Tasha White

INTR 395

Retreat of The Developmental State Following State Led Economic Development: Effects in Both Global North and Global South.

After the devastation of World War II, the notion of the developmental state gained momentum, emphasizing international cooperation to rebuild war-torn economies and prevent future conflicts. Governments were recognized as vital actors in fostering industrialization, technological progress, and infrastructure development for the betterment of their societies. Initiatives like the Havana Charter, though not ratified, laid the groundwork for future discussions on trade liberalization and economic development. The General Agreement on Tariffs and Trade (GATT), influenced economic strategies by promoting trade liberalization and reducing protectionism. The establishment of the Marshall Plan in 1948 further demonstrated the state's role in aiding the reconstruction of war-ravaged European nations and promoting stability through economic recovery. However, amidst the optimism of the immediate post-war 'Golden Age' of capitalism, issues of inequality that accompany capitalism were largely ignored. The inevitable destruction came to fruition, so far, in three large waves; It started within the economies of Latin America and Africa, moving through Eastern Europe, and finally arriving in Asia and Russia. We see the beginnings of economic destruction in Western Europe in Greece, and evidenced in America in the 2008 financial crisis. This devastation is doomed to continue. This essay explores the role of the developmental state, neoclassical wealth destruction, and the impact of the Washington Consensus on the retreat of the developmental state, giving examples in both the Global North and Global South.

The historic role of the state in promoting developmental states has been marked by various initiatives and policies that aimed to foster economic growth and development. The notion of the developmental state gained traction following the devastation of World War II. In the aftermath of the war, international cooperation became crucial to rebuilding war-torn economies and preventing future conflicts. Governments were seen as essential actors in fostering industrialization, technological progress, and infrastructure development. The Havana Charter, drafted in 1947, sought to establish a multilateral framework for economic cooperation and development. Although the Charter was never ratified, it laid the groundwork for future discussions on trade liberalization and economic development. It included a component called the International Trade Organization (ITO). This Organization intended to oversee and coordinate international trade and economic matters. Its main objective would have been fostering economic growth and development, particularly focusing on less-developed countries. While this too, never made it to ratification, a similar policy mentioned in the Charter did: The General Agreement on Tariffs and Trade (GATT). This agreement influenced economic strategies and development trajectories for many countries through trade liberalization and the reduction of protectionism. This Agreement was replaced with the World Trade Organization (WTO) in 1995 that currently oversees and regulates international trade within and amongst countries. The vision of classical development economics emphasized a strategic approach to economic policies, aiming to create self-sustaining growth and raising the standard of living for the populace. Within it, the state's role was not limited to merely ensuring free trade but extended to actively promoting and guiding economic development. The establishment in 1948 of the Marshall Plan was an ambitious follow-up to the Charter by the United States to aid the reconstruction of war-ravaged European nations. The plan provided substantial financial assistance, technical expertise, and resources to stimulate economic recovery and stability in recipient countries. By strengthening European economies, the Marshall Plan not only boosted trade but also diminished the desire for citizens to hold extremist ideologies, effectively promoting peace and stability. Citizens believed in the power of development because they were told of and saw the positive affects it had, especially during the immediate post-war 'Golden Age' of capitalism. While known about at this time, inequality that follows capitalism was largely ignored. David Ricardo's Theory of Comparative Advantage argued that nations should specialize in producing goods in which they have a comparative advantage and engage in international trade to maximize overall welfare. Doing this would give a particular country a monopoly on their specialized good. Having a monopoly in a particular industry made room for monopoly rents, which allows higher costs, for such a good than would otherwise be possible in a competitive market. The difference between the cost of production and the higher price charged would be the monopoly rent. While the theory of Comparative Advantage encouraged trade between nations, it also provided a rationale for state intervention to promote and protect infant industries that might not initially have a comparative advantage but could develop it over time. A policy, improved upon by John Stuart Mill, of Infant Industry Protection aimed to shield emerging industries from competitive pressures until they developed their own strong and competitive economy able to withstand international market forces. Industrialism played a crucial role in the state-led development approach by introducing mechanization and mass production. This idea of standardized mass production was the basis for most economic growth in the 20th Century. It is also called Fordism after Henry Ford. A popular quote of his, describing this idea, is “you can have the car in any colour you like as long as it is black.” The state played a pivotal role in facilitating this transformation to industrialism by investing in infrastructure and enacting legislation to protect and promote domestic industries.

The Washington Consensus, a set of neoliberal economic policies, emerged in the 1980s and had a profound impact on the developmental state. For many developing countries, the implementation of the Consensus’ neoliberal policies often resulted in widening income inequality, decreased public investments in education and healthcare, and increased social unrest. The retreat of the developmental state and the push for market-driven policies created winners and losers, with certain segments of society benefiting at the expense of others. Application of said policies often led to the retreat of the developmental state and a shift towards a more market-oriented, deregulated, and financially driven economic system. The World Bank and International Monetary Fund (IMF) played significant roles in promoting and enforcing these policies. As capitalist inequalities grew worldwide, many developing countries faced mounting external debts and economic challenges, which led them to seek financial assistance from these institutions. In exchange for financial support through loans, the World Bank and IMF required countries to follow certain conditions given to them by these institutions. They often implemented structural adjustment programs (SAPs) that aligned with the principles of the Washington Consensus. SAPs demanded fiscal discipline, deregulation, privatization of state-owned enterprises, trade liberalization, and reductions in government spending. These policies often required drastic changes in economic management, leading to the retreat of the developmental state's interventionist approach. They would similarly force countries to accept conditions that they deemed would further development but in practice generally did not. This includes trade liberalization: removing or reducing barriers to incentivize foreign trade. Its intention was to open up domestic economies to global markets. This indeed did benefit the foreign investors with stronger economies who were receiving goods for extremely low costs. For the country with the weaker economy, trade liberalization most often resulted in the removal of protective tariffs and trade barriers that had shielded domestic industries from international competition. Most of the time, following this component of the Washington Consensus, less developed countries' citizens' physical work grew immensely due to demand, while their wages halved from lowering prices of goods in line with SAP's conditions. As a consequence, industries in these countries faced challenges from cheap exports, which often led to job losses and reduced economic competitiveness. The retreat of the developmental state's support for domestic industries in the face of trade liberalization further weakened their position and contributed to the erosion of production-based rent. This type of rent is generated from the surplus earned by productive economic activities that generate goods and services of value. It represents the value that exceeds the general cost of creation. While our economy was previously largely based on this rent, it has exceedingly been overshadowing by financial rent. This is the excess profit from financial activities such as investments, loans, or currency trading. It is the surplus gained from these financial transactions rather than from goods and services. Our modern economy has shifted to prioritize financial rents over production rents. The retreat of the developmental state's support for domestic industries in the face of trade liberalization further weakened their position and contributed to the erosion of production-based rent. While, outwardly, the Washington Consensus detailed its desire to push development on less developed countries, in practice it lowered individuals' spending power. This is ultimately the greatest barrier to recovery and increased employment.

The three waves of neoclassical wealth destruction have had significant impacts on various regions of the world, leading to economic crises, social upheaval, and a reevaluation of the assumptions of neoclassical economic theory. These waves highlight the complexities and vulnerabilities of capitalism. The first wave of neoclassical wealth destruction hit many Latin American countries, and parts of Africa during the mid-1970s. These regions faced a debt crisis, often referred to as the "Third World debt crisis." In the 1970s, many developing countries borrowed heavily from international financial markets to finance ambitious development projects. However, rising global interest rates, coupled with falling commodity prices and declining export revenues, put immense strain on their economies. As a result, these countries found it increasingly difficult to service their mounting external debts. Under the influence of neoclassical economic theories, the International Monetary Fund (IMF) and other international financial institutions prescribed structural adjustment programs (SAPs) as a condition for providing financial assistance. As previously mentioned, these programs emphasized fiscal austerity, deregulation, trade liberalization, and privatization of state-owned enterprises. However, these policies often exacerbated economic downturns, leading to widespread social unrest, declining living standards, and increased poverty. They contributed to deepening recessions and social hardships. Peru saw the effects of this when real wages were more than halved in response to the free trade shock and simultaneous de-industrialization. At the same time their exports were soaring; A success for the Washington institutions. While policy makers saw what they wanted, Peruvians began referring to this time, in 1978, as "The Year of Austerity." Similarly, many African countries had economic reform policies at this time. The implementation of SAPs often resulted in negative social and political consequences. This includes maladjustment and truncated social policies affecting sectors such as agriculture, healthcare, education, and social services. Budgets would be slashed, inadequate care and access to resources became common, and poor infrastructure persevered. Lack of foreign investors exacerbated poverty and deepened socio-economic inequalities. As public spending diminished, essential social programs, underfunded or fully eliminated, negatively impacted the most vulnerable populations. Often, African countries were being led by unrepresentative and authoritarian regimes who lacked power so relied on coercive measures to obtain it. They did not engage in debate or consultation regarding these policies. Interests and concerns of ordinary citizens was often disregarded. These leaders were not interested in acknowledging the severity or their economic challenges, instead resorting to repressive measures to bypass dissent.The second wave of neoclassical wealth destruction was felt after the fall of the Berlin Wall in 1989, leading to the dissolution of socialist regimes in Eastern Europe. These countries transitioned to market-oriented economies, but the process was accompanied by challenges and financial crises. In Eastern Europe, the rapid privatization of state-owned enterprises and the dismantling of centralized economic planning led to economic dislocation and job losses. Moreover, many countries experienced a concentration of wealth among a few elites, while ordinary citizens faced declining living standards. After the fall of communism in Romania, it followed the path of neoclassical economics. This led to long lasting negative economic and societal impacts. Privatization in Romania did not increase efficiency, productivity, or competitiveness. Instead it was mutilated by issues of corruption, lack of transparency, and undervaluation of state assets. This led to a concentration of wealth amongst a few elites while ordinary citizens experienced limited benefits. Similarly, liberalization increased unemployment and allowed a decline in industrial productions, resulting from the challenges of adapting to a market-oriented economy. The country previously heavily relied on industries linked to the former communist system, furthering the difficulty of transitioning. Vulnerable populations here saw the worst of the crisis as one may expect. Cutbacks or eliminations among social services was common, exacerbating poverty and inequality. The third wave of destruction was in the late 1990s, starting in Asia in 1997 and involving Russia in the repercussions in 1998. As the crises move into more developed countries, justifications become less rational. Instead of acknowledging the issues and adjusting policies to correct them, institutions blamed the countries experiencing them. The collapse of the Asian economy was blamed on "Asian values" and "crony capitalism." Those in the US urged that they weren't doing neoliberalism economics right; they weren't doing it like they were.These illuminate the pathway for destruction to maintain its movement, next hitting the capitalist core: The United States and Western Europe. The 2008 global financial crisis has been evidence of this. The European Union (EU) faced a debt crisis, especially affecting Greece. The country faced a severe sovereign debt crisis, with mounting public debt levels and a loss of investor confidence. The adoption of a common currency without a fiscal union left some countries vulnerable to unsustainable public debt levels and limited monetary policy options. The imposition of austerity measures in exchange for bailout loans from the EU and IMF led to widespread protests and social unrest, with the crisis having lasting effects on the country's economy and society. These waves of destruction highlight structural weaknesses within nations and reveal limitations of neoclassical economic thinking, especially when using them to address complex economic challenges. The global financial crisis also exposed flaws in neoclassical economic theories, which failed to predict or prevent the crisis. Though, the inequalities of capitalism have long been known, they seemed to be absent in any formal regard. The crisis revealed the interconnectedness of financial systems, the role of speculative financial activities, and the need for improved regulatory frameworks.

The waves of neoclassical wealth destruction have left lasting impacts on economies and societies across the globe. Latin America, Africa, Eastern Europe, and other regions faced significant challenges during their transitions to market-oriented economies. The implementation of neoliberal policies under the Washington Consensus often widened income inequality, reduced public investments in essential sectors, and contributed to social unrest. Structural Adjustment Programs (SAPs) enforced by international financial institutions, such as the World Bank and IMF, further accelerated the retreat of the developmental state, leading to a shift towards market-driven economic systems. Trade liberalization, a key component of the Washington Consensus, brought both opportunities and challenges for developing countries. While it promoted foreign trade and access to global markets, it exposed vulnerable domestic industries to international competition, leading to job losses and reduced economic competitiveness. The focus on financial rent over production-based rent further exacerbated inequalities and hindered the development of sustainable and inclusive economic systems. The historical role of the state in promoting developmental states has been crucial in shaping economic growth and development. However, the emergence of neoclassical wealth destruction and the Washington Consensus challenged the interventionist role of the state, leading to significant economic and social upheavals. As we continue to face global economic challenges, there is a need for a balanced and inclusive approach to economic policy-making, one that considers both economic efficiency and the welfare of citizens. The lessons from history remind us of the importance of addressing inequalities, promoting sustainable development, and prioritizing the well-being of people to ensure a more equitable and prosperous future for all.

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