KEYNOTE ADDRESS

Development Policy Research: The Task Ahead

Manmohan Singh

I. Overview

The postwar period of development is a history of triumph—not of failure. The increase in life expectancy, the fall in infant mortality, the rate of growth, the achievements in any number of developing countries—nobody at the end of the Second World War would have expected so much. A billion people are still hungry, but it would now be two billion without the achievements that have been made [Rosenstein-Rodan 1984].

Postwar progress on the development front until the closing years of the 1970s did much to shake the world’s faith in the Marshallian dictum “Natura non facit saltum” (nature does not make leaps). The relation between the world of ideas and the world of action is by no means unambiguous, but it is fair to assert that the pioneers of development economics did a lot to sustain faith in the possibilities of economic progress in the developing countries.

World War II to the 1980s: An Era of Optimism

The basic thrust of development economics has been activist—that development can be managed. The analysis of strategic factors in development, of development strategies, and of investment criteria has thus sharpened the focus for policy intervention as well as yielding valuable insights into the growth process.

The earlier postwar works singled out capital accumulation and the allied process of saving as central to the management of development. The strategic role of investment is still unquestioned. But later works, in bringing out the vital role of technical progress, entrepreneurship, and human resource development, have enlarged our understanding of growth as the product of a more complex process.

The later literature has also sought to correct an earlier tendency to assign rather a passive role to the rural sector. Rising agricultural productivity is now regarded as crucial in the successful management of development.

Manmohan Singh is secretary general of the South Commission, Geneva. The views expressed are the personal views of the author and should not be attributed to the South Commission.

© 1990 The International Bank for Reconstruction and Development / THE WORLD BANK.
At the international level, analysis of the relation between the periphery and the center, and of how gains from participation are distributed in the international division of labor, spurred reformulation of the theory of international economic policy, particularly of protection. It also stimulated the search for new international arrangements for more equitable management of North-South relations. The establishment of several international institutions—the United Nations Development Programme, the International Development Association, the three regional development banks, and the United Nations Conference on Trade and Development—owes much to the inspiration of the pioneer work in development economics.

The optimistic spirit of mainstream development economics—expressed in the view of some of our pioneers that self-sustained growth could take off within a single generation—provided the psychological underpinning for substantial mobilization of latent national energies, and for international support for the development cause during the first three postwar decades.

*The 1980s: A Change in Climate*

The events of the 1980s have assailed that optimism. The economies of East Asia and Southeast Asia have continued to grow rapidly, and the slower-moving countries of South Asia have also managed to improve their performance. But most countries in Africa and Latin America have retrogressed sharply. The result is a profound disillusionment, and skepticism about prevailing development strategies, policies, and programs.

The crisis of development challenges the entire development community to come up with strategies to put the affected countries back on the path of sustained growth. Development research must assist this effort.

The search will not be easy. Several obstacles stand in the way, which have to be surmounted or neutralized to revive growth impulses and then to sustain their momentum.

First among these obstacles is a world trading environment far less expansionary than in the golden years from 1945 to 1973, when annual export volume growth at a steady 6 to 7 percent provided a climate hospitable to the expansion of manufactured exports from developing countries. It is highly questionable whether the emerging international environment will be as friendly.

Second, the 1980s have seen a sharp deterioration in the export of capital from developed to developing countries. For several developing countries, the net transfer of resources from industrial nations is now negative. The burden of external debt is now a recognized obstacle to the revival of growth in most countries of Africa and Latin America. Yet no viable solutions have emerged from the voluminous discussions of this subject in recent years. The economic chaos and uncertainty created by the debt overhang strongly encourage capital flight at the same time as they deter the infusion of fresh capital from abroad. The climate is not conducive to large-scale private international flows, except to East and Southeast Asia. With the possible exception of Japan, no industrial
country seems inclined to step up official flows—either bilateral or multilateral—to the developing world.

A third difficulty that developing countries have to face is the negative fallout from accelerated technical progress in developed countries—such as reduced use of raw materials per unit of final product. In addition, technological advances in areas such as microelectronics, computer numerically controlled machines, and computer-aided designs threaten the traditional division of products into labor-intensive and capital-intensive categories. As a result, cheap labor may cease to be the dominant determinant of comparative advantage, to the detriment even of developing countries making traditionally labor-intensive products, such as textiles.

With a few exceptions, the technological distance between the developing and the developed countries is widening. Neoclassical international trade theory, by postulating identical production functions for different products in various countries, assumes this problem away. That this assumption is unrealistic becomes obvious when we consider that technical knowledge is often private property, that new advances in science and technology are increasingly being privatized, and that developed countries are now making concerted attempts to coerce developing countries into conforming their domestic legislation on the protection of intellectual property to the interests of technology exporters. We must face up squarely to the consequences of unequal international access to technical knowledge. On the domestic front too the present situation has its shortcomings. First is the serious pressure on resources from population growth rates, currently 2 to 3 percent or more.

Sustained development over a period of about twenty-five years was earlier expected to alter attitudes toward childbearing fundamentally and thus bring a reduction in birth rates that would offset the welcome reduction in death rates attendant on the process of development. This change in attitude has not materialized in most countries outside East Asia. Fertility rates are declining, but far too slowly.

While many developing countries are faced with a net outflow of capital, their domestic requirements for capital per unit of output may well rise. Often, the capital stock is technologically obsolescent. And past neglect both of proper maintenance and of timely replacement squeezing resources still more. The increased demand for social overhead capital associated with urbanization has a similar impact. Furthermore, capital requirements have often been kept low by neglecting environmental protection in the process of resource use. In several developing countries, land and water degradation now seriously threatens the sustainability of growth—but if compensatory measures are adopted, the cost of output is bound to increase. Investment and savings associated with a given growth rate will therefore need to be much higher than in the past.

Finally, the inducement to save is itself under pressure because the influential, upper-income groups in developing countries cannot resist the temptation to adopt the life styles and consumption patterns of the societies of the post-
industrial age. These demands will, no doubt, siphon resources from essential investments, while undermining the cohesion and unity in developing societies. The widening social gap between the ruling minority and the great mass of people can erode the moral authority of these elites to command willing acceptance of restraint on the growth of consumption. As a result, inflationary pressures may become endemic, reinforcing in turn the demand for authoritarian political structures, which inevitably bring further alienation and instability.

The Task Ahead

The task of reviving and sustaining development in the developing world in the decade that lies ahead is formidable. It will demand highly innovative measures to counteract the negative influences now at work. An improvement in the external economic environment would help, but cannot be counted on. Developing countries must think in terms of an efficient policy framework that will sustain the pace of development even if the international economic environment fails to improve. The need for structural reform to promote greater mobilization and more efficient use of domestic resources is inescapable.

In what follows, I deal with two issues of reform prominent in current debate: the role of the state and the reform of the trade regime. (Food security and development of human resources are no less important but are not discussed here for want of time.) The discussion leads into consideration of a third bone of contention—concerned, again, with reform, but this time reform of the assistance mechanism itself, rather than the countries assisted: the question of how (and how much) to impose conditions on development loans.

My analysis is not intended to be exhaustive. Its objective is limited. I accept the necessity of reform, but I argue that no single development model can be applied universally. The agenda must be tailored to the specific requirements of each country. I also argue that some of the now fashionable reform packages, with strong ideological overtones, distract attention from the fundamental task of modernizing the state for the successful management of development. In the final section, I discuss the case for an independent, objective international mechanism for laying down performance norms and assessing the performance of countries that are receiving external assistance.

II. The Role of the State

In the postwar years, most developing-country governments have been activist in their management of development. Mainstream development economics has on the whole supported this activism on the grounds of pervasive market imperfections, externalities, and discontinuities and deficiencies in the private sector's risk-taking and entrepreneurial ability. As a result, the state's role has expanded, both in the regulation of private activity and in the actual operation of strategically important enterprises.
In the 1980s, the setbacks to development have eroded confidence in past development strategies and brought this state activism under fire. Even more influential has been the reassertion of a strong pro-private sector ideology in the major developed countries, which has inevitably spilled over to the international financial institutions. The developing world is now being called upon to accept a development and structural adjustment model in which the state's role is drastically reduced. A voluminous literature now argues that excessive state interference in developing countries has distorted the price structure, promoted inefficient resource use, and given rise to undesirable rents for influential pressure groups. The tendency now is to blame the development setback of the 1980s entirely on the cumulative process of excessive state dominance of development. This view is clearly one-sided, for it ignores the traumatic impact—particularly in Latin America and Africa—of international events beyond the control of developing countries (such as the virtual cessation of international bank lending, the steep rise in real rates of interest, and the collapse of international commodity prices). Also overlooked is the highly interventionist role of the state in the most successful economies of East Asia (on this point, see Anglade and Fortin 1987).

Even so, any objective observer must concede that developing countries often operate an overextended state apparatus, forgetting that administrative capabilities are one of the scarcest factors of production. The result is that scarce administrative resources are spread too thinly to achieve the basic development objectives. Furthermore, the assumption implicit in much of Anglo-Saxon economics that the state is a platonic guardian of the public interest does not hold good all the time. In this regard, political economists would do well to pay more systematic attention to the influence of organized pressure groups on government decisionmaking in developing countries. The role of the state in the economic life of the developing countries thus needs to be reappraised, but the appraisal must be marked, not by strong ideological overtones, but by pragmatic consideration of feasible alternatives.

My own guess is that a good case can be made for substantial deregulation in many developing countries. Judging by the Indian experience, for instance, such regulatory measures as industrial licensing and import controls could be loosened with much social and economic advantage. However, there are no universal rules to determine the proper mix of regulation, promotion, and reliance on market forces. The agenda has to be country-specific—an area offering much scope for fruitful research.

1. Professor Albert Fishlow (1987) has shown that the relative severity of the external shock has been an important reason why Latin American economies have performed less well in the post-1980 period than East Asian economies.
Modernization of State Apparatus

In practice, the issue is not so much the size of government as its quality and effectiveness. Most developing countries lack an alternative to a strong, purposeful government providing a strategic sense of direction for the development process.

An example is food policy, recent discussions of which have been dominated by a concern to get prices right. Certainly, remunerative farm prices are a linchpin of a workable agricultural strategy. Farmers do respond to price incentives. But the aggregate supply function of farm produce as a whole (as opposed to that of any single crop) is likely to be greatly influenced by the state of available agricultural technology, credit, and marketing arrangements, and by the management of water resources. The efficient performance of all these activities calls for collective action and often large investments by the public sector. The modernization of the state is therefore crucial to the management of development.

The state's capacity for autonomous action should then be enhanced in strategic areas that cannot be left to the care of market forces—a vision not inconsistent with shedding regulatory functions that may have outlived their usefulness. But there are several other critical considerations. A firm commitment to the rule of law and respect for human rights is one. The improvement of selection, training, and skill formation in public services is another. The maximum possible decentralization and use of appropriate consultative devices to involve local communities at the grass-roots level is yet another important dimension. A reform of the tax system designed to provide for a built-in elasticity and buoyancy in the tax structure is a high priority, as is the establishment of cost-effective delivery systems to provide basic social services, such as health and education.

The final issue is the provision of institutional safeguards to ensure that the state performs its essential functions efficiently and equitably, and to curb the manipulative power of organized vested interests. In this context, the role of democracy and what has come to be known as “glasnost” in the Soviet Union is critical.

Deregulation is often advocated as a means of depoliticizing economic processes. But in real life, politics cannot be wished away in the management of development. So, we should try to get the politics right. Deregulation, when accompanied by competition, can help reduce the grip of organized vested interests on the machinery of the state. But competition, as Adam Smith recognized long ago, cannot be regarded as a natural outcome and requires a political framework for its enforcement and effectiveness. A reform package has to be much more comprehensive than simple deregulation.

In the final analysis, only a multidisciplinary and multidimensional approach can devise credible, coherent, and legitimate reform. There is no alternative to political reforms designed to promote participatory and people-centered approaches to development. People want to be consulted, involved, and taken into confidence. Modernizing of the state means reforming institutions to make all
this possible. For by now, it is fairly obvious that reform by stealth is not going to work.

Management of the Public Sector

Even the most conservative advocates of the private sector have recognized that the long gestation period for social overhead capital projects, the large investments required, and the state of capital markets in developing countries make these projects less than enticing to the private sector. For this reason, public sector involvement in expanding social overhead capital has not provoked much resistance.

Many developing countries, however, take the more expansive view of including in the public sector's purview a number of industries considered to be of strategic importance. State intervention has sometimes been justified on grounds similar to those applicable to social overhead capital, such as barriers to entry and lack of private initiative (Levy 1988). Another argument is that, because profits constitute the most important source of accumulation in a dynamic economy and are an important determinant of income distribution, their socialization and the prevention of their wasteful consumption by private capitalists could at once accelerate accumulation and help reduce inequalities of income and wealth. And another justification for state involvement is that public enterprises can set the pace for strengthening technological capabilities and accelerating technical progress.²

The surge of pro-private sector ideological fervor since the late 1970s has rekindled the old antagonism toward the public sector of developing countries. With public enterprises increasingly viewed as an inefficient drag on the economy, privatization now figures prominently in the programs of structural reform sponsored by the World Bank and the International Monetary Fund.

Anti-public sector sentiment cannot, however, be dismissed as purely an expression of ideological bias. There have been visible gaps in the performance of the public sector. Results of public sector operation in India, for example, have fallen far short of original expectations. The enterprises have been effective in bringing some balance to the regional distribution of industry—an important consideration in managing a polity as diverse as India—and have been pioneers in introducing new technology. But, perhaps because of the monopolistic environment in which they often operate, they have not kept abreast of technological developments. The biggest disappointment has been their failure to generate adequate surpluses to finance sustained expansion of investment. Both operational deficiencies and restrictions on their freedom to vary prices have contributed to this outcome.

² All these arguments played an important role in the expansion of the public sector in India during the First and the Second Five-Year Plans (see Singh 1986).
But if further expansion of the public sector is not the answer, neither is wholesale privatization of existing public enterprises. Even in countries where the private sector is quite well developed, such as India, private sector management even of unsophisticated industries, such as textiles, has been far from encouraging. The privatization experience of developed capitalist countries has little relevance for developing countries with limited entrepreneurial and risk-taking capabilities. Moreover, economic policies do not operate in a political vacuum. Often, proposals for large-scale privatization do not enjoy wide public support. Thus, in practice, there is often no alternative but to get on with the task of improving the efficiency of public enterprises.

How best to manage the public sector is a key issue of contemporary development policy. Can new ground rules be devised for giving autonomy to public enterprises, so that they can function without day-to-day government interference in their operation? Is it realistic to expect government, as owner, to pass an ordinance of self-denial, of noninterference in the day-to-day operations of public enterprises? Will managers—whose appointment and removal are in the hand of government—exercise their powers or play safe by consulting frequently with government authorities even on day-to-day matters? And, since many public enterprises function in a noncompetitive environment, how can effective pricing policies be evolved which neither reward inefficiency nor provide undeserved monopoly rents? The answers to these profoundly important questions are again likely to be location-specific. Here, then, is another area for fruitful multidisciplinary research.

The outcome of efforts to improve the working of the public sector depends a great deal on the character of the government. Under a regime that regards the state as the private property of rulers, the development potential of the public sector cannot be realized. With a rotten state structure, public enterprises cannot be pacesetters of development. But then a rotten state structure is also unlikely to provide a hospitable climate for the functioning of private enterprise by the rules set down in orthodox textbooks. It should not be difficult to make a realistic assessment of the limitations of the "crony capitalism" which flourishes in a number of developing countries. Nor should we perhaps overlook the potential for reform of defective state structures as an inescapable part of the process of growing up.

In the final analysis, the quality of a polity is a major determinant of the pace of development. And the quality of a polity cannot be divorced from the quality of the state. Privatization is no panacea for all the ills of the public sector. It must not distract attention from the essential nation-building task of modernizing state structures. There are no shortcuts to prosperity and progress.

III. Reform of the Trade Regime

Citing the success of the East Asian countries' export-oriented development strategies, international financial institutions have been pushing the developing
countries toward more export-oriented policies for managing their external payments. Intense pressure has been brought to bear on developing countries to devalue and liberalize their import regime so as to enhance the relative profitability of exports.

A dynamic export sector is clearly important for the efficient management of the economy, since import needs inevitably rise at least as fast as national income in the process of development. Thus, there is certainly a strong case for protection levels to be rationalized in line with perceived long-term comparative advantage and, over time, to be reduced to provide the stimulus of foreign competition in domestic markets. And the anti-export bias implicit in the incentives of tariff and exchange rate systems needs to be removed.

Industrialization based on the export of labor-intensive products has contributed to the growth of output and employment in the labor surplus economies of East Asia. And such countries as India have missed valuable opportunities by underestimating the growth potential of labor-intensive industrial products and by investing too little in export efforts. In many African countries, however, domestic supply conditions—including the level of development of human resources—do not favor export-led industrialization based on labor-intensive products. They have to rely on the export of products intensive in natural resources—often produced with the help of transnational corporations—which cannot generate the same dynamic effects on income and employment as labor-intensive industrial products.

So, what scope is there for growth of exports of labor-intensive manufactures from developing to developed countries? Once demand conditions improve, supply bottlenecks can be overcome. But will markets still be available if all the countries that have pursued inward-looking development strategies switch over to export-oriented strategies based on labor-intensive manufactures? This is a critical empirical question: a reliable answer to it can have a material influence on future development strategies. The beginnings of an answer may be indicated by the priority accorded to developing countries' interests in the Uruguay Round of multilateral trade negotiations.

IV. Development Assistance and Conditionality

In the 1980s both international financial institutions and bilateral donors have massively increased the conditionality attached to their development assistance. In principle, one cannot object to performance norms and conditionality designed to ensure that this assistance is used to promote genuine development. Such an assurance can only strengthen the hands of those in the developed countries who believe in a concerted global attack on world poverty. But the developing countries also need an assurance that any monitoring and policy stipulations are based on objective analysis and are in no way colored by ideological preference and prejudice. The international credit mechanism is in the final analysis a highly political mechanism. Creditors—particularly those who act as lenders of last
resort—are in a strong bargaining position and are often able to impose their views on borrowers. Only an impartial international evaluation of development performance can inspire the confidence and respect of both donors and recipients. The rationale for such a mechanism is well set out in the essay from which I quoted at the outset:

Today we have competence, finance and no democracy in the international banks—and democracy and no finance in the United Nations. The 1954 ECLA report proclaimed the need for a separation of programming and financing. An independent body—not responsible to either creditors or debtors—should evaluate the programmes, and resources should be allocated according to that verdict. The World Bank has a good staff... but the developing countries have no confidence in the vote of its board because creditor countries have the overwhelming majority; the developed countries, on the other hand, have no confidence in the United Nations. It is part of national sovereignty for each nation to limit its own rights. There will be no satisfactory solution to this problem without some sort of arbitration. Only an International Development Council—an International Court of Economic Justice—can solve the problem. The Committee of IX of the Alliance for Progress was an attempt to apply such an International arbitration. It failed because of sabotage on both sides, but all great ideas first fail. All progress is first proclaimed to be impossible, but is then realized [Rosenstein-Rodan 1984].

The experience of the 1980s suggests that this may well be an idea whose time has come. At all events, it should figure prominently on the agenda for development policy research.

REFERENCES


