Pakistan Journal of Applied Economics, (1994), Vol.X Nos.1&2, (1 - 20)

DEVELOPMENT STRATEGIES IN THE SECOND HALF OF THE 20TH CENTURY

Elmar ALTVATER*

The contemporary economic and social crisis of the world system is not the first in this century. Therefore, it is useful to remind the years after 'Black Friday' 1929 with respects to the consequences for strategies and trajectories of economic growth and development in the world, particularly because after a long and conflict-ridden period (World War II; emergence of the competing Soviet bloc) a restructured and successful "western" international system emerged. The globalisation of the western "fordist" model of market and democracy and the regulating institutions of Bretton Woods, i.e., the International Monetary Fund and the International Bank of Reconstruction and Development (World Bank). Since that decisive period more than 60 years ago, the world experienced at least five development strategies, all of them attempting to find answers on historical challenges. In the following sections these strategies briefly will be discussed: (1) Import substituting strategies since the '30s, (2) developmentism performed by the nation state in the '50s, (3) late industrialization based on external savings by using foreign loans since the '60s, (4) neoliberal structural adjustment strategies imposed on many Third World countries by the "monsters of Washington" (Enzensberger) in the '80s, and last but not least, (5) contemporary strategies of outward looking systemic competitiveness in the '90s.

I. Break Down of the World Market and Import Substitution

One of the consequences of the great crisis after 1929 was the nearly total collapse of world market transactions. In his famous "cobweb-diagram", Kindleberger illustrates the shrinkage of world trade from January 1929 until March 1933, from nearly US$ 3bn to less than US$ 1bn [Kindleberger, (1986), p.170]. A few years after the outbreak of the crisis there was actually no world trade anymore. The nation

*Professor of Political Economy at the Free University, Department of Political Science, Berlin, Germany.

state and the national economy, in this economic emergency situation, got a new historical meaning. The '30s, therefore, are witnessing at least two new political strategies following the principle which John Maynard Keynes in an article written in 1933 called "National Self Sufficiency". In the case that England does not produce wine then this lack does not mean that wine should be imported but that consumption of wine should be sharply reduced or even given up; instead of wine, Englishmen should drink their ale. Such a spartanic rule is easy but very hard to be realized, in particular in highly developed industrialized countries, taken not only luxury goods but raw material input etc., into account. In order to realize necessary economies of scale industry requires large markets, foreign export markets included. Moreover, industrialized systems need energy and raw material inputs which in the case of the "old" European industrialized societies have to be imported from abroad. Therefore, "national self sufficiency" is an impossible guideline, unless new regional economic blocks around the leading industrial imperialist nations are formed. Great Britain had her Commonwealth. France her colonial empire especially in Africa. The United States had their "backyard" in the western hemisphere after having thrown out Great Britain from Latin America. The other highly developed industrial countries like Germany, Japan (and partly Italy) tried to form regional blocks of their own by means of political and military aggressive expansion. Japanese militarism, German Nazism, and Italian Fascism cannot be fully explained by mere economic factors. But the economic situation in the early thirties supported expansionist strategies and the nationalistic, fascist, militarist and racist ideologies supporting it. History proves that the inevitable economic confrontation after the breakdown of the world market resulted in a military showdown, in a brutal and and horrible world war.

In less industrialized countries, on the contrary, this situation extended the room of manoeuvre for strategies of "import substituting industrialization" (ISI). A convincing and impressing example of that period is the young Soviet Union, which established the system of central five-year-planning (after former attempts of Gosplan) and of collective ownership in agriculture (disappropriation of the "Kulaks") 1928-29, just when the great crisis of the capitalist system broke out. Of course, this only was an unplanned and unpredicted coincidence. But nonetheless, it influenced deeply theoreticians as well as politicians in the West, such as Keynes when he wrote his "General Theory ..." or Roosevelt and his "New Deal". The Soviet planning system with its foreign trade monopoly was nothing else than a rather efficient, state controlled strategy of late industrialization by means of import substitution, and protected by very efficient measures of disassociating the economy from the crisis ridden world market.

The Latin American countries, too followed the strategy of import substitution, although not by means of central planning, after having resolved the debt crisis of that period by default [Bolivia, (1931)] or debt cancellation (case of Brazil and others).

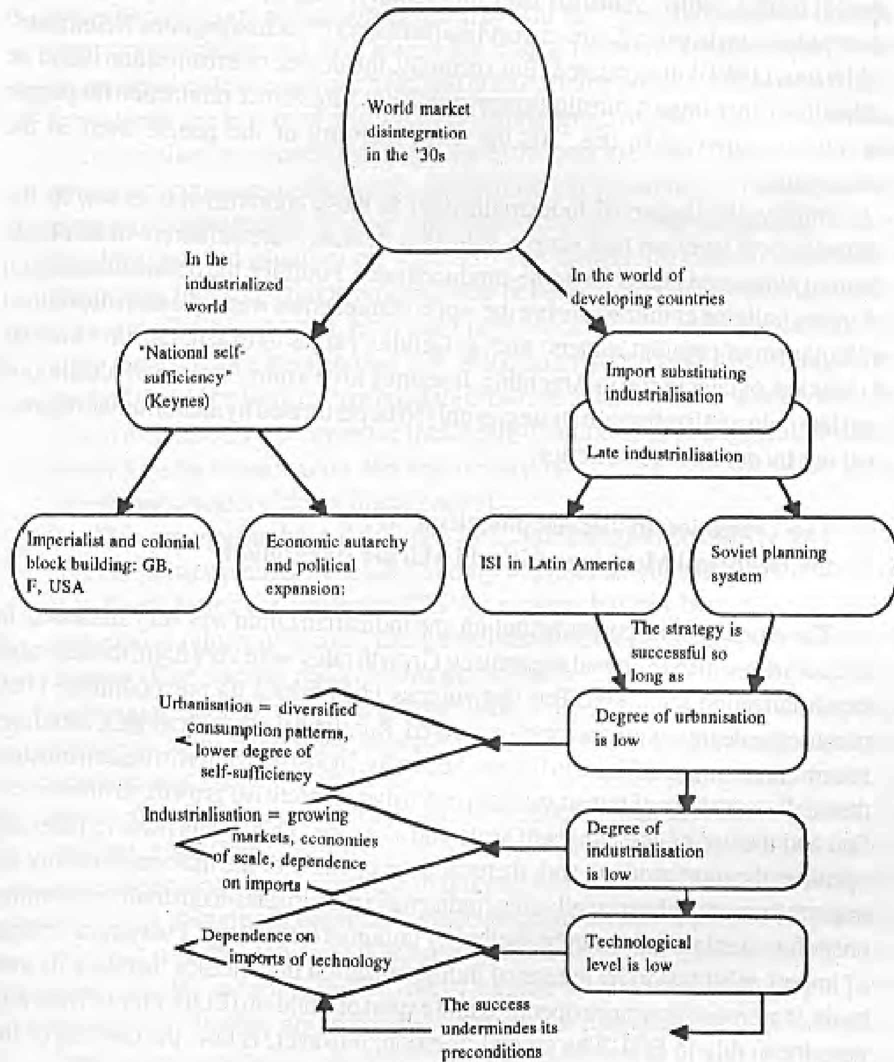

FIGURE 1

Late Industrialisation in a Disintegrated World Market during the '30s

Import substituting industrialization became the most convincing and therefore most accepted development strategy of those times [Gerschenkron,(1962); Thorp, (1984)]. It was a possible project of the national state thanks to a couple of decisive, but very special causes, which vanished later this century. First of all, it only works in an international environment, where world market forces ["Sachzwange des Weltmarkts" - Altvater, (1987)] disappeared. But secondly, the degree of urbanization has to be rather low, since import substitution prerequisites subsistence production for people in order to survive. In the '30s the great majority of the people lived in the countryside.

Thirdly, the degree of industrialization in these countries was as low as the technological level, so that simple industrial devices were sufficient to substitute formerly imported goods for home-produced ones. Fourthly, the political dimension of industrializing countries during the world market crisis was a question of political voluntarism of populist leaders, such as Getulio Vargas in Brazil, Lazaro Cardenas in Mexico, or later Peron in Argentine. It seemed to be a rule, that import substitution and late industrialization are strategies only to be performed by authoritarian regimes and not by democratic societies.

II. The Transition to "Developmentism" or: the Historical Meaning of World Market Integration

The strategy of import substitution and industrialization was very successful in all countries which followed the project; Growth rates were very high, the degree of industrialization increased. But this success undermined its preconditions. First, because the degree of urbanization increased. Rural subsistence strategies, therefore, became much more difficult to follow. Secondly, industrialization in basic industries demands a strategy of transition from extensive to intensive growth, to diversification and the use of economies of scale and of scope. This, by its own, requires the opening of export markets and, therefore, the opening of the national economy for imports from abroad, especially since industrialization in semi-industrialized countries only after a certain point can be fuelled by imported technology. Pursuing a strategy of import substitution by means of industrialization undermines therefore its own basis. It prerequisites more openness and export orientation (EOI). From ISI the way goes inevitably to EOI. The crucial question, however, is how the opening of the economy can occur in an historically dynamic international environment?

Import substitution is a child of emergency and a national answer on the collapse of world market transactions. The new EOI-strategies of world market integration, on the contrary, depend on the global expansion of the world market, on a system of an established international division of labour and of institutionalized regulation. At the beginning of the '50s it was the CEPAL under the directorate of Raul Plebisch

(and under the consultancy of Hans Singer and others) which proposed a new strategy of so-called "developmentism" (desarrollismo). Its basic idea is the following one: Statistical analysis demonstrates a secular deterioration of terms of trade for raw material producers. Therefore, a strategy of world market integration based on raw material production and export necessarily will fail. The comparative cost advantages-argument does not hold true in the case of unilateral specialization between raw material producers on one hand and manufactured goods producers on the other. It conserves the structural gap which developmentism declares as to be overcome. It is of absolute importance that countries of the later so called "Third World" which open their economies to the world market must follow a strategy of industrialization in order to be able to export manufactured goods and to overcome underdevelopment. But how can industrialization succeed? The answer of CEPAL basically was Keynesian: Industrialization prerequisites the development of the internal market, of adequate effective demand. How can that be done? There are two measures which at the same instance meet another aim, that of more social equity in society: The one method should be land-reform equitable distribution of material wealth, the other is linked to it, namely a progressive income distribution as to strengthen consumptive demand on the home market. But in order to protect infant industries, liberalization should occur under strict political control.

This strategy has been developed for Latin American countries, but in none of them it has been realized. The only country where an efficient land reform took place was South Korea for which the CEPAL strategy has not been tailored. Also the progressive reform of income and wealth distribution became a permanent steeple chase with no positive result, so that the two main pillars of the strategical building were too weak to bear it successfully. What was left from a failed developmentist strategy was the controlling, regulating and planning state apparatus which under non-intended economic and social conditions became a strong holder of the old system of unproductive protection and the old social strata. The state supported rent-seeking classes even against industrialization and modernization, and therefore, it became more and more involved in bribery, corruption, bureaucratic inefficiency, politically changing between undemocratic populism and unproductive authoritarianism. It is completely right when many critics of ISI and CEPAL strategies stress the inefficient and unproductive role of the state in economic development [Eßer, et al., (1993)]. But they are completely wrong when they draw the conclusion that the state as an economic development planning institution is failing and therefore the task should be taken over by the market. It is impossible to introduce the market by means of a "Kriegsspiel: [Robert Boyer, and Le Monde de Debat, (1993)]. On the contrary, it is social construction, the outcome of which is not intended and therefore resistant to strategical projections - and it needs a long time to become efficient. More important than the illusion of introducing market systems and institutions from one

day to the other (an illusion very common in the so-called transformation economics of Eastern Europe and the former Soviet Union) is the fact that "market" today means world market and world market in the first instance is the world monetary market.

Thus, the making of the market comprises social transformations and integration achievements into the already existing world market. The world market is not an abstractum of theoretical imaginations but a dynamic historical entity. In that historically specific period when the recent integration into the world market took place it already existed in all its different forms. Its structure may be schematized by Figure 2.

III. The Globalisation of Money and the Regulating Institutions

During the '50s and the '60s, the rate of growth of world trade was almost twice the rate of growth of world production [Maddison, (1989)]. World production on its own became more and more interlinked by direct investments of transnational corporations. But much more important is the globalisation of the financial system, especially since its step-by-step liberalization at the beginning of the '60s, after convertibility was introduced in OECD Europe. Integration of Third World countries into the world market, therefore, meant submission under the conditions of nearly free price formation of commodities, money and capital - but only partly - for labour. During the '60s, this new quality remained hidden behind the still functioning Bretton Woods system of internationally regulated nearly fixed exchange rates and national interest rates, heavily determined by central banks. But after the collapse of Bretton Woods system in August, 1971 (end of gold convertibility of the US Dollar), and the transition to a system of flexible exchange rates in March 1973, the world financial markets became the "*central processing unit*" of the capitalist world system. Not by accident, also the times of hegemony of neoliberal (neoclassical, monetarist) theoreticians in the academic world began: For, since then "really existing" world monetary market reduced time and space into *quantities negligeables* since the time distance between Singapore and London became as unimportant for monetary transfers as the space differences between Los Angeles and Frankfurt. Timeless and spaceless economic models seemed to reflect adequately the new global "*cyberspace*" of financial speculation [Menzel, (1993)]. Neoliberals promised audaciously, (after an admittedly short period of transition from a regulated to a deregulated market) greater stability and equilibrium in the world economy. But the contrary happened, although rational expectations theory quickly presented explanations for this disappointing outcome: world monetary markets as well as commodity markets and the flows of direct investments worldwide proved not only to be extremely volatile [Dornbusch and Marcus, (1991)] but also to be powerful transmission-mechanisms of inequality in the world.

At the end of the '80s, 16 per cent of the world population living in the

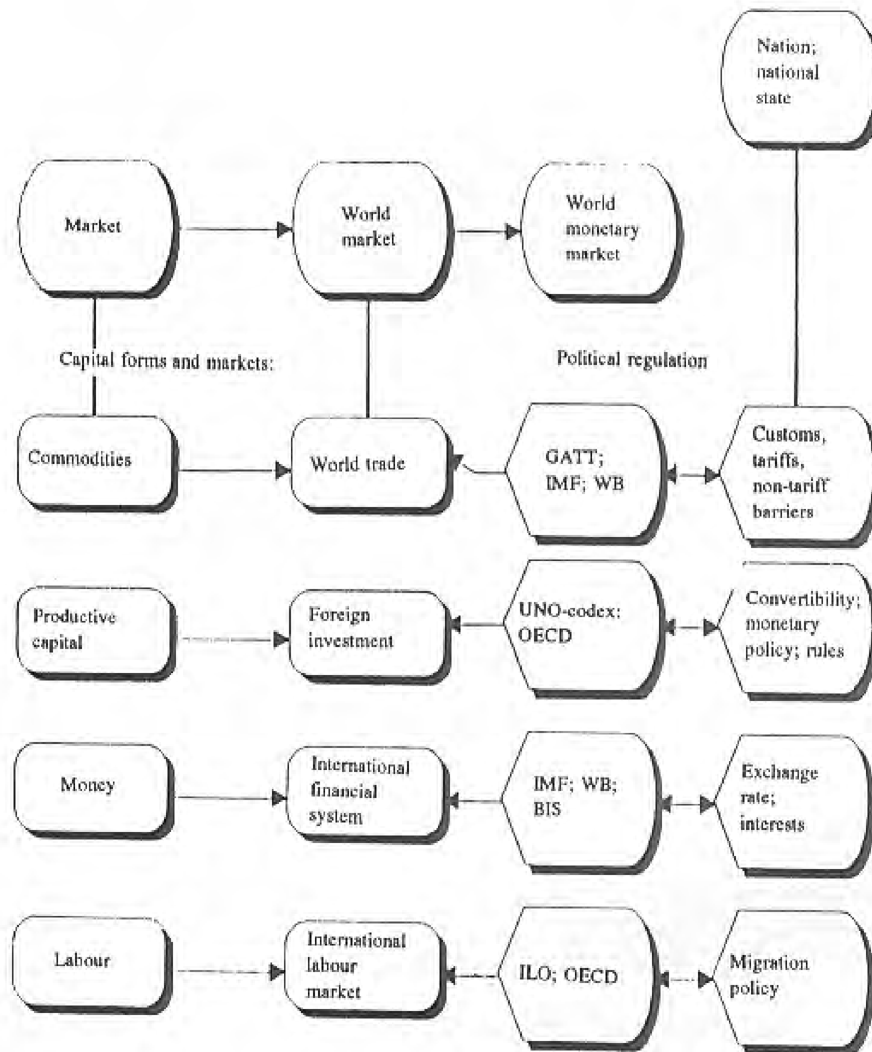

FIGURE 2

The Structure of the World Market and the Reach of the Nation State

industrialized (OECD) countries produced 73.5 per cent of world production, whereas 77.9 per cent of world population living in developing countries only contributed 16.2 per cent to the world's gross product. In 1965, this disappointing result was still less dramatic: 71.9 per cent of world population living in the developing countries produced 19 per cent of world gross product. The deterioration of global productivity and distribution was theoretically not previewed and politically not welcome, because it could not be easily integrated into the theoretically founded development trajectory. Inequality spread over the world, in addition supported by the political protection of labour markets against labour migrants from poor to richer regions [Griffin and Khan, (1992)].

Countries opening themselves to world market influences not only had to compete in the commodity markets but deal with the rules of conditionality applied vis-a-vis debtors on the international money markets by private and official market institutions. In order to avoid the outspoken or silent political conditionality linked to official loans, many countries began taking loans on private international markets. Since the early '70s, these markets were highly liquid. The first (and broadly discussed) reason for the high liquidity of international monetary markets was the oil crisis of 1973, the accumulation of "petro-dollars" and their recycling into the internationally operating banking system. The second (and less discussed) reason however was the onset of the great structural crisis In all the developed economies. Falling profit rates (rates of return on capital) resulted in lower accumulation rates, less investment [Marglin and Schor, (1990); Armstrong, Glyn and Harrison, (1991)] and consequently diminished demand for loans on the international capital markets [Altvater, (1987); and (1993)]. Therefore, costs of loans were rather low and - even more important - easier to negotiate than public loans. Yet borrowers on the private international financial markets countries which followed the path of integration into the world market became highly dependent on changes of the two crucial prices of money: on the *"intertemporal price of money"*, that is the interest rate, and on the *"intercurrency price of money"*, that is the exchange rate. So long as interest rates worldwide were negative in real terms (i.e., nominal interest rates minus OECD inflation rate) debt making was a rather good deal. But the hour of truth came when at the end of the '70s, the international interest rate began to jump to historically unique levels.

The liberalization of the interest rate and the formation of the exchange rates had a double consequence. First, there was loss of control over economic variables by political institutions such as the governments or the central banks of nation states. This was the material background of the neoliberals highly cheered "monetarist counter-revolution" (Milton Friedman); it was nothing less than the *"withering away"* of the old Keynesian and - in the long run - also of the welfare state in the industrialized world. The depth of this historical transformation only becomes clear

today, 20 years after the outbreak of the structural crisis. Therefore, the change of economic paradigms from Keynesianism to neoliberalism was not only due to academic hegemonic battles, but a consequence of real development of the world market. Secondly, the shift increased the degree of dependence of national development on world market tendencies. In the industrialized countries this was not always a negatively valued event, only it was felt dramatically in the case of the first and the second oil shock. But during the '80s, the improvement in the terms of trade for the industrialized countries was accentuated by increased world market dependence. For countries in the developing world, on the contrary, the same process was rather painful. For, this meant first dependence on higher interest rates and secondly on lower commodity prices (in real terms). The world market with its neutral procedures of price formation turned out to be an efficient pressure on governments, firms and whole societies to follow the conditions set up by the world monetary and credit markets. The "hard budget constraint" (Janos Kornai), conceived as a guide line for microeconomic decision makers in monetary economies, proved to be a hard rule for the economies and societies. No wonder then that macroeconomics had consequently been superseded by microeconomics. The system of market rules with its procedural rationality had the great advantage compared with political decision makers that it needs no political legitimation.

The international financial markets since the '70s open a new era of world market development insofar as they establish a unique system of time and space coordinates into the modern world. Because it is possible to flash money from Singapore to New York and from London to the Bahamas, from Rio de Janeiro to Luxemburg in less than a second, the whole world is submitted to the logics of this unique international financial market. At a first glance this statement seems to be rather abstract, but it is less abstract when observing an Indian farmer who has to service a private debt. Its conditions in an open economy are more or less defined by the costs of refinancing on the international monetary market. The time structure of his activities is more defined by supply and demand of international financial flows, than by climatical cycles or by the seasons of the year. You may also go to a gold miner's claim in a remote area of the Brazilian Amazon. They are linked via satellite telephones to the commodity futures market of Chicago in order to immediately have access to fluctuations in the gold price in the "*Garimpo*" for adequate decision making.

Economic activities in the real world depend on the financial world. In the case of Germany, for instance, foreign direct investment in the whole continent of Africa declined from DM 1.4bn in 1984 to DM 660mn in 1991. In the same period foreign direct investment in the Cayman Islands increased from DM 470mn in 1984 to DM 930mn in 1991. The Cayman Islands in the Caribbean with about 25,000 inhabitants concentrate more direct investments on their small ground than the 642 million inhabitants of the whole of the African continent. The reason for this astonishing

relation is simple: The Cayman Islands are an *offshore center* of the international financial market, whereas Africa is increasingly delinked from the financial and consequently also from the commodity flows of the world market. Africa a fantasma in the financial cyberspace ...

Although the pressures of the world market are inscribed into the functional mechanism of the market procedures they find a peculiar institutional emanation: The institutions of Bretton Woods. The International Monetary Fund originally founded in order to regulate a world monetary system step by step, has been transformed into an institution lending support to the world financial markets. When the debt crisis broke out in 1982, fears were realistic that financial institutions such as big private banks would collapse. The consequences for the economies of the industrialized world were imagined in terms of a horror scenario. Thus one of the main tasks of the IMF (as well as of World Bank) became the rescue of private banks in order to stabilize the unstable international financial and monetary system. How did the Bretton Woods institutions perform this new task? First, they had to hold the international banking community together in order to prevent *free rider-* and *bail out*-strategies of individual banks. The IMF became the guaranteeing unit of the rationality of the whole banking system against individual and microeconomic rationality of a single bank. Ironically the persecution of microeconomic rationality led to a new necessity of a regulating macroeconomic (and that is: globally functioning) decision maker. In this respect the international monetary fund took over state functions of an "*ideal general capitalist*" (*ideeller Gesamtkapitalist* as Marx called it). It was not only political pressure exerted by the IMF or the "shake" of the "*visible hand*" of governments of western countries on private banks, but also their economic interest to respect the rules of the new game. Private banks could win via appreciations of outstanding debts by means of giving new loans to indebted countries. In order to save bad loans, the banking system, therefore, had to mobilize new funds and to reschedule non-performing debts. The IMF-controlled mechanism of restructuring foreign debts and the establishment of a "*secondary market*" for foreign debts were the preconditions for private banks not to withdraw from the "debt front". New loans to indebted countries could help improve the debt performance and increase rates of foreign debts on secondary markets.

But in order to make this mechanism work, it was necessary that the IMF and the World Bank develop a complementary strategy vis-a-vis the debtor countries. For them the opposite of the creditor-related measures was adequate: Not to form a creditor-like cooperative conglomerate, but treating each debtor country as a single case in order to prevent any approach to form a common initiative of indebted countries. In the case of rescheduling and restructuring negotiations, each country had to show up in Washington or before the London or Paris Club of concerned creditors. The aim of these negotiations was always very clear. Indebted countries

needed temporary debt relief since partial or full debt-cancellation was out of discussion. Therefore, they needed new credit lines and loans with softer conditions. But very often the condition of new loans were harsher than the old ones due to higher spreads, as creditors' estimates of the loan risk were higher. The creditor club on its own sake needed the self obligation of a determinate debtor country to improve the export performance. The intention always was the restoration of debt servicing capacity. The ingredients of the strategic package comprising creditors as well as debtors frequently have been called the *"Washington consensus"*. In nearly all cases of debt-rescheduling it embraces the same prescriptions: devaluation of the currency, orientation to export increases, reduction of imports, destruction of the old ISI or developmentist social compromise, dismantling of the economic state functions by means of privatization and deregulation, reduction of the fiscal deficit, increase of the discount rate above the international interest level in order to attract capital, etc. The concensus of Washington is in its very essence an austerity package which the indebted countries under the conditionality of the IMF have to follow. "Structural adjustment" to the world market conditions means an increase in the country's capacity to service foreign debts. As it has often been demonstrated and analytically explained, this strategy made the decade after the outbreak of the debt crisis a "lost decade" characterized by declining per capita income in Africa and Latin America, by disinvestment and a growing distance from the fortuning developed countries and therefore a backlash in international competitiveness.

Much more important than the deterioration of macroeconomic variables and of competitiveness is the social decline during the debt crisis. The neoliberal model imposed on indebted countries, may it be by world market pressures or direct interventions from outside, is stimulating social segregation. Parts of the economy and of the social system are included into the neoliberal model, especially those which are efficient and therefore able to follow the pressures of world market competitiveness. Other parts of the economy and of the social system on the contrary, are excluded from the "formal" world market and pressed into the so called *"informal sector"*. Although the definition of informality is not very clear, up to 60 per cent of the national economy of less developed countries does not belong to the formal sector. By negative definition, therefore, broad and even major parts of less developed countries are "informalized".

Pressed by world market forces, especially under the "hard budget constraint" of high positive real interest rates, only the efficient and competitive parts of the economy find their way into the world market structures. The price is very high. Efficiency prerequisites economic, social and political coherence. This may be the result of a long lasting socio-economic process of "diversified quality production" [Streeck, (1991)] and of a social compromise and concensus as well as of successful institution building in the social and political system. But coherence may well result

as the outcome of a process of externalizing all those factors which disturb coherent systematic structures. "Externalization" normally describes the production of social costs, i.e., ecological deterioration beyond the time and space horizon of decision making microeconomic units. But externalization may also include social marginalisation.

Figure 3 shows schematically what world market competition needs for coherent structures and that these may be achieved by means of externalisation of cost components as well as of social sectors which in a mere market sense are "not productive". Externalisation in the social sphere is equivalent to marginalisation. But marginalisation is not good state of affairs to live in. So marginalized people organize their own economic activities and form their model of survival and subsistence. Since this is only possible thanks to the social fantasy and initiative of marginalized people in the "informal sector" it is cheered by neoliberal ideologies

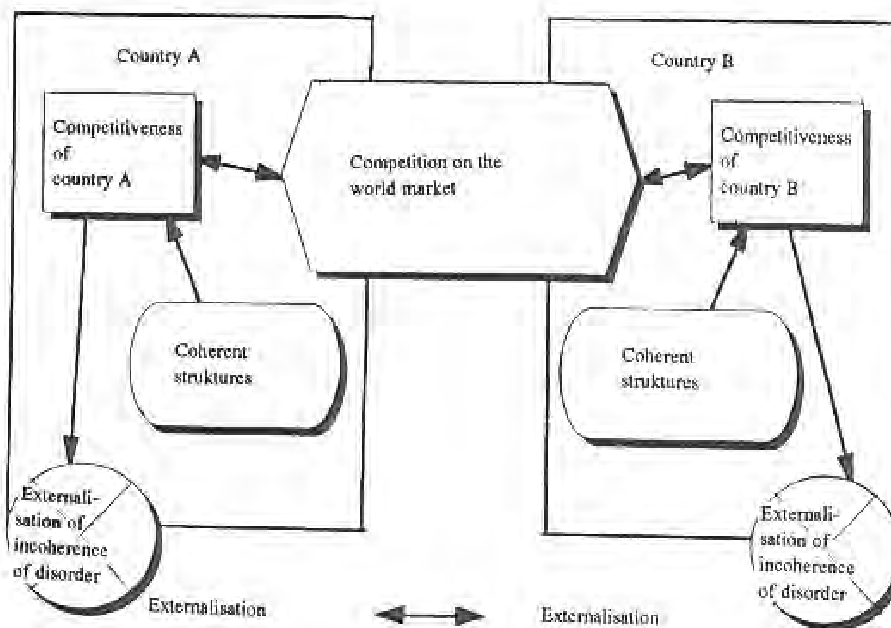

FIGURE 3

World Market Competition, Coherent Structures and Externalisation

who admiringly declare the informal sector to the real market model, the "other path" [DeSoto, (1989)] to an efficient market system and democratic model. But more important than the *elogé* of the informal sector is the articulation of formality and informality in the economy and the society and the interferences between both sectors.

IV. The "Informal Sector" as a Flexibility Reserve under Conditions of a Failed Development Model?

The informal sector in developing countries seems to be the "flexibility reserve" of countries which are highly integrated into the world market, be it by means of exports and imports of commodities or via the international financial system, e.g., due to external indebtedness. The informal sector offers some kind of a "balancing power" which equilibrates the high social and ecological costs of world market integration in the last quarter of the 20th century with the peer benefits derived from the world market. It is a protecting shield of popular classes against the excluding forces of the world market. Of course, the characteristics of informality are quite different in different regions and countries of the world. But although it is very diversified and comprises very different activities of people, it has some common features. These normally are: a low degree of formal social protection by a social welfare system, a low technological level and, therefore, low productivity of labour, high volatility on the labour market and of small and medium firms, high involvement of women and children into the productive process, mostly at much worse conditions, somewhat similar to the modern version of slave work. Very often, informal labour is at the brink of illegal or even criminal activities, such as prostitution, drug trafficking etc. On the other hand, informality of labour is very oftenly a precondition for competitiveness of the formal sector of a developing country which produces for the world market. The informal sector provides "wage goods" at prices which allow low wage costs even in the formal sector, a prerequisite of competitiveness. Without the informal sector the "lost decade" of increasing external debts and falling raw material prices would have been intolerable for most countries of the formerly so-called "Third World". The transfer of inequality in the world today has been partly countervailed by the spread of the informal sector.

The social, economic and even political importance of the informal sector cannot be over emphasized. In quantitative terms it collects up to 60 per cent or even more of the active population in some urban areas of the "*mega-cities*" of the third world. In quantitative terms the informal sector today is much more important than the formal sector. But informality is the child of emergency. It is an expression of non-competitiveness on the world market, of exclusion and not of inclusion into the modern world system. Neoliberal theories provide the justification of inclusion and exclusion since the informal sector normally is the result of a purely private initiative

in a community and not the outcome of public strategies and development programs. Informality fits perfectly into the neoliberal paradigm. It stands for the efficiency of private initiative, of deregulation, of the vitality of market forces and the incapability of government. The main argument of the internationally cheered book of Hernando DeSoto are simply derived from these statements which have all the characteristics of a prejudice since they exclude all the other aspects of a neoliberal system: informality is not the "other path" but an answer on the challenges produced by a highly deregulated world market which functions so as to exclude large parts of society in the so-called "third world" from the formal gratifications of the modern world system.

Therefore, the articulation of formality and informal activities in the developing world describes the state of affairs at the end of the 20th century. On the other hand, all regions of the world market are involved in a "global business cycle", dominated and ruled by the OECD-economies. "Technological globalization" [Chesnais, (1992)] is a feature of the modern world system. Driven by these dominating tendencies all countries and their governments are enforced to keep up with the technological challenges and with the international standards of competitiveness. Improved labour productivity is the message transmitted from New York to Buenos Aires and from Tokyo to Hong Kong and to Calcutta and Karachi. But productivity increases unavoidably produce informality either in the same country where productivity growth takes place because unemployment is not compensated by an expansion of production or in other countries, thanks to the improvement of competitiveness and the down grading of other countries in the international scale of competing economies.

Unemployment and marginalization and, therefore, informalization are built-in tendencies into the dominant strategies of "international systemic" or *"structural competitiveness"* in terms of technological, organizational, and institutional keeping up with the industrialized OECD countries. The concept of systemic competitiveness and active world market integration is quite different from traditional Keynesian effective demand policies and the old structural developmentism, performed by means of state intervention. The strategy of systemic competitiveness on the other hand has little to do with pure monetarist adjustment policies, preferred and imposed on developing countries by the IMF or the World Bank, following the rules of the already mentioned "Consensus of Washington". The new strategy of systemic or structural competitiveness, on the contrary, refers to new findings of the OECD which explicates the systemic character of the so-called *"third factor"* in traditional growth models, a factor which has been called the *"measure of our ignorance"* . To over come this ignorance, many studies have been performed in order to find out the decisive prerequisites for efficient and successful performance in world market competition. The basic idea is that well-known concept of Marshall (1898) of

external economics (positive externalities), such as "*district effects*", "*site effects*" and non-market networks in which firms are integrated. The decisive importance of non-market networks based on reciprocity, proximity, trust, experiences, tacitness, etc., for efficient market transactions are becoming crucial for investigations on competitive systems.

V. Overcoming Backwardness by "Structural Competitiveness"?

It is not possible here to give an overview about the literature on diversified quality production, structural and systemic competitiveness or the "competitive advantage of nations" [Porter, (1990); Eßer et al., (1993)]. Normally the concept is very similar to older models of "growth points" (Perroux) or of the creation of backward and forward linkages (Hirschman). Apparently in the literature on "success stories" in terms of competitiveness on the world market (Terza Italia, Silicon Valley, Jutland, Baden-Wurttemberg, etc.,) these favourite examples and perhaps exceptions are generalized as a possible rule, as theoretical and, therefore, political *norms* which policy makers have to follow. The conversion of special empirical findings into generalized norms only makes sense in combination with an empirical analysis of the economic systems where the political norms of systemic competitiveness and diversified quality production shall be applied.

Systemic competitiveness refers to the economic, political, social and cultural systems of a given society. Following the doctrines of institutional economics, it is quite clear that pure market rules are poor guidelines for rational decisions, since the market is "embedded" [Polanyi, (1978)] in a system of political norms, social institutions, cultural norms and habits, etc. Competitiveness therefore is the result of a complex social network and not only the outcome of microeconomic rational managerialism, as Figure 4 indicates.

The main problem involved in strategies of systemic competitiveness is that they are defined as "outward looking strategies". The basic assumption always is that there is a national state which is capable enough to establish, perform and control outward looking strategies. This may be so with strong and potent countries on the world market. But does it hold in the case of weak countries that are dependent on the world market? Is it possible to create a favourable economic environment in externally indebted countries or in economies dependent on raw material exports? Is "diversified quality production" a realistic scenario with interest rates, formed on the financial market of London, and raw material prices, formed at the stock market in Chicago? Obviously there are economic limits to international competitiveness which can only be overcome by a prudent sequencing of economic measures. This is the theme of IMF adjustment measures which in most cases proved to be not very successful judged at the norms of a competitive system.

Beyond the obvious economic limits to competitiveness there are social limits since competitive advantages of nations are comparative. Competitiveness is a "positional good" [Hirsch, (1980)] and therefore not all nations may be as successful as the others. Of course, the world market has many "*nisches*" to be discovered by the most active and clever nations or firms. Also the Ricardian theorem of comparative cost advantages may be used as an argument for the principal possibility of all competitors to realize welfare gains by participating in world trade. But it also true that competitive advantages occur in a zero sum game so that the gains and improvements of one are losses of the other. It is well known from Harrod's, (1958), and Hirsch's, (1980) analysis that social limits to growth constitute market limits, so that there exist even on the world market not easily surmountable limits to micro-economic rationality and the whole market system which is based on its assumptions.

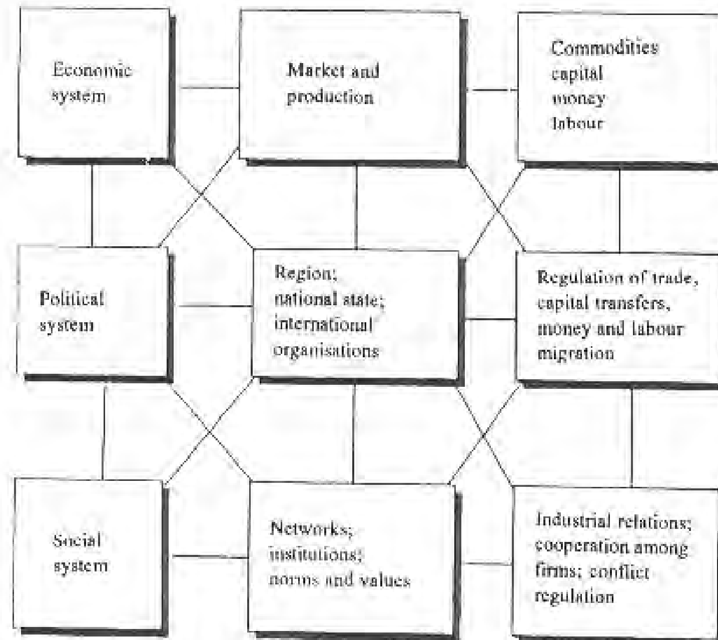

FIGURE 4

The Network of Systemic Competitiveness

Beyond their social limits some goods are losing their value so that competition only results in an optimal distribution on this side of the social limits. On the other side of the social limits, normal goods change their character and become, as Harrod calls them: "*oligarchical goods*" . A convincing example of oligarchical goods is the automobile which can only be used by a certain part of mankind due to the restricted carrying capacity of the planet earth. Although competition on the world car market is increasing, and new plants are established; all over the world, the extension of production and demand for cars is limited due to social and ecological factors thus posing economic restrictions.

In the short run, more important, however, is the equalising tendency inscribed into the competitive mechanism. Products are becoming more and more equal on the world market so that it is difficult today to distinguish between a German, a French, an Italian, an American, a Japanese or a Korean vehicle. The standarisation of McDonalds' "big mac" all over the world make economists substitute complicated purchasing power parity indices by a simple "big mac index" which reflects more exactly the purchasing power of different currencies than a complex basket of available commodities. Competition with standardized products enforces competition with production costs and, there, with the efficiency of production processes. Those are the most competitive producers on the world market who succeed in combining the most advanced technological level with organizational competence and stable and efficient social networks and the lowest wage level possible. Since interest rates and, therefore, capital costs are internationally set as data for economic policy makers and firm managers, the basic variable in an international competitive environment are *wage rates* provided that the international technological level is observed.

Outward looking strategies of systemic competitiveness, therefore, set up a specific interdependent system of globality, regionalism and the nation state. Interest rates are formed on global financial markets unless convertibility of currency and freedom of capital transfers are not renounced. But the cosmopolitan principle of globally free trade laid down in the principles of the GATT and perfected by GATT rounds since the late '40s has been challenged by the formation of regional trading blocks beginning with the European Community in the late '50s and continued by the foundation of NAFTA or the intensification of economic relations in the pacific rim. Not to speak about regional trade blocks of minor importance in Latin America, Africa or in parts of Asia. Regional trade blocks originally should create new trade and not divert trade flows from other parts of the world economy. But today trade blocks are some kind of an intermediate instance between the global market and the nation state. Competition on the global market is a *cannibalistic principle:* the stronger consume the weaker ones. Only protection helps such as List (1841) more than 150 years ago claimed against the cosmopolitanism of the principle of

comparative cost advantages of classical political economy in Great Britain. But whereas Friedrich List developed is idea for "national economies" guided and controlled by the nation state, the modern nation state is too weak, its reach is too restricted as to allow for the political requirements of an active outward looking strategy. Therefore, trading blocks today are so "charming" and some kind of a joke in the global competition game. Whether trade blocks can help in keeping up with the competitors and support strategies of diversified quality production, however, is not definite. *It depends not in the least on the policy performance of the nation state.* Here we have to deal again with all those elements laid down in normative theories of systemic competitiveness. The term "outward looking strategy" is *camouflage* since it insinuates a capacity of political and economic decision makers and social actors as to build up competitive economic and social structures. But the world market on the national level is present with its prices of commodities and of money (interest rate) so that the political space for decision making is more restricted than assumed in theories of structural competitiveness. Under the rule of the hard budget constraint the choice of alternatives if as restricted as the possible time horizon.

The conclusion of these deliberations is rather sober down: The discussed five development strategies to reach the goal of *westernization* are bound to specific historical situations, such as ISI to the break down of the world market, developmentism to the Keynesian paradigm, late industrialisation by means of the working of the *"debt cycle"* to the structural crisis and the liberalisation of international capital markets of the '70s, neoliberal structural adjustment policies (consensus of Washington) to the debt crisis, the informalisation of great parts of the economy and global externalisation strategies. Also the most recent strategies of creating outward looking systemic competitiveness are bound to historical limits, to social and ecological limits in this case. A remake of import substituting industrializaton (ISI) at the end of the 20th century is not possible. The old developmentism (desarrollismo) of the early CEPAL today offers no way out of the economic stalemate in the developing world, because the main policy variable, the interest rate, is not controlled by the "developmentist" nation state. The application of neoliberal adjustment programs ("consensus of Washington") has led to an economic and social separation of societies (if not Apartheid) between included sectors into the formal world market structure and excluded, marginalized sectors which form the growing informal economy. But informalization is no solution for the problems produced by the world market crisis and imposed especially on countries of the so-called third world. Outward looking strategies of systemic competitiveness on their part promise to extend the room of manoeuvre of public governments and private firms. But it is not sure that these strategies prove to be successful since there are not only economic but also social and ecological limits to growth and competitiveness in the world at the end of the 20th century. Therefore, the "old" debate on a new

international economic order has to be resumed in order to find solutions for the economic, social and political crisis not in competition between states and regions but in a cooperative manner on a world wide scale.

The Free University
Berlin, Germany

References

Altvater, E., 1987, Sachzwang weltmarkt, Verschuldungskrise, blockierte industrialisierung, Okologische gefahrdung-der Fall Brasilien, VSA Hamburg.

Altvater, E., 1993, Der preis des wohlstands, Umweltplunderung in der neue welt(un)ordnung, Westfalisches Dampfboot, Munster.

Altvater, E., 1993, The future of the market , An essay on the regulation of money and nature after the collapse of 'actually existing socialism, (Verso) London: New York (German original 1991).

Armstrong, Ph., A. Glyn, and J. Harrison, 1991, Capitalism since 1945, Oxford.

Chesnais, F., 1986, Science, technology and competitiveness, in: ST., Review, No.1, Paris: OECD.

DeSoto, H., 1989, The other path: The invisible revolution in the Third World, New York, etc.

Dornbusch, R., St. Marcus, 1991, ed: International money and debt, Challenges for the world economy, San Francisco: ICS Press.

Eßer, Hillebarnd, Messner, and Meyer-Stamer, 1993, Neue determinanten internationaler wettbewerbsfahigkeit, Erfahrungen aus lateinamerika und ostasien, Berlin: Deutsches Institut fur Entwicklungspolitik.

Gerschenkron, A., 1962, Historical backwardness in perspective: A book of essays, Cambridge: Harvard University Press.

Griffin, K., A.R. Khan, 1992, Globalisation and the developing world: An essay on the international dimensions of development in the post-cold war era, New York: Human Development Report Office, Occasional Papers.

Harrod, R., 1958, The possibility of economic satiety - se of economic growth for improving the quality of education and leisure, in: Problems of United States economic development, New York: Committee for Economic Development, 1: 207-213.

Hirsch, F., 1980, Die soziale grenzen deswachstums, Eine okonomische analyse der wachstumskrise , Reinbek.

Kindleberger, Ch. P., 1986, The world in depression, 1929-39. Los Angeles:

University of California Press, Berkeley.

List, F., 1841, Das naturliche system der politische okonomie, Repr. Berlin, 1982.

Maddison, A., 1989, The world economy in the 20th century, Paris: OECD.

Marglin, St., J. Schor, 1990, ed: The golden age of capitalism, Oxford.

Marshall, A., 1898, Principle of economics, London: Repr. 1964.

Menzel, U., 1993, Virtuelle transfers ersetzen reale beziehungen, in: Frankfurter Rundschau.

Polanyi, K., 1978, The great transformation, Politische und okonomische ursprunge von gesellschaften und wirtschaftssystemen, Suhrkamp, Frankfurt a.M.

Porter, M.E., 1990, The competitive advantage of nations, New York.

Streeck, W. 1991, On the institutional conditions of diversified quality production, in: E. Malzner, W. Streeck, ed: Beyond Keynesianism, The socio-economics of production and full employment, Aldershot.

Thorp, M., 1984, ed: Latin America in the 1930s, Oxford.