

The Concept of *Development* and State Reforms: Visions from the Nineties

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Abstract

In a bit more than a decade the initially triumphant vision that prevailed during the re-structuring of the public sector in Argentina has reverted dramatically. The foundations and positionings that guided the nineties' state reform policies are today subject to revision and re-statement.

Reality is overwhelming and socioeconomic indicators persist in reflecting the negative tendencies in the "lost semidecade 1998-2003" (i.e., two digit unemployment rate, more than half of the population below the poverty line, thirty eight time difference between top and bottom income earning categories, etc.)

Disappointing results led to a state of "reform fatigue", according to which, structural reform, mainly liberalization, deregulation and privatization are considered relevant factors of life quality's decay (Birdsall y de la Torre, 2001). According to some surveys, they raised growing unrest especially among the middle classes and in those countries where privatizations were linked to corruption (Lora 2002).

Introduction

In this paper the notion of development is revisited according to the sociologic theories that originated it (modernization vs. dependency); we explain the new definitions worked out by the program prescribing organs (World Bank, UNDP, CEPAL); the 'development' strategies underlying in the different state reform agendas are discussed and the economic and social characteristics of recent historic development are described.

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The Notion of Development

The term 'development' raises ideological and conceptual arguments. Social scientists distinguish between the concept of *economic growth* (many times identified through some quantitative indicators such as growth of GDP per capita) and that of *development* which implies structural and organizational transformation.

The dispute on the notion of 'development' has been historically plagued of contradictions and ideological polarizations, particularly between the theorists of *modernization* and the theorists of *dependency*, which have been the debate's prevailing paradigms, especially till the nineties.

Modernization theory – the expression was introduced by Talcott Parsons in the fifties - has argued that countries follow a path which is the Western countries' growth model. But while in Western countries industrial 'revolution' was made from the inside, in 'developing countries' this revolution is exogenous, based on the impact of Western technology and the transfer of social and cultural institutions. Modernization perspective has been based on concepts such as structural differentiation, the traditional/modern opposition, the rural/urban continuum and the cultural, structural 'hindrances' or 'prerequisites' for development. The term 'development' has *per se* positive implications.

Dependency theory (Cardoso y Faletto; Frank), in the end of the seventies, focused on the premise according to which underdevelopment is caused by structural dependency relationships between Western countries and – then called- Third World countries – today re-named 'the South'. The point they make is that Western industrial nations "needed" Asian, African and Latin American underdevelopment and so non-industrial countries became the dependent satellites of more advanced nations, losing, in turn, effective control on their own economic destiny. The notion of center – periphery assumes that changes in development and organizations of dependent countries are based on forces that come from the metropolis. The focus on imperialist forces as main sources of change tends to overlook the significance of domestic cultural and social factors. According to the dependentist vision, development is impossible without a fundamental re-structuring of world economic and political order. From this perspective, it would be deduced that unless there were a deep change in world order, polarization between developed and underdeveloped countries would be a fatally endless process. (Orlansky 2003)

Although this two extreme positions constitute the current analytical axis, the truth is that views have been gradually approaching during the nineties, and, what's more, a new paradigm, sustainable human development, emerged (UNDP 1994). It requires not only economic growth but also equitable distribution of its benefits, priority to the poor, broadening of their opportunities and their taking part in decision making.

Multilateral and international organs have actively produced a set of speech devices introducing goals and public policies instruments that not only take into account equity at national level (CEPAL 1992) but also, more importantly, the diminishing of international inequalities, and, particularly, the new processes of globalization. In 1999, the Millenium Declaration established the most developed countries' compromise of reducing the left

behind social deficit. The United Nations Document in Monterrey (2003) “A Century of Development for All” is a step in that direction.

Development in the 2000s

Actually, variations in GDP do not fully explain the the economic situation’s complexity. As Stiglitz (2003) pointed out, it should be replaced by the Net National Product, a measure that takes into account citizens’ future welfare since it includes country’s physical resources’ depreciation and natural resources exhaustion, environmental degradation, sale of national assets to foreigners, economic insecurity and vulnerability sensation’s worsening, etc. A calculation that included these aspects – the variations in transaction costs, among others – would produce a much more realistic result for the so arguable Argentine “growth” periods during the nineties.

Now then, again, Fanelli and Popov (2003), who distinguish analytically four kinds of social – economic development, state “what do we understand for ‘development’ today? Finally that is the ultimate purpose of reforms”.

First kind, in a more traditional version, *economic development* is different from mere *economic growth* because it implies self sustained growth, with structural change in production standards, technological improvement and social, political and institutional modernization.

Second kind, *sustainable development*, based on the World Development Report 2002, that calls for considering not only economic growth but also environmental and social impact, that is to say, the tandem economic production – life standard.

Third kind, according to Amartya Sen’s vision, development is supposed to achieve freedom’s expansion– say, greater opportunities and possibilities of choice in economic, social, political, security, etc., matters.

Fourth kind, differently from the others, institutionalism doesn’t distinguish among good performance, growth and development. A good economic performance depends, according to Douglass North and Oliver Williamson, on good economic institutions. It isn’t clear if, for institutionalism, good economic institutions are a “necessary cause” but not a sufficient one for economic development.

On this matter, on the base of many empiric researches, Rodrik (2003) states that (1) to start the engines of economic growth and (2) keep it working once started, are two different problems. The first step requires generally of a limited, often unconventional, range of reforms and consequently they are not so dependent on institutional matters. The second stage means a harder challenge since institutional support has to be built to guarantee long-term economy ‘s endurance to shocks and cycles, keeping productive dynamism.

In this sense, following Rodrik’s metaphor, and contrary to good part of the literature that presents them as alternatives of state reform, it could be outlined a hypothesis which

considers both processes as complementary: one, the initial, of social engineering, instrumentalist, “constructivist”, and the other, a long-term one, institutional, gradualist, “evolutionary”.

Development strategies and state reform agendas

During the sixties and the first half of the seventies the keynote had been a growing state role in social welfare and its intervention in infrastructure, production and economic planning. Market regulations oriented to substitution industrialization had progressed in Argentina, Brazil and Mexico, following Prebisch and CEPAL’s suggestions. However, results were growing urbanization and social exclusion to which added intense political conflict on distribution. Inflation and authoritarian regimes were the prevailing economic and political characteristics (Farías 1994).

During that period (sixties and seventies), although, with regard to authoritarian regimes and the effects of its public policies, some authors have shown that regime type, whether authoritarian or democratic, doesn’t attain to explain social and economic growth.

According to Przeworski and Limongi (1994), for example, economic miracles of the period following World War II include countries that did have democratic institutions in force (parliaments, parties, trade unions, electoral competition) and also countries ruled by military dictatorships (Asian Southeast); authors stress the importance of a “certain state autonomy”, an attribute of very diverse regimes, but all of them effective at the time of management, which allowed them to avoid narrow corporate interests and rule in favour of the general interest. In social matters they looked for development with equity and in economics achieved the intentional enlargement of their markets.

Although in an uneven but unequivocal manner, during the eighties, developing countries adopted pro market economy reforms.

Actually, the need of drastically revising the role of the state came up in Western democracies in the middle seventies, the model of ‘triple affluence’, that lasted around forty years and consisted of the simultaneous GDP, family income and public expenditure’s growth, reverted. The expansion of state intervention had been a generalized phenomenon. In spite of the acute signs of crisis, a similar situation only arose later in Argentina. After eleven years of uninterrupted growth (1963-1974), Argentina had experienced an unprecedented (up to 1973) collapse of the public sector. Without this abrupt uprising being reduced in the following years (as had happened in previous periods), the era of ‘triple affluence’ came to its end without adjusting strictly public expenditure to the rigor of the new epoch. In Argentina, most of economic and political analysis emphasized the evidences of the economic recession only in terms of GDP and Family income reductions. How do we explain this interpretative bias? First, it was an unprecedented phenomenon: growth tendency’s reversion had no antecedent, continuous development was considered a natural trend. Second, the magnitude of fiscal deficit was concealed through money supply and external and internal indebtedness—deficit that, on the other hand, had always been considered functional for the country’s economic development. Finally – maybe one of the

most important explanatory factors- the political conditions of the most authoritarian period the country suffered (1976-1983) prevented from going beyond the peculiar characteristics of the local context and decipher an international and generalized economic reality, the triple affluence's inexorable end (Orlansky 1994).

During the eighties and nineties, the development model overturned in a generalized manner. Those were the years of triumphant liberalism and the "magic of the market" at global scale (Fukuyama 1992; Biersteker 1995). After an intense ideological debate the liberal creed and its development notion prevailed. A set of ten proposals, many of them applied under Menem's administration, the so-called "Washington Consensus", expression coined by Williamson (1993)², summed up the *sprit du temps*.

Generalized expansion of this view led to re-thinking the role of ideas in public policy making (Yee 1996), that is to say, the mechanisms through which experiences, public policies, doctrines, ideas spread (Rose 1993; Dolowitz y Marsh 1996). Certainly, a system of ideas, whether a refined conceptual framework or a mere slogan, can significantly influence interests determination and affect social actors' behaviour. The force of ideas, its real power in politics, is not independent from the shaping of institutions and interests at stake (Hall 1989). However, ideas' intrinsic dynamism is not enough for its transformation into politics without the necessary intervention of an *epistemic community*, that is to say, the support of "a net of experienced, specialized and prestigious professionals in public politics relevant to the issue" (Haas 1992). An epistemic community's contribution is essential for the making, diffusion and eventual carrying out of a reform agenda.

A succession of "agendas" sponsored by diverse epistemic communities was unfolded in response to the "Washington Consensus" (1).

A multitude of new reforms that call for a deep institutional transformation has been attached to the initial paradigmatic compounds ("good governance", judiciary reform, property rights reform, labour reform, elimination of corruption, regulation system reform) the carrying out of which would improve the results of the Consensus' initial measures. Basically, the historic sequency is as follows.

(2) The so-called "Second Generation Reform" (Naim 1994) stressed the need of going beyond the first generation reforms (mainly economic) and undertaking the reform of primordial institutional areas (Education, Justice, Public Administration, etc.).

(3) The "Washington Post-Consensus" (Stiglitz 1998) proposed an institutionalist, regionalist agenda, and the imposition of transparency in the public sector.

(4) The so-called "Washington Contentius" (Birsdall y De la Torre 2001) set a ten point agenda compatible with equity and economic growth (i.e., social security networks,

² 1) Fiscal discipline; 2) Re-statement of priorities in public expenditure to focus on primary health, education and infrastructure; 3) Tax reform; 4) Financial Liberalization; 5) Unifying the exchange rate; 6) Trade liberalization; 7) Access to foreign investment; 8) Privatization of state owned companies; 9) De-regulation to foster competition; y 10) Property rights enforcement. Criticism to the Washington Consensus doesn't usually mentions that one of the ten points suggests to focus public expenditure on Health and Education.

worker's rights protection, struggle against discrimination, more tax progressiveness and redistribution of social expenditure, assistance to the creation of small companies, decentralization and greater access to education, building of fiscal and monetary institutions able to implement anti-cyclical policies and smooth the economic cycle, etc.).

(5) CEPAL's (Santiago de Chile) view (Ocampo 2001) established the requirement of a new relationship between the market and public interest through gov't policies and a more active civil society's intervention. It's not only about macroeconomic control but also boosting productive activities through the link between public and private sector. It's important to stress that development's objectives are not restricted to economic growth and poverty reduction but also include a wider set of values (freedom, social cohesion, cultural identity).

(6) The Porto Alegre Forum 2002, a very heterogeneous anti-globalization movement, has presented a five point consensus referred to wealth production and social reproduction³: I) free trade doesn't guarantee neither wealth nor development; II) corporations have too much power; III) financial liberalization has increased global inequality and has been the main cause of financial crisis and contagions; IV) international institutions should be reformed; V) developing countries' external debts should be reduced and establish other mechanisms for loans (Lora and Panizza 2002).

Actually the list of diverse agendas is not exhaustive. Rodrik's proposals (2003, Table 2), the new ten institutionalist points added to the "original" Washington Consensus' primitive ten, proposed by Williamson lately (Kuszinski and Williamson 2003), etc., should be included, for example.

In short, after two decades of pro-market ideas's predominance, growing inequality and the failure in the battle against poverty provoked a global reaction against international economic organizations. The worry about poverty reduction and political participation of excluded groups has imposed itself not only in national agendas but also in the international arena. It's about encouraging political capacities of social and state actors to reach collective solutions. Institutions for global development (the World Bank for excellence) became champions of those ideas, promoting empirical researches on the effectiveness of social capital and the importance of social sectors' participation in developing projects (Evans 2003).

While Washington, Santiago and Porto Alegre's voices accept that development should be more inclusive and that the framework focused only on efficiency should include also equity, there's no clear agreement on how to reach that goals. Many think that good institutions in the context of a market economy are the ones that allow to get fast growth and poverty reduction; others doubt of the market's role and propose more controls and limits to capital and goods' mobility (Lora and Panizza 2002).

³ The other issues are: political power and ethics in the new society; civil society and public arena; and access to wealth and sustainability. See World Social Forum: <http://www.forumsocialmundial.org.br/eng/> (Lora and Panizza 2003)

The main issue of disagreement is on the role of institutions. According to Evans (2002b) the explanation has suffered an institutionalist overturning. Economic development is not about “capital fundamentalism”; it consists more in a process of organizational change than a matter of capital, technology, human capital accumulation, etc. (Hoff and Stiglitz 2001, in Meier and Stiglitz 2001).

On the other hand, conclusions of a CEPAL seminary (Lora 2002a) say that reforms in Latin America have generally favoured growth, although results were more moderate or even disappointing with respect to what was expected by technicians and politicians. The impact on growth has been temporary, during the first stage, and, especially, has crucially depended on public institutions quality (Lora 2002a).

Final remarks

Prospects of a fast and significant recovery of the social economic situation are not very encouraging. Public arena and democratic and institutional mechanisms should be strengthened to be able to make long-term deals capable to work solutions.

When the eighties were declared the lost decade for Latin America, many alternatives were proposed and emerged a set of policy suggestions known in the literature as ‘economic restructuring with equity’ (CEPAL 1990 and 1992). The growth strategy had recommended a careful and planned opening of the region’s economies, an increase of their systemic competitive abilities, a planned and sustained development of the region’s technological and scientific resources, an adequate environment protection, a greater effort to improve region’s human resources’ life standard. All these efforts would have required not only an increase in government’s leading capacities but also a deep reform of state structures.

However, CEPAL’s proposal of productive transformation with equity has only been a Latinamerican situation’ diagnosis and a modernization and economic, social and technological project.

Most recent analysis - even the most critical ones with respect to World Bank and International Monetary Fund’s neoliberal policies – admit that state lead import substitution growth regime is worn out and that having kept it caused a perverse combination of inflation and stagnation, loss of competitiveness, inadequate incorporation of technical progress, growing public deficits and state intervention in non-dynamic enterprises in which corporate rather than public interest prevailed. Cutting public sector deficit, control of inflation and setting a new growth regime based on a deep re-structuring of productive sectors imposed itself as the only alternative. The same literature had also pointed out that neoliberal policies adopted to manage the crisis have had a strongly negative impact on the region’s social situation. Very low and even negative growth rates, growing unemployment, declining impact of social expenditure and public sector’s disorganization have been some of the nineties’ characteristics, causing growing impoverishment and the increase of the social debt.

Adjustment policies and income distribution policies have led, up to the moment, to the shaping of a social structure that stresses exclusion phenomena⁴ and polarization: unemployment stagnation, labour uncertainty, and the accentuation of extreme positions in the pyramidal structure.

In the case of Argentina, the effects of the economic re-structuring started in 1989 haven't ceased yet. Under the process of democratic re-institutionalization that took part during the last twenty years, the return to competitive party politics hasn't necessarily implied the emergence of 'real democracy', broader in social, economic and political terms. While democratization should have produced genuine reforms, political liberalization has become a process of mere political change controlled from above. A means of preserving the *status quo*.

⁴ According to Farías (who in turn quotes Gautier), the concept of social exclusion in its most recent versions refers to "poverty's most characteristic mechanism in industrialized countries and to the emergence of the new poor". The concept implies that market economies societies became unable to integrate a growing number of its members. An extreme form of inequality, exclusion – described by Alain Touraine as the new social division, that faces those outside with those inside, in contrast to the former one that faced those above with those below. Society's dual division appears as a divorce between actors and system, between social demands and the organization. Social exclusion (extreme degrees of lack of employment, home, power, money) is a direct consequence of socio-economic conditions that produce the employment crisis and the failure of political and cultural institutions (the State, the education system, the trade unions).