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The Development of the Developmental State in Africa: A Theoretical Inquiry

by

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INTRODUCTION

The conceptualization of the African state-development nexus has gone through enormous vicissitudes in the post-independence period. This has included the view of the state as a facilitator of foreign investment in the early post-independent period, to the state-centric mode where the state was both vehicle and recipient of development in the 60s and 70s to the neo-liberal mode of the 80s and 90s where an overreaching state was perceived as the impediment to development and the minimalist state as the solution.

While these intellectual approaches had various influences and connections to the actual evolution of African states, the growing asymmetry between domestic and bilateral and multilateral sources of finance has increasingly shaped the state in the image of the predominant paradigm. The state has become both subject and predicate particularly in the 1980s and 90s when the interstices for alternative strategies were greatly reduced by the collusive singularity of the criteria behind bilateral, multilateral and commercial sources of external finance.

In this paper, I would like to focus less on the history of the theory of the African State and more on the problematic conceptual roots underlying the choice theoretic view of the state-developmental nexus, which has dominated thinking in the past two decades. It is my contention that this neo-classical generated view of the state has not only led to enormous intellectual retrogression on a theoretical level, but huge opportunity costs associated with a misplaced allocation of resources and a distempered state which has been both bloated in the service of the short-termism of misconceived conditionality and emasculated relative to longer term developmental exigencies.

After critically reviewing the theory and experience of the African State under structural adjustment, I will turn to an alternative approach based on a theory of the developmental state where the state is perceived as an embedded vehicle of development. The second section of the paper will begin with a critical assessment of the literature on the developmental state, followed by an inquiry into the theoretical roots of the developmental state. The exigencies of the state at a theoretical level are presented as an agent of structural and institutional transformation. In this context the markets is perceived as an institution. As a opposed to viewing the state as a vehicle attempting to correct market imperfections so that some hypothetical static pareto efficient point is created at a moment in space and time, the state is presented as a agent which aims at promoting market formation and maturation. Markets then are perceived as purposive, multi-leveled and socially and economically embedded. The final section of the paper looks at the politically economy of the Development State by critically examining the arguments posed against the possibility of a development state in Africa.

THE THEORETICAL ROOTS OF THE STATE UNDER ADJUSTMENT

The original construction of SAPs was born out of neo-liberal convictions, which placed the primacy of markets over all other institutions. The initial design of SAPS was based “on a particularly optimistic view about the efficacy of the market mechanism as a vehicle for the promotion of efficiency and development, including misconceptions about the prevalence of institutional pre-conditions for market efficiency" (Aryeetey and Tarp forthcoming).

Governments and markets are depicted as opposing forces in economic development. In particular, it is argued that there is little role for governments in resource allocation and the ability of government intervention in resolving market failures and imperfections is very much doubted. Rather, the proponents of adjustment view the danger of government (state) failure as paramount. Government intervention is regarded as a most damaging source of distortion to the operation of markets. Hence, they conclude that governments should be "minimalist" in their outlook, i.e. as guarantors of private property rights and macroeconomic stability.

Their position on the role of governments is in turn a reflection of their perception of the nature of the state. According to the public/ rational choice school, the state is essentially seen as predatory- a rent generating institution that inhibits the efficient allocation of resources. In Africa, it is argued that the predatory nature of the state is linked to the way rents are distributed. I.e. through the rationing of *divisible benefits* on the basis of favoritism to buy the political support or appease various interest groups (Bates 1981 and 1983). Furthermore, with the weak tax-base, the predatory state impedes the actions of private agents, e.g. as a vehicle of income extraction. Responding to such government behavior, the private agents refrain from making risky, forward-looking investments.

For example, Bates (1991) argues that a system of discretionary taxes or selective subsidization emerges from the need of governments to buy support. Adam and O'Connell (1997) also argue that African governments have sacrificed broad-based economic development for other, more *venal* objectives. Governments are captured by a favored group and they tend to use discretionary taxation to make transfers to themselves or their supporters. Since the Berg Report, the public/rational choice school has been very influential in forming the view of African states. This minimalist view of the state was uncritically adopted as an integral component of Structural Adjustment Programs.

It should be noted here, however, that the sharply dichotomous view of the role of the state and markets and the open "anti-statism", which has dominated the design of the core adjustment model, has long been regarded as a rather extreme position within the spectrum of mainstream economists. In macroeconomics, for example, the presence and efficacy of the `Invisible Hand' in equating aggregate supply with aggregate demand has been a focal point in the debate between the Monetary and the Keynesian Schools. Indeed, in the Neo-classical Synthesis *a la* Malinvaud, a Walrasian equilibrium is correctly identified as a special case among other disequilibrium macro conditions more commonly prevailing in the real world.

However, the roots can be found in neo-classical economics. The microfoundations of the theories that underpin conditionality misspecify the nature of African economies including the role and nature of the state. All the major theories of adjustment have a common set of sub-components. From these precepts a series of intermediate propositions form a base on which the cogency of the theories either stand or fall. Before discussing the specificity of the nature of the misconceptualisation, we need to identify the methodological sub-components of adjustment.

There are five neo-classical economic sub-components we believe are at the core of the methodology embedded in adjustment theories: homo-economicus, rational deductivity, methodological individualism, axiomatic reasoning and the acceptance of equilibrium as a natural state. At the heart of all the theories is homo-economicus, which posits a rationally calculating individual, maximizing his or her welfare. This concept incorporates a mode of rationality, which is instrumental, where actors make choices, which best satisfy a person's objectives. In the strictest neo-classical version, homo-economicus lives in a world of perfect certainty where the future is fully described and people completely grasp the potential consequences of their choices.

The model relies entirely on methodological individualism. The starting point begins with choices at the individual level and the end point is the maximization of the welfare of the individual. In the economy you have two types of participants: consumers and producers. Consumerus-economicus chooses bundles of goods, which maximizes his or her utility subject to budget constraints. Firma-economicus makes production choices, which maximize the efficiency of the output of the company. In this world the future implications of their choices are understood, all technology types are readily available and information is costless.

Still what is missing in the analysis is the mechanism of producers and consumer interaction, which leads to choices, which are welfare maximizing. Markets, in this context, are perceived as exchanges where goods and services are transferred from producers to consumers. Exchange in the neo-classical model arises spontaneously from the atomistic interaction of self-seeking individuals. Goods traded in every market are assumed to be homogenous so that prices provide the only information needed to make the decisions on production and purchasing. No individual has sufficient market power to affect the market price. Markets must exist for all goods and services for now and in the future so that individuals can make completely informed rational decisions based on perfect information. Finally, to ensure that equilibrium is reached, neo-classicals posit the existence of a Walrasian auctioneer who gathers and processes the information from all these markets so that individual agents through a tatonnement or groping process can adjust their decisions to remove excess demand and supply from all markets. The result will be that pareto optimal conditions will be reached thereby maximizing the welfare of society (no one will be able to be better off without making someone worse off).

Equilibrium arises in the sense that the market is clearing and optimal choices are made. Moreover, in this ideal world unfettered markets normally will lead to indicators that reflect scarcity and choice. Decisions based on markets under these conditions will lead to efficient choices on what and how to produce that are indicative of the endowment of societal resources. Thus the outcome is consistent with the natural underlying conditions. Equilibrium is a natural state.[1] The thinking behind the model is also rational deductive and axiomatic. It is rational-deductive in the sense that the behavior of agents are predetermined by a set of rules which are deductively posited. Rational predictable behavior will arise from a set of market signals. Axiomatically, consumers and private

[1]There are problems with the consistency between the subcomponents of these neo-classical microfoundations. It has been widely recognized as early as the 30s by people like Oskar Morgenstern and Friedrich Hayek, that equilibrium was not consistent with instrumental or substantive rationality due to self-referential problems. The argument was that any rational agent will base their decisions partly on the expectations or predictions of what other agents will do, but their predictions will be based partly on what the first agent will do and so on. This creates a self-referential problem, which leads to an infinite regress, a vicious circle or a dogmatic interruption. Thus there is no consistent, non-contradictory or non ad hoc solution. A good discussion of these issues is found in Knudsen (1993).

producers are presupposed to be utility and profit maximisers that rationally respond in an efficient manner, if the market signals are correct.

The reliance on an axiomatic approach in neo-classical economics is particularly problematic methodologically.[2] Economists working in this framework begin with a series of axioms and generate policy initiatives, which are applied to concrete historical conditions. When policies have not worked it is generally because non-economic variables have subverted the process. Policy variations are possible within a narrow realm, but since the basic body of theory arises from a set of axioms there is no alteration of the basic abstract theoretical level. In essence, the theoretical level is cut off from concrete historical experiences. The concrete can only be used to affirm the theoretical realm not to reject it (the character of an axiom).[3]

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[2]The literature on economic methodology has become very rich in recent decades. It has become widely recognized that neo-classical economics almost never practices Popperian falsificationism and has a core set of propositions that are never altered in the face of counter evidence. Some have explained this in terms of Lakatos' work on the methodology of scientific research programs which consists of a hard core of metaphysical irrefutable propositions, positive heuristics which provide instructions on what tools and questions should be selected and which should be avoided and finally a protective belt of theories, empirical conventions and auxiliary hypotheses. For example, Weintraub has interpreted general equilibrium theory in these terms. Hard core propositions are that agents optimize, have preferences and act independently. Heuristics encourage researchers to focus on theories where agents optimize while avoiding those involving disequilibrium. The protective belt of the neo-Walrasian program is found in the realm of applied microeconomics. Theoretical progression occurs when the theory predicts some novel unexpected facts while empirical progression occurs when apparently extraneous content is finally corroborated. A failure to pursue this mode of inquiry implies that a research program is degenerating theoretically and empirically. There have been widespread challenges to this depiction. For instance Hands (1993) argues that Lakatos' approach does not provide any guidance for the acceptance or rejection of economic theories. Knudsen (1993) argues that there seems to be little evidence that economics is in a crisis because it has failed to meet the test of progression. Less convincingly, Hausman (1994) argues that using Lakatos's categories hides the fact that most neo-classicals share many aspects, which are not shared by all neo-classical works. However this is a definitional problem. Even Hausman admits there are common elements such as methodological individualism. For our purposes we stand by this section's common set of core neo-classical subcomponents underlying adjustment theories outlined. Perhaps the more interesting question is posed by Rosenberg (1994) which is why economists continue to use such a cognitively poor set of core propositions. He suggests the reasons are normative e.g. general equilibrium theory illustrates how self-interest ought to lead to a coherent disposition of resources and mathematical eg.like Eucludian geometry it provides an axiomatic system which can explain some phenonoma for reasons that have little to do with its microfoundations eg. higher prices lead to lower demand. Rosenberg correctly warns that the current state of economics creates "a vacuum in the foundations of public policy", something that has happened in Africa under adjustment.

[3]There are a plethora of examples in mainstream economics of the impact of this methodology. In the face of empirical studies, which challenge fundamental theories, economists try to generate alternative studies to present countervailing evidence to support the theories, new explanations that are aimed at rescuing theories or they are simply ignored. For example the Leontief paradox spawned a huge literature aimed at rescuing the factor endowment theory of international trade (see for instance Robert Baldwin's introduction of natural resources and crude measurements of human capital to try to counter the paradox). However, despite a problematic empirical base Hecksher-Ohlin-Samuelson is still presented as a core theory in international trade. An example closer to the discussions in this section can be found in the literature on expected utility theory. There are nine axioms underlying instrumentally rational

The axiomatic presupposition of the behavior of private actors in the economy leads neo-classical theorists to focus on other explanations of why economies are not operating at optimal levels. In essence if the results of the interplay of rational actors does not lead to the predictable outcome in must be because something has distorted the signals or there are actors motivated by utility considerations to make decisions which are economically inefficient (e.g. politics in Bob Bates's work). The search for culpability leads to the an identification of players influencing markets from outside the realm of exchanges. The reasoning leads ineluctably to the role of the state and how it affects the economy.

In its pure form neo-classical economics does not recognize any role for states. The view arises out of the general equilibrium foundations of neo-classical economic theory. As we have seen, economies are driven by exchanges, which arise out of the spontaneous interaction of self-seeking individuals. In the more relaxed version there is some recognition that property rights are transferred in exchanges and therefore there is the need for some external guarantor such as a judiciary. There is also some recognition that money is needed in exchanges as a means of payment, which sets the preconditions for monetary institutions such as a central bank tightly controlling credit creation. Like the guarantor of property rights, it should also only be neutral by using objective criteria like the monetary rule. Two principles arise from this model the imperatives of state neutrality and the need for state minimalism. As we will see below two of the neo-classical elements underlying adjustment are the theories of public choice and rational choice which draw on methodological individualistic explanations of the behavior of acquisitive homo economicus using the vehicle of the state for predatory purposes.

Much of adjustment is driven by the principle of creating state neutrality and minimalism in the belief that once prices reflect their scarcity values the real sector will respond accordingly. Companies have been operating with allocative and technological inefficiencies because of state ownership and the regulation of production and due to the government-produced distortions in exchange rates, interest rates and commodity and labor prices. Thus enormous static efficiency gains can arise from liberalization, privatization and stabilization. Instead of viewing development as a process of structural

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choice under uncertainty. The axioms are needed to show that individuals acting on a preference ordering that satisfies them can be seen as acting in a manner which maximizes expected utility. The mode of human behavior (carefully calculating and ranking alternative bundles of goods in a completely consistent manner) implied by these axioms is in itself absurd. Moreover, many of these are challenged by experimental observations such as the Allais' paradox, Ellsberg's paradox, preference reversal and Newcomb's problem. In order to maintain the theory, which is so widely used in the mainstream journals, many economists dismiss the observations in a number of ways. Some argue the theory is normative and therefore cannot be directly challenged (e.g. this is the way they ought to act even if some people do not act in this manner). However, this is not terribly cogent, not only because of the problems with dichotomizing the normative and the positive in economics, but also because it would imply that all the neo-classical models which use expected utility would be concerned with how the economy ought to be rather than how it actually operates (e.g. nothing but speculation). Others argue that the theories predict behavior in the aggregate so that variations cancel each other out. However there is no evidence that the paradoxes are random events which would make this explanation cogent. Finally, still others dismiss the observations since they have not been gathered from real world choices or that the stakes are not high enough in the experiments or once the actions are repeated people will become more rational and behave like the model. All of these positions are nothing but assertions arising from an axiomatic attachment to a core set of propositions needed to maintain the logical integrity of neo-classical economics. A good discussion of many of these issues can be found in Hargreaves Heap et al. (1992).

and institutional transformation, the focus is on the creation of a static equilibrium state where rational private actors make marginal changes in reaction to undistorted prices that maximize their individual utility.

THE WORLD BANK AND THE EVOLUTION OF THE CONCEPT OF THE STATE UNDER ADJUSTMENT

As we indicated above the World Bank's early conception of the nature of the state was heavily influenced by the neo-classical theory of the state. Strictly speaking, as we have seen above, in the pure neo-classical model as represented by Walrasian equilibrium there is no need for a state since society's welfare is maximized. In the less extreme model of structural adjustment, the state is the guarantor of property rights and the money supply. Implicit in this notion is that the state will benignly intervene in these matters. State intervention in any other matter sets up the opportunity for predacity and is less superior than the operation of the market.[4]

Public choice and rational choice theories dominated this view of the state. One of the great paradoxes of structural adjustment in the 1980s in Africa, widely observed by proponents and critics alike, was that the state was the primary focus of criticism by the Bank and Fund for Africa's ills as well as their major vehicle of policy delivery. The pattern of the 1980s was to conditionally tie credit tranche allocations to civil service retrenchment targets. The ostensible reason was that this would help reduce government budget deficits and allow the country to meet IMF credit targets. However, implicit in this policy was a rather erroneous presumption that cutting back on "bloated" bureaucracies would somehow diminish the dysfunctional nature of state intervention while "freeing up" scarce human resources for the private sector.

Beginning with the 1989 report on sub-Saharan Africa (World Bank 1989), the Bank through a series of papers, memoranda and public pronouncements began to move away from the state retrenchment approach. In a 1993 speech, Edward Jaycox, the former v.p. for Africa, admitted that the state retraction strategy simply "ha[d]n't worked" (Jaycox 1993, p.26). Money had not been saved and laid off labor had not stimulated economic growth instead increasing social dislocations and unemployment. Dia (1993) argued in another Bank document that the act of retrenchment seriously undermined the already problematic operational capacity of African states by often retiring the most experienced personnel, limiting the entry of youthfully energetic and inexpensive new recruits, and compressing and reducing wages making the civil service unattractive to the most talented people while generating apathy and discontent. Moreover other Bank policies have undermined state capacities. Jaycox pointed to the thinning affect of lending policies on indigenous capacity, which have been introduced without regard to their impact. He criticizes the Bank's use of expatriate resident technical assistance as a "destructive force" undermining capacity building in Africa (Jaycox 1993, p.21).

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[4]Proponents of new institutional economics have a related concept. North sees the state as an organization with a comparative advantage in violence. This is important if it is to enforce property rights since "the essence of property rights is the right to exclude and an organization which has a comparative advantage in violence is in the position to specify and enforce property rights." (North 1981, p.21)

A further development of Bank thinking became evident with the release of the Bank's 1992 publication Governance and Development (World Bank 1992). To the Bank good governance means a state that is accountable in the sense of "holding public officials responsible for their actions" (p.13); a legal framework which is known, in force, where one has binding resolution of legal disaccord by independent judicial bodies and proper procedures for amending rules" (p.5) and the improved information and transparency in government to reduce corruption and explain policy choices (p.39). Mamadou Dia (1993) picks up these themes to explain the poor governance in Africa. To Dia it can be explained by the existence of patrimonialism which exhibits a pattern which is contrary to governance which would encourage development. Patrimonialism is a system of leadership characterized by the unwillingness of rulers to distinguish between personal and public property. In the patrimonial state political and personal loyalty are awarded more than merit. Following Governance and Development, the patrimonial state is one that lacks accountability, transparency and the rule of law (World Bank 1992).

The policy implications of this rethinking was bifurcated into two rather different directions: one was to build capacity while the other was to improve governance. On capacity, we have a set of very concrete proposals as represented by February, 1994 Capacity Building Report (World Bank 1994), Edward Jaycox's speech of 1993 (Jaycox 1993) and (Ali 1994). On the other hand we have the three approaches to improve governance in patrimonial states the comprehensive, enclave and hybrid solutions suggested by Mamadou Dia (1993) which Rogerio Pinto (1994) attempts to operationalise using the example of the Gambia.

While the attempt to develop a deeper understanding of the exigencies of the African State has been highly welcome the effort has been conceptually flawed due partly to a continued reliance on neo-classical microfoundations. What is not clear in either the governance or capacity building endeavors are the "indicators of success". A very detailed study of the governance project in The Gambia (Pinto 1994) clearly shows that the project was amounting to a series of organizational shifts. How does one evaluate whether these shifts are consistent with the decline of patrimonialism? Part of the problem is quantifying what is a qualitative analysis. The questionnaire used to evaluate the perception of patrimonialism are not always clearly connected to the theory of patrimonialism. On question 15 respondents are asked to consider the statement that public investment is characterized by "low productivity" (Pinto 1994, p.74). One asks relative to what? It is not clear what exactly is being measured by these questions nor what it would mean if perceptions shifted. Characterizations presuppose a common definitional base.

Part of the problem relates to the concept of institutions embedded in the capacity and governance projects. As Mehdi Ali puts it in his paper, institutional capacity in the context of government is defined as "the restructuring of public sector management toward more efficient and effective performance" (Ali 1994, p.2). The view of institutions is basically functionalist and leads to the problematic notion that organizational shifts can somehow improve the efficiency of the operation of states. A more fruitful conceptualization would arise using a Veblenian perspective we discussed above one that sees institutions as less instrumental and more as "settled habits of thought common to the generality of men and women". The key is shifting the pattern of norms of behavior that arise from a different set of self-conceptualizing tools. Dia (1993) comes the closest to comprehending this in his depiction of the norms of behavior in the patrimonial state but then falls into a functionalist mode by adopting the rather flawed concepts of accountability, transparency and the rule of law found in the Bank's Governance and Development (World Bank 1992).[5]

Moreover, if we had accountability, transparency and the rule of law, would we have a vibrant developing economy in Africa? It is doubtful? The logic in some senses is an extension of the "getting the prices right" position at the heart of adjustment in Africa. It follows the general neo-classical notion of institutional neutrality discussed above that will permit an unimpeded space for optimal private decision making. Passively create the conditions perceived as inducing private production and investment and "ye will come".

This leads to a final related point, which focuses on the underlying purpose of the governance and capacity building projects. As we have argued the World Bank and IMF still focus on implementing a core adjustment model. In other words governance and capacity for what? The capacity and governance issues have become paramount due to the very problematic experience with adjustment in Africa over the last two decades. In the Bank's view the vehicle of delivery must be upgraded and improved if adjustment is to work. In general the Bank's approach to the state, including its shift away from state retrenchment, is conceptually problematic and incapable of understanding the exigencies of the state and development in Africa. If East Asia is any guide it will take a much more proactive or developmental state.

THE THEORY OF THE DEVELOPMENTAL STATE

The seminal work on the developmental state was presented in the final chapter of Chalmers Johnson's 1982 work "MITI and the Japanese Miracle". Johnson presents four components of his model of the developmental state:

1. The first element of the model is the existence of a small, inexpensive but elite state bureaucracy staffed by the best managerial talent available in the system.
2. The second element…is a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively.
3. The third element is the perfection of market-conforming methods of state intervention in the economy.
4. A fourth and final element of the model is a pilot organization like MITI.

The concept of market conforming was not meant to be simply a "market friendly" approach in the World Bank East Asian Miracle sense where governments should "ensure adequate investment in people, provide a competitive climate for private enterprise, keep the economy open to international trade and maintain a stable macroeconomy" (World Bank, 1993, p.10). By hindsight, Johnson would consider this to be a "regulatory" or "market rational" state where "the state concerns itself with the forms and procedures-the rules- if you will of economic competition, but it does not concern itself with substantive matters" (Johnson, 1982, p.19).[6] In contrast the market is seen as a tool which is deliberately used for broader developmental purposes. In a recent article revisiting the developmental state, Johnson makes this quite explicit in his criticisms of those that dichotomize states and markets. "Industrial policy is not an alternative to the market but what the state does when it intentionally alters incentives

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[5]A good critique of these concepts is presented by Moore (1993).

[6]Johnson is highly dismissive of the Bank's miracle report "The study does not actually say anything new and is intentionally misleading on fundamentals…" (Johnson, 1999, p.35)

within markets in order to influence the behavior of civilian producers, consumers and investors…Altering market incentives, reducing risks, offering entrepreneurial visions and managing conflicts are some of the functions of the developmental state" (Johnson, 1999, p.48).

Much of Johnson's work was aimed at laying out the instrumentality of the Development State within the institutional context of Japanese economic history between the years 1925 and 1975. Some authors responding to Johnson have raised questions concerning the specificity of the conditions surrounding the developmental state both in terms of the uniqueness of the social and political setting and the peculiarity of the historical conjuncture, which was conducive to the success of the developmental state.

In addition other authors have pointed out that identifying the instruments of state intervention in a period of high growth says nothing of the causal linkage between industrial policy and industrial expansion.[7] The evolution of the strategic state in other Asian countries like Korea has clearly illustrated that similar policies and institutions have also been associated with high growth periods. However, critics of the viability of the development state still argue that since interventionist states have not worked in places like Latin America, that either the success is linked to the common uniqueness of the region or historical period or that development has occurred in spite of the role of the state. For example in line with the neo-classical literature on Asia, success has come from openness and an export orientation, macrostability and keeping prices right in spite of the intervention.

To advance the issue of the potential role of the Development State in Africa, one needs to carefully present the sound theoretical reasons, which would explain how the developmental state can deal with the challenges of the current reality of African economies. In other words to confront the literature that misidentifies successful policies or argues that they that have been ineffective or linked to unique irreproducible conditions, one needs to carefully link cause and effect by presenting an economic theory of the developmental state.

TOWARD AN ECONOMIC THEORY OF THE DEVELOPMENTAL STATE

To date much of the literature on the developmental state has examined political or political economy dimensions. There have been comparatively few studies utilizing economic theory to explain the exigencies of the developmental state. Chang (1999) reminds us that the literature in economic development up to the 1970s, while not directly exploring the concept of the developmental state, focused on the need for intervention relative to a variety of developing country needs that could not be undertaken by the private sector alone. Much of the early discussion in the literature on economic development of the post-war period focused on the question of the

[7]For example Calder (1993) argues that private sector activities not state strategies were responsible for Japanese post-war success. Johnson is very critical of the depictions, which try to separate private and public sectors in a manner, which reflects the little boxes of American political scientists rather than the reality of Japanese practices. Calder misinterprets the Industrial Bank of Japan as the agent of corporate-led strategic capitalism. In reality it was a government organ up to 1952 when the allies forced them to privatize and thereafter was closely linked to the priorities of the government's industrial policy. A discussion of the quasi-public nature of the long-term industrial bank is presented in Stein (2001, in press).

context of the conditions, which would perpetuate economic growth. In the classical model of Harrod and Domar which dates back to their seminal contributions in the 40s, the sustainable or “warranted growth” rate is linked to the rate of savings and incremental capital-output ratio (ICOR). Sustainability in this model was narrowly defined along a knife edge since if the rate of growth varied from the ratio of savings to ICOR the economy could expand at a rate which would either ignite inflation (when it exceeded it) or unemployment it (when if fell below).

A model, which predicted instability in market economies, left neo-classical economists in a rather disturbed state. Solow (1956) broadened the conditions for steady-state growth by removing the Harrod-Domar world of fixed technical relations to allow capital and labor to be completely interchangeable. This is the same approach that dominates most economic neo-classical economic thinking. If technical change and income shares are held constant income per capita would be a product of the rate of savings divided by the rate of expansion of the fully employed labor force. The growth rate would be sustainable until diminishing returns set in. The Solow and Harrod-Domar models fell into the broad genre of capital-centered models of sustainable growth, which dominated much of the literature through the sixties.

Two somewhat divergent approaches came out of this literature. Following Harrod-Domar and inspired by the high investment rates of the early Soviet era, there was a belief the market by itself would not be able to maintain the warranted growth rate and that government planning and ownership was necessary to mobilize the resources for high levels of sustainable growth. For example, Gershenkron (1962) argued that state involvement was needed to for industrial financing on a scale which would ensure minimum efficiency in an era of ever changing technology. Rosenstein-Rodan (1943,1951) pointed to the indivisibilities problems that could be overcome and external economies that could be gained through a state coordinated “big push” in the early stages of development.

Many of the early strategies in developing countries were dominated by policies, which put more emphasis on state ownership and planning to achieve sustainable growth. This was due not only to the influence of the first view but also to the paucity of viable private sectors in many countries in the early stages of post-colonialism with states filling the vacuum with the assistance of bilateral and multilateral aid.

The second was the view inspired by Solow that sustainable growth would arise through the mobilization of savings and investment through the market system. In this vein, the literature was replete throughout the seventies with development writers like Deepak Lal, Ian Little, P.T. Bauer and Bela Ballasa attacking state-led development and blaming it for the lack of sustainable growth. Others aimed at not only being critical of the role of the state but in adding new dimensions to the neo-classical growth model such as Mckinnon’s financial repression theory. Implicit in this literature was the notion that the state could not be the guardian of the public interest since it was replete with the neo-classical homo-economicus or self-seeking individual who would try to maximize their selfish economic and or political gains. The way forward was through state retraction and removing the distortions created by state policies in order for the Solow world of sustainable growth to become operational. As we indicated above and elsewhere (Stein and Nissanke, 1999; Stein, 1999) the neo-classical vision as manifested by structural adjustment has failed in Africa due precisely to the flawed theoretical nature of the adjustment model. One needs to go beyond the neo-classical theory of the state since it is based on the same flawed microfoundations that underlie the neo-classical view of markets.

Based partly on the earlier non-neo-liberal development literature, Chang (1999) lays out four vital economic functions for a developmental state coordination for change, provisions of vision, conflict management and institution building. These provide a useful way of organizing arguments concerning the exigencies of the developmental state.

To begin with, Chang argues that the recent literature on technical change has confirmed the importance of coordination since if technology is embedded in a capital stock which is an interdependent network of components under divided ownership, then the adaptation of the old capital structures to new ones will be difficult and halting do to the varying costs and benefits to each agent. While it is possible that different groups with complementary investments could draw up contracts, the transaction costs of formulating and monitoring the contract among a large number of agents is likely to be prohibitive. Coordination of the indicative planning information type might be sufficient, although government financial incentives can often lead to the kinds of signaling that would encourage consistent investment and production. In this context, industrial policy can provide the overall framework for information and incentives. However, I would argue that the industrial policy must be embedded in the framework of civil society organizations both for information dissemination and legitimacy. This will be discussed in more detail below

A second function is to provide a vision from a low-equilibrium to a higher equilibrium state. Even if one is to accept the flawed neo-classical vision, as we saw above, the analysis focuses on attaining static efficiency. As price signals are assumed to embody all necessary information, changes in relative prices are viewed as a critical prerequisite to a predictable shift to a new equilibrium state. However, the focus in development is creating dynamic efficiency or in Hirschmanian terms formulating new “choice sets” instead of trying to optimize within existing choice sets. There is nothing in theory or reality that connects static efficiency gains to longer-term dynamic efficiency which is the product of complex institutional and structural transformation. In the era of structural adjustment, African governments have been preoccupied with the ever-elusive goal of macrostabilisation precisely because the economies have been structurally weak (Stein and Nissanke, 1999). What is needed is a vision for the future, which will provide a guide for the transformation of economies along a path that will be developmental. Stabilization in the sense of the ability to manage internal and external shocks is a product of and embedded in the growth of development and the development of growth.

A third function of the developmental state is conflict management. Chang argues that economic development involves moving resources from low-productivity activities to higher ones. In the neo-classical world factors of production are perfectly mobile. However in the real world resources are immobile and the owners of existing resources might face obsolescence, unemployment and income losses. Those that have invested in the physical capital, skills and contractual relations might resist change leading to the potential for conflict. The developmental state can be of enormous assistance in mediating conflict including compensating potential losers. The compensation can improve investment in the long term by socializing risk in potentially immobile capital.

A fourth function of the developmental state is institution building. This is very complicated and warrants a much longer discussion.

The developmental state and institution building

While the World Bank has long recognized the role of the state in guaranteeing property rights, institution building is far more complex than neutrally protecting private property and contracts. Chang points to organizing institutions, which are consistent with the entrepreneurial vision, held by the state. He presents examples such as model factories and lifetime employment in Japan or the export monitoring system in Korea as indicators of the variation of different types of institutions.

However the institutional exigencies of the developmental state are much more complicated and aimed not only at meeting state visions but also for more general purposes. An economy is a system of inter-dependent institutions, and the government is regarded as a coherent and endogenous cluster of these institutions that, together with the private sector, constitute an economic system. Private agents and institutions as productive units such as industrial firms comprise the core of this economic system, the evolution of which proceeds primarily with the enhancement of organizational capabilities of firms and the expansion and deepening of inter-firm relationships. Markets are where coordination among decisions made by private agents should take place. The functioning of the system depends on the productive and organizational capacities of its constituent economic agents and the institutional arrangements governing the relationships among them.

The process of institutional development and learning, i.e. the strengthening of organizational capabilities of economic agents and market deepening is explicitly recognized as one of the critical aspects of economic development. Market deepening is interpreted here as the process of intensification of interactive interrelationships among agents and institutions, as individual agents undergo their own organizational evolution. It involves the development of institutional arrangements for network relationships among agents. This perception of markets is similar to that found in the institutional economics literature and, hence conceptually different from the perspective that underlines the conventional neo-classical paradigm[8].

As discussed above, markets in the neo-classical view, which underlies the vision of the Bank, are seen as a realm where rational atomistic individual agents interact in exchange of goods and services. Agents in their utility maximizing efforts merely respond to the prevailing incentive structure embedded mostly in relative price signals through competitive market interfaces. Institutions are exogenously given to the pricing system, which is the main coordinating mechanism, while exchanges involve no transaction costs. In contrast, institutional economics defines markets as broad institutional structures and arrangements that support and govern the process of exchange with an aim of minimizing transaction costs. It views both market and state as one of institutions that shape patterns of economic activities.

Advancing the theory of imperfect information, Stiglitz (1989) also defines markets as an important set of institutions. More specifically, markets are viewed as institutionalized in environments characterized by imperfect, costly and incomplete information. Hence, it recognizes that market participants incur transaction costs. The theory further emphasizes that in order for markets to function properly, appropriate governance mechanisms and arrangements are required to eschew agency problems arising out of opportunistic behavior such as moral hazard and adverse incentives.

[8]For a summary discussion how these issues are treated in the Market Enhancing View and Institutional Economics, see Nissanke and Aryeetey (1998a).

Stiglitz' theory of imperfect information is in many aspects quite comparable to the analysis advanced by such institutional economists as Coase and Williamson (Coase 1992, Williamson 1985, 1995). They represent one end of the spectrum of the new institutional economics[9]. This school of new institutional economics adopts the neo-classical choice theoretical approach as a starting point of its micro-economic analysis. However, it criticizes the neo-classical model for failing to include the role of transaction costs in exchange and in its inability to explain the role of institutions in the formation and operation of markets, minimizing transaction costs, and reducing uncertainty. In their perspective, institutions are seen to be created and refined to deal with market failures, including those arising out of imperfect and costly information and agency and incentive problems.

However, the concept of market failure appears to be too restrictive to adequately address policy issues related to structural transformation. In our view, dynamic concepts of *market transformation* and *market construction* are needed to identify the real hindrances to structural transformation. In this respect, institutional economics as a whole has a much wider analytical scope: It embraces an interdisciplinary and historical approach to the examination of institutional and structural of economies. This approach emphasizes the micro-foundations of economies in their institutional environments and organizational governance structures and stresses the dynamic and evolutionary nature of economies (Toye 1995).

In this dynamic framework, the sources for low- growth are associated with the inability of economies to transform institutional structures in response to new technological and market opportunities. Institutional economics can offer a coherent account of the institutional changes necessary for economic development, and hence a set of tools to inform the design of institutional and policy alternatives for structural transformation.

This perspective is particularly pertinent to our quest for an appropriate theory of institutional and structural change aimed at enhancing the process of market transformation and capital accumulation. Analyzing markets as social institutions, North (1989) shows that markets have historically evolved and transformed over time in line with the increasing specialization and the expansion of the division of labor. With higher rates of return to the *formalization of markets*, long-term and multi-contract impersonal exchanges have developed. However, market transformation does not necessarily automatically take place. For markets to transform and graduate to a higher stage, an appropriate institutional environment and governance structure should be developed to reduce uncertainties and transaction costs.

As discussed in Nissanke and Aryeetey (1998a and b), private agents in Sub-Saharan Africa, operating in high-risk environments without effective insurance and credit markets, have used traditional social institutions and mechanisms, based on village and kin groups as surrogates. These arrangements have provided informal social safety nets and redistributional mechanisms. They have served as social and economic stabilizer and have displayed a remarkable degree of resilience and dynamism.

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[9]According to Harriss et al. (1995) and Stein (1995a), there are two schools of institutionalism in economics: the old institutional economics and the new institutional economics. In contrast to the position taken by the latter school, the old institutional economics rejects the neoclassical assumption of rational-maximizing atomistic agents and takes organizations and entities, operating in a complex historically specific environment of social, economic and legal institutions, as unit of analysis.

However, in the absence of functioning formal institutions, economic exchanges have been restricted to the interpersonal relations of small-scale production and local trade. Contract enforcement problems have been obviated through repeated dealing and cultural and social homogeneity. African economies appear to be locked into this low developmental stage where "a dense social network leads to the development of fairly stable informal structures, such as customs, trust and normative rules which give an informal institutional framework for organizing activities" (Aron 1997).

One of the critical questions to be addressed in relation to African economic development is, to create conditions where private agents operating in informal institutional arrangements feel prepared to move to more formal institutions more conducive to productive activities promising higher social and private returns. A key to this may be found in searching for ways and mechanisms to reduce the *transformation risks* and *costs* as well as transaction costs. This can be achieved, only when African countries as nation states are able to commit to long-term investment in social, human and information capital to build institutional frameworks and endowments for sustainable development.

An important dimension of institutions is how it affects human behavior. Beyond the flawed static acquisitive world of homo-economicus is recognition that the behavior of individuals is often linked to the roles that others expect them to play or a "typified response to a typified expectation". Closely linked to this concept is an institutionalist perception of human behavior as a product of "settled habits of thought common to the generality of men and women" (Veblen 1919, p.240). Perhaps a richer notion of the embedded being is captured by the concept of homo-sociologicus where individuals are not constantly calculating utility maximizes but live according to "rules, roles and relations". (Hargreaves-Heap et al. 1992, p.63). The existence of homo-sociologicus, which posits individuals as transformative social beings, must be connected to the broader domain of the institutional and structural transformation associated with development.

Take the issue of entrepreneurship. The bank and IMF hope that privatization and market reform will somehow stimulate a group of entrepreneurs just waiting for the opportunity to respond with investment and production. Here the architects of adjustment seem to be falling back on a Hayekian notion of entrepreneurs as risk takers or homo-economicus waiting to jump at opportunities created by the new climate. However, at the heart of any thriving capitalist economy are not risk takers which have always been in abundance in Africa but Shumpeterian entrepreneurs who are inventors and innovators. Entrepreneurship of this type thrives best in a fostering climate which includes research and development, highly trained human capital, access to finance etc all of which are poorly developed and even eroded under adjustment. It is in this embedded context that new rules, roles and relations will develop in a manner, which enhances entrepreneurial activity. A similar argument can be used to criticize the public choice view of the state. Once one moves away from perceiving all state officials as acquisitive beings always acting as neo-classical homo-economicus and recognizes them as transformative beings, then the question becomes one of designing an operating context where new roles, rules and relations are encouraged so the state acts in concert with developmental objectives.

THE POLITICAL ECONOMY OF THE DEVELOPMENTAL STATE

The model of the successful Development State

The recognition of the theoretical exigencies of an African development state says nothing of the pre-conditions that will allow it to operate effectively. The literature on failed and successful developmental states is large and diverse. Once one arrives at some model or consensus on what has constituted success, one must then compare them to the conditions in Africa to comprehend the transformative prerequisites for the development of the developmental state. A quick representative survey is a useful starting point in understanding political economy issues.

Vartiainen (1999) surveys the experience of four successful developmental states Japan, Korea, Finland and Austria and finds six common stylized elements:

1. a powerful and interventionist state
2. extremely organized corporatist economies where strategic decision making has incorporated state and organized interests groups of workers and businesses
3. political and collective decisions have helped channel savings into capital accumulation and mediated distributional conflicts around the distribution of income
4. despite etatist planning the political establishment are committed to private property rights
5. the state has been politically strong and endowed with a large competent bureaucracy
6. the potential loss of sovereignty was present in each case since each country was situated between two ideological blocks.

From these stylized facts the author proposes three determinants of success:

1. A strong state in the sense that the bureaucracy is insulated from the logic of individual utility maximization such that the state apparatus must be bureaucratic and meritocratic enough to impose collective objectives on its members.
2. The state must have thick ties to the economy's organized agents such as industrial associations and trade unions e.g. the state must be embedded
3. There needs to be mutual dependence or mutual balance between the state and the rest of the economy, which entails a combination of discipline and privilege. An external challenge might help maintain this careful balance.

In contrast Schneider (1999) examines the failed developmental states of Brazil and Mexico. He argues there were four common features of the "desarrollista" states political capitalism where profits and investment decisions are dependent on the state, an ideology of developmentalism which legitimized state intervention to promote industrialization, political exclusion which limited pluralism either through military control or impediments to opposition and finally an appointed bureaucracy where the jobs of tens of thousands of bureaucrats are tied to political regimes. He argues the latter was the major impediment to the proper operation of the developmental state since the bureaucracy became a political player that is incapable of acting in an administrative Weberian manner.

Herring (1999) argues that India had a successful bureaucracy, which has recruited the brightest and maintained high meritocratic standards but was still a failed developmental state. However, he argues that the main problem was with the manner in which the state was embedded with private capital. Private capital was highly fragmented and had difficulty bargaining as a single voice. The state had a generally negative view of capitalism but was approachable by individual capitalists. What was important were school ties, family relations marriage alliances, common geography and even side-payments. In essence the embeddedness took a particularistic form which reduced the effectiveness of stated goals.

These unsuccessful cases clearly contradict Vartiainen's criteria of success. Despite the competence of the India State, it would appear not to have been sufficiently suffused with bureaucratic standards to operate properly. Similarly, the Latin America bureaucracies behaved very differently. In India's case it also lacked the thickness of ties to organized private sector agents and a sufficient respect for the private sector's abilities.

Africa and the developmental state: beyond the impossibility thesis

At first glance it is evident that most African countries lack many of the elements needed for a successful developmental state. Bureaucracies are extremely weak and at least in the past anti-capitalist in their rhetoric, private sectors poorly organized and fragmented and state-business relations poorly developed. This has been recognized by a number of writers including the World Bank. However, the question becomes is it possible to build a development state in Africa and if so how can this be achieved.

In recent years there has been an extensive literature generating an "impossibility theses"(Mkandawire, 1998). In this literature, it is argued, the African state cannot become developmental because of its lack of ideology, its dependency, its softness and its associated proneness to capture by special interests, its lack of technical and analytical capacity, the changing international environment that limits the tools of industrial policy like protectionism and the poor record of past intervention. The framework in which this discussion is presented provides a useful taxonomy to challenge the impossibility thesis and to begin to better understand the possibility of a developmental state in Africa.

On the first issue, there is strong evidence of developmentalism as an ideology among early African leaders. In practice however, much of the effort focused on the politics of nation building. Today, there is more of a focus on the economics of nations building among the leadership, although ominously much of it is focused on attracting foreign capital combined with a rather jaundiced view of the potential role of domestic capital. However, more hopefully, the leadership's critique of elements of structural adjustment such as its neglect of public goods and human capital development is based not on attempts to maintain rent seeking privileges as suggested by the IFIs, but out of genuine developmental considerations (Mkandawire, 1998).

Perhaps what is missing is not a commitment to economic growth and development but a concatenating vision of an alternative strategy. An additional barrier arises with the IFIs, which despite the rhetoric are still committed to a core neo-liberal model, which precludes the implementation of any alternative. As I have suggested above and elsewhere, despite the arguments by the neo-classically trained economists in the Bank and Fund that there is no alternative to adjustment, there are other models that have not been tried in Africa and are well grounded theoretically.

Second, the history of the dependency literature illustrates how the argument on the impossibility of full-fledged capitalist development in the periphery has given way to dependent development thesis. This has occurred in recognition of the growth in developing Asian countries and the Warren (1980) critique of the falsity of the underdevelopment or socialism dichotomy. In the other extreme Sender and Smith's

(1986) argument that colonialism and imperialism did not stunt capitalism is also not compelling or accurate.

The point from the dependency literature is not that development is impossible, but as I have argued elsewhere (Stein, 1985), colonialism in Africa contributed little to the development of capitalism and in many countries impeded the expansion of indigenous private sectors. Four decades after colonialism, the institutions, infrastructure, and social overhead capital are still woefully inadequate relative to those needed even in the earliest stages of capitalist development. While structural adjustment might have weakened some of these elements, its greatest crime is its misplaced focus on the ever elusive and largely failed goal of balancing financial variables while ignoring these fundamental prerequisites for African development.[10] The result is two lost decades which has seen a steady erosion of these fundamentals often due to benign neglect (perhaps with malignant implications). Any developmental state must begin with a careful assessment of the current state of developmental assets and how they can be transformed for broader developmental objectives.

Third, the literature on the lack of an autonomous African state can be divided into neo-patrimonialism and rent-seeking arguments. Market and government failures are linked in the neo-patrimonial literature to societal weaknesses where all market and government activities are permeated by familial relations, prebendalism and clientalism. The problem with this literature is it uses neo-patrimonial reasoning to explain almost every imaginable outcome such as import substitution, parastatals, privatization etc. In the process of trying to explain everything it explains very little. What is not clear in this literature is whether this is a permanent phenomenon or one that is part of a phase (Mkandawire, 1998). Moreover, the same neo-patrimonial or crony capitalist arguments are now be used to explain the Asian crisis. At the same time the close linkage between the state and the private sector has been interpreted by some authors like Evans (1995) as an important part of embeddedness that allowed developmental states to be successful. What is not clear is how Asia's neo-patrimonialism was able to accomplish enormous growth and development for decades while Africa's wasn't.

Fourth, public choice and rational choice arguments by Bates and others argue that state policies are a product of groups or individuals pushing it to generate rents for these groups or individuals. Since rents are defined as an outcome that is different from some hypothetical competitive pareto optimal point which has never existed in reality, any state policy leads to rent redistribution not necessarily rent creation. What is important is not removing some hypothetical distortion to get rid of rents, which has been one of the flawed theoretical goals of adjustment but ensuring that the rents go to productive not unproductive purposes. One mechanism used in Asia is to implement a system of contingent rents whereby higher than expected profits are provided to the private sector in return for investment and production in economically useful areas.

While the concept of rents is a flawed one since it uses a base of comparison that only exists in the mind of a neo-classical economist, the notion that states can intervene by assuming risk and improving the prospects of profitability is a central one in pinpointing the instrumentality of any developmental state. Akyuz (1996) points to five reasons why the Asia experience with rents was successful at building industrialization: rents

[10] I have argued elsewhere, that even in the context of its own criteria adjustment has been a failure. For example average inflation rates have actually been statistically higher and rising in the adjustment period in Africa. See (Stein, 1999).

were given in response to activities which served national interest; rent seeking costs such as information collection, influence peddling bargaining were kept low, governments closed off non-productive avenues for wealth accumulation like real estate; rents were provided on a selective and temporary basis and withdrawn once industries matured sufficiently to compete internationally and rent realization was linked to explicit performance standards.

Fifth, the impossibility literature is also the result of a misreading of African economic history. The view is that state intervention in Africa was a disaster prior to 1980 and therefore should not be attempted again. The Berg report, which characterized African economies as economic disasters due to state intervention, was a highly misleading characterization of the pre-80 period. To begin with, there were high levels of accomplishments in growth, savings and investment rates. Much of the state-led development aimed policies like import-substitution was not a product of rent-seeking activities but a reflection as we discussed above of the development thinking of the era and the weak state of the local bourgeoisie.

While the state had some developmental tendencies, the developmental state was never properly implemented. To begin with a state was not embedded with little or no representation of local business classes in policy making. Moreover, the irony of the pre-adjustment period was that it emphasized the same static comparative advantage as the adjustment period, one that was monocultural and land-intensive. It had no strategy of the type used by development states in Asia to create new comparative advantages through the structural transformation of exports.

A sixth issue is the impact of the new global order on the tools available today to any developmental state compared to the 70s or 80s. Under the rules of the new WTO, it is argued that protection of industries, export promotion subsidies and financial repression might not be available as options. To begin with there are many measures such as institution building that are part of the projects of the developmental state and have nothing to do with the WTO. Moreover, given that nobody really understands the meaning of much of the fine print of the agreement, developing countries have different provisions than developing countries, almost all the current complaints to the WTO have been concerned with trade between developed countries, given the small production and markets of developing countries and the lengthy and costly nature of the proceedings on each case, it would extremely defeatist not to attempt to use some of these measures. Up to April 1999 not a single sub-Saharan African country was involved in the WTO trade dispute mechanism (Stein, 2000). Even if ultimately some policies are challenged, this could take many years, which would provide a significant short term or medium term benefits to industries.

The final issue is the question of the absence in Africa of the competence needed in any developmental state. As we discussed above, the early focus of the structural adjustment has been to retract the state in the belief that a smaller state was a better state and this would free up scarce resources for the private sector. Unfortunately this policy has further weakened the state which has strengthened the claims that the state is too incompetent to be developmental. Moreover, as pointed out by many African leaders, what is left of the state is highly distorted since it is aimed at fulfilling the informational obligations and mostly financial policy aims of the IFIs and the bilateral donors.

CONCLUSIONS

The paper began with a critique of the misconceptualisation of the concept of the state embedded in structural adjustment. The focal point in the orthodox approach has been on the creation of the minimalist state, which arises out of a faulty dichotomous state-market construct where state failures are paramount. This position arises from the public choice/rational choice school which presents states as predatory-a rent generating institution that inhibits the efficient allocation of resources.

The micro foundations of this approach to the state can be found in neo-classical economics that assumes private sector actors in markets are rational and react in an efficient manner if price signals are correct. If economies are not operating at optimal levels, it is because of the influence of extra-market forces. This invariably leads to role of the state. In its pure general equilibrium form, there is no role for the state. In a more relaxed version, more commonly used by neo-classical economists, there is the recognition that exchanges lead to property right transfers. They also require a means of payment. Thus states are needed to support exchanges through juridical and monetary institutions. Any intervention beyond these roles cannot be justified on economic grounds. Beyond this acquisitive homo-economicus will use the state for predatory purposes.

Structural adjustment strategies have adopted this view. Inefficiencies have arisen due to state ownership and the regulation of production. They have created distortions in exchange rates, interest rates, commodities prices and wage rates. Enormous static efficiency gains can arise through the reversal of this intervention via liberalization, stabilization and privatization.

The pattern of the 1980s was for the IFIs to tie tranches allocations to civil service retrenchment targets. In the process of implementing state minimalism, there a rather faulty belief that cutting back on bloated bureaucracies both retract the distorting influence of state intervention and free up scarce human resources that would be more efficiently used by the private sector. By 1989, the Bank’s retrenchment approach was abandoned as an abysmal failure. A new approach aimed at capacity building and governance was introduced. However this has also been conceptually flawed with serious implementation problems.

As opposed to the World Bank/neo-classical approach to the state, the paper investigates the theory of the developmental state. To avoid some of the limitations that are associated with institutional descriptions that might be linked to the specificity of conditions in a particular historical moment and therefore not reproducible, the paper presents an economic theory of the developmental state. The analysis begins with a brief retracing of the literature in growth and development in the post-war period. One approach, linked to the work of Robert Solos is a precursor to the neo-classical development economics literature of the 1960s and 70s. A second approach recognizes that growth and development in the Harrod-Domar tradition is narrowly defined along a knife’s edge that will require state intervention for sustainability. It is the latter approach that directly underlies the economic theory of the developmental state.

Along these lines, four vital functions are discussed including coordination for change provisions of vision, conflict management and institution building. The exigencies of the African developmental state says nothing of its preconditions for operating effectively. The final section of the paper turns to this question by examining a series of broad political economy issues including the linkages between a successful developmental state and the economy's organized agents. Finally the paper critically examines the arguments in the literature contrary to the possibility of a developmental state in Africa.

The IFIs have discovered in recent years the concept of state capacity building. The question becomes capacity for what purposes. These capacities must go beyond trying to reproduce American style independent central banks into creating the professional bureaucracies that can manage the broad policy exigencies of the developmental state in African countries. The challenges ahead are multifaceted and multileveled. There will be potholes, wrong turns and reversals on the road to the development of the developmental state in Africa. For it to be legitimate the design of the road must come from the users of the new highway. However even a bumpy path forward will be an improvement over the rut that Africa has been in under the adjustment policies of the past two decades.

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