



Deposited via The University of York.

White Rose Research Online URL for this paper:

<https://eprints.whiterose.ac.uk/id/eprint/85639/>

Version: Submitted Version

Book Section:

Heron, Tony (Accepted: 2015) Governing the Formal Economy: The Convergence of Theory and Divergence of Practice. In: Grugel, Jean and Hammett, Daniel, (eds.) Palgrave Handbook of International Development. Palgrave Macmillan, London. (In Press)

https://doi.org/10.1057/978-1-137-42724-3_10

Reuse

Items deposited in White Rose Research Online are protected by copyright, with all rights reserved unless indicated otherwise. They may be downloaded and/or printed for private study, or other acts as permitted by national copyright laws. The publisher or other rights holders may allow further reproduction and re-use of the full text version. This is indicated by the licence information on the White Rose Research Online record for the item.

Takedown

If you consider content in White Rose Research Online to be in breach of UK law, please notify us by emailing eprints@whiterose.ac.uk including the URL of the record and the reason for the withdrawal request.

Governing the formal economy: The convergence of theory and divergence of practice

In 1996, Colin Leys wrote an article for the British journal *New Political Economy*, lamenting what he saw as the 'crisis' of development theory. Leys was, of course, not the first to offer this kind of diagnosis. David Booth (1985) penned a similar article a decade earlier, couched in terms of a theoretical 'impasse' - a depiction that became something of a rallying cry for development theorists of varying persuasions during the 1990s, offering as they did different theoretical remedies for overcoming this supposed 'impasse' (Schruuman 1994; Hettne 1995; Payne 1998). But where Leys' contribution differed from the others on offer was the greater emphasis he placed on the importance of 'real world' events, as opposed to the theoretical deficiencies of competing models, in determining the fate of the discipline. As Leys (1996: 45) put it at the time:

There is unease now about what 'development' means...so long as collective socioeconomic interests are supposed to be the products of the action of market forces rather than goals of strategic state action, the domain of 'development theory' is radically changed, if not abolished; that what is left is simply a world economy whose effects are overwhelmingly determined by very powerful states and market actors, with at most minor modifications or delays brought about by the actions of lesser states, social movements, communities, or whatever, that do not have significant military or market power.

In other words, the impasse could not be easily overcome through the refinement of existing theories or the construction of new models, since the roots of the crisis were material rather than ideational in nature. More specifically, Leys suggested (1996: 41), the transformation of the world economy ushered in by the collapse of the Bretton Woods system of regulated capital movements and international trade - and the subsequent destabilization and collapse of import-substitution industrialization (ISI) and other statist models of development - signified the 'end of national development as it had hitherto been conceived'. At the time Leys was writing in the mid-1990s, it was difficult to disagree with his analysis. This, to recall, was the period in which neoliberal globalization was arguably at its peak; it was a period marked by the acceptance by elites throughout the developing and post-socialist world (with greater or lesser degrees of enthusiasm) of the need to conform to the strictures of liberalization, deregulation and privatization; when the growth of transnational production, trade and financial integration appeared to render the economic role of the state (as previously understood) obsolete; and when the increasing embeddedness of the institutions of global governance - principally, the IMF, World Bank and newly established WTO - appeared to challenge not only the *de facto* but also the *de jure* economic sovereignty of the nation-state.

In the light of more recent trends - and with the benefit of hindsight - it is now easy to see that Leys' characterization of development studies was overly pessimistic and his presumption of the inevitable triumph of neoliberal globalization premature. Indeed, within a couple of years of the 'crisis of development theory' appearing in print, developing and newly-industrializing countries were already beginning to lose faith in some of the central tenets of neoliberalism: most notably, capital account liberalization following the East Asian financial crisis of 1997-8. This was soon followed by the so-called 'pink tide' that swept through Latin America, with the election of leftist governments in Argentina, Bolivia, Brazil, Ecuador, Uruguay and Venezuela symbolizing the increasingly tarnished reputation of the neoliberal development model in a region once synonymous with it. Finally, and most dramatically of all, the 2008 global financial crisis appeared to signal that, as UK prime minister Gordon Brown famously put it at the time, 'the old Washington Consensus is over' (Winnett *et al* 2009). As it turned out, this declaration, too, soon looked premature (Crouch 2011). But arguably, the fundamental lesson to draw from the experience of the financial crisis lies not in the resilience or otherwise of neoliberalism, but in the

spectacular emergence of China and its willingness to underwrite United States profligacy, which provided the macroeconomic conditions that gave rise to the crisis in the first place. In other words, the global financial crisis was as much about China's rise as it was about excessive risk taking, lax regulation or even the politics of sovereign debt and austerity. And while there is an ongoing debate about the nature of China's model of political economy - and that of the other 'BRICs' and emerging powers - what is obvious is that it falls a long way short of the neoliberal vision of development (Ban and Blyth 2013). Framed in accordance with Leys' thesis, then, the omnipotence of neoliberalism can no longer be taken for granted; nor can it be assumed that policy convergence is either an inevitable or necessary consequence of global economic integration.

In this chapter, I expand on these observations. I do so by asking what, after over half a century of dedicated scholarship and policy experimentation, does development studies have to say about the relationship between the state and the market? Although the general tenor of much development commentary in recent years has been to emphasize the diminishing scope for state activism in the face of global economic integration and neoliberal policy convergence, I argue that this tendency is mistaken on two counts. First, I suggest that the contradistinction between a supposedly 'Golden Age' (Payne and Phillips 2010) of development theory and the neoliberal era typically rests on a faulty caricature of just how central the *analysis* of the state was to the understanding of development in the former period. It is certainly true that the 'Golden Age' represented a period of great optimism for what could be achieved by postcolonial societies through utilizing the transformative capacity and emancipatory potential of the state; yet this sentiment did not always rest on a systematic or reliable analysis of how the state actually functioned in the development process. Second, in contrast, I argue that the neoliberal era was actually marked by a growing recognition of the institutional determinants of growth, especially once it became clear that market-oriented reform was leading to a divergence rather than a convergence of development outcomes. The most obvious example of this, I suggest, is the developmental state literature that emerged in the 1980s and 1990s in the midst of neoliberal triumphalism; but this was also the period in which the institutionalist 'turn' in the social sciences as a whole began to make its mark on development studies (Remmer 1997). I go on to suggest that this institutionalist 'turn' is now providing the basis for a convergence of sorts between orthodox and heterodox theories, with respect to issues such as the historical origins of private property rights, norms of democratic transparency and accountability, the importance of bureaucratic autonomy, elite consensus and state capacity. I conclude by arguing that the state has never been considered more important to the understanding of development. Hence, the significance of the rise of China and the other BRIC economies is not that it shows the superiority of either state- or market-oriented development models, but rather, it is the distinct institutional pathways that nation-states follow which explains why the adoption of ostensibly similar (or even ostensibly different) development strategies often leads to vastly divergent development outcomes.

The 'Golden Age' of development theory

In a recent text, Tony Payne and Nicola Phillips (2010) described the period from 1945 to the mid-1970s as the 'Golden Age' of development theory. Although the authors do not provide much further elaboration of the appropriateness of the term, they argue that two notable features defined the period. On the one hand, despite the different epistemologic theory, structuralism and dependency (Payne and Phillips refer to the latter two as a single 'underdevelopment' paradigm), each was conceived broadly within the parameters of Keynesian growth theory. On the other hand, each of these paradigms took for granted the assumption of

‘exceptionalism’ on the part of postcolonial societies, that is, a belief in the ‘apparently distinctive problems’ encountered by the ‘Third World’ (Payne and Phillips 2010: 84). A third feature of this ‘Golden Age’, implied but not stated explicitly by the authors, is that it was taken for granted that the promotion of development would require a primary role for the state. Yet, the paradox of the ‘Golden Age’ is that the advocacy of state-led development was not always informed by a thorough or systematic theoretical analysis of the state itself. This critique is most easily sustained in relation to modernization theory. As is well known, the intellectual roots of modernization theory lay with classical evolutionary sociology of the eighteenth and nineteenth centuries and the structural-functionalism of the early twentieth, wherein social and behavioural change was deemed to be a linear process that took place according to a series of discrete phases. An equally popular and important influence on early postwar modernization literature was the adoption of the methods and techniques of the newly established school of behaviouralism, founded on the belief that the social world could and should be studied according to the scientific tenets of rational-positivism and empiricism. The upshot of all of this was that modernization theory became associated with the idea that social and political change was evolutionary and progressive in nature; and that the determinants of modernization itself were largely observable and therefore amenable to the scientific techniques of behaviouralism.

In practice, of course, these assumptions were soon revealed to be at odds with the actual postcolonial experience in Africa, Asia, Latin America and elsewhere. In a characteristically well-timed intervention, Samuel Huntington published an article in *World Politics* in 1965, entitled ‘Political Development and Political Decay’, which shone a spotlight on this discrepancy. Huntington made an important distinction between economic modernization from what he called ‘political development’, defined as the ‘process by which organizations and procedures acquire value and stability’ (Huntington 1965: 394). The relationship between these two processes, Huntington argued, was neither necessarily evolutionary nor progressive; indeed, the opposite was more likely to be the case, as social mobilization and political participation associated with modernization came to be seen as ‘directly responsible for the deterioration of political institutions’ (Huntington 1965: 405; Remmer 1997: 34-5). The notion that the process of modernization in postcolonial societies might follow non-linear and idiosyncratic patterns, distinct from those supposedly taken by ‘first wave’ industrializers, was something that had been anticipated earlier by development economists such as Gunnar Myrdal (1957) and Dudley Seers (1963). The most influential variant of this position, however, was that associated with Hans Singer (1951) and Raul Prebisch (1950), who independently came to the conclusion that the drivers of economic change were historically and structurally determined, that the benefits of international trade fell disproportionately to the industrialized countries and that therefore, rather than propel modernization, the dependence of postcolonial societies on primary exports would only serve to entrench further their underdevelopment.

The ‘Singer-Prebisch thesis’, as it became known, proved to be tremendously influential over the next two decades, and will forever be synonymous with the adoption - and subsequent abandonment - of ISI in Latin America and elsewhere. While it was arguably the *practice* of ISI that did the most lasting damage to the credibility of the Singer-Prebisch thesis, looking back, it is now easy to see that the model also suffered from an obvious *theoretical* failing: namely, the failure to recognize the institutional - that is, domestic - correlates of external dependency. Put differently, because so much emphasis was placed on the historical and structural determinants of international trade, the theory provided few clues as to why some postcolonial societies managed to escape commodity dependence while others did not. Nor did the theory appear to have an answer to the question of why policy-makers in postcolonial societies seemed incapable of using the macroeconomic policy tools at their disposal to mitigate the problems associated with commodity dependence, such the enclave nature of the production process or the problems

associated with what later became known as ‘Dutch disease’. At least initially, dependency theory came equipped with a plausible set of answers to these questions. Paul Baran set the tone for this with the publication of *The Political Economy of Growth* in 1957, which argued that the economic exploitation of the postcolonial world was not only integral to worldwide capitalist accumulation, but was aided and abetted by a local *comprador* class, whose actions were driven by self-enrichment at the expense of the impoverishment of their populations.

This theme later became the hallmark of the Latin American school of dependency, whose heritage lay in equal measure with the structuralist economics associated with Raul Prebisch and the Economic Commission for Latin America (ECLA) and the neo-Marxism associated with Paul Baran and others. Like the structuralists, dependency writers started from the proposition that, as expressed famously by Dos Santos (1970: 231), ‘a relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can expand only as a reflection of the dominant countries’. But where these writers departed from the ECLA tradition was in the much greater emphasis that they placed on the domestic – the analysis of social class more specifically – correlates of external dependency. Dependency theory arguably reached its apogee with Fernando Henrique Cardoso and Enzo Faletto’s *Dependency and Development in Latin America* (first published in Spanish in 1971 but not translated into English until 1979), whose nuance and sophistication appeared to promise a non-determinist social science capable of escaping the theoretical *cud-de-sac* that structuralism had by this stage run into. In retrospect, however, it is difficult to escape the conclusion that even this classic work rested on a latent form of economic reductionism, and in the end could not avoid the accusation that it, too, was guilty of excessive ‘exogenism’ (Hettne 1995). The decade of the 1970s witnessed the growing ‘consumption’ (Cardoso 1977) of dependency outside of Latin America with the vibrancy and intensity of the intellectual debate continuing to reflect the movement’s mixed heritage. Yet, it can be scarcely claimed that this debate did much to elucidate a clear or workable set of policy prescriptions that might enable those developing countries afflicted by dependency to escape the condition. Indeed, as Lloyd Best (1996: 4), doyen of the Caribbean dependency school, later caustically remarked about the impact of the theory on his particular part of the world, the more faithfully the strategies deriving from radical theorists in the region were followed, ‘the more disastrous have been the consequences for the common people’.

Neoliberalism and ‘the end of development’

On 13th August 1982, Mexico’s Finance Minister, Jesus Silva Herzog, is alleged to have turned up at the US Treasury and, as one official described it at the time, ‘turned his pockets inside out’ (quoted in Lissakers 1983). Whether or not this incident actually took place – which seems unlikely – what is undeniable is that the Mexican default, and the subsequent Latin American ‘debt crisis’, came to symbolize the exhaustion of the ISI-led model of development and, by implication, the theoretical ideas that had underpinned it. Instead, global development politics soon became synonymous with ‘policy-based lending’ and ‘structural adjustment’, in accordance with the neoliberal strictures of liberalization, deregulation and privatization. Critics labeled this new paradigm ‘anti-development’ (Pieterse 2010) for its unwillingness to acknowledge the idea that underdevelopment – or, more accurately, the absence of economic growth – was a unique ‘Third World’ problem, requiring a discrete set of policy interventions to ameliorate it. Instead, as Leys (1996: 42) scathingly put it, ‘by the end of the 1980s the only development policy that was officially approved was not having one – leaving it to the market to allocate resources, not the state’. This depiction was almost certainly a deliberate caricature on Leys’ part; yet it did capture neatly the naivety and fanaticism that accompanied early neoliberal policy

experimentation. Even so, the theoretical grounds for this market fundamentalism lay in a penetrating critique of earlier development thinking and policy prescriptions associated with it.

While Friedrich von Hayek and Milton Friedman built the intellectual foundations of neoliberalism, these voices had a direct counterpoint in the disciplinary subfield of 'development economics'. During the 1960s, a growing number of heretical voices associated, most notably, with the *Journal of Political Economy* questioned the very idea of a need for a specific branch of economics dedicated to the supposedly distinctive problems of the 'Third World' (Rapley 2007: 68). A particularly important substrand to this neoliberal insurgency was the application of the rational choice assumptions of neoclassical economics to public institutions, otherwise known as public choice theory, to show the alleged folly of state-led development models and related forms of economic planning. In this vein, Krueger's (1974) work on the political economy of rent seeking in the allocation of import quotas was particularly influential. The basic thrust of Krueger's argument was that the allocation of import licenses created a perverse incentive for unprofitable firms to exaggerate their need for these licenses in order to capture the economic rent derived from the operation of the quota (that is, the difference between world market prices and the artificially high price obtained in the quota-restricted market) by selling on to a third party. Robert Bates (1981), meanwhile, applied public choice assumptions to the problem of development failure in sub-Saharan Africa. Bates (1981: 3) began his analysis with an intriguing question: 'why should reasonable men [sic] adopt public policies that have harmful consequences for the societies they govern?' To answer this, Bates drew on Olsonian theories of interest group politics to reveal the extent to which urban bias typically found in African development planning - e.g. overvalued exchange rates, state-controlled marketing boards, price restrictions, support for ISI, and so on - was rooted in urban-based class alliances that provided the political support for highly inefficient, urban-based industries at the expense of the more productive, rural-based agricultural sector. As with Krueger's work, the key inference drawn was not just about the superiority of market- over state-based mechanisms of resources allocation; rather, by highlighting the rational calculations of individual human agents, this work was able to reveal the dangers and pitfalls of allocating discretion powers over economic policy to public officials exposed to the rent-seeking and lobbying activities of interest groups. In short, neoliberalism rested on a theoretical analysis and penetrating critique of the state.

The neoliberals did not, however, have everything their own way. In 1982, Chalmers Johnson published his path-breaking book, *MITI and the Japanese Miracle*. The central insight provided by Johnson was to draw attention to the importance to economic development (understood here in terms of growth, production and competitiveness rather than welfare) of a small but capable and politically insulated bureaucratic elite with the means and capacity to promote 'market conforming' methods of state intervention. Although this insight initially went against the grain of the neoliberal orthodoxy of the 1980s - which initially proclaimed the spectacular economic successes of East Asia as testimony of the merits of laissez-faire and market-led industrialization - subsequent work in the same vein served to substantiate and refine the development state concept (Hamilton 1986; White 1987; Amsden 1989; Wade 1990). The work of Robert Wade, for instance, sought to infuse what he saw as Johnson's overly-descriptive thesis with what he called a 'comparative-analytic' dimension, capable of identifying the causal link between specific policies and industrial performance. In particular, Wade (1990) argued that the key to the industrial transformation in East Asia lay not with the role of the state per se, but with early and specific forms of intervention - especially heavy investment in human capital and infrastructure, which subsequently propelled export-oriented industrialization. The logic underpinning Wade's argument (and hence the development state concept more generally) was to turn the orthodox neoliberal interpretation on its head: the adoption of 'market-friendly' policies and the

promotion of exports were, in short, a consequence rather than a cause of East Asia's industrial transformation.

But, arguably, the lasting significance of the 'developmental state' literature was not simply that it served to temper neoliberal triumphalism; it was that it drew attention to the *institutional* conditions that underlay the development success of East Asia. Crucially, this theoretical insight coincided with a renaissance of institutionalist analysis in political and social sciences more widely (March & Olson 1984; Hall & Taylor 1994). In a way, neoliberalism - and public choice theory more specifically - contributed to this renaissance by providing a plausible set of microfoundations to the analysis of the political economy of development (Remmer 1997: 50). The application of rational choice assumptions to public institutions would find echoes in the pioneering work of Douglass North (1991) on institutions and economic development. At the other end of the spectrum, political scientists and heterodox political economists drew increasingly on institutional analysis, not simply to account for the success or failure of particular development models, but why they were adopted in the first place. In *Pathways from the Periphery*, for example, Stephan Haggard (1990) sought to account for why it was that South Korea, Taiwan, Brazil and Mexico all began with ostensibly similar development strategies build around ISI, but whereas the former two moved rapidly towards the promotion of export-oriented growth the latter two did not. Similarly, work in the 1990s on the politics of economic reform associated with structural adjustment and the adoption of neoliberal policies (Nelson 1989; Haggard & Kaufmann 1992; Haggard & Webb 1994), saw scholars examine the institutional and behavioural determinants of the success or otherwise of market-oriented reform: in short, why was it that neoliberal policy experimentation was quickly abandoned or scaled back in some cases, and followed through more determinedly and (on occasion) successfully in others? The answer to both sets of questions, it was concluded, lay with the specific ways in which different institutional configurations and political alliances were able to manage the distributive conflict associated with economic change. In summary, by the mid-1990s the *political* debate concerning market- versus state-based mechanisms of resources allocation appeared to have been settled decisively in favour of the former; yet the *analytical* debate concerning the determinants of growth and development increasingly coalesced around the importance of institutions, not least the state itself.

The convergence of theory and divergence of practice

During the 2000s, institutional analysis has arguably become the central focal point for both orthodox and heterodox theories of development. On the orthodox side, this has been seen in the influence of the so-called 'new institutional economics' on mainstream development thinking, both inside and outside of the World Bank - especially under the guise of the post-Washington Consensus. Although the significance of the supposed pragmatic shift from the original Washington Consensus to the post-Washington Consensus has been the subject of widespread analytical scepticism (Standing 2000; Fine *et al.* 2003; Öniş and Şenses 2005), one discernible difference lies in the emphasis placed on what Dani Rodrik and Arvind Subramanian (2003) describe as the 'primacy of institutions'. Institutions are understood here in accordance with Douglass North's (1991a: 97) seminal definition, as 'humanly devised constraints that structure political, economic and social interactions'. This definition has principally, but not exclusively, been used to refer to economic institutions, specifically those pertaining to property rights and contract law (Acemoglu, Johnson and Robinson 2001). In his own work, Rodrik has been keen to stress the importance of what he calls 'market stabilizing' and 'market legitimizing' institutions, alongside 'market regulating' institutions. In a key paper from 1999, for example, Rodrik attributed the failure of the majority of sub-Saharan African economies to bounce back quickly from the external economic shocks of the 1970s to the general absence of social and

political institutions capable of managing distributive conflict and allowing for legitimate and appropriate policy responses.

Rodrik's emphasis on the stabilization and legitimizing functions of institutions finds echoes in some of the key heterodox political economy literature, perhaps most notably in the influential work of Adrian Leftwich (see, especially, Leftwich 2000). Like Rodrik, Leftwich (2005) makes a distinction between 'economic' and 'political' institutions, but whereas the former sees the relationship between these two as, at least in theory, mutually supportive, the latter is less sanguine about the prospects for this. The reason for this, Leftwich suggests, is that the stability of economic institutions, far from being integral to successful development, might be an insurmountable barrier to it. Leftwich offers the example of land reform, which as he rightly points out is rarely brought about consensually (e.g. China in 1949, Cuba in 1959 or South Korea during the Japanese occupation or after the military coup in 1960). Thus, inclusive democratic institutions - which Rodrik sees as providing the stabilizing and legitimizing functions necessary for economic development - might not be the most conducive setting for a successful land reform programme. The principal reason for this is that democracy requires that the losers (in this case the landowners) are sufficiently persuaded that it is in their interests to abide by the rules of the democratic game and commit to what Adam Przeworski (1986) calls the 'institutionalized uncertainty' of electoral competition. Leftwich is careful to point out, however, that this did not mean that democracy is anathema to successful development or that authoritarian regimes have proven to be necessarily any better at promoting development. Rather, there is an inherent tension between the imperatives of economic institutions and political institutions that, while not irresolvable, necessitates a constant trade-off to be managed successfully. Ultimately for Leftwich (2010), the successful management of these trade-offs lies in the political realm: that is, the role of purposeful human agents - individuals, groups, organisations and coalitions - in the design, formation and maintenance of institutions holds the key to understanding why certain development experiments succeed while others fail. It is only by analysing the behavioural characteristics of leaders and elites in forming and sustaining development coalitions, Leftwich argues, that we can fully account for the economic success of small and externally vulnerable economies such as Botswana and Mauritius, as well as notable failures like Myanmar, Fiji and Yemen.

Applying these theoretical insights to the case of the BRIC economies, it becomes easier to understand why the search for a generalizable 'model' to characterize these cases, as in the concept of the 'Beijing Consensus' (Ramo 2004; Williamson 2012), has proven misguided. As Cornel Ban and Mark Blyth (2013: 241) put it, the BRICs have 'neither pioneered a post-neoliberal transformation, nor have they proved to be forces for the continuation of Washington Consensus ideas and policies'. What the BRICS have shown is that size and systemic importance matter, not least because it has enabled these economies to resist the neoliberal strictures of the Washington Consensus to pursue more autonomous, state-led development strategies. But this is not the whole story. In each case, to the degree to which the BRICs have implemented neoliberal economic policies, they have done so in accordance with the distinct institutional pathways each has followed. This is based on different forms of hybridization wherein the pursuit of neoliberal economic policies has been filtered through historically and institutionally embedded ideas and practices (Ban and Blyth 2013: 245). In Brazil's case, for example, the commitment to orthodox macroeconomic discipline and the adoption of privatization and deregulatory reforms has gone hand in hand with heterodox measures and interventions, including the use of public development banks and an expansionary minimum wage policy to provide fiscal stimulus during the crisis, alongside targeted industrial policy and use of state-owned firms to provide welfare and employment programmes (Ban 2013). By contrast, India's embrace of the Washington Consensus following the 1991 balance of payments crisis appears to

have involved a more radical paradigm shift from the country's previous commitment to import substitution. But, as Rahul Makherji (2013) suggests, this was not the first occasion in which neoliberal reforms had been put forward in India. The key difference is that by 1991 the encroachment of neoclassical ideas - which had been gaining ground in elite policy-making circles since the late-1970s - was buttressed by the emergence of a powerful coalition of industrialists, professionals and farmers that provided the necessary political support to ensure that the reform process was able to take root. The key summative point, then, is not that the experience of the BRIC economies shows the superiority of either state- or market-oriented development models; rather, it is the distinct institutional pathways - and political coalitions that underpin them - which accounts for the economic models that different economies follow and, to a degree, the successes and failures associated with them.

Conclusion

In this chapter, I have offered a stylized (and necessarily brief) historical account of the political economy of development by asking what, after over half a century of dedicated scholarship and policy experimentation, does the discipline have to say about the relationship between the state and the market. The answer I have provided has centred on the identification of what amounts to a paradox: namely, in the time in which the role of the state in the *practice* of development has been substantially reduced, the role of the state in the *analysis* of development has been substantially increased. This trend can be detected in orthodox and heterodox scholarship, both of which are now arguably dominated by the study of institutions. The key insight offered by institutionalism is the insistence on what is known in the jargon as 'endogeneity', by which is meant that the political economy of individual nation-states is defined by the discrete historical pathways that they take. Once adopted, institutions have a tendency to endure and take on a path-dependent character, wherein past practices and policies shape and constrain, but do not determine, future trajectories. This insight helps us to understand why neither the ubiquity of neoliberalism nor the imperatives of global economic integration has led to the degree of policy convergence that might have otherwise been expected. By the same token, the endogeneity of institutions also provides important clues to why the search within the development success of the BRIC economies for a 'model' of development to rival the Washington Consensus has proven misguided. Emphasizing the endogeneity of institutions - and therefore the domestic sources of growth and development - does not mean, of course, that the external, historical and structural obstacles highlighted by earlier theories of development are now deemed to be of less causal significance. But what it does mean is that, once these factors have been taken into account, it is the idiosyncratic institutional characteristics of individual nation-states - and the extent to which these institutions are capable of providing mechanisms for resolving the distributive conflict associated with economic change and appropriate incentive structures for effective coalition building - that accounts for those that achieve development success and those that do not.

(word count: 5167)

Bibliography

- Acemoglu, D., Johnson, S. and Robinson, J. A. (2001) 'The colonial origins of comparative development: an empirical investigation', *American Economic Review*, 91, 5: 1369-1401.
- Amsden, A. (1989) *Asia's Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press).
- Ban, C. (2013) 'Brazil's liberal neo-developmentalism: new paradigm and edited orthodoxy', *Review of International Political Economy*, 20, 2: 298-331.
- Ban, C. and Blyth, M. (2013) 'The BRICs and the Washington Consensus: an introduction', *Review of International Political Economy*, 20, 2: 241-55.
- Baran, P. (1957) *The Political Economy of Growth* (New York: Monthly Review).
- Bates, R. H. (1981) *Markets and States in Tropical Africa* (Berkeley: University of California Press).
- Best, L. 'Independence and Responsibility: Self-knowledge as an Imperative', in K. Levitt and M. Witter (eds) *The Critical Tradition of Caribbean Political Economy: The Legacy of George Beckford* (Kingston: Ian Randall).
- Booth, D. (1985) 'Marxism and development sociology: interpreting the impasse', *World Development*, 13, 7: 761-87.
- Cardoso, F. H. and Faletto, E. (1979) *Dependency and Development in Latin America* (Berkeley: University of California Press).
- Cardoso, F. H. (1977) 'The consumption of dependency theory in the United States', *Latin American Research Review*, 12, 3: 7-24.
- Crouch, C. (2011) *The Strange Non-Death of Neoliberalism* (Cambridge: Polity).
- Fine, B. (2001) 'Neither the Washington nor the post-Washington Consensus: an introduction', in B. Fine, C. Lapavistas, and J. Pincus (eds), *Development Policy in the 21st Century: Beyond the Post-Washington Consensus* (London: Routledge).
- Haggard, S. (1990) *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (New York: Cornell University Press).
- Haggard, S. and Kaufman, R. R. (eds) (1992) *The Politics of Economic Adjustment* (Princeton: Princeton University Press).
- Haggard, S. and Webb S. B. (eds) (1994) *Voting for Reform: Democracy, Political Liberalization, and Economic Adjustment* (Oxford: Oxford University Press).
- Hall, P. and Taylor, R. C. R. (1996) 'Political science and three new institutionalisms', *Political Studies*, 44, 5: 936-57.
- Hamilton, C. (1986) *Capitalist Industrialisation in Korea* (Boulder, CO: Westview).
- Hettne, B. (1995) *Development Theory and the Three Worlds: Towards an International Political Economy of Development* (London: Longman).
- Huntington, S. P. (1965) 'Political development and political decay', *World Politics*, 17, 3: 386-430.
- Johnson, C. (1982) *MITI and the Japanese Miracle: The Growth of Industrial Policy* (Sanford, CA: Stanford University Press).
- Krueger, A. O. (1974) 'The political economy of the rent seeking society', *American Economic Review*, 64: 291-303.
- Leftwich, A. (2000) *States of Development: On the Primacy of Politics in Development* (Cambridge: Polity).
- Leftwich, A. (2005) 'Democracy and development: is there institutional incompatibility?' *Democratization*, 12, 5: 686-703.

- Leftwich, A. (2010) 'Beyond institutions: rethinking the role of leaders, elites and coalitions in the institutional formation of developmental states and strategies', *Forum for Development Studies*, 37, 1: 93-111.
- Leys, C. (1996) 'The "crisis" of development theory', *New Political Economy*, 1, 1: 41-58.
- Lissakers, K. (1983) 'Dateline Wall Street: Faustian finance', *Foreign Policy*, 16 March 1983 <http://foreignpolicy.com/1983/03/16/dateline-wall-street-faustian-finance/> (retrieved 14 September 2014).
- March, J. G. and Olsen, J. P. (1984) 'The new institutionalism: organizational factors in political life', *The American Political Science Review*, 78, 3: 734-749.
- Mukherji, R. (2013) 'Ideas, interests and the tipping point: economic change in India', *Review of International Political Economy*, 20, 2: 363-89.
- Myrdal, G. (1957) *Economic Theory and Underdeveloped Regions* (London: Duckworth).
- Nelson, J. N. (ed.) (1989) *Fragile Coalitions: The Politics of Economic Adjustment* (New Brunswick and Oxford: Transaction Books).
- North, D. (1991) *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press).
- North, D. (1991a) 'Institutions', *Journal of Economic Perspectives*, 5, 1: 97-112.
- Önis, Z. and Şenses, F. (2005) 'Rethinking the emerging post-Washington Consensus', *Development and Change*, 36, 2: 263-90.
- Payne, T. (1998) 'The new political economy of area studies', *Millennium: Journal of International Studies*, 27, 2: 253-73.
- Payne, T. and Phillips, N. (2010) *Development* (Cambridge: Polity).
- Pieterse, J. N. (2010) *Development Theory*, 2nd edition (London: Sage).
- Prebisch, R. (1950) *The Economic Development of Latin America and its Principal Problems* (New York: United Nations).
- Przeworski, A. (1986) 'Some Problems in the Study of the Transition to Democracy', in G. O'Donnell, *et al.* (eds), *Transitions from Authoritarian Rule: Comparative Perspectives* (Baltimore, MD: The Johns Hopkins University Press).
- Ramo, J. (2004) 'The Beijing Consensus' (London: Foreign Policy Centre), <http://fpc.org.uk/fsblob/244.pdf> (retrieved 12 January 2013).
- Rapley, J. (2007) *Understanding Development: Theory and Practice in the Third World*, 3rd edition (London: Lynne Rienner).
- Remmer, K. (1997) 'Theoretical decay and theoretical development: the resurgence of institutional analysis', *World Politics*, 50 (1): 34-61.
- Rodrik, D. (1999) 'Where did all the growth go? External shocks, social conflict, and growth collapses', *Journal of Economic Growth*, 4: 385-412.
- Rodrik, D. and Subramanian, A. (2004) 'The primacy of institutions', *Finance and Development*, June: 31-4 <https://www.imf.org/external/pubs/ft/fandd/2003/06/pdf/rodrik.pdf> (retrieved 23 April 2013).
- Schuurman, F. J. (eds) (1994) *Beyond the Impasse: New Directions in Development Theory* (London: Zed).
- Seers, D. (1963) 'The limitations of the special case', *Bulletin of the Oxford Institute of Economics and Statistics*, 25, 2: 77-98.
- Singer, H. W. (1950) 'The Distribution of Gains Between Investing and Borrowing Countries', *American Economic Review*, 40 (2): 473-85.
- Standing, G. (2000) 'Brave new words? A critique of Stiglitz's World Bank rethink', *Development and Change*, 31, 4: 737-763.

- Wade, R. (1990) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialisation* (Princeton, NJ: Princeton university Press).
- White, G. (1987) *Developmental States in East Asia* (New York, NY: St. Martin's Press).
- Williamson, J. (2012) 'Is the "Beijing Consensus" now dominant?', *Asia Policy*, 13: 1-16, http://www.nbar.org/publications/asia_policy/Preview/AP13_B_Williamson_preview.pdf (retrieved 23 September 2014).
- Winnett, R. *et al* (2009) 'G20 summit: Gordon Brown unveils \$1.1 trillion global recession fight-back', *The Daily Telegraph*, 2 April.