useful knowledge to enable them to come to grips in an effective way with real development problems, they often tend to become unknowing or reluctant apologists for the existing system of elitist policies and institutional structures. In university economics courses, for example, this typically entails the perpetuation of the teaching of many irrelevant Western concepts and models, while in government policy discussions too much emphasis is placed on attempts to measure capital-output ratios, to increase savings and investment ratios, or to maximize GNP growth rates. As a result, proponents argue that desirable institutional and structural reforms, many of which we have discussed, are neglected or given only cursory attention.

2.3.3. The Dualistic-Development Thesis

Implicit in structural-change theories and explicit in international-dependence theories is the notion of a world of dual societies of rich nations and poor nations. Dualism is a concept widely discussed in development economics. It represents the existence and persistence of increasing divergences between rich and poor nations and rich and poor peoples on various levels. Specifically, the concept of dualism embraces four key arguments:

1. Different sets of conditions, of which some are "superior" and others "inferior," can coexist in a given space. Examples of this element of dualism include Lewis's notion of the coexistence of modern and traditional methods of production in urban and rural sectors; the coexistence of wealthy, highly educated elites with masses of illiterate poor people; and the dependence notion of the coexistence of powerful and wealthy industrialized nations with weak, impoverished peasant societies in the international economy.

2. This coexistence is chronic and not merely transitional. It is not due to a temporary phenomenon, in which case time could eliminate the discrepancy between superior and inferior elements. In other words, the international coexistence of wealth and poverty is not simply a historical phenomenon that will be rectified in time. Although both the stages-of-growth theory and the structural- change models implicitly make such an assumption, to proponents of the dualistic development thesis, the facts of growing international inequalities seem to refute it.

3. Not only do the degrees of superiority or inferiority fail to show any signs of diminishing, but they even have an inherent tendency to increase. For example, the productivity gap between workers in developed countries and their counterparts in most LDCs seems to widen with each passing year.

4. The interrelations between the superior and inferior elements are such that the existence of the superior elements does little or nothing to pull up the inferior element, let alone "trickle down" to it. In fact, it may actually serve to push it down—to "develop its underdevelopment."

Criticism

Dependence theories have two major weaknesses. First, although they offer an appealing explanation of why many poor countries remain underdeveloped, they offer little formal or informal explanation of how countries initiate and sustain development.

Second and perhaps more important, the actual economic experience of LDCs that have pursued revolutionary campaigns of industrial nationalization and state-run production has been mostly negative. If we are to take dependency theory at its face value, we would conclude that the best course for developing countries is to become entangled as little as possible with the developed countries, and instead pursue a policy of autarky, or inwardly directed development, or at most trade only with other developing countries. But large countries that embarked on autarkic policies, such as China and, to a significant extent, India, experienced stagnant growth and ultimately decided to substantially open their economies, China beginning this process after 1978 and India after 1990. At the opposite extreme, economies such as Taiwan and South Korea that have most emphasized exporting, at least, to developed countries have grown very strongly.

2.3.4. The World Systems Analyses

Before the 16th century, Europe was dominated by feudal economies. European economies grew from mid-12th to 14th century but from 14th to mid 15th century, they suffered from a major crisis. Wallerstein explains this crisis as caused by the following:

1. stagnation or even decline of agricultural production, increasing the burden of peasants,
2. decreased agricultural productivity caused by changing climatological conditions,
3. an increase in epidemics

As a response to the failure of the feudal system, Europe embraced the capitalist system. Europeans were motivated to develop technology to explore and trade around the world, using their superior military to take control of the trade routes. Europeans exploited their initial small advantages, which led to an accelerating process of accumulation of wealth and power in Europe.

Wallerstein notes that never before had an economic system encompassed that much of the world, with trade links crossing so many political boundaries. In the past, geographically large economic systems existed but were mostly limited to spheres of domination of large empires (such as the Roman Empire); development of capitalism enabled the world economy to extend beyond individual states.

A world-system is what Wallerstein terms a "world economy", integrated through the market rather than a political center, in which two or more regions are interdependent with respect to necessities like food, fuel, and protection, and two or more polities compete for domination without the emergence of one single center forever. A world-system is a territorial division of labor in which the production and exchange of basic goods and raw materials is necessary for the everyday life of its inhabitants. This division of labor refers to the forces and relations of production of the world economy as a whole. Wallerstein proposes three different categories, core, semi-periphery and periphery into which all regions of the world can be placed. Of them four, two are of the uttermost importance: core and periphery. These are geographically and culturally different, one focusing on labor-intensive, and the other on capital-intensive production. The core-periphery relationship is structural. Semi-peripheral states acts as a buffer zone between core and periphery, and has a mix of the kinds of activities and institutions that exist on them.

The core regions benefited the most from the capitalist world economy. For the period under discussion, much of north western Europe (England, France, and Holland) developed as the first core region. Core countries:

- Are the most economically diversified, wealthy, and powerful (economically and militarily)
- Have strong central governments, controlling extensive bureaucracies and powerful militaries
- Have stronger and more complex state institutions that help manage economic affairs internally and externally
- Have a sufficient tax base so state institutions can provide infrastructure for a strong economy
- Highly industrialised and produce manufactured goods rather than raw materials for export
- Increasingly tend to specialise in information, finance and service industries
- More often in the forefront of new technologies and new industries. Examples today include high-technology electronic and biotechnology industries. Another example would be assembly-line auto production in the early 20th century.
- Has strong bourgeois and working classes
- Have significant means of influence over non-core nations
- Relatively independent of outside control

This permitted the local bourgeoisie to obtain control over international commerce and extract capital surpluses from this trade for their own benefit.

On the other end of the scale lay the peripheral zones. These areas exported raw materials to the core and core expropriated much of the capital surplus generated by the periphery through unequal trade relations. These countries exhibit the following characteristics

- Have relatively weak governments
- Have relatively weak institutions, with tax bases too small to support infrastructural development
- Tend to depend on one type of economic activity, often by extracting and exporting raw materials to core nations
- Tend to be the least industrialized

- Are often targets for investments from multinational (or transnational) corporations from core nations that come into the country to exploit cheap unskilled labor in order to export back to core nations.
- Have a small bourgeois and a large peasant classes
- Tend to have populations with high percentages of poor and uneducated people
- Tend to have very high social inequality because of small upper classes that own most of the land and have profitable ties to multinational corporations
- Tend to be extensively influenced by core nations and their multinational corporations and often forced to follow economic policies that help core nations and harm the long-term economic prospects of peripheral nations.

Between the two extremes lie the semi-peripheries. These areas represented either core regions in decline or peripheries attempting to improve their relative position in the world economic system. They often also served as buffers between the core and the peripheries. Economically, these regions retained limited but declining access to international banking and the production of high-cost high-quality manufactured goods. Unlike the core, however, they failed to predominate in international trade and thus did not benefit to the same extent as the core. According to Wallerstein, the semi-peripheries were exploited by the core but, exploiters of peripheries themselves. Historically, two examples of semiperipheral nations would be Spain and Portugal, which fell from their early core positions but still managed to retain influence in Latin America.[Those countries imported silver and gold from their American colonies but then had to use it to pay for manufactured goods from core countries such as England and France. In the 20th century, nations like the "settler colonies" of Australia, Canada and New Zealand had a semiperipheral status. In the 21st century, nations like Brazil, Russia, India, Israel, China, South Korea and South Africa (BRICS) are usually considered semiperipheral.

Hegemonic powers maintain a stable balance of power and enforce free trade as long as it is to their advantage. However, hegemony is temporary due to class struggles and the diffusion of technical advantages. Finally, there is a global class struggle. The current world-economy is characterized by regular cyclical rhythms, which provide the basis of Wallerstein's periodization of modern history. After our current stage, Wallerstein envisions the emergence of a socialist world-government, which is the only-alternative world-system that could maintain a high level of productivity and change the distribution, by integrating the levels of political and economic decision-making.

World system theory propose that the poverty and backwardness of poor countries are caused by their peripheral position in the international division of labor. Since the capitalist world system evolved, the distinction between the central and the peripheral nations has grown and diverged.

Criticisms World-systems theory

World-systems theory has attracted criticisms from its rivals; notably for being too focused on economy and not enough on culture and for being too core-centric and state-centric. William I. Robinson has criticized world-systems theory for its nation-state centrism, state-structuralist approach, and its inability to conceptualize the rise of globalization.[Robinson suggests that world-systems theory doesn't account for emerging transnational social forces and the relationships forged between them and global institutions serving their interests. These forces operate on a global, rather than state system and cannot be undestood by Wallerstein's nation centered approach.

2.4. Neo-liberal Theory of Development

The term "neo- liberalism" is used to describe a variety of movements away from state control or protection of the economic activity, and toward corporate control of the market, particularly beginning from the 1970s.

Neo-liberalism is an economic theory cantered up on the values of unregulated trade andmarkets. It argues that free markets, free trade, and the unrestricted flow of capital will produce the greatest social, political and economic good. It advocates minimal government spending, minimal taxation, minimal regulations, and minimal direct government involvement in the economy. The argument is that market forces will naturally fill many areas of jurisdiction for the highest over all gain.

It is argued that the problem with underdeveloped countries is corruption related to the state interfering with adjustments in the market mechanisms by for example subsidizing prices, setting wages, or picking winners and losers in economic development.

As described by Professor Brad Delong, neo-liberalism has two main tenets. The first is that close economic contact between the industrial cores of the capitalist world economy and developing periphery is the best way to accelerate the transformation of technology which is the means for making poor economies rich. Hence all barriers to international trade should be eliminated as fast as possible.

The second is that government in general lack the capacity to run large industrial and commercial enterprises. Hence except for core missions of income distribution, public good/ infrastructure, administration of justice, and a few others, government should shrink its role and privatize state owned enterprises. Government should interfere in economy only in those areas that are not covered by private markets.

The neo-liberals argue that by:

a. Permitting competitive free markets to flourish

b. Privatizing state-owned enterprises

c. Promoting free trade and export expansion

d. Welcoming investors from developed countries &

e. Eliminating the plethora/overburdens of government regulations in factor of production and financial markets, both economic efficiency and economic growth will be stimulated.

Contrary to the assumptions of the dependency theorists, the neo-liberalism argues that the Third world is under-developed not because of the predatory activities of First world and the international agencies that it controls but rather because of the heavy hand of state and the corruption, inefficiency and lack of economic incentives that permeate the economies of developing nations. What is needed therefore is not:

i. A form of the international economic system

ii. A restructuring of dualistic developing economies

iii. Blocking increase in foreign aid

iv. A more effective central planning system

Rather, it is simply a mater of promoting free markets and laissez- faire economics within the context of permissive governments their allow the “magic of the marketplace” and the “invisible hand” of market force to guide resource allocation and stimulate economic development.

The Critiques of Neo liberalism

Although this theory advocates market fundamentalism for development to happen in developing nations, there are still several critiques against the theory.

History shows that today’s developed industrialized economies pioneered and relied upon state intervention during their development course in early stage of their development. For example, Britain and USA actively utilized protectionist policy or state regulation policy during early years of their development.

Neo-liberalism totally relies on free market economy /market fundamentalism/ believing that market can adjust and maintain the equilibrium between demand and supply. However, principle of market's invisible hand that keeps the balance may work for developed economies which have competitive suppliers /many sellers and many buyers/ and ample information for consumers. On the other hand, in developing economies, there are no such facilities that are needed for free market economy.

Free market economy is much ideal for developed nations that developing economies advantage in trade relations. Because developed nations can easily compete and get advantageous through their technological advancement which gives them more efficient and effective as opposed to developing economies which lack latest technology.

2.5. The Neoclassical Counterrevolution

Challenging the Statist Approach: Privatization and Free Markets

In the 1980s, the political ascendancy of conservative governments in the United States, Canada, Britain, and West Germany brought with it a **neoclassical counterrevolution** in economic theory and policy. This counterrevolution favored supply-side macroeconomics and the privatization of public corporations in developed-nations and called for the dismantling of public ownership, statist planning, and government regulation of economic activities in developing countries. Neoclassicists obtained controlling votes on the boards of the world's two most powerful international financial agendas—the World Bank and the International Monetary Fund; in conjunction and with the simultaneous erosion of influence of organizations such as the International Labor Organization (ILO), the United Nations Development Program (UNDP), and the United Nations Conference on Trade and Development (UNCTAD), which more fully represent the views of Third World delegates, it was inevitable that the neoconservative, free-market challenge to the interventionist arguments of dependence theorists would gather momentum.

The central argument of the neoclassical counterrevolution is that underdevelopment results from poor resource allocation due to incorrect pricing policies and too much state intervention by overly active Third World governments. Rather, the leading writers of the counterrevolution school, including Lord Peter Bauer, Deepak Lal, Ian Little, Harry Johnson, Bela Balassa, Julian Simon, Jagdish Bhagwati, and Anne Krueger, argue that it is this very state intervention in economic activity that slows the pace of economic growth. The neoconservatives argue that by permitting competitive **free markets** to flourish, privatizing state owned enterprises, promoting free trade and export expansion, welcoming investors from developed countries, and eliminating the plethora of government regulations and price distortions in factor, product, and financial markets, both economic efficiency and economic growth will be stimulated. Contrary to the claims of the dependence theorists, the neoclassical counterrevolutionaries argue that the Third World (many don't even accept this terminology) is underdeveloped not because of the predatory activities of the First World and the international agencies that it controls but rather because of the heavy hand of the state and the corruption, inefficiency, and lack of economic incentives that permeate the economies of developing nations. What is needed, therefore, is not a reform of the international economic system or a restructuring of dualistic developing economies or an increase in foreign aid or attempts to control population growth or a more effective central planning system. Rather, it is simply a matter of promoting free markets and laissez-faire economics within the context of permissive governments that allow the "magic of the marketplace" and the "invisible hand" of market prices to guide resource allocation and stimulate economic development. They point both to the success of countries like South Korea Taiwan, Hong Kong, and Singapore as "free market" examples (although, as we shall see later, these Asian tigers are far from the laissez-faire prototype ascribed to them by neoconservatives) and to the failures of the public interventionist economies of Africa and Latin America

2.6. Traditional ("Old") Neoclassical Growth Theory

Another cornerstone of the neoclassical free-market argument is the assertion that liberalization (opening up) of national markets draws additional domestic and foreign investment and thus increases the rate of capital accumulation. In terms of GNP growth, this is equivalent to raising domestic savings rates, which enhances capital-labor ratios and per capita incomes in capital-poor developing countries. Traditional neoclassical models of growth are a direct outgrowth of the Harrod-Domar and Solowx models, which both stress the importance of savings. According to traditional (old) neoclassical growth theory output growth results from one or more of three factors: increases in labor quantity and quality (through population growth and education), increases in capital (through saving and investment) and improvements in technology. Closed economies (those with no external activities) with lower savings rates (other things being equal) grow more slowly in the short run than those with high savings rates and tend to converge to lower per capita income levels. Open economies (those with trade, foreign investment, etc.) however, experience income convergence at higher levels as capital flows from rich countries to poor countries where capital-labor ratios are lower and thus returns on investments are higher. Consequently, by impeding the inflow of foreign investment, the heavy handedness of LDC governments retards growth in the stagnating economies of the Third World.

Conclusions and Implications

Like the dependence revolution of the 1970s, the neoclassical counterrevolution of the 1980s had its origin in an economics cum ideological view of the Third World and its problems. Whereas dependence theorists (many, but certainly not all, of whom were Third World economists) saw underdevelopment as an externally induced phenomenon, neoliberals (most, but certainly not all, of whom were Western economists) saw the problem as an internally induced LDC phenomenon, one of too much government intervention and bad economic policies. Such finger-pointing on both sides is not uncommon in issues so contentious as those that divide rich and poor nations.

But what of the neoclassical counterrevolution's contention that free markets and less government provide the basic ingredients for Third World development? On strictly efficiency (as opposed to equity) criteria, there can be little doubt that market price allocation usually does a better job than state intervention. The problem is that many Third World economies are so different in structure and organization from their Western counterparts that the behavioral assumptions and policy precepts of neoliberal theory are sometimes questionable and often incorrect. Competitive markets simply do not exist, nor, given the institutional, cultural, and historical context of many LDCs, would they necessarily be desirable from a long-term economic and social perspective. Consumers as a whole are rarely sovereign about anything, let alone about what goods and services are to be produced, in what quantities, and for whom. Information is limited, markets are fragmented, and much of the economy is still non monetized. There are widespread externalities (costs or benefits that accrue to individuals not doing the producing or consuming) of both production and consumption as well as discontinuities in production and indivisibilities (i.e., economics of scale) in technology. Producers, whether private or public, have great power in determining market prices and quantities sold. The ideal of competition is typically just that—an ideal with little relation to reality. Instead of the equilibrium, automatic adjustment framework of neoliberal theory, many LDC markets are better analyzed through disequilibrium, structural adjustment models in which responses to price and wage movements can be "perverse" (not in the direction predicted by traditional free-market models. Although monopolies of resource purchase and product sale are a pervasive Third World phenomenon, the traditional neoliberal theory of monopoly also offers little insight into the day-to-day activities of public and private corporations. Decision rules can vary widely with the social setting, so that profit maximization may be a low-priority objective in comparison with, say, the creation of jobs or the replacement of foreign managers with local personnel. Finally, the invisible hand often acts not to promote the general welfare but rather to lift up those who are already well-off while pushing down the vast majority.

Third World economies—not to mention their differing value systems and ideologies—often makes the attainment of appropriate economic policies based either on markets or enlightened public intervention an exceedingly difficult endeavor. In an environment of widespread institutional rigidity and severe socioeconomic inequality, *both* markets and governments will typically fail. It is not simply an either-or question based on ideological leaning; rather it is a matter of assessing each individual country's situation on a case by-case basis. Development economists must therefore be able to distinguish between textbook neoclassical theory and the institutional and political reality of contemporary LDCs. They can then choose the neoclassical concepts and models that can best illuminate issues and dilemmas of Third World development and discard those that cannot.

2.7. Alternative Development Theories/Approaches/ Strategies

The emphasis that Countries have placed in their development strategies in favour of either export led growth strategy or import substitution has influenced the evolution of current account balances and growth of output.

2.7. 1 Export Promotion

Those advocating export led growth strategy usually argue that it is the rational and efficient alternative to other strategies of development. Outward orientation and export led growth are argued to generate the necessary flexibility in shifting the economic resources to take account of the changing pattern of comparative advantage

Export led growth strategies refers to government efforts to increase exports on the assumption that they can improve not only foreign exchange earnings but also increase productivity and growth.

In the post war period, export promotion in Europe and Japan sought to overcome the severe foreign exchange constraints associated with reconstruction. Japan pioneered a new model of trade policy that combined relatively restrictive policies towards imports and inward foreign investment with aggressive promotion of export industries. While developing Countries did pursue efforts to increase productivity in export industries and stabilize earnings through international commodity agreements (ICAs), the main thrust of policy turned away from exports towards the development of domestic industrial capacity.

The overvalued exchange rates and protectionist trade policies associated with these efforts had the unintended consequence of determining exports. As a result, a number of developing Countries particularly in Latin America supplemented their ISI efforts with various subsidies to exports.

Export promotion efforts also included the formation of export- processing zones (EPZs) and the encouragement of export oriented FDI. Free trade enclaves provided foreign investors with infrastructure and logistical support for export oriented manufacturing. The EPZ model was pioneered in Korea, Taiwan and along the Mexican border with the United States, but rapidly spread elsewhere from Ireland to Bangladesh.

Abstracting from such factors as initial level of economic development, population size and natural resource endowment, developing Countries that have pursued strategies based on export promotion and export led growth have tended to achieve greater success in terms of real GDP growth, than those Countries that have sought to achieve growth based on import substitution and domestic demand. This result may be partly due simply to the gains from trade, but seems also related to the tendency for Countries with export promotion strategies to maintain more uniform incentives among activities and therefore to develop more efficient production structures than Countries with a strong bias toward import substitution.

The export led growth strategy has been implemented most successfully in East Asia where Countries Hong Kong, Singapore, South Korea, Taiwan which , Indonesia, Thailand and Malaysia (South East Asia) have set the pace for the rest of the developing world in using outward looking strategies to stimulate rapid growth and industrialization.

Brazil changed from an import substitution strategy to an export led growth strategy and saw increased economic growth. By the 1970s, their economic growth was in double digits, much higher than previous years. There was also a dramatic change in Columbia as well but the most dramatic change was in South Korea which began in the 1970s from a change from an import substitution strategy to one relying on trade and export growth. More Countries have started changing their economic policies from inward looking to outward looking based on the experience of Brazil, Columbia and South Korea.

2.7. 2 Import Substitution Industrialization

In the case of import substitution, by contrast, the costs of the strategies have often turned out to be greater than anticipated. In particular, the methods used to shield domestic sectors from foreign competition such as those used in many western hemisphere. Countries have in the event been more prone to produce distortions and resource misallocation than those used to favour exports as in certain Countries in Asia.

Import Substitution strategy is a strategy for economic growth and development which believes in protecting domestic producers from foreign competition by substituting domestic production of goods previously imported with domestic sources of production and supply and then substitute through domestic production for a wider range of more sophisticated manufactured items by levying tariffs and imposing quotas on some commodities then try and set up a local industry to produce those goods. The idea behind this is to raise the price for domestic substitutes for the imported goods. The increased price provides greater incentives for production for the home market by domestic firms relative to production for foreign markets (exports). From a development perspective, the goal of such a strategy has been to promote the growth of the manufacturing sector and therefore transform the economy from an agricultural one to an industrial base.

The incentives under import substitution regimes are typically characterized by import tariffs, import quotas and prohibitions on the importation of certain commodities. Such measures have resulted in effective rates of protection for manufacturing industries that have high and variable between different sectors of the economy. To raise budgetary revenue or to enhance national security, changes in the scope and average height of effective rates of protection are clear indications of whether a foreign trade strategy is being altered toward either greater import substituting bias or more uniform incentives.

Neoclassical economists argue that free trade leads to an optimal allocation of resources both between and within Countries. Thus, all Countries benefit through trade. But since all countries don’t have the same technological competence those countries whose technological sophistication is high benefit more those which have less technological base loses. Thus, free trade would inhibit the industrial transformation of these Countries. Newly established manufacturing firms in less developed Countries are not likely to operate at too small a scale and lack complete understanding of manufacturing technologies. In other words, they are unable to benefit from the economies stemming from large scale operations and from learning by doing.

The objective of import substitution strategies would be to protect infant industries in developing nations. The protection would allow these industries to expand operations so as to achieve economies of scale, as well as to give them time to learn. Once this process is complete, these industries would be able to compete internationally without protection.

Unfortunately, in much of the world these policies have failed. Economies of scale failed to materialize and little learning seems to have occurred. As a result, the protected industries have failed to become competitive. Even more importantly, the protected industries have used much of their resources to accumulate political power allowing them to gain significant control over policy making. This has been labeled as rent seeking activities.

2.8. Developmentalism and Developmental State

2.8.1. Developmental State Defined

Meredith Woo-Cumings describes the theory of developmental state as the explanation for the East Asian industrialization. According to Chalmers Johnson 'it is a shorthand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia' (Johnson 1982). Chalmers Johnson in his book MITI and the Japanese Miracle used this term analysing the process of the industrialisation of Japan. It is often conceptually positioned between a free market capitalist economic system and centrally planned economic system, and called a plan-rational capitalist system, 'conjoining private ownership with state guidance' (Woo-Cumings 1999: 2). Johnson admits that 'one of [his] main purposes in introducing the idea of capitalist developmental state [...] was to go beyond the contrast between the American and Soviet economies' (Johnson 1999: 32). Its roots are drawn from the theory of mercantilism advocating intervention of the state in the economy.

2.8.2. The Historical Evolution of Developmental State

It is believed that, historically, developmental state existed in Bismarck's Prussia and in Japan during the Meiji era. The governments of those states followed a state designed developmental path and until now have been favouring a state interventionism over a liberal open market, be it in the form of East Asian fast developer or of what later became the continental-European model of a capitalist welfare state. It is, however, the research on East Asia which eventually prompted the theory's formulation and allowed for it to be implemented in the scholarly debates and literature.

The extraordinary economic performance of a group of developing economies in East Asia since the 1960s has attracted competing explanations. The conventional view attributes the rapid economic development of these economies to trade liberalization and associated export promotion. It contends that the rapid growth of these economies was triggered by market led outward-oriented development strategies that ensured optimal allocation of resources.

In a comprehensive study of these economies, the World Bank was more cautious in its conclusions, to the point of fudging the issues at stake. It identified "market-friendly" policies as part of the policy menu of these countries. At the same time, the Bank acknowledged the role of government policies in the areas of skills acquisition, technological progress, and financial and labour markets (World Bank, 1993). Not surprisingly, therefore, the Bank has been accused of falling prey to the traditional dichotomies of "States versus markets" and "export oriented versus import substitution", an attitude which is symptomatic of the reluctance or the unwillingness of conventional economists to acknowledge the contributions of heterodoxy to the development debate.

To the non-conventional (heterodox) school, the performance of these countries is underscored by strategic development and industrial policies that derive from a symbiotic relationship between the political and bureaucratic elite and entrepreneurs. A variety of interventionist measures was used to direct resources away from old to new industries in order to alter their long-term development trajectory. The government–business relations that were critical to the success of this strategy were mediated through various institutions and policies. This ensured that subsequent "economic rents" were marshaled to address the objective of rapid economic growth. The institutional and policy framework of these countries also supported their strategic and systematic integration into the *Domestic Resource Mobilization and Developmental States* global economy.

The concept of "developmental States" emanated from this last insight into the performance of NIEs, and as such has become associated with the history of development in East Asia. It incorporates a simultaneous and specific combination of economic, political and institutional structures, which have been used heuristically to elucidate the phenomenal economic growth in the NIEs.

2.8.3. Common Characteristics of Developmental States

The literature distinguishes the developmental State from "non-developmental States" by both its ideology and structure. The ideology of the developmental State is fundamentally "developmentalist", as its major preoccupation is to ensure sustained economic growth and development on the back of high rates of accumulation, industrialization and structural change.

Structurally, such a State has (or develops) the capacity to implement economic policies that effectively deliver development, which in turn gives it legitimacy. This capacity is derived from a combination of institutional, technical, administrative and political factors.

It is a "strong State" that enjoys autonomy from social forces that might otherwise dissuade it from the use of its capacity to design and implement policies that are in its long-term interest. At the same time, it develops some "social anchoring" that prevents it from the use of its autonomy in a predatory manner, which is what secures it the approval of key social actors.

Thus, what makes the developmental State effective is not just autonomy, but "embedded autonomy", in which the State is immersed in a network of ties that bind it to groups or classes that can become allies in the pursuit of societal goals (Evans, 1995).

Another feature of developmental state is a pragmatic mix of market and state action. Neither the "market" nor the "State" can by itself deliver the ultimate goal of development. The real path to sustainable growth and development emanates from a pragmatic mix of markets and state action, taking into consideration the country-specific development challenges. The experiences of the NIEs, nevertheless, point to some common characteristics of developmental States. Active development strategies, in particular industrial policies, are at the heart of the success of these States in "creating winners" rather than "picking winners". Clear policies and goals are set for the economy in terms of export promotion, investment in human capital and credit allocation via state development banks. Issues of economic coordination were addressed through innovative measures, whilst efforts were directed at minimizing bureaucratic failure. Industrialization was driven by learning processes, borrowing of technology and an array of policies, including targeted taxation, protection, restrictions on foreigner shareholding, financial sector policies that revolve around directed lending, a skilled and educated labour force, including training in the civil service and in technology at tertiary levels, and the development of infrastructure. All of these are underscored by long-term relations between political powers and the private sector, and between the banks and public and private firms – the so-called "alliance capitalism". Typically, heterodox economic policies, such as state intervention (targeted on growth) and political rent-seeking, were subjected to market discipline.

Flexibility was built into long-term industrial strategies, whilst short-term, rigid, regulatory measures promoted the strengthening of institutions. Technocratic autonomy was given primacy over political power, although it was embedded in society, as well as in private sector and industrial networks. The strengthening of institutions stimulated economic growth, which in turn strengthened democratic traditions and dispensation. While not often mentioned, social policies were an important ingredient in the arsenal of developmental States. These policies revolved around non-state entities such as families and firms, with the State guaranteeing the implementation of social welfare programmes.

Finally, developmental states were highly selective in their liberalization and export-oriented strategies, often ensuring the development of a competitive sector before opening it up.

The development process in the developmental States has been described as an institutional interventionist solution (to the problems of underdevelopment) pivoted on the principle of reciprocity. There is a "reciprocal control mechanism", whereby Governments provide assistance (e.g. subsidies) to the manufacturing sector, which then reciprocates by meeting a performance standard (e.g. export target). Governments tried "getting the control mechanisms 'right'", rather than trying to get "prices right".

2.8.5. Key Challenges to Development in Developmental States

1. **Lack of Development oriented Leadership**

The developmental state ambitions were pursued in many countries after independence. However, the development project was not supported by sustainable visions of development. The main weakness was overbearing statist intervention in the economy. Supported initially by primary sector export income, poorly performing state- owned enterprises were kept on the books and subsidized by the treasury, becoming a major drain on scarce foreign exchange reserves. In addition, excessive statism encouraged rent- seeking behavior which detracted economic actors from productive activities.

2. Lack of Autonomous and Efficient Bureaucracy

Although the post- colonial state assumed a huge economic role, it did not have the manpower and lacked the regulatory capacity and administrative ability to efficiently manage the tasks at hand. The bureaucracy in post- colonial Africa also lacked the autonomy deemed necessary in a developmental state. This had detrimental effects on the performance of the bureaucracy, particularly with regard to policy making and implementation. It also made the bureaucracy susceptible to predatory behavior (corruption, rent- seeking, abuse of public resources) and a basic lack of accountability. In most cases, post- colonial bureaucracies are said to have been "part of the problem" because they failed in their role as policy and public resource custodians.

3. Lack of a strong private sector

The private sector did not play a significant role in the national development process during the post- colonial era. On the one hand this is understandable given the weakness of indigenous business after independence. More significantly, however, the state in post- colonial Africa was instinctively opposed to private sector development and did not recognize the private sector as a crucial development player. There was a lack of incentive mechanisms to encourage private investment. Instead, state dominance of the economy led to the neglect and crowding- out of the private sector from the economic arena. To be successful businesspeople depended heavily on political connections rather than performance. Such state business relations encouraged corrupt practices to secure contracts and negatively affected business efficiency and productivity.

4. Lack of Performance- oriented Governance

Most post- colonial African states opted for one- party systems of rule shortly after independence. As a result, regimes that were autocratic and intolerant came to characterize the continent. Proclaimed as appropriate for the dual tasks of nation- building and socioeconomic development, they served more often than not, to bolster the ruling elites' power and to facilitate their self- enrichment, to establish predatory rule. Although varied in degree, regimes under predatory rule were based on intense personalization of authority and were not conducive to performance- oriented governance. Ruling elites in such regimes depended on the distribution of spoils to stay in power and diverted huge amounts of public resources for patronage purposes, detracting from genuine development efforts in the process.

5. **The Decreasing Role of the State in the Increasingly Globalized Economy**

The role of the state is changing with the acceleration of globalization since previous policy tools like tariff protection, subsidies for local industries and so on become less available and effective. In addition the pressure from international organization like IMF and World Bank to liberalize trade and privatise capital in return to get foreign aid has become big challenge for countries which are following a developmental state model

Even though this are challenges faced by developing countries these does not mean that developing countries cannot overcome these challenges. The experience of successful developmental states like South Korea Japan and others does not show that all that they embarked their developmental trajectory without challenge.

- Discuss in group one of the following Developmental States:

Japan, South Korea, China, Brazil, Botswana, South Africa, Ethiopia

2.8.6. Post-Development Thinking: Environment and Development

People have long been concerned with the health of the environment. It was not until the 1960s, however, that conceptual frameworks focusing on the environment and development began to emerge. The publication of Rachel Carson's *Silent Spring* in 1962 was a landmark event which has often been regarded as marking the beginning of the environmental movement. The concept of "sustainability" was formulated as a result of discussion of the linkage between pesticide use and widespread pollution, of the effects of pollution on the health of humans and other animals and plants, and through proposals for managing resources in a way which does not destroy supplies of resources needed in the future. In the following decades, an increasing awareness of the need to balance human needs with the well-being of the natural world has grown. Much literature and discussion has addressed this theme, and a wide variety of social and political policy responses has been developed.

Human perceptions are socially and historically constructed. During industrialization a world-view of human welfare evolved which was based on materialism and the pursuit of wealth, achieved primarily through economic development, which is usually measured in terms of industrial expansion and economic growth. By the mid-twentieth century, as the industrialized countries looked to ever higher material standards of living and less-developed countries accelerated industrialization in emulation of their achievements, this world-view—based on the "conquest" of nature—had been accepted almost universally. The pursuit of development had become so important that nothing else seemed to matter very much. A country is considered "developing" when it is experiencing expansion of its productive capacity. The crudest, and most commonly used, indicator of this is Gross National Product (GNP), and/or GNP per capita. The well-being of all people depends largely on economic growth, which must keep pace with population increases: indeed it is difficult to imagine development without economic growth. As a result, however, nature has been sacrificed in the name of economic development. The pursuit of wealth and exploitation of the planet had taken place on an individualistic basis, on a collectivist basis, or a mixture of the two. Environment problems began to cause increasing concern in growing segments of societies, however, mainly in the developed countries.

The intensification of environmental concerns in the 1960s led to questioning of the conventional orthodoxies of economic growth. In 1972 the Club of Rome, composed of prominent political and social figures, published an important report, *The Limits to Growth*. This formed part of the critique of the industrial world-view which climaxed in the late 1960s and early 1970s, and hence was known as the "Doomsday" debate. The critique challenged the conventional pursuit of growth objectives. *The Limits to Growth* pointed out that growth cannot be pursued without limit because the world's resources are finite, and argued that the accepted model of exponential growth was harmful to the global equilibrium between population and resources. Such growth could not be sustained, as it would challenge the finite nature of the world's endowment of natural resources. The report therefore recommended an end to existing growth patterns in order to recover an equilibrium. It was followed by calls for "zero-growth" strategies in some developed countries.

The Limits to Growth, in criticizing "growth fetishism," prompted a fresh look at the relationship between economic growth and environment. However, anti-growth sentiments in turn prompted wide criticism. This dialogue was later partially superceded by suggestions that environmental protection and continuing economic growth were not in fact mutually exclusive aims, and therefore not necessarily in conflict. From this debate arose the concept of "sustainable development." This term was first used at the time of the Cocoyoc Declaration, adopted by the UN Environment Programme (UNEP) and UNCTAD in Cocoyoc, Mexico, in 1974. It entered the public arena in 1980 when the World Conservation Strategy was presented, in pursuit of the overall aim of achieving sustainable development through the conservation of living resources.

The argument for sustainable development holds that economic growth at the expense of uncontrolled depletion of natural resources is, by definition, not "sustainable." Present ecological conditions must be protected, in order to support a specific level of human well-being and for the benefit of future generations. This argument opposes seeking economic growth at any cost, and emphasizes not only the opportunities but also the constraints that the natural world presents to human activity. Therefore, sustainability begins with the notion of *ecological* sustainability, and calls for a broader view of both economics and ecology. The concept of sustainable development has left many issues in the relationship between environment and development to be debated further, however. While many consider—or wish to believe—that the needs of development and the environment should not be in automatic conflict, even today the two have not been reconciled into a harmonious relationship. The relationship has been approached from a number of perspectives, reflecting different world-views of the relationship between humanity and nature. The basic conflicting world-views may be seen as those of anthropocentrism and of biocentrism.

The *anthropocentric* tradition maintains that humankind is above nature, and has the right to subjugate it. It has both religious and secular aspects. Christianity is by far the most anthropocentric of the major religious traditions, which calls on humankind to impose its will on the natural world. This tradition has become integrated into the secular world in the form of industrialism, expressed by the scientific–rationalist concept. This concept has its roots in the ideas of Bacon, Newton, Descartes, and others who believed that planet earth exists for the benefit of the human race. The human world is seen as separate from the natural world, and humankind as superior to the rest of life on earth. It is largely on the basis of this view that social sciences were established as distinct disciplines independent from natural science.

The opposite view is the *biocentric* tradition. This tradition opposes the pursuit of wealth as a goal in itself, and seeks to enhance the non-material dimension of the human experience. It emphasizes quality of life, which is seen as quite distinct from the quantity of material possessions. The biocentric view gives greater recognition to the wholeness of the planet, regarding the pursuit of wealth through industrial expansion and economic growth as ultimately incompatible with the earth's finite resource base. This view also takes the position that economic growth at the expense of natural resources represents consumption of what belongs rightly to future generations. It promotes the idea of "right livelihood": in other words, that consumption should be based on human need rather than human greed.

The anthropocentric view gained ground during the era of industrialization. The development of social sciences most clearly reflected this trend. By the early twentieth century, social sciences incorporated two important notions that had been very influential up to that time. The first was that economic growth was essential to the health of human society, and that this could be achieved on the basis of exploiting natural resources. The second was a reliance on "non-naturalistic" explanations of the development of human societies. Contemporary social sciences had tried to break free from biologically grounded social theory, insisting on the distinctive features of social processes as opposed to evolutionary development and social Darwinism. In the context of the emerging environmental debate in the 1960s, the detachment of social sciences from natural science began to be questioned, and the industrial world-view associated with the anthropocentric tradition was challenged. The new thinking emphasizes that humankind is part of nature, and that all life forms are interconnected. It follows that if humankind seeks to "subjugate" the planet this threatens its own existence, potentially leading to the destruction of humankind together with nature.

Tensions between these two scientific traditions—exemplified by different approaches to relationships between humanity and nature, or between the environment and development—continue today. It must be recognized that the anthropocentric position, in its various guises, remains dominant in the mainstream thinking of national and international societies. On the other hand the influence of the ecological critique of the industrial world-view, and that of the ecological movement on political decision-making and social processes, has grown enough to warrant attempts by anthropocentric thinkers and practitioners to "dilute" the domination theory. As a result, the concept of sustainable development has become embraced by a growing number of social forces. This has meant wider acceptance of the idea that some attention must be paid to environmental concerns. A diversity of perspectives and approaches emerged in relation to this development, as well as a range of policy options with regard to the environment and development.

1.2. Different Approaches to Sustainable Development

With increasing public acceptance of the concept of sustainable development, a whole spectrum of perspectives linking anthropocentric and biocentric views has developed. A ladder-like set of approaches and policy options associated with sustainable development has been identified. On the top of the "ladder" is the ideal approach to sustainable development. This position has been termed the "ecological" approach, as represented by the deep ecology movement. It envisages a form of "pure" sustainable development, in which humankind puts as much into the world's ecosystems as it takes out. Because humankind is seen to be living within finite ecological constraints, economies will have zero growth in quantitative terms. Instead growth should be measured in qualitative terms, in other words on the basis of quality of life rather than standard of living. Quantitative growth may occur only in certain areas—for example, in developing countries and poorer areas of developed countries—but there must also be *negative* growth in areas which are already highly developed. This ecological position is based on the biocentric view, viewing the earth as a home for all life rather than simply for humans. Non-human life is seen as valuable in its own right, independent from its usefulness to humans. The underlying conviction is that human beings should live in harmony with other living beings and processes. Seeking a morally egalitarian understanding of the value of different forms of life and adopting a holistic attitude towards planet earth, this model apparently offers a radically new attitude towards nature, to be expressed by radical change in existing social, economic, and political systems.

This ideal model emphasizes the social aspects of development, and considers the existing systems for measuring development as largely inappropriate. Instead, it proposes working out a more detailed set of development indicators that focus on quality of life. Greater account should be taken of production activities outside the formal economic system: for example, not-for-profit economic activities by community based organizations. Such activities are important to the improvement of quality of life, and would therefore be encouraged even though they do not create monetary wealth. The ecological model of sustainable development has a small following, partly because some of its tenets can easily be dismissed as eccentric and/or untenable. For example, it is far from obvious to many people that everything that has life should be valued in the same way as humans. The concept of zero growth as a solution to the environment problems of our era has also been rejected by many. Nevertheless the ideal model, and social movements committed to it, can serve as a useful reminder for the necessity for change in the face of the difficulties of incorporating environmental values within the existing economic paradigm and system.

The next rung down the ladder is occupied by "strong" sustainable development. This position opposes the claim that economic development is a precondition of environmental protection, and argues that environmental protection is a precondition of economic development. This requires a new kind of economic development, which is more focused on the environmental dimension than has been the case hitherto. Under "strong" sustainable development, political and economic policies are geared to maintaining the productive capacity of environmental assets which are either worthy of preservation, such as tropical forests, or are capable of being improved, such as degraded soils. The accomplishment of this goal requires not only market regulation and state intervention but also the involvement of local communities, in such matters as the development of local economies and sustainable utilization of local environments. This approach puts less emphasis on quantitative growth. Unlike the ideal model however, which calls for an end to *quantitative* growth, it advocates a switch to *qualitative* growth, while the overall objective of sustaining economic growth remains. Policy instruments are particularly important to the "strong" approach to sustainable development. A wide range of tools and mechanisms in legal, economic, fiscal, and environmental sectors is needed to influence or force changes in economic and social behavior. Government instruments in the environment sphere would include legal regulation in areas such as land-use planning; financial incentives and economic measures such as green taxes, pollution charges, tradable resources, and pollution permits; subsidies and depositrefund schemes; various kinds of public expenditure; and encouraging changes in behavior through information, publicity, and persuasion. Below this lies “weak” sustainable development, which aims to integrate economic growth with environmental concerns. This position argues that there are two fundamental dimensions of sustainability:

- sustainable development, that is, the sustainable growth of per capita real incomes over time which is the traditional economic growth objective
- sustainable use of resources and the environment.

Under this position, the principle of new classical economics may be applied to the solution of environmental problems, and the main objective of policies to promote sustainable development remains economic growth. The difference from the “traditional” growth model is that environmental costs are taken into consideration through, for example, new accounting procedures. These procedures reflect the fact that the environment is considered a measurable resource.

“Weak” sustainable development has had a growing influence on international agencies, including the World Bank and the UN, and corresponds with what is usually intended by environmental management. Apparently it is closely associated with the anthropocentric view of nature as providing both material and environmental wealth to serve humankind. *Material* wealth creation is viewed as inseparable from *environment* wealth creation, which can be achieved through technical manipulation by enlightened managers equipped with new managerial and administrative tools. These include environmental impact assessment, cost-benefit analysis that takes account of the non- market aspect of environmental goods and services, and marginal adjustments to market forces using policy tools such as fees, taxes, and tradable permits.

The critique of this approach argues that the resource accounting method it endorses is highly ethnocentric, and biased in favor of the view of developed countries in terms of the development process. “Weak” sustainable development values the environment only in monetary terms, and not for its own sake in cultural or spiritual terms. As a result it leaves the new classical economic paradigm, with all its limitations, intact. It reduces environmental problems to managerial problems, which are viewed as soluble without changing the dominant political and economic system. The main beneficiaries of this model of development are the present generation, as opposed to future generations. Furthermore, this “environmental management” approach often takes no account of local peoples’ relevant experience. Consequently, governments and policy makers run the risk of importing inappropriate solutions to environmental problems from elsewhere, typically from the industrial “core” to its “periphery.”

At the bottom of the ladder is the “treadmill” approach, which is represented by multinational companies and the world of high finance. This approach sees the natural environment solely in terms of its utility to the economic system: sustainable development becomes synonymous with sustainable economic growth, which is measured in terms of the expansion of production. Under this approach, conventional methods for the accounting of wealth remain intact and the focus is on a narrow range of economic indicators such as income, investment, profit, and exports. Policy tools continue to aim at maximizing production and economic growth. Because this approach emphasizes the monetary dimension of economic activity, it often ignores its environmental impact. The "treadmill" approach views development in terms of the extension of western capitalist development into other areas of the world. The underlying assumption is that human ingenuity, given full freedom of innovation (especially expressed through technology), can solve any environmental or technical problem. According to some adherents to this approach, there is no limit to the capacity for humans to manipulate environmental systems, because humans' capacity to understand the world is unlimited. Essentially this approach, emphasizing the production imperative with little or no concern for environmental consequences, was the dominant position adopted by industrial capitalism until the early 1980s, and it is still to a large extent reflected in the industrial world. For economic activities, such as those in modern enterprises, based on the principle of maximization of profit the primary aim is to ensure competitiveness in the market. It is not hard to understand that environmental regulations which may increase production costs are unlikely to be welcomed.

Defining these four approaches may help to understand the policy debate associated with different approaches towards sustainable development at international, national, and sub-national levels. Certainly these approaches are not mutually exclusive. They represent a spectrum of schools of thought which often overlap in various respects. For example, "strong" sustainable development supports the role of the not-for-profit organizations operating in the economy, which has also been promoted—albeit more strongly—under the "ideal" model. The further the approaches diverge from each other, however, the less they agree on the substance of sustainable development and the most appropriate methods for delivering it. There is little in common between the extremes of the spectrum. Nevertheless, the four approaches and their variations represent all possible conceptualizations of the relationship between humankind and nature, as well as of the solutions to the contemporary environmental crisis.

Chapter Three: Diverse Structures, Major Problems, and Issues of Developing Countries

3.1. Historical Incidences of Contemporary Development Crisis in Developing Countries

3.1.1 External Factors

Development crisis in developing countries can generally be categorised as internal and external. It is not fair to take one of them to have caused the present poor condition of these countries but both internal and external factors have played their role to undermine development in developing countries. Now let us see external factor associated with European imperialism.

Colonialism is the direct and overall domination of one country by another on the basis of state power being in the hands of a foreign power. Colonialism is a direct form of imperialism. This is why it is often said that all colonialism is imperialism, but not all imperialisms are colonialism." The colonization European powers was necessitated by several factors. Notable, among the factors was the emergence of the industrial revolution which brought about a rapid change in the socio-economic transformation and technology of the European countries. The industrial revolution led to increase in production. The progress in the industry went faster than the progress in agriculture. It was becoming increasingly hard or difficult for the agriculture to satisfy the demand for raw materials required in the industries. There was therefore, the need for the European powers, for example, the British to go outside the country to look for additional raw materials. Furthermore, as a result of the decline in agricultural production, there was the problem of how to produce enough or adequate food to feed the fast growing urban population. In other words, the rural areas in Britain for example, were finding it increasingly difficult to produce enough food to feed the increasing urban population. Similarly, there was also need for market, not only for the production of raw materials but for food to sustain the increasing population. As a result of rapid increase in technology, new products were produced at a faster rate than the populations. Developing countries with their large population constituted a ready market for such products. Furthermore, as result of low wages paid to workers, there was accumulation of profits by the industrialists at a faster rate than they could invest back. There was under-utilization of capital in Europe at this time, and a need to find where these capitals will be transported and invested for the creation of new products.

It was during this process of investment of the surplus capital that imperialism emerged. When Europe pioneered industrial capitalism, her demands upon the resources of the world increased tremendously. In addition to obtaining spices for her tables and manpower for her mines and plantations in the Americas, Europe set out to seize for her factories the mineral and agricultural resources of all the world. Her need to take African manpower to the Americas declined. She needed instead to put African labour to work in Africa, digging up for her the riches of African mines; the trading companies that had for centuries bought and sold on Africa's coast were found inadequate for seizing and carting off the raw materials of the African hinterland. Europe now felt a need to export her power into colonies interior to reorganize the farms, mines and markets for Europe's greater profit. Her adventures banded together, obtained charters from their national governments, and came to seize the colonies markets, from the African middlemen with whom for centuries Europe had been content to trade. Africa's coastal rulers naturally resisted all encroachments and battled to maintain the status quo. They strove to retain their position as middlemen, importing and distributing European wares to the hinterland, and collecting produce from the hinterland markets and selling it to European merchants who came to the coast. The new breed of European merchants, however, wanted direct access to the hinterland markets so that, by eliminating the profits of the African middlemen, they could enlarge European profits and directly supervise African production. The situation was ripe for conflict. There was a severe struggle and conflict between the colonialists and the African chiefs in the attempt to take full control of the African economy.

The colonialists needed raw materials for their industries and the way the developing country's economies were organized at the time, they were not sure of steady supply of the required raw materials. This situation necessitated the quest for direct take over and control of the economy and administration of the colonies enclaves and states. The colonialists had to direct the economy in such a way that the required raw materials were produced. For example, if the colonialists required palm oil for their soap making industry, they had to compel Africans to concentrate on the production of this commodity in commercial quantities so that the industry concerned could have adequate and steady supply of this product. If the colonialists did not take full control and direct production in the economy, the African people who are the producers might decide to produce yams more than palm oil, because this might be what was in high demand within the local economy.

The colonialists also had to take direct control of the colonies economy and political administration in order to produce the type of food required for their industrial workers back home. One of the reasons for the colonization of Africa as we know is that the colonialists required additional food supply and spices for the fast increasing urban population as a result of the industrial revolution. The industrial revolution initially came with decline in agricultural production in Europe and as a result it was hard for the rural areas to produce enough food for the increasing urban population. There was therefore the need for market not only for the population of raw materials but for the food to sustain the increasing population. Similarly, there was need for the colonialist to take direct control of the African economy and political administration in order to reorganize the economy and the markets to make it possible for integration into the world market and international economy. The African economy before colonization was primitive and based on barter system. Since one of the objectives of colonialism was to find market for the European manufactured goods and raw materials for the industries, there was need for an organic linkage between the African economy and market with that of the international system controlled and directed by the colonizers. Through direct control of African economy and political administration made possible colonialism. Africa was compelled or forced to accept the international division of labour which assigned her the compulsory role of production of agricultural raw materials required by the industries in Europe.

This explains why up till today, the role of dveloping economy and states in the world market or international trade is the production of primary goods and agricultural products. The advanced countries of Europe controlled the production of manufactured goods. As we know, one of the reasons for the colonization was the need for a suitable market where the numerous European manufactured goods could be easily disposed of at a reasonable profit. Since the local economy was essentially based on barter system, there was the need to monetize the economy to be in line with the European market and the international trade standard. This money was introduced as the only official acceptable medium of exchange and to enforce this, there was need for the colonialist to take direct control of the administration of the colonies.

Furthermore, there was also the need for the colonialist to take full control of the local economy and administration to ensure that these countries were made a consumer nation for European manufactured goods. If this situation was not guaranteed, it would affect the development and progress of the new industrialization in Europe, because most of the industries would be compelled to close down if there are not ready market and consumers for their products. Also direct control of the colonial economy and political administration enabled the colonialist to ensure that states did not take to manufacturing. It helped to restrict colonies and their technology to the confines or role of producing only primary goods or agricultural raw materials needed by the industries in Europe. This is the main reason why today developing countries find it very difficult to industrialize and to go into full manufacturing. This also explains why developing countries are a consumer nation for foreign manufactured goods. The situation equally accounts for the present underdevelopment of the developing countries and their technology.

The colonialist had to take direct control of colonial economy and administration as a means of protecting the capitals they had transported from Europe. We are aware that one of the reasons for colonization was because the colonialists were looking for where to invest the surplus capital which was accumulated as a result of the industrial revolution. It was felt among the European merchants that for effective and efficient management, as well as maximization of the capitals transported to the colonies, there was need for their home governments to take direct control of the colonial economy and political administration of the area.

The capital brought in by the European merchants had to be protected through direct control and administration of the colonies in order to create a conducive atmosphere for its operation. It is important to note that initially, colonies lacked the type of technology necessary for the exploitation and maximization of the exported capitals.

There was therefore the need to reorganize and reorient the colony's labour force to adapt to the requirements and demands of the exported capital. To get people in the colony interested in working for the Europeans or the industrialists/ merchants who had exported the capital, there was need for compulsion or use of force. The capitals industrial organizational life associated with it were alien to the colony's economy and labour force. It was therefore hard for the colonies to voluntarily and willingly move to seek for job in the new industries developed with the exported capital. The problem or question then was how the colonies could be compelled to work in the new industries and change their work attitude to that of industrial life without revolt or with minimum violence. The only option was to take direct control of their economy and political administration and then use government machinery through the proclamation of laws to compel them to move from their enclave and to abandon their traditional system of production in preference to that of their colonizers.

NEO-COLONIALISM and METHODS USED TO EXPLOIT DEVELOPING COUNTRIES

Neo-colonialism or Neo-imperialism is the geopolitical practice of using capitalism, business globalization, and cultural imperialism to influence a country in lieu of either direct military control or indirect political control imperialism and hegemony. "The term neo-colonialism was coined by Ghanaian president Kwame Nkrumah, to describe the socio- economic and political control that can be exercised economically, linguistically, and culturally, whereby promotion of the culture of the neo-colonist country facilitates the cultural assimilation of the colonized people and thus opens the national economy to the multinational corporations of the neo-colonial country"

The political science term "neo-colonialism" became popular usage in reference to the continued European economic and cultural control of countries that had been decolonized in the aftermath of the Second World War (1939–45). Kwame Nkrumah, president of Ghana (1960–66), coined the term "neo-colonialism" in the book Neo-Colonialism, the Last Stage of Imperialism (1965).

METHODS USED BY NEO-COLONIALISM TO EXPLOIT DEVELOPING COUNTRY

ECONOMICS METHODS

Neo colonialist used various method to exploit developing countries. The method used are politicial, cultural,social as well as economic method. By starting with economic they exploit developing countries as follows.

Mass imperialist investment. Imperialist nation invested much in developing countries. They have many companies in which they exploit market area and cheap labour. C*ounties from Europe and America have been able to get inexpensive natural resources from poorer countries in Africa Asia and Latin America including oil for power ores and minerals.*

Another economic method is world market control European and America control the world market by fixing price of African cash crops by keeping the prices low so that Africa remain dependant to their aid .To make Africa a damping place for cheap labour and market for Europen manufactured goods with the aim of exploiting African and Asia countries. I*mperialist nations have mandate to fix price of Africa cash crops and other raw materials in addition with conditions.*

Another method under economic method is through giving loans and grant. Imperialist nation used the organs such as world Bank, IMF, to give the developing countries loans and grant which paid with very high interest rate and unrealistic conditions. This prove hard for developing countries to pay back, that result into debt burden hence underdevelopment.

Unequal exchange is another economic methods which used by neo colonialism to exploit developing country. The developed countries will produce cheaper high quality goods in large quantities in a shorter period of time. This is because they enjoy advantages of better technology expertise, transport, electricity among others. Something manufactured in America can take only two hours to be produced. In developing country it may take a week. This makes it difficult for poor countries to compete with the rich one . *France is Cameroon first trading partnerWith a commercial exchange of about 860 Million Euros in 2009. However the trading Balance is negative for Cameroon with 597 Million Euros imports from France and only 263 million Euros of Cameroon export*.

Another economic method is through technology. There is minimum technology transfer from the rich to the poor countries. For example in the case of coca cola, they will bring machinery and powder but cannot allow the developing country to access the technology know how of manufacturing soft drinks. Money for the purchase of the machinery the powder and expertise find its way back to the developed country.

SOCIAL METHODS

Apart from economic, socialy they exploit as follows: Through mass media. Through this world wide mass media such as BBC, CNN, VOA, DW and others making Africans to listen these in which they inspire different issue for their interest of exploiting the developing country.

Education also used by the neo-colonialist to exploit developing countries. In developing countries the curriculum controlled by imperialistic rather than practical education. Hence we educate the Africa but without any achievement since education insist to be employed instead or employed on self. Through provision of scholarship to Africans to study abroad, in their countries and this creates a class of elites who are westernized in making a class. *"Through Western education the African who got scholarship adopt western culture and ignore their homeland culture"*

CULTURALS METHODS.

Culturally they exploited as follows. Language; the Neo colonialism emphasize the use of their language for instance English ,French,Germanic,. All the issue used in business and technology which developed by themselves for their own interest. Kwame Nkrumah in his book of I speak of Freedom said. *"African language is for African development and foreign language is for foreigners development, so if we forced to use foreign language we forced to develop foreigners instead of Africa"*

Western standard like culture dressing; food are also exploitation under cultural aspects and christianity. through adopting western warring style and western food, it means we open the door for importing these things from Western hence create the market for neo colonialist and developed them instead of preserving our culture in aspect of dressing style and eating manner which develop our counries.

Destruction of culture culture, This was social method which used by neo-colonialism to destroyed poor countries culture through introducing their culture. For example culture of greeting, marriage, wearing style.

POLITICAL METHODS.

Politically, neo-colonialism used the following approach to exploit developing countries.

Through establishing relation with rulling class. The Neo colonialist used to establish good relationship with ruling class so as to influence their interest through them for instance treaty to conduct various activities of economic such in mines, gas which are benefit to them.

"Through establishing relation with a rulling class and create puppete Leader so that can be enfluenced according to their interest (the imperialist)."

Through plating and supporting puppet Leaders. The imperialist used to support the puppet leader who serves their interest. Leaders enhance individual benefit with the imperialist and the countries remain in poor condition. It is common in developing countries the leaders are very rich while their citizen live in poor economic standard.

Through establishment or military base. The imperialist introduce the military basic in developing countries to safreguerd their interest .

Defense agreements. According to the official doctrine, French military interventions are conducted only on request of the African government and within the framework of a defense agreement, reason. Why these agreements constitute the centre piece of French military relations with its former African colonies? The defense agreements generally originate from *"Colonial times and represent a deal between France and the African ruler in that they provide military Protection in exchange for favorable access to raw Materials.*

coup d'état in developing countries. The neo colonialist conduct coup d'état especial to those leaders who are against to their interest of exploiting there country. For those leaders who are strong to protest their Nation economic had been over thrown through coup d'état, for instance 1960,Lumumba of Zaire(DRC),1966 Kwame Nkurumah of Ghana.

Globalization and Macroeconomic Stabilization and Restructuring attempts and International Institutions'(IMF and WB) Policy Conditionalities

Globalisation is internationalization or the diminishing of importance of boundaries in many respects that go beyond trade and economics or even the increase in the nature of connection between states whereby internal issues in one state may be affected by the happenings of affairs in other states. Globalization could be defined as, "a process as a result of which the world becomes more connected and more dependent on all its subjects." Globalization refers to the multiplicity of linkages and interconnections that transcend the nation-state (and by implication the societies) which make up the modern world system. Globalization is the removal of barriers to free trade and

the closer integration of national economies. Globalization is often associated with “intensification of the worldwide social relations”, global economic integration, de-territorialization and time-space compression. A more integrated world markets has opened a wide potential for greater growth, and presents an unparalleled opportunity for developing countries to raise their living standards. However, there has been the downside risks of this trend and concerns have arisen about the risks of marginalization of countries especially those in developing countries. There are two contending opinions on the issue of globalization. There are those observers who believe that globalization has brought rapid prosperity to the underdeveloped countries while others argue that globalization serves the needs of metropolitan countries at the expense of peripheral countries.
Global Institutions such as the IMF and World Bank and Multinational Enterprises (MNEs) are main actors in a globalised International Political Economy. The IMF, the World Bank (WB) and World Trade Organization (WTO) are commonly referred to as the three global institutions. Scholars have used the ideas of power, political interests, discourse, hegemony, responsibility and the power of practicability to examine critically the three institutions. Scholars have argued that the IMF and World Bank, were set up as US dominated institutes, as collective fronts for US international economy policy-arms, some might say, of a new world order characterized by the more subtle, effective imperialism.

It was when the world was still engaged in the Second World War, 44 Nations, led by the USA and UK, met at Bretton Woods, New Hampshire, on 1st to 22nd July 1944 to discuss economic plans for post-war peace. The international economy was an idea that was made possible by the anarchy of the inter-war period. In reaction governments/states sought to secure world peace and prosperity through international economic cooperation. This would be based on world market, in which capital and goods might move freely, regulated by global institutions operating on general predictability. Three regulatory institutions were envisaged: the IMF, the International Bank for Reconstruction and Development (IBRD), later known as the World Bank, and the International Trade Organization (ITO) which came into being only as the General Agreement on Tariffs and Trade (GATT), but much later became WTO. The Bretton Woods Institutions were supposed to govern agreed upon principles for conduct of economic affairs decided at the conference as stated in Article 1 of the Agreement, the IMF’s purpose was to facilitate the expansion and balanced growth of International Trade and to contribute

The IMF loan facilities since 1977 have been extensively used by Third World and Post-Communist Countries. IMF and World Bank lend to countries with balance of payments difficulties. This financial assistance is designed to help countries restore macroeconomic stability by rebuilding their international reserves, stabilizing their currencies and paying for imports, all necessary conditions for growth. Further, it provides concessional loans to low income countries to help them develop their economies and reduce poverty. This are in form of stand-byes, extended arrangements, structural adjustment facilities and enhanced structural adjustment facilities (recently renamed Poverty Reduction and Growth Facilities).

World Bank adjustment lending includes structural adjustment loans, sectoral structural adjustment loans and structural adjustment credits (the latter is concessional for low income countries).Associated with these loans are macro-economic conditions like reducing budget deficits, devaluation, and reducing domestic credit expansion. Other structural conditions include freeing controlled prices and interest rates, reducing trade barriers, and privatization of state enterprises. Structural Adjustment Programs (SAPs) generally require countries to devalue their currencies against the dollar, lift import and export restrictions; balance their budgets and not overspend; and remove price controls and state subsidies. Devaluation makes their goods cheaper for foreigners to buy and theoretically makes foreign inputs more expensive. In principle it should make the country wary of buying expensive foreign equipment. In practice, however, the IMF actually disrupts this by rewarding the country with large foreign currency loan that encourages it to purchase imports. By devaluing the currency and simultaneously removing price controls, the immediate effect of SAPs is generally to hike prices up three or four times, increasing poverty.
Further, balancing national budgets can be done by raising taxes, which IMF frowns upon, or by cutting Government spending, which it recommends. As a result SAPs resulted in deep cuts in programs like education, health and social care, and the removal of subsidies designed to control the prices of basics such as food and milk. So SAPs hurt the poor most, because they depend heavily on these services and subsidies.

Unequal Exchange

The world economy today is based on global relationship of production and distribution (Exchange) which has led to polarization of the world system into the concept of the Metropolis and Satellite. The colonial experience of many developing countries both in Latin America and Africa Countries underline a relationship of exploitation, domination and continuous dependency of less Developed Countries (LDCS) on the centre rather than achieving an autonomous capitalist development. Most of the LDCS are still tied to the forces of neo-colonialism and imperialism due to the contradictory dialectical economic structures of capitalism. These contradictions include contradictions of exploitation, appropriation and expropriation, polarization between the Metropolis and the Satellite.

Essentially, before the advent of Europeans and other external forces, many under development school of thoughts believed that African economy was in a state of equilibrium. Equilibrium in the sense that, the economy was self-sufficient, self- reliant, self-generating and perpetuating. The Household was seen as a basic unit of production, distribution and consumption. However, the contact with the outside world made economies of African Countries to be in state of disequilibrium. The period of 15th and 16th centuries marked the beginning of the contact and the incorporation of Africa into the world system. It was a period of mercantilist era in which primitive accumulation of mercantilist capital was encouraged and many economies of African and Latin American States were plundered and plagued by search for gold and silver because the wealth of nations at this time was measured in gold. A distinct phase in the development of capitalism was the stage of primitive accumulation of capital. This, they related to the fact that the exploitation of the environment and natural resources is based on the social and economic exploitation of others. Primitive accumulation of capital took place in such a way that "capital was sourced from the colonial plunder and sacking of the wealth of the periphery areas of the world." Marxian Analysis of primitive accumulation of capital is inherent in the contradictions of capitalism based on the concept of dialectical materialism, class relation, relation of production and surplus value. The collapse of feudalism led to the emergence of commercial capitalism. Commercial capitalism necessitated the development of navigation Science which led to the discovery of sea routes and subsequently the establishment of Trans-Atlantic slave trade that promoted further economic exploitation and domination of peripheral economies by the Europeans. The emergence of this obnoxious trade in human trafficking at the coast areas of West African states affected economic production and led to unpardonable destruction of population (i.e. productive labor) as well as destabilization of the local economy. This therefore marked the beginning of the gradual transformation and incorporation of local economy into the world system which was a melting point of unequal exchange in trade relations.

The 18th century industrial and commercial capitalism in Europe, encouraged acquisition of colonies where markets could be sought for European manufactured goods and in turn these markets (colonies) would provide raw materials for industries in the core countries. The fact that most economies of LDCS were Satellited by Western powers led to the intensification of transformation and incorporation of local economy into the world capitalist system (i.e. policy of free trade imperialism).The economy of developing countries was dominated by commercial capital from Europe. The growing penetration of foreign commercial capital at this time, led to commercialization of the local economy to cash economy. The cash economy gave rise to the proliferation of wage labor which facilitated imperialist grip of the economy. This led to the emergence of commercial bourgeoisies who further reinforced and justified the process of appropriation and expropriation of the surplus value (i.e. economic profit) to metropolitan countries by the European capital. One therefore noticed, that the European capital at this stage did not altered and destroyed existing productive forces and relations of production but only extended and expanded it to meet the requirements of the metropolitan capitalist countries, such a way that it prevented the transition of local economy to autonomous capitalist development. This concept of the unequal exchange is analogue to the concept of globalization in the world economy today. The unequal nature of globalization in terms of opportunities and wealth distribution between the developed nations and the LDCS Countries have been the bane of economic problems in developing countries. Stiglitz (2007) observed that developing countries that simply open themselves up to the outside world do not necessary reap the fruits of globalization. Even if their GDP increase the growth may not be sustainable or sustained. And even if growth is sustained most of their people may find themselves worse off. This again explain the contradictions inherent in the world capitalist system and free trade policies of the western world. The dialectical contradictions of the world capitalist system could also be analyzed in terms of its own internal contradictions. Many school of thoughts believe that when the relationship between the core and the satellite becomes weaken economic recovery seems to be faster in developing countries. During the period of depression in 1930s (i.e. a weak relationship between the core and the satellite) it was observed that farmers in developing economies concentrate on the production of food crops to feed the society and less concentration on growing of cash crops for core capitalist countries in exchanged for manufactured goods. Since world capitalist system is characterized with period of boom and „burst‟ (i.e. trade cycles) economic recovery in the metropolis (i.e. the core countries) often lead to re-incorporation of the satellite countries into the world system in which the LDCS countries become exclusive sphere of influence for monopoly industrial capitalism. (i.e. multi-national corporations).

3.1.2. Domestic Factors

Poverty and inequality

Poverty and inequality are intrinsically linked. Poverty reduction especially for the poorest - can be greatly enhanced through distributional policies- distribution is central to fighting poverty. Distribution objectives, particularly for assets, should be an integral part of the poverty reduction agenda. Growth and better distribution are complementary, rather than competing objectives in the fight against poverty. More equal distribution of income and assets can foster growth, whereas high inequality can retard it. Thus, reducing inequalities can be doubly beneficial for the poor. Small changes in distribution can have a very large effect on poverty reduction. The links have mainly been explained either in terms of political economy, economic or social factors. The following highlights a few explanations.

Political economy. Inequality can be thought of as the difference between the mean and the median voter. The median voter will lobby for higher taxes on the rich, leading to a disincentive to save and invest, and thus reduce growth. This earlier political economy line of argument is not well supported through evidence. A more recent argument suggests that inequality creates political instability which leads to lower investment and more resources being wasted bargaining over the distribution of rents. Instability also reduces government's ability to react to shocks, and - in its more extreme form - leads to direct and opportunity costs due to violence.

***Economic factors*.** Economic factors of why inequality reduces growth centre around capital market imperfections and on the role of the poor, not only as beneficiaries but also as contributors to economic growth. Due to credit rationing, the poor often cannot afford the minimum initial investment in education or other investments, or cannot get insurance for their investments, even if they are profitable, since they lack collateral. Initial asset distribution has a negative effect on subsequent economic growth. The poor's savings rate is exceptionally high if they can expect higher returns for their labour and investment. If the poor face greater incentives to invest/work their income will rise, national income will increase, and inequality will fall.

***Social factors*.** Social inequality may create self fulfilling expectational equilibria with lower growth. If workers are paid according to social class, gender or ethnicity, rather than by what they achieve, this reduces the incentive to work/earn more.

3.2. Diverse Structures and Characteristics of Developing Countries

It is hazardous to try to generalize too much about the 160 member countries of the United Nations (U.N) that constitute the developing world. While almost all are poor in money terms, they are diverse in culture, economic conditions, and social and political structures. Thus, for example, low income countries include, India with about 1 billion people and 26 states, as well as Grenada, with less than 100, 000 people, fewer than most cities in the United States. Large size entails complex problems of national cohesion and administration while offering the benefits of relatively large markets, a wide range of resources, and the potential for self-sufficiency and economic diversity. In contrast, for many small countries in the situation is reversed, with problems including limited markets, shortages of skills, scarce physical resources, weak bargaining power, and little prospect of significant economic self reliance, but strong incentives for exports of manufactured goods.

The most common way to define developing world is by per capita income. In the World Bank’s classification, countries are ranked by their levels of gross national income (GNI) per capita. Accordingly, the developing world includes sub-Saharan Africa, North Africa, the Middle East and Asia except Japan, Latin America and the Caribbean and East European countries. In contrast, the developed worlds constitute West Europe, North America, Australia and New Zealand.

Generally speaking, developing countries are those with low, lower middle or upper middle income countries. These countries are grouped by their geographic region.

- Low income countries______ having per capita GNI $755 or less.
- Lower middle income countries___between $756 and $2,995.

- Upper-middle income countries___between $2,996 and $9,265
- High income countries_____$9,265 or more

3.2.2. Common Characteristics of Developing Countries

Though developing countries have diverse structural differences nevertheless some common economic features on other hand permit us to view them in broadly similar framework. Among others, the common characteristics shared by these countries can be viewed in terms of the following six broad categories.

1. Low level of living standard characterized by low incomes, inequality, poor health and inadequate education.
2. Low level of productivity.
3. High rate of population growth
4. Substantial dependence on agricultural production and primary-product exports, prevalence of imperfect markets and
5. Dominance, dependence and vulnerability in international relations.
6. Low Level of Urbanization
7. Dominance of Informal Sector

Low Level of Living Standard

In developing nations, general levels of living tend to be very low for the vast majority of people. This is true not only in relation to their counterparts in rich nations but often also in relation to small elite groups within their own societies. These low level of living are manifested quantitatively and qualitatively in the form of low incomes(poverty), inadequate housing, poor health, limited education, high infant mortality , low life expectancies, and in many cases a general sense of dissatisfaction and hopelessness.

Low Level of Productivity

In addition to the above point, developing countries are characterized by relatively low level of labor productivity. The concept of a production function systematically relating outputs to different combination of factor inputs for a given technology often used to describe the way in which societies go about providing for their material needs. But technical engineering concept of a production function must be supplemented by border conceptualization that includes among its other inputs like managerial competence, access to information, worker motivation and institutional flexibility. Throughout the developing world, levels of labor productivity are extremely low compared with those in developed world.

High rates of population growth and dependency burdens

Of the world's population more than 5/6th live in the less developed countries and less than 1/6th in the developed nations. Both birth and death rates are noticeably different between the two groups of countries; birth rates in less developed countries are generally very high where as those in developed countries very low.

Death rates (the yearly number of deaths per 1000 population) in developing countries are also high relative to the developed nations, but thanks to improved health conditions and control of major infectious diseases, the differences are substantially smaller than the corresponding in birth rates.

A major implication of high LDC birth rate is that children under age 15 make up almost 40% of the total population in these countries, as opposed to less than 20% of the total population in the developed countries. Thus, in most developing countries, the active labor force has to support proportionally almost twice as many children as it does in richer countries. By contrast, the proportion of people over the age of 65 is much greater in the developed nations.

Both older people and children are often referred to us an economic dependence burden in the sense that they are non-productive members of society and therefore must be supported financially by a country's labor force (usually defined as citizens between the ages of 15 and 64). The overall dependency burden (i.e. both young and old) represents only about one –third of the populations of the developed countries but almost 45% of the populations of the less developed nations. Moreover, in the latter countries, almost 90% of the dependents are children, whereas only 66% are children in the richer nations.

Substantial Dependence on Agricultural Production and Primary Product Exports

A prominent feature of agricultural commodity exports in many developing countries is that relatively few commodities account for a large share of total export earnings. Often they depend, and continue to depend, on a single agricultural commodity for their merchandise export revenues.

The sluggish demand for primary agricultural commodities and the recurring conditions of boom and slump in their exports have created problems for commodity-dependent economies. Unstable commodity prices and export earnings are well known to make development planning more difficult and to generate adverse short-term effects on income, investment and employment. In addition, with slow demand conditions, countries specialising in production of primary commodities can be expected to have a declining share in world trade unless they have a major cost or quality advantage over competitors.

Small scale Agriculture

There is particular striking difference between the proportionate sizes of the agricultural population. In Africa (68%), and south Asia (64%) verses North America (3%) engage in agricultural activity.

The basic reason for the concentration of people and production in agricultural and other primary production activities in developing countries is the simple fact that at low income levels, in first priorities of any person are food, clothing and shelter. Agricultural productivity is low not only because of the large numbers of people in relation to available land but also because LDC agriculture is often characterized by primitive technologies, poor organization and limited physical and human capital inputs.

Dependency on primary exports

Most economies of less developed countries are oriented towards the production of primary products (agriculture, fuel, forestry and raw material) as opposed to secondary or manufacturing and tertiary (service) activities. Except in countries blessed with abundant supplies of petroleum and other valuable mineral resources and few leading Asian exporters of manufactured goods most LDC exports consist of basic foodstuffs, non-food cash crops, and raw materials. In sub-Saharan Africa, for example, primary products account for over 80% of total exports earning. In addition, most poor countries need to obtain foreign exchange in addition to domestic saving in order to finance priority development projects.

Prevalence of imperfect market and incomplete information

Almost every developing country was moving, at its own pace toward the establishment of market economy. There seemed to be growing consensus that there had been too much government intervention in the working of developing economies and that free market and unfettered competition held the key to rapid economic growth. But, the presumed benefits of market economies and market friendly policies depend heavily on the persistence of institutional, cultural and legal prerequisites.

In many LDC, these legal and institutional foundations are either absent or extremely weak. In addition, the existence of economies of scale in major sectors of the economies such as thin markets for many products due to limited demand and few sellers, widespread externalities (costs or benefits that accrue to companies or individual not doing the producing or consuming) in production and consumption and the prevalence of common property resources (e.g. fisheries, grasslands, Waterholes) mean that markets are often highly imperfect. Moreover, information is limited and costly to obtain, thereby often causing goods, finances, and resources to be misallocated.

Low Level of Urbanization -- Most of the people in developed countries live in urban areas. On the other hand, the share of urban population in developing countries is much smaller.

Dominance of Informal Sector – One very important feature of the developing countries is the dominance of informal sector in economic activities. The main characteristics of the informal sector jobs are: (i) low skill, (ii) low productivity, (iii) self-employment (iv) lack of complementary inputs particularly capital, (v) small scale measured in terms of sales, assets, employment etc., (vi) favored by recent migrants, (vii) ease of entry for employers and workers, and (viii) lack of formal contractual agreements. Rural areas in developing countries are largely informal. Even in cities informal sector in developing countries is quite big.

Chapter Four: The Political Economy of Development Planning and the State and Market

4.1. The Nature, Rationale, and Process of Development Planning

In the initial decades after the Second World War and decolonization, the pursuit of economic development was reflected in the almost universal acceptance of development planning as the surest and most direct route to economic progress. Until the 1980s, few people in the developing world would have questioned the advisability or desirability of formulating and implementing a national development plan. Planning had become a way of life in government ministries, and every five years or so, the latest development plan was paraded out with great fanfare. National planning was widely believed to offer the essential and perhaps the only institutional and organizational mechanism for overcoming the major obstacles to development and for ensuring a sustained high rate of economic growth. To catch up with their former rulers, poor nations were persuaded that they required a comprehensive national plan. The planning record, unfortunately, did not live up to its advance billing. But a comprehensive development policy framework can play an important role in accelerating growth, reducing poverty, and reaching human development goals.

The Nature of Development Planning

Economic planning may be described as a deliberate governmental attempt to coordinate economic decision making over the long run and to influence, direct, and in some cases even control the level and growth of a nation's principal economic variables (income, consumption, employment, investment, saving, exports, imports, etc.) to achieve a predetermined set of development objectives.

An economic plan is simply a specific set of quantitative economic targets to be reached in a given period of time, with a stated strategy for achieving those targets. Economic plans may be comprehensive or partial. A comprehensive plan sets its targets to cover all major aspects of the national economy. A partial plan covers only a part of the national economy—industry, agriculture, the public sector, the foreign sector, and so forth. Finally, the planning process itself can be described as an exercise in which a government first chooses social objectives, then sets various targets, and finally organizes a framework for implementing, coordinating, and monitoring a development plan.

Proponents of economic planning for developing countries argued that the uncontrolled market economy can, and often does, subject these nations to economic dualism, unstable markets, low investment in key sectors, and low levels of employment. In particular, they claimed that the market economy is not geared to the principal operational task of poor countries: mobilizing limited resources in a way that will bring about the structural change necessary to stimulate a sustained and balanced growth of the entire economy. Planning came to be accepted, therefore, as an essential and pivotal means of guiding and accelerating economic growth in almost all developing countries.

Planning in Mixed Developing Economies

Most development plans have been formulated and carried out within the framework of the mixed economies of the developing world. These economies are characterized by the existence of an institutional setting in which some of the productive resources are privately owned and operated and some are con-trolled by the public sector. The actual proportionate division of public and private ownership and control varies from country to country, and neither the private nor the public sector can really be considered in isolation from the other. However, mixed economies are often distinguished by a substantial amount of government ownership and control. The private sector in developing countries typically comprises four traditional forms of private ownership and a more recent emerging one:

1. The subsistence sector, consisting of small-scale private farms and handicraft shops selling a part of their production to local markets
2. Small-scale individual or family-owned commercial business and service activities in the formal and informal urban sector
3. Medium-size commercial enterprises in agriculture, industry, trade, and transport owned and operated by local entrepreneurs
4. Large jointly owned or completely foreign-owned manufacturing enterprises, mining companies, and plantations, catering primarily to foreign markets but sometimes with substantial

local sales (the capital for such enterprises usually comes from abroad, and a good proportion of the profits tends to be transferred overseas)

5. A growing number of relatively large, domestic-based firms, primarily locally managed and largely locally owned, often listed on national stock markets in countries such as Brazil, Russia, India, and China but much more common in middle-income than low-income countries and rare in the least developed countries

In the context of such an institutional setting, we can identify two principal components of development planning in mixed economies:

1. The government's deliberate use of domestic saving and foreign finance to carry out public investment projects and to mobilize and channel scarce resources into areas that can be expected to make the greatest contribution toward the realization of long-term economic objectives (e.g., the construction of railways, schools, hydroelectric projects, and other components of economic infrastructure, as well as the creation of import-substituting industries or projected future export sectors)
2. Governmental economic policy (e.g., taxation, industrial licensing, the set-ting of tariffs, and the manipulation of quotas, wages, interest rates, and prices) to stimulate, direct, and in some cases even control private economic activity so as to ensure a harmonious relationship between the desires of private business operators and the social objectives of the central government

Thus even when development planning is quite active, there is almost al-ways a balance between the extremes of market inducement and central control, as is readily evident from our simplified characterization of planning in mixed market economies.

The Rationale for Development Planning

The early widespread acceptance of planning as a development tool rested on a number of fundamental economic and institutional arguments. Of these we can single out four as the most often put forward.

Market failure Markets in developing economies are permeated by imperfections of structure and operation. Commodity and factor markets are often badly organized, and the existence of distorted prices often means that producers and consumers are responding to economic signals and incentives that are a poor reflection of the real cost to society of these goods, services, and re-sources. It is therefore argued that governments have an important role to play in integrating markets and modifying prices. Moreover, the failure of the market to price factors of production correctly is further assumed to lead to gross disparities between social and private valuations of alternative investment projects. In the absence of governmental interference, therefore, the market is said to lead to a misallocation of present and future resources or, at least, to an allocation that may not be in the best long-run social interests. This market failure argument is perhaps the most often quoted reason for the expanded role of government in less developed countries.

There are three general forms in which market failure can be observed: The market cannot function properly or no market exists; the market exists but implies an inefficient allocation of resources; the market produces undesirable results as measured by social objectives other than the allocation of resources. Market failures can occur in situations in which social costs or benefits differ from the private costs or benefits of firms or consumers; public goods, externalities, and market power are the best-known examples. With public goods, "free riders" who do not pay for the goods cannot be excluded except at high cost; it is economically inefficient to exclude nonpaying individuals from consuming these goods. With externalities, consumers or firms do not have to pay all the costs of their activities or are unable to receive all the benefits. Coordination failures occur when several agents would be better off if they could cooperate on actions if all or most agents participate but worse off taking the action if too few participate. Moreover, economic development is a process of structural change. The market may be efficient in allocating resources at the margin, allowing certain industries to emerge and others to fail, but may be ineffective in producing large discontinuous changes in the economic structure that may be crucial to the country's long-term development . Market power occurs when firms can influence price by restricting quantity, a power most common under increasing returns to scale. Capital markets are particularly prone to failure due to their intrinsic connection to information generation and transmittal; information has public-good properties. A more equal distribution of income itself can be considered a public good when it is an agreed social objective. There may be concern for the well-being of future generations, who cannot participate in today's economic or political markets. Merit goods, such as health, education, and basic welfare, can also be considered public goods or social entitlements guaranteed by government. But concerns about distribution and merit goods are often treated as separate rationales for policy because their levels are generally viewed as outside the realm of economic efficiency.

Unfortunately, we cannot jump to the conclusion that if economic theory says policy can fix market failures, it will do so in practice. Government failure may also occur in the many cases in which politicians, bureaucrats, and the individuals or groups who influence them give priority to their own private interests rather than the public interest. Analyses of incentives for government failure helps guide reforms such as constitution design and civil service rules. Developing countries tend to have both high market failure and government failure. (As noted later in the chapter, the NGO sector can also be subject to what is termed voluntary failure, for several reasons).

Resource Mobilization and Allocation This argument stresses that developing economies cannot afford to waste their very limited financial and skilled human resources on unproductive ventures. Investment projects must be chosen not solely on the basis of partial productivity analysis dictated by individual industrial capital-output ratios but also in the context of an overall development program that takes account of external economies, indirect repercussions, and long-term objectives. Skilled workers must be employed where their contribution will be most widely felt. Economic planning is assumed to help by recognizing the existence of particular constraints and by choosing and coordinating investment projects so as to channel these scarce factors into their most productive outlets. In contrast, it is argued, competitive markets will tend to generate less investment and to direct that investment into areas of low social priority (e.g., consumption goods for the rich).

Attitudinal or Psychological Impact It is often assumed that a detailed statement of national economic and social objectives in the form of a specific development plan can have an important attitudinal or psychological impact on a diverse and often fragmented population. It may succeed in rallying the people behind the government in a national campaign to eliminate poverty, ignorance, and disease or to boost national prowess. By mobilizing popular support and cutting across class, caste, racial, religious, or tribal factions with the plea to all citizens to work together toward building the nation, it is argued that an enlightened central government, through its economic plan, can best provide the needed incentives to overcome the inhibiting and often divib sive forces of sectionalism and traditionalism in a common quest for wide-spread material and social progress.

Foreign Aid The formulation of detailed development plans has often been a necessary condition for the receipt of bilateral and multilateral foreign aid. With a shopping list of projects, governments are better equipped to solicit foreign assistance and persuade donors that their money will be used as an essential ingredient in a well-conceived and internally consistent plan of action.

Development planning process

Three Stages of Planning

Most development plans have traditionally been based initially on some more or less formalized macroeconomic model. Such economy wide planning models can be divided into two basic categories: (1) aggregate growth models, involving macroeconomic estimates of planned or required changes in principal economic variables, and (2) multi-sector input-output, social accounting, and computable general equilibrium models, which ascertain (among other things) the production, resource, employment, and foreign-exchange implications of a given set of final demand targets within an internally consistent frame-work of inter industry product flows.

(3)Finally, probably the most important component of plan formulation is the detailed selection of specific investment projects within each sector through the technique of project appraisal and social cost-benefit analysis. These three “stages” of planning—aggregate, sectoral, and project—provided the main intellectual tools of the planning authority. All of these tools have been, and still are, extensively used by the World Bank and other development agencies, as well as developing country governments. We now turn to examine each of these stages and their associated models.

4.2. The State and Market: Debates of State Failure Versus Market Failure

MARKET ECONOMY

In market economy private firms or individuals own means of production. They make choices about: what to produce, how to produce, for whom to produce. What to produce is answered by consumers according their demand for goods & services, how to produce is answered by the business- men. They will choose the production method, which reduces their costs to reach the higher profit. For whom to produce– firms produce goods & services which consumers are willing and able to buy.

Role of government

1. To pass laws to protect businessmen & consumers
2. To issue money
3. To provide certain services – police
4. To prevent firms from dominating the market and to restrict the power of trade unions
5. Repair and maintain state properties

Advantages:

-Goods and services go where they are most in demand and free market responds quickly to people’s wants

-No need for authority to determine allocation of goods & services

-Producers and consumers are free to make changes to suit their aims

-Competition and the opportunity to make large profits, greater efficiency, innovation

Disadvantages:

-It misallocates resources

-It creates inequality of incomes

- It is not competent in providing certain services

- It leads to inefficiency (market imperfection)

- It can encourage the consumption of harmful goods - drugs

PLANNED ECONOMY

In a planned economy State owns all means of production. Individuals are not permitted to own any property. Government planners makes choices about What, How and For whom to produce. -What to produce is answered by government planners, they make assumptions about consumers` needs and the mix of goods and services -How to produce is answered by the government planners according the input-output analysis. For whom to produce – for consumers through state outlets. Prices can't change without state instructions.

Role of government

1. Government make the most economic decisions with those on top of the hierarchy giving economic commands to those further down the ladder.
2. Government plans, organizes and coordinates the whole production process in most industries.
3. Government is the employer of most workers and tells them how to do their jobs.

Advantages:

-There is more equal distribution of wealth and income

-Production is for need rather than profit.

-Long-term plans can be made taking into account a range of future needs such as population changes and the environment.

Disadvantages:

-Vast bureaucracies employing – supervisors, coordinators...

-People are poorly motivated

- Planners often get things wrong – shortages of surpluses of some goods

Market failure

In economics, **market failure** is a situation in which the allocation of goods and services is not efficient. That is, there exists another conceivable outcome where an individual may be made better-off without making someone else worse-off. Market failures can be viewed as scenarios where individuals' pursuit of pure self-interest leads to results that are not efficient – that can be improved upon from the societal point of view.

Market failures are often associated with time-inconsistent preferences, information asymmetries, non-competitive markets, externalities, or public goods. The existence of a market failure is often the reason that self-regulatory organizations, governments or supra-national institutions intervene in a particular market. Economists, are often concerned with the causes of market failure and possible means of correction. Such analysis plays an important role in many types of public policy decisions and studies. However, government policy interventions, such as taxes, subsidies, bailouts, wage and price controls, and regulations (including poorly implemented attempts to correct market failure), may also lead to an inefficient allocation of resources, sometimes called government failure.

Given the tension between, on the one hand, the undeniable costs to society caused by market failure, and on the other hand, the potential that attempts to mitigate these costs could lead to even greater costs from "government failure," there is sometimes a choice between imperfect outcomes, i.e. imperfect market outcomes with or without government interventions. But either way, if a market failure exists the outcome is not Pareto efficient. Most mainstream economists believe that there are circumstances in which it is possible for government or other organizations to improve the inefficient market outcome. Several heterodox schools of thought disagree with this as a matter of principle

Government failure

In the analysis of regulation, **government failure** (or **non-market failure**) is imperfection in government performance. The phrase "government failure" emerged as a term of art in the early 1960s with the rise of intellectual and political criticism of regulation. Building on the premise that the only legitimate rationale for government regulation was market failure, economists advanced new theories explaining why government interventions in markets were costly and tend to fail. For example, it was argued that government failure occurs when government intervention causes a more inefficient allocation of goods and resources than would occur without that intervention. In not comparing realized inadequacies of market outcomes against those of potential interventions, one writer describes the "anatomy" of market failure as providing "only limited help in prescribing therapies for government success." Government failures, however, occur also whenever the government performs inadequately, including when it fails to intervene or does not sufficiently intervene. Some use the phrase "passive government failure" to describe the government's failure to intervene in a market failure that would result in a socially preferable mix of output. Just as with market failures, there are different kinds of government failures that describe corresponding economic distortions.

4.3. The State and Economic Development in Developing Countries

At the beginning of the 21st century the task of re-examining the role of the state in economic development is becoming increasingly important for African policymakers because most countries have undergone some form of either externally imposed or self-imposed Structural Adjustment. The Structural Adjustment Programmes (SAPs) have, however, had different outcomes in the different countries but none has succeeded in alleviating poverty and stimulating sustained development. In general however, SAPs have discouraged the state from playing a developmental role, because of a misconception that government should not have any role in the economy other than the regulation of economic activities and the enforcement of law and order. In the light of the widespread poverty, and the high levels of unemployment and income inequality in most African countries it is clear that the state must have a significant role in economic development.

There was a widespread expectation in both industrialized and developing countries that the adoption of laissez- faire capitalism characterized by the liberalization of economic activity together with the globalisation of production systems and of finance would stimulate economic growth, reduce poverty and promote diminishing income disparities within and between countries within the global economy.

For many poor countries in sub-Saharan Africa and elsewhere the prospect that the removal of legal and political obstacles to trade and capital movements would lead to accelerated growth and income convergence with the richer countries was particularly inviting. So during the early 1990s and since then, there has been an accelerating process of economic liberalization in many developing countries. However, overall progress in increasing real incomes, reducing poverty and income inequality and moving towards various international targets for human and social development has been disappointingly slow, except for a few of them.

These changing roles of the state have had an impact on developing countries. For many newly independent developing countries in the 1950s and 1960s, much faith abounded in the role of the state as an agent of economic development as opposed to the role of market forces enshrined in the invisible hand of Adam Smith. With the apparent lack of economic success in much of Latin America and in Africa, along with the collapse of the Soviet Union, the 1980s and 1990s have witnessed a general shift by both academics and policy makers in favour of the market economy. However, this position is not without difficulties. Problems of market failure, information asymmetries and non-existence of some markets in domestic economies remains pervasive in many countries

Thus, instead of a total rollback of the state in economic development, the relevant question now is: what is the appropriate nature and scale of state intervention desirable for economic development? Two main views of the role of the state in economic development emerge. The first view relates to the “facilitative role” that the state can play in a country’s economic development. The second view is associated with the “directive interventionist” role of the state.

The democratic state represents a state whose ideology is based, among others, on the views of neoclassical economists who believe that when individuals and firms are allowed to operate freely in an economy characterized by perfect competition, the ‘invisible hand’ of the market is able to determine the optimum allocation of a country's resources. Together with this, it is assumed that the market is able to achieve optimal social welfare because, as individuals and firms maximize their own self- interest (profits), they will unintentionally maximize social welfare (through, inter alia, providing employment, and taxes to fund the provision of social services).

Given this assumed efficient functioning of the market mechanism, government intervention in the economy is viewed as inefficient not only because of bureaucratic blockages, but also because of its tendency to distort market prices and cause misallocation of scarce economic resources. Therefore, in this view, there should be a "rollback" and a "retreat" of the state in economic affairs Under this scenario, the state is expected to play only a facilitative role in economic development. This involves the provision of a 'business-friendly' and 'enabling' environment for the private sector. Within this framework, the private sector's role is to determine the pace and direction of a country's economic development, while the state only acts when the market fails. The latter happens when it comes to the provision of goods and services that, because of their non-rivalriness and non-excludability, are not profitable enough to be provided by the private sector. These include the provision of public services such as defe nce, education, health and infrastructure, setting up the required legal and institutional framework for the protection of private property; promotion of R&D for technological development, support of the financial sector through the work of the central bank; environmental protection; provision of the needs of those not favoured by the market system; and finally, macroeconomic management.

The "Direct Interventionist State" is associated particularly with the economic development of the some East Asian countries, particularly Singapore, South Korea and Taiwan. In these countries the visible hand of the state was creatively and innovatively combined with the invisible hand of the market in order to achieve the required economic development. This approach was motivated by the belief that "…markets and governments are both imperfect systems; that both are unavoidable forces of realty; that the operation of each is powerfully influenced by the existence of the other; and that both are processes unfolding in real time."

Thus, for these countries, the traditional dichotomy between governments and markets loses its meaning.

What did the state in these countries do to promote economic development? First, it studied 'global economic trends' and identified industries/sectors that appeared to be future engines of growth. Initially, these included labour-intensive industries such as textiles. However, as labour costs increased, these countries' comparative advantage in labour-intensive goods was eroded. In order to keep their share of the world market and continue on the path of economic development, these countries shifted to a policy of "industrial targeting' which involves identifying industries with potential for future growth and working to "create" comparative advantage in those areas. By so doing, they moved from low-tech manufacturing where comparative advantage is based on natural resources to high-tech manufacturing in areas such as information technology, biotechnology, robotics, microelectronics and laser technology, where comparative advantage is based on created human resources.

Second, the state invested in the training of both their labour force and entrepreneurs to position them to exploit the emerging opportunities for their countries. This took the form of: (i) expanded formal technical and vocational training; (ii) industrial training in which government encouraged firms to train their employees by subsidizing the cost of training or allowing training expenses to be amortised for tax purposes and (iii) setting up collaborative training with foreign governments and manufacturers who were technology or market leaders in their fields. The existence of a pool of qualified citizens ensured the availability of skilled labour, and equipping citizens with the right skills and work ethics ensured that the benefits of jobs that were created accrued mostly to them. As a result, problems of unemployment, poverty and income inequality were reduced in most of these countries.

Third, the state provided incentives in the form of subsidies and tax exemptions in order to encourage both domestic and foreign investors to develop the identified industries.

Fourth, it mixed the invisible hand of the market with the visible hand of the state in order to achieve the required economic development. The state intervened extensively in order to "pick winners" and direct the market to achieve the desired economic development. As a result, the state created industries which might not have emerged in the absence of government intervention.

Finally, the state played an entrepreneurial role in the development of these countries. This state entrepreneurship took the form of exploring for opportunities in world markets for setting up strategic industries that had the potential for future growth and aiding the private sector to exploit them. In cases where the private sector was not forthcoming, the state actually took a deliberate step to set up public corporations and state investments to take advantage of emerging opportunities.

However, it is worth noting that, as the forces of globalisation moved the world towards the market economy, and the essential conditions for a market economy emerged in these countries, the state increasingly moved from being "interventionist" in nature to playing a "facilitative" role, of creating a market friendly environment for the operation of the private sector. Nevertheless, a creative and innovative mixing of the state and market still continues in these countries, suggesting that for a developing country, facilitating and directing the market mechanism is essential for successful economic development.

In conclusion then the role of the state in economic development may be "facilitative" in nature, in which case the private sector sets the pace and direction of economic development while the state plays the subordinate follower position. This is generally the position played by states with a neoclassical ideological inclination. On the other hand, the state may play a "directive interventionist" role in economic development, in which case, it is called a directive interventionist state or an entrepreneurial state.

4.4. Public Enterprises and Privatization

An enterprise is public when the state or any other national, regional or local authority holds at least 50% of the capital; it is under state control and reports to the state; its objectives are of public and multidimensional nature. This aspect presupposes financial investments, the marketing of products and services, financial returns, a system of business accounts and a social return, which the enterprises must account for.

Public enterprises are created in most countries to accelerate economic and social development. At various times, since World War II, most countries, particularly developing countries, have attempted to use public enterprises to achieve their economic and social objectives. Public enterprises created in Africa for much the same reasons as in most countries-to correct market failures, providing public goods, control natural monopoly and seize the commanding heights of the economy.

Many writers have mentioned varied objectives of the public enterprises. As World Bank has explained, the reasons why public enterprises were created for national security, that is public defense industries and public transport enterprises have often been created for this reason. Another reason has been to ease revenue rising- product procurement and marketing boards have often served this end, esp. in cases where tax collection would be difficult or impossible. The economic control and self-reliance have been another important motive behind the creation of public enterprises. Over the past 50 years governments around the world established large numbers of public enterprises to accomplish development objectives, among the most important of which were to provide services and infrastructure that could not easily be extended by conventional departments and agencies of the State or by a weak or fledgling private sector. In many countries, however, state-owned enterprises took on a life of their own. Government ownership grew in the developing world primarily that government ownership was perceived as necessary to promote growth. In the post-colonial countries of Asia, Africa, and Latin America, governments sought rapid growth through heavy investment in physical facilities. Lack of private investment for undertaking large-scale activities has been a powerful incentives for the creations have frequently played a role in the establishment of public enterprises, in the taking over by the public sector of private enterprises which are not often resulted in the establishment of public enterprises

privatization

It has been noted that the countries that have announced their intention of launching some kind of privatization program allow for the possibility of private ownership of the means of production and for the operation of markets as an essential feature of the economy’s functioning. Sometimes construed very narrowly to mean just the sale and legal transfer of the ownership of public enterprises to private entrepreneurs, and sometimes more broadly to include the legal transfer of just the control of public enterprises and services but not outright ownership. Privatization provides a basis for changing of the relationship between the state and the private sector, with the private sector assuming a greater role in the economic affairs of a country, of which some of the problems that have been associated with public ownership and control in some countries have been influential in this shift. Since the objective of any privatization program is to increase the ability of firms to achieve their goals, it is expected that privatization will increase profitability, operating efficiency, capital expenditure, and output. The argument here is that in many countries, the government is weighed down by too many tasks and privatization will play a crucial role in reducing the government’s role in the economy and limiting the size and reach of the public sector, paving way for a smaller, leaner and more effective government that will be able to devote greater attention to deprived social sectors like education, health, housing, transportation, water, sanitation and rural infrastructure.