

The Global Spread of Neoliberalism (1980s – 2010s)

*From alternative development theories to
the “Washington Consensus” and
the “End of History?”*

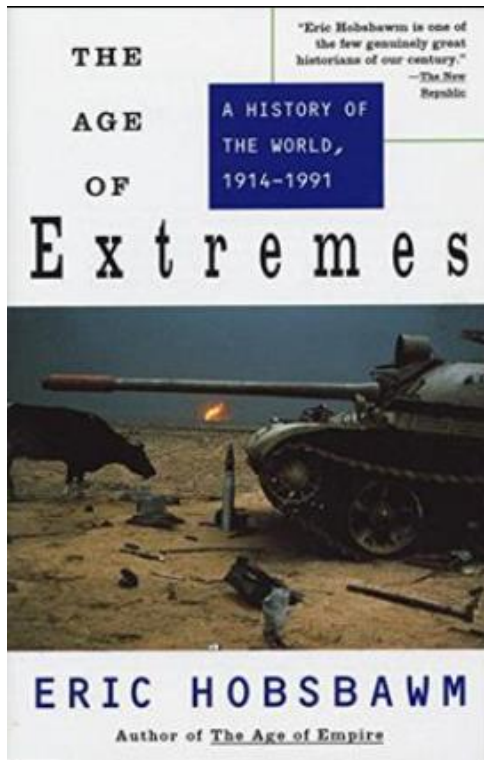
Le plan

- Development economics as an independent discipline
- The Third World Debt crisis the “Washington Consensus”
- The of *The End of History?*

Development economics as an
independent discipline

Alternative economic and social systems

After World War II alternative development theories emerged: success of the USSR, anti-colonialism, critique of "Western" dominance



“It is one of the ironies of [the] strange [20th century] that the most lasting results of the October revolution [...] was to save its antagonist, both in war and peace...”

Hobsbawm, Abacus edition, p 7.

Leap-frogging “stages of growth”

W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, 1960

A major historical models of economic growth.

The model postulates that economic modernization occurs in five basic stages, of varying length.

1. Traditional society
2. Preconditions for take-off
3. Take-off
4. Drive to maturity
5. Age of High mass consumption

Source: https://en.wikipedia.org/wiki/Rostow%27s_stages_of_growth

Alternative development theories

- **Big-push** industrialisation (Rosenstein-Rodan), coordinated by state, lead sectors developed together through planning, drawing on labour in agriculture.
- **More socialist, state-controlled development** by non-aligned countries (India, Egypt)
- **Dependency theory** (Latin America)
- **Self-sufficiency** (in China)

“Cathedrals in the desert”



Notre-Dame de la Paix,
Yamoussoukro, Côte d'Ivoire

“Comparative-advantage-defying industrialisation”

Justin Yifu Lin (2013)

Indonesia ship construction
in 1960s (GDP per capita
only 10% of main
competitor);

Zaire (DRC) attempt to build
a car industry in 1970s (GDP
only 5% of industry leader)

Algeria's Big Push 1967-1989

([review by Amine Haous and Justin Yifu Lin](#))

1/ Background and Development Strategy

- The strategy, inspired by structuralist economic theories, emphasized heavy industry over agriculture and light manufacturing.
- The government controlled resource allocation through a centralized planning system, suppressing market forces and imposing trade barriers

2/ Implementation and Short-Term Achievements (1967–1978)

- The strategy initially led to high investment rates, with industrial investment peaking at 54% of GDP in 1978.
- State-Owned Enterprises (SOEs) dominated key sectors, and economic growth was driven by oil revenues and external financing.
- Short-term success was evident in infrastructure expansion and industrial capacity growth.

3/ Long-Term Challenges and Economic Decline (1978–1989): imbalances, external shocks (in oil price volatility), macro degradation in 1980s > focus on agriculture & social infrastructure

4/ Causes of Failure

- **Comparative Advantage Defying (CAD) Strategy:** The focus on heavy industry disregarded Algeria's natural labor and resource advantages.
- **Distorted Institutional Arrangements:** Over-centralization led to inefficiencies, corruption, and poor project management.
- **Macroeconomic Mismanagement:** Overvalued currency, suppressed wages, and artificial price controls stifled competitiveness.
- **Dependence on Oil Revenues:** The strategy was unsustainable without consistent high oil prices, leading to fiscal crises.

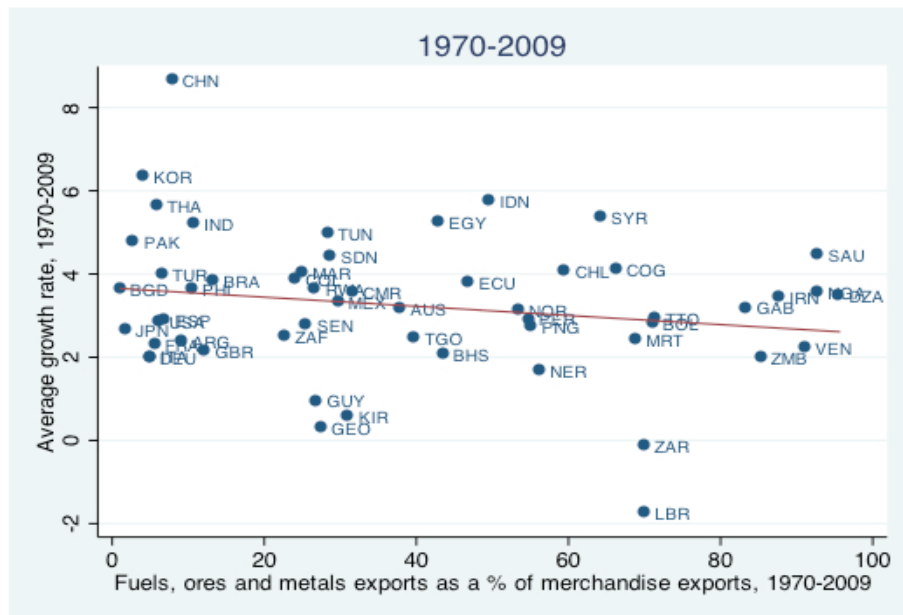
The Resource Curse

Countries rich in non-renewable natural resources often experience poor development.

Gold & silver taken from the New World in 16th century led to the “Price Revolution” in Spain ... and decline.



Resource curse 2 (Frankel, 2012, review of the literature, etc.)



- i) long-term price trends
- ii) Commodity price volatility
- iii) permanent crowding out of manufacturing
- iv) autocratic/oligarchic institutions
- v) anarchic institutions (incl. unenforceable property rights)
- vi) cyclical Dutch disease

Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, New York, Currency, 2012

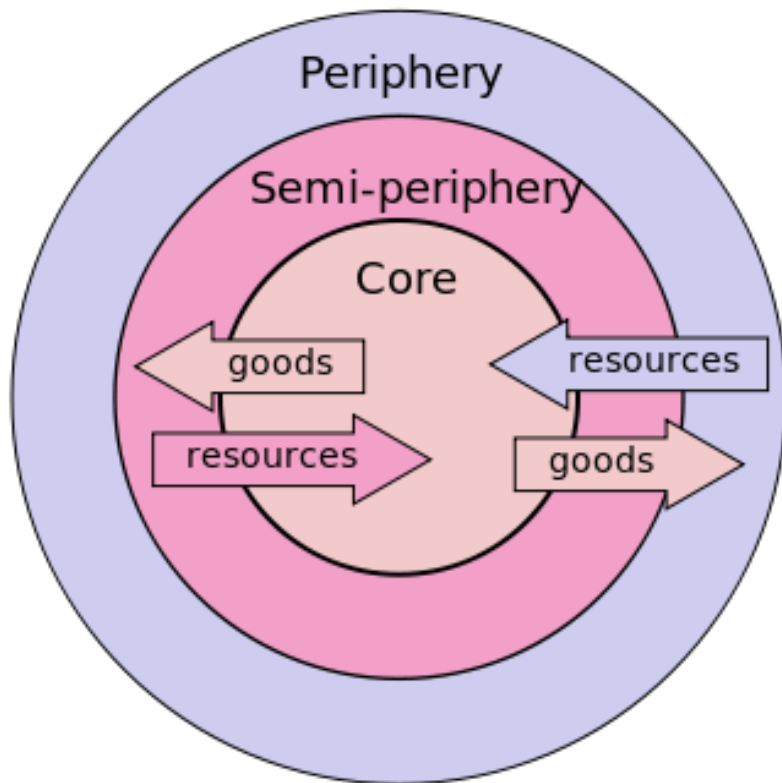
Inclusive vs. Extractive Institutions:

Inclusive institutions encourage widespread participation in economic and political activities, secure property rights, uphold laws impartially, and foster opportunities for education and innovation. Examples include the United States and South Korea, where such frameworks support economic development and individual choice.

Extractive institutions, in contrast, concentrate power and wealth within a select few, often at the expense of the wider population. These institutions, prevalent in countries like North Korea, Zimbabwe, and historically colonial states, restrict economic freedom, resulting in limited and unsustainable growth.

For a summary see the EPI “[English for economics](#)”.

Dependency theory: centre-periphery



Variants explaining economic domination and exploitation of the periphery by the centre:

Trade > underdevelopment,
as terms of trade worsen

Marxist exploitation of
labour in the periphery

Latin America > Import
substitution

Import substitution industrialisation

Theoretical basis

As a set of development policies, ISI policies are theoretically grounded on the [Prebisch–Singer thesis](#), on the [infant industry](#) argument, and on [Keynesian economics](#). The associated practices are commonly:

- an active industrial policy to subsidize and orchestrate production of strategic substitutes
- protective barriers to trade (such as [tariffs](#))
- an overvalued currency to help manufacturers import capital goods (heavy machinery)
- discouragement of [foreign direct investment](#)

Source: https://en.wikipedia.org/wiki/Import_substitution_industrialization

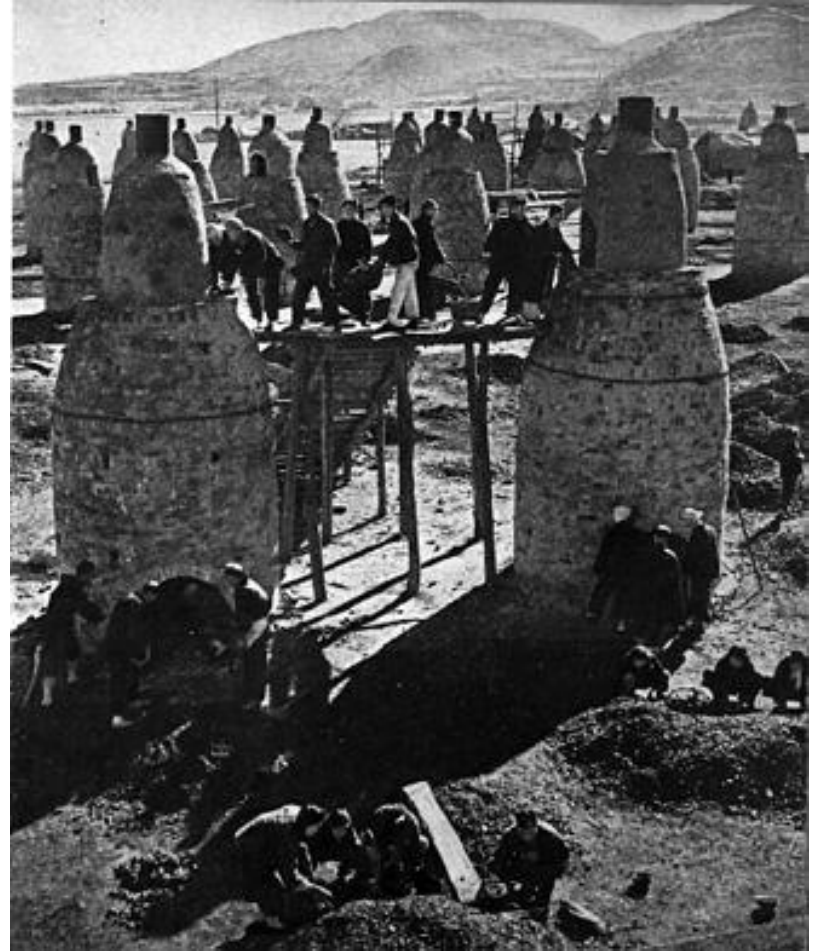
Maoist self-sufficiency

The Great Leap Forward
1958-1962

*“counting on one's own
forces”: backyard furnaces*

Converted steel into useless pig
iron, took labour out of
agriculture

The GLF and natural disasters led
to between 15 and 55 million
deaths.



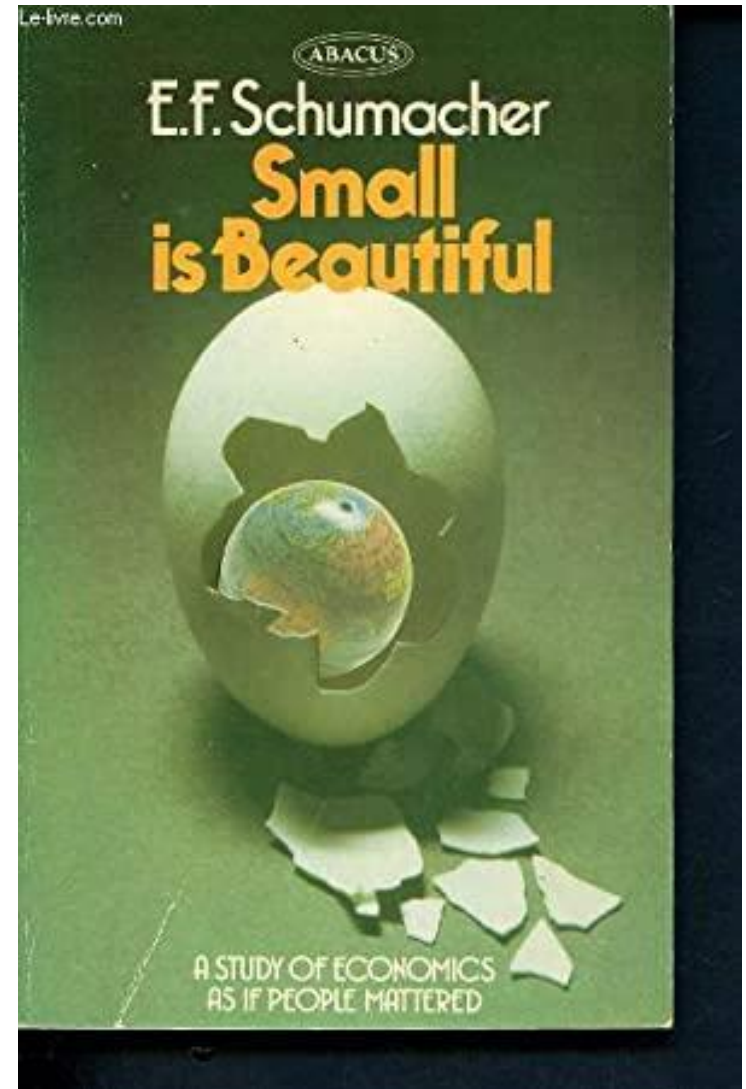
“Basic Needs” & “Small is Beautiful” – Schumacher

Basic Needs approach to development in 1970s

- Food, Water, Health, Education.

In face of **commodity squeeze** in 1970s

Generally, more modest economic activity and growth (Schumacher): natural resources are limited > sustainable growth & development



The Third World Debt crisis and The “Washington Consensus”

Re-cycling petro-dollars in 1970s

- After first oil shock, OPEC surpluses were recycled to “Third World” countries



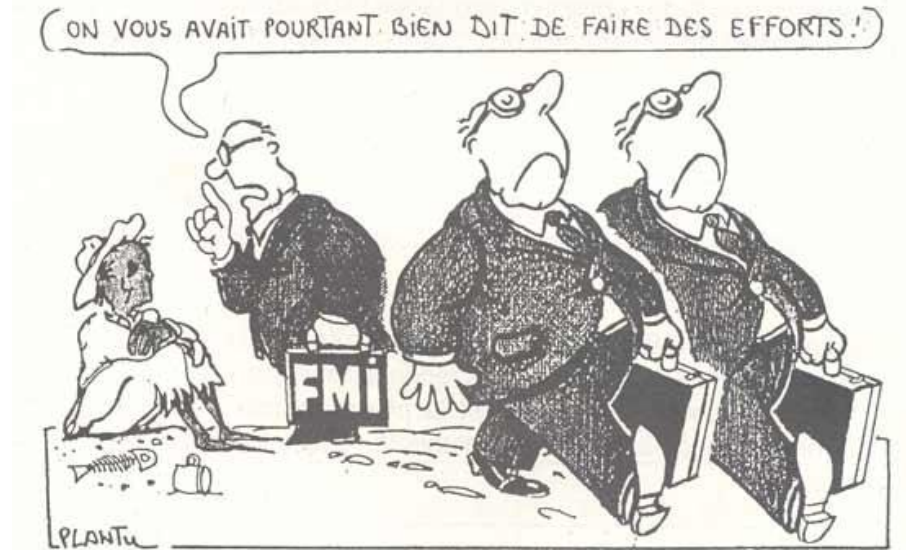
- Walter Wriston (CEO Citibank, 1967-1984):
“sovereign states don't go bankrupt”

Volcker Shock > Third World Debt Crisis

- High US interest rates > surge in dollar
- Explosion of real debt values (contracted in dollars, at floating rates)
- August 1982 > Mexico defaults
- “Third World Debt Crisis”
- A “lost decade” for Latin America and Africa
- The Asian NIC’s (South Korea and Taiwan) adjusted more rapidly.

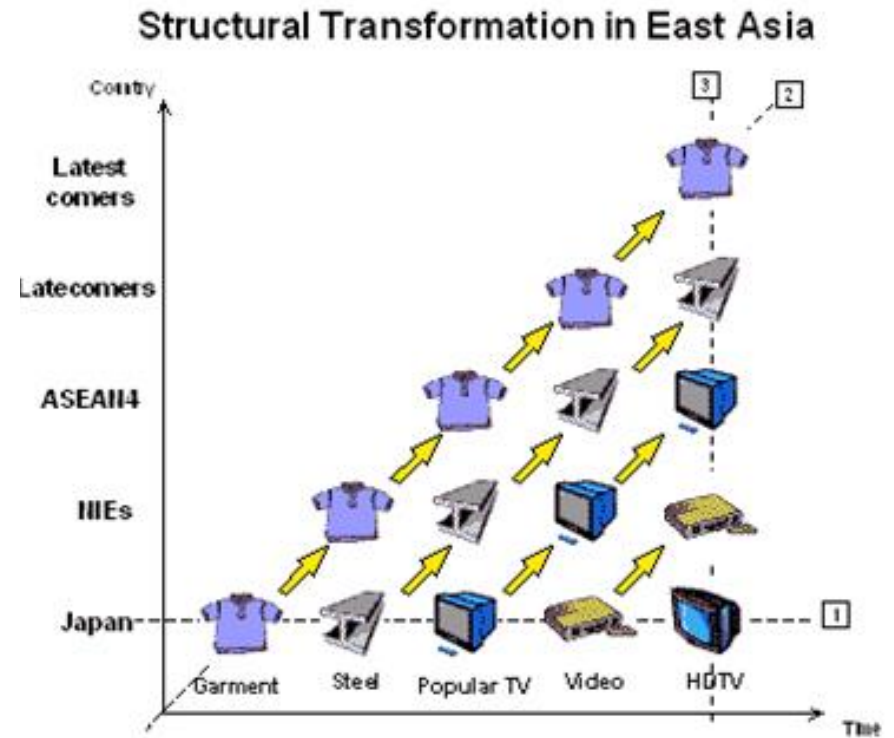
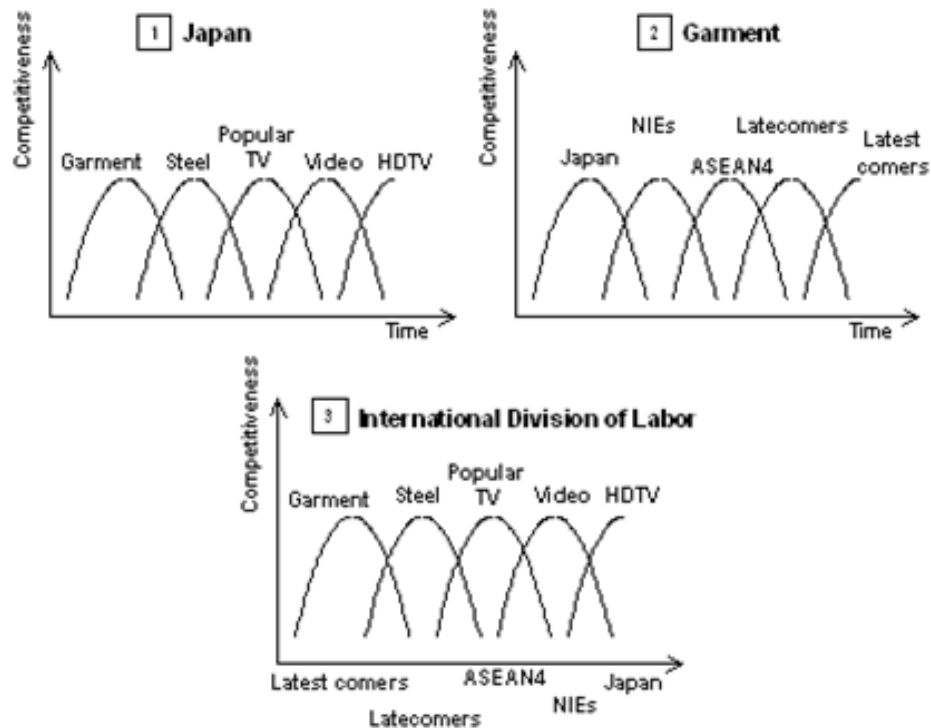
A decade of debt rescheduling – “Washington Consensus” (1989 by John Williamson)

1. Fiscal policy discipline
2. Redirection of public spending
3. Tax reform
4. Interest rates
5. Competitive exchange rates
6. Trade liberalization
7. Liberalization of inward foreign direct investment
8. Privatization of state enterprises
9. Deregulation
10. Legal security for property rights



(Source: Le Monde, 1996)

“Flying Geese” Development Model: export-led growth...



Source: <https://www.grips.ac.jp/forum/module/prsp/FGeese.htm> Justin Yifu Lin, *Against the Consensus: Reflections on the Great Recession*, Cambridge University Press, 2013.

... combined with protection of domestic markets and other policies

GPT-4 (7 March 2024)

1. Investment in Human Capital
2. Economic Reforms and Policies
3. Effective Governance and Institutions
4. Industrial Policies and Innovation

5. Adaptation and Learning
6. Socio-political Stability
7. Investment in Infrastructure
8. Cultural Factors

But now, strong demographic ageing and (very) low fertility rates

“Socialism with Chinese Characteristics”

Policy change by CCP, December 18, 1978



[Video: Deng Xiao Ping visits the USA and Texas in 1979.](#)

- De-collectivisation of agriculture
- Foreign investment in coastal areas
- Late 1980s privatisation
- 1978-2013 growth of 9.5%
- 2001, China enters WTO

The End of History?

1989: *The End of History?*, Fukuyama



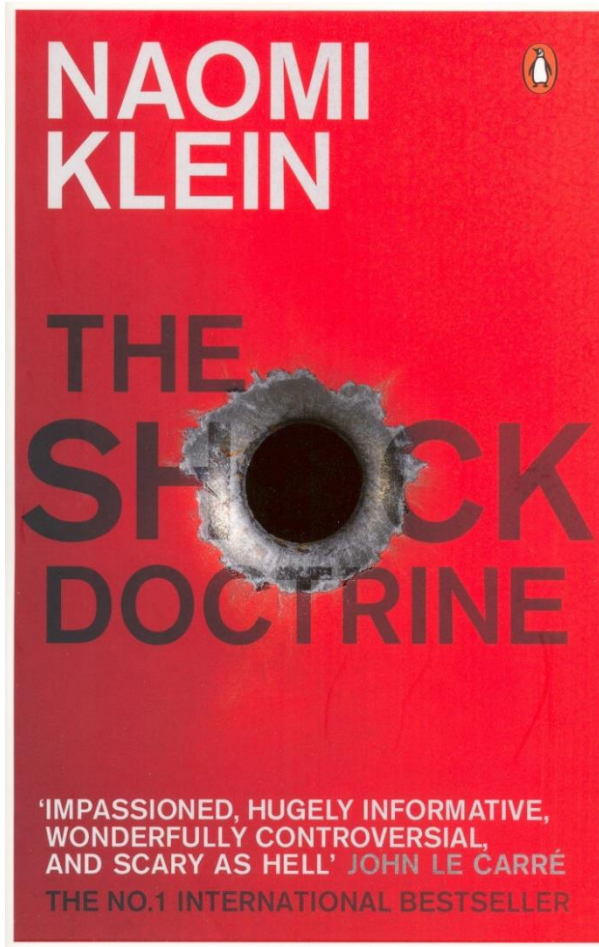
- Liberal democracy – end point of political development
- The “common marketisation” of international relations
- No more adventures
- Possible resistance to Western capitalism

“The end of history will be a very sad time... the willingness to risk one's life...will be replaced by economic calculation...”

Capitalism unopposed

- 1990s: “the holiday from history” in “the West”
- US the only superpower
- Transition in Eastern Europe was largely peaceful
- China rising
- India changing
- Authoritarian regimes disappearing
- In the West: “the Great Moderation”
- But, there were financial crises:
 - Mexico 1994
 - The Asian Crisis 1997
 - Russian economic crisis 1998

Naomi Klein, *The Shock Doctrine*, 2007



- *Shock Therapy* applied to destabilise societies subject to neoliberal reforms.
- Chile
- The UK
- Eastern Europe, Russia, etc.
- Iraq after 2003 war, etc.
- *Disaster Capitalism* > privatisation for private corporate interests
- (Hurricane Katrina, New Orleans)

BUT Market liberalisation and democracy do no necessarily go together

Tiananmen: 4th June Clearing, 1989



Chairmen of the “Central Military Commission”
Political power grows out of the barrel of a gun
([Chinese](#): 枪杆子里面出政权), Mao, Aug. 1927



1954-1976



1981 – 9 Nov 1989



2012-

Conclusions

- A narrowing of development policies
- No, clearly identifiable alternative model to integration into the global economy... as yet...
But... (Feb, 2024)
- But, not all countries are converging
- Middle income trap
- China and parts of Asia are exceptions
- “Original Sin” probably plays a key role
- Economic dualism across the world