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Theories and Policies of Economic Development

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In the early 1980s, the crisis of state interventionism in developing countries led to the launch of structural adjustment programs (SAPs) recommended by the International Monetary Fund (IMF) and the World Bank. SAPs were considered remedies for the excess debt and the widening macroeconomic imbalances. These programs were implemented by short-term economic policies of monetarist inspiration where the idea of a “minimum State” was the founding perception. SAPs foreshadowed the Washington Consensus, such as was formulated in 1989. It was supposed to be a reference for economic policies that acted most heavily on the structures, advocating reforms of which the nature and meaning seemed consensual. In theory, the objective was to restore macroeconomic stability and especially to promote growth and reduce poverty. But as for the SAPs, a review of the applications of the Consensus does not attest the achievement of its stated objectives. While many economists argue that it was wrong to attach the Consensus to the strict doctrine of liberalism, the fact remains that its implementation was largely inspired from it. The proof: failure of the “minimum State” as a political and ideological objective. By renewing the debate on sources of growth and by “endogenizing” technical progress, new

development approaches are advancing theoretical arguments that restore the role of economic policy and, in particular, that of innovation.

Economic, technical and social progress always go hand in hand for many economists. The increase of gross domestic product (GDP) and, consequently, the creation of material wealth translate the improvement of living conditions of the population into quantitative terms. One can compare the GDP of several countries, initially expressed in national currency, in two ways: current exchange rates or purchasing power parity (PPP). To calculate the latter, we use a standard basket of goods then calculate the conversion rate, which is the ratio of the prices of this basket between currencies.

But an increase in GDP does not necessarily indicate improved well–being of the population because its calculation is based on a set of accounting policies. Volunteer work, domestic work or informal economy is not considered in GDP. Hence the concern over the last thirty years is to contruct new indicators that are qualitative rather than quantitative.

The United Nations Development Programme (UNDP) proposed replacing GDP per capita by a composite indicator, the human development index (HDI), which aims to reflect three aspects of economic and social development: (1) life expectancy; (2) level of education; (3) access to the necessary resources to live decently. The level of human development is therefore measured using three indicators: life expectancy at birth (health); knowledge (education); standard of living (adjusted real GDP per capita). The average of the three indices is calculated. The composite index has a value between 0 and 1. A country is classed as developed if its HDI is greater than 0.8; developing countries are, therefore, countries with an HDI of less than 0.8.

The United Nations retain three criteria for defining the least developed countries (LDCs): GDP per capita of less than 900 US dollars; delay in the areas of health, education and nutrition; economic vulnerability: lack of economic diversification, importance of production and export of agricultural products, political instability, etc.

Box 1.1. *Building economic indicators to measure "development"*

Out of all economic take-off models with structural adjustment policies, economic development concerns are perennial [UZU 10a]. The concept of "good governance" renewed the debate on development and the wealth of nations by giving institutions prominent attention. Thus, this chapter's objective is to show how institutions, and thus the "good governance", can play an important role in development. As we are aware that we cannot have foresight without a retrospective, we will first look back at theories that marked the development economics up until the 1990s. Subsequently, we will present, by shedding light on works of new institutional economics, the relationship between good governance, global governance and economic development in order to introduce the issue of innovation in proactive economic policies.

1.1. The era of economic interventionism

Development economics dates from the post-war years. On an international level, the decolonization process affected Asia and Africa; the Bretton-Woods institutions were established; the United Nations addressed issues of growth in backward countries, for their industrialization and their need to stabilize prices of raw materials; new regional institutions, such as the Economic Commission for Latin America and the Caribbean (ECLAC), processed regional integration and import substitution strategies. In fact, "developmentalism" (theories about the necessary development of so-called underdeveloped countries), which was formed after the Second World War, mainly drew its references from the economic history of industrialized countries. Therefore, development theories from the time incorporated two major assumptions, besides the paradigm of modernization: the idea that faster growth could only result from the expansion of industrial activities and the idea of voluntarism or intervention in the process of State allocation of resources, "to correct the market laws that had

previously distributed industry unevenly throughout the world" [ASS 02, p. 11].

For three decades, development economists correlated the development of Southern countries with state intervention. Theories of economic take-off, which were developed in the 1950–1960s and critical theories of dependence, formalized in the 1970s, focused on state initiative and interstate relations on a global level.

1.1.1. *Impasses of economic take-off theories*

During the first 20 years of its existence (1950–1960), development economics followed the reference model of so-called developed countries to the letter. The dominant post-war Anglo-Saxon economic thinking was in fact Keynesian, or classico-Keynesian. This constituted a reconnection with traditions of classical economic thinking. The dominant economic policies at the time thus gave state activism an undeniable role in the fight against unemployment and achieving growth. At that time, the structuralist approach that developed an analysis in terms of structural parameters (dependence resulting from the primary specialization, etc.) seemed to polarize controversies on development economics, which firstly addressed the problems of underdevelopment to then develop appropriate trajectories.

Underdevelopment was perceived as a series of obstacles for change (lack of capital and entrepreneurs, population pressure, agrarian predominance, weak capacity to innovate). From this point of view, for economic take-off theorists, in order to engage in the path of development, it was appropriate to break the vicious circle of underdevelopment and deploy a sustained and much-needed effort to create enough revenue and thereby increase domestic savings; the latter, by financing new investments,

would be able to maintain rapid growth. For A. Lewis [LEW 58], "the central problem of economic theory is to understand the process by which a community that was previously saving and investing 4–5% or less of its income, turns into an economy where voluntary saving is about 12–15% or more of its income". Indeed, the first theories of development, formulated in the 1950s, advocated the image of the Marshall plan: large international financial transfers to third world countries, to enable them to accumulate the necessary capital for a critical investment threshold in order to initiate accelerated industrial modernization [SAW 87].

According to Rostow [ROS 60], take-off is a transitional phase of about twenty years after which growth moves toward maturity and then to mass consumption and finally, to a more moderate growth. This theory was criticized for several reasons: vagueness of the periodization, imprecision about details for setting up favorable conditions for take-off, excessive trust in the power of a "centralized and efficient" State [BIE 06]. Moreover, colonization was positively perceived as having laid the foundation for turning a traditional society to a modern society.

Ultimately, in the tradition of the classical economists (Smith, Ricardo and Malthus), the development economics of the 1950s focused on accumulation and reproduction. Insofar that capital was the factor preventing economic development, priority was given to the savings rate, the investment rate and the choice of techniques in line with the availability of two main production factors: labor and capital. Development thus became evidence of finance. From this financial injection, economists expected to break the vicious circle of poverty ([NUR 53] according to which poverty fuels poverty), to accelerate the massive transfer of labor from agriculture to industry (Lewis theory), to initiate industrial growth [ROS 43] and, more generally, to trigger the transition of the society toward the industrial era.

The path that was taken allows us to distinguish between liberal Anglo-Saxon economists who assimilated the role of the State to optimal allocation of resources in an open economy, and European heterodox economists, who recommended increased state intervention in a protected industry. Indeed, the central idea of the latter was that third world States should opt for *selective voluntary public investment* [PET 98, pp. 14–20] in favor of industrial sectors that were considered strategic in terms of economic benefits. This gave rise to a range of theories: (1) ripple effects [HIR 74], (2) growth poles [PER 59], (3) industrializing industries [DES 71]. However, despite the enormous differences between these theories, they focused on one main idea: “The developmentalist voluntarism of the state elites in the third world then seemed both obvious and unequivocal to solve the issue of socioeconomic development without any political problem” [PET 98, p. 15]. Indeed, these theorists were overly trusting in the State and showed no skepticism toward it. Therefore, the question was not to know whether the State was effective or not.

That said, in the community of development economists, only the Swede Myrdal [MYR 57] raised the question of the nature of the State in poor countries as a possible obstacle for development. He insisted, therefore, on the risk of the existence of a State either too soft to conduct efficient policies, or too authoritarian or too corrupt to carry out appropriate policies for redistributing the fruits of growth. However, this warning against the deviant political behavior of the leaders was overshadowed by mainstream economists who threw these political issues out of the economic field.

In the end, the development economics in the 1950s was based on the principle of rationality of the State in the long-term. Indeed, the rationalist ideal that has dominated Western thinking since the 19th century greatly influenced the first nationalist elite of the Third World borne from the

independence movements. The “dependency theory” was then a reaction against the “structuralist” reformist current and against the evolutionary patterns, which it generally equated with liberal thinking. It mainly criticized the “*compradores*” elites, who equated their interests with those of the elites of industrialized countries. It also denounced the dominant discourse on state voluntarism as “neutral”. Such thinking, influenced by the Latin American current and especially by the thinking of Prebisch [PRE 49], saw capitalism as the determining factor of underdevelopment and usually rejected the modernization agenda for a break with the international market in favor of import substitution by local production.

Underdevelopment was no longer defined as a developmental delay but rather as a product of the dynamics of capitalism on a global scale [AMI 73]. There was unequal exchange between developed and underdeveloped countries [EMM 69]. The development economics was a prisoner from birth of the context of international relations at the time. Thus, the specialization of such countries in the production of poorly developed raw materials quickly attracted the attention of UN experts. It gave rise to the publication of a report written by R. Prebisch in 1949 [PRE 49]. This document discussed the difficulties faced by third world countries in transforming and adding value to their natural resources locally. Moreover, as the prices of the natural resources tended to decline compared to manufactured goods, the report radically challenged the specialization model based on the comparative advantages.

The inclusion of structural aspects in the analysis of Southern economies was of utmost importance. Underdevelopment was not analyzed as a natural phenomenon, but rather as a historical situation related to the disintegration of productive structures and dependency phenomena maintained in the international economy.

Indeed, the gap between elasticities and the limited number of products exported by the periphery was the origin of the secular deterioration of terms of trade. In this context, "dependency" economists made a series of recommendations to break the vicious circle of underdevelopment. Thus emerged strategies proposed to replace imports with local production. The focus of development on the domestic market and state intervention should have allowed a reversal of the trend toward unequal development between the center and the periphery. However, the stagnation of Latin American economies, and all countries that adopted the import substitution strategy, were the source of early criticism. Some authors, like Furtado, blamed the failure or perversion of these policies on the unfavorable integration of these countries into international trade: "More subtle and insidious forms of dependence, infiltrated in our financial and technological circuits, came to replace the supervision previously practiced by external markets on the regulation of our productive activities" [FUR 95, p. 63].

Despite the relevance of their analysis, which gave the study of structures a prominent role, these theories either underestimated or overestimated the role of the State. On the one hand, indeed, the place given to the State for correcting market imperfections and for designing public policies seemed significant. But the question of the behavior of the elite was hidden or overshadowed. For example, analyses by S. Amin [AMI 73] completely ignored the role of politics. The latter was reduced to an instrument in the hands of foreign interests. And so, the State, in this framework, was a puppet structure. Moreover, Furtado, by allowing the State to play an important role remained aware of the risk of perversion of development strategies in the context of the proliferation of coups d'état. As such, the advent of a new ruling class driven by the search for individual interests began. This is in line with the recent analyses by Stiglitz, for whom the distribution of wealth in

some developing countries is not determined by careful trade-offs between equality and efficiency: "It is not defined under the principles of social justice; it is the result of brute force. Wealth is power, and this power allows the ruling class to keep the wealth" [STI 06, p. 198]. Thus, we find ourselves at the heart of the institutional performance paradigm.

1.1.2. *The crisis of the interventionist State*

The 1929 crisis gave rise to a particular echo in analyses by John Maynard Keynes (1883–1946). The leading thread of his ideas was that for market economies experiencing sustainable endogenous imbalances, the onus shifts to the State to support growth and stimulate the economy to achieve full employment. Its intervention should be done via economic policies for boosting demand and by committing to additional public expenditure, corresponding to the regulatory function of the State. Concomitantly, to avoid a return to protectionism, the Bretton-Woods agreements adopted the principle of progression toward international liberalization through cooperation between external policies. And to avoid returning to unemployment and the inequalities of the 1930s, they left a margin of freedom for internal policies of full employment and the welfare State [COU 03].

Thus, after the Second World War, the States strengthened their role in the economy. The priority was to correct market failures, especially macroeconomic ones: boost growth, promote full employment and external balance, ensure price stability, improve living standards, etc. At the time, international exchange began to intensify, but growth depended mainly on the dynamics of domestic markets. This heightened the importance of the nation-State through a high degree of political, social and economic interactions that occurred internally. The trend was therefore toward national integration: consolidation of the welfare State in the first

half of the 20th Century strengthened the legitimacy of the central government and, consequently, justified its massive intervention in the economy.

The global economy changed dramatically in the 1970s, in response to the changing practices of policy makers, who, under the pressure of circumstances and public opinion, increased interventions in the economy: external deficits and international debt, stagnation and inflation (*stagflation*), corporate bankruptcies, spiraling unemployment, etc. More generally, an area of economic "turbulence" occurred, but which supporters of the liberal theory were slow to name "crisis" [HUM 95]. Since then, Keynesian-inspired regulations have been "dampened" after more than thirty years of economic and interventionist practice.

It was the welfare State system that created a context of international crisis, conducive to neoliberal discourse, in the early 1980s. This was triggered by a slowdown in growth, growing imbalances, practice of social assistance and especially "hysterical" public spending. The arguments of liberal economists undermined the welfare State, first in England, then in the United States and then finally, triggering a liberal wave that gradually spread to many countries that, for the most part, also became supporters of "less State intervention". The problem was simple: as a good policeman, the State must intervene to create and enforce conditions for effective competition through market transparency. Public or private monopoly, substitution of the entrepreneur by the State, laws and social protection of employees, etc. were obstacles to innovation, to the detriment of consumers and employment. The role of the State was thus to ensure fair competition, to avoid excessive concentrations of economic activities and to protect consumers.

The turning point in the functioning of national economies and the global economy occurred in the 1980s. In 1979, the

arrival in power of Margaret Thatcher in Great Britain and, in 1981, of Ronald Reagan in the United States, facilitated the advent and spread of liberal doctrines; in his inaugural speech, Ronald Reagan said that "the State is not the solution, it is the problem". In the late 1970s, Senegal inaugurated the first SAP, the debt crisis having begun in developing countries thus forcing them to adopt "market-friendly" development strategies. This unification of economic models also won over the Eastern countries: in 1984, China opened its first special economic zones. Five years later, the fall of the Berlin Wall announced the liberalization of the Soviet Union in 1991, which was also the year when India, who had been nationalist until then, in turn liberalized itself. Thus, in ten years, the configuration of the world changed dramatically with the rise of liberal-inspired approaches; approaches that were largely concretized through widespread *therapy* of SAPs for countries in crisis.

1.2. The era of liberalism

Development economics were completely transformed from the 1980s. Debt crises were reorienting priorities. Thus emerged the need for balance, which expelled the temporal dimension of change. Due to this, the plurality of theories shrunk in favor of the liberal theory to which some neo-Keynesians aspects were added. However, the nagging question remained: why did some developing countries achieve good results in terms of development in the post-colonial period and others stagnated or even regressed? Differences in economic policies played an important role. In fact, international institutions strived to recommend a combination of economic policies grouped under the name of SAPs to developing countries; these advocated the establishment of a sound macroeconomic policy, the liberalization of domestic markets, reduced State spending, integration into the global economy, etc. The recommendations in these programs were invariable; specificities of developing countries, which fueled

the early work on development economics and which were initiated by structuralist economists, were left out of the discourse of international institutions. The simple operation of market forces in a context of free competition and free insertion of the national economy into the world economy, was thus supposed to guarantee that poor countries caught up with the richest countries in terms of economic prosperity and social well-being.

However, structural adjustment was not intended to assist in the creation of internal economic dynamics. That was for the authorities of countries that were subjected to the adjustment to deal with. The role of the adjustment was to ensure that the evolution of the balance of payments allocated the necessary resources to paying of a debt. The economic situation that was consistent with this observation was that activities involved in the domestic market slowed down, wages were compromised, indirect taxes were high while direct taxes were low and currencies were subjected to competitive devaluations. In this new vision of economic development, the State had to seek macroeconomic stabilization and refrain from interfering negatively with market rules.

1.2.1. *Structural adjustment programs*

Structural adjustment programs were set up to overcome the interventionist State crisis, which was manifested by a marked deterioration of internal and external balances, a result of unsustainable protectionist, inflationist and fiscal policies, particularly in Latin America, but also in varying forms in Africa and Asia. The second oil crisis worsened the situation, which struck developing countries more heavily than developed countries, which benefited from the recycling of petrodollars. The higher interest rates on international financial markets and deteriorating terms of trade resulted in widespread and widening imbalances. In the early 1980s,

most developing countries faced the problem of international insolvency and cessation of payments.

Sitting on their role as funders, the Bretton-Woods institutions advocated national economic policy guidelines for liberalizing their economies toward hypothetical deleveraging. SAPs were presented as a therapy of liberal inspiration, strengthening market mechanisms, improving productive and commercial efficiency and reducing the discretionary power of the State.

To begin with, the priority was given to the consolidation of public finances and the easing of bureaucratic apparatuses, at a time when the level of demand was considered to be too high, the investment and consumption were based too heavily on imports, the inflation was too high, the weight of debt was too heavy, the economic competitiveness was too weak and the economies were not export-oriented enough. Interventionist economic policies were considered responsible for causing distortions. It was then necessary to enhance economic efficiency and ensure non-inflationary growth through the withdrawal of the State in favor of the free operation of market mechanisms.

In the logic of the IMF and the World Bank, the SAPs should have been twofold: stabilization, then the adjustment of structures. The IMF's actions corresponded to the first part, being more focused on monetary and financial aspects and presented as short-term stabilization policies of demand and recovery of a viable balance of payments. The actions of the World Bank rather corresponded to the second part, being more oriented toward the structural policy of supply management and modification of the conditions of production.

The "stabilization" was based on measures that were as diverse as reducing public spending, slowing the increase in

money supply by limiting credits to the economy, raising the interest rates, subordinating wage developments to productivity growth, devaluating the currency, etc. It was the typical policy mixes recommended by the international financial institutions, particularly the IMF before theorizing and advocating the practice of monetarism in an open economy. Let us recall that the monetarist current was born in the late 1940s, driven by M. Friedman [FRI 53, FRI 69] as a reaction against Keynesian preference for fiscal policy. Monetarist theories proposed a restriction of State intervention and believed that inflation was due to an excessive volume of money circulating in the economy; hence the need to implement a monetary policy that restricted the money supply.

The "structural adjustment" aimed to create the conditions for stable and sustainable economic recovery to ensure balanced growth via liberalization of productive, financial and business systems: gradual liberalization of imports, prices and interest rates, easing of public control over private national and foreign investment, restriction of direct government support to companies through the liberal percept *trade not aid*, withdrawal of the State from the productive fabric by massive privatization of public corporations, etc.

Indeed, perceived by the liberal approach and the agency theory as a means for achieving specific interests, the public company was subjected to strong criticism, on behalf of the superior efficiency of coordination mechanisms by the market: public production did not maximize public interest, but rather private interests, at the expense of economic and social waste. This notion of "waste" highlighted the distortions that State intervention could create and it was then recommended that economic policy be neutral and that liberalism be the rule. In this sense, *laisser-faire*, market regulatory mechanisms and

the benevolence of the invisible hand were to ensure optimal operation of the economic system.

It was according to this same logic of *minimum State* that fiscal and financial reforms increased and the privatization process was accelerated over the past three decades in developing countries but also in the United States, Europe and in former socialist countries. The results have not matched expectations: in the late 1980s, the mandated treatment plunged developing countries into recession. Long-term development needs were side-lined. A number of developing country governments continued to implement the SAP, most for fear of suspension of loans and financial isolation, rather than for conviction of their merits or their success. At the end of the 1980s, the World Bank [WOR 87, p. 2] itself recognized that for many developing countries, "the adjustment proved to be a more lengthy process than was envisioned". The SAPs were thus criticized for having too strict a vision of conditionality, but in reality, and at least until the early 1990s, there were a lot of loans and very few adjustments.

Despite the mixed results, for international financial institutions the neutral economic policy and the logic of a lesser State were still desirable in the long-term; the problem lies deep in the configuration, the rhythm and the steps toward liberalization. It was apparently around this logic that the ten commandments of the "Washington Consensus" were founded, as formalized in 1989 (see Box 1.2).

– "*Fiscal Discipline*": whereas public deficit is a source of inflation and external deficit, fiscal austerity aims to deleverage the State, but also maintain and improve purchasing power, mainly in the categories of the most disadvantaged populations.

– "*Redefining priorities in public expenditure*": subsidies to the economy, for employment and to enterprises must replace direct aid funding health, education and infrastructure construction.

– “*Fiscal reform*”: to counter tax evasion and the rise of an informal economy, but also to improve the finances of the State and give new life to the economy, the government must pursue two objectives: expand the tax base and lower marginal tax rates.

– “*Liberalization of interest rates*”: the market must set interest rates, but the State must ensure that these are positive and moderate in order to be attractive to international investors. These can contribute to financing development.

– “*Competitive exchange rates*”: the aim is to promote exports. Controlled currency depreciation should move in this direction while avoiding inflationary spiraling due to excessively low levels.

– “*Trade liberalization*”: export promotion cannot be achieved without the liberalization of trade; to limit or even remove tariff and non-tariff barriers.

– “*Liberalization of direct investment from the outside*”: first, foreign investment must be unfettered, then the international financial institutions imposed the liberalization of the movement of all kinds of capital, leading to significant financial crises throughout the 1990s.

– “*Privatization*”: reduce public deficit, contain state intervention, but also make it more competitive (in liberalized markets) through more appropriate management, these are the main objectives of privatization that receive the broad consensus of experts of the “Washington Consensus”.

– “*Deregulation*”: contestability of markets must be applied on a large scale. The supposed success of this policy in the United States (Reagan years) should inspire all governments; to eliminate barriers for entry and exit of the markets and promote free enterprise.

– “*Ownership rights*”: the reinforcement of property rights fosters individual initiative and allows the informal sector to obtain ownership titles at acceptable costs.

Box 1.2. *The “Washington Consensus” in ten points*

The Washington Consensus derives its name from an article by John Williamson in 1989. It is in Washington that

the headquarters of the IMF and the World Bank, the US Treasury Department and many influential think tanks like the Institute for International Economics are located. In this expression, Williamson defines "Washington" as Washington politics of Congress, as senior officials of the administration and technocratic Washington of the international financial institutions, of governmental economic agencies, of the Federal Reserve Board and of think tanks [WIL 90]. His philosophy remained the same as that of the SAPs: strict budgetary discipline, strict monetary policy, openness to international trade. The idea was that the revival of economies, often ossified by bloated administrations, should be carried out by a supply policy: encouraging private investment and consumption with tax concessions and lower rates of direct taxation.

1.2.2. *Failure of the "minimum State"*

In the early 1990s, Latin American States, like many other developing countries, made the Washington Consensus their cause. Clift [CLI 03] pointed out that this held some of its promises: stronger budgets, lower inflation and debt ratios, an influx of foreign investment and a recovery in growth. At the same time, unemployment rose and poverty remained endemic, while the opening markets exposed these countries to the collateral effects of globalization, including the influx of speculative financial capital, which was higher than foreign direct investment (FDI).

On a theoretical level, but also in practice, the Washington Consensus was quickly challenged. According to Stiglitz [STI 98], the framework offered too few instruments, a restrictive vision of development and senseless marginalization of the role of the State. Moreover, it has often been held that the withdrawal of the State from its role as producer via massive privatizations, combined with deregulation and liberalization of FDI (if these reduce the

budget deficit and boost growth), induces the strengthening of economic dependence of countries whose production bases and innovation systems are weak [STI 02, BER 04, UZU 05]. Moreover, Rodrik [ROD 98] showed that the liberalization of capital flows does not lead to more sustained growth and development because of their volatile financial capital that sought immediate payment.

Financial liberalization was supposed to attract international investment capital in areas where the comparative advantage of a particular Southern country was identified and thus enabled the country to benefit from non-debt-generating funding. But not only this, because the opening and strengthening of attractiveness vis-à-vis the FDI were a factor of technology transfer from the North to the South and a means for reducing unemployment. However, capital flows proved to be highly concentrated and volatile, mostly corresponding to speculative investments (not to actual investment). This was where *financialization* of the global economy resided and created a kind of dichotomy between the real and financial spheres. And we do not take unnecessary risks on considering that international institutions contributed by advocating and imposing liberal policies based on the primacy of the opening of the capital account. Many economists now belatedly note that the sequencing of reforms matters enormously and that countries should first strengthen state control. Paradoxically, the institutions of this global governance [UZU 10c] had the greatest difficulties facing these markets as they were unable to predict or explain the upheavals and movements that were contrary to the classical theory of liberalism that had inspired them so.

Indeed, despite progress over more than half a century in the understanding of economic processes, and despite efforts from the IMF and other international stakeholders for effective governance of globalization, worldwide crises have

been more recurrent and, in some ways, more serious. The financial crises that have erupted over the past decade are representative examples, such as those that occurred in Asia (1997), Latin America (Mexico, 1995; Argentina, 2002), in Russia and in 2008 in the United States followed by the rest of the world. Violent and costly crises aggravated poverty and inequality, relatively and to varying degrees, to the point that we can today speak of a "globalization" of poverty. Each time, these were opportunities to renew questions and revive reflections on the role, architecture and efficiency of the global accumulation framework, which was neither capable of stabilizing the global economy, nor effectively preventing and mitigating crises. Stiglitz's [STI 02] reflections on this topic always proved to be valid: when a country is in crisis, not only have the IMF funds and prescriptions failed to stabilize the situation, but in many cases, they made them worse. It is indisputable that the IMF failed in its original mission to promote global stability and was not more "brilliant" in the new tasks it set, for example to guide the transition of ex-socialist countries toward a market economy.

Financial globalization required mature financial systems, but not only this, as state regulation was also imperative for measuring the risks of capital mobility. The failures of globalization were due to the supremacy given to the private sector in the recommended model of development, gradually confining the crucially important role of the State to mere regulatory functions. It was not surprising then, that the influence of the private sector extended increasingly, and by default, in areas where State authority was weakened.

Indeed, developing countries were led to practice procyclical policies as prescribed in the Washington Consensus but which, in fact, worsened their situation: "Countries of the developing world have been asking why the United

States, when faced with an economic crisis, is in favor of expansionary fiscal and monetary policies, whereas when these countries themselves are in the same situation, they are required to do exactly the opposite" [STI 02, p. 308]. Developing countries were not in a position to counter the commandments of consensus. The restructuring undertaking became so complex that they often seemed politically and socially untenable. The need to eliminate all barriers to trade, investment and currency transactions was sharply opposed to the idea that these countries had to protect, consolidate or strengthen their economies. In the late 1990s, the results turned out to be different from what Williamson had expected, that the IMF and the World Bank had promised, what the States had hoped for and that econometric models had predicted. Was it because the liberal precepts on which the Consensus was based were poorly adapted to the real requirements of the context and national conditions? Or was it because there was a misinterpretation of the ten commandments?

In the second half of the 1990s, ten middle-income countries experienced serious financial crises with consequences such as the decline of exports, accelerated deindustrialization, massive loss of employment, etc. The Asian crisis was a clear example, having occurred due to the excessive trust in the market and commitment toward deregulation based on the "minimum State". On the other hand, China and India, who experienced sustained economic growth, only gradually opened up and maintained a proactive economic policy. Chile having led an ultra-liberal economic policy in the 1970s, its performances thereafter were the result of a turn around to more economic voluntarism from the mid-1980s. These countries adopted counter-cyclical policies: support for exports, strengthening the system of education and research and control of short-term capital inflows.

1.3. The era of "good governance"

After the Asian crisis in the late 1990s, it appeared that the consensus raised more problems than it solved. A "post-consensus" seemed to be emerging, in which the idea of a minimum State was put into perspective, at least regarding the pace of its withdrawal, the distribution of the fruits of growth and, ostensibly, the central role of institutions. In its 1997 annual report, the World Bank inflected its position by stating that a "good governance" was imperative for the proper functioning of the market. Rogoff [ROG 02] considered that the negative effects of the consensus were due to "bad governance" and poor conduct of economic policies. Rodrik [ROD 03] proposed to expand the Washington Consensus, focusing in this case on good governance.

The failure of the structural adjustment policies was interpreted by the World Bank as a lack of institutional capacity in some countries, so it directed its programs to what it called "the good governance". Therefore, the policy made a remarkable entry into the discourse of international institutions. In fact, in addition to the emphasis on the implementation of the programs, it was also about understanding the nature of the institutions that embodied these programs. Thus "good governance" could, *a priori*, refer to the inclusion of political behavior in development. That is to say, political cost was highlighted in the new theories of development.

According to the new discourses, those States with a rational institutional architecture were the most capable to promote development. Institutionalism thus burst into the debate on development. From then on, the focus was on the institutional deficit that afflicted developing countries. In other words, if some theoretical receipts did not prove to be effective at the empirical level, it was because the institutional architecture of the economies in which they

were applied was lacking. In this section, we propose to trace the outlines of a new development model by placing the question of institutions at its center. The *a priori* that governs this analysis emphasizes that the existence of good quality institutions is both the result and the cause of economic prosperity. However, regardless of causality, increasingly abundant empirical research shows that institutions have an important effect on determining the allocation of production resources and income distribution [ROD 05].

1.3.1. *Institutions, "good governance" and development*

In the 1990s, the dominant paradigm of development economics changed. The symbolic failures of all States (planning) and all markets (minimal State) led to a metamorphosis of development economics. The theory of "good governance" took over. This theory assumed that there was a strong complementarity between democracy and the market, in the sense that political and economic systems were mutually reinforcing each other [FIT 04]. The issue of institutions became crucial. The report of the World Bank in 1991 was indicative of these changes: the poor performance of certain countries was explained by the quality of "institutions". The institutional deficit experienced by the economies of developing countries was put forward to explain the gap in the economic performance with the North. In essence, development was not only conditioned by factor endowments. The institutional component explained a part.

The concept of "good governance" is now ubiquitous in economic analysis. Proponents of this concept present it as a healthy alternative to power abuse in its current manifestations, a cure for all ills of contemporary society and especially the optimal way to ensure development in

countries suffering from endemic underdevelopment. Its adoption by international institutions has allowed us to highlight some changes in the status of the State in economic theory of development. *Bad development* results from *bad governance*.

Williamson [WIL 94] was considered the father of *new institutional economics* based on the assumption of bounded rationality and opportunism of agents. He distinguished between different types of institutions, such as the market, the hierarchy and the hybrid forms. The central idea of the new institutional economics was that institutions mattered significantly in economic processes and could be analyzed using neoclassical theory tools. The inclusion of institutions thus represented a major advance in liberal theory.

D. North [NOR 90] perceived institutions as the rules. He considered that there were two kinds of institutions: formal rules (constitutional rules, rules of property rights and contracts) and informal rules (standards and practices). The definition of institutions developed by North was meaningful insofar as institutions were seen as the rules of play of a society or, more formally, the constraints defined by men to shape their interactions. In this way, institutions ensured that the rules were respected in a context where different types of transactions occurred repeatedly. They had characteristics of public goods that the market could not supply efficiently. It is in the logic of minimizing transaction costs, in the control of opportunistic behavior within a relationship or in the reiterated balance that the explanation for the emergence and functionality of institutions can be found. Institutions are then based on power.

Furthermore, if the idea of a combination of institutional architecture and economic performance seemed common to

several economists, North insisted that it was incentives that served as a mediator between institutions and economic performance. Institutional framework determines the behavior of stakeholders; similarly, stakeholders will be the source of institutional change. The organizations and stakeholders that emerged seized the opportunities created by the institutional framework. If this rewarded speculation, speculative organizations would appear; if it rewarded innovation, innovative businesses would be created and systemic innovation would begin.

For the World Bank, governance is "the set of rules governing the exercise of authority in the name of an electorate comprising of selecting and replacing those who exercise this authority" [WOR 09] and good governance is to exercise this authority by respecting the integrity, rights and needs of everyone in the State. Also according to the World Bank, relations of good governance in a framework based on two universal values can be considered: social inclusion and responsibility. The idea is that insufficient quality of governance blights the economic, social and human development; which explains the economic delay in Southern countries compared with Northern countries.

Good governance applied to developing countries required, according to the World Bank, the development of education and infrastructure, environmental protection and equitable distribution of resources as the necessary conditions for markets to function properly. A system of laws was necessary to regulate the liberalization of the markets of product, capital and labor in order to avoid the excess of capital flight and the increase of illegal and informal activities. Then, institutional reform was needed to better monitor the economy and enlist all economic stakeholders (political, business and trade unions) in the decision-making process. Finally, the tax system should ensure the proper

distribution of income. But it also had to ensure that the poor "have access to assets": instruction, ownership titles, microcredit, land reform, etc. It was not a question of returning to the hypertrophied, corrupt and expensive State, but rather moving toward an "astute State". Institutional reforms aimed to implement a good decision-making process through the adoption of good policies.

Let us note however that the concept of governance is generally (on a theoretical level) and particularly (by examining the facts) questionable. It is imbued with a strong dose of authoritarianism [UZU 10c, UZU 10d]. Indeed, if one refers to the question of institutions as a common infrastructure ("common good") to all agents of a national economy, governance and democracy do not necessarily go together. In this case, "democracy" (deliberative) is not linked to any "common destiny" or legitimacy given to citizens' acts as individuals, but it results from the intervention of "stakeholders": dialogue of governments with economically or financially powerful forces (firms, banks, etc.) or with influence (lobby groups, unions, religions, etc.). The "moral" perspective of a "common good" is then substituted by a "political" perspective of the definition of "good". These institutions that are formed by power relationships (of conflict and cooperation) create an economic development trajectory on which all stakeholders of the economy operate (or must operate to avoid exclusion).

Ultimately, from the World Bank's approach, liberal thought tried to promote a model of organization of developing economies based on the idea that democracy and the market are not mutually exclusive. Therefore, the two complement each other. From this perspective, the State was expected to play an increasingly significant role in development through the establishment of an infrastructure and institutional basis. This explains the importance that

researchers of development economics and stakeholders of the international community give to the topic of institutions. According to these stakeholders, it is the principle of effectiveness that guides the selection of institutions. But this principle of effectiveness is itself defined by the power relations that create the overall framework for the governance of the global economy.

1.3.2. *"Development" in global governance*

The growing assertion of failures of liberalism (concretized by rather mixed results of the SAPs and the applications of the Washington Consensus), combined with the needs of new economic theories of innovation that showed the important role of institutions, organizations and their interactions, shifted the development debate toward the conduct of "clever" policies to which national and international stakeholders had to adhere (grouped in a donor system: banks, companies, NGOs, IMF, World Bank, foreign governments, etc.). Developing countries then found themselves caught in a dialectical relationship between their own "governance" and governance of the global economy.

Indeed, the rise of the topic of globalization and the consequent challenges for the nation-State suggested, according to functionalist logic, a transfer of regulatory instruments that had lost their effectiveness on a national level to a global scale. In other words, it was a new model of representation and management of the interdependence that should have emerged and been applied to a growing number of areas, in response to growing constraints and global problems arising from globalization. This globalization, often perceived as a process of homogenization of public management, rather proved to act as an accentuation factor of differences of all types and at all scales.

A system of global governance should thus be the real place of power, faced with increasing complaints against reforms from developing countries and demands of civil society, which then join together to challenge the influence of developed countries and large firms and institutions. The aspiration to a more balanced and equitable globalization seemed to begin to materialize in the creation, at the end of the Uruguay Round, of the World Trade Organization (WTO) and its Dispute Settlement Body (DSB). This symbolized the assertion of an arbitral power that relativized that of the most powerful States whose practice would be governed by the principles of international public law. The issue of power did not disappear, but it seemed to be confined to soft power.

The appearance of conflicts of rules, sometimes with great symbolic significance (industry and environment, trade and social rights, trade and public health, etc.) also underlined the need for arbitration between global goals and national economic choices, in the North as much as in the South. It is this tangled set of concerns, paradoxes and requirements, combined with the ever-present distrust of functionalism and government interventionism that seems to have legitimized the establishment of global governance that coordinates and marks national policies, according to the challenges of globalization. Today, it is difficult to dissociate the term “globalization” from “governance” and “development”.

The question of “development” is thus linked to the effectiveness of the system of global governance. The World Bank, IMF, UN and the OECD, in a joint document, defined the roadmap of good policy on an international plan: reducing inequalities in development between countries and reducing poverty in all its forms is the most critical challenge faced by the international community (UN, OECD, WB, IMF, 2000). But it is difficult not to maintain a strong skepticism of the new discourse since, concretely, practices remain the

same and policies for opening up to foreign investment and trade remain the panacea for "poor development".

The analysis of global governance should be based on a thorough analysis of changes in the overall legal and institutional framework of competition and accumulation. Globalization and global business strategy have no meaning other than to give it the potential to remove obstacles from making profits. Hence, the importance of a legal framework for the promotion and protection of freedom of entrepreneurship on a global level. The architecture of global governance (on which "development" depends) is based on a consistent set of coercive rules, forms, methods, means of competition and cooperation between economic players whose goal is to organize public and private economic activities globally without apparent discrimination or preferential treatment. These rules may be new (for example, compliance by all countries of free movement of capital or the protection of capital property) or old but, in the context of multilateral agreements, apply to all signatories without discrimination (for example, respect of the most favored nation clause for foreign investors, regardless of their origin). This architecture is global insofar as it assigns an inalienable legal status to economic stakeholders whose activity goes beyond the strict boundaries of a national economy. The organization of cross-border economic activities is only possible if the international firm acquires a legal status, that is to say a full recognition status that confers rights and obligations in any country, provided that those rights and obligations are the same from one country to another. In this context of establishment of supranational rules, it is clear that all countries should review their laws and constitutions to make their legal systems compatible with emerging international laws. Under these circumstances, the only possible road to development remains the capacity of economies and their stakeholders to transform the constraints of globalization into opportunities.

The primary purpose of the power centers that govern global governance is the promotion of the national and international private sector where the opportunities to make globalization a beneficial process to all are supposed to lie.

Wage moderation policy (to keep production costs low and attract international capital), liberalization of capital markets and privatization remain the key words, despite their failure following the implementation of SAPs and the Washington Consensus principles (as discussed above). The fact is that the rules of the global economic game are set, in most cases, in structures that embody a strong asymmetry in decision-making powers; they are the preferred instruments that serve the interests of industrialized countries and the interests of powerful private stakeholders within them, such as financial groups and large multinational firms. In the current situation, it is fundamentally far from this system of global governance whose legitimacy was logically and theoretically based on the need to mitigate the paradoxes created by globalization through reconciling the conflicting interests and objectives of all stakeholders.

At this level of analysis, it would be reasonable to assume that in a globalization process where it is not the system itself, global governance should probably be considered as a new modality of politics for which the objective is less to exceed in complexity but rather to control and stabilize the tensions that are inherent to that complexity. The architectural flaws of global governance relating to "development" raise the question of the leeway that developing countries have in order to assert their claims as a stakeholder. What short, medium and long-term actions should be taken? Should we give the State back its traditional policy tools that proved to be so ineffective during the great inflation of the 1970s (loose fiscal and monetary policies, control of exchange and imports, depreciated

currency, etc.)? Should we admit that it was a serious error to advocate neutrality of State actions in the development process, when its role seemed to be more crucial and decisive than ever? Or should we work on the concept of an "astute State" more accurately? The fact is, as we will see later, the new challenges of globalization call on us to reflect on a new development model. If open borders and economic liberalism are the two pillars on which the system of global governance rests, the achievement of this "new development model" should lead economists and political scientists to rethink future economic policies.

1.4. The system of "global governance" under scrutiny

Without supreme regulatory power, globalization and its constraints and challenges may result in unpredictable functioning of the global economy due to conflicts of interest between rival state entities. Fear of economic and political conflict has been used to justify the introduction of a global governance system [MAR 03]. The integration of national economies into globalization is entrusted to international institutions that are deemed to be exempt from state control. Transnationalist theses add to this, demonstrating internal–external continuity and depriving the State of its latest capabilities against the necessary emergence of a supra-State regulation system.

Hidden behind the global governance goals, the problem of relevance of development policy implementation is emerging. Well-defined post-war guidelines (prepare and organize open trade, finance development, conduct proactive industrial policies, etc.) were replaced by a set of goals that do not seem to fulfill a unified vision of the future, even as economic integration (openness to international flows of goods and capital) and the dismantling of State power

(economic liberalization, predominance of international treaties) have become an end in itself. This encourages us to see globalization as a process that inevitably leads to the difficulty for States to set goals and develop ways to achieve them: industrial choices, innovation policies, integration of FDI in a diversification program of economic activities, etc.

1.4.1. *Global governance as a substitute for economic voluntarism*

How does the astute State differ from the minimum State and how is it more apt to promote rapid, equitable and environmentally responsible development? In fact, expenditure, operations, administrations, prerogatives, staff, aids to the productive sector, etc., are steadily decreasing. Consolidation and deleveraging remain the primary objectives of economic policies promoted by international institutions. From this perspective, the role of the State in the process of economic development seems weakened. Without any real economic policy instrument (currency being subjected to international rules and fluctuations; regulatory framework being drawn externally), the vast majority of developing (and even middle-income) countries are not masters of their own economy. Their bargaining power with major international companies in terms of technology transfer, employment, and reinvestment of profits or protection of infant industries is reduced. With national control measures of flows of investment or goods becoming obsolete, national governments are unable to control their economy. The problem is therefore a political issue.

Throughout history, in any economy and particularly in developing countries (Latin America, East Asia, China, India, etc.), the launch of major investment programs was accompanied by the implementation of measures to control foreign investment in the sectors of primary resource,

energy, transport and communications, defense and security, banking and finance, etc. However, it is true that the results were (and are) questionable. But with the multilateral liberalization of flows, the host country no longer had the ability to guide foreign investment toward sectors that could promote or strengthen national industries and/or control its market. The lack of effective supervision of activities of international companies reduced the spillover effects on local activities, hindered investment, impoverished local production structures and made the economy even more dependent on external resources and more vulnerable to fluctuations in world markets without any control of debt. The example of the General Agreement on Trade in Services (GATS) is revealing the issue. This treaty, which adhered the WTO Member States, was a treaty resulting from the Uruguay Round in 1994 and provided for the liberalization of services in all sectors, except those closely related to the exercise of sovereignty (justice, army, public order, and State administration). In short, health, education, transport, energy supply, etc., were integrated into WTO mechanisms and decisions, and were subjected to market forces. Services' privatization policy, promoted by many governments, met the logic of dismantlement of the welfare State, which was considered to be too expensive.

If we hold to existing theory and studies, the idea of global governance does not exclude the fact that the State may have a social and economic role to play. However, in practice, the weakening of the role of the State in development causes the architecture of global governance to be questioned by those who defend the political framework of the nation-State in the name of a sovereign conception of development. Indeed, today it is difficult to deny that the State is no longer the same unified actor that shares its internal and foreign policy initiative with other international stakeholders and

that in many respects, its regulatory function of national economy is fading. Presumably, national interest has become blurred and ambiguous, and rigorous economic policy is giving way to a superior organizational form that itself incorporates singular forms of special interests. This “devaluation" of the power of the State in Southern countries prevents the implementation of proactive economic policies, leaving global governance to take the lead.

Currently, the action of international institutions as leading players in the global governance system is often questioned. Not only the goals, but also the nature of decision-making processes on which this system is based, are questionable. Indeed, the strategy of liberal reforms underpinning the process of globalization is perceived as a gear in which each reform has two objectives: first, to respect a constraint or seize an opportunity for globalization; second, to create a new strain to reduce the State’s leeway.

For example, the role of international financial institutions in the management of the world economy raises many conflicting opinions. While the IMF’s official mission is to ensure stability of the global financial system and the World Bank has a mandate to finance development, these two institutions have come together to play the role of fireman and policeman of the international system by conditioning aid for liberal reforms. However, economic theory has challenged the certainties of traditional models and no longer issues an unequivocal message about the effects of trade liberalization on development. According to standard economic theory, the international division of labor and specialization of national economies in production, for which they have an abundance of capital or labor, are not only beneficial to a particular country but to the whole world. Through the relative price mechanism of goods and

factors, costs would drop and people's living standards would improve. The free movement of goods and that of capital is the necessary and sufficient condition for reaching global welfare. But history shows that there are impoverishing and discriminating specializations. It is also an assertion argued by the structuralist approach: it questions modes of insertion into the global economy as the primary and sufficient condition to trigger a sustained and consistent development process. The determining factor for development cannot be external demand for primary products. But historical conditions for development of the world market meant that developing countries were enrolled in the international division of labor as exporters of raw, agricultural and mining materials and as importers of industrial products and/or consumption. If the terms of trade deteriorate (as is regularly the case over a long period), these countries have to borrow in order to finance imports of food and industrial products, compounding their external deficit and, consequently, their external debt.

This reality explains the results of the study by the Philippine sociologist Walden Bello [BEL 02] looking back at thirty years of economic liberalism. According to the study, 80% of loans from the World Bank have benefited a limited number of developing countries to access financial markets. These loans prove, moreover, to be ineffective if we consider that the World Bank itself estimated a 70% failure rate of its projects in poor countries. Indeed, the application of the liberal principles of global governance does not clearly result in better global allocation of production resources. Countries that show the most advanced development and adequate attractiveness policies (see the emerging countries: Brazil, India, China, South Africa, etc.) are those that structurally host the largest volume of foreign investments and have an important place in international trade. Countries with major transport, telecommunications and energy infrastructure,

where scientific and technical potential is the richest, and with large solvent markets, etc., are the ones that attract global firms.

The more production and innovation systems are developed on a national basis, the more the economy in question is able to integrate the global logic of the operation of large companies. The liberalization of capital markets, positive interest rates, and the facilities and "national treatment" granted to internationalized companies open new perspectives for financing development. But according to the UN Conference on Development (UNCTAD), in the 1990s and early in this century, 90% of FDI in developing countries have gone to a small group of "emerging economies", against about 50% before the outbreak of the debt crisis (late 1970s). The LDCs received 1%. These countries, unattractive for FDI and dependent on volatile private capital, are forced to contract multilateral loans packaged with reforms causing deeper imbalances; yet they still face another problem of the global governance system, namely the constant fall of official development assistance (ODA).

The virtuous cycle of investment and growth is closely linked to profound changes in the economy and, in particular, to the development and diversification of industry. Even during the debt crisis, East Asian economies continued to rely on industry and high value-added technology-intensive services, through protecting high-technology sectors, rising up the value chain in some sectors (for example, microelectronics) and investing in the development of services (such as banking, insurance and engineering). However, most Latin American countries experienced deindustrialization and African economies went through a "premature deindustrialization" (Table 1.1).

Region	1960	1970	1980	1990	2000	2010	2017 (projection)
Sub-Saharan Africa	15.3	17.8	17.4	14.9	14.9	13.6	13.0
West Asia and North Africa	10.9	12.2	10.1	15.6	14.2	14.6	15.1
Latin America	28.1	26.8	28.2	25.0	17.8	16.8	16.2
South Asia	13.8	14.5	17.4	18.0	15.7	15.1	14.9
East Asia (excluding China)	14.6	20.6	25.4	26.8	27.0	27.4	27.2
China	23.7	30.1	40.6	33.0	34.5	32.3	31.9
Developing countries	21.5	22.3	24.7	24.4	22.7	21.9	20.9
Developed countries	28.9	28.3	24.5	22.1	18.9	17.6	17.2

Table 1.1. *Share of manufacturing in GDP by region, 1960-2017 (in %) Source: [KOZ 04]*

The consequences of systematic deregulation are symptomatic of the constraints and paradoxes in the new world order and of the inability of major stakeholders of global governance to manage it effectively and globally. The first structural responses to financial crises that regularly cross the global economy show, in fact, a return to protectionism in major countries and blocks of Northern countries and simultaneously, a reconfiguration of the financial sphere.

Protectionism is to encourage producers operating in the country itself over others, either through limiting the entry of foreign products into the national territory by quotas or

hard-to-reach standards (health, labor, environmental, etc.), or through artificially enhancing the competitiveness of local products by duties on imported goods or subsidies to local producers. According to the World Bank, since the 2008 financial crisis, protectionist measures have been increasing, as well as a rise in anti-dumping measures to prevent the entry of foreign products at excessively low prices. The stimulus packages launched since 2009 (financing of transport, communications and energy infrastructures, bank debt redemption, continued low interest rates, etc.) in major industrialized countries accentuate these protectionist tendencies.

For example, the European Union and the United States routinely resort to protectionism in order to protect and increase the export capacity of their businesses. This is the case for industrial agriculture into which these two protagonists pour a billion dollars per day to support it. This worsens the global nutrition problem due to the low purchasing power of the populations (mostly agrarian) in LDCs. The European Union and the United States demand that their manufactured goods and agricultural products, as well as their service companies, freely penetrate the markets of the world. But at the same time, they are the first to require the protection of intellectual property; 90% of patents are held by Western firms. The limitation of knowledge flow creates a lasting superiority of the North over the South.

However, new financial strategies guide development policy toward the management of debts at the expense of growth. Helped by rating agencies who decide on the reliability of borrowers, financial institutions spot the most fragile States and speculate on government securities. This raises guarantees on State loans (credit default swaps: CDS) and mortgages weak countries in the long-term. However, this situation develops the inventiveness of States with

performing economies in terms of protectionism. In an open economy, where finance sanctions the decision and the investment act, the States of industrial and emerging countries use regulations to justify expansion effects or relative decline. These States give up their power on their territories to the private sector and extend their trade policy through international bodies, treaties and standards to the benefit of large companies, which through mergers, acquisitions and equity investments can thus increase their power in the global market.

Therefore, we should learn from previous development efforts to advocate for programs with realistic goals. For example, we should accept, as Joseph E. Stiglitz argues [STI 02], the gradual and differentiated international opening up of developing countries according to their objectives as did (and still do) industrialized countries that have built their economies by protecting key sectors of their industrialization. But the new agreements on direct investment (agreement on trade-related investment measures – TRIMS) signed in the WTO framework prevent developing countries from protecting their industries, either by substituting imports with local production, or by applying measures to increase "local content" in the case of FDI. However, these countries are forced to implement strict legislation on intellectual property protection (agreement on trade-related aspects of intellectual property rights – TRIPS). The abidance to scientific and technical progress essentially achieved in industrialized countries constrains the establishment and development of national innovation systems in developing countries.

1.4.2. *Toward an alternative model of economic growth?*

Global governance formalizes a commercial, productive and financial framework drawn by the political choices of

major economies [UZU 10b], while promising to developing countries to accelerate their industrialization thanks to free trade [UZU 05, UZU 10d]. But according to J.K. Galbraith [GAL 84], the industrial world applies an economic model in companies that doesn't take historical processes into account: the great powers apply standard development programs without considering the historical characteristics of less developed economies. These programs express the state of the economy of these powers and leave little space for sociopolitical conditions on which capital formation could be based. For Galbraith, and according to the experiences of former industrialized countries, the prerequisite for economic development is political development, itself correlated with the democratization of education. A political system must be stable and predictable, honest and efficient; citizens (educated and informed) should be the stakeholders. But in order to achieve this, citizens must be educated. Good governance starts with the organization of a system of basic teaching, education and training of individuals.

Education is, indeed, the foundation of political organization from which the process of development emerges. World Bank reports share this view. Free, compulsory and good education will break the culture of poverty. It is also closely connected to the participation of individuals in decision-making in economic and political fields. A good general education sets the stage for more specialized education in a technical, scientific or administrative field. Itself forming the "human capital" that is essential for the selection, design and/or absorption, utilization and development of necessary technologies that are compatible with the economic development project. General and specialized education is also involved in the formation of a stable political system that is able to give meaning to development and provide the material, financial, cognitive and institutional resources needed to achieve it.

In an open economy, what direction will lead to development? What are the conditions and what types of institutional tools can be used to stabilize the economy, to control the flows and the stocks? International institutions have realized that without a State, in the absence of a representative and legitimate political system, development options and managerial choices are limited. Table 1.2 shows, on one side, the impasses that the implementation of proposed measures in developing countries led to (especially for the most fragile economies) since the debt crisis (late 1970s); on the other side, it shows some institutional arrangements to escape underdevelopment.

Global governance and development crisis	Institutional renewal and economic organization
– Instability and political crises – Unemployment, poverty, increasing social inequality – Deficient markets, informal practices – Financial and regulatory institutions in their infancy – Neglected collective infrastructure – Economy subject to the hazards of the international environment – Fragility due to unpredictable capital movements	– Promotion of a predictable political system and rehabilitation of the role of the State – Priority to education and collective social infrastructure – Coordination system of market stakeholders and decision-making capacity of the State – National production resource control procedures (capital formation, income taxes, currency) – Centralization of a domestic savings system – Differentiated international opening according to national goals

Table 1.2. *Development, global governance and institutional renewal*

Table 1.2 shows the need for developing countries to create and strengthen the systemic relationships within their economies. Few countries that qualified as developing countries at the height of the political economy of

development (1960–1970) followed the path opened since the 18th Century by the countries qualified today as industrialized countries, to attain the magic triangle: growth by opening new markets to satisfy the greater needs; establishment of a national economy system capable of ensuring an endogenous process of capital accumulation through innovation, mastering the financial circuits, investing and selectively opening to international trade; emergence of an autonomous political process for defining the national economic development project. The current architecture of global governance does not allow this type of economic intervention, except for so-called large emerging countries that are endowed with primary resources, a sufficiently large market to launch industrialization and stakeholders (State, businesses and entrepreneurs) who are interacting with and having sufficiently important common interests to develop particular modes of regulation of the national economy.

Research on the "third world" has long since reached the conclusion that most developing countries are political entities born from external constraints and do not reflect their current (or past) social and economic structures. Most often, their political systems are largely imported and reflect a projected socio-economic status that they can only aspire to. Development economists know this and forcefully point out: from the moment where a national rise is without the footprint of the political system on the model, the structure and the pace of development, any economic policy comes up short against the reality of structures. Under these conditions, the formation and consolidation of a national economy are priorities. Mastering accumulation means mastering the market, controlling natural and production resources, launching procedures for regulating and reforming the economy.

Historical experience of industrial and currently emerging countries indeed shows that the constitution of the national economy, the model, the institutions, the structure and pace of economic development are largely determined by the political system, and not the opposite. Economic development policy is thus subject to six conditions: understanding of national capacities; ability to mobilize and strengthen them; definition of objectives to be reached; identification of bottlenecks; choice of technology; reformist capacity of the State. The representation of the market economy is based on "private effort to accumulate capital" but the neutrality of currency and the State in classical and neoclassical, Smithian and neo-Smithian models distorts the analysis of social organization and its reformist and adaptive dynamics. History, however, confirms the most basic realities and reveals in correct terms the fundamental problems of development: money creation, fiduciary revolution, State, system training and predominance of individual national systems. In globalization, the big picture is how to formulate a policy and how to develop the tools (commercial, financial, regulatory, scientific and technical) to design and implement development projects.

The current rules of global governance are born and applied in the context of a world economy composed of power centers that are unequal in size and power, centers that are structured more or less solidly but maintaining asymmetrical relations. They also attribute a status to global companies and freeze positions in the global trading system. Hence also a renewed interest in "development economics" and the implementation of active policies, starting with the formation of a relatively independent national credit system in relation to international financial flows that ensure the capacity of money creation and the control money circulation. In turn, the effectiveness and efficiency of the financial system depend on the control of the labor market and the evolution of employment. The latter being dependent

on the distribution patterns and allocation of surplus, itself dependent on the control of the market, natural resources or technologies.

After the Second World War, countries seeking to develop were encouraged not to develop their own capacity to innovate but rather to import the most advanced technologies as heavily as possible. This mimicry largely explains the failure of development strategies. It induced debt crises, greater dependence on Northern countries, a brain drain, poverty and an explosion of migration. The idea that we can simply import foreign technologies without appropriating at least part of their production conditions is unfounded. The demands of an active integration into the world economy combined with those of the structuring of a competitive production system lead the researcher to question the capacity of developing countries to develop their own innovation systems.

The issue of development is therefore to make *globalization profitable* and from this perspective, it is clear that there is no alternative but to renew reflection on the relevance of a new and proactive role of States and more particularly, in science and technology policy and innovation policy. The merits of such policies depend on the existence of so-called market failures. Institutional, structural, productive, distributive, financial, etc., inefficiencies are all market failures that legitimize public measures to deal with them, with a view to ensuring effective operation of the production system and promoting its integration into the global economy, according to development requirements. But initially, economic policy should move toward the establishment of institutions guaranteeing: (1) the best possible allocation of resources in order to avoid dominant market positions; (2) the economy stabilization to effectively and fully use these capital and labor resources; (3) the social transfers to meet the basic needs of the population (food,

health, education and housing); (4) the financing through fiscal policy for the production of public goods.

Unlike analyses that reduce the State to an agent that creates distortions and/or collects income, new development macroeconomics connect growth, competitiveness and financial balances and introduce structuralist elements in a macroeconomic framework [UZU 10e]. Thus, in the context of a globalized economy, the “pro” State (promoter, prospector, protector and producer) becomes a central agent of development that aims to change the modes of integration of the country in the international division of labor (IDL). This requires a change in the nature of specializations through the implementation of industrial and innovation economic policies, coupled with institutional and social modernization, which act on the productive structures. By this logic, UNCTAD proposes the establishment of development policies whose objective is to stimulate and monitor structural transformations.

The revival of the State is concomitant to a change in its modes of action in fundamentally altered national and international contexts. The design of an alternative development model assumes that national States have significant enough “leeway” to control its economy. This thesis will certainly go against the Washington Consensus (which is based on the objective of convergence of policies for undifferentiated integration in the global market), but it does not reject the relevance of active and phased integration policies in international flows of goods and capital.

The economic policy of development in globalization involves the definition of strategic objectives at the center of which is the design and promotion of innovation capacities and the formation of an innovation system capable of capturing and producing knowledge; the national economy thus can take advantage of technological advances and simultaneously contribute to their achievement. The

performance of a country's innovation system determines the structural competitiveness of its economy since micro- and macroeconomic performance depends on "non-cost competitiveness". In other words, economic development cannot be based on the exploitation of static comparative advantages derived from factor endowments, but rather on building competitive advantages from the implementation of intensive production processes in scientific and technical knowledge and technologies. While technological and social innovation becomes the basis of development, the priority is given to incentives for R&D and human capital that guide the overall economic policy; financial considerations of development then move to the background.