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The Present State of the Theory of Development Economics in the Economic Thought

Abstract

Development economics became a separate discipline in economic science in the 50s but only in the 60s and mid-70s one noted a bigger interest in those issues. In the 80s it turned out that despite some successes the economic progress in developing countries was less satisfactory than expected. In the mid-70s and 80s development economists became more sceptical in their evaluation of competence and motivation of national governments. Specialists in this discipline started arguing for free market and free international trade. However, in the mid-80s one noted a serious deadlock of this discipline because of the general failure of economic development of the Third World. There took place a movement of economic theory and practice in the direction of neo-classical solutions. Many politicians and scientists believed strongly in the effectiveness of the so called Washington consensus. In the light of this analysis it is doubtless that development economics is still in deadlock. Unfortunately, neo-classical hopes have not been fulfilled. The Washington consensus was not enough to trigger off long-term developmental processes. The post-Washington consensus is emerging and the debate on the economic development needs to re-start again. However, the past lessons should not be forgotten.

1. Birth of development economics as a discipline of economic science

Kindleberger wrote that theory of economic development could not be compared to theory of economic growth, as the latter one is simple, elegant and easy to explain. Theories of economic development are general, vague and chaotic – a little bit similar to mass poverty which they are trying to explain –

due to the variety of economic, political and cultural conditions, difficulties in defining the nature of this phenomenon itself or due to evaluative opinions of the researchers (Herrick, Kindleberger 1988).

After the Second World War, widespread interest of economists in development of backward areas was related to the process of disintegration of colonial system and to current socialist changes. Development economics was created in the late 40s and faced the issues of the division of the world into the rich and the poor. Differences between the countries were so big that they could not be explained in terms of equipment with production factors, technological level and economic politics. Hence, in economic science a trend to create a new discipline appeared and strengthened.

Development economics became a separate discipline in economic science in the 50s but only in the 60s and mid-70s one can note a bigger interest in those issues. Gradually, there has appeared a big literature concerning the development of the Third World. Sauvy is supposed to be the author of this term (Third World); he used it in 1952 meaning the so-called „third state" of the pre-Revolutionary France, i.e. other social groups than clergy and aristocracy (Ash Narain Roy 1999, p. 3).

Out of the rich developmental literature we can enumerate as an example: structural theories (social-economic pluralism, vicious circle of poverty /Nurske/), great push concept (Rodan), sustainable and non-sustainable growth (Hirschmann and others), theory of dominance and dependency (Preibisch, Sunkel, Furtado, Frank and others), radical and neo-Marxist (Frank, Amin and others), neo-institutionalism (Myrdal), different growth (Illich, Sachs and others), etc.

We can attempt to sort out the theories of economic development according to different criteria. They can be divided into two main categories, which have their theoretical and philosophical roots in the 18th and 19th century European thought. In both cases it was presumed that progress and development were possible and desired. However, the representatives of the first group were convinced that the interests of nations and social classes were compatible and harmonious (classicists and neo-liberals), while the proponents of the other group represented a different opinion, i.e. claimed that there existed a definite conflict between those interests (Marxists, dependists and radicals) (Black 1999).

In the literature the theories of economic development are generally divided into three groups:

- neo-classical theories of economic development (including such economists as: Bauer, Schultz, Meade, Meier, Bruton and others);
- theories of structural imbalance (Chenery, Nugent Jeffrey and others);
- radical and Marxist theories of economic development (Baran, Gunder Frank, Lenin, Amin Samir, Palma Gabriel and others).

They have different ideological origins, a different degree of attachment to the „market" and mechanism of creating „just prices", different approach to the international economy and, first of all, evaluation of the role of state in the economic life (Herrick, Kindleberger, pp. 48–61).

Different governments tried with limited success to implement some theories and concepts of economic development. A good example of that is a few years period of successes of non- sustainable growth (according to Hirschman's concepts) in Brazil in the 60s. On the side of – unfortunately – few successes of the economic development of the Third World we can enumerate such achievements as:

- fast economic growth of a limited number of countries (mainly south-eastern Asia);
- periodic acceleration of economic growth in some countries (such as Brazil and the Ivory Coast in the 60s and 70s);
- rather widespread prolongation of average life expectancy in poor countries thanks to progress in medicine;
- decrease of illiteracy.

2. Crisis of development economics in the 80s

In the 80s it turned out, however, that despite some successes the economic development in the Third World was less satisfactory than expected. There was not any definite progress in the improvement of social welfare, which was expected by many development economics specialists. It is hard to announce an unconditioned failure of development economics or of general economic development. Some successes, however, were unexpectedly accompanied by widespread dissatisfaction. First of all, there were not enough new working places, social disproportion increased and poverty areas grew; the cultural identity of many countries was lost, the phenomenon of dependency deepened and new problems appeared. The latter ones include emergence of surplus and unused capital in rich Arab countries (Qatar, Kuwait and Saudi Arabia). These countries were able to use for their own developmental purposes only 10–25% of capital at their disposal. For many economists „it was in fact one of the problems which development economics was not prepared to solve" (Bruton 1985). Hirschman wrote that nowadays there was almost no hope, which the economists of the 50s and 60s had, for developmental opportunities of the Third World (Hirschman 1981). Sreeten claimed that „at the end of the day we must admit that we do not know what causes underdevelopment, and, what is worse, we lack a clear plan and timetable of further scientific research" (Streeten 1984).

These moods caused in the mid-80s a significant increase of debates between the adherents of neo-classical approach to the economic development (such as Ian Little, Anne Krueger, Deepak Lal and others) – known as the World Bank group – and widely understood and varied „rest" representing different trends of development economics, such as: structuralists, dependists, neo-institutionalists, economists from the Brandt Commission and many others. Lack of economic development was explained generally by a bad price system (neo-classicists), wrong investments allocation or a wrong choice of production technology (Stewart 1987).

The basic difference, however, between the World Bank group and the „rest" is based on a different approach to the role of state in the economy and a different emphasis, for example, as far as prices are concerned. It did not mean at all that the „rest" rejected neo-classical instruments „en bloc", but as Streeten wrote: „a good price system does not mean the end of the economic development process although it is obvious that a bad price system can totally hinder economic development. According to „the rest" there were no bases to claim that disfigured price system can lead to a higher level of welfare than the system containing different forms of state intervention. The „rest" was convinced that, despite liberal claims, it is impossible to trigger off developmental processes in the Third World without state intervention (in Asia the state played a leading role even in the countries realising open and pro-export developmental strategy).

The most characteristic feature of works on this kind of economics in the early period was a deep conviction about a saving role of the state in the economic life of the underdeveloped countries. Scientists were in favour of anti-price mechanisms, state control, interventionism and protectionism in the foreign trade. In a way this was consistent with the economic spirit of that era – the state was to be strong and active in the economic life. It was partly the result of emerging of these countries out of colonialism. It was then commonly accepted that economic freedom did not give anything to the underdeveloped countries, and an active role of the state should be the only opportunity for the acceleration of the economic growth and development. It was also thought that capitalism would not „provide goods" and that at least mixed economy is necessary. In many cases a number of countries obtained political independence but without greater economic independence. Thus economists from the underdeveloped countries and representatives of positive approach in development economics dealt with describing market drawbacks and in a normative approach they spoke in favour of state interventionism.

In the mid-70s a big change started in the approach to binding developmental paradigms not only in the developing world but also in highly developed countries. Later this process was to include also socialist countries. Development economics started arguing for free market in the national economy and foreign trade as well as for restriction of the role of state and limited interventionism. The countries of the so-called economic success such as South Korea, Taiwan and Singapore provided many arguments. In this economic trend the approach to government changed as well. (Lal 1983, p. 109). In the beginning there dominated opinions about the necessity of a strong and well informed state, ready to defend the interests of society and thriving to obtain welfare. In the 80s development economists became more sceptical and even cynical in their evaluation of competence and motivation of governments. The governments were more often perceived as economic units realising politicians' or bureaucrats' interests or the aims of strong but small interest groups (Balasubramanyam and Lall 1991, p. 12). The governments became a problem not a solution.

It is beyond doubt, though, that in the late 80s the situation of the so-called „rest" significantly worsened for some important reasons:

- In many poor countries there was a re-evaluation of opinions concerning the effectiveness of state in the solution of social-economic problems. The governments became suspect and the administration turned out to be parasitic and corrupted (an English economist Bauer described political systems of developing countries as „cleptocracy").
- Foreign aid reached mainly the ruling elite, not the poor and needy.
- Development did not reach the size of „national uprising" and social consensus concerning aims of economic management collapsed.

Simultaneously, representatives of development economics continued their defence of the conviction that specific characteristics of developing countries render it impossible to use neo-classical instruments (Keynes' instruments included). These features covered:

- dual (plural) social-economic structure (sharp division into modern and traditional sectors);

- dominance of a traditional sector with the significant part of natural economy (for example 50% of agriculture) and the lack of market infrastructure (such as finance institutions) and the absence of the market in many economic areas;
- a big informal sector does not allow presuming full employment;
- family or state companies and not capital ones dominate in the economy (in the late 80s);
- demand and supply generally react differently to price changes (they have little flexibility) and production factors are not substitute;
- In the economies of these countries several atypical phenomena can be observed, such as backward sloping supply curve.

It is not difficult to prove that the majority of these characteristics have survived up till now.

How can we explain the reasons for the failure of development economics as a discipline of economic science? It seems that the main reasons are as follows:

- Development economics seriously limited the scope of its research mainly or exclusively to economic factors. It is accepted nowadays that development economics should cover the whole range of developmental factors (economic and non-economic).
- Many economists used economic notions, which were totally inadequate to the reality of the developing countries (such as market categories, unemployment, etc.) and recklessly used the statistics of those countries, where the information and many data have been untrue.
- Development economics did not reach to the core developmental problems of those countries and offered mainly the explanation of replacing one economic system with another, that is replacing the traditional system with the modern one. Development strategies recommended broadening of the modern sector as fast as possible until the whole economy was modernised. Development meant replacing the traditional sector with the imported one, while the latter one was of course considered as better. Realisation of this aim was supported by propagating foreign cultural models in mass media, educating elite abroad, yielding to demonstration effects, etc. Lack of capital was considered as the main obstacle to the realisation of those aims. However, it turned out that the problems were and are much deeper than merely the lack of capital (this thesis is supported by the emergence in the 70s of a big group of developing countries, which possessed surplus capital but could not use it for developmental purposes).

People became increasingly more aware that it is necessary to work out an alternative approach, i.e. to determine the framework of changes in the traditional sector. Streeten writes that it is not easy to combine modernity with traditionalism. One of the few countries that succeeded is Japan. One should reject the solutions offering either total modernisation or total traditionalism. The latter one may mean stagnation, oppression, inertia and maintaining privileges; modernisation – on the other hand – may mean alienation, loss of identity and feeling of community. (Streeten 2001, p. 23).

3. Triumph of neo-liberals

This deadlock of development economics and the failure of economic development of the Third World countries let us understand better the movement – in the late 80s – of economic theory and practice in the direction of neo-classical solutions, and in particular strong belief in the effectiveness of the so-called Washington consensus. The last couple of years have been characterised by the belief and hope that free market supports development better than all forms of protectionism and state interventionism. In development economics there appeared two trends – the so-called „leftist" and „rightist". „Leftist" development economists accepted the so-called structuralist approach to macroeconomics, and the others – a neo-classical one.

During most of the 80s and 90s the so-called Washington consensus dominated theory and practice of economic development. This notion covered the whole range of activities that were to lead the developing countries to bigger welfare and prosperity. It included tough fiscal and monetary policy, deregulation, foreign trade and capital flow liberalisation, elimination of government subsidies, moderate taxation, liberalisation of interest rates, maintaining low inflation, etc. It was assumed that free market – with the support of the USA – would solve problems of developing countries.

Successes of Asian countries, which were realising open and pro-export strategy of industrialisation, together with simultaneous failures of different kinds of closed and bureaucratic economies gradually led to deep re-evaluation in both the theory of development economics and in implemented economic policy (Piasecki 1998, pp. 39–51). According to the representatives of a new school of thought, in order to obtain economic development, it was necessary to fulfil the following conditions:

- close correlation of economic growth with opening of national economy to the outside world;

- optimal allocation of resources is possible only in the conditions of the world market under the pressure of competition;
- the development will be faster if it is socially acceptable.

The postulates of the new paradigm were clearly contradictory with the old opinions: it was the world market which became the source of economic growth, while the national state was the source of little effective and even bad allocation of resources.

In the case of the developing countries the change was basic – from negative evaluation of foreign exchange (for example in the dependency school of the 70s) to acceptance of the paradigm that free trade and unlimited flow of capital was the only chance to overcome the barrier of underdevelopment.

On the grounds of the theory of economics, a new developmental paradigm was based on the rejection of Smith's ideas (i.e. the search for outlets for production surpluses) in favour of Ricardo's ideas (reallocation of resources through international exchange). According to the development paradigm arising from the concept of comparative costs by Ricardo and from other derived theories (real costs, alternative costs, etc.) opening to the market allows for the reallocation of economic activity into the areas where a given country has a relative advantage. Thus, international competition helps eliminate this kind of economic activity which is non-competitive and the costs of which burden a consumer's income. It is a great stimulus to produce in those sectors, where a given country has a comparative superiority. In the international literature there have been many works proving negative effects of all types of protectionism. Those analyses, however, used models that were distant from the reality; for example they assumed lack of mobility of production factors or advantage scale. One of the tasks of post-ricardian theory of international exchange was the analysis of real consequences flowing from the rejection of this type of assumptions (for example, theory of alternative costs by Haberler introduced a notion of final transformation rate, understood as production costs of a given *quantity* of goods). In the 70s and 80s there were many works, which sharply criticised anti-liberal development strategies. There were attempts to include analysis of the issues relating to the exchange of semi-manufactured articles, monopolistic competition, significance of advantage scale and functioning of multi-national companies (for example, transfer prices). Advantages from international exchange, so far treated as obvious and indisputable, became doubtful.

In the moment, when countries and companies can work out various strategies of market conquest (which is impossible with the assumption of perfect competition), a given country or/ and enterprise can attempt to subdue their competition, which, as we know, is a common practice. In the literature there are cases of countries (e.g. of Argentine of the 70s), where whole sectors of the national economy collapsed, when the economy rapidly opened to he outside world, and liberalisation was not controlled.

The hypothesis that the specialisation, which was chosen by a given country, has no effect on the economic growth, is disputable. The clarification of this issue has a key significance for the developing countries, particularly in the context of the discussion about advantages from globalisation. Adherents to this thesis argue that it does not matter for the economic development whether a given country specialises in raw materials, agricultural or electronic production. The experience teaches, however, that the development of far not all sectors bring about the same development of the whole national economy (spill out effect). What is more, the world demand grows in different degrees for individual branches of economy. Thus, too narrow specialisation of some countries (for example, of mono-cultural ones) often leads them to deep economic crises or to deep collapse of developmental processes, despite full liberalisation and integration with the world market. This argument requires a particularly careful analysis in the context of globalisation.

The second developmental paradigm was the rejection of state interventionism in favour of self-regulating market mechanisms. Three key issues were most meaningful:

- State as such is not a rational subject and it may easily become the instrument for particular interests.
- State interventionism (for example through price control, quotas, information control, etc.) leads to serious distortions in the area of resources allocation. Market mechanism much better leads to more effective allocation of production factors, which are closer to the preferences of economic subjects other than the state.
- Bureaucracy of economic life brings about the creation of parallel markets, which are getting out of state control. Thus, the bureaucracy is ineffective.

Proponents of liberalisation and free trade believed that protectionism and state interventionism led to the situation, where the holders of production factors and consumer goods obtained a kind of benefit (they are willing to sacrifice a part of scarce resources in order to obtain this benefit). It is obvious, then, that some individuals will struggle to increase their personal wealth at the cost of the whole society.

The third essential postulate of the new orthodoxy is the assumption that economic subjects in the underdeveloped countries also act *rationally* (i.e. they match the means to the aims and react to impulses from the market, though the realisation of the aims may lead to creation of institutions which in fact block developmental tendencies). This postulate broke from the old paradigm assuming that economic subjects and institution systems in poor countries do not act rationally and therefore state intervention is necessary. There were many schools of thought, which attempted to explain underdevelopment with the help of irrationality of, for instance, agricultural sector. However, nowadays this phenomenon is perceived differently. Main economic subjects act in all societies in a similarly rational way, i. e. they try to maximise income, reduce risk and effort, etc. What may seem irrational, can be explained by lack of information, high costs of entry into a given market (transaction costs), problems with obtaining loans, insurance costs, new technologies acquisition, lack of marketing skills, lack of access to markets, etc. Hence, cultural and institutional conditioning constitute a separate problem and it can significantly accelerate and delay developmental processes.

4. Limits of „Washington consensus"

The second half of the 90s, full of financial and currency crises, proved that the openness strategy also has its limitations. Effectiveness of the so-called Washington consensus (deregulation, privatisation and liberalisation) turned out to be limited in the circumstances of the developing and post-socialist countries. It is not hard to prove that the instruments of the Washington consensus cannot be the aim of their own. Flourishing market economy should be the main propeller of every development strategy but its final success depends on effective competition policy and legal-institutional system. Deregulation, liberalisation and privatisation help obtain those objectives but their effectiveness is limited if they are not accompanied by complementary reforms.

Indonesia serves as a perfect example. The financial crisis of 1997 revealed institutional weaknesses of the Indonesian social-political system. In the case of Indonesia, deregulation was seen as the objective in itself. The crisis proved that liberalisation of the banking system in that country was not effective. They lacked reliable financial structures. Similar problem turned up in relation to privatisation. Together with trade liberalisation, they are only means to obtain sustainable, just and democratic development. They cannot be goals in themselves. Strengthening of the banking system is a part of the economic foundation necessary to maintain economic stability. Consistent fiscal and monetary policy constitute elements, which build that foundation (Piasecki 2001).

According to Stiglitz, limiting oneself only to exchanging state monopoly into private monopoly is not going to create a more dynamic market economy. Moreover, a neo-classical trend to concentrate efforts on creating „just prices" is not enough for good functioning of the market economy (Stiglitz 1999). Overlooking „competition" in the Washington consensus was one of its main drawbacks. Another one was overlooking the necessity of an effective legal – institutional infrastructure.

If the market is to function properly, there must exist an effective legal – institutional infrastructure; the system must be transparent and property rights must be guaranteed. It is enough to imagine the situation when no-one knows who owns what, it is difficult to check addresses, people cannot be forced to pay debts, property cannot be divided into shares, there are not any standards of property evaluation, which makes it difficult to compare assets, and in every city or district there are different rules of property management.

Hermando de Soto writes that that is the situation in many developing countries. In order to function in the market system, capital must be represented by a property document; then it can be prescribed the status enabling to create additional value. In fact, however no formal property rights confirm assets. In this world no system of legal representation functions in practice. In the countries, which do not belong to the Western world, properties have a defective form – these are, for example, houses built on the ground with undocumented property status, unregistered companies with vague liability or production plants acting out of the investors' sight. As the property rights for the whole property are not clearly documented, it cannot be quickly turned into capital; it can be the object of limited trade in a local scale – where people know and trust each other. This property cannot be used as an additional guarantee while making loans or as shares while making investments. It is known nowadays that programmes of macroeconomic stabilisation fulfil a small part of tasks necessary to build the market economy infrastructure (de Soto 1991).

The Washington consensus also omitted the necessity of effective financial institutions. Contemporary macroeconomic theory pays particular attention to the relations between financial markets and the real economic sphere. This points out the significance of financial markets for economic fluctuation and growth.

Another key sphere was also overlooked, namely the role of knowledge for economic development. Developmental success does not mean only decreasing the gap in physical capital but also in the area of knowledge (Kuklinski 2000). Knowledge of production processes is crucial as well as knowledge of proper institutional functioning, of management and organisation.

Imperfections of information constitute another problem, which significantly hinders market functions. Traditional models, assuming perfect information, may make it difficult to understand functioning of such markets as land, labour, produce and capital in the developing countries. They cannot explain any important issues relating to the institutional structure. It is particularly important in those countries where access to information is hindered. Therefore market reactions of the economic subjects in those countries can be dramatically different from what standard models of competitive markets assume in economic theory. In these circumstances it is necessary to assume that market imperfections related to information imperfections are going to play an important role for a long time in the developing countries, „transformation" countries included.

5. Globalisation and economic development

In the mid-90s progressing globalisation – on the one hand – confirmed new paradigms of „openness", and – on the other – guaranteed their existence and development. „Globalisation", however, is a very confusing term, because authors, using it, mean many different things (Streeten 2001). Undoubtedly, globalisation is the result of production forces and progressing internationalisation of the economic life. It is a multi-factorable phenomenon, which accelerated after the Second World War, particularly during the last several years. Those factors include:

a) Development of global economy (constant increase of export of goods and services, of capital flow, liberalisation of world financial markets, deregulation of anti-trust laws, proliferation of fusion and take-overs, emergence of global consumer markets and global trade marks).

b) Appearance of new subjects on the global scene – multinational corporations, which integrate their production and marketing – dominated the world production. The World Trade Organisation – the first multilateral organisation, which can force individual governments to respects given rules, rapid development of non-government organisation, creation and a growing significance of regional integration blocks and the activity of many groups co-ordinating economic and foreign policy (e.g. G-7).

c) New rules and standards of activity (pro-market economic policy and democratic governing systems in an increasing number of countries, more and more common respect of human rights, consensus concerning objectives and actions for development, growing awareness of world ecological threats, respect for copyrights, etc.).

d) New means of international communication (Internet, e-communication, widespread use of computers, faxes, mobile phones, quicker and cheaper means of transportation, etc.) (UNCTAD 1999, p. 30).

What opportunities and dangers does globalisation bring about? Does this phenomenon really create chances for underdeveloped and developing countries? In the mid-90s many countries experienced euphoria concerning potential advantages from globalisation (which was for example expressed by the ministerial session of UNCTAD in Midrand /Republic of South Africa/ in 1996). Globalisation was perceived as a phenomenon, which could offer to people a historical opportunity for improvement of their standard of living. It was expected that the developing countries would participate in the accelerated development of the world economy. In the mid-80s one-eight of those countries experienced significant economic and social progress. However, the definite majority of the countries experienced stagnation, income inequalities increased and social dissatisfaction grew. In individual underdeveloped and developing countries progress was clearly varied (definite in Asian countries, small in Latin American countries and practically none in African countries).

Financial crises in 1996–1999 significantly annulled (or hindered for some years) the progress of the 80s and 90s, even in the Asian countries. Global financial instability led to rapid worsening of the situation and blocking of developmental processes even in those countries, which previously noted economic successes. Paradoxically, the countries, which were rather well integrated with the global economy, particularly the Southeast Asian countries, suffered most during this crisis. There the currency and financial crisis turned in some cases into a deep social and economic crisis, for example in Indonesia, where incomes of big social sectors dropped, unemployment and poverty grew, health conditioned worsened, scholarisation period shortened, the natural environment degraded, etc.

According to Ricupero, the Secretary General of UNCTAD, the reason for that was not only weak state government but also excessive openness to the world economy, or rather inability to „manage this openness”. Terms of trade worsened, influx of capital decreased. One of the characteristics of the last decade (liberalisation period) was fast growth of import and much slower growth of export (apart from China). This was caused – Ricupero writes – by combination of many factors, i.e. worsening of terms of trade, losses in the purchasing force of export as well as rapid liberalisation of trade and capital flow. The result of this liberalisation was that trade deficit of those countries in the 90s was higher than in the 70s by three percentage points of GNP, while the average economic development growth rate was lower by two percentage points. It is true that, except for the USA, other highly developed countries have not managed so far to use globalisation to provide fast and lasting economic development rate (Ricupero, UNCTAD 1999).

Globalisation and liberalisation were accompanied by deepening of vertical and horizontal income inequalities. Despite neo-liberals' expectations neo-classical mechanisms of „dripping" wealth on lower classes did not work (while incomes of the first 20% of the richest grew). Unfortunately, the expectations of advantages from globalisation for the developing world have not so far been fulfilled.

The facts, which have been mentioned above, help us to understand better the disappointment of many countries and violent reactions of some social groups during the WTO peak in Seattle in December 1999 on institutional reform of Bretton Woods (International Monetary Fund and the World Bank) in April 2000 in Washington or during other similar meetings. In many developing countries social dissatisfaction with current economic policy is growing (and what follows, there is no acceptance of new development paradigms) so strongly that it questions further maintaining by their governments of the openness and liberalisation policy. The world economic system, which does not give any opportunity for poor countries to improve their living standards, is losing its attractiveness and no world system can keep on functioning without the support of 80% of the world population living in those countries. Increasing number of economists argue that globalisation covers only 20–25% of the world population, while the rest is being left out on the margins. The vulnerable spot of the world economy is inadequate purchasing force of the population of the developing countries. 1.8 billion consumers out of 6 billion people can really afford to buy goods and services on the world market. Out of this number only 900 million people are within the reach of the banking system (de Rivero 2001, p. 82).

International trade and finance flow, direct foreign investments and other forms of supra-national connections of private companies are the main globalisation instruments. The latter one creates the conditions leading to further expansion of those flows and connections. *The relations between globalisation and development are not unanimous for many reasons. It is worth stressing out the most important ones:*

1) *International structure of trade and finance often creates unnecessary obstacles for poorer countries preventing them from taking advantage from globalisation.*

2) Underdevelopment and poverty result in the lack of adequately qualified staff in those countries, capable of coping with rapid changes in knowledge, information flow, new instruments and financial practice.

For all those reasons the developing countries have much fewer opportunities to choose and take advantage of globalisation than highly developed countries (poorest countries face hardest problems). The key problem for the global economy is – on the one hand – deepening of the gap between the more dynamic and complex world of international finance and fast globalisation of financial deposits and – on the other hand – the absence of a relevant institutional system capable of management and effective control over those processes.

According to de Rivero, theoreticians, experts and politicians have believed that social and economic development is an innate characteristic of all the countries. It is enough to implement correct theory and economic practice and the poor countries will generate welfare and become as rich as contemporary highly industrialised countries. Many great economists (Smith, Marx, Rostow and others), creating different theories of social development, reinforced politicians and societies in their conviction that this belief was right. This mythical character of development often leads politicians from poor countries to highly unrealistic expectations and demands to act to „close down the gap", which separates those countries from the highly developed world. This is expressed by different UN resolutions about the right of development, which is often interpreted as the right of poor countries to obtain standards and models of consumption of the industrialised countries. It is obvious that such resolutions, although they can play an important role in propaganda and politics, have no relation to the real possibilities of their realisation. On the contrary, hypothetical achievement by the developing countries of a today level of consumption of the industrialised world would mean the global catastrophe of the natural environment (de Rivero 2001, pp. 110–114).

Since 1982, when the debt crisis started, only in Africa they have implemented or tried to implement 162 adaptation programmes, compared to 126 programmes in other developing countries. Some African countries attempted to implement four further programmes in 1983–1993 (UNCTAD 1993, pp. 163–167). Now, after twenty years of realisation of subsequent ideological experiments, Africa entered new millennium as the continent with highly dysfunctional and marginal national economies existing outside the global economy.

Severine Rugumamu writes that in the coming years of the 21st century the position of the African continent in the world economic system will probably keep worsening in a short and middle perspective. Its economic growth will be slow and sometimes even negative, terms of trade and debt crisis will worsen; areas of poverty will increase. Simultaneously, population will grow and deadly diseases will spread (Rugumamu 2001, p.77).

6. Summary

It is beyond doubt that developmental objective should be modification of the traditional sector so that it would become dynamic and flexible, suited to the needs and ambitions of the traditional environment. A proper development theory should explain the mechanism of inner dynamism of the traditional sector. The events in the USA of 11 September 2001 clearly reminded us of the rightness of that line of thought. Therefore failures of development economics are related to the imposition of total (Western) modernisation on the societies, whose traditions, values, habits, social strata, concepts of economic activity, etc. make it impossible and undesired to absorb this kind of solutions and mechanisms. Process of enforced replacement gives rise to conflicts, doubts, etc. Borrowed institutions are ineffective, and their presence hinders and even blocks development of new ideas and solutions based on local concepts of development. Social cost is difficult to determine, and this can be the fundamental cost of misdirected development. It turned out that many enterprises were ineffective, for example, world development aid, some World Bank loans, private direct investments, etc. Many of these activities undergo bureaucratic and corruptive manipulation. These are often make-believe activities, which contribute little or nothing to the development of poor countries.

In the light of this analysis it is doubtless that development economics is still in deadlock. Neo-classical hopes have not been fulfilled (Kołodko 1999). The Washington consensus obviously is not enough to trigger off long-term developmental processes (Fine, Lapavitsas, Pincus 2001).

What factor should therefore the so-called post-Washington consensus pay attention to? From the developmental experience of the past years, a new developmental paradigm is emerging, the elements of which can be described in the following way:

a) basic economic environment should support investments in the long-term;

b) economy should be very sensitive to market stimuli;

c) human resources should complement physical capital;

d) quick flow and information absorption in the fast changing world attribute the key role to the institutions and mechanisms, which jointly react to the stimuli;
e) wherever there are market imperfections, state intervention should be market friendly.

These considerations concerning new developmental paradigms contain many.observations, the majority of economists agree with:

Firstly, it widely believed that current developmental models were rather short-term and therefore led to negative results. It means that long term has a key role for the economic development.

Secondly, investments in human capital have fundamental meaning for the development success in the long term.

Thirdly, it is believed that institutional solutions have more and more decisive meaning for the developmental efforts; present institutional structures in many developing countries are inadequate and counter-developmental. It is crucial to adapt the institutional system (the market itself is an institution) to the requirements of the market economy. Cultural conditioning of individual countries should be more closely analysed.

Fourthly, system of incentives is essential both for individuals and the whole society and these solutions should be included into the development policy.

Moreover, it is commonly accepted that developing private sector has a key meaning for the economic development.

There is no agreement, however, among economists, concerning such issues as:

Firstly, in the issue concerning reduction of poverty and general acceleration of economic growth.

Secondly, in the issue of the state role in the initiating of developmental processes (interventionism in relation up-down or a greater role of individual liberal choices even at the cost of growing inequalities).

Thirdly, as far as a political factor in developmental processes is concerned.

Fourthly, in the issue how can we mobilise best social support for the development of national human resources, population programmes, development of physical and information infrastructure, creation of new financial institutions as well as for the currency exchange rate policy, inflation objectives, international capital flows, etc.

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