THE STATE, MARKETS, AND DEVELOPMENT
A Rapporteurs' Report

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ABSTRACT

This report summarizes the papers and discussions from a conference held at the Kellogg Institute on “The State, Markets and Development.” The first section addresses theoretical issues while the second presents the case studies discussed at the conference.

RESUMEN

El reporte resume los trabajos y las discusiones de la conferencia realizada en el Kellogg Institute sobre “El Estado, Mercados y Desarrollo”. La primera parte analiza temas teóricos y la segunda presenta los estudios de caso que se presentaron en la conferencia.

INTRODUCTION

On 24-26 April 1992, scholars from Asia, Europe, Latin America, and the US met at the University of Notre Dame for a conference entitled “The State, Markets, and Development.” The conference was organized by Amitava K. Dutt, Kwan S. Kim, and Ajit Singh, and jointly sponsored by the Kellogg Institute for International Studies and the Department of Economics of the University of Notre Dame.[1]

In the context of the current changes in the role of the state in Latin America and Eastern Europe, the conference focused on the theory of the state and markets for developing countries. There was general agreement that the interaction between the state and markets plays an essential role in the economic development of these nations. Considering the experience of Japan and the East Asian NICs, the participants agreed on the importance of state intervention. It was also acknowledged that this interaction has to be analyzed in the specific institutional domestic and international sociohistorical context of the respective countries. Moreover, there was a consensus that neoclassical theory and neoliberal policy do not provide sufficient elements for the understanding of this complex issue. However, there was disagreement on what a ‘successful’ economic strategy should be and on the degree of state regulation and market competition that would lead to successful economic development.

This report will give the reader a summary of the papers and discussions. It is divided into two sections: the first will delineate the theoretical issues at stake, while the second presents the case studies discussed at the conference.

THEORETICAL PERSPECTIVES ON THE STATE

This section reports on discussions about the theoretical role of the state centered around the papers by Streeten, Haq, Taylor, and O’Donnell and the dialogue they provoked. The benevolent view of the state sees government as the protector of the common good. The state is seen as having specific limited functions in a market economy: to provide a functioning legal system and a stable macroeconomic environment; to correct market failures; to provide or tax merit goods; and perhaps to subsidize infant industries. All other forms of economic activity are better left to the market which will provide goods as efficiently as possible. This benevolent view of the

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[1] Please see pages 13-14 for a complete list of participants and papers presented.

state has come under attack by the public-choice school as naive. In this view politicians and individuals who comprise the state are seen as maximizing their own utility functions (whether to get re-elected or to maximize their incomes) which will not lead to actions of a benevolent state attempting to maximize the common good. Rather it will lead to wide-spread rent seeking. The implication of public-choice theory is that the state can be trusted with very little. Arguments of market failure are no longer enough to justify state action since there is no guarantee that the state will want or be able to solve the problem.

In his paper "Markets and States: Against Minimalism," Paul Streeten pointed out that if the benevolent view of the state is naive, so is the public-choice picture. Just as government action can lead to rent seeking, private individuals operating in markets can collude and seek rents—something that Adam Smith cautioned against many years ago. In fact, Streeten argued, efficient markets and minimalist states may be incompatible. The state has to be a vigilant watchdog to prevent unproductive rent seeking in the marketplace. The strong version of this view is that an authoritarian state is needed to prevent rent seeking.

In addition to the watchdog role of the state, Streeten stressed the positive role of the state in market economies, a recurring theme throughout the conference. The success of the newly industrialized economies cannot be explained by 'getting the prices right.' He brought up the important distinction between price policy, using price to achieve strategic objectives such as getting firms to invest in key areas, and laissez-faire prices, letting prices be set by the market in the belief that this will lead to optimal outcomes. Singh pointed out that the Japanese and the Koreans manipulated prices to provide a strong export bias. He also suggested that when prices fluctuate excessively they lose their signalling power, so another justification of a price policy is to move towards the 'optimal degree of competition,' which may not be the free-market level of competition.

State action and markets go hand in hand in developing economies. Several participants suggested different components of successful state interventions. Irfan Ul Haq's paper "International Competitiveness: The State and the Market" indicated several policy measures to improve productivity growth. He began by reviewing neoclassical trade theory which holds that countries will gain by concentrating on their comparative advantage and will achieve allocative efficiencies by opening their economies to international competition. This was not the strategy of the East Asian countries. Rather than focusing on industries in which they had a comparative advantage, they created comparative advantage in specific industries; instead of worrying about allocative efficiency, they concentrated on productive efficiency. Although the determinants of productivity growth are not well understood, investment rates, amounts of technological progress, and income elasticity of demand are important factors. Investment should be directed to goods that reveal these characteristics to create comparative advantage and productive efficiencies.

Other important areas of state intervention, according to Haq, include a stable macroeconomic environment (a point to be taken up below); development of nontradeables, especially the quality of the labor force and the government; and development of technology for which markets will not develop because of the difficulty of collecting the rewards from successful innovation and the positive externalities involved.

The participants generally agreed that productive efficiency is more important in explaining growth than allocative efficiency. Singh and Moreno and Ros argued that import-substitution strategy has not been a uniform failure—in Japan, Korea, and even lately in Mexico it laid the foundations for later export success. Several participants emphasized the need for further research on the determinants of productive efficiencies. Dutt suggested that what is needed is more firm-level studies of the factors that bring about change and their macroeconomic implications. Singh stressed that productivity increases do not necessarily translate into increases in the growth rate, as the UK found out.

Ros and Shapiro made a counterargument to proponents of a strong state pursuing a vigorous industrial policy to try and duplicate the East Asian experience. They maintained that the East Asian experience of requiring strong states is unique to those countries and not generalizable to Latin America. Kim cautioned against putting too much emphasis on the role of the state in the East Asian case. An overlooked factor, he said, was the geopolitical luck that allowed Japan to be a key supply point for the Korean War and South Korea for the Vietnam War.

The role of the state in providing a stable macroeconomic environment was the focus of the paper by Lance Taylor, "Post-Socialist Transition from a Development Economics Point of View." He made predictions, based on developing country experience, about the macroeconomic issues that the Eastern European countries are going face during the transition. The experience of Mexico in the 1980s, detailed by Moreno and Ros, illustrated many of his points. Taylor drew attention to two kinds of rigidities, common in developing countries, that are likely to confront the Eastern European countries: supply-demand rigidities and monetary-financial disequilibrium. Excess demand can be removed in one of three ways: reductions in demand through government expenditure cutback or regressive income distributions; inflationary measures to create forced savings or inflationary taxes; or 'administrative means' to reduce supply and thus simply not meet demand. When supply is slow to adjust, the transition from excess demand to a full-employment equilibrium can be very slow and inflationary. This creates the monetary disequilibrium. Once inflation sets in it can become inertial and then hard to break. Policy alternatives are to induce a recession or heterodox wage-price controls. To be successful, heterodox wage-price policies require agreement among labor, business, and the government.

Moreno and Ros showed that these kinds of adjustments took place in Mexico. After the debt crisis hit in 1982 an orthodox stabilization policy was instituted, which was meant to be followed by slow structural adjustment. These policies were not successful in curbing inflation. It became entrenched and as it started affecting the fiscal deficit and the money supply became endogenous, the need for a different strategy became apparent. A tripartite agreement was reached with labor agreeing to wage restraints, business to price freezes and some import liberalization, and the government to a freeze on the exchange rate and further fiscal adjustment. The pact achieved its targets, though the current account started running up big deficits and the government had to use non-macroeconomic measures so as not to compromise the exchange rate agreements in the pact.

Taylor discussed several financial issues common in developing countries. Relaxing capital controls, especially with a high exchange rate, is potentially very destabilizing and is the wrong way to go about establishing a national currency. A transition would be easier with capital controls and a crawling peg. The sequencing of liberalization according to orthodox precepts may be destabilizing.

According to Taylor, there needs to be a partnership between government and business in financing investment activity; the challenge for Eastern Europe in this regard will be to get the state-run banks to be development oriented. The extent of informal activity creates the need for good financial regulation to make sure that money is invested productively and that financial traps such as speculation or capital flight are avoided.

With regard to savings and investment, in addition to stressing the importance of government participation in investment activity, Taylor emphasized the role of the government in mobilizing savings and helping channel private savings into public investments. He pointed out that double transfer problems—the need to transfer resources internally to the government and the need to generate foreign exchange to transfer resources to service the foreign debt—are common during macroeconomic crises. Although Mexico did face the double transfer problem, the external transfer problem was more severe than the internal one. Large transfers from the private sector were not required to meet the government's internal debt because of oil revenues in the government's income and expenditure account. The internal transfers were accomplished largely by a fall in public investment, revaluation of oil-export revenues, and a fall in the salaries of public sector employees. However, falling oil prices affected the government's ability to generate foreign exchange for the external debt. The required external transfers were very contractionary after the debt crisis but less so after the oil shock because exports started increasing.

The Moreno/Ros paper contained a very interesting discussion of links between macroeconomic adjustment and market reforms. For example, the market reforms of 1985-86 were facilitated by the economic carrots of the Baker plan as well as the fact that macroeconomic policy at that time kept exchange rates high, allowing an easier transition for firms to a more open economy. Further, in a process also emphasized by O'Donnell, the macroeconomic crisis had lowered the resistance of social groups to reforms. The need to raise foreign exchange after the oil shock gave further impetus to the privatization drive. The Brady Plan, import liberalization (which greatly increased the demand for foreign exchange), and the high expectations generated by the macroeconomic transition all provided further inducements to privatize.

In his paper "On the State, Various Crises, and Problematic Democratizations," Guillermo O'Donnell looked at the newly emerging democracies in Latin America to asses their viabilities as democracies and their ability to implement the kinds of policies discussed above. A strong state, O'Donnell argued, is a lean one, not necessarily a small one. Leanness he defined as "an effective and less weighty set of public organizations that is capable of creating solid roots for the democratic rules of the game, progressively solving the main issues of social equity, and generating conditions for rates of economic growth suitable for sustaining the advances in the areas of both democracy and social equity." Two obstacles to development of strong states in the newly emerging democracies of Latin America are the heterogeneity of these states and the protracted economic crisis they are going through. Heterogeneity in this context refers to the fact that the social order of the states in these newly emerging democracies often does not extend throughout the national territory and across the class structure. The rest of the country is much more influenced by the local powers which makes it hard to implement national policies. This weakness of the states is compounded by the economic crisis most of them are going through. As inflation, corruption, and rent seeking become more and more prevalent, the confidence of the citizenry becomes less and less. This lack of credibility makes stabilization policies very hard to implement as inflationary expectations become entrenched. Attempts to reduce the size of the state by such means as reducing the real salaries of public employees leads to demoralization, corruption, and further weakening of the state.

One somewhat unfortunate way to get out of the high inflation trap seems to be to hit rock bottom, as O'Donnell claimed was the case in Chile, Bolivia, and Argentina. The state had become completely ineffectual; the workers movement was beaten; the capitalist class was fragmented, with the winners integrating with the international economy and the losers unable to profit from the domestic market. In this situation there are no social forces blocking the development of neoliberal policies.

A feature of these newly emerging democracies, according to O'Donnell, is the development of what he calls “delegative democracies”: countries like Argentina, Brazil, Ecuador, and Chile. Although they are democracies in that the presidents are elected to power, these enormously powerful presidents, elected to ‘save’ the country, are not really subject to ‘horizontal accountability’ in the form of checks and balances from other areas of government. They are free to implement their (usually conservative) agendas. O’Donnell sees two problems with these kinds of states: first, because there is no discussion of policies, without the checks and balances the possibility of mistakes is very high; and second, the possibility of building the socioeconomic coalitions that make these policies viable in the long term is nonexistent.

National consensus-building and broad socioeconomic coalitions were seen by most participants as key building a strong state. Country examples are the Nordic countries (Taylor) and Mexico’s “Pacto de Solidaridad Económica” (Moreno and Ros). A topic left unexplored was the success of some authoritarian states in imposing ‘consensus’ to achieve growth, although Lance Taylor questioned the long-term stability of these regimes without a democratic consensus.

Louis Sabourin suggested that the current concepts and roles of the state are becoming irrelevant. As the number of organizations grow and multinational corporations become more and more important, perhaps the influence and power of states will greatly diminish.

CONSIDERATIONS FOR A STRONG STATE: SEVERAL CASE STUDIES

This section will elaborate on the relationship between the state and market in several developing countries. One paper (Singh) was a critique of the *World Development Report 1991*, and four others (Felix, Ros/Moreno, Dutt/Kim, and Shapiro) addressed this question in the concrete cases of Latin America, Mexico, India, South Korea, and Brazil.

Ajit Singh’s paper, “‘Close’ versus ‘Strategic’ Integration with the World Economy and the ‘Market-Friendly Approach to Development’ versus an ‘Industrial Policy’: A Critique of the *World Development Report 1991* and an Alternative Policy Perspective,” began by questioning the theoretical and empirical assumptions and policies of the 1991 World Bank *Report* and emphasized the need for developing countries to pursue strategic integration rather than full integration into the world market. Singh noted that the World Bank concentrates on domestic issues, down playing the essential importance of the external macroeconomic conditions for developing countries. Total factor productivity growth and a ‘market-friendly’ approach to development, in which the state is limited to providing social, legal, and economic infrastructure enterprises—the main preconditions for successful development according to the World Bank—cannot be accepted theoretically or empirically. Singh’s study presented evidence about the powerful regulatory presence of the state in Japan and the East Asian tigers. The respective states pursued an interventionist policy. Furthermore, their economic policy is characterized by a 'strategic' integration with the world economy, making extensive use of controls on firms, trade, and foreign direct investment to prevent ruinous competition. Instead of a free trade policy, these countries followed Japan's 'plan-oriented market economy,' explicitly creating 'comparative advantages' in which economies of scale and 'learning by doing' were important industrial policies to promote technical change and economic growth. Maximum openness did not provide the optimal degree of domestic competition for these countries.[2]

Furthermore, Singh suggested that the state and public enterprises are not per se inefficient and unproductive. On the contrary, the East Asian countries show a high incidence and concentration of public enterprises which are, in some sectors, the most efficient in the world (see the case of POSCO in South Korea).

Singh stressed the importance of the world economic conditions, which affected the East Asian tigers and the rest of the periphery. Several exogenous shocks—rising interest rates after 1979, capital supply shocks, the debt crisis, and world growth and trade—had a different impact on the East Asian tigers from that on the rest of the periphery, where it made the balance of payments constraints, especially on the Latin American economies, much more severe, causing inflation and fiscal crisis.

David Felix's paper, "Reflections on Privatizing and Rolling Back the Latin American State," focused on the transformation of the Latin American states as a heterogeneous economic region during the 1980s and their prospects for the 1990s. Felix discussed the massive privatization during the 1980s, driven by domestic and international debt, import substitution industrialization's "leyenda negra," and pressure from multilateral agencies and the US. He argued that the results of this process will be adverse due to conjunctural factors and because the rolling back of the Latin American state will be impermanent. Rather than a small, neutral, and efficient state, Felix argued that Latin America's economy will remain mixed with a large interventionist public sector. The historical status quo, based on a mixed economy, the split between domestic firms successful under import-substitution and those with more cosmopolitan economic links (industrial exporters), the strong opposition of organized labor, and the weak support among the intelligentsia, suggests a short-lived privatization process unless positive and sustainable results begin to show up quickly. The paper argued that this is rather unlikely.

Major factors are: the failure of macroeconomic stabilization programs, indicated by the inability to cut back fiscal deficits sufficiently; the reaching of the hyperinflation boundary, manifested by frequent resort to monetization and wage-price spiralling; and the prolonged public and private underinvestment and the deterioration of stocks of physical and human capital. These thwart the effort to restructure productive capacity and bring into question the potential effectiveness of privatization in Latin America. Only in Colombia, which stayed on its import-

2 Singh suggested that China had learned the 'correct lesson'—buying technology with export revenues and saving time and resources for domestic R&D—within an import substitution industrialization. In another context, Taylor mentioned that import substitution is a serious development alternative for Russia and the other former USSR countries.

substitution course, has the fall-off been less critical. The mistiming of the neoliberal 'silent revolution' is another element working against the success of the privatization scheme. Latin America's potential economic recovery is threatened as the 'Cargo Cult' of increasing competition for foreign direct investment takes on desperate dimensions and international flows of loanable funds contract.

Finally, Felix discussed the theoretical paradigm underlying neoliberal strategy. According to him, this is the small competitive open economy model, which assumes that the most effective way to offset developmental shortfalls is to fully integrate with world markets to 'get domestic prices right.' The paper pointed out that this model does not present a time dimension, i.e. the process and speed of change of the dynamic relationship in economy; that it excludes the possibility of international integration of the labor market; and that it presents serious flaws in the analysis of price formation by assuming that all trade takes place at the equilibrium price. In order to offset some of these asymmetries, the respective Latin American states would have to resort to policies that date well back into the laissez-faire era: for example, price-fixing agreements among domestic primary goods producers, with the government brought in as enforcer if necessary; taxing at a higher rate foreign-owned production of primary goods for export; lowering the costs and increasing the availability of credit to private borrowers; and collective action to offset market biases in the international market for technology. For these reasons and given the flaws in the theory of small competitive open economies, the paper concluded that Latin American states whose policy dynamics are governed primarily by economic efficiency and who have a reasonable consensus on growth and distribution will tend towards "dirigisme," not laissez faire.

During the discussion of Felix's paper, Ernest Bartell cautioned against generalizing about Latin American nations since Chile—despite doubling its poverty levels from 1970-1987—has shown a relatively successful macroeconomic adjustment process in the late 1980s. Similarly, Bartell and Moreno stressed the need to focus on the effects of massive flows of foreign direct investment to several Latin American nations.

Juan Carlos Moreno and Jaime Ros's paper, "Market Reform and the Changing Role of the State in Mexico: A Review of Current Debates in Historical Perspective," analyzed Mexico's macroeconomic adjustment process since the colonial epoch, emphasizing the period 1940-1990 and the historical role of the state. Until the 1900s, the role of the state was to guarantee social peace and the best conditions for private investment, with minimal intervention in the productive sphere. However, since Mexican Revolution and the consolidation of the corporatist system during the 1930s, the state committed itself to active development policies, involving investments in agriculture, industry, and infrastructure, as well as in social development. Despite the impressive macroeconomic performance from 1940-1970, Mexico's 'Golden Age,' the neglect of agriculture and export potential and the failure to implement tax reforms made public finances and the balance of payments increasingly dependent on external resources. By the beginning of the 1980s, international conditions—increasing interest rates and two oil shocks—and their misinterpretation by the government induced drastic macroeconomic adjustment. Mexican neoliberal market reform, Moreno and Ros argued, was remarkably rapid and smooth compared to other adjustment experiences in Latin America, as a result of massive oil revenues and restrictive wage policies. At the expense of a collapse in public investment and a transfer of real income from the private to the public sector, the Mexican government was able to service the international and domestic debt and achieve overall macroeconomic stabilization without fiscal adjustment. The sharp decline in private savings concerned the authors, however. Since the late 1980s, foreign savings have become more important than ever before, significantly affecting investment, total factor productivity, and accumulation. Moreover, the efficiency losses resulting from the absolute fall of investment are bound to outweigh any efficiency gains brought about by the shift in its composition.

The authors cautioned that the massive privatization process has made the state smaller but not necessarily more efficient. Moreover, the current trade pattern and industrial structure are largely a legacy of the past and have led to a decrease in investment efficiency and domestic savings which may necessitate more rather than less state participation in the economy. Entrepreneurial attitudes and the future responses of the state to international challenges will be key issues for Mexico's longer-term prospects for economic development. Ros commented that abandoning social policies in the drive to reduce overall state spending and involvement would bring about the worst of all possible scenarios.

Amitava Dutt and Kwan Kim's paper, "Market Miracle and State Stagnation? The Development Experience of South Korea and India Compared," provided an extensive analysis of the question of the role of markets and the state in development and focused the comparison on three issues: state intervention, the causes of growth and stagnation, and the role of the state and its relation to civil society. Moreover, they stated that these issues cannot be addressed with simple dichotomies, such as the state versus the market, but require a deeper analysis which emphasizes the role of history, religious values, economic constraints, and political economy. The paper argued that although both countries showed similar difficulties typical of those facing a developing country during the 1960s, their economic performance in the post–Second World War era present a sharp contrast: South Korea is at present the world's twelfth largest trading nation; the annual export and import growth rate in the period 1980-89 accounted for 13.8

percent and 10.4 percent for South Korea, and 5.8 percent and 3.5 percent for India; the average income in South Korea ($4,400) was about 13 times the average in India; and the Gini coefficient and life expectancy data similarly show more favorable results for South Korea.[3] However, both states proved to be highly interventionist in the industrial, financial, and banking sectors, restricting multinational firms and 'distorting' the respective domestic prices. Dutt and Kim maintained that the differences in the nature of state intervention in each country provided several plausible reasons for the greater success of government interaction: They cited Korea's export promotion vs. India's import substitution;[4] a greater exposure to markets by Korean firms; more accountability from public and private sectors in South Korea which reduced rent-seeking activities; the Korean state's more explicit commitment to the objective of growth; and, finally, a far more selective industrial and financial regulation by the South Korean state. However, Dutt and Kim argued that Korea's export-led growth model cannot be applied in India without considering other economic constraints such as the low foreign trade share in national income—which would require a far higher growth rate of exports than in South Korea—and the potential protectionist measures of other countries. Moreover, the rate of growth in India could also be raised through other means such as agricultural growth, a more equal distribution of income in industry, higher government investment, and more efficiency in the public sector.

Finally, Dutt and Kim stressed the different relationships between the state and civil society in the two countries. Not satisfied with the characterization of a 'soft' Indian and 'hard' South Korean state, the authors focused on the reasons for the dynamic response capacity of the South Korean state, in contrast to India's case. The character of the bureaucracy in South Korea was formed under Japanese rule and gained more experience with direct economic intervention, while Indian bureaucracy under British rule was more laissez faire and administrative in scope. Similarly, there was strong coherence and loyalty within the South Korean bureaucracy, added to strong linkages to the industrial sector, which was lacking in India because of caste, British influence, and growing internal economic rivalry. While in South Korea the state exhibits leadership as part of a corporatist system with relative autonomy from other classes, especially labor, India's 'Protector and Guardian' state reveals more patron-client relationships, heavily constrained by social pressures, and a relative incapacity to face development problems.

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[3] The paper did also acknowledge though that India's import substitution achieved import independence and made India's industrial base technologically sophisticated in several sectors. Moreover, during the 1980s, India had a far better performance in terms of GDP than Latin American nations.

[4] Although South Korea's foundations for export promotion were laid through successful import substitution and India has tried out many methods of promoting exports.

However, military occupation after World War II and the authoritarian regime afterward have enabled the South Korean state to face these difficulties, as land reform and state regulation exemplify.

In his comments, Jong-Il You wondered about the causes of the relative autonomy of South Korean bureaucracy and India's lack of a hegemonic class in the state, and about the mechanisms to discipline their respective states, bureaucracies, and civil societies. Anindya Datta pointed out that in terms of equity, India's economic performance has been far better than that of South Korea. He suggested that the 'success' of the South Korean state came partly from its ability to break unions and restrict wages, an ability the Indian state did not have. Datta also stressed the sequencing of import substitution industrialization and export promotion policies in South Korea, in which the state's 'visible hand' played an essential role.

Helen Shapiro's paper, "The Public-Private Interface: Brazil's Business-Government Relations in Historical Perspective, 1950-1990," examined the characteristics of the Brazilian state since the 1950s, its relationship with business elites and the constraints inherent to their dynamic. The paper accentuated the need to depart from the traditional neoclassical arena by putting economic analysis in an institutional framework and taking policy implementation into account. Reducing explanations for Brazil's postwar development to a set of macroeconomic trade policies and the tendency of academics and policymakers to promote universal diagnoses and prescriptions have neglected Brazil's institutional specificity and made its development during the 1980s very difficult.[5]

Shapiro argued that the Brazilian state has not managed to overcome the economy's underlying fiscal and foreign exchange constraints since the 1950s. The state remained fiscally weak and the Executive was not hegemonic within the state apparatus, which enhanced indirect financing methods and affected the nature of the state's massive interventions. Foreign direct investment, export taxes, debt, and inflation were some of the resources that financed industrialization. Under these circumstances, Brazil's corporatist state provided incentives and protection to the private sector, which operated successfully for many years. The results were extremely concentrated wealth and decision-making which combined with the lack of agrarian reform and the power of agricultural interests to exacerbate the state's fiscal weakness.

When the financing strategy became unsustainable for domestic and external reasons, both funding sources and the institutional structures created since the 1950s had to be changed.

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[5] Shapiro suggested that Collor de Mello's recent failures are in part caused by his attempt to bypass existing institutions—the federal government, politicians in Brasília, and clientelistic structures, among others.

Rather than focusing on perfect/imperfect markets and 'perfect states,' Shapiro examined the essential political and institutional limitations that prevented the state from carrying out its prescribed role. It is not enough simply to use market failure arguments to justify state intervention; these limitations should also be taken into consideration. Furthermore, in the past the private sector has been driven by restrictions and incentives that have failed and have to be redesigned by state regulation. In this context, Shapiro stressed the need to rethink the 'public-private interface' for countries like Brazil in which the private sector is the conveyor of state policy.

Caren Addis commented that the tight cooperation of state and capital in Brazil since the 1950s is a significant cause of the export increase during the 1980s. Ros observed that, despite the serious institutional limitations and economic crisis of Brazil during the 1980s, its industrial performance was the best of all the Latin American nations.

For the Eastern European nations, László Bruszt observed that there are diverse strategies evolving from state socialism. Eastern Germany and Hungary are more hesitant to institute radical market reforms—although accepting markets as a goal. In the case of Czechoslovakia, Bruszt argued, the market is viewed as the central element to transform society and the economy and to contribute to social peace.

While several papers focused on the role of the state in ensuring economic growth as a necessary condition for developmental success, other authors and commentators reminded that growth was not a sufficient condition for equity. Bartell, Datta, Kim, Moreno, and Shapiro stressed that several nations—Brazil, Chile, and Mexico, among them—achieved high growth rates in certain periods, but the distribution of income deteriorated; hence the need to incorporate 'synthetically' growth and equity. Samuel Valenzuela pointed out the need to ensure collective gains from growth, contradicting functionalist views in growth theory. Denis Goulet encouraged debate in economics about the forms and goals of development—growth rates, basic human needs, consumption baskets, among others. In this context, Streeten suggested six strategies to improve equity: (1) identifying and developing common interests between rich and poor; (2) bargaining between rich and poor, including payment of compensation; (3) using areas of conflicts among elites to benefit the poor; (4) empowerment of the poor, (5) organizations of trustees or guardians to look after the interests of the poor; and (6) international pressures and support.

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Conference Papers

Lance Taylor	"Post-Socialism Transition from a Development Economics Point of View"
Paul Streeten	"Markets and States: Against Minimalism"
Ajit Singh	"'Close' versus 'Strategic' Integration with the World Economy and the 'Market-Friendly Approach to Development' versus an 'Industrial Policy': A Critique of the *World Development Report 1991* and an Alternative Policy Perspective"
Irfan Ul Haque	"International Competitiveness: The State and the Market"
Jaime Ros and Juan Carlos Moreno Brid	"Market Reform and the Changing Role of the State in Mexico: A Review of Current Debates in Historical Perspective"
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