

Alternatives to neo-liberalism in the Third World

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The Third World has entered an era of ideological flux. The inadequacies of neo-liberalism have spawned a widespread questioning of this dominant worldview. Intellectuals and political movements search for an alternative path that offers the hope of a more desirable, yet practicable, future. In response, the World Bank has spearheaded a shift from an unpopular and inefficacious Washington consensus to a more politically and socially astute 'post-Washington consensus' akin to social liberalism. This shift, though blunting the attack on neo-liberalism, has moved the debate on legitimate development strategies to the left and towards more statist policies. Proponents of 'socialism for the twenty-first century', a return to developmental states, and social-democratic paths vie for support with the now mainstream social liberalism. Social-democratic paths seem to suffer from fewer normative and practical disabilities than other egalitarian paths – at least in relation to middle-income developing countries. A major challenge, however, lies in forging a realistic 'left' alternative in the context of poor, neo-patrimonial states, such as those found in sub-Saharan Africa.

Protests against the Washington consensus

Neo-liberalism is an ideology that revives classical economic and political liberalism in a form deemed appropriate to contemporary conditions. As an ideology, neo-liberalism does what all ideologies do: it popularizes or simplifies complex theoretical or philosophical thought in order to motivate and guide political action. Ideologies constantly evolve, as their advocates appropriate popular ideas fielded by opponents and adapt to changed circumstances. In the developing world since about 1980, the World Bank has been the most influential actor in adapting neo-liberalism to developmental challenges.¹ An initial 'Washington consensus' has evolved into an expansive 'post-Washington consensus'. The former, which held sway in the 1980s and early 1990s, focused narrowly on achieving the goal of economic growth by means of macroeconomic stabilization, economic liberalization, external opening, deregulation, privatization, and minor institutional reform. This narrow neo-liberal approach achieved little success.

Despite their adoption of market-friendly reforms, many developing countries have stagnated or have experienced abrupt economic downturns. Whereas the median per capita income growth in developing countries in the era of state interventionism (1960-79) reached 2.5 percent, it was a disastrous 0.0 per cent in 1980-99 (Easterly, 2001, 135).

Branko Milanovic (2003) similarly accepts that the development record of 1960-1978 is superior on all measures to that of 1978-1998, noting that the best performers in the second period – notably China and India – did not follow mainstream free-market policies but relied heavily on state intervention. As Milanovic concludes, ‘something is clearly wrong’.

Critics have also identified several destructive trends associated with neo-liberal reform:

- High and growing inequalities have accompanied market liberalization (Wade, 2004; Cornia, Addison and Kushi, 2004). World income inequality has likely been rising, a trend that is incontrovertible if China is removed from the calculation. Within countries, neo-liberal policies have also been associated with growing inequality and poverty in most cases.
- Market reform diluted democracy, directly by removing important decisions from the public arena and indirectly by fomenting cynicism. International agreements circumscribed governmental power to regulate trade, financial flows, investment, and health and environmental standards. Global financial markets, when liberalized, punished governments that deviated from conservative policies. And inequality, sustained or exacerbated by market forces, fed a growing cynicism regarding the efficacy of democratic institutions.
- Market liberalization generated conditions that were conducive to instability and conflict. Where markets are only lightly regulated, they subject people to rapid and sometimes devastating changes in fortune. Distributional shifts, new forms of economic insecurity, and external shocks demanded strong, coherent states to devise adaptive economic strategies and mediate domestic distributional disputes. Yet these new tensions, combined with externally influenced austerity programs and anti-state ideologies, challenged the legitimacy and coherence of already weak states. The rise in grievances, coupled with increasingly ineffective and unpopular regimes, provided an opening for violent protest movements drawing on religious fundamentalism, ethnic chauvinism, or charismatic populism (Sandbrook and Romano, 2004).

These conditions have provoked a widespread questioning and even outright rejection of neo-liberalism. Protests often manifest an inseparable anti-imperialist tinge, owing to the identification of the United States government with both neo-liberalism and (especially under George W. Bush) unilateral interventionism.

Latin America has experienced a major backlash against free-market prescriptions. Since 2000, elections have brought the democratic or quasi-democratic left to power through elections in countries accounting for three-quarters of the region’s population: Brazil, Argentina, Venezuela, Ecuador, Uruguay, Bolivia, and Chile. Uprisings against neo-liberal reforms have occurred in Mexico (the Zapatistas [EZLN] in Chiapas on January 1st, 1994, the day when the North American Free Trade Agreement came into effect),

Bolivia (periodically since 2003, with so-called water and gas ‘wars’ over privatization, forcing the resignation of two presidents), Ecuador (in 2000, leading to the toppling of a government, and again in 2004-2005 as erstwhile supporters forced President Gutiérrez to resign for betraying his radical promises), and Nicaragua, where violent demonstrations in 2005 threatened to reduce the country to chaos. Further evidence of Latin American disillusionment includes the rejection of the U.S.-backed plan for a Free Trade Area of the Americas in 2004, and recent decisions by key governments to escape IMF tutelage by the early repayment of IMF loans. What unites these leftist governments and popular protest movements is not socialist doctrine. It is, rather, an inchoate view that failed neo-liberal prescriptions should be replaced with egalitarian and nationalist policies and a more central economic role for a democratized state (Rénique, 2005).

In East and Southeast Asia, most countries never embraced the Washington consensus. Instead, such rapidly industrializing countries as South Korea, Taiwan, China, Vietnam, Thailand and Malaysia had hewed more closely to the Japanese model of the developmental state. Only in the early and middle 1990s did some of these countries yield to pressures from the U.S. government and the World Trade Organization (WTO) to undertake economic liberalization, especially of financial markets. The financial collapse of 1997-1998, initiated by a run on the Thai baht, brought even such an economic powerhouse as South Korea to its knees. The subsequent misguided effort of the IMF to use its leverage with desperate governments to undertake yet further liberalization led to a backlash against neo-liberal policies (Stiglitz, 2003, chap. 4). Even South Korea, which has been a stalwart foe of communism and socialism since the Korean War, experienced a rise in the forces of the hitherto divided left following the 1997-1998 debacle. The Democratic Labour Party, demanding *inter alia* a rejection of neo-liberalism in favour of ‘socialism,’ became the first leftist party to secure a foothold in parliament, gaining ten seats in the 2004 general elections (Kevin, 2007).

In sub-Saharan Africa, the extreme dependence of most governments on western aid and loans militates against outright rejection of neo-liberal doctrine. Yet liberalizing policies that reduce state powers and resources not only have rarely brought sustained development, but also have threatened the modus operandi of neo-patrimonial rule – the rulers’ ability to service clientelistic networks (Sandbrook, 2006). Opposition often takes the form of covert subversion of ‘reforms’. Such resistance converts neo-liberal policies into caricatures (Hibou, 1999): ‘nothing is but what is not’.

Transnational protests have supplemented these national and local actions. Of special note are the so-called anti-globalization demonstrations, beginning at the WTO meeting in November 1999, the annual meetings of the World Social Forum, and the ‘50 Years is Enough’ campaign that demanded the elimination or transformation of the World Bank and IMF. The questioning of neo-liberalism has thus taken diverse forms.

From the Washington to the Post-Washington consensus

In response, the World Bank under President James Wolfensohn (1995-2005) designed a less orthodox and more complex strategy that has become known as the post-

Washington consensus. At a minimum, this evolving approach treats poverty reduction as a separate, or principal, goal of policy interventions, acknowledges that freeing markets and shrinking states are insufficient to trigger growth (let alone poverty reduction), but still holds that the best way forward lies in embracing the private sector as the engine of development. However, this embrace requires several complementary programmes: the embedding of national markets in a facilitative framework of property, democratic governance and oversight institutions, the building of human capital through widely available educational and perhaps health services, and the provision of safety nets to buttress the well-being of the losers from market reform, together with the chronic poor. The post-Washington consensus is thus a more progressive and nuanced view than the earlier stance.

The post-Washington consensus has much in common with social liberalism, in the tradition of L.T. Hobhouse and, recently, Amartya Sen (Hobhouse, 1964 [1911]; Sen, 1999). Hobhouse retained the liberal focus on individual freedom, but contended that this goal was contingent on equality of opportunity as well as restrictions on potentially repressive state power. Accessible public education and health services were essential if the accident of birth was not to determine individual capacities to experience liberty. Sen's capabilities approach similarly emphasizes equity. Development, he claims, 'consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency.' More than that, the various freedoms are mutually reinforcing. For example, 'social opportunities of education and health care, which may require public action, complement individual opportunities of economic and political participation and also help to foster our own initiatives in overcoming our respective deprivations' (Sen, 1999, xii).

The World Bank's World Development Report 2006: Equity and Development hews very closely to this theoretical position (World Bank, 2006). Its starting point is that 'individuals should have equal opportunities to pursue a life of their choosing and be spared from extreme deprivation in outcomes' (p.2). Its broader message is that equality of opportunity is not only of intrinsic importance, but also of instrumental value in promoting long-run, market-driven development and in improving the lot of the poor. This instrumental value flows from reducing the waste of productive human resources and from reshaping dysfunctional institutions that, in reinforcing inequality, undermine investment, innovation, and risk-taking (p.2). Where power structures underpin inequality, the Report advises that redistribution of assets, access to services, and/or political power may be required. 'Inequality traps can . . . be rather stable, tending to persist over generations' (p.10). Redistribution will thus allow the poor to break out of these traps.

Recent iterations of the post-Washington consensus have thus appropriated many of the central concepts wielded by leftist critics of neo-liberalism. These concepts include: equality of opportunity, redistribution, poverty-reduction, social protection, empowerment, participation, local 'ownership' of reform, state, democracy, civil society and sustainable development. Whether this appropriation has actually influenced the policies and actions

of the international financial institutions is another matter. Regardless, this response by the World Bank is a double-edged sword: it has blunted the attack on neo-liberalism, but at the price of expanding the scope of 'legitimate' discourse on the means and ends of development. The Bank's professed social liberalism has veered close to radical positions; rhetorically, it represents the 'left-wing' of neo-liberalism.

Socialism for the twenty-first century?

But not radical enough for some. In March 2005, Venezuelan President Hugo Chávez deepened his longstanding opposition to neo-liberalism (and the United States) by advocating the building of a socialism adapted to the realities of the twenty-first century. Chávez had, by then, led a coup attempt in the early 1990s, attained electoral power in 1998, and survived both an anti-Chávez coup in 2002 and an impeachment vote in 2004. The President and his Fifth Republic Movement have antagonized the business elite, much of the middle class, and the U.S. government. The government has promulgated an array of pro-poor programmes, including agrarian reform, cancelled scheduled privatizations, required state majority ownership of all oil industry operations, campaigned against the Free Trade Area of the Americas, advocated a repudiation of part of Latin America's foreign debts, and directly attacked the U.S.A. by advocating payment for oil in euros, not dollars, and by denouncing U.S. imperialism. Although most observers consider Chávez a radical populist rather than a socialist (Ellner, 2005; Wilpert, 2005), he has employed his country's vast oil revenues to garner support for his radical path at home and abroad.

Would the revival of revolutionary socialism be a good thing for the Third World? The answer depends on how one responds to another question: has socialist thinking found an institutional means of countering the authoritarian, top-down tendency that earlier bedevilled revolutionary socialist experiments? It is doubtful that the answer to this last question is yes. Democratic socialism remains an inspiring ideal. The socialist critique of capitalism is as pungent as ever. However, the intrinsic defect of a socialist vanguard in the context of underdevelopment remains.

A recent paper on 'The Strange Death of Liberated Southern Africa', written by the respected Marxist scholar John S. Saul, illustrates this lacuna (Saul, 2007). This paper explains the 'defeat' of socialism in Mozambique, Angola, Namibia, Zimbabwe, and South Africa, countries whose liberation movements had espoused revolutionary socialist objectives. Saul discusses six alternative explanations of why these movements abandoned socialism after seizing power, but underplays the possibility that activists might reasonably be sceptical of this path. He starkly depicts the alternatives as a marginalizing, poverty-deepening capitalism, on the one hand, or a revolutionary and egalitarian socialism, on the other. Those leaders who reject the latter, therefore, lack fortitude or sell out. Many of them doubtless deserve such criticism. But others may not see the alternatives so starkly etched. Saul dismisses 'the social-democratic delusion: that you can have your capitalist cake and eat your humane and equitable social

outcomes, by means of reform' (p.25). Yet people in some countries have had their capitalist cake while eating their humane and equitable social outcomes (Sandbrook, Edelman, Heller and Teichman, 2007, chaps. 3-6). This outcome is actually less rare than a liberating and egalitarian revolutionary socialism.

A liberation vanguard that struggles to achieve socialism in conditions of underdevelopment and conflict has usually arrived at a new form of class society. The dynamics of this process are well known, involving a contradiction between means and ends. The Leninist techniques of revolution and its consolidation, though effective in overturning tyranny and defeating enemies, constrain the ultimate goal of development as liberation. The hostility of national and external forces to a socialist regime, coupled with the lack of an autonomously organized working class or peasantry to check oligarchy and the inevitable decline of revolutionary fervour, lead to an authoritarian revolution from above. The result is 'bureaucratic collectivism', in which a revolutionary cadre substitutes itself for the workers and peasantry (Harrington, 1972).

Although, in Venezuela, socialism remains more an aspiration than a reality –and one buffered by burgeoning oil revenues – Chávez's authoritarian moves, including most recently the closing of opposition television stations, suggest that this unfortunate logic is playing itself out. To embrace socialism today involves a risky leap of faith.

Reviving the developmental state?

Coincidentally, the remarkable economic success of China and India has rekindled interest in the developmental state.² Chalmers Johnson, who coined this term, paints a vivid portrait, based on the experience of Japan in the twentieth century and Taiwan and South Korea from the 1960s:

A developmental elite creates political stability over the long term, maintains sufficient equality in distribution to prevent class or sectoral exploitation . . . , sets national goals and standards that are internationally oriented and based on nonideological external referents, creates (or at least recognizes) a bureaucratic elite capable of administering the system, and insulates its bureaucrats from direct political influence so that they can manage technocratically (Johnson, 1987, 142).

These technocratic methods are 'market-conforming'; bureaucrats manipulate inputs into the production and distribution processes in order to shape the decisions of private firms, and thus achieve developmental goals. 'The intent of the private system is to maximize profits, limit risks, and achieve stable growth given the political-economical environment in which it must operate, but its decisions on products, markets and investments are continuously affected by changing costs and availability of capital, export incentives, licensing requirements, and all the other things the government manipulates' (Johnson, 1987, 142). The success of China and India, in conjunction with the failed promise of most free-market experiments, has reopened the old debate about the state's role in market societies.

The normative basis of this nationalist, state-centred approach is problematical, however. On the one hand, its progressive appeal lies not only in its economic prowess and poverty reduction, but also in the relative income equality that characterized its early exemplars – Japan, South Korea and Taiwan. On the other hand, this socioeconomic success depends upon an authoritarian and potentially repressive state. Why? ‘The first and most obvious reason is to achieve political stability and long-term predictability of the system,’ states Johnson (1987, 143). Strong governments can repress assertive labour movements and others that might sabotage the model. Although liberals dislike this brutal reality, Johnson acknowledges, the end – national prosperity and equity – justifies the harsh means. But developmental states work equitably only as long as a nationalistic ethic motivates the (unaccountable) state elites. When this élan wanes (as it does), and when private firms grow more concentrated and powerful, the productive cooperation between state elites and national firms decays into self-seeking collusion (‘crony capitalism’). In short, developmental states are ‘inherently degenerative’ (Evans, 1997).

Irrespective of the model’s normative status, the developmental state is simply not a possibility today in most countries. It requires a strong and effective state, led by a cohesive and developmentally oriented nationalist elite. Such conditions simply do not obtain in most countries of Africa, Latin America, South Asia, and the Middle East. Additionally, neo-liberal reforms have removed or restricted key levers that formerly enabled developmental states to influence private firms or regulate their activities:

- capital account liberalization, pressed by the IMF and negotiators of financial services within trade agreements, has severely limited governments’ ability to shape domestic monetary and credit policies.
- The WTO rules now make it difficult for governments of developing countries to justify protecting infant industries or obtain non-reciprocal concessions for their exports to industrial countries.
- The Trade-Related Investment Measures Agreement (TRIMs) restricts governmental programmes that favour domestic firms over foreign-owned firms.
- The General Agreement on Trade in Services establishes rules that make it easier for foreign firms to compete in providing various domestic services.
- The Trade-Related International Property Rights Agreement (TRIPs) requires governments to enforce patents on products and production processes, with some narrowly defined exemptions, notably in pharmaceuticals. Bilateral agreements on intellectual property and investment are typically more onerous for developing countries than the TRIPs and TRIMs agreements of the WTO.

The ratchet effect of liberalization (always forward, never backward) makes it ever more difficult to pursue a developmental-state strategy.

Social-democratic paths

Social democracy exhibits similar developmental goals to developmental states, but diverges from the latter in its deeply democratic processes. It refers to a movement or an ideology dedicated to the proposition that a democratically-controlled state can, and should, direct market forces to promote the public interest in equality, social protection, and prosperity. By this definition, elections since 2000 have brought broadly social-democratic parties or coalitions to power in Uruguay, Argentina, Brazil and Bolivia. These aspirants join four long-established social-democratic regimes in the global South – Kerala (a state of India), Costa Rica, Mauritius, and Chile since 1990 – and several others that have fallen prey to coups, economic downturns, or decay into populism (see Sandbrook, Edelman, Heller and Teichman, 2007). In addition, several East Asian countries, especially Taiwan and South Korea, have developed comprehensive welfare states that resemble this regime.

Social democracy lies, ideologically, to the left of social liberalism, which is itself the left-wing of neo-liberalism. Two principal features distinguish these models. First, social liberalism, to achieve its goal of equality of opportunity, typically mounts a welfare state that targets the poor and provides social guarantees only to those who cannot fend for themselves. Social democracy, on the other hand, defines equality as ‘universal social citizenship’, one important element of which is a welfare state that is universal, comprehensive and generous (Esping-Andersen, 1999). Even states with low per capita incomes can come close to realizing this goal, as the case of Kerala amply demonstrates (Sandbrook, Edelman, Heller and Teichman, 2007, chap. 3). Second, social liberals retain the liberal’s suspicion of the state that contrasts with the stance of social democrats – who, indeed, endorse the primacy of politics (Berman, 2006). The latter do not accept the notion of market sovereignty, as the former tend to do. Social democrats intervene in markets not only to promote equality and social protection, but also to orchestrate incentives and regulations behind a state-initiated strategy to generate ‘good’ (i.e., productive, high-paying) jobs. (However, social democratic regimes are as constrained as developmental states in pursuing industrial strategies by the neo-liberal policies and agreements listed above.)

An underlying suspicion of the state surfaces in formulations of the post-Washington consensus. Consider the World Bank’s most expansive analysis of the role of the state in economic development (World Bank, 1997). Although this report does not reject, in principle, the state proactively adopting an industrial policy, it judges such an initiative to be foolhardy in practice: Third-World states lack the institutional capability to succeed, and, moreover, might be tempted ‘to supplant market judgments’ with those of state bureaucrats. The report advocates only those state initiatives that require a ‘light touch’. Thus, both social democrats and social liberals agree on the need for state intervention to foster economic and social development; but they differ on how extensive this intervention should be.

Judging by the achievements of Kerala, Costa Rica, Mauritius, and Chile, the

normative case for social democracy in the global periphery is strong.³ Relatively modest levels of economic development need not prevent developing countries from tackling major social problems. Exemplary social indicators set the four countries/states apart from their neighbours. They have eliminated adult illiteracy, instituted universal basic education, improved health and nutrition so that infant-mortality rates and life expectancy approximate those in industrial countries, and moved toward gender equity. Whereas the scope of social security arrangements in other countries mirrors the existing social inequality, these arrangements in the exemplars are inclusive. Finally, the four social democracies have not only consolidated, but also deepened, democracy.⁴ In regions wracked by conflict and breakdown, these cases represent models of stability.

What about the practicability of social democracy in the Third World? A comparative analysis of the four exemplary cases suggests that the conditions that produce such regimes are unusual, but not unique to these states. Several factors must come together to shape the class compromise that underpins a social-democratic regime. On the one hand, this regime requires a configuration of class forces that can induce a capitalist class to accept a smaller share of the surplus in exchange for legitimacy, political and social peace, and high productivity. This exchange is facilitated by a particular kind of capitalist transformation: one that increases the potential power of small farmers and middle sectors and/or a working class, while weakening (or avoiding the emergence of) classes – especially landlords – with an interest in preserving pre-democratic and pre-capitalist institutions. However, the realization of this potential power demands political action – both self-organization of subordinate classes and groups and the mobilisational work of left parties – and astute leadership. On the other hand, the peak organizations of the economic elites must be convinced that subordinate classes will not threaten private property.

Social pacts are therefore quite variable, depending not only on the balance of class forces, but also on: (a) the exigencies of a social and political crisis whose resolution demands class compromise; and (b) the perceived reliability and organizational discipline of the social-democratic movement. Clearly, in light of these stringent conditions, we should not expect the imminent appearance of social-democratic regimes throughout the global South – though a number of middle-income countries may provide fertile soil.

Surprisingly, neo-liberal globalization has not undermined these Third-world social democracies. The four cases have not only preserved or improved their social achievements during the era of globalization, but have also (with the partial exception of Kerala) advanced their competitive position by diversifying their exports. They have achieved this feat by undertaking only a gradual and selective liberalization while also capitalizing on the legacy of social-democratic policies: a healthy and educated labour force, an advanced infrastructure, well-ordered industrial relations, and political legitimacy and peace. There is no necessary trade-off between selective liberalization and the maintenance or promotion of social equity, provided a well-organized leftist party/coalition holds

power democratically and/or popular movements remain vigorous in defence of social programs. Social democracies may have higher costs than other countries; but prospective investors weigh these costs against productivity-enhancing human capital, good infrastructure, and superior conflict-management, which together safeguard social cohesion and industrial peace. Social democracy in the periphery can therefore adjust to global market integration through astute industrial and labour policies.

The 'left-wing of the possible'

The noted American socialist Michael Harrington stated that he wanted to belong to the 'left-wing of the possible.' What is the left-wing of the possible in the Third World today?

In the middle-income developing countries that have undergone a capitalist transformation, social-democratic regimes remain a possibility. Although the conditions conducive to social democracy are stringent, the prospects are not as bleak as they may appear. The 1920s and 1930s in Europe were also bleak decades; yet they saw the rise not only of fascism and Stalinism, but also of the first social-democratic governments. Political agency matters in shaping outcomes.

But what is the left-wing of the possible in poor, neo-patrimonial states? Here, politics usually revolves around clientelism, personalism, and ethnic or religious cleavages. Socialist transformations, where they have been attempted, have led to a degraded, bureaucratic collectivism. States are too weak and divided to support a developmental-state strategy. And social democracy presupposes a class-based politics leading to a negotiated and finely-tuned class compromise: not a likely scenario in most sub-Saharan countries, for example. If, as it has been argued on both the left and the right, there is 'no shortcut to progress' (Hyden, 1983), if progress requires a thorough capitalist transformation and the forging of a bourgeoisie and a disciplined state, perhaps social liberalism represents the left-wing of the possible in neo-patrimonial states. Its strictures on building human and social capital and good governance, removing restrictions on Third-World exports to industrial countries, and augmenting foreign aid and debt reduction may represent the most progressive and realistic programme. But this conclusion assumes that social liberalism is a genuine alternative, not just a rhetorical device to deflect criticism from neo-liberalism

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Notes

- 1 For an analysis of how the Bank maintains the dominant 'paradigm', see Broad, 2006.
- 2 On China, see Liew, 2005; Baek, 2005. India possesses neither the elite cohesion nor the state effectiveness to constitute a developmental state; nonetheless, its state has played an important role in its rapid growth (Kohli, 2006, Parts I and II
- 3 The remainder of this section draws heavily on Sandbrook, Edelman, Heller and Teichman, 2007, chaps. 1 and 9.
- 4 Even Chile has deepened the deformed democracy bequeathed by Pinochet's 1980 constitution, through constitutional amendments.