A Failure or a Necessity? Assessing the Contribution of the State to Growth in Developing Countries

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Theme: Democratization, Globalization and Governance
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Session 52: Bureaucracy in a Globalized World: Challenges for Democratizing Societies
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Abstract
In the development economics literature the role of the state is currently considered as detrimental to growth and poverty reduction – bureaucracies are bloated, engage in rent-seeking, crowd out the private sector, and so on. This conception has been compounded by the influence of international financial institutions in developing countries, especially low-income countries (such as in Sub-Saharan Africa), and the widespread existence of predatory politicians and bureaucracies. Earlier theories of development, however, demonstrated the necessity of strong state intervention in the economy for fostering growth. This was confirmed by the spectacular growth of the ‘developmental states’ in East Asia, where public policies and the bureaucracy played an important role. In many developing countries, the size of the bureaucracy and public sector is, moreover, sometimes more limited than in industrialised countries relative to a number of indicators.

The paper discusses the arguments deployed in current debates on the issue. It assesses the conditions demonstrating the necessity for a central role of the state - conditions that cannot be reduced to a ‘market failure’ -, or, on the contrary, which make it so that the state is harmful for growth. These conditions are shaped by several issues, in particular the credibility and capacity (especially redistributive) of states and bureaucracies, the historical trajectories of local political economy and the nature of groups that predominate in the state apparatus, and the effects of policy reforms.
**Introduction**

In the development economics literature the role of the state is often considered as detrimental to growth and poverty reduction – bureaucracies are bloated, engage in rent-seeking, crowd out the private sector, and so on. This conception emerged in the 1970s with what was coined the ‘counter-revolution’ in economics, which witnessed the pre-eminence of the neoclassical paradigm. In neoclassical views, state intervention in the economy and the size of governments constitute distortions; they introduce therefore inefficiencies and are harmful to growth. These theoretical views have been compounded by the influence of international financial institutions in developing countries, especially in low-income countries, such as in Sub-Saharan Africa. The programmes they prescribed since the 1980s in exchange for their financing were mostly based on the premises of the virtues of a minimal state. These conceptions were also reinforced by the widespread existence of political regimes – for example, predatory politicians and bureaucracies, dictatorships – whose intervention in economies had clear negative effects on economic growth, directly or indirectly, through the aggravation of inequality, social polarisation and civil conflict, among others.

Economic theories, however, did not always conceive the state through these approaches. Before and after WWII, earlier theories of development demonstrated the necessity of strong state intervention in the economy for fostering growth. This was confirmed by the spectacular growth of the ‘developmental states’ in East Asia, where public policies and the bureaucracy played an important role. In many developing countries, the size of the bureaucracy and public sector is, moreover, sometimes more limited than in industrialised countries relative to a number of indicators.

The paper examines the theories and the conditions demonstrating the necessity for a central role of the state – conditions that cannot be reduced to a ‘market failure’ -, or, on the contrary, which make it so that the state is harmful for growth, and discusses the arguments deployed in current debates. It analyses the arguments of the ‘founding fathers’ of development economics who demonstrated the necessity of the state at low-levels of development – strong states that are able to intervene efficiently in the economy. By contrast, it examines the opposing argument of neoclassical economics,
which shows the detrimental effects and failures that have characterised state intervention in many developing countries, especially the least developed ones, which in this approach explains the lack of growth and the persistence of poverty.

The paper also argues that the economic analysis of the role of the state – its positive or negative dimensions – and growth in developing countries cannot be dissociated from political economy, in particular the types of political regimes and institutions, the incentives they provide in terms of development, and the resulting poverty traps and ‘low-equilibria’. The concepts of ‘patrimonialism’, institutions - in particular political institutions -, predation, capture by interest groups and elites, and corruption will be examined in detail in order to show the ambiguity and complexity of the determinants of efficient states.

The paper finally explores the conditions a state in low-income countries needs in order to be ‘developmental’ in the current context of globalisation. These conditions are shaped by several issues, in particular the credibility, size, ‘quality’, and capacity (especially redistributive) of states and bureaucracies, the historical trajectories of local political economy and the nature of groups that predominate in the state apparatus, and the effects of policy reforms.

The paper is structured as follows. Section 1 analyses the conceptions of the state in the founding theories of development economics. Section 2 presents the loss in influence of these conceptions due to the increase in power of the neoclassical (or Walrasian) model and the conceptions it has entailed as to the role of the state in development economics. Section 3 examines the political economy and institutional approaches of the state in developing countries that support the views of a minimal state, which conceive it as typically affected by rent-seeking and patrimonialism. Section 4 reveals the ambiguous effects on growth of a phenomenon that is often presented as detrimental, i.e. public corruption. Section 5 presents the elements and possible lessons that can be drawn from the factors that underlay growth in Asian developmental states.
1. The founding theories of development economics: the state as a necessity

The first theories: the crucial role of the state at early stages of growth

Many changes have occurred within development economics since WWII and within development theory the concept of the state has undergone a dramatic evolution. As Irma Adelman has shown\(^1\), one topic that has been an object of radical change is the model of the desirable role of government in the economy – the form of its intervention, the nature of government-market relations, and associated policies. The ‘founding fathers’ of development economics in the 1940s and after – for example, Paul Rosenstein-Rodan, Arthur Lewis, Ragnar Nurske, Gunnar Myrdal, or Albert O. Hirschman - , agreed on a series of commonalities: that there is scope for choice in institutions, policies and in their sequencing, and that certain choices, in turn, generate the initial conditions for development. There are thus alternative trajectories in development. After WWII, under the influence of the prevailing economic paradigm at that time—and due to the constraints weighing on the governments of newly-independent states—SSA countries pursued a natural resource intensive development strategy that was trade-led and characterised by limited industrialisation. As Adelman put it, however, it fostered growth but with a narrow-base.

The role of governments in economic development has differed considerably among countries. In the ‘developmental states’ of East Asia, governments had a successful entrepreneurial role, demonstrating that an adaptive mix of government and market may promote development. From the 1970s onwards the neoclassical paradigm became increasingly pre-eminent in development economics. For Adelman\(^2\), however, it allowed a series of fallacies, such as assigning a single cause to underdevelopment. There are many causes: e.g. low physical or human capital, incorrect relative prices, barriers to international trade, or ineffective government. Development is a nonlinear, path-dependent, dynamic process. The relevant policies and institutions therefore change over time.

The thinking about the role of the state after WWII evolved according to a series of phases. Government has firstly been viewed as a necessary engine of development: able

\(^{1}\) Adelman (2000b).
to exercise an entrepreneurial role in the context of limited private sectors and as the only player in an economy that has the capacity to achieve tradeoffs and impose solutions among conflicting interests. As highlighted by Paul Rosenstein-Rodan\(^3\), developing countries at early stages of growth are characterised by coordination failures in interdependent investments in industry, which prevent positive spillovers. States at early stages of development have to address the issue of the conditions of the ‘big push’, or at least the pump-priming of a regular and long-term growth. Rosenstein-Rodan showed the importance of spillovers and the importance of coordination in development. The crucial question, at the beginning of development, is the understanding of the conditions and policies able to trigger the taking off of sustained and cumulative growth\(^4\).

The analyses by Arthur\(^5\) later revealed the fundamental mechanism of the path dependence of economies, the existence of increasing returns and threshold effects, and therefore the possibility of multiple – low or high – equilibria. Coordination failures may thus lock-in an economy at early stage of development in a low-equilibrium. According to these approaches, the state was viewed as the only agent in the economy capable of correcting these coordination failures and therefore moving the economy out of the low-level equilibrium trap, i.e. the poverty trap. The state was conceived as the only agent being able to fulfil the conditions of the growth process, i.e. the reallocation of factors of productivity from a low-productivity sector (traditional) to a high-productivity (industrial) sector. Non-neoclassical economists viewed resources reallocation as hampered by technological and institutional rigidities. For economists after WWII, industrialisation was not driven by technical progress, but by applying existing technology. The engineering of complementary demand could not happen if left to private sector. It had to be planned by the state\(^6\).

History shows that governments always take the lead in promoting institutional development\(^7\). It also shows that public investment in infrastructure, human capital and industry have been essential to development, as have government-set trade policies, the

\(^3\) Rosenstein-Rodan (1943).
\(^4\) Hoff (2000), Bardhan and Udry (1999).
\(^5\) Arthur (1994).
\(^6\) Toye (2003).
\(^7\) Adelman (2000a).
promotion of technology and the design of overall goals for economic policy. Flexibility and the credibility of government are also important for long-term growth: governments are more efficient when they are autonomous vis-à-vis the pressures of elites. The opposition between states and market is a recent notion. A key historical function of the state has been the creation of well-functioning markets, such as providing the legal framework, credit and infrastructure.

The influence of these conceptions of the state in developing countries: the example of Sub-Saharan Africa

In some countries of Sub-Saharan Africa (SSA), for example, the formation of states after independence has been seen as an application of these theoretical perspectives, which justified the key economic role of the state. In phase with the prevailing paradigm in development economics at that time, the post-independence period in SSA is the period of the ‘big push’, i.e. government-promoted investment programmes into domestic infrastructure and inter-related industrial investments. Most SSA states implemented policies involving active government intervention

A key issue was the existence of a domestic private sector, entrepreneurship and local capital, which are necessary ingredients for development. Post-independence SSA countries were confronted with problems of capital, technical and organisational skills, weak business elites, as well as political constraints. Private sectors had difficulty developing in SSA due to the colonial structure of trade that was – and still is – based on primary commodity production, with the related problems of forward linkages (processing of commodities, industries) and backward linkages (transport, domestic production of inputs). This post-colonial structure of trade is associated to a specific fiscal model, which impose serious constraints on state intervention. After independence, states intervened in the economy in order to set the conditions of accumulation for their citizens: provision of credit, nationalisations, and external borrowing to finance physical and social infrastructure. Macroeconomic policies have not been focused enough on exports, however, thus resulting in a low rate of growth of export earnings.

8 Ghana is a well-known example: see Killick (1978).
After independence, the post-colonial state has been confronted with state-building constraints. Public employment has progressively represented the largest part of total non-agricultural employment: about 70% in some countries at the end of the 1970s. States became the main employers in the formal sector and increasingly the employers in the last resort. Governments created state-owned enterprises (SOEs) according to analogous processes in most countries: at the end of the 1970s/beginning of the 1980s, there were thus some 200 SOEs in Senegal, 150 in Ghana and Côte d'Ivoire, 60 in Benin and 400 in Tanzania. In a context of a lack of domestic entrepreneurship, especially in the industrial sector, the state and its ‘big push’ strategies had no other choice but to create public enterprises in almost all sectors. States likewise created state-owned financial institutions and banks (development banks, agricultural banks) that were aimed achieving broader objectives of development. State marketing boards were similarly created as interfaces between atomised producers and international markets, while they also fulfilled other objectives, i.e. to work as mechanisms of redistribution and indirect taxation. The relationships between the private sector – local and foreign – and the state followed various models, which evolved according to exogenous and domestic determinants: for example, a private sector based on rents extracted from the public sector and occupying positions in the state (e.g., Côte d'Ivoire), or having developed outside the political sphere (e.g., Ghana).

Post-colonial state-building had to address another series of constraints that were specifically political: it had to gather centrifugal forces (based on ethnicity or political rivalries), build infrastructures (ports, roads, etc) and fulfil social objectives. Lacking capital, it had to borrow at high interest rates for projects that could exhibit low profitability. This process inherent to states at early stages of development is one of the structural factors in the accumulation of unsustainable debt. State-building had to rely on limited resources: the share of public budgets in the GDP is indeed still relatively low, which, according to the so-called ‘Wagner law’, characterises developing countries. On average, fiscal revenues represented 21% of the GDP and public spending 26% of the GDP over 1986-87 and 1985-89 respectively (compared with 23% in East Asia and around 50% in industrialised countries in 1995).

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9 Nellis (1986).
The evolution of the impact of the state on economies cannot be dissociated from the historical evolution of economic structures in developing countries. In SSA the model of the small open colonial economy persisted in the course of the 20th century\(^{10}\): import of manufactures and export of primary commodities, due to both external and internal processes. The great vulnerability of this model became evident at end of the 1970s when the external shocks on commodities prices and their volatility created fiscal and current account imbalances, increased public debt and seriously affected growth in low-income countries, which was compounded by the debt crisis in 1982, which dried up private investment. A traditional ingredient of growth such as investment and savings also explains poor performances. As shown by Akyüz and Gore, SSA states received significant investment after independence, but could not sustain it nor trigger virtuous growth circles involving savings and investment and a complementary increase of savings and exports\(^{11}\). While investment in Asia rose between the 1960s and the 1980s (from 10-15% of GDP to 30-40%), it declined in SSA and in 1990-97 was at 17% of the investment levels of the 1960s. Initially both Asia and SSA depended on capital inflows with investment depending on foreign savings. In Asia, however, the increase in investment was accompanied by a faster increase in domestic savings, while in SSA savings lagged behind investment and investment increasingly depended on external resources. Similarly exports rose faster than GDP in Asia, but not in SSA.

The reform programmes prescribed by the IFIs did not enhance investment or foster a growth process that would have linked investment, savings and exports. In SSA governments also made policy mistakes, such as increasing external borrowing or showing a lack of interest towards agriculture-based industrialisation, even though most of the countries were agricultural. In the industrial sector, the import-substitution process did not lead to the development of manufacturing exports. Domestic entrepreneurs were often not encouraged and the allocation of rents by the state has not been contingent on economic performance. Growth in public spending accelerated in the 1960s because of the provision of social services and recruitment in the civil service. Above all, governments were unable to diversify economic structures, with the constraint that over the long term the real resources available to government remained

\(^{10}\) As coined by Hopkins (1973).
\(^{11}\) Akyüz and Gore (2001).
limited by the growth of export earnings that were subject to the instabilities of international markets.

2. The emergence of alternative theories: a limited role for the state in developing countries

The theoretical critiques of state intervention

The pre-eminence of the neoclassical perspective introduced a dramatic change in development economics in the 1980s that represented, among other things, a reaction against ‘Keynesianism’ — interpreted as ‘statism’ — and the impact it had on economic thought and policy-making in the 1930s and 1940s. Government controls and intervention came to be viewed as inefficient. In developing countries the state was progressively viewed as predatory, inducing rent-seeking and corruption. Economists advocated a limited state, with those like Deepak Lal attacking government economic controls as ineffective, counter-productive and costly, or Bela Balassa recommending outward-looking trade policies. Price distortions created by governments, the anti-export bias of trade controls came to be seen as a key cause of the balance of payments constraints on economic growth. The ‘right system of incentives’ (i.e. governmental measures affecting the allocation of resources) was said to be the most neutral in terms of discrimination among economic activities or foreign and domestic markets.

Government became the problem and not anymore the solution, and the optimal policies were now to ‘get prices right’. In this perspective, government intervention is not needed: governments are said to maintain unproductive bureaucracies, fuel the expansion of public sectors, and crowd-out private sector investors. Trade liberalisation and the removal of controls are now seen as fostering growth. For theorists such as Anne Krueger and Jagdish Bhagwati, international trade can provide a substitute for low aggregate domestic demand: ‘trade is enough’. This has been the underlying assumption of the model of export-led economic growth.

In the late 1970s the concept of ‘state failure’ emerged in the theoretical thinking regarding development, both for empirical reasons – the failure in growth performances in many low-income countries – and theoretical ones. The feeling was that traditional explanations of poor growth performances were insufficient (such as lack of capital, investment, and so on). For many development economists, as well as for the international financial institutions (IFIs) – the IMF and the World Bank – the failures of states thus appeared ex post, after the occurrence of fiscal crises following the drop in commodity prices and the terms of trade in the late 1970s-early 1980s. ‘Failures’ were obviously present but have been assessed retrospectively, as a result of many factors: economic facts (external shocks) and evolution within development economics, which added to the traditional ingredients of development institutional and political economy factors.

This evolution has been reinforced by studies in political science and political economy on the state in low-income countries, which explained their ‘failure’ by history and features of local politics, such as neopatrimonialism, predation, cronyism, nepotism, patronage, clientelism or kleptocracy. These features had been mentioned for a long time within economic theories, for example by Gunnar Myrdal emphasizing the ‘softness’ of states in developing countries, i.e. corrupt and serving narrow group interests. A well-known example is Ghana, which after independence was a ‘laboratory’, a showcase of the theories of the ‘big push’ and the necessity of state intervention, but progressively became an illustration of the concept of a ‘vampire state’ and the failure of ‘statist’ policies. For this conception of the state in developing countries, economic failure is explained by the state alone, its nature – being dominated by bloated and rentier bureaucracies – and the associated inefficiency of its policies.

In the mid-1970s, these conceptions of the state were reinforced by the theories of rent-seeking, public choice and rational choice. Government officials are perceived as rent-seekers in competition on political markets and in particular seeking public rents (political resources, or the control of natural resources). The aim of the rules they establish is to create distortions for their sole benefit. Theories of public choice or rational choice thus reveal the ‘urban bias’ in political decisions, stigmatising the urban

14 Krueger (1974) is one of the canonical texts on rent-seeking.
and political elites that give themselves priority through legislative measures and form
interest groups exerting pressure to ensure that economic policies work in their
favour\textsuperscript{15}. The state was viewed as a bureaucracy that aims to protect its own interests
before and against the interests of citizens. In these approaches, there are very few
functions that the state would better fulfil and very few goods it would provide more
efficiently than markets (public goods), which would justify its existence. For Robert
Bates, for example, policies in SSA did not make a relevant use of human capital or
build middle classes. Policies allowed the pre-eminence of traders exploiting
macroeconomic imbalances and price distortions, as well as ethnic divisions and
statuses that prevented the middle classes from forming political opposition
movements\textsuperscript{16}. States pursued ‘extractive’ policies, they did not rely on skills and human
capital, but rather on the extraction of natural resources. In the case of predatory
regimes (as well as in ‘warlords economies’), it has even been shown that there is no
interest in economic development: preventing development is a rational option as it
prevents the building of institutions and wealth that could foster political changeover
and opposition\textsuperscript{17}.

Most studies in political economy characterise states in developing countries in terms of
rent, property rights, incentives or corruption; they often rely on an over-simplified
concept of the state and political dynamics, especially since these studies are subject to
the needs for formalisation and quantification. Politics is taken into account but is often
reduced to an analysis of the interest groups and utility-maximising bureaucrats, the
winners and losers of the reforms, the appropriate incentives to ensure that the elites
apply these reforms, and the ingredients to build up a consensus on ‘good policies’. The
complexity of the representations relating to power is rarely taken into account.
Neoclassical views use as an argument the genuine dysfunctions existing in
bureaucracies and civil services in developing countries but neglect to question the
complexity of their causes and therefore draw conclusions on the state in general (e.g.,
the Leviathan state) and the limitation of its role as a policy that is always more
efficient.

\textsuperscript{15} Bates (1988).
\textsuperscript{16} Bates (1999).
\textsuperscript{17} Robinson (1998).
The political economy and institutional explanations of state failure were completed in the 1990s by theories of the state that rely on geography. The nature and economic impact of states is explained via structural characteristics such as geography and demography. In SSA these characteristics explain state failure by its inability to provide certain public goods, such as the rule of law, contract enforcement and infrastructure. Low demographic density is indeed a key challenge in SSA, as the construction of state authority is more difficult in a context of scattered populations. As shown by Herbst, precolonial states were not determined by competition over land, as land was abundant, and exit options were always possible. Thus states were built through loyalties and shaped by the costs of expanding power. After independence, boundaries were set by the colonial powers, and political leaders were affected early on by challengers and instability more than inter-state wars\(^\text{18}\). A growing literature in development economics now highlights the crucial role of geography and the endogeneity of the state in relation to geography and factor endowments\(^\text{19}\).

**The influence of theories of the minimal state in international financial institutions**

During the 1980s the IFIs adopted a variant of the neoclassical paradigm as a basis of their programmes. This series of policies has been coined the ‘Washington consensus’ in a now famous study by John Williamson\(^\text{20}\). In order for developing countries to achieve long-term growth, Williamson recommended a series of ten reforms. These were fiscal discipline; reordering public expenditure priorities; tax reform; liberalising interest rates; competitive exchange rates; trade liberalisation; liberalisation of inward foreign direct investment (but not capital account liberalisation, which is a less consensual issue); privatisation; deregulation (easing barriers to entry and exit); and the reform of property rights.

When the global crises destabilised the developing countries at the end of the 1970s—and particularly those depending on the export of primary commodities—the IFIs prescribed a series of policy reforms in exchange for financing the stabilisation and adjustment programmes, which aimed at a reduction of state intervention in the

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18 Herbst (2000).
economy. In the early 1980s, the IFIs thus introduced the first generation of stabilisation and adjustment programmes following the sharp drop in the prices of primary commodities (e.g., coffee, cocoa, and then oil in the mid-1980s). The theoretical paradigm of stabilisation programmes considers that market forces are more efficient than state intervention and the active policies pursued until then, such as import-substitution. Developing countries are considered to be at fault, the combination of a rentier structure and inappropriate economic policies being held responsible for the lack of growth. The aim of reforms was therefore to implement a model recommending a minimal state. The variants of this model - e.g., the monetary approach to the balance of payments, the Jacques Polak’s model - have formed the basis for IFIs reforms aiming at more efficient markets via liberalisation and privatisation.

This model, which stigmatises state excess, has been adopted in development economics and backed by the IFIs after political science analyses have brought to the fore the inadequacies of African civil services and the fact that economic history has shed light on the lasting nature of colonial trade structures. As most economic models, this model does not use the concepts from other social sciences, because of the progressive pre-eminence of the formal-neoclassical (North American) paradigm in development economics and the conviction that it is useless to have a theory on the state (which explains its ‘under-theorisation’ in development economics). States continue to be ‘black boxes’: SSA states are characterised by their under-development, thereby confirming macroeconomic observations. On the one hand, the link between a sizeable public sector and a mediocre economic performance remains controversial, and as is well known, public expenditure increases with the standard of living. On the other hand, SSA countries exhibit low rates of taxation that set in motion a vicious circle of inefficiency and lack of credibility of the state. Compared to developed countries, the weight of the civil service and its wage bill is not excessive in many developing countries – it may be excessive in relation to the weight of the wage bill in the public budgets, this being a narrow and short-term approach. It is difficult to evaluate the productivity of bureaucracies. The staff was cut down and salaries frozen after the

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21 These theories are examined in Sindzingre (1998a).
22 McCloskey (1983) on the ‘imperialism’ of economics vis-à-vis the other social sciences.
stabilisation reforms of the 1980s. In terms of percentage of population alone, SSA has the lowest ratio of all the developing regions.\footnote{Goldsmith (1999), Schiavo-Campo et al. (1997a et 1997b), Lindauer and Nunberg (1994).}

The application of the minimal state model, against the costly and rentier state given the limited well-being it provides for its citizens, has led the IFIs to reduce the public sector during the period of adjustment that started in the 1980s. It has had mixed effects, especially in SSA, since the public sector was in some cases already ‘privatised’ (captured by private interests) and civil servants had little sense of the state or ‘public service’. Reforms that only followed an economic approach centred on macro-financial aggregates (e.g., the wage bill) were ineffective. The IFIs had to acknowledge that the quality and the ability of the bureaucracy to assume more responsibility were more determining. They implemented a ‘second generation of reforms’ in the 1990s that were more micro-economic and taking into consideration the motivations and incentives of civil servants.\footnote{Tanzi (2000).}

In contrast with the state failure theories, several studies pointed to the failures of the reform design, the fallacies of the underlying theories, and the inappropriate character of the IFIs’ reforms in the context of low-income countries. IFI reforms were focused on the downsizing of the state and the limiting of its intervention in the economy. As for investment, the IFIs’ reform programmes did not address the issue of industrial and export diversification, and did not avoid ‘white elephant’ projects and over-optimistic forecasts on countries’ growth rates or rates of return on projects.\footnote{Van Arkadie (1995).} They did not address the major weaknesses of SSA states and bureaucracies: the colonial legacy, dependence on the instable price of a few commodities for foreign exchange and budgets (e.g., coffee, cocoa, oil), and therefore a structural instability and vulnerability. Structural adjustments were based on a technical and apolitical model of the state that has difficulties to take into account the individual rationalities prevailing in developing countries. Reform programmes attributed responsibilities and failures to state intervention and criticised ‘bad’ policies without questioning the local determinants of neo-patrimonialism.\footnote{On the example of Côte d’Ivoire, Sindzingre and Conte (2002).}
In SSA for example, adjustment reforms intensified economic instability and the microeconomic uncertainties that characterise SSA economies on a secular scale. Failure of reforms in terms of growth induced an accumulation of IFI conditionalities over time. The second decade of adjustment in the 1990s therefore witnessed a massive intrusion of IFIs and multiple donors in the policymaking of low-income countries (the game of the ‘ritual dance’). The theories of ‘state failure’ and ‘poor governance’ justified conditionalities that increasingly affected the core of state formation and local political mechanisms. In the 1990s states had to simultaneously implement economic reform and political reform, i.e. democratisation. The economic benefits of the democratisation, however, remain mixed both at the empirical and theoretical level.

From the 1980s onwards, the IFIs’ influence increased considerably in low-income countries, as a consequence of the fiscal crises that originated from the fall in the terms of trade of primary commodities and the mitigated success of reforms that created repeated lending and ‘prolonged use’ of IFI resources over the decades. As shown by Easterly (2001), in certain countries that received more than 15 ‘tranches’ of loans from the IFIs in the 1980-1994 period, the average growth rate was zero. This led to a crisis of credibility of SSA governments, which was accentuated by the repetition of stabilisation programmes in contrast with the theory that justifies IMF intervention, i.e. restoring the international credibility of developing countries’ governments. During the 1990s, after more than a decade of reform programmes, the IFIs often became the main creditors in SSA countries. The latter became increasingly dependent on development assistance and their autonomy in domestic policies increasingly limited, which as expected induced resistance from governments. IFI conditionalities multiplied with time as they extended their financial instruments to domains that became increasingly long-term in nature, structural, political and institutional, e.g., with the concept of governance. For the IFIs a justification of conditionality and reform is their claim that they act as agents of modernization: economic reforms such as liberalization and privatisation undermine domestic rent-seeking and rentier activity. The obvious limits of the IFIs’ economic and institutional reforms, however, is that these international

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31 See the IMF-IEO (2002) report.
financial institutions have to be simultaneously external (to be credible) and intrusive to be effective (thus incurring the risk of being partisan and non credible). Their analysis of the role of the state cannot by mandate take political dimensions into account: states tend to be analysed in term of capacity—administrative capacity, capacity-building, ‘weak’ states — and political dimensions in terms of governance. In development economics, many studies in the 1990s thus explored the ‘political economy of policy reform’, the endogeneity of policies to political and economic structures, the determinants of ‘bad policies’ beyond the type of political regime, the inability of governments to use transfers in separating efficiency and distribution, or the causes of their poor credibility, defined as the inability to commit\textsuperscript{32}.

\textit{The state as a supplier of public goods: regulation and stability}

The minimalist model has not produced the expected result in low-income countries, especially in SSA. Growth has mostly benefited exporters of primary products and investors did not turn up. This has been associated with a theoretical change, even if the model of rent-seeking bureaucrats continues to be meaningful in development economics. During the 1990s, research demonstrating the crucial functions of the state returned to favour with institutionalist theories, as well as those on information asymmetries and market failures\textsuperscript{33}, in particular under the influence of Joseph Stiglitz who had occupied an important position at the World Bank\textsuperscript{34}.

The 1990s thus witnessed the emergence of a more balanced view of the state, due to both policy and theoretical reasons: The poor performances in Latin America and SSA have been interpreted as failures, either of government policies or in the conception of reforms. The theoretical framework of information asymmetries and public goods assigned an enhanced role to government intervention. A consensus emerged over the fact that markets may be inefficient in the presence of externalities. States may be inefficient in terms of allocation of resources. They may, however, address better than markets the problems of externalities, coordination failures that stem from externalities, and collective action problems. Market failures (information problems, missing

\textsuperscript{32} Concept elaborated by the two 2004 Nobel prizes in economics, Finn Kydland and Edward Prescott.
\textsuperscript{33} For which George Akerlof, Joseph Stiglitz and Michael Spence won the Nobel Prize in 2002.
\textsuperscript{34} See Stiglitz (1974) on sharecropping, and (1989) on the state.
markets) are indeed larger in developing countries, and capacities of government to correct them are weaker. The neoclassical view of efficient economic activity focuses on freedom and on the market as the best example of a system under which people enjoy that freedom, but under certain conditions, there can be ‘market failures’, such as the presence of externalities, which justifies the state. This justification, however, is conceived in a narrow sense, i.e. the state may provide public goods that cannot be provided by markets because of market failures. Beyond this mission, the state exceeds its domain and generates inefficiencies, rents, and price distortions.

This was coined as the ‘post-Washington consensus’\textsuperscript{35}, a concept that became influential within the World Bank in the late 1990s and ‘rehabilitated’ the role of the state\textsuperscript{36}. In this approach, the state has the role of establishing infrastructure - educational, technological, financial, physical, environmental and social. As argued by Joseph Stiglitz, the government has six key roles: promoting education, promoting technology, supporting the financial sector, investing in infrastructure, preventing environmental degradation, creating and maintaining a social safety net. This conception of the state, however, is also affected by several limitations: it has a weak understanding of the complexity of history, politics and the unique ‘path dependence’ of states. The analysis relies on stylized facts and concepts where meanings and causalities would be similar and stable across time and space. There is an ambiguity in regard to the positive or normative dimension of the analysis, an ignorance of the microeconomic expectations of individuals (in particular civil servants in developing countries) and the composite nature of institutions\textsuperscript{37}.

These functions of the state consist mainly in supplying public goods that the markets, if left to their free functioning, have no incentive to supply, i.e. the stability of the economic environment, rules that stabilise individual expectations and the correction of market failures and information asymmetries. The policies pursued by governments are not exempt from failures, errors or bad management, and there are just as many government failures as market failures. The concept of a regulating state has therefore gradually inspired development economics as well as the IFIs. In the ‘post Washington

\textsuperscript{35} See among others, Stiglitz (1997).
\textsuperscript{36} See the World Bank World Development Report 1997 on the state.
\textsuperscript{37} On the rehabilitation of the state in developing countries, Sindzingre (1998b).
In the consensus’ perspective, the functions of the state remain limited: they consist in providing macroeconomic stability, regulation and the right incentives, rewarding performance, promoting competition, and privatising.

The IMF enhanced its view of the appropriate role of the state in promoting a ‘second generation of reforms’ of the civil service in developing countries, as opposed to the ‘first generation’, which was focused on restoring macroeconomic and financial balances. Reforms had to be focused on ‘rules’, ‘institutions’ and a ‘high-quality public sector’. This framework, however, has limitations, which are common to the ‘Washington consensus’ and the ‘post-Washington consensus’. The nature of the state remains ‘under-theorised’ and, in particular, its intrinsic political dimension. As Tilly has shown, the ingredients of state formation are conflict and violence, an example being the creation of European states that painfully emerged from coercive exploitation. For Tilly, war makes states (or banditry, piracy). Mercantile capitalism and state-making reinforced each other according to a logic of expanding power and economies of scale. History shows that state formation is based on war making, extraction, tributes and protection rents (e.g. on merchants).

The 1990s also saw the emergence of the notion of governance within the ‘donors’ community’, due to this revival of thinking on the functions of the state in developing countries and more political reasons, such as ‘aid fatigue’ and the increasing perception of public opinions that aid is inefficient and ending up in the bank accounts of local politicians. The corruption of governments and bureaucracies has been encompassed in the notion of ‘bad governance’ and put forward as a key explanation of the weak economic performances and the failure of aid in SSA. At the same time, the IFIs have discovered the virtues of participation and ‘ownership’ by the recipients of economic reforms. Since the end of the 1990s, theories of development and the related policies now focus on poverty reduction and the inclusion of the poor, their ‘empowerment’, participation in institutions and capacity to protect themselves from the corrupt practices of civil servants.

38 Tanzi (2000).
40 An analysis of the concept of governance is in Sindzingre (2000b).
The impact of international financial institutions on states in low-income countries

The IFIs deal with states by mandate, whatever their political regime or legitimacy, their real hold over the country and even the certainty of their existence\textsuperscript{41}, according to the principle that the IFIs do not interfere in politics. The IFIs can therefore even contribute to strengthening these states, through their international recognition, membership of financial institutions and financial flows\textsuperscript{42}. The IFIs can sometimes help to keep political regimes in power, or overthrow them when the contents of reforms place certain governments in a difficult position. An inadequate knowledge of local politics often leads to being satisfied with formal reforms, when these are actually carried out. Far from being a privilege of multilateral organisations, bilateral donors are also subjected to the necessity of constantly footing the bill and they may therefore be content with a formal implementation of reform. Thus, holding elections may be enough to transform a country into a ‘democratic state’. When the IFIs and other donors carrying out their operations, the implicit model is not that of the minimal state.

The gradual incorporation of institutions and the recognition of their endogeneity to policies in the development economics literature after the 1990s have come up against the ‘field’ operations of donors. The latter take the existing interests into account in their activities. In practice, they have political agendas with the recipient countries and do not have a strategic need for academic research. Along with multilateral institutions, most aid agencies view their action as a dimension of their foreign policy and strategic interests, and a support to their private sectors\textsuperscript{43}. This is why they have not contributed to the construction of developmental states and civil services in developing countries (not to mention those that were explicitly destabilised by such foreign policy interests). Furthermore, the IFIs take pride in the fact that their explicit objectives are to eliminate rents through the dismantling of state-owned enterprises and marketing boards, devaluations and the rehabilitation of government financial services. Many opposition movements have expressed their support for these objectives and have used them for political purposes.

\textsuperscript{41} For example, in SSA, Sierra Leone, or Liberia, until the mid-2000s.

\textsuperscript{42} As shown by the well-known article by Jackson and Rosberg (1982).

\textsuperscript{43} Alesina and Dollar (1998) show this econometrically.
3. Political economy and institutional dimensions of the state in developing countries

Sub-Saharan African states as examples of rent-seeking and non-developmental political economy

Two decades after the wave of independence in the 1960s, political science relating to SSA came up with an abundance of negative descriptions of SSA states. States were referred to as kleptocratic, prebendal, weak, clientelist, personal, predatory or quasi-states, and so on.\(^4^4\). Returning to the concept of patrimonialism coined by Max Weber, these states were described as neo-patrimonial, characterised by instability, or stability within instability, inefficient civil services, violence and dependence.\(^4^5\) Neo-patrimonialism makes reference to the confusion between the public and private domains revealed in modern African political systems that are no longer traditional, in which public resources are privatised in the sense that they are managed as a private domain.\(^4^6\) Neo-patrimonialism subsumes and differs from concepts of clientelism, nepotism and personalisation of power, these being only the consequences and expressions of this public-private confusion. It is a notion that is broader and more political than that of corruption. It refers to a mode of construction and functioning of the state, governments and their views of economic development, i.e. the private accumulation of public rents.\(^4^7\) Neo-patrimonialism is also distinct from the concept of ‘crony capitalism’, which describes the phenomena of overlapping between politics and economics in East Asia and networks of businessmen and politicians who sell their interventions, rents and control over the public and private sectors.

African leaders from the decolonisation period of the 1960s were faced with a dual constraint. The only existing private sector consisted of foreign firms, and depending on the situations resulting from the specific nature of their legitimacy, they either relied on them (as in the case of the Côte d’Ivoire), or they promoted economic activities under the supervision of the state. This was achieved by setting up state-owned enterprises.

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\(^4^4\) On predation, see Evans (1992).
\(^4^5\) Médard (1992).
\(^4^6\) Médard (1982 and 1983).
\(^4^7\) Médard (1990).
with posts that functioned simultaneously as vehicles for clientelism and for political support, in proportion to the fragility of their legitimacy\textsuperscript{48}. Their vulnerable political legitimacy incited these leaders to discourage the few domestic private activities that were not under their control and could become potential sources of financial support for political oppositions. Private accumulation was obtained mainly from state resources, such as the state-owned enterprises. This ambivalence, or even antagonism, of leaders towards the national private sector, composed either of politicians who were bought by the authorities in power through public resources, or of entrepreneurs who were frequently harassed and tempted by politics, is typical of many SSA countries and one of the reasons of economic stagnation. This mistrust was accentuated by the proliferation of obstacles that spread as bureaucracies turned to extractive and rentier models – and became ‘locked-in’ the associated ‘low equilibria’ (bribes, fiscal harassment of formal firms, aggravated in the eighties when the ‘national cake’ shrunk and the IFIs imposed their conditionalities). The little encouragement provided by public policies for the domestic private sector was also accentuated by the existence of important informal sectors, which maintained vicious circles of states under pressure from the IFIs to collect revenues and individuals seeking to escape taxation because of the weak credibility of governments and their policies. The liberalisation reforms recommended by the IFIs in the 1980s also intensifi ed the informalisation of economies, contrary to the theoretical models. There is here a striking contrast between Asia and SSA in the systems of accumulation, the modes of corruption and the consequences in terms of growth\textsuperscript{49}.

The phenomena linked to neo-patrimonialism are ‘new’ (‘neo’) in that they do not arise from traditional norms but from a manipulation of the latter. They are the result of a transformation of institutions playing on their form and content, which allocate new contents to old institutional forms, such as religious idioms. They can also make old meanings and legitimacies endure under apparently modern forms, a case in point being democratic elections. The ‘politicians-entrepreneurs’ and the overlapping of positions at the public-private and political-economic levels use elements from tradition but give them different contents.

\textsuperscript{48} Sindzingre (2000a) on the example of Ghana.
\textsuperscript{49} Sindzingre (1997).
After the failure of two decades of structural adjustments and the emergence of globalisation in the 1990s, states emerged in SSA that were qualified as ‘post-patrimonial’. The extreme end of these ‘weak’, ‘collapsed’ or ‘fragile’ states is represented by warlord politics and their perpetual civil wars. In such regimes, the sufficient condition for the basic existence of a state is the possibility for a group to concentrate economically and geographically on the extraction of a rent that can be marketed on an international scale (mines, etc.)\(^{50}\). For states that have opened up their economy, globalisation does not appear to have \textit{per se} modified the foundations of the neo-patrimonial model. Rather, it has made it possible to ‘globalise’ the circulation and profitability of resources, both legal and illegal.

\textbf{Political and institutional rationalities}

Neo-patrimonial states have been explained by economic factors such as the types of resources. A number of studies link economic under-development and kleptocratic states because their economy is based mainly on the exploitation and export of natural resources – the ‘natural resource curse’\(^{51}\). Exports of primary commodities and the lack of diversification of exports are in fact typical of most neo-patrimonial States, and older theories have been reactivated, such as the relationship between the geographical tropical situation and the lack of growth\(^{52}\). Moreover, tropical countries that export primary commodities seem to be more inegalitarian\(^{53}\).

However, these states should be understood as devices that are primarily political. In view of the historic formation of SSA countries, development has not necessarily been the pertinent objective of the governments of that time. It was often viewed from the angle of what could be extracted as a personal ‘privatised’ rent. The rationalities underlying the behaviour of local elites have contributed to under-development, and these rationalities have spread to all levels of society. Conversely, as demonstrated by the overwhelming presence of democratic regimes in rich countries, the low level of development is linked to, and seems to favour, governments and bureaucracies that are

\(^{50}\) Reno (1998).
\(^{51}\) Leite and Weidmann (1999); Aty (2001).
\(^{52}\) Among others, Sachs and Warner (1996).
not accountable to their citizens. These rationalities are, above all, of a political nature and are the consequences of the political and institutional instability that accompanied colonisation and decolonisation. Owing to the fragile consolidation of institutions, this instability is both economic and political. The fact that the rationalities of rulers are mainly political has several consequences. One of them concerns economic transformation. Opportunities and economic changes are seized provided they do not threaten the political interests of rulers or elites. They may therefore have no interest in economic and institutional development; in the case of a predatory ruler, that interest may be for the under-development and disorganisation of the country. Economic changes are only accepted if a political rent can be obtained for the ruler. The time frames of rulers and politicians also have specific effects: they can be perceived as short-term and accelerate the siphoning off of resources, or long-term, making rational rentier behaviour, the disorganisation of societies and anything that can threaten the leader.\textsuperscript{54}

Another consequence is the attitude towards economic reforms, especially those conditioned by external donors which, caught in a vicious circle, can exert a massive influence in proportion to the negative economic performance. Reforms triggered off from the outside by IFIs are accepted and ‘internalised’ by governments if they are compatible with their domestic political interests. Economic opportunities and the constraints imposed by politically powerful groups determine the institutional structures and economic policies.\textsuperscript{55} Reforms are ‘filtered’ in accordance with the domestic political calculations of the rulers, which are always pre-eminent vis-à-vis economic rationalities that are focused on development.

Individual rationalities are also shaped by institutions. The nature, degree of development, and specific forms of the institutions cannot be dissociated from political relations. Political power permits certain institutional forms, of property rights and contracts, to continue, but the structure of economic interests also influences the political structure.\textsuperscript{56} Certain institutions are missing in developing countries,\textsuperscript{57} they may be fragile or purely formal. The low degree of institutionalisation favours personal rule.

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\textsuperscript{54} Robinson (1996).
\textsuperscript{55} Acemoglu and Robinson (2000).
\textsuperscript{56} North (1990, p. 48).
\textsuperscript{57} In an analogy with the economic concept of missing market.
Even if governments are ‘benevolent dictators’ or are concerned about the public well-being, weak institutionalisation at state level has as a correlation the segmentation of social groups. This political-institutional nexus entails devastating consequences in terms of economic efficiency. Strong civil societies go hand in hand with strong states and effective institutions\textsuperscript{58}. The fact that there is a lack of adequate institutions creates a heavy constraint on possible policies for governments and leads to specific responses by individuals to economic reforms.

**Institutions, policies and the developmental state: defining the concept of institution**

The mediocre performance of neo-patrimonial states in SSA is usually blamed on the ‘weakness’ of institutions, a vague word widely used in economic literature. Development economics rediscovered institutions in the 1980s, with institutional economics promoted by Douglass North and Oliver Williamson (forgetting the first institutionalist theoreticians such as Thorstein Veblen and Karl Polanyi). Aid agencies also recognise the importance of institutions. Yet analyses have frequently remained restricted to the integration of variables referred to as ‘institutional’ in econometric regressions explaining the determinants of growth in developing countries\textsuperscript{59}. Equally, taking institutions into consideration has led to the theory of ‘agencies of restraint’ or of ‘discipline’, resulting from research on the independence of central banks\textsuperscript{60}. This research makes reference to institutions that limit the arbitrary nature of politics, a problem that seems to affect SSA seems more than other regions\textsuperscript{61}. This would partly account for the lack of credibility, both local and international, of many of its institutions and the policy measures of governments.

Unfortunately, the conceptualisation of institutions is often restricted to the use of an ‘institutional variable’ in econometric regressions, for example, the number of political parties, elections, newspapers, etc. Institutions, however, are obviously more complex, and an appropriate theory is crucial for the understanding of the differences between developmental and non-developmental states. The major difference between the

\textsuperscript{58} This is discussed in Evans (1997, p. 80).
\textsuperscript{59} Kenny and Williams (2000) show forcefully the useless character of these econometric exercises.
\textsuperscript{60} Collier (1991).
\textsuperscript{61} Collier and Pattillo (2000).
institutions of the old Western democracies on the one hand, and patrimonial states, autocracies and illiberal democracies, on the other, is that in the former the institutions, as it has been known since Max Weber, are sources of impersonal individual obligations, in reciprocal adaptation with political and economic spheres according to more or less long periods. In the latter, even if institutions exist, a ‘weak’ institutionalisation means that an institution is merely the expression of a power relationship between individuals or groups.

Furthermore, institutions are not concrete objects but mental meta-representations, their specific feature being that they have a normative dimension. Institutions have no function or effects on their own but through the simultaneous existence of other institutions that can give them a meaning or set limits. They can only be understood at given points in space and time, and only through their ‘composition’ with other institutions, as they co-exist with other institutions and are in a ‘meta’ relationship with other institutions to which they can provide norms. They therefore have forms and contents that vary in time, and depend on the presence or absence of other institutions. Their meanings or functions are not, in principle, fixed or predictable, and fill in institutional forms that, if not actually empty, have numerous meanings, for example, ‘public service’, ‘state intervention’, etc. Thus the ‘autonomy’ of bureaucrats is not per se an ingredient of the developmental state because in SSA civil services can be considered as highly ‘autonomous’ compared to rulers that are incapable of delegating or controlling. ‘Embeddedness of bureaucracy in the economy is also often viewed as an ingredient of developmental states. Public services in SSA, however, may also been viewed as ‘embedded’ in the private sector, as a result of a confused state of affairs in which officials have ‘privatised’ their activities and positions in the private sector depend on political influence.

In the non-developmental states of SSA, social fragmentation and the unshared character of norms or, on the contrary, the shared norms relating to the private appropriation of the public domain, poses the classical problem of ‘Who is to supervise

62 According to the remarkable words of a Kabuli legal expert, it is ‘a thermometer for measuring the power relationships” between individuals or political parties, “nobody thinks that a court is made to establish the law’, and “justice crashes down on you like a natural disaster”, Libération, 16 January 2002.

63 This analysed more in detail in Sindzingre (2005a, 2005b, 2006b).
the supervisors?". How can reforms be implemented if the supervisor shares the norms of the ‘supervised’, for example, in customs, central banks, etc? Another example, populist policies are sometimes associated with a high level, sometimes with a low level of development when politics is not institutionalised or impersonal but composed of multiple individual powers. The presence of institutions that provide incentives for preventing a personalised spoil system from emerging imposes limits. Independent legal institutions that do not share the same norms – supervisors of supervisors that would be ‘outside’ norms - are indispensable. Furthermore, no institution or ‘composition of institutions’ can be permanently stable. For example, rulers, politicians and elites can make the judiciary lose its anti-corruption dimension, as in several SSA states that have regressed compared to their democratic achievements in the 1990s by emptying the constitutions of their spirit and turning them into mere instruments for personal politics.

An important criterion in the divergence between a developmental and a patrimonial state is the coalescence between the executive power and institutions, and above all, the actual links between the different institutions. A country may have a press that denounces corruption but a link is not necessarily made with the judiciary institution or with administrative sanctions. In SSA, these relations are discontinuous, as shown by the studies carried out in the 1990s opposing the states and civil societies. The drama of SSA states is the break between two public spheres of legitimacy and coexisting norms, the legitimate ‘public’ and the illegitimate ‘public’ sphere (the legitimate public sphere being not necessarily democratic, and organised around ‘traditional’ or ‘religious’ norms). The public sphere of the state becomes often illegitimate when compared with a legitimate public sphere made up of norms that are shared by a given group. It is usually in the interest of politicians in all the regimes to stay in power. However, in States with strong institutions, safeguards determined by the latter limit the possible delinquency of politicians. In states with institutions that can be manipulated, public positions, but also private ones, depend on individuals and coalitions, with the absence of sanctions against depleting public resources. This creates a system that incites civil servants to do the same as rulers since incentives come from the good will

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64 Stiglitz (1999).
65 According to the relevant expression of Ekeh (1975).
of the ruler and clientelist links. This system reproduces itself and generates a poverty trap.

**Developmental and non-developmental states: a tenuous link to types of political regimes**

The economic problems of SSA are, first and foremost, of a political nature and are due to the historical construction of the political sphere of post-colonial governments. Yet the modes of exercising political power in SSA are not linked to an institutional form such as the lack of democracy. Anti-developmental leaders, or those ruining their country, may do so within institutional contexts that respect democratic forms\(^\text{66}\). The development economics literature concentrates on analysing the non-economic factors underlying growth or human development - education and health - in terms of governance, a concept that gives a depoliticised view of social interactions. The problem of patrimonial states in SSA is not governance but the nature of their politics, the historical pre-colonial, colonial and post-colonial formation of the states, and the type of politicians they have produced - developmental or predatory\(^\text{67}\).

Specific forms of patrimonial and developmental states do not have a robust relationship with formal types of political systems, in particular, democracy. The developmental states in Northeast Asia emerged under the aegis of authoritarian regimes, such as Korea, Singapore, or China. In a number of developing countries during the 1950s, authoritarian regimes were reputed to be better equipped to introduce modernisation, including progressive political movements. In contrast, several patrimonial states in SSA are formally democratic. Democracy can remain at a purely formal level - and this is what makes it difficult to analyse institutions on the basis of cross-country regressions\(^\text{68}\). Relations between institutions – the judiciary, the parliament, administrative control agencies – and the executive level may not be balanced. The correlation between a political regime and economic performance is not conclusive in studies based on regressions, in particular the correlation between growth

\(^{66}\) For example, Zambia, Zimbabwe, etc.

\(^{67}\) Evans (1992).

\(^{68}\) Sindzingre (2005a).
and democracy. This is demonstrated in the examples of Indian democracy, the authoritarian regime of Singapore, or the spectacular growth in the standard of living in China during the last decade. Similarly, it is impossible to show a definite linkage between a type of political regime and a type of economic reform (either of the gradual or the big bang model), between an economic crisis and the probability of economic reforms, or between an economic crisis and the probability of political change (a highly intense or rampant crisis). There is a variety of combinations, with different political or economic consequences. Political factors are pre-eminent in the maintenance or fall of political regimes under the diversity of their forms. On the other hand, democracy is analytically more favourable to development and to equality. By contrast, repressive regimes are not favourable to the foundations of development.

In SSA at the beginning of the 1990s, the wave of democratisation was backed by the concept of an ‘African renaissance’. However, wars and the authoritarian restorations resulted in disenchantment, which, like excessive hope, was due to a lack of understanding about the logic of authoritarian regimes. Setting up formal democratic institutions was not enough to immediately change the foundations of states - competition over access to power and the resources it represents, which is not always understood by economic studies observing a weak correlation between democracy and the level of development, or between economic crisis and political change. The categories of ‘democracy’, ‘political change’ and ‘reform’ are not operational, and only the underlying processes can define them. Right from the outset, democratisation came up against obstacles due to the fact that the stakes involved in political competition are less political than political-economic, with access to the State directly conditioning access to wealth. This competition is difficult to control by the standard institutions of a democracy (parliament, etc). They are fragile and can participate in the same predatory practices that other institutions or individuals are assigned to control.

69 Bardhan (1993), Przeworski and Limongi (1993); Tavares and Wacziarg (2001), Bratton and Van de Walle (1997) on SSA.
70 Drazen and Easterly (1999); Drazen (2000).
71 Pei and Adesnik (2000).
73 Roemer (2001).
The relationship between growth and development and political stability seems to be stronger\textsuperscript{76}. However, the variable of political stability is in itself inadequate to define a type of developmental government. This variable gives no indication of the social and developmental choices of governments. Populist or military regimes (for instance, Korea or Thailand) may be compatible with developmental strategies provided the institutions form adequate and stable frameworks of expectations for individuals. The same goes for corruption, as long as it channels rents towards productive sectors\textsuperscript{77}. By contrast, more or less benevolent dictators may – and often seek – to hold on to power for as long as possible, as in the well-known examples of Zaire, Togo, etc. Former Zaire is an extreme example of political stability defying the usual correlation between economic crises and changes in the political players. What is important for the foundations of development is the stability of rules, institutions and individual expectations, in other words, not to change arbitrarily and repeatedly the rules of the game and to prevent individuals from having this expectation. An extreme example is the modification of constitutional laws by African rulers since the democratisations of the 1990s, to fit their personal interests\textsuperscript{78}.

The relationship with ethnicity is also complex despite a vast literature that associates ethnic fragmentation with lack of growth\textsuperscript{79}. On the one hand, ‘ethnicity’ is a vague concept that does not correspond to an empirical reality, composed of intersections and superpositions with all the possible variations in degrees of membership, and an infinity of sub-groups with antagonisms that are only revealed in specific situations (depending on what anthropologists call ‘segmentary’ processes). This shows that the problems are not only those defined by the ethnic group, often functioning as an idiom constructed ex post that reflects pre-existing antagonisms. On the other hand, homogeneous countries do not develop better and ethnically fragmented countries can develop, the pertinent variables being the central political management of access to economic and political resources, and the allocation and exercise of rights. This is the motivation underlying public policies of affirmative action. Among these variables, there is also the legitimacy

\textsuperscript{76} These are the conclusions of Przeworski et al. (2000).
\textsuperscript{77} As shown by Baumol (1990), Bhagwati (2000).
\textsuperscript{78} As in Côte d’Ivoire. This is not specific to SSA, as shown by many examples from developed countries, e. g. the Italian prime minister changing the penal law according to the developments of his own litigations.
\textsuperscript{79} The most well-known being Easterly and Levine (1997).
or the co-extension of political institutions with local norms\textsuperscript{80} but which do not provide predictions on their contents, and could be anti-developmental, inequitable and discriminatory. Furthermore, social fragmentation may have many other criteria outside ethnicity or religion, the usual candidates being, for example, occupation, education or other distinctive signs of membership. Thus, the war of attrition and the competition between interest groups for political and economic resources may be just as detrimental to the economy and undermine the credibility of the political system\textsuperscript{81}. On the other hand, the relationship between civil conflicts and growth is clearly negative, SSA being the region with the highest number of civil wars\textsuperscript{82}.

More important than the form of political regime is the trust of citizens, their participation in collective activities, the modes of resource allocation and the way they are reflected in institutions – for example, proportional or highly polarised presidential systems, etc. Capital flight is a classic indicator of the relations of mutual distrust between states and their civil societies, and SSA is one of the areas where it is the highest\textsuperscript{83}, especially when compared to Asia. Although the figures are imprecise, they have been calculated at 3\% for Asia vs. 37\% for SSA during the period 1970-90\textsuperscript{84}. The credibility or legitimacy of institutions, states and their policies and bureaucracies does not imply that they are democratic or oriented towards the well-being of society and equity. A dictatorship, an authoritarian regime or the illiberal democracies of SSA resulting from the re-adaptation of single parties to conditions laid down by donors after the 1990s may be very legitimate in the eyes of their citizens. Ethnicity and religion, with a high cognitive and emotional mobilisation, are the best candidates for cementing beliefs and attracting the support of the masses, backed by exclusion mechanisms based on occupation, religion, etc., whatever the level of development and education. An important developmental factor is constituted by middle classes and institutional and legislative infrastructures expressing an effective democratic development.

\textsuperscript{80} Englebert (2000).
\textsuperscript{82} Stewart et al. (1997).
\textsuperscript{83} Ajayi (1997).
\textsuperscript{84} Collier and Gunning (1997).
4. States, corruption and growth

States and corruption: ‘productive cronyism’ vs. anti-developmental corruption?

Corruption can be analysed from numerous disciplines, bringing to light numerous causalities. A plethora of economic studies on corruption emerged at the end of the 1990s. From a necessary evil in which the responsible factors were ‘bad policies’ and distortions, it became a major cause of inefficiency, a curb on growth, an obstacle to foreign investment, an explanation of capital-intensive investments and ‘white elephants’. One of the priorities of IFIs is to fight against corruption, for example through the new conditionalities of the World Bank or the OECD charter. In general, studies based on econometric regressions detect a relationship between corruption and a low level of growth, as well as a positive relationship between a low level of corruption and a democratic regime. However, these econometric analyses are inconclusive because they amalgamate heterogeneous phenomena – bribes, international procurement, over-invoicing for the customs services, etc. When discussing corruption, there is often confusion between networks, cronyism, clientelism, bribes, etc.

Corruption is a pertinent concept when making a comparison between Asian developmental and African states because it exists in the former, however under different forms - e.g. in Northeast Asia with the chaebols, and in Southeast Asia with the cronies of local autocrats. However, it is not deleterious to growth in Asia, for example in Japan, the first example of a developmental state, or Korea where the chaebols were looked upon as flagships before being described as the archetypes of corrupt collusion between politicians after the 1997 financial crisis. The developmental state has combined aspects such as a democratic or authoritarian regime, corruption and growth. The explanations put forward by the IFIs are therefore inadequate when blaming the stagnation of SSA countries on ‘bad governance’ and corruption. It is the interaction of corruption with other institutions as well as the social groups involved and the use of rents that determines the pro- or anti-developmental effects. Conversely, among the countries with the highest growth in SSA there are oil producers such as Nigeria and Angola. The key issue is the determinants of growth, in this instance,
foreign investment in enclaves such as mining, which is used to corruption, which blurs the correlation between growth and the absence of corruption.

Cronyism is an explanation for phenomena that were included at an early stage in research on Asian countries. Well before the 1997 crisis, observers had expressed their doubts and described the Asian ‘miracle’ as an ‘ersatz’ type of capitalism. The cycles of the use of this concept of corruption are interesting. The cursor evolved and the Asian ‘miracle’ turned into crony or fake capitalism after 1997, just as corruption in SSA suddenly appeared in the mid-1990s as the basic explanation for its under-development along with ‘bad governance’, even though it had always been observed. Asian states have based their growth on the capitalism of networks and on the redistribution of rents. They were nevertheless capable of using this mode of organisation as a basis for accumulating capital, channelling rents into productive sectors and investing in these sectors. Structures that differ from the Western corporate governance type, such as collusion between politicians, banks and big firms, or family ownership and management of firms, have contributed to economic success. Corruption exists everywhere, for instance political corruption, the buying of electoral votes, straddling between the public sector and private firms, and networks of entrepreneurs given preference by the political powers so that they receive support in return. Even though it was due more to the instability of international market sentiments and to the financial liberalisation that destabilised the previous organisation of banking systems, the 1997 crisis revived doubts about the long-term economic viability of local cronyism. It also refuelled the orthodox arguments for a re-organisation of the corporate governance of firms and banks based on the Anglo-American model.

The relevant variables include the place where rents are re-invested, whether they originate from corruption or not. Many of these rents were re-invested within the region, contributing to the financial bubble, in the case of Asia, in contrast with capital flight in SSA. The latter is the result of the corruption of politicians as well as the lack of trust of citizens in their own governments and economies. It is also due to a ‘legal’ flight

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88 An example is the famous Rosenthal report on Zaire.
89 On the example of Thailand, Suehiro (2001).
90 A comparison of the modes of regional integration and private networks is in Malaizé and Sindzingre (1998).
resulting from the foreign character of firms since colonisation and the repatriation of profits, which is compounded by the IFIs reforms that aim at attracting foreign investment through fiscal exemptions and other schemes.\(^{91}\)

The size of the economy is also an important factor. It is obvious that corruption has a more devastating impact in the poor economies of SSA, exporting a single product and having only a handful of banks, etc., than in developed countries, where it is predominant in certain sectors such as public works. Equally, the export structure also shapes corruption through the type of goods exported, i.e. primary products. The low added value requires little local human capital and few technical capacities. It is conducive to highly capital-intensive investments (ports, roads, etc), which are more associated with corruption than those that are labour-intensive.\(^{92}\) In view of the insecurity and very high risk premium associated with SSA, investors demand rapid and high returns. They tend to prefer investments in short-term ‘deals’, that are immediately profitable, and in enclave sectors (oil, minerals) that are favourable to bribery and circuits of international corruption.

**The political dimension of corruption**

The corruption in SSA countries is coherent with features typical of neopatrimonialism. It contributes to poverty by reducing growth and profiting the rich.\(^{93}\) It accentuates inequalities because it exploits the poor who, by definition, are less capable of defending themselves politically.\(^{94}\) Creating a vicious circle, corruption increases even further the loss of credibility of the state, not only at the political and economic level of the behaviour of its bureaucrats, but also as a macro-regulatory entity, by encouraging the informalisation of activities. This in turn leads to lower budgetary revenues, low rates of taxation, and the impossibility of building infrastructures or adopting social and redistributive measures that could attenuate its negative reputation.\(^{95}\)

\(^{91}\) Sindzingre and Conte (2002) on the exemptions in Côte d’Ivoire.
\(^{92}\) Tanzi and Davoodi (1997).
\(^{93}\) Gupta et al. (1998).
\(^{94}\) Banerjee (1997).
\(^{95}\) E.g., Schneider and Enste (2000) on ‘shadow economies’; see Sindzingre (1998a) on the concept of
The peculiarity of corruption in SSA states is due to their historical formation and the strong ties between particular politicians and institutions. Fighting against corrupt clients can be risky for illegitimate and fragile governments, apart from the fact that corruption and sharing the national resources are, in this context, efficient instruments for holding on to allegiance and clientelism\textsuperscript{96}. Anti-corruption campaigns are often demagogic and sacrifice those who carry them out\textsuperscript{97}. The effects of the weak consolidation of institutions are the absence of sanctions, lack of credibility – or conversely excessive sanctions - , thus setting in motion a vicious circle perpetuating the weakness of institutions and the continuation of personal political regimes. The causes are due to ‘politicised’ civil services because recruitment and functioning are based on personal allegiances, thus undermining technical skills, and rewards are aligned more on political criteria than on merit. The dualism of labour markets accentuates these processes, especially the dualism of consumption based on a post-colonial model and continued by the expatriate model (supported by aid agencies).

Economists recognise that corruption is endogenous to political structures, which themselves set up the appropriate organisational structures, achieving a ‘low equilibrium’ of corruption, a systemic corruption that affects all the transactions of individuals. Corruption can be stabilised through several forms. It has been analysed as being centralised, organised or planned, with a dictator seeking to seize the monopoly of corruption and using it in a discretionary way to distribute the rights to corrupt rents to other officials for the purpose of staying in power. This form differs from decentralised corruption and is more efficient. In decentralised corruption, corrupt individuals compete with each other and there is no coordination between them. It is difficult to control and tends to take a cut on everything that is produced, leading to the ruin of the economy, a stable equilibrium which in turn favours the absence of legal property rights\textsuperscript{98}. The difficult question is that corruption is a state of affairs with a propensity to perpetuate itself beyond a certain threshold, a case in point being the upsurge of crime in Colombia\textsuperscript{99}. The instruments that developed democracies have implemented to

\textsuperscript{96} As Felix Houphouët-Boigny had so well understood in Côte d’Ivoire.
\textsuperscript{97} With exceptions, such as Ghana.
\textsuperscript{98} Shleifer and Vishny (1993), Charap and Harm (1998).
\textsuperscript{99} Gaviria (2000).
diminish corruption are rarely available in the political regimes of developing countries, while democracy does not appear to be a conclusive element\textsuperscript{100}. Depending on the institutional procedures implemented – and these can vary greatly by relying or not on budgetary or administrative decentralisation, on independent legal institutions, etc. – it can work towards reducing or increasing corruption. The freedom of the press may reduce corruption, as well as the rule of law and the improvement of public knowledge regarding the allocation of government’s funds\textsuperscript{101}.

The responses of the IFIs tend to be confined to the technical domain, and they have euphemised corruption with the concept of ‘bad governance’. Civil service reforms are mainly centred on reorganising the staff and creating incentives – wages and promotions based on merit – within the framework of the ‘second generation of reforms’. The reforms of bureaucracies tended to ignore the rationalities underlying the behaviour of civil servants, which result from the specificity of local political systems. It is difficult to modify not only the formal institutions but their representations in the minds of individuals, when they have had the time to build up stable expectations, and, for example, predatory practices.

In low-income countries, low wages often fuel corruption, which in turn accentuates disrespect for the rules that are enacted by the state and supposed to be embodied by civil servants. Economic analyses often consider civil servants as earning much higher wages than the GDP per capita or the average wage; they have not understood, however, the complexity of the determinants of subjective ‘fair’ incomes, such as the presence of expatriates, inequality, the lifestyle of the political cliques, the awareness of the gaps in living standards compared to developed countries due to emigration and the brain drain resulting from the wide differences between local and international wages - often in aid agencies. The latter’s massive presence with the remuneration of staff aligned with international wages scales further aggravate these gaps and contribute to the destabilisation of civil services.

The existence of corrupt behaviour is frequently explained by poverty and the low wages of civil servants. In a number of countries, these wages do not cover basic needs.

\textsuperscript{100} Bardhan (1993), Przeworski and Limongi (1993).
\textsuperscript{101} Rodrik (1999); Reinkikka and Svensson (2004).
However, certain civil servants may receive an official remuneration that is well above the average standard of living. Furthermore, the specific nature of civil service posts is such that it provides numerous implicit advantages over and above wages, for example, prestige, power, time for another activity, social security, and additional income. The representations relating to work and legitimacy – vis-à-vis to whom and why does one owe work, what are the reasons for not cheating? – complicate the relationship between wage and corruption. The relative wages of civil servants have less of an impact on the reduction of corruption than the existence of efficient control measures or the fact that the economy has not plunged into stabilised corruption equilibria\textsuperscript{102}. These ‘low equilibria’ generate self-fulfilling and self-perpetuating expectations that transactions include an element of corruption, that sanctions are not credible, and then vicious circles that are subsequently difficult to break. Specific representations relating to work and to obligations due to the state-employer stabilise themselves in such an environment (such as systematic bribes before achieving any task). These representations are reinforced by expectations of redistribution in systems with limited formal social security. The analyses of IFIs, reasoning in terms of individual incentives, often remain at the surface of the problems.

\textit{Corruption, norms and state formation}

The productive or non-productive effects of corruption and the possibility of changing the situation also depend on norms and institutions with norms that are not corrupt, the “supervisor of the supervisor” mentioned above. Judicial systems are often an outgrowth of personal power in many SSA countries. Many reforms of the public service in SSA, based for example on merit, linking salaries to performance, and on the isolation of technocrats in autonomous services (customs, taxes) have failed for this reason. They are founded on economic incentives, forgetting that incentives are also shaped by political power and by norms. Between pleasing external donors and acquiring political and economic insurances within clientelist circuits or traditional circuits of rights and obligations, the trade-off of individuals is often immediate. This explains the failure in creating agencies that are encapsulated vis-à-vis politicians, in the image of

\textsuperscript{102} Van Rijkeghem and Weder (1997).
developmental technocracies, for example fiscal services, in which revenues rapidly fall again. One exception is when individuals have a brain drain strategy in aid agencies\textsuperscript{103}, taking into consideration the international rather than the local political and economic market.

One can insist on the ‘normality’ of corrupt patterns of behaviour. Like other aspects of political systems in SSA, corruption is not specific to the continent. But it has a stronger impact and greater visibility in poor countries. The pertinent question, in that case, is about the nature of the mechanisms that succeed in restricting it in developed democracies. In developed countries, a series of institutions, norms, and incentives limit the temptation and the activity of corruption, as a result of the existence of laws, and an internalisation of laws and norms by individuals. In developing countries, hardly any norms are laid down by the state. Individuals may also be unaware of the laws, either because of the deliberate tactics of the governments, because of the poverty of means, or because they are irrelevant for individuals. Public goods do not fall under norms validated by membership groups (e.g., based on ethnicity, religion). The existence of the rule of law and the effective application of sanctions are indispensable institutional measures but they are not sufficient. Sanctions can be ‘filtered’ by local beliefs, being perceived, for example, as political decisions ensuing from the interests of the rulers, therefore being ineffective. Legal measures are only effective if they are the result of internalised norms\textsuperscript{104}, or if the adoption of foreign systems fit in with local norms\textsuperscript{105}.

States may be unable to ensure respect for laws on their own. Their respect is also a bottom-up process and requires that a large number of people at micro-economic level are incited to apply them and, therefore, to control the actions of other individuals\textsuperscript{106}. This depends on equilibria and thresholds effects resulting from individual calculations on the gains and costs of respecting these norms and ensuring they are respected. It applies, in particular, to the norms of the rule of law because in developing countries these norms belong to several sources and spheres of obligation - the state, the rulers, the various institutions and the societies. Developing countries are faced with problems

\textsuperscript{103} Haque and Khan (1997) on the devastating effects in SSA of the nexus constituted by the brain drain of educated elites and the technical assistance by Western expatriates.
\textsuperscript{104} Posner (1998).
\textsuperscript{105} Berkowitz et al. (2000) on the successful or failed effects of « transplanting » rules.
\textsuperscript{106} Olson (1998) on the case of post-soviet Russia.
caused by the plurality of the sources of rules, both informal and formal, their segmentation by membership groups, the gap between norms and procedures, as well as the coherence or incoherence of the norms. In post-colonial contexts, the norms, laws and procedures of different origins, coming from the colonising country, vs. those of national origin, have tended to be superimposed on each other. This in turn generates informational problems and the exploitation of information asymmetries by particular interests. Norms construct the institutions, which are endogenous processes functioning retroactively. In this case, external aid agencies may be powerless or may even introduce new dysfunctions. An example is the judiciary that cannot be completely reformed from the outside.

The causalities are circular. The instruments for restricting corruption are sanctions on the one hand, and the internalisation of public and private norms and rules relating to categories of goods (public goods) and behaviour (for example, theft), on the other. The sanctions themselves require ‘agencies of restraint’\textsuperscript{107} that are legitimate and credible in order to have them applied and also to have these applications accepted by avoiding conflict with other norms. The norms themselves are the result of rules and sanctions\textsuperscript{108}, as well as education (in the sense of an environment that imprint values, e. g. school or family\textsuperscript{109}), while education is also the result of public rules and policies as well as private rules. A key problem is that norms coming under the public sphere may be irrelevant, especially those of public service (norms on ‘service’ as an intrinsic dimension of the work in the civil service, or on the ‘public’ nature and the rights vis-à-vis the state). The reasons are political as well as economic. Enforcing rules, surveillance and sanctions may have high costs in a society stabilised in an equilibrium of generalised corruption. This again sets in motion the vicious circle of states impoverished by corruption but lacking the means to pull themselves out of the corruption trap. In contexts of poverty and a stable equilibrium of high corruption, rulers may calculate that low wages - coined as ‘capitulation’ wages - may be less expensive in terms of budget and control, even if they foster corruption\textsuperscript{110}.

\textsuperscript{107} In the sense of Collier (1991).
\textsuperscript{108} For example Sunstein (1997), on the role of public decision in matters of collective welfare, and of public sanction, vs. individual preferences, on the case of the cigarette industry in the US.
\textsuperscript{109} Boyer (1994).
\textsuperscript{110} According to the expression of Besley and McLaren (1993).
The weak credibility of states, but also of reforms

A crucial issue is therefore the credibility of institutions, which is typically path-dependent and historical in that they endure outside the individuals that actualise them. The patrimonial state typically shows a deficit in legitimacy. There is also a deficit in the legitimacy of IFIs and donors, which in SSA, together with the states, constitute essential resources, opportunities and rents. This deficit is due to their exteriority and reforms that are frequently inefficient, with unexpected effects, and poorly negotiated by the recipient governments. It is also due to their dialogue with governments that may be illegitimate because the mandate of IFIs obliges them to deal with states.

Another cause of their deficit in credibility is that donors often have not sanctioned, over years of programmes, the fact that governments did not implement reforms, postponed them or reversed their policies as soon as they have received the funds, which are in principle tied to the conditionalities. Donors seek to maintain the cycle of loans or grants, and the recipients are fully aware of this. Over the years, new loans have frequently been granted under exactly the same conditions as the preceding ones – rationalising the public service, reducing the number of ministries, privatising a particular state-owned enterprise, etc.111. Certain countries are quite remarkable for their capacity to ‘resell’ the same reform in exchange for funds year after year. The problems of routine and lack of legitimacy therefore also affect IFIs and donors, in continuum with states and bureaucracies. The deficits in legitimacy are a significant factor in explaining corrupt behaviour and the poor economic performance in many SSA countries. As shown by Englebert, the development capacity of African states depends on their degree of legitimacy and their congruence with locally accepted institutions, such as the pre-colonial ones.112

111 Sindzingre (1998a).
112 Englebert (2000).
5. The lessons of East Asian developmental states

The concept of the ‘developmental state’ was coined at the end of the 1990s in order to explain the dramatic growth performance of three East Asian states—Japan, Taiwan and Korea—and later Hong Kong and Singapore. What these states had in common was that growth was a result of state intervention and policies, though obviously this varied from one country to the other. The common features were the deliberate creation of price distortions, the objectives of industrial policies, a focus on education, the building of autonomous and technically competent bureaucracies and of coalitions with the private sector, and a positive impact of these policies in terms of growth, in contrast with neoclassical views that considered markets to be more efficient in all this. These ‘developmental policies not only aimed at enhancing the functioning of markets, as highlighted by Hausmann and Rodrik, but also at creating suitable institutions and political conditions, such as coalitions and productive rents and sometimes collusive and corrupt practices. This was supported in some Asian states by massive external inflows (e.g., US development assistance) and investment.

Developmental states revealed that ‘statism’ is not inherently rent-seeking. Specific public intervention may reinforce the efficiency of markets and the success of liberalisation programmes, as well as support the public interest. In contrast with the view that economic development is achieved through competition, the ingredients of the developmental state were the economic complementarity between the state and the private sector, which was reinforced by mechanisms of credibility and reputation building, i.e. a credible state and credible policies. Developmental states sustained virtuous cycles where growth reinforces policy credibility and thus investment, as well as successful export-oriented strategies, international credibility reinforcing domestic credibility. Once the state has achieved development, state intervention may direct policies, rather than directly investing in the economy.

113 The concept and achievements of developmental states are explored more in depth in Sindzingre (2004a); see the canonical studies by White (1988), Amsden (1989) on Korea and Wade (1990) on Taiwan, and the reassessment by Wade (2000), Woo-Cumings (1999).
115 As shown by Kang (2002).
117 Huff et al. (2001).
The model of growth of the developmental state also gained credibility as it took into account agricultural development and the increase of the size of domestic markets. As shown by Thorbecke and Wan, East Asian governments understood that at early stages of development the major mechanisms for obtaining the resources needed to escape the poverty trap and for industrialisation were the achievement of intersectoral transfers out of agriculture, the agricultural sector generating an agricultural surplus that finances industrialisation. Developmental states fostering primary education throughout rural areas, which allowed more non-farm activities, and therefore fostered migration, and the conditions for labour-intensive industry, outward-orientation and industrial policies\textsuperscript{118}.

Developmental states also focused on the dimension of production, which has been neglected by the orthodox literature in analysing the state’s role in economic development. As argued by Amsden, ‘market failures’ caused by state intervention are less relevant when the focus is on production and not on exchange\textsuperscript{119}.

A key ingredient of developmental states has been industrial policies. This is revealed by the example of South Korea, where state intervention has been a major factor in that country’s growth. Contrary to the orthodox theses, it has not been a market-preserving intervention. The state intervened heavily in domains such as tariffs and subsidies, e.g. subsidised interest rates. The state created rents as an instrument for industrial development, through a limited number of conglomerates (chaebols). In developmental states state intervention was more under the form of policies than in terms of owning a large share of the economy, recycling a large share of its resources through taxation and providing a large share of employment\textsuperscript{120}. Government strategies went beyond pure trade strategy and resorted to a long-term dynamic perspective regarding industrial development and institutional learning.

A key question is the nature of the factors that shape the role of the state and determine its effectiveness in promoting economic change. Historical trajectories play a crucial role, as well as a strong centralised state, a government having a clear conception of economic development. In SSA after independence, developmental states have been confronted with many obstacles. Nationalist policies met the hostility of Western

\begin{footnotes}
\item[118] Thorbecke and Wan (2004).
\item[119] Amsden (1997).
\item[120] Sindzingre (2006a).
\end{footnotes}
countries in the context of the Cold War. Some SSA states had the ingredients for being developmental but rulers focused more on the politics of nation-building than economic growth. Later the IFIs stabilisation and structural adjustment programmes did not reinforce state capacity. Finally, developmental states reveal that state building is a permanent process and that growth always results from interactions between economic and political domains, at both the domestic and international levels.

Conclusion

In the development economics literature the role of the state tends to be considered as detrimental to growth and a source of inefficiencies. These theoretical views have been compounded by the influence of international financial institutions, especially in low-income countries such as in Sub-Saharan Africa. The reforms that they prescribed since the 1980s in exchange for financing have been mostly based on the premises of the virtues of a minimal state.

This paper has shown that economic theories did not always view the state through these approaches. The first theories of development revealed the necessity of state intervention in the economy for fostering growth at its early stages. The opposing arguments have been analysed: they highlight the failures that have affected state intervention in many developing countries, which explain the lack of growth and the persistence of poverty. Even in the framework of the market failure approach, the role of the state is limited to the provision of macroeconomic stability and regulation in order to foster stable expectations and investment.

The paper has argued that the economic analysis of the role of the state and growth in developing countries cannot be dissociated from political economy, political regimes and institutions, the incentives they provide in terms of development, and the resulting poverty traps and ‘low-equilibria’. The concepts of ‘patrimonialism’, institutions and corruption have been explored in depth and showed the complexity of the determinants of efficient states.
The paper has also examined the spectacular growth of the ‘developmental states’ in East Asia, where public policies and the bureaucracy played an important role, and which support the arguments of the first theories of development on the necessity of effective and strong states. The comparison between African and Asian states has shown that the conditions for states to foster growth are shaped by several issues, in particular the credibility of states and bureaucracies, the historical trajectories of local political economy, the nature of rulers and elites, the effects of policy reforms, and institutions and norms. It has finally been shown, through the examples of these different types of states, that state building is a permanent process and that growth always results from interactions between economic and political domains, at both the domestic and international levels.

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