DEVELOPMENTALISM AND THE ROLE OF THE STATE

By

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Introduction

It has become increasingly and patently obvious in recent years that, in spite of their compelling theoretical case from the point of view of neoclassical economics, the empirical evidence in support of structural adjustment programmes (SAPs) in Africa is rather mixed, anecdotal and inconclusive as to their success or efficacy. Indeed, the claim that SAPs have met with at most modest or marginal success in both the short and medium terms, (the relevant periods within which they have been implemented so far in most African countries) may not be disputed even by its proponents. The clincher is really why these programmes seem to be meeting with little success, and with increasingly diminishing support from among the presumed beneficiaries; and whether there is an alternative to them at all given that the post-SAP economic situation in many countries has been somewhat better than the pre-SAP situation that began with the mid-1970s world-wide recession.

The proponents of SAPs have generally responded to the foregoing questions by respectively citing policy implementation failures or inadequacies such as lackluster political commitment to SAPs, policy management inadequacies in government, improper sequencing of measures, the mild application of measures, or the brevity of the period within which they have been applied; and by insisting that, given the failure of import substitution industrialisation (ISI) strategies and the demise of socialism in the former Soviet Union and in the Eastern Bloc, there is no alternative (the so-called TINA, or `there is no alternative' syndrome).

The debate over SAPs and neo-liberal policies is further confounded by the appeal to differing criteria in their assessment. Critics of SAPs, on the one hand, have tended to emphasise their negative impact on employment and purchasing power as a consequence of the inevitable retrenchments and price increases that the programmes entail; their negative social consequences as cost recovery and expenditure cutting measures are implemented; and their ambiguous long-term impact on the attainment of sustainable economic development and equity. Proponents of SAPs, on the other, have tended to emphasise the short to medium-term benefits resulting from their adoption in form of the resuscitation of traditional exports, the disappearance of black markets and rent-seeking behaviour, and the increased `availability' of goods, particularly imported ones, on the market. In general, proponents of SAPs have relied on a counter factual argument, insisting that the post-SAP economic situation is better than the pre-SAP one, or what the situation could have been in the absence of SAPs.

It is clear that the discussion of SAPs would be best clarified by first explicitly spelling out what the desired long-term economic goal of African countries is, what this goal entails, and whether SAPs are an adequate strategy for the realisation of the goal. It is our contention that the fundamental and primary long-term economic goal in Africa is that of attaining economic development rather than economic growth per se, a distinction that will be clarified below. In this respect, it is contended that SAPs should be assessed first and foremost vis-a-vis the goal of economic development. In this essay, we argue that SAPs, while they may have necessary features, are in their current form of implementation, insufficient to initiate an economic growth process leading to the attainment of economic development.

It is our contention that the fundamental weakness of SAPs is their inability to accommodate and properly inform on an activist and dirigist role of the state to govern and guide the market toward the attainment of the goal of economic development. Indeed, there has been a seemingly conspiratorial and dogmatic silence among proponents of SAPs over the role of the state in African economies beyond the traditionally accepted ones of maintaining law and order and macroeconomic stability, providing physical and social infrastructure which can be shown to be pure public goods, improving the functioning of markets by eliminating market imperfections, and price distortions, resolving market failures and protecting or ameliorating the plight of vulnerable social groups. This silence would be understandable if there were a widely held consensus among scholars and policymakers on the minimalist passive role of the state as propagated through SAPs.

The dogmatic insistence on a minimalist state role is based on the claimed virtues of the entrepreneur as the main economic agent and actor, the market and private sector as the driving forces of the economy, and unfettered pure competition domestically and internationally as the harbingers of dynamic efficiency and growth. SAPs are designed to encapsulate and foster all of the foregoing through privatisation, liberalisation, deregulation, outward orientation, export promotion and so on. Now, while the theoretical validity and internal consistency of SAPs with regard to their ability to effect static efficiency gains in an economy may be unassailable, difficulties arise on both theoretical and empirical levels as to whether the precepts of SAPs and their consequent programmes are sufficient to effect dynamic economic transformations leading to economic development. The dissenting voices on this latter score are indeed numerous and wide-ranging in both Western academic and policy circles, that it is indeed perplexing when SAPs are peddled in Africa without a hint as to the areas of contention. Even worse, is the fact that in Africa, both scholars and policymakers have been unable to seize on these debates to their advantage. Indeed, in an attempt to forestall such an eventuality, proponents of SAPs have wasted no time in ensuring the regeneration and replication of their clones through the so-called `capacity building' initiatives!

The truth of the matter is that there is a respectable and accumulating body of opinion and evidence to challenge the theoretical and empirical adequacy of neo-liberal prescriptions as manaceas for the development problme. On the theoretical side, the major challenges, within the realm of traditional economics, have come from the structuralists and proponents of the New Trade Theory. The former have emphasised the domestic structural rigidities and the world market imperfections that severely limit the effectiveness of laissez-faire, market-based strategies as represented by SAPs; and the latter have demonstrated the limitations of traditional economic theories of specialisation, comparative advantage and competition in explaining the dynamic economic growth of nations in the present globalised economic environment. On the empirical level, there have been sustained challenges to the counter-factual evidence resorted to in support of SAPs which attributes the success of the Newly Industrialising Countries (NICs) solely to their private sector and market orientation coupled with an outward-orientation and to their adoption of SAP-like stabilisation and liberalisation measures. These dissenting voices have contended that an activist and dirigist state has been crucial and indispensable in the economic growth and development of the NICs. In fact, the underdevelopment of our own economies within the context of market-driven, outward-oriented, colonial empires is ample evidence of the limits of the laissez faire economy in promoting economic development.

The point to be made here is that the issue as to whether the state should play an active or a passive role in the economy is not as closed, as proponents of SAPs would have it, but an open one, and it is pure deceit to pretend that it is a closed one. Yes, the evidence both theoretical and empirical may not be clearly in support of one view or the other, but the issue remains an open one and as such it is best to suspend the dogmatism about SAPs, and it is incumbent on us in Africa to vigorously debate the relative merits of government intervention in the economy. As indicated earlier, we contend that the way beyond SAPs is through an activist state, guiding, and governing the market toward economic development. The problem with the dogmatic proponents of SAPs and a `hands-tied' state is that in their insistence to castigate state intervention and safeguard against the resort to the failed past import substitution or socialist strategies which have been one form of government intervention, they have gone to the other extreme of deliberately underplaying or ignoring the recognized active and dirigist role of the state in the development of the NICs, and thus precluding the lessons to be learned from these countries in this regard.

The Goal of Economic Development

The problem with SAPs and the need for a dirigist state in our economies is best appreciated by considering the meaning and implications of economic development as a goal. Economic development is the economic process whereby a country achieves sustainable increases in the per capita gross domestic product of its citizens through the efficient use of its productive capacities and resources. The process entails economic growth, structural transformation and increases in economic welfare and some minimum degree of equity, at least. The crucial qualitative criterion is the ability of the economy to evolve economic structures that are articulated through vertical and lateral linkages, that are diversified enough to absorb internal and external shocks, and that interact in a mutually supportive manner to internally generate and sustain secular economic growth in the long term.

The practical meaning of the notion of economic development is easily seen from Tables 1 and 2 drawn from the World Development Reports of the World Bank. From those tables the image of economic development is represented by the high-income economies of Western Europe and Japan as is well-known, and that of underdevelopment represented by the sub-Saharan African and South Asian countries. In this respect, the process of economic development in practical terms first entails the ability to enhance per capita incomes from say an average of US$340 (1989) in sub-Saharan Africa to an average of US$1000 to US$2000 as for the middle income countries and finally to an average of about US$18,000 as for the high income countries! And second, it entails a structural transformation from a high dependency on primary production in agriculture and mining to dependency in industry and services, as shown in Table 2 with regard to the structure of production, as one moves from being a low income country to being a high income country. There is no doubt that the economic development task is an immense one.

The Problem With Neo-liberla Policies

The Problem with current structural adjustment programmes in Africa is that their raison d'etre is to initially re-entrench and reconsolidate our economies in the factor-driven stage with no clear indication as to how that will lead to the transition toward the investment-driven stage. The most immediate expectation of SAPs is to stimulate traditional exports, all of which, in Africa are tied to natural factor endowment competitive advantage. They are, in the medium to long term, also expected, however, to stimulate non-traditional exports, efficient import-substitution of tradeables, and production of non-tradeables such as housing and buildings. The most general effect of SAPs has been to induce a stag-flationary situation in which traditional exports may increase but nothing else happens, except perhaps a marginal degree of resuscitation. Under such circumstances, SAP measures might generate some degree of economic growth based on the growth of traditional exports but may not even begin to initiate processes toward economic development based on the growth of indigenised technological clusters and capacities.

Briefly, some of the impediments to structural transformation under SAPs are as follows:

- SAPs reinforce traditional forms of comparative advantage that have insignificant spill-over effects in terms of the development of national technological capacity (NTC), sectoral technological capacity (STC), or industry technological capacity (ITC);
- SAPs have the effect of hastening de-industrialisation and the general closure of firms that cannot survive in the new environment at a faster pace than new firms can develop to take advantage of the new policy environment.

SAPs have largely been predicated on attracting foreign investment which has not been forthcoming because not only are investors unsure about our government's commitment to the market-oriented policies compatible with the needs of globalised monopoly capital, but the absence of conducive technological clusters and capacities has been a hinderance. When the latter's absence has not been a hindrance, foreign investment has come in on the basis of turn-key investments linked to external technological clusters exploiting export incentives without cumulative technological capacity building spill-overs;

- Implicit in SAPs is the assumption that technological capacity is a tradeable which can be imported, and yet in many respects, since technological capacity, at the levels of ITC, and NTC (other than FTC) consists of the evolution of critical minimum thresholds and configurations of geographically concentrated clusters which make it a non-tradeable non-importable factor of development, even if individual components may be imported. Further, as such, it is not attained solely on the basis of incremental piecemeal changes in investment, trade and production;
- the domestic private sector has been saddled with high input costs, inadequate capital, skilled manpower shortages, inadequate infrastructure, inability to access modern technology relevant to competition in the new global environment and an absence of infrastructure to penetrate non-traditional foreign markets, thus making the private sector unable to seize upon the new policy environment as a basis for domestic and international competitive advantage, and, finally;
- the inability of our countries to control the stag-flationary consequences, let alone, the social consequences, of SAP-related policies has dampened business expectations and optimism thereby discouraging domestic private investment of a long term nature.

All of the foregoing considerations suggest that SAPs, by relying on the private sector as the presumed engine of growth, while simultaneously trimming the state of its potential role in guiding and directing the economy, are a sure recipe for stagnation and being stuck in the factor-driven stage, or resigning into Afro-pessimism.

The Role of the State Beyond SAP

The need for an activist state in our economies is made all the more necessary if our goal is economic development rather than a mere resuscitation of economic growth. The difference between economic development and economic growth is easily brought home by noting that a country like Botswana has had phenomenal rates of economic growth over the past 15 years and has a per capita income almost twice that of Zimbabwe yet the latter with much lower rates of economic growth remains more `developed' in terms of its technological capacities and clusters than the former. Thus something is missing in Botswana's development strategy, which is factor-driven (diamonds, livestock and copper) and as free and open as any SAP economy can be and this is the creative role of the state, to shift the economy from a factor-driven one into an investment-driven one based on higher order comparative advantage requirements.

In our stage of factor-driven development and underdevelopment, a dirigist state is needed for the following reasons:

- to foster the development of domestic technological clusters and capacities in terms of minimum critical thresholds of NTC, STC, ITC and FTC which can act as gravitational growth poles in economic and spatial terms;
- to guide domestic and foreign investment into activities leading to the development of technological capacities in higher order comparative advantage, particularly strategic industries relying on modern technology, with increasing returns and economies of scale, with positive externalities and spill-overs to other firms, industries and sectors, and with the ability to develop home demand;
- to facilitate the acquisition of foreign technology in the desired strategic industries, and to assist in the penetration of foreign markets;
- to develop and enhance physical and human capital in a manner facilitating the development of strategic industries;
- to provide supply-side and demand-side incentives to encourage the growth of strategic industries with the potential to spear-head an investment driven economy; and
- to mobilise savings, and regulate the allocation of investment funds towards strategic industries.

Beyond SAPs Considerations for a Strategy

The case for an activist role of the state along the lines suggested by Porter for factor-driven economies has been elaborated further by Robert Wade in Governing the Market (1990). In that book Wade suggests an approach to governing the market based on the experiences of the NICs. His governed market (GM) approach is based on the need for a developmentalist state which allows the government a directive, promotive and facilitative role. A developmentalist state is seen as one whose whole raison d'etre is an obsession and drive imbued with the need to emulate and catch-up with the investment-driven NICs and the innovation-driven high income economies.

The behaviour of such a state would be dominated by and preoccupied with the discourse and vocabulary of catching-up from the president to the lowest bureaucrats.

In the GM approach the state would have the role of leading the market by directing the market into activities compatible with the objective of building modern competitive technological clusters and capacities in line with the goals of nurturing and artificially creating competitive advantage and fostering economic development, and of following the market by reacting to, and facilitating the wishes of the private sector when compatible with the long term developmental goals of the economy as determined by a broad consensus of civil and industrial interests.

Is should be noted that the GM approach is not necessarily an inward-looking, import-substitution strategy, but is actually largely compatible with general SAP requirements particularly as regards the need for macroeconomic stability, the need for the private sector to be the engine of growth, the need to expose domestic firms to international competition, the need to deregulate prices and the need for realistic exchange rates in the long term. Nevertheless, the GM approach suggests that some mild biases and distortions may have to be introduced in the short to medium term, with a clear appreciation of their temporary nature, to facilitate some long term strategic goals, hence the need to deliberately get prices `wrong' on certain occasions. In any case, some of the considerations relevant to the GM approach, guided by a dirigist developmentalist state are the following:

Balancing Export Promotion (EP) and Import Substitution (IS) Strategies: the lesson from the global economy is that both strategies are needed for international competitiveness and for developing an indigenous technological capacity. The problem rather is how to balance incentive structures so as to maintain a neutral macroeconomic environment. However, some economists have suggested that there should nevertheless be an ultra-export bias.

Selecting Industries to be Promoted: the lesson here is that the state should direct private investment into activities that have the highest technological and economic spin-offs in terms of generating clusters, TCs, economies of scale, increasing returns, and indigenisation of technological capacity through learning-by-doing.

Balancing Foreign and Domestic Investment: the aim here is to attract foreign investment in a manner that contributes to the building and indigenisation of the country's technological capacity. In this regard, the systematic nurturing of domestic investors and entrepreneurs to become dominant as the driving force in the strategy is important. It is also important to be leery of turn-key foreign investments and export processing zones.

Balancing Small, Medium and Large-scale Units: the lesson here is that one can find, in the global economy, different strategic technologies and modern production activities compatible with each of the foregoing types of units. The problem relates to properly aligning each strategic economic activity with each type of industrial unit both with regard to stages of production and different types of production so as to arrive at a mutually compatible and self reinforcing industrial structure commensurate with the long term strategy of creating FTC, ITC, STC and NTC.

Balancing Growth and Development Goals With Equity: the lessons from the NICs clearly indicate that a GM strategy is enhanced by the ability of the state to protect and promote the asset and income entitlements of the poor particularly in rural areas. In this respect an agrarian strategy tied to an industrialisation strategy is paramount.Establishing a Structure of Incentives (rewards and punishments): In order for the state to govern the market, it needs a structure of incentives and disincentives aimed at inducing firms to invest in desired activities and to dissuade them from others. Indeed, a structure of rewards and punishments may be needed. The crucial requirement here is that such structures be temporarily targeted to the beneficiary to be influenced, or the firm to be penalised and generally refrain from being macroeconomic and permanent. Further, policies to neutralise their negative consequences have to be incorporated.

Establishing Consultative Structures: there is a need to ensure that a consensus is developed around the desired future course of the economy, the desired future economic structure of the economy and the structure of incentives and disincentives. Such a consensus can only be brought about through the establishment of consultative structures which involve key partners in the economy (corporations, labour and government), and major interest groups in civil society. In this regard, a proper balance is needed between a 'hard' and a 'soft' state to ensure compatibility of the GM strategy, with democratic precepts, and to safeguard against corruption. Indeed, if the state is truly developmentalist along the lines of a GM strategy then its legitimacy should really depend on its ability to govern the market effectively in a manner that yields tangible economic successes.

GENERAL APPROACH

If it is agreed that the market cannot be left to its own to resolve the problem of unemployment and under-employment that has been afflicting the country for so long the following considerations will have to be taken into account in formulating an Employment Strategy:

An **aggregate vision**: The economy needs to viewed in its aggregate, especially with respect to the relationship between the key markets on the real side of the economy comprising (a) goods and services (for both the domestic and external markets), (b) financial resources (savings and investment from both domestic and external sources), and (c) the labour market. The relationship of the real side of the economy to the monetary indicators (prices, exchange rates and interest rates, external and internal balances), to the provision of economic and social infrastructure, and the regulatory regime particularly as relates to labour markets, industrial organization, tax and trade policies needs to be made explicit as well.

The idea is to have a way of locating and problematising the employment issue within the growth and development problem in its aggregate. Within this context the broader policy requirements, as well as the employment policy needs, may then be specified with the aim of unblocking the various inefficiencies. In this respect it should be obvious that the task requires a proactive role of the state and a critical minimum thrust of effort and resources targeted at the key structural bottlenecks for there to be a qualitative difference in outcomes.

The role of the state: The nature of the structural inefficiencies discussed above is such that merely getting market indicators and macroeconomic fundamentals right will not be enough to resolve them. It requires a proactive role of the state: (a) to complement and reinforce emerging structural trends the market autonomously gravitates toward in the context of a liberalized and outward oriented economic environment; (b) to coax or steer, through various incentive structures, the private sector to move into areas they would otherwise not move into but which would have greater long term benefits to the country in terms of structural change and employment creation; (c) to provide key services in terms of economic and social infrastructure and an appropriate regulatory regime for the various aspects of the market to broaden their bases and absorption of marginalised groups and for such groups to function efficiently within a market context(e.g. land reform to the benefit of small household agriculture and promotion of rural and urban micro-enterprises); (d) and to ensure that efforts are not diffuse and that a critical minimum thrust is mobilized and properly targeted to maximize outcomes. To be sure such a role of the state requires a level of commitment and institutional co-ordination that has yet to be developed. Essentially, all of government should be preoccupied with the need to promote broad-based development and employment as a project.

Prioritization and targeting: The following considerations need to be taken into account in this respect.

Labour absorption objectives: - If one were to narrowly focus on the labour market and problem of labour absorption, assuming that considerations of issues related to other markets were being addressed elsewhere, it is necessary not to be unnecessarily dogmatic about capital and labour intensities or the role of small versus large enterprises, or the choice between modern and appropriate forms of technology and so on. Such dichotomies unnecessarily and negatively simplify the issues at stake when seen in their aggregate. If the objective is to broaden the economic base and its sustainable dynamism in the context of both domestic and global imperatives, it will be necessary to exploit the potential for employment absorption arising from a number of possible eventualities which may be complementary in the aggregate and in the long run whereas they may seem contradictory, or as trade-offs, when viewed narrowly or partially. First, while there is a need to focus on **labour intensity** by encouraging labour intensive forms of production, the **employment multipliers** and various **linkages** between different types of enterprise sizes arising from capital intensive or technology intensive forms of production should not be neglected, since these might be important for international competitiveness and in providing support for ancillary labour or domestic resource intensive forms of production. Thus there is a need to exploit both forms of production in an efficient and balanced manner. Second, some narrowly less labour intensive forms of production may also be very amenable to replication and multiplication of enterprises (such as small scale and micro-enterprises which may not necessarily be labour intensive) such that they can absorb more labour in absolute terms than a few large and relatively ‘labour intensive’ types of enterprises (based solely on considerations of capital labour ratios) of an enclave nature. It may be noted in this respect that often the foregoing two options in employment promotion may entail differentiated products so that competitive advantage may still be possible for the smaller but relatively more capital intensive enterprises but which may be skill intensive, and not necessarily labour intensive. Indeed such horizontally (or laterally) reproducible activities may also have high growth elasticities (assisting in reducing the extent and depth of poverty). Third, in order to precipitate and kick start virtuous cycles of dynamic growth at the industrial, sectoral and aggregate levels and to ensure that a critical minimum promotional effort is achieved, it is important to exploit the benefits of an integrated approach to the formulation and implementation of policy packages which should be appropriately targeted with respect to beneficiaries and locales. Fourth, key aspects of economic and social expenditures should be directed at promoting and complementing the development and consolidation of clusters**, value chains** and **value channels** as the vehicles for the realization of particular market outcomes. Clusters, value chains and value channels facilitate the realization of spillover benefits and positive externalities while also closing gaps in the market.

Prioritization of activities to be supported: Conventional neo-classical wisdom suggests that once an enabling environment is provided the appropriate market activities will emerge to efficiently take advantage of the opportunities provided by the domestic and global environment. In an environment characterized by major market gaps and failures in infrastructure provision and the nature of value chains and value channels pertaining to many potentially productive activities, it is necessary to formulate measures which will facilitate resolving such market related problems. However, given limited resources and given the need to ensure that promotional efforts are not too diffuse in their impact and in order to ensure a critical minimum effort, it is advisable to select and prioritize key activities to be promoted which may have maximum spill-over effects for the economy in terms of employment absorption and structural change. The selected activities may then be the main targets for the consolidation of clusters, value chains and value channels and for the provision of economic infrastructure and other supportive activities. Such an approach could be pursued through the empowerment of a substantial number of rural and urban unemployed and an under-employed through an aggressive agricultural strategy based on land reform and redistribution coupled with an industrialization strategy based on the development of small, medium and micro-enterprises and appropriate large scale enterprises. Within this context enterprises would be encouraged, through appropriate incentives and supportive measures, to specialize in a limited number of agricultural and industrial products for which value (channels and chains), synergies (linkages, positive externalities and spillovers) and the provision of supportive measures could be optimized. Indeed one way would be to ensure that the activities being promoted are directly linked into export markets, while the resulting incomes would largely be spent on domestic wage goods and, presumably, intermediate inputs (assuming a low import propensity among low income groups) which would thus provide effective demand for the expansion of domestic manufacturing as well.

Targeting of beneficiaries: Often, policy stipulations are left at a high level of generality. Thus for instance the unemployed and under-employed are not adequately disaggregated as to their special circumstances and needs based on sex, age, location, education, economic circumstances, household characteristics and length of unemployment. Indeed, the data for such a disaggregation may be available but it may not have been interpreted for purposes of deriving its policy implications. Not all unemployed and under-employed can do not become self-employed, nor should they all be encouraged to go into wage employment. Some need to be retained in school and training, others may be good candidates for social welfare interventions and many others may be suited for wage employment and co-operatives, while a few may need to be nurtured into entrepreneurship. In addition, for some, extra-market social safety nets may be needed to facilitate their being productively engaged in economic activities. The aim of the targeting should be to recognize the unique constraints pertaining to each specific group and to devise appropriate measures for their involvement in productive economic activities in the context of long term holistic strategies of their integration into the larger economy.

Thus program components of an employment policy or strategy might consist of especially targeted activities comprising the following: (a) promotion of select economic activities through large scale, small scale and micro-enterprises with accompanying support for the development of supportive value chains and channels as well as infrastructure; (b) transitional programs to retain youth in school, to retrain unemployed and so on; (c) active labour market interventions to re-train and re-deploy frictionally unemployed and cater for the social needs of the indigent; (d) programs to resuscitate declining localities; community based, public works and special employment programs integrated with directly productive activities; and (e) development of clusters through spatial development initiatives and industrial development zones. It is also within this context that a human resource development strategy should be located, as an essential instrument for effecting the development and viability of clusters of activities and of value chains and channels.

4. **Policy instruments**: Within a market driven economy the state essentially has three sets of policy instruments, namely those pertaining to macroeconomic management, those related to regulation and the provision of incentives and disincentives, and those concerning the provision of public goods. It may be useful to begin by accepting the need for stable and sound macroeconomic fundamentals. But it is necessary to admit that while such fundamentals may be necessary given current domestic and global imperatives, they may not be sufficient to precipitate a labour absorbing growth path as needed. Further, while accepting the need for neutral macroeconomic indicators for the economy it may be necessary, through narrowly targeted incentive structures, infrastructure provision and regulatory regimes to influence the manner in which targeted beneficiaries may be impacted upon by general macroeconomic indicators in order to achieve specific goals such a employment absorption and dynamic structural change.

It is important nonetheless not to be oblivious to the legacy of the manner in which state intervention has been misguided or deficient in the past, and the manner, in which such interventions have been abused elsewhere, necessitating the current preoccupation with economic reforms. In particular, there is a need to avoid dead-weight negative effects whereby public expenditures are used to support activities which entrepreneurs would otherwise undertake in any case; rent seeking behaviour and corruption arising from distortions in price mechanisms; and unsustainable use of public moneys. It is for this reason that analysts recommend the need for narrowly targeted and transparent incentive and supportive measures, which have sunset riders, and quid pro quos tied to them. Generally, the narrower and more direct the target, the less would be the distortionary consequences of the interventions, and the more containable would be the negative side effects from an efficiency point of view. It is important that static and dynamic efficiency consequences of such interventions are assessed correctly. Often, static considerations belie the dynamic net benefits of such interventions.

5. Labour market policies: The dogmatic view that if the labour market were freed of various regulations the market would clear such that all those who wanted to be employed would find employment is rather simplistic. In effect, if that were attempted a natural rate of unemployment and under-employment would still obtain that would structurally and normatively be viewed as inefficient given that the going wage would have to reflect the reservation wage and a transaction cost as a function of the opportunity cost of working in the non-formal sectors. In any case, any discussion to enhance flexibility in the labour market would need to weigh the presumed benefits of flexibility against the benefits of regulation arising from its impact on worker productivity and welfare; against the negative externalities borne by individuals, households and the state arising from worker vulnerability associated with certain forms of flexible labour markets in the absence of social safety nets; and against the benefits of a variable regulatory regime rather than a bifurcated(dualistic) or minimalist regulatory regime in the labour market. There is a need to explore the potential of a broad and comprehensive regulatory regime that is coupled with appropriately structured variation in form of stipulations aimed at addressing or accommodating the special needs of certain categories of employees or employers. The temptation to view labour market flexibility as the panacea for unemployment needs to be tempered by the appreciation of the plight of a number of developing countries that have no labour market regulation of any substance but continue to be burdened by high rates of unemployment and under-employment.

6. **Budgeting**: Most policy measures are rarely implemented because funds have not been provided for in the budget. It is important that funds are provided for in the annual and medium term budgets, both of which can be rolling in nature. The linking of policy initiatives to the budgeting process is one way of ensuring a mandatoriness to the execution of the policies.

7. **Co-ordination**: It is important that major policy packages are accompanied by appropriate mechanisms for the further formulation, implementation, co-ordination, monitoring and review of policies, especially if they have to be undertaken in an integrated and holistic manner as is being suggested here. The synergy between top-down and bottom-up approaches needs to be developed in the context of participatory and consultative mechanisms while ensuring that there is a collective project to be pursued over the long term.

8. **Mode of governance and accords**: While there is an ambiguous link between modes of governance (degree of democracy or authoritarianism etc.) and the ability for a country to embark upon and to successfully accomplish a development project over time, it is clear that modes of governance that generate instability militate

against the successful execution of the development project. In addition, neo-patrimonialism (personal rule based on clientism, corruption and a lack of accountability), which characterizes a majority of sub-Saharan state regimes tends not only to alienate its populace thereby making them to disengage politically and economically, but it also results in policy paralysis and squandering of resources. Thus it is important that governments are seen to be in support of and to be implementing modes of good governance in order to ensure stability, legitimacy domestically and internationally and support for the development project as discussed above. Within this context, it may be necessary to arrive at social contracts by striking agreements and quid pro quos on such issues as labour market policies, social safety nets, tax and trade regimes and so on between social partners particularly between government, business, labour and representatives of civil society regarding the compromises and sacrifices that may be needed to facilitate the execution of the development and employment promotion project and ensure its success.

Possible areas for striking accords might relate to incomes (wages and profits), productivity and investment promotion; job retention; tax structures and general promotional incentives; education and training; active labour market policies and social safety nets; poverty reduction; resource mobilization and so on.

9. **Indigenisation and affirmative action**: If the development and employment promotion project is properly defined as the primary national project and as the raison d'être of a majority government issues of indigenisation and affirmative action are by the same token subsumed within this larger agenda. The need to identify indigenisation and affirmative action as separate or unique agendas should be enough to remind policy makers that the broader development agenda is lacking as the key national project, and that current policies and economic developments are not addressing the needs of the people.

Economic Development and Technological Capacity

In order to pinpoint the potential role of the state in jump-starting the economic development process in an underdeveloped country, it is necessary to conceptualise the development process as entailing the evolution of structural features underpinning the capacity or potential to develop. In turn, this development capacity may be said to consist of a technological capacity to innovate organisationally, productively, resource wise and consumption-wise, in a manner that generates a cumulative virtuous circle of overall increased economic efficiency, increased deepening and extension of backward and forward linkages, increased lateral diversification of production and consumption, and increased formalisation of economic activities and resources under the ambit of the market. Economic development therefore is a continuous process of enhancing technological capacity, broadly defined.

The major components of technological capacity (TC) consist of
(a) the sustained conducting of research and development in science, technology, organisation, production processes, resource management, consumption needs and so on;
(b) the accumulation of scientific and technological software in form of stored knowledge, patents, copyrights, and so on;

(c) the development of human capital as embodied in human skills and know-how;

(d) the existence of private and public institutional structures facilitating the foregoing.

The development of TC along the foregoing lines can indeed be planned for, and executed with a fair degree of apodictic certainty if viewed as a purely technical exercise, as centralised socialist planning strategies of the former Soviet Union, the Democratic People's Republic of Korea, and the People's Republic of China have demonstrated. But, again, as demonstrated by what has transpired in the foregoing economies, the development of TC has, in the final analysis, to be aimed at, and guided by the exigencies of world-wide and domestic competition largely determined by market imperatives.

Thus TC translates into actualising the development process through the innovativeness with which it is deployed at various levels and through its deployment in a manner that aims at enhancing an economic agent's (firm or nation) Competitiveness vis-a-vis other domestic or external competitors. It is the translation of TC, innovatively, to yield a dynamic competitive advantage that cannot easily be apodictally guaranteed even if the range of uncertainty can definitely be narrowed. Now TC has its private aspect and its social or public aspect. The private TC relates to those capacities that are embodied in and autonomously controlled by the basic economic units of the individual (or household) and the firm (single proprietorship, corporation or parastatal). And these capacities may encompass the full range of TC mentioned earlier. In a market economy, the TC of the firm (FTC) especially as developed, manipulated and deployed by the entrepreneur's innovativeness in decision-making and organising resources to ensure competitiveness is seen as the driving force of economic growth and development. In this respect, the private aspect of TC is directed at minimising costs and maximising returns to ensure a competitive edge particularly through the exploitation of increasing returns to scale, and potential existing demand both homogenous and differentiated.

Nevertheless, we need to guard against the fallacy of composition by noting that the TC of a nation (NTC) does not consist of a simple aggregation of private TCs. An appreciation of this point is important for understanding the meaning of underdevelopment and the potential role of the state in jump-starting a market driven economy and guiding it towards particular outcomes. The possibility that the national TC (NTC) as a whole may be less or greater than the summation of private TCs (FTC), is a consequence of the fact that TC has a social, external aspect which is in the form of a public good, a spillover, or an externality (positive or negative). This social aspect of TC especially in form of positive externalities and spillovers from private TC which cannot be captured through the market by the private originator of the particular aspect of TC, and is captured and utilised as a free good by other private beneficiaries may be both a consequence of the accumulation of private technological capacities (FTC) and a determinant of the development of private technological capacities (FTC) in a manner that cumulatively generates and reinforces a virtuous circle of economic development.

As Porter has shown in his Competitive Advantage of Nations (1990) this aspect of TC is a function of the development of a minimum critical threshold of clusters of firm technological capacities (FTCs). As such, below this minimum critical threshold, dynamic growth and developmental circle are not forthcoming and once the threshold is reached a dynamic virtuous circle cumulatively reinforcing innovativeness, competitive advantage, growth and development is set in motion. In a market-driven economy, then, the national technological capacity also entails certain capacities beyond and outside the firm (FTC), consisting of an industrial technological capacity, ITC, (among firms producing the same or a similar product or service) representing spill-overs in form of such benefits as sharing technological developments, the cross mobility of skilled manpower, the stimulant of competition, economies of scale arising from enlarged utilisation of similar resources and inputs and distribution infrastructure, and joint promotion of basic research and development and training.

One could then proceed to similarly identify a sectoral technological capacity (STC) related to broad sectors such as agriculture, manufacturing, mining, communication, finance etc; and then a national technological capacity (NTC) consisting of FTC, ITC, STC, and NTC. By the same token, the characteristic feature of a country being underdeveloped or less developed can be viewed as the failure of having attained the minimum critical thresholds of FTC, ITC, STC and NTC; or, as the existence, in such countries of critical technological capacity gaps of one degree or another at all levels of TC. Porter, for instance, has suggested that the determinants of competitive advantage at all levels relate to the manner in which the following factors constituting an interactive `diamond' are innovatively manipulated and deployed at each level: (a) factor conditions, (b) firm strategy, structure and rivalry, (c) demand conditions, and (d) related and supporting industries. The foregoing are mutually interactive, mutually interdependent and mutually reinforcing in both their private and social aspects. For the development process, however, the clusters yielding the social aspect are important. Thus Porter observes that

> The basic unit for understanding national advantage is the industry. Nations succeed not in isolated industries, however, but in clusters of industries connected through vertical and horizontal relationships. A nation's economy contains a mix of clusters, whose make-up and sources of competitive advantage (or disadvantage) reflect the state of the economy's development.

However, a problem arises in that FTC, ITC, STC and NTC, while hierarchical, are not so much temporarily sequential, but simultaneously mutually determining, especially in order to arrive at minimum critical thresholds of clusters that generate a potential for self-sustained dynamic growth and development. That establishing an economic development capacity entails the systematic indigenisation of clusters is underscored by the fact that the clusters imply and require geographical proximity in order to maximise the benefits from the interaction of ITC levels.

Thus at one extreme, the nature of underdevelopment may be such that not only is FTC incapable of originating in that there is a total incapacity to generate higher levels of ITC, STC and NTC clusters based on the private sector and market alone. At the other extreme, a country may be so developed that all levels of TC are mutually reinforcing primarily on the basis of private sector initiatives and interaction. These clusters simultaneously represent developmental hurdles to be overcome, and developmental goals to be established and continuously enhanced. The question then is whether, given the degree of underdevelopment in many African countries, these hurdles can be overcome solely by the private sector.

The task of nurturing an indigenous technological capacity as the basis for economic development is further complicated by the globalised nature of the present world economy. This globalisation is both a curse and a blessing for our economies and economic development agendas if we have any. Nevertheless, the task is to override or circumvent the disadvantages, and exploit its advantages to promote the development agenda. Again, the question is whether the mapping and execution of an ingenious economic development path through the global economic maze can be undertaken solely on the basis of the market.

Globalisation of the world economy essentially refers to the fact that monopoly capital has now developed to such a high degree that the world economy is its stage rather than the national economy. In this respect, monopolistic or oligopolistic firms are able to operate on an international scale by manipulating the interactive `diamond' of firm strategy, factors of production, demand conditions, and supporting industries in a manner that makes them able to compete internationally, decentralising aspects of their activities to different locations, and juggling the exploitation of national and international technological clusters at will. Thus the globalised economic environment is characterised by a high degree of footlooseness in industry location and decentralisation. The accommodating development has been that the basis of competitive advantage has increasingly shifted from country-specific natural endowments often assumed in Ricardian comparative advantage to artificially creatable forms of competitive advantage based on technological innovation and the manipulation of factors constituting the diamond based on an extension of home demand.

The advantages of globalisation are that comparative advantage can be created and nurtured by developing a technological capacity quite independent of the natural endowments of a country. Further, with the global market as a stage there is no limit to markets, particularly if the aim is to capture high premium-paying market segments whose demand is best met by deploying the frontiers of technological capacity. In addition, there are currently various ways of importing specific technologies from the international technological shelf in spite of the constraints of the New International Division of Labour. Nevertheless, this globalisation has brought with it some profound constraints on developing countries quite outside the usual ones related to dependency critiques of monopoly capital.

First, the shift in the basis of comparative advantage away from natural endowments in terms of plentiful and cheap labour, minerals, land, etc., means that those factors that we thought would be the basis for our own economic development are increasingly becoming absolete. Second, the new global reality suggests that nations and industries create competitive advantage in industries which already have a base and demand at home. And third, the ability of multinational corporations to be footloose while simultaneously able to decentralise management, production, marketing and distribution functions by juggling world-wide technological clusters means that prospective foreign investors are able to scan their opportunities world wide comparatively, and able either to shun those countries with inadequate and inappropriate technological clusters or capacities by picking those with desirable

NTCs, STCs, and ITCs; or, to exploit countries without such clusters or capacities by investing in them through turn-key set-ups which rely on external technological clusters or capacities without contributing to the development of a local technonogical capacity.

The implications of the foregoing disadvantages are, first, that underdeveloped countries can no longer rely on primary production and exports as the engine of economic development. Second, that unregulated foreign investment cannot be relied upon for the establishment of technological clusters and capacities, because these may not be forthcoming inspite of inflows of foreign investment; and third, that the development of efficient import substitution in non-traditional activities creates a more sustainable basis for export promotion by reinforcing the development of technological clusters and capacities which are themselves the soundest basis for domestic and international competitive advantage. The question, again, is whether the mere liberalisation of markets along SAP lines is enough to deal with the foregoing implications.

In the light of the foregoing, Porter, in his Competitive Advantage of Nations clarifies the nature of the problem a little further by identifying `Stages of Competitive Advantage' and their implications. He identifies as the lowest stage of competitive development (that in which almost all of the Sub-Saharan African countries are except South Africa) the `factor-driven' stage whereby countries "draw their advantage solely from basic factors of production whether they are natural resources, favourable growing conditions for certain crops, or an abundant and inexpensive semi-skilled labour pool". He notes that "in this stage an economy is sensitive to world economic cycles and exchange rates, which drive demand and relative prices. It is also vulnerable to loss of factor advantage to other nations and to rapidly shifting industry leadership".

The second higher stage (attained and being superceded by NICs) he refers to as "investment-driven", characterised by an aggressive obsession with investment, either domestic or foreign, but with a preoccupation with not only just applying technology but improving upon it by manipulating not only factor conditions but firm strategy, structure, and rivalry. He notes that:

The investment-driven route to competitive advantage is only possible in a certain class of industries: those with significant scale economies and capital requirements but still a large labor cost component, standardized products, low service content, technology that is readily transferable, and where there are multiple sources of product and process technology.

The last two stages, relevant to the developed countries, are characterised as `innovation-driven' and `wealth-driven' characterised by the ability of the economies to have superceded dependency on factor endowments by having a wider range of sources for competitive advantage, underpinned by deep and wide technological clusters and capacities, and their ability to create technology.

The point of listing the foregoing stages is to underscore the important differentiations in the role of the state at each stage that Porter stresses. Porter notes that the factor-driven stage characterised virtually all nations at one point in the past. However, "few nations ever move beyond the factor-driven stage", as demonstrated by our African countries. The problem then for countries at this stage is to jump-start the development process to wean the economy away from dependency on natural factors of production for competitive advantage and into the investment-driven stage. Thus Porter observes as follows:

> The proper role of government in the investment-driven stage reflects the sources of competitive advantage in such an economy. Given that competitive advantage rests heavily on factors and the willingness to invest, government's role can be substantial. It can be important in such areas as channeling scarce capital into particular industries, promoting risk taking, providing temporary protection to encourage the entry of domestic rivals and the construction of efficient scale facilities, stimulating and influencing the acquisition of foreign technology, and encouraging exports. Government, at this stage, must also usually take the lead in making investments to create and upgrade factors, though firms must begin to play a growing role as well.

Since our countries desperately need to move into the investment-driven stage, are the above considerations on the role of government accommodated anywhere in the SAP policy framework papers promulgated with so much fanfare in our countries? Indeed, by contrast, our SAP policy framework papers look very much like what Porter argues is relevant for the much higher stage, that of the innovation-driven economy:

> Government's appropriate role in this stage (innovation-driven) is markedly different from the previous one (investment-driven). The appropriate philosophy of intervention and types of intervention changes. Allocation of capital, protection, licensing controls, export subsidy, and other forms of direct intervention lose relevance or effectiveness...

Restructuring Modes of Government Planning and Administration

It is necessary to revamp the Westminister model of ministerial organisation to a mode of administration that allows for highly coordinated and centralised modes of economic formulation and implementation along developmentalist lines. Present forms are such that one hand does not know what the other is doing.

Regional Cooperation

From the foregoing, it is clear that regional cooperation is no panacea unless undertaken in the context of a developmentalist economic agenda that dovetails national and regional economic agendas in anticipation of the dynamic transformations envisaged and desired nationally and regionally.

International Environment

It is important that a developmentalist oriented state along the GM strategy being suggested here exploit every opportunity to extract counter-concessions from the developed countries to facilitate non-traditional exports, technological transfer and appropriate foreign investment. The use of international consultancy firms to identify and recommend ways to promote the foregoing has proved quite useful.

The up-shot of the foregoing discussion then is that SAPs, as currently designed and implemented in Africa, are not sufficient, although generally necessary, to transform our economies from primary-factor driven ones. The development task before us is so immense, and the constraining factors so overwhelming for the development task to be left to the private sector and market alone, no matter how sound the macroeconomic environment. What is needed to overcome the present stag-flationary economic condition in our countries, is a strategy whereby a dirigist and developmentalist state guides the market toward a path that ensures the development of indigenous technological capacities that are the basis for competitive advantage in the modern world. The present global reality while still constraining and exploitative, has also created spaces and contested terrains signalling the end of the `Third World' concept and reality, and the potential for a poly-centered world economy, imperialistic machinations notwithstanding. Our problem is to seize the opportunity by consciously directing economic change and transformation through an informed dirigist state rather than resigning into the passivity and pessimism of SAPs based on sheer faith in the market.