The Myths of the Market and the Common History of Late Developers

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INTRODUCTION: MARKET AS TELEOLOGY IN THE 1990S

The pervasive role of the state in developing countries is a truism: indeed, development economics was founded on the belief that the peculiar nature of market failures in late developers portended a large role for the state.¹ In Gerschenkron’s formulation, the entrepreneurial classes of late developers lacked the requisite investment capital and skills to compete with their more advanced international rivals. Government intervention in planning, financing, and managing industrialization was a special institutional response to economic backwardness.²

The overall consensus on the necessary (and positive) role of the government in LDCs (late developing countries) in promoting growth and equity came under attack in the 1980s.³ In the contemporary critique of etatisme, economic stagnation and chaos are viewed as by-products of an intrusive, excessively bureaucratized state that upholds monopolies, prevents competition, and delib-

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erately creates and profits from shortages and bottlenecks. If in the past it was
difficult to reconcile the image of a strong and powerful government with
conditions in the developing world, where informal markets, ill-defined property
rights, shortages, and weak sectoral links are the norm, this dissonance has now
been laid to rest. Citing failures of most planning and etatiste experiments, the
new orthodoxy in development economics emphasizes the importance of “state
shrinking,” liberalization, and “the market” in overcoming economic crises and
fostering long-term growth.4

At first glance, policy changes in developing countries appear to vindicate the
new orthodoxy. The economic recession of the 1980s triggered economic liberal­
alization and privatization programs in most developing countries, fueling the
popular view that capitalism and democracy have been globally recognized as the
tonic for underdevelopment. Yet the new orthodoxy fails to explain the severe
difficulties confronting almost all economic liberalization programs.5 It furnishes
few clues to understanding the texture of crises in the Third World or in the
command economies of Eastern Europe and the successor states of the Soviet
Union.6

The reification of “the market” as a neutral and natural institution, apolitical
and ahistorical—as an end in itself rather than a means to promote social and
individual welfare—has become common in academic and policy circles. The
emerging revisionist history of the developing world presents a remarkably
simplified and flawed view of why governments in late developers intervened in
their economies to begin with, as much as it distorts the sources of current
liberalization programs.

The conceptual and factual flaws of the neoliberal position have been explored
in the literature on the dismantling of the welfare state, and they have drawn public
comment from political leaders and financiers.7 Yet they have not been adequately
scrutinized by scholars and practitioners specializing in the developing world. Of
course critiques of etatisme—whether in its Keynesian, socialist, or developmen­
talist permutations—are nothing new:8 development economists have long rec­
ognized the problematic nature of state intervention in the developing world. The
paradigm that gained currency in the mid-1980s, however, diverged radically
from the debates that had been central to the political economy of development.
Longstanding questions about how to reconcile the twin goals of growth and
equity were replaced with the spartan certainties of monetarist economics.9

Trickle-down theories long discredited in development economics were held out
as the answer to distributional dilemmas, and crude modernization theory was
resuscitated to forecast the ultimate convergence of economic and political
systems across the globe.10 The politics of economic organization were explicitly
removed from the agenda11 and replaced with formulas that upheld price liberal­
ization, “speed,” and “thoroughness” as the exclusive determinants of successful
reform.12
This essay critically examines key aspects of the new orthodoxy in development economics. It focuses on two points. First, the neoliberal-liberal construct rests on an abstract, stylized view of what market economies are and where they come from. As a result, it cannot answer the critical question of why late developers failed to create functioning national markets to begin with. I argue that it was often the institutional weakness of the state and its aborted attempts to create unified national markets that led to the interventionist regimes so roundly condemned by the neoliberals. At base, government ownership is more often a response to the administrative weakness of the state in developing countries rather than a reaction to the private sector's inability to provide the skills and capital necessary for bulky investments.

In contrast to the neoliberal ascendancy, which discounts the central role of the state in creating markets, I argue that state and market building are mutually dependent and potentially conflictual processes, shaped by historically constituted domestic and international factors. The difficulties encountered by late developers in constructing effective national legal and regulatory institutions suggest that economic liberalization alone will not produce the efficient market systems held out by neoliberal reformers.¹³

Neoliberals disregard the political nature of the institutions that undergird market economies.¹⁴ Markets are conscious constructs—in the same vein that command economies are deliberate arrangements—in that they are based, by design or default, on political principles (who gets what, why, and how)¹⁵ and on choices of how individual resources, rights, aspirations, and possibilities are reconciled with collective ones. The assumption that markets are "neutral" and "natural" obscures the political choices that are embedded in the institutions that govern the market.¹⁶ Regulatory and extractive institutions embody the political and economic interests of dominant coalitions; they reflect the outcome of wrenching political conflicts. In the construction of market economies, tensions between unreconcilable private and collective interests need to be recognized, evaluated, and woven into underlying principles about the goals of development.¹⁷ Explicit political struggles and political choices underlie the legal and regulatory institutions that define the way that markets work. The neoliberal-liberal tendency has been to reduce the politics of market reform to "political will." To prescribe "the market" as a panacea for late developers is to neglect political choices left unmade by the decision to have a "market economy." Even a cursory review of established market economies shows that they can embody a dizzying variety of incentives for labor, capital, and consumers that represent the outcome of political struggles.

Second, the new orthodoxy in development economics neglects the role of changes in the international economy in both fostering the shift away from etatisme and in circumscribing the realm of national economic policy in late developers. The neoliberal account of why economic liberalism has gained a near
universal following in LDCs has strong evolutionary undertones emphasizing the pivotal role of the demonstration effect, economic stagnation, the emergence of a “competent bourgeoisie,” and “learning.” Recognizing the importance of changes in international financial markets in fostering economic liberalization highlights unique aspects of both the domestic and international context in which late developers are trying to construct national market economies. Prior links to the international economy influenced the structure and functions of the state in late developers, with important implications for their ability to manage a market economy. Access to large volumes of international capital flows in the 1970s enhanced the absolute level of state intervention in LDCs, but it undermined those specific institutions that would become critical to creating market economies in the 1980s. These funds enhanced the economic role of the state as producer and creditor, but weakened the very institutional and political capacities necessary for creating functioning market economies.

Moreover, the neoliberal perspective does not account for the special obstacles facing late developers in trying to create market economies in a period of growing international economic interdependence. Contemporary efforts to construct market economies are in some ways uniquely difficult, for the “market” that late, late developers are “transiting” to is a truly global one, in which capital is highly mobile. Even advanced industrial states with entrenched regulatory bureaucracies can no longer pursue policies that assume national markets are separated from international economic forces. In late developers where the process of displacing domestic barriers to the construction of national markets is incomplete, internationalization virtually forecloses the possibility of constructing effective regulatory institutions to govern a national market economy. Opening up to international economic forces under conditions of arrested nation building and institutional stagnation creates a much more complex set of contingencies than those recognized by the neoliberals. Rather than the formulaic outcomes anticipated by neoliberal reformers, liberalizing countries will carry the dual imprint of the international economic context in which reforms were undertaken and the confluence of domestic institutional and political factors that marked the initiation of liberalization policies.

In the first part of this essay, I examine domestic barriers to the construction of national market economies. I explore the particular conditions under which etatiste solutions emerged in late developers, stressing the role institutional and administrative failures and political conflicts in generating etatiste outcomes. Building on this discussion I then show how changes in the global economy in both the 1970s and the 1980s have influenced efforts to construct national market economies. I emphasize the special challenges faced by deeply divided late developers in trying to construct national market economies at a time when global economic forces are exerting centrifugal pressures on national regulatory institutions even in established market economies. The twin pressures of reconstructing
domestic regulatory and extractive institutions, on the one hand, and forestalling political opposition to reforms, on the other, are generating a dangerous cycle of juridical, economic, and political fragmentation that is very unlikely to produce the efficient market economies promised by neoliberal reformers.

II. INTERNAL PROCESSES: THE FAILURE OF REGULATORY INSTITUTIONS AND ETATISME IN LATE DEVELOPERS

It is perhaps necessary to begin by restating the most basic tenet of the institutional economists: functioning national markets cannot exist without legal, administrative, and regulatory institutions maintained by the state. Self-regulating labor and commodity markets do not automatically emerge in the absence of state action. Instead, they are conscious institutional constructs rooted in historical trajectories and based on evolving political choices. To create competitive markets, it is not enough to smash the state bureaucracy that owns, controls, or regulates goods and services; rather, the instruments of the state must be redeployed to perform the much more difficult task of indirect regulation and administration. Commonly recognized in the literature on regulation in advanced countries, this point has somehow escaped the notice of the current advocates of the free market in the Third World.

Furthermore, the absence of state regulation results not in unbridled competition—the uncertainties of this condition are unacceptable to entrepreneurs themselves—but rather in collaborative agreements among producers that either provide informal rules to govern competition or directly create monopolistic conglomerates. Unregulated markets develop their own form of organization to stem uncertainty and introduce some level of predictability into commercial transactions. In the absence of state regulation, these agreements evolve into pacts that neglect the consumer and reflect only the preferences of merchants and entrepreneurs.

The unregulated market, in short, does regulate itself—but not in the ways that the neoliberals predict. Adam Smith, the political economist, recognized this. It is another thing altogether that he rightly recoiled from the blunt solution that occurred to him at the time:

People of the same trade seldom meet together for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings by any law which either could be executed, or would be consistent with liberty and justice.

The minimal role of government in protecting collectively held resources (like air), defining the institutional context within which labor and business bargain, protecting consumers, and preventing the emergence of monopolies is accepted by the more sophisticated defenders of free market economies. Recent research has shown that, rather than reflecting the interpretive and political preferences of
theorists, the pervasiveness of the state in LDCs coexists with regulatory and administrative capacities of a specific, narrow character. Governments in the developing world rarely possess the qualities associated with Adam Smith's "watchman state" and often do not even command a monopoly on the legitimate use of violence. Thus, although most developing countries are directly involved in production and distribution, their capacities to regulate, define, and enforce property rights, dispense law, tax, and collect information are strictly circumscribed or nonexistent. To make the transition to a market economy successfully, these capacities become absolutely necessary. Understanding how these capacities evolve or fail to evolve is crucial to understanding both initial patterns of government intervention in the economy and the current crisis in the Third World as well as in the command economies of Eastern Europe, the former Soviet Union, and China, where attempts to liberalize the national economy have either repeatedly failed or created chaos.

Examining the way that this process unfolded in England and continental Europe on the eve of the Industrial Revolution highlights the role of political authority in creating markets. Historically, the state has had an interest in creating national markets to reduce transaction costs, free up surplus, and literally create a tax base in the emerging urban economy. Earlier, through mercantilist policies, the state protected domestic accumulation of capital. In the experience of the first developers, property rights, guaranteed by law and enforced through the courts and the police, were traded for revenue in agreements that became embedded in the constitutional pact. At various times, different social and economic groups opposed or supported regulations designed to create competition and enforce pricing mechanisms. Indeed, once domestic markets have expanded beyond the "transparent" transactions described by Braudel, producers and capitalists themselves develop an avid interest in regulation providing stability, predictability, and standardization and facilitating information sharing and investment.

The first regulation against unregulated market forces came, not surprisingly, in the labor markets on the eve of the Industrial Revolution. As Polanyi has argued, in contrast to both long-distance trade and the early version of the putting-out system, both of which thrived in the context of restrictive urban guilds and structural barriers to labor mobility and migration, the creation of national markets required the removal of such obstacles through the legislative acts of the state.

In Europe, this was a long and drawn out process, which was manifested in the destruction of the guild system, the erosion of the privileges of the nobility, the termination of barriers to rural-urban migration, and the displacement of rural labor. Substantial variation existed in different cases, depending on the organizational characteristics of business in the precapitalist era. Contrast, for example, the relatively smooth transition in eighteenth-century England, where guilds were
weak, with the enormous barriers to the expansion of domestic markets into the hinterland of France and Italy, where highly organized urban guilds forestalled this development through sanctions and barriers to entry enforced by the city administration. 33

Recognizing that there was nothing “natural” or automatic about the rise of the market mechanism in early developers, where the expansion of the central state coincided with the creation of national markets, pushes us to reexamine the conventional account of the role of the state in the Third World economies from a different angle that stresses the social and political rigidities that governments must overcome to forge national markets. Perhaps wishfully imagining that these capacities exist in LDCs, economists have paid scant attention to the process by which precapitalist monopolies, such as guilds, merchant associations, and agricultural monopolies, are eroded or to the particularly difficult process of regulating and undercutting monopolies and monopsonies upheld through partnerships between foreign companies and local businessmen. Although economists recognize that over time, national markets tend to generate monopolies and create systematic social inequalities, they neglect completely the role of state institutions in breaking down precapitalist arrangements that thwart the initial expansion of competitive market forces. Rather than being relegated to economic history, these themes should be the focus of any economist working on the political economy of late developers.

In the development economics tradition, the assumption underlying both the statist and the laissez-faire perspective was that a functioning market existed as a ready alternative to state-directed or state-owned industrialization programs. 34 The less sophisticated supporters of the neoliberal orthodoxy, in particular, embrace the view that markets exist in an administrative, social, and institutional vacuum. 35 Hobbled by corrupt bureaucracies, the argument goes, markets are prevented from performing their effortless miracles in efficient allocation. Take out the disingenuous and stifling state, through deregulation, divestiture, liberalization, and privatization, and “market forces” will emerge full blown to replace it. Unfortunately, some variant of this assumption is shared by the classical school of development economics. The notion that direct state participation in the economy is a special burden for developing countries not only assumes that markets, with all their legal, regulatory, and administrative characteristics, exist but also that state control is administratively more difficult than the alternative of creating and regulating national markets. But is this true?

Historical accounts of etatisme in late developers suggest the opposite. There is evidence that under conditions of administrative weakness it is harder to create and regulate functioning national markets in goods, labor, and finance than it is for government to manage the bulk of production itself. At a practical level, creating and regulating markets requires myriad financial, legal, and civil institutions, with stable and firm long-term commitments to regulate the actions of
producers, importers, and labor, enforce contracts, and ensure the free exchange of information among economic groups. Market relations based on competition for profits and prices are inherently conflictual, involving shifting interests among producers, importers, labor, consumers, and the government. To create and regulate markets, the government must, at a minimum, provide the legal context within which disputes between competing actors are resolved. The state must also ensure that groups capable of sabotaging the expansion of markets are not bypassed in the bargaining process. To sustain itself in this role, the government itself must become a primary repository of information on the private sector. This information need not underpin a unitary and moribund vision of the future that eclipses individual initiative, as Hayek suggested. On the contrary, it enables the central authority to tax and regulate and to supply entrepreneurs with information that reduces uncertainty, cuts transaction costs, and secures private sector confidence in making investment decisions. In short, the state's information reservoir reduces transaction costs for private actors at the same time that it equips political authorities with the tools to provide incentives and disincentives for economic actors in concert with collective social goals.

In cases where the government becomes the primary employer and producer and assumes the role of setting prices, its task is simplified to monitoring the activities of corporations and agencies that it owns and manages. Direct state participation in the economies of developing countries serves as an administrative shortcut. At a purely administrative level, the involvement of the state as a producer, direct employer, and lender in countries lacking a regulatory infrastructure is simpler than, and thus preferable to, the much more elusive alternative of creating and regulating a market economy. Thus it is not surprising to find that major attempts to reform the private sector in developing countries end with nationalization. The most intrusive economic policies of late developers often grow out of these failures to create acceptably functioning markets, signaling the administrative ineffectiveness of regulatory and extractive institutions in late developers.

Even in cases where explicit ideological objections to private property and capitalism were strong, nationalization, collectivization, and outright confiscation were responses to administrative and regulatory failures. Episodes of the socialist experiment in the Peoples' Republic of China and the former Soviet Union illustrate this point with some forcefulness. Although it is not conventional to include them in the category of late, late developers, these two cases were chosen for detailed discussion for a number of important reasons. They represent the quintessential "strong state" command economy model. Unlike most late, late developers, where socialist or capitalist ideology had little to do with the extent of state intervention in the economy, there were clear ideological reasons for the Bolsheviks and the Communists to eliminate private property and market relations. Certainly, coming out of mass social revolutions, they had a clear mandate.
to do so. Yet, as we shall see, the state in both cases tried and failed to create functioning national markets and only then took the decision to nationalize all economic sectors.

The case of the Soviet Union during the later stages of the New Economic Policy (NEP) is a particularly instructive one. Immediately after the revolution, deep ambiguities emerged in the position of the leadership concerning the role of private property. In summer 1917, Lenin, at least, was convinced that socialism was not an immediate possibility in the Soviet Union. The problem, as he saw it, was to create a unified national market and to prevent capitalists from sabotaging the revolution by using their power, money, and organization against it.40 This goal was to be achieved through administrative means. Lenin fully recognized that the distributional aims of the revolutionary regime could be met in a number of different ways and early on advocated taxation over confiscation: “Confiscation alone leads nowhere, as it does not contain the element of organization, of accounting for proper distribution. Instead of confiscation, we could easily impose a fair tax.”41 War Communism (1918-21) was a response to the immediate threat of mass starvation and the uncertainties of a completely dysfunctional market, the hallmarks of which were inflation, profiteering, and hoarding. Under these desperate conditions, private trade and speculation were forbidden for practical reasons: markets do not work in conditions of absolute scarcity. It is now widely recognized that War Communism, abandoned in 1921 for the market-oriented NEP, was neither a peculiarly Soviet phenomenon nor a conscious step to nationalize industry and agriculture as a prelude to eliminating private property.

NEP’s restoration of market relations conceded agriculture to private producers and almost immediately confronted the Bolsheviks with problems of regulation. Wherever the truth lies in the scholarly debates on the collectivization of Soviet agriculture, there is ample evidence that the politically unbearable wide price differentials, hoarding, and shortages that became commonplace during the NEP years were the result of an inability to cope with these regulatory tasks.42 Initial regulatory failures generated increasingly rash attempts to control prices, which only fueled the black markets and kindled consumer discontent.43 The point is that economic policy flowed willy-nilly from the desperate need to achieve practical and political goals, not from some overarching ideological blueprint.44 There were many ways to achieve the distributional goals of the new revolutionary state, and it would be difficult to attribute actual trends to the grand designs of the leadership of the Soviet Union between 1917 and 1926. It was only after failing to solve the problems of a fragmented and unregulated national economy through regulation that the government began to take over wholesale and retail trade. To be sure, the “great push” for industrialization and the search for sources of capital were important in ending NEP, but these alternative ways of constructing a functioning economy were only explored after NEP itself had failed. The immediate problem was supplying urban consumers, that is living up to the
revolutionary pact. The rural and urban bourgeoisie that emerged from the NEP period was seen as a political threat not because it was "weak" but precisely because it was beyond administrative control and repeatedly threatened to undermine the redistributive aims of the state.

Terror was the last resort of an administratively dysfunctional and politically desperate state. The decision to end NEP embodied a particular choice between individual and collective utilities, between short- and long-term visions of the political economy after it became clear that NEP could not provide a viable solution to the fundamental disequilibrium between the urban and rural sectors. There is little evidence that collectivization and nationalization, incremental as both were, represented an end in themselves to the Soviet leadership. Had the administrative and organizational means been available, it is not at all clear that other means would not have been used; certainly, they were openly discussed.

If the Soviet case opens a crack in the edifice of the conventional view of state intervention in socialist countries, the Chinese case threatens to topple it entirely. The inflation of the 1940s had been critical in discrediting the Nationalists and the fear of a dysfunctioning market was the centerpiece of the Communists' demon-riddled imagination as the foremost political problem they faced upon assuming power. The Nationalists had already seized large industries, most of which had been foreign-owned, with the result that 67% of industrial capital was already under state control. Since the "commanding heights" fell to them when they assumed power, insight into the economic vision of the Communists can be gleaned by examining their policy toward the rest of the private sector. To do this is to recognize that the problems that the Communists confronted between 1949 and 1953, when a free market operated in the countryside, were rooted in the administrative weakness of the state. At the time, China lacked a unified market; even the most basic infrastructure of a unified market, such as uniform weights and measures, did not exist. Merchants took advantage of shortages and made concerted efforts to subvert the new regime through direct sabotage, spying, fraud, and artificially induced inflation. Vacillating between the need to centralize and a deep distrust of overcentralization, the state responded brutally in 1952 with the wu-san (five anti) movement against the bourgeoisie in which 450,000 businessmen were investigated for bribery, tax evasion, fraud, theft, and hoarding. The san-fan (three anti) campaign severed links between the merchants and bureaucrats by punishing government officials for corruption and collaboration. The real clamp-down on the rural private sector came in 1953, and in 1954 the "Directive on Strengthening Market Control and the Transformation of Private Merchants" was issued, with mixed results. Finally, in December 1955, failures to control prices and consumer discontent pushed the state to form state monopolies for grains and to close all private wholesale firms. Even in the urban areas the state's inability to regulate and control private merchants led to new laws that fixed the retail areas and forced joint accounting upon merchants with the hope that
concentration would simplify administrative and regulatory burdens. Such concentration has its parallels in capitalist economies, where large firms facilitate rent gathering. Indeed, policy during this whole era was an attempt to transform the structure of the private sector for regulatory and extractive purposes. According to the leadership, “Such plans facilitated an increased accumulation of wealth for the state, as the state could then draw more taxes from the firms.”

The argument here is not that state control of the “commanding heights” of the economy in China and the USSR was a topic of debate and vacillation but that the confiscation of light industry, wholesale trade, retailing, and rural markets was an incremental affair, born of the state’s inability to create and regulate national markets. The resulting failure to achieve the distributional and social aims to which the revolutionary regimes were committed drew governments into the intrusive policies now so vehemently condemned by the neoliberals.

III. INTERNAL PROCESSES: THE CONFLICTING GOALS OF STATE BUILDING AND CAPITALIST GROWTH

Conflicts between private sector elites capable of evading regulation and administratively weak governments are even more apparent in late, late developers with heterogeneous divided societies. In these countries, many of which came into being through decolonization or global military conflicts, the aim of creating national markets often clashed directly with the pressing goal of national integration. Although contemporary accounts of failed attempts to liberalize because of opposition from consumers and labor abound, the assumptions embraced by economists kept them from appreciating the interest that political and economic elites may have in forestalling the creation of functioning national markets. Creating markets is politically dangerous. Functioning markets provide opportunity and mobility that undercut lineage and traditional rights of privilege and threaten the position of elites in developing societies. Markets create inequalities in wealth that may not match existing patterns of income distribution, status, power, and entitlements. Markets dislocate groups in both the political and the economic realm.

In many countries, due to a variety of historical circumstances, the private sector on the eve of independence was dominated by an ethnic, sectarian, or regional group different from those that controlled political power. In these cases, the most intrusive policies of the state were aimed not at supplementing private capital to promote international competitiveness but at creating a national bourgeoisie that would support the state if not mirror the ethnic, religious, sectarian, and tribal characteristics of the new political and military leadership. The “weak bourgeoisie” hypothesis, which codifies the idea that the state was a substitute for an underdeveloped capitalist class, obscures the extent to which the promotion of the old bourgeoisie often conflicted with the broader and more pressing political goals of state building and national integration in late developers.
In cases where a substantial private sector existed, the political motives for nationalization were strong not just because the old commercial classes often achieved their dominance under colonial tutelage but also because these classes opposed the new and highly unstable political leadership by bringing their economic resources to bear on the incumbency of fragile regimes in the post-independence period. Across East Africa, the Middle East, South Asia, and parts of East and Southeast Asia, highly insular commercial communities used primordial ties to thwart the state's attempts to create competitive national markets, infiltrate illegal markets, tax, and undercut precapitalist or foreign monopolies. The governments of many developing countries confronted the task of creating domestic markets in commodities and labor at short notice, immediately following the abrupt withdrawal of colonial powers and with the explicit intent of replacing trade with domestic manufactured goods. Evidence from cases as
diverse as India, Pakistan, Iraq, and Egypt suggests that governments in late developers became directly involved in the economy by nationalizing foreign and domestic assets and financial institutions after long and frustrating failures to tax, redistribute, and regulate the behavior of private actors following decolonization or during the systemic crises of the 1930s and World War II. These exogenous shocks mark the juncture at which the policies most harshly criticized by the economic liberals were initiated. Through trade and exchange rate regimes, relationships to the international economy were defined with the explicit goal of creating an integrated, self-sufficient national economy.

Later the populist agendas of the Nasser, the Bhuttos, and the Qasims demanded redistribution and regulation of wages and prices, which, in theory, could have been effected with a strong regulatory and administrative apparatus by taxing and regulating private industry, commerce, and agriculture without directly taking over productive assets. In many cases, nationalization and direct controls on the private sector can best be explained not by private sector weakness but by the inordinate strength and cohesion of private elites and their ability to thwart the government's regulatory policies. The import substitution programs adopted by most developing countries in the 1950s and 1960s involved the state in directly planning and controlling domestic investment, prices, and so on. Unlike export-led industrialization, import substitution programs do not require governments to hold down domestic wages. Regimes with weak domestic legitimacy often designed elaborate redistributive policies based on directly controlling the means of production and fixing wages. Similarly, prices for basic necessities were often directly controlled through state ownership. Import substitution required highly intrusive regulation that enabled weak administrative apparatuses to manipulate the economy directly but constrained the ability of business to respond quickly to new opportunities. These systems of licensing, preferential finance, and price manipulation became perverted over time as the instruments of economic control were increasingly used to serve the political ends of incumbent regimes.

To summarize, the dirigisme of late developers is best understood as a response to twin crises—one administrative, the other political—encountered at the initial stages of creating a unified national economy. The administrative and institutional weakness of state bureaucracies generated solutions that substituted production, distribution, and redistribution for the more difficult task of extraction and regulation. Unable to erode subnational barriers, construct national financial institutions, dislodge oligopolistic groups, and create a uniform legal system, the government entered directly into the economy. The second kind of crisis was largely a political one, involving conflict between the goals of state building and capitalist growth. In divided societies with foreign or minority bourgeoisie, the goal of capitalist growth conflicted with the broader postindependence mandate of guaranteeing popular welfare, incorporating newly enfranchised groups into
the political economy or living up to revolutionary pacts. In practice, these tensions translated into efforts to create a national bourgeoisie that would support the new political leadership in collaboration with the bureaucracy. In political terms, creating a unified national economy meant eliminating the political and economic strength of the old capitalist classes, many of which either did not support new political elites or belonged to regional, sectarian, tribal, or racial minorities. Political leaders equipped with administratively weak bureaucracies revised existing property rights by directly appropriating private holdings. The starkness of these “solutions” and the violence that often accompanied them accurately reflected the political and administrative weakness of the leadership and the bureaucracy. For, having lost the political battle to craft effective institutions to create and govern a national economy, the governments of many late developers substituted direct production and distribution for bureaucracies that taxed, regulated, and dispensed law.

IV. NATIONAL MARKETS AND JUNCTURES IN THE INTERNATIONAL ECONOMY

The complex interplay of political and administrative prerogatives sketched above focused on the special domestic obstacles to the creation of national market economies in late developers. To appreciate fully the texture of the difficulties confronting current attempts to construct market economies, it is necessary to recognize the special characteristics of the international context in which they are being undertaken. For, just as the creation of national market economies requires the erosion of subnational barriers and the construction of national institutions with singular jurisdiction over a territory, it also requires a level of insulation from international economic forces. As Richard Cooper observed more than two decades ago, the pursuit of national economic policies requires markets fragmented at the national border. National market economies are territorially based institutional constructs that match the administrative reach of a single political authority. National market economies are best viewed as “clubs” that deliver excludable public goods to political communities within well-defined “borders.” Moreover, most economic policies become ineffective in economies that are completely permeable by transnational flows of labor and capital. Under such conditions, national institutions lack the ability to determine the distribution of public goods, tax, and regulate.

The international economic environment in which contemporary liberalization policies are being implemented is more thoroughly interdependent than ever before. This process of economic internationalization began with the oil shock of 1973 and accelerated through the 1980s with the deregulation of banking in major financial centers. Changes in communications and technology facilitated the unprecedented integration of international capital markets and greatly enhanced the power of firms as international actors. Efforts to construct national market
economies at a moment of such high levels of internationalization must overcome a very special set of constraints.

I have already suggested that liberalization, decentralization, and deregulation are global phenomena that represent a response to the expansion and tight organization of international capital in the 1980s and 1990s. Clusters of countries had very different experiences of this systemic change, depending on a host of historically constituted factors. The common domestic effects of these changes in advanced industrial countries have included an overall convergence in fiscal and monetary policies, a decline in the power of organized labor, albeit from radically different levels, and a growing rift between domestically and internationally based capital. Aside from the widely recognized regulatory problems generated by transnational industrial corporations, the globalization of capital also curtails the overall ability of all governments to tax, regulate, and gather information. The internationalization of capital recalls, in a different context, Huntington's observation concerning lags between economic change and the development of political institutions. Internationalization exerts new pressures on institutions by opening up a rift between the political sphere, which is still nationally based, and the economic realm. Even advanced industrial states are unable to control large swaths of their alleged economies. Institutional arrangements for international regulation have been very slow to emerge, except in selected fields, such as patent and copyright law, where they are often ineffective.

If global changes in technology, production, and markets exert significant pressure on advanced industrial states, transforming domestic coalitions and production methods, their influence on late developers is both more dramatic and qualitatively different, due to a variety of institutional, political, and economic factors. For many developing countries, internationalization came in two waves, with the influx of wealth in the decade between 1973 and 1983 giving way to a massive outflow of liquid capital from the developing world in the 1980s and 1990s.

Changes in global financial markets were important in precipitating economic liberalization programs in a large number of developing countries as well as in Eastern European countries with close links to the international economy. The decade between 1973 and 1983 was distinguished by an enormous inflow of wealth to many developing countries in the form of aid, loans, oil revenues, labor remittances, and investment. The bulk of external capital flows accrued directly to the state and fostered highly statist economic policies. In the 1980s, capital flows to the developing world fell dramatically. From an inflow of $33 billion in 1978, net transfers on debt for LDCs in 1989 were an astonishing outflow of $42 billion. From a 1980 high of $243 billion, oil revenues for major exporters fell to $67 billion in 1988. Direct foreign investment, which had actually declined from 1981 to 1986, surpassed all other forms of lending as a source of foreign capital to developing countries in 1988.
Similarly, with the end of the cold war, the facility with which developing countries could barter allegiance in exchange for cash dwindled, and competition for plummeting levels of aid, foreign investment, and loans became fierce. Although policies adopted under the rubric of economic restructuring are diverse enough to belie generalization, with the exception of those countries where import substitution regimes were already in the process of being dismantled in favor of export-led strategies, such as Turkey, India, and Egypt, most liberalization and privatization programs in the 1980s were attempts to attract foreign investment to replace aid, labor remittances, and international loans, which had provided the developing world with foreign exchange in the 1970s.

The first wave coincided with high levels of etatisme, fed by state access to international capital flows; the second generated severe pressures for the state to withdraw from the economy through economic liberalization and privatization. The dimensions of these systemic changes are similar to those that precipitated earlier shifts to and from “inward” and “outward” oriented strategies, including the change from primary export regimes to import substitution (ISI) and from ISI to export-led strategies. Each juncture followed a broad change in the international economy: the crisis of the 1920s and 1930s, the oil shocks of the 1970s, the debt crisis, and the liquidity crisis that began in the mid-1980s. Rather than being the result of an ideological conversion to open economies, economic liberalization and deregulation in the developing world are responses to changes in the global economy, the first common effect of which was a dramatic decline in their access to international capital flows.

The ability of different countries to respond effectively to the new constraints and opportunities of internationalization depends not simply on the policies they implement but on the character of their interaction with the international economy in the preceding period. Both “waves” of internationalization, with the opportunities and costs they presented, profoundly affected institutional development in late developers. The role of external capital inflows in retarding and undermining the very institutions, norms, and social changes that are critical to the creation of domestic market economies is increasingly recognized in the comparative politics literature. One of the key insights to be found in studies comparing Latin American and Asian NICs (newly industrialized countries) has been the importance of the strength and coherence of bureaucratic institutions prior to the period in which they gain access to such inflows. In LDCs, state bureaucracies responded to the influx of capital in the 1970s by undercutting regulatory and extractive institutions and augmenting the role of the state in direct production and distribution. State-controlled foreign loans, aid, and oil revenues saved governments from having to tax their population directly. They gave administratively weak governments tools to govern the economy without developing extractive and regulatory capacities and provided funds to ameliorate political conflict through the distribution of gifts, subsidies, loans, and state contracts. Even in
countries where the sources of external capital, such as labor remittances or private borrowing, were privately controlled, the institutional response of the state was to shrink regulatory institutions and pursue the most politically convenient regulatory strategies possible. Access to unprecedented amounts of foreign exchange had identifiable effects on specific state capacities. These funds enhanced the economic role of the state as producer and creditor but weakened the very institutional and political capacities necessary for creating functioning market economies. Thus while the external capital inflows of the 1970s and early 1980s enhanced the state’s role in production, distribution, and redistribution they simultaneously undermined the evolution and impaired the capacities of exactly those public and private institutions necessary for the creation of national market economies.

By the mid-1980s, as sources of external funding dried up and debts became due, most LDCs were hit by severe economic crises for which they were singularly unprepared. In many cases, extractive and regulatory institutions had atrophied; accounting procedures in the private sector were primitive; and formal links among members of the commercial-industrial class and labor were weak. In institutional terms, the task facing governments in the recession was nothing less than a thorough reform of the public and private sectors. This entailed forging national regulatory, legal, and extractive institutions and their ancillary information gathering and enforcement agencies and creating legal, accounting, and disclosure requirements for private business elites who had yet to experience the burdens of regulation. In many cases, the hiatus of regulation, conflict, and political debate in the 1970s coincided with the intensification of primordial and regional divisions. The second “wave” of internationalization, in short, came to many developing countries in the form of a foreign exchange crisis that forced them to liberalize their economies at a domestic juncture when the institutions necessary for managing the transition were particularly weak. These domestic conditions coincided with a systemic process of economic internationalization that undercut the overall effectiveness of national regulatory institutions. The confluence of these two trends suggests a particularly difficult transition for liberalizing late developers.

V. FROM THE GLOBAL TO THE LOCAL:
NATIONAL FRAGMENTATION AND THE RISE OF ILLIBERAL POLITICS

As I have argued above, economic liberalization programs in many countries were initiated in response to fiscal crises prior to the construction of effective regulatory and extractive institutions that would undergird a market economy. Liberalization under these conditions undercuts the effectiveness of administrative institutions at the national level without replacing them with new ones. In practice, the “state shrinking” that accompanied economic liberalization and the policies embodied in structural adjustment programs meant the government’s abrogation of basic goods and services, including, in some cases, the maintenance
of law and order. This abrogation had profound implications for domestic politics, which, in turn would limit the realm of economic policy. Dirigisme was not simply a relatively stable mechanism for governing the national economy; it also upheld domestic social and political coalitions. In its implementation, economic liberalization not only nullified the instruments of economic management but, in many cases, also undid the coalitions that undergirded the etatiste construct.

Clearly, it is too early to make definitive judgments about outcomes. Still, it is possible to outline major trends, if only in a speculative fashion. Liberalization in the context of economic internationalization has resulted in the fragmentation of administrative, legal, and political jurisdictions within already constituted "national" economies. Often, these changes have occurred in a piecemeal fashion through ordinary political processes. Together, however, they add up to profound institutional change at the national level. Even in advanced industrial states, fragmentation cuts at the administrative basis of the territorial national state, destroying the institutional infrastructure through which large national economies reduced transaction costs and enforced regulation at an earlier period. In the United States, for example, under the guise of the "new federalism," key regulatory functions have devolved to the state, district, and municipal level. As Reich has observed, taxation, redistribution, and regulation are becoming increasingly local,85 spawning a cycle of competitive bidding among jurisdictions that undercuts the bargaining power of labor, consumers, and environmental groups.

In many late developers, institutions that embody and rely on a fragmentation of markets at the national level and have singular jurisdiction over the territorial state were not dismantled in the same way because they had not taken form to begin with. These processes of institutional atrophy at the national level have culminated in a rather dramatic redrawing of politics in late developers, which has generated intense conflicts over the elements of political identity and the composition of political community. The institutional effects of economic liberalism coupled with internationalization have produced a decidedly illiberal politics in many parts of the globe, including the former Soviet Union, Eastern Europe, Africa, Europe, and the United States.

In cases where the process of national integration was arrested or had just begun, the political effects of dismantling the institutions that govern the incipient national economy have included the emergence of smaller administrative jurisdictions that often coincide with radically different economic endowments, different ethnic, religious, or linguistic groups, or some combination thereof. Economic crises in these circumstances are likely to lead not just to a more localized administration but to a redefinition of the political and geographical units to match different local visions of survival chances in the international economy. Just as earlier efforts to construct national market economies became entwined in the process of national integration and state-building, current attempts to create market economies reconstruct ascriptive social cleavages that are
often expressed in the language of primordial identities. The atrophy of preexisting economic allocative networks reveal coincidences of regional, ethnic, and religious divisions with different kinds of industrialization or different prospects for economic success in the global economy. Examples of this phenomenon include the differential growth rates of the coastal and inland regions in China, contrasting patterns of industrialization in Czech and Slovak territories, and regional disparities between northern and southern Italy. Similar processes are at work in the intensified religious strife in India\(^6\) and the regional conflict in Pakistan. Obviously, meaningful market reforms are impossible under these conditions.

In many LDCs, liberalization packages have dramatically increased poverty and skewed income distribution by eliminating whole sectors of economic activity and by removing state services and employment, liberalizing prices, and withdrawing subsidies to the urban poor. In countries where the state never performed its “watchman” functions to begin with, the realm of political authority is eroding fast, fueling what Jowitt has called “movements of rage”: a profound redrawing of political boundaries along definitely illiberal lines.\(^7\) Fundamentalist movements in Algeria, Tunisia, Egypt, and elsewhere have gained mass followings by providing the services and “welfare nets” withdrawn by governments as part of liberalization programs. This recreation of an urban “moral economy” against the form of capitalism that liberalization has produced is reflected both in the rhetoric and in the services that these groups now provide in crowded urban areas. Between prayers, the Islamicists build and staff schools, repair streets, and collect garbage.\(^8\)

Dismantling administrative institutions and patterns of economic organization that held together national economies through the intervention of the state has the potential to generate radically different visions of the future among groups with different resource, geographical, and cultural endowments. In many countries with deeply divided societies and very different subnational endowments, and especially in the former Leninist systems, states have literally fragmented in response to these pressures. Others, particularly in Africa and Western Asia, show signs of following suit. To the extent that low transportation costs and the rapid flow of capital, goods, and information makes small enclave economies with high levels of reliance on international trade a viable form of political organization, economic internationalization encourages this fragmentation. These possibilities challenge the concepts of self-sufficiency, autonomy, and national security that undergirded the dominant model of economic development in the Third World in the aftermath of World War II. Needless to say, these smaller political units are ultimately weaker partners to the foreign investors they seek to attract.\(^9\)

In the past, the decision to create national market economies was made and unmade in late developers. Even revolutionary socialist regimes repeatedly revised the laws governing the private sector.\(^90\) Unlike early developers, where pressures from emerging urban groups coincided with the centers’s expanding
fiscal appetite, social support for market reform in contemporary LDCs is conspicuous by its absence and is opposed both by entrepreneurial classes accustomed to high levels of protection and by labor and consumers. Only in cases where a small but powerful group of industrial elites with links to multinationals exist, such as found in Brazil, Argentina, and Mexico, is there a strong constituency for opening up to international markets. As a result, most governments turn from the reforms early on, whereas those that manage to initiate the first disruptive stage of market reform do so with the support of formidable repressive apparatuses. Many countries, including Turkey, Egypt, Chile, and Brazil, initiated liberalization programs over a decade earlier, only to backtrack.

The current wave of liberalization is different. The integration of global capital markets creates unique pressures and opportunities for LDCs by tightly circumscribing the realm of national economic policy. This is not to suggest, as some have, that the national governments have become obsolete but that the mobility of capital in a credit-hungry world simply removes some options from the policy menu of developing countries. The accommodation between liberalizing LDCs and the global economy will, no doubt, reflect the diversity of economic endowments in late, late developers. Existing levels of institutional development and national integration will be critical in determining their ability to make successful and sustained transitions to market systems within the global economy. The issues confronting radical liberalization programs in LDCs include basic domestic political choices about the distribution of property rights, income, and wealth that are intimately linked to their position in, and ability to control, the impact of global economic forces.

The global mobility of capital, combined with the credit crunch and conditionality, increasingly presents LDCs with the stark choices of total autarchy or unprotected inclusion in the international economy. Precisely because they pay little attention to the complexities of institution building, neoliberal economists believe that the dislocations of liberalization are temporary. Recent trends, however, raise the specter of rapidly eroding political authority. Lacking regulatory and extractive capacities and therefore the resources to provide basic services and stripped of their direct control over prices and wages, it is unclear exactly what the basis of state legitimacy will be once the process is complete.

VI. CONCLUSION

The subdiscipline of a development economics was based on powerful insights about the economic challenges facing late developers. Increasingly, these insights were lost through the wide acceptance of what Hirschman called the “monoeconomics” claim. This essay has focused on the more problematic assumptions that the neoliberal ascendancy embraces concerning the sources of dirigisme in late, late developers, the nature of market economies, and how they emerge.
Understanding the difficulties of constructing market economies cannot be divorced from an account of the difficulties of state building and national integration in late developers. Market economies cannot exist without effective legal, regulatory, and extractive national institutions that have jurisdiction over a given territory. These institutions only dislodge and then prevent the reemergence of subnational barriers to exchange but also deliver excludable goods that require insulation from international economic forces.

Infirm regulatory and extractive institutions were critical in fostering high levels of etatisme in late developers even in times when the international system was biased toward the maintenance of national borders within a system of recognized nation-states. Especially in deeply divided societies where ascriptive and economic cleavages overlapped, political elites used dirigisme to achieve gains in national integration and to forge national economies. This account highlighted the highly political nature of economic organization showing how efforts to construct market economies often conflicted with the goal of state building and national integration in late developers.

Taking the institutional underpinnings of market economies seriously means that a host of complex historically constituted national and international factors must be brought to bear on our appreciation of the constraints faced by liberalizing late developers today. This discussion has emphasized the part of systemic crises in fostering the contemporary shift to liberalization and the role of international capital flows prior to the 1980s in undermining the very national institutions necessary for the creation of national market economies. Links between domestic economic institutions and the global economy reveal why the numerous social, institutional and political prerequisites for market economies do not exist in the developing world.

Current attempts to construct market economies are occurring in an international context that puts special constraints on the construction of national regulatory and extractive institutions. The globalization of the economy makes national economies permeable and undercuts the effectiveness of national regulatory regimes. At the same time, superpower rivalries no longer serve as a barrier to redrawing political borders. Undoing etatiste mechanisms for governing the economy without replacing them with effective alternatives encourages economic, administrative, and even political fragmentation. The administrative burdens of creating market economies after long interludes of etatisme characterized by hiatuses in economic regulation are politically disruptive in all countries, whether they involve transitions from socialist redistributive regimes, state capitalism, or distributive patrimonial systems.

To the extent that the outcomes are contested, the construction of such institutions will face myriad political and social obstacles similar to those that fostered high levels of state intervention to begin with. The speed and thoroughness advocated by neoliberal reformers should be evaluated against the long-term
process of reconstruction and redeploying these institutions in an international context that is eroding such institutions and norms even in constituted national market economies.

The enormous influence of neoliberal economics on policy in the Second and Third Worlds, in the advanced industrial countries, and in the institutions that mediate relationships between them is undeniable. In the wake of the experiment, the notion that economics is a universal, transportable science separable from a historically grounded political and social life is itself being critically reviewed. As it stands, the neoliberal argument for liberalization centers on the “goods” of the market, namely, competition, growth, and efficiency. The critical link—between the policies (where the pain is) and a functioning market economy (where the “goods” are)—is missing. In fact, neoclassical economics is silent on the issue of how networks of self-regulating factor and commodity markets emerge. Coming out of an intellectual tradition that jettisoned its political economy component early on, the discipline is particularly ill-equipped to explore the complexities of market formation in late, late developers.

The idea that the “market” is an end in itself was generated in Reagan’s America and Thatcher’s Britain as part of their attack on the welfare state. The subsequent deployment of “the market” as an ideology presented “efficiency” as a supreme societal goal in itself; it cloaked the politics of the market in the language of neutrality. The export of this rather remarkable view of the relationship between politics and economic policy to the Third World was made virtually effortless by the collapse of the Soviet Union and Eastern Europe. The feverish enthusiasm of international banks, donors, and agencies in promoting liberalization is not unrelated to the beliefs and interests of conservative political coalitions that have dominated politics in advanced capitalist countries for over a decade. Nor is the irony of their missionary zeal lost on decision makers in LDCs, who no doubt recall the long period between 1950 and 1980 in which these very institutions trumpeted the pivotal role of the state in economic development.

Apart from recognizing the by now obvious obstacles to constructing functioning market economies, it is critical that economists and “development practitioners” recognize the political nature of the current economic transition: no system of exchange encapsulates a code for social organization. The market embodies no telos and has no self-contained blueprint on how societies should reconcile conflicts between individual and public goods. No matter how blatantly etatisme failed, the long, painful, and discontinuous process of redefining values in LDCs in the wake of the collapse of the Soviet Union and dramatic changes in global financial markets cannot be telescoped by a simpleminded application of market rationality. Rather, we should strain to understand the institutional, social, political, and, ultimately, moral contexts that circumscribe the realm of economic policy in the developing world.
NOTES


7. See, for example, Robert Teitelman, “The Revolt Against Free-Market Finance,” Institutional Investor 26, no. 7 (June 1992): 37-44.


9. The new ascendency produced prescriptions for successful development based on novel uses of history and method, reinterpreting the “lessons” of the East Asian NICs (newly industrialized countries) at will. Consider, for example, the following quote:

The conclusion is reached that outward-oriented countries succeeded in rapidly expanding their exports and reaching higher growth rates than inward-oriented countries in both periods. This conclusion is supported by a statistical analysis of exports and
economic growth. The favorable effects of exports on economic growth are explained by reference to gains from resource allocation according to comparative advantage; the exploitation of economies of scale and increased capacity utilization; improvements in technology; and increases in domestic savings and foreign direct investment under an outward-oriented development strategy.


14. Some neoliberals concede the importance of institutions, yet they do not recognize complex social and political struggles that institutions embody any more than they appreciate the role of changes in the international economy in influencing their formation. Thus, in explaining the “shock therapy” he designed for Poland in 1990, Jeff Sachs confidently tells us how the stabilization program presupposes the creation of a new legal system and a secure system of property rights within one year. See Jeffrey Sachs, “Poland and Eastern Europe: What Is to Be Done?” in Koves and Marer, eds., *Foreign Economic Liberalization*, 236.


16. Recently, neoliberal economists and even the IMF and the World Bank have begun to recognize the importance of institutions. Yet even these accounts present a mechanistic view of institutions, which fails to appreciate their intrinsically political character. See, for example, Jan S. Prybyla, “The Road From Socialism: Why, Where, What and How,” *Problems of Communism*, 40 (January-April 1991): 1-17.


25. On the distinction between laissez-faire and capitalist markets, see Deepak Lal, *The Poverty of "Development Economics."*


32. The grand coalition that managed to override the objections of the feudal elite to prevail in this process, according to widely accepted interpretations of European history, was the crown and the bourgeoisie. Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon, 1966), 413-32.


34. This is true, for example, in Robert Bates's early work, *States and Markets*.

35. The work of De Soto, Bela Belassa, and Jeffery Sachs exemplifies this perspective. See note 4 above.

36. The particular importance of institutions in understanding the economies of the developing world is succinctly presented in Mustapha Nabil and Jeffey Nugent, "The New
Institutional Economics and Its Applicability to Development,” and also see Douglass North’s discussion of property rights and institutional development in “Institutions and Economic Growth: an Historical Introduction,” both in World Development 17, no. 9 (1989): 1333-47 and 1319-32, respectively.


38. In particular, as Van de Walle has noted in his survey of issues related to privatization, information costs are higher for state regulation than for state ownership. Nicolas Van de Walle, “Privatization in Developing Countries: A Review of the Issues,” World Development 17, no. 5 (1989): 607.

39. Ibid., 602-3.


41. Quoted in Nove, An Economic History, 44.


43. Nove, An Economic History, 139.


49. Solinger, Chinese Business, 143.


51. See Solinger, Chinese Business, 153, esp. n. 123.


55. As Mao put it in 1947, the revolution was aimed “not at wiping out capitalism in general, the upper petty bourgeoisie or the middle bourgeoisie. In view of China’s economic backwardness, even after the country-wide victory of the revolution, it will still be necessary to permit the existence for a long time of a petty bourgeoisie and middle
bourgeoisie. . . . This capitalist sector will still be an indispensable part of the whole national economy." Quoted in Carl Riskin, *China's Political Economy*, 39.

56. Although it is widely acknowledged, following Marx that functioning markets create self-perpetuating economic and social inequalities, the tenor of reports from experts on the current transition in Eastern Europe and the Soviet Union have stressed the equalizing effects of markets when they initially replace distributive or redistributive arrangements. See Ivan Szelenyi, "Eastern Europe in an Epoch of Transition: Toward a Socialist Mixed Economy?" in Nee and Stark, eds., *Remaking the Economic Institutions of Socialism,* 208-32.


58. The best and most comprehensive overall treatment of this subject is Paul Kennedy's *African Capitalism: The Struggle for Ascendancy* (Cambridge: Cambridge University Press, 1988), see especially chaps. 1-4.


61. Ibid.


63. This pattern is found in most LDCs but is illustrated in detail in De Soto’s *The Other Path*.

64. Richard Cooper, "Economic Interdependence and Foreign Policy in the Seventies," *World Politics* 24, no. 2 (January 1972): 159-81.

65. This distinction between “market” and “club” is presented by Casella as follows: “. . . they emphasize the difference between (i) issues that do not require explicit coordination and can be solved through the functioning of a price system in a free market (once property rights are defined) and (ii) issues which instead demand some explicit form of collective decision-making.” This clearly shows the difference, for example, between an international market for wheat and a national market economy, undergirded by authoritative institutions that deliver “excludable public goods.” Alessandra Casella, “On Markets and Clubs: Economic and Political Integration of Regions with Unequal Productivity,” *American Economic Association Papers and Proceedings*, May 1992: 115-21.


68. For a study about the effects of international interdependence on the state’s role in the domestic economy, see Peter Evans, “Transnational Linkages and the Economic Role


70. Jeffry Frieden, "Invested Interests."


74. For the 1978 figure, see World Debt Tables, 1982-83, at xii; for the 1988 figure, see World Debt Tables, 1990-91, at 126.

75. Includes value of fuel exports from Algeria, Ecuador, Gabon, Indonesia, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, and Venezuela. IBRD, World Tables, 1991.


78. For example, this is the view held by Raymond Vernon. See his "Introduction: The Promise and the Challenge," in Raymond Vernon, ed., The Promise of Privatization, 1-22.


82. Ibid.

83. For a detailed discussion, see Chaudhry, "Economic Liberalization."


97. The question of what market economies are and how they emerge has long been the preserve of economic historians and political economists. The contributors to the debate, most notably Polanyi, Braudel, Smith, Wallerstein, and Marx, have widely divergent ideas on the issue, which are connected to their very different conceptions of the emergence and indeed, the nature of modern capitalism. Nevertheless, all agree on one
critical point: market economies are something other than either the human propensity to truck and barter, or marketplaces, or simple capitalist exchange.