WIDER Working Paper 2014/093

The idea of economic development

Views from Africa

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June 2014

Abstract: Although development generally refers to a broad concept, the quest for development in Sub-Saharan Africa has been biased by ideological considerations which made abstraction of local conditions and people's aspirations. The prevalent development models have used increased national income as a sufficient statistics for broad-based development. This paper argues for an alternative and a more comprehensive and reflexive development framework that harnesses local and global knowledge and advocates generalized balanced growth and structural transformation to move Sub-Saharan African countries towards self-reliance—their collectively defined aspirational goal. Analytically, it shows that the potential development outcomes of the region under such an endogenous framework would be superior to the results achieved under the prevailing development models.

Keywords: aspirational goals, balanced growth, self-reliance, structural transformation
JEL classification: B10, N17, O11, O41

Acknowledgements: I would like to thank Justin Lin and Célestin Monga for inviting me to write this paper and Jeni Klugman for her support. I am grateful for comments on an earlier draft from Emmanuel Akyeampong, William Easterly, Léonce Ndikumana, Yaw Nyarko, and Ali Zafar and from participants to the technical review meeting held in Beijing, China, 8-10 December 2013.

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This paper was prepared for the 'Oxford Handbook of Africa and Economics' authors' conference in Beijing, 8-10 December 2013, implemented with UNU-WIDER.

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ISSN 1798-7237 ISBN 978-92-9230-814-8 https://doi.org/10.35188/UNU-WIDER/2014/814-8

Typescript prepared by Lisa Winkler at UNU-WIDER.

UNU-WIDER gratefully acknowledges the financial contributions to the research programme from the governments of Denmark, Finland, Sweden, and the United Kingdom.

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‘*Output may be growing, and yet the mass of the people may be becoming poorer*’.

Sir Arthur Lewis (1955)

1 Introduction

Development may be defined as an endogenous, multifaceted and continuous path-dependent process whereby a country’s aspirational goals are constantly refined by all the different actors (public and private) in a given society, taking into account the social fabric, the evolving stock of historical, cultural and institutional knowledge, as well as scientific and technological infrastructure. Optimally, in a dynamic setting of constant feedback and interplay between the collectively defined aspirational goals and available instruments, the success on the development path in an open economy context will depend on the ability of a given society or country to timely harness local and global knowledge to move towards its aspirational goals.

Taken as aspirational goals, the definition of development adopted in this paper is much broader than the traditional single dimensional approach which has emerged over the last few decades (Seers 1969; Harriss 2014). Reflecting the mainstreaming of rational behaviour into existing models, that single dimensional approach has implicitly or explicitly focused on individual well-being and particularly on monetary variables. However, in addition to individual well-being, the collectively defined ‘aspirational goals’ approach adopted in this paper encompasses large groups and even the population universe in any given country and not just material goods, but other parameters such as human development and knowledge accumulation. In this regard, it is much closer to the definitions proposed by Sen (1988), Stiglitz (1998), Basu (2001) and Stiglitz et al. (2011).

Viewed from this vantage standpoint, the most successful societies will emerge as the ones which are consistently approaching their aspirational goals or alternatively societies with low aspirational gaps; conversely, the least successful will be the ones that are either not approaching their goals or even worse, the ones without any goals to aspire to.[1] Sadly enough the majority of countries in Sub-Saharan Africa have fallen under the latter category, as models underpinning the development process during most of the post-colonial period in the region have been extroverted—not endogenously developed, with the development thinking emanating not indigenously from within Africa but paradoxically, from the global industry of development experts largely based in donor countries.

The extroverted development model has perversely suppressed national aspirations, and in the process, reduced the local development actors (policy makers, private sector operators, intellectuals and civil society organizations) to bystanders of a process that they should have been leading.[2] In addition to ignoring and crowding out local expertise and indigenous knowledge, the global industry of development experts has identified a monolithic and unified development goal for Africa as a whole, notwithstanding the continental diversity and heterogeneity of societies

[1] Under the former scenario, countries may not be able to attend their collectively established aspirational goals either because available instruments have not been properly calibrated to support the collectively defined objective or because the aspirational goals are simply unrealistic. In either case, the failure to develop is a collective responsibility and not just the burden of the elites, rulers or development partners.

[2] After independence, a few leaders tried to establish reflexive and endogenous development models, which may still have been full of internal shortcomings, but their own ones nevertheless. These leaders faced uphill implementation challenges during the Cold War.

and economies. That goal has been seen as mainly increasing the national income of countries, measured in terms of changes in gross domestic product (GDP).

In essence, national income growth has acted as a sufficient statistics invariably considered as the suitable indicator to capture the complexity and the whole comprehensive development process, even though measures of economic growth are not known to be particularly good correlates of other features of development. Indeed, studies have highlighted the negative correlation between economic growth and development, with growth directly associated with increased unemployment rates and income inequality (Lewis (1955).[3] In addition to distributional issues, other problems associated with the aggregate view of income include the presence of externalities, non-marketability and value-heterogeneity (Sen (1988).

This reductionist approach of development reflects the golden era of economics as a discipline that trumps all the other fields of social sciences. Under that economic dominance, development is simply viewed as identical to economic development, which in turn is equivalent to economic growth. Still, another salient feature of development in post-colonial Africa is the implicit assumption that African countries should aspire to become like their former colonial powers, which have since mutated into the status of donors in the development industry. Having taken the present state of donor countries as a desirable objective, there was really no need for any country in the region to undertake the needed exercise of collectively defining its aspirational goals and development trajectory.

This paper reviews the possible implications and long-term costs of the prevalent extroverted development model that fails to take into account the particular local, historical or institutional contexts ('path dependency') of Sub-Saharan Africa (hereafter Africa). It proposes the contours of an endogenous development framework that is more reflexive and comprehensive and rooted in Africa's institutional and traditional realities. Notwithstanding the heterogeneity of views, Africans[4] are collectively aspiring to self-reliance. Economic transformation that is measured in terms of generalized balanced growth and structural changes is just one of the means to close aspirational gaps on the development path. Still, structural transformation advocated under the proposed framework also has the potential of mitigating the risk of reversibility on the development trajectory.[5]

The remainder of the paper is organized as follows. The next section provides an overview of the leading ideas of economic development that dominated development thoughts in post-independence Africa, with an emphasis on the dichotomy between state and market. Section 3 provides a contextual analysis of asymmetric forces that led the overwhelming majority of African countries to end up at the receiving end of the development thinking process. Section 4 provides an overview of what Africans would consider a fully reflexive and contextualized development model that is endogenous. Section 5 sketches out a simple analytical framework underpinning the emerging African development narrative. It is shown that the risks of reversibility on the development trajectory under such a framework are lower and development outcomes are hypothetically superior to the ones achieved under the prevailing model. The last section concludes.

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[3] Sir Arthur Lewis highlighted the risk of confusing economic growth and development in *Theory of Economic Growth* in 1955 when he said 'It is possible that output may be growing, and yet that the mass of the people may be becoming poorer.' (Lewis 1955: 9).

[4] Hereafter, the word Africans is used in reference to both continental African residents but also to the growing African Diaspora predominantly in Europe and North America.

[5] Risks of reversibility on the development trajectory are highly likely when development is reduced to an increase in national income. For one the commodity-driven growth often turned out to be merely a strong upswing in a boom-bust cycle in the region.

2 History of development in Africa: Overview of big ideas

Although the history of development in post-colonial Africa has been singularly dominated by the lone goal of invariably increasing per capita GDP under 'growth fundamentalism' models, the means, instruments and leading ideas drawn upon to strive for sustained output expansion have been subject to changes over time (World Bank 2005a; Harriss 2014). In particular, over most of the post-independence era, the leading ideas driving the growth process in the region have alternated between advocacy for a stronger role for the state when the economic thought was dominated by structuralist theories and increasing reliance on markets when the neoliberal dogma became the dominant economic ideology (Stiglitz 2002; Currie-Adler et al. 2013; Stiglitz et al. 2013a). The tension between these two approaches has characterized much of the global policy debates in development.

This twin characterization notwithstanding, the ideological landscape did not exactly follow a binomial distribution, with the prevailing ideology uniformly oscillating between either a model of full-state control or one that is exclusively the fact of free play of markets. Across the two opposite ends of the ideological spectrum there were many permutations. However, regardless of the weight assigned to each one of the two competing alternatives, the coexistence of state interventions and markets was often the norm. Even at the height of the Cold War when a handful of African countries embraced the Soviet-style 'dirigiste dogma', few if any ever instituted a generalized collectivism and central planning system, with the state controlling all the means of production. Instead, markets continue to play a key role at strengthening incentives for productivity growth and aggregate output expansion.

Nonetheless, despite the range of possible permutations on the ideological spectrum, the history of development thought in Africa can be divided into two broad periods. Taking a long-term view covering the five decades of independence, African governments played a more activist role in the immediate aftermath of independence up to the 1970s. During that period, the leading idea is structuralism and the majority of growth models focused on accelerating the rate of capital accumulation. In particular, capital accumulation is the cornerstone of Lewis' model of unlimited supply of labour, of Nurkse's balanced growth theory, and of the Harrod-Domar model, which posited a linear relationship between investments and economic growth.

In practice, the establishment of state-owned enterprises (SOEs), a variety of price controls, and state interventions were the cornerstone of a policy-mix that various governments used at one point or another to channel resources to sectors thought to be strategic and growth-enhancing. Following the mantra of development economics of the time, there was a strong belief in the power of state-led industrialization. In the short term, addressing rural poverty and achieving food security were top among the development priorities of young nations emerging from colonialism. Through agricultural subsidies, governments supported policies that raised the productivity and agricultural output, for both food for local consumption and export crops, with the latter receiving more government support by virtue of its status as the main source of foreign reserves needed to import capital goods.

In addition to expanding employment opportunities for rural households, the policies increasing agricultural productivity had the potential of stemming rural-to-urban migration. In the short term, most governments confronted with the perennial risk of adverse terms of trade (TOT) shocks and foreign reserve shortage understood that the opportunity cost of shifting labour out of agriculture was not necessarily equal to zero. Over time, the generalized push for the implementation of programmes in support of rural development in the policy arena highlighted one of the main limitations of Lewis' model of 'economic development with unlimited supplies of labour' (Lewis 1954: 402), though that model was internally consistent with the primacy of capital underpinning most growth models developed after the Second World War .

However, and unlike other regions of the world, the activist role played by African governments in the first decades of their respective independence, which may also be viewed as the era of 'capital fundamentalism', is also dictated by the imperatives of nation-building and the specific challenges facing the relatively young nations, also known as third world countries in reference to their chronic deficit of human capital and absence of basic physical infrastructure, including higher learning institutions which were conspicuously missing in most countries at independence (Gerschenkron 1962). State interventions tried to compensate for inadequate supplies of capital and physical infrastructures—critical drivers of competitiveness and productivity growth—with varying degrees of success in a context where industrialization was the path to economic development and capital was the binding constraint to closing technological and infrastructure gaps.

Moreover, in countries where the colonial legacy of resource extraction and rents was the institutionalized policy, the scant infrastructure inherited was not dictated by the desire to promote development or by any logic of local and regional economic integration. Instead, the interior-to-coast transport infrastructure layout inherited after independence essentially served as conduit to extraction and transfer of natural resources from the 'periphery' of the erstwhile colonies to the colonial empire to meet the growing demands for primary commodities and natural resources in support of industrial output expansion in Europe (Bonfatti and Poelhekke 2013; Fokam 2013; Fofack 2013). The interior-to-coast transport infrastructure layout is still the dominant pattern in most countries, and has been singled out as one of the leading causes of low intra-regional trade and greater economic integration with Europe (Bahadur et al. 2004); UNECA 2013).[6]

The second phase of African development history which started in the early 1980s and has been dominated by a decreasing role of the state and ascendency of liberalism is probably one of the most consequential in terms of development outcomes, transformation of the policy landscape and institutional changes. Motivated by some of the failures of state-dominated approaches, the new paradigm saw markets as panaceas for African development. For example, among the few institutions which were affected by the unfolding neoliberal ideology, the monetary institutions discovered a new mandate, namely inflation target, and the reforms of labour markets gave birth to flexibility—implying empowering the clearing function of the market. In earnest, this era of free market dominance, which also marked the death of 'capital fundamentalism' actually started in the late 1970s (Figure 1) and its power intensified over time, culminating with the demise of the Soviet Union in the late 1980s (Harvey 2005).

Since then liberalism has, in effect, been the dominant economic ideology throughout Africa. More than in any other region of the world, it permeated the public policy arena in a profound way, resulting in a major institutional transformation with significant economic and social consequences. The reduction of the role of the state advocated under that ideology led to the

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[6] Reflecting on the asymmetric market integration effect of the current transport infrastructure layout in the region, Bahadur et al. (2004: 182) maintain that: 'Not only does Africa have extremely low per capita densities of rail and road transport, but indeed existing transport systems were largely designed under the colonial rule to transport natural resources from the interior to the nearest port. As a result cross-country transport connections within Africa tend to be extremely poor and are in urgent need of extension, to reduce intraregional transport costs and promote cross-border trade.'

adoption of reforms giving markets free rein and allowing foreign capital unprecedented access, via liberalization of capital account. Implementing austerity measures, getting prices right and achieving macroeconomic stability—meeting low inflation targets and reducing deficits to attain equilibrium in the domestic and external sector—became the mantra of the day, one that trumps the poverty reduction and unemployment objectives as it fails to take into account the inflation and growth trade-offs (Fofack and Ndikumana 2014).

In Africa, the package put forward to advance the neoliberal agenda and also respond to macroeconomic imbalances and adverse TOT shocks which afflicted the continent included a range of policies: public sector downsizing, public expenditure cuts and switching, privatization of SOEs, deregulation, trade and financial liberalization, dismantling of state marketing boards, eliminating agricultural subsidies, tightening monetary policy, as well as unification and increased competitiveness of exchange rates (Williamson 1990; Adedeji 1999; Rodrik 2006).[7]

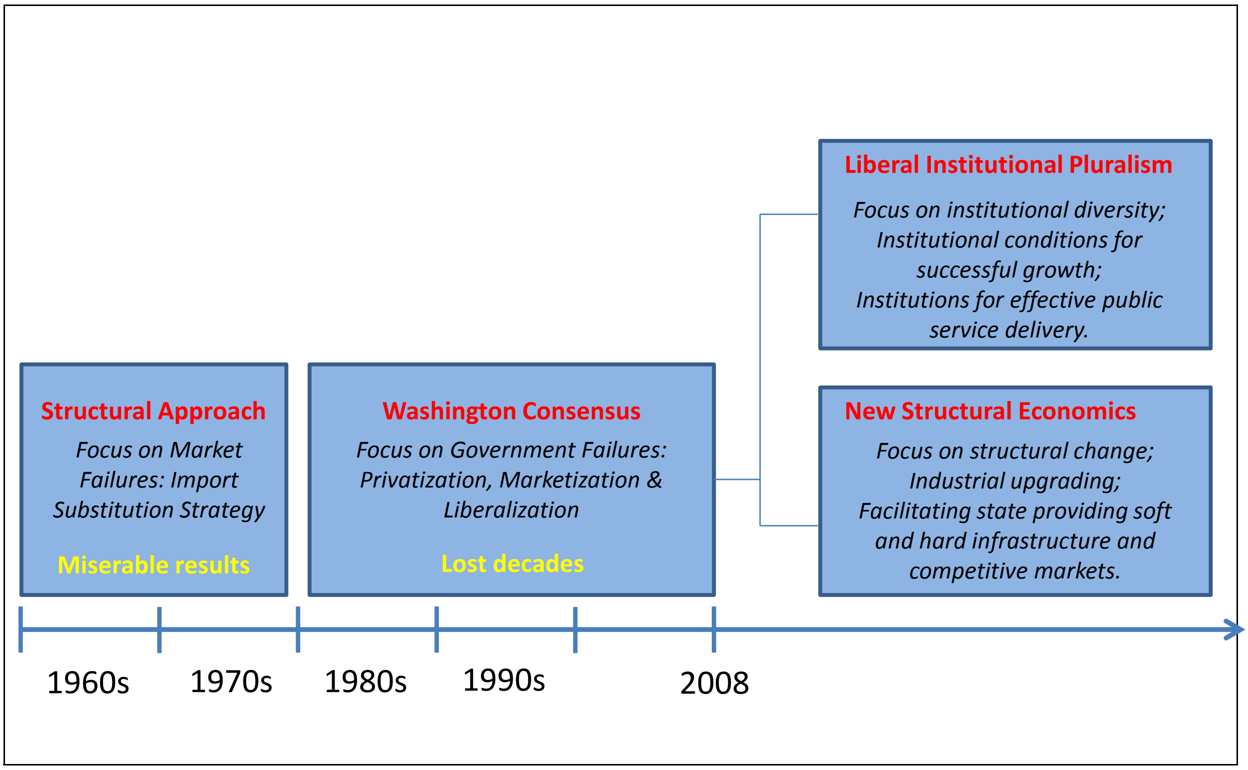
So deep and entrenched was the 'market fundamentalism' ideology that it actually enriched the development economics' lexicon: 'Structural Adjustment Programmes' in reference to the package of policy reforms conditioning access to structural adjustment loans and 'Washington Consensus' in reference to the fact that the Bretton Woods institutions (World Bank and IMF) which are both Washington-based became the seat of the neoliberal orthodoxy in the world of development policy. More than a development bank, the World Bank, in concert with the IMF, became the institutions enforcing the implementation of the neoliberal agenda in countries which entered a Bank or Fund-supported programme as a result of balance of payment crisis. Compliance with conditionalities embedded in the Washington Consensus became a pre-condition for accessing foreign reserves for countries in need of external assistance.

Yet, the Bretton Woods institutions played a less active role in the policy space in the immediate post-independence years when structuralism was the predominant ideology and the concept of *development state* was in full motion. As a development institution, the World Bank essentially provided the resources to expand public infrastructures to the newly independent nations of Africa, hence consolidating the rise of capital intensity under the 'capital fundamentalism' model. For instance, the first World Bank loan ever extended to a country in Africa went to Ghana—the first independent nation in the region—to support the construction of the Akosomo Dam, which still powers Ghana to this day. The loan was approved by the Board of the World Bank in 1962 at a time when the concept of *development state* under President Nkrumah was in full swing.[8]

[7] Available estimates show that more than 50 per cent of SOEs were divested in the 1990s (Nellis 2003).

[8] After its emergence as the first independent nation of Africa in March 1957, Ghana became a member of the World Bank in September 1957 and the loan was approved on 8 February 1962 for Volta River Hydroelectric Project (Loan 0310).

Figure 1: The evolving path of development theory



Source: Author's compilation.

Over time, the Bretton Woods institutions expanded their mandate, in part as a result of the rise of the neoliberal ideology but also following a number of historical events which fundamentally changed the international financial architecture and development landscape. The most significant of these events included the unilateral decision taken by the Nixon administration in 1971 to cancel the direct convertibility of US$ to gold, a decision that essentially opened the era of freely floating currencies and balance of payments crises; the 1973 oil crisis and the dramatic interest rates hikes adopted by the US Federal Reserve Bank in response pushed many countries into default and resulted in international debt crisis. A new era of balance of payments crisis began. In Africa where most countries were natural-resource dependent, the costs of these two events were exacerbated by the deterioration of TOT and vulnerability to adverse shocks which became only more frequent over time.

Despite the inflation of critics who contrast the promise of liberalism with results on the ground (see for instance Adedeji 1999; Stiglitz 2002; Fine et al. 2003), the costs of the neoliberal experiment for the region are not yet fully assessed. Still, in a number of areas the cost-benefit analysis points to a large negative balance sheet, though a number of authors are entertaining the view that the macroeconomic stability and growth enjoyed by countries in the region over the last few years could be attributed to decades of structural reforms advocated under the Washington Consensus (Devarajan and Shetty 2010). However, it has also been argued that debt relief extended to countries in the region under the Highly Indebted Poor Country Initiative (HIPC) expanded the fiscal space and reduced the risks of monetization of fiscal deficits which had been the main driver of inflation and macroeconomic instability (Fofack 2014).

In other areas, where empirical evidence is clear cut, the costs far outweigh the benefits. According to Joseph Stiglitz, one of the leading critics of the Washington Consensus, the privatization which resulted in a gradual elimination of state monopolies instituted private monopolies as alternative in the areas of infrastructures without necessarily improving the quality and efficiency in the provision of public services (Stiglitz 2002; Fokam 2013). The costs associated with the rise of private monopolies are particularly obvious in the areas of energy production and distribution where delayed investments after the privatization of SOEs have resulted in a chronic deficit of power.

Meanwhile, the short- and medium-term costs of the going neoliberal experiment are even broader and significant. In addition to worsening income inequality and poverty, the region achieved one of the most sluggish growth performances during that experiment. Despite the implementation of macroeconomic reforms, real GDP per capita fell below levels enjoyed by the region during the era of structuralism, with most countries recording negative growth in real per capita GDP (Adedeji 1999; Artadi and Sala-i-Martin 2003). In the words of Adedeji who headed the UN Economic Commission for Africa as UN Under-Secretary General at the height of the structural adjustment era, 'The tragedy of the adjustment effort is that even for the narrow economic objective of growth in real per capita GDP, the record of the SAP over the two decades has been quite disappointing' (Adedeji 1999: 522) (see Table 1 below).

Table 1: Annual growth rates of GDP and per capita GDP by decade (in percentages)

	1961-70	1971-80	1981-90	1991-2000	2001-10
Average annual GDP growth					
Sub-Saharan Africa	4.5	2.4	1.4	2.8	4.82
East Asia	7.06	7.8	6.8	6.2	5.71
Average annual per capita growth					
Sub-Saharan Africa	1.8	-0.4	-2.6	-0.4	2.26
East Asia	4.28	5.47	4.8	4.44	4.48

Sources: UN (2009) and World Bank 2013.

More than three decades into the neoliberal experiment, Africa is the only region of the developing world that will miss the first Millennium Development Goal of halving poverty by 2015 (World Bank 2011). Its contribution to world trade has fallen below 1.5 per cent, from more than 3.8 per cent in the 1950s. Artadi and Sala-i-Martin (2003) have labelled the dismal growth performance achieved by the region during the neoliberal experiment as the economic tragedy of the 20th century. Others have characterized the adjustment era as the lost decades (Mkandawire 2004). Remarkably, in Asia where the concept of *development state* remained in effect during the globalization of the neoliberal dogma growth was sustained and resulted in a significant improvement of living standards and reduction of poverty (Wade 1990; Chang 2002; Stiglitz et al. 2013b). Yet Africa's growth prospects were seen as superior to those of overpopulated Asia in the 1960s—a view captured in *Asian Drama* (Myrdal 1972).

The unexpected dismal growth performance achieved by the region is partly attributed to a dramatic decline in public investment and de-industrialization during the neoliberal experiment (Norman and Stiglitz 2012). Indeed, the transition from 'capital fundamentalism' to 'market fundamentalism' was particularly costly for the former. Aggregate investment fell from 15 per cent of GDP in 1975 to 7.5 per cent in the mid-1990s, significantly below the average of 30 per cent enjoyed by East Asian emerging markets which surfed on high domestic savings over the same period (Artadi and Sala-i-Martin 2003; UNECA 2013).

Paradoxically, the declining rate of investment during the neoliberal experiment was accompanied by massive capital flight from the region, with average capital flight rising from about US$21 billion in the 1970 decade to US$46 billion in the last decade (2000-10) (Boyce and Ndikumana 2012; Fofack 2012). Overlooked by international financial institutions, capital flight was pernicious to long-term growth in Africa. To the extent that capital flight may undermine domestic savings and investments, the positive correlation between capital account liberalization and capital flight suggests that the reforms advocated under the Washington Consensus may also have undermined the process of capital accumulation (Hermes and Lensink 2014).

Even the most ardent ideologues of liberalism now concede that the push to impose the values of 'market fundamentalism' on developing countries failed to meet expectations on most development counts. In a retrospective review of lessons learned from that experiment, the World Bank had the following conclusion 'Despite good policy reforms, debt relief, continued high levels of official assistance, promising development on governance and a relatively supportive external climate, no take-off has ensued' (World Bank 2005a: 8).[9] An IMF review of the adjustment era also had a concordant assessment, concluding that 'Growth has been disappointing'. Summing up that experiment, Anne Krueger, one of the leading architects of adjustment, had the following words in 2004: 'Meant well, tried little, failed much' (Krueger 2004: 1). In practice this impotence has led to the shift away from structural adjustment programmes and the introduction of Poverty Reduction Strategy Papers and the birth of new lending instruments—the Poverty Reduction and Support Credit in the World Bank and the Poverty Reduction and Growth Facility in the Fund.

In Africa where failed state interventions (as a result of misallocation of limited resources to ill-conceived government projects or poor governance) during the structuralism era exacerbated fiscal deficits and undermined macroeconomic stability, the rise of liberalism informed by the efficient market hypothesis was promoted as a viable growth and development alternative. However, in addition to its failure to meet expectations on growth, the extreme version of 'market fundamentalism' advocated under the Washington Consensus failed to recognize that liberalism was not immune from market failures either, though instances of market failures producing outcomes that are not Pareto optimal abound.

At the same time, there is a large body of work that attributes the rise of Asian emerging markets to a successful application of the '*development state*' model (Amsden 1989; Wade 1990; Chang 2002; Stiglitz et al. 2013a). The successful rise of 'cohesive capitalist states' in Asia suggests that structuralism theories can indeed work when institutions limiting the risks of government failures are operational and effective (Kohli 2004; Lin and Monga 2011). The evidence of successful state-led development models in some parts of the world and the failure of the 'market fundamentalism' ideology, made even more obvious by the 2008 Great Recession which highlighted the limits of self-regulated markets, brought renewed attention to the role of the state in economics.[10]

Increasingly, the emphasis on free markets as a viable alternative to state interventions is being viewed as a false dichotomy (Stiglitz et al. 2013b).[11] The state has a role to play and may even reduce the adverse effects of negative externalities, especially in young nations where weak institutions of checks and balances could exacerbate the costs of market failures. Departing from decades of economic orthodoxy, a search process is ongoing to produce an evidence-based and useful new development framework that is more organic and takes into account the institutional

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[9] Commenting on that report, Rodrik (2006: 974) had the following words: 'Not only were success stories in Africa few and far in between, but the market-oriented reforms of the 1990s proved ill-suited to deal with the growing public health emergency in which the continent became embroiled.'

[10] The crisis also casted some doubt in the foundation of the neoliberal orthodoxy and led the IMF to reconsider its development framework (see IMF Staff Position Note on 'Rethinking Macroeconomic Policy) (Blanchard et al. 2010).

[11] This view is not completely strange to the World Bank. Its 1997 World Development Report on 'The State in a Changing World' concluded: 'Development without an effective state is impossible … an effective state—not a minimal one' (World Bank 1997: 18).

and structural realities of countries at every stage of the development process. Although still in the burgeoning stage, two new development paradigms are leading the thought process: the 'liberal institutional pluralism' and the 'new structural economics'.

The former which emphasizes institution— the rules and norms constraining human behaviour—is advocated by North (1990), Acemoglu et al. (2005), Rodrik (2008) and Brett (2009). At the macro level, the new synthesis advocated by these authors focuses on institutional conditions for economic growth and political transformation. This synthesis assumes that the economic performance of societies depends on the effectiveness of their underlying institutions at containing the predation by individuals and at resolving agency problems. This institutional approach to development received a strong boost when Easterly and Levine (2003) showed that policies advocated under the Washington Consensus did not exert any independent effect on long-term economic performance, once the quality of domestic institutions is accounted for.

In practice, Acemoglu et al. (2005) found that 'Economic institutions encouraging growth emerge when political institutions allocate power to groups with interest in broad-based property rights enforcement, when they create effective constraints on power-holders, and when there are relatively few rents to be captured by the power-holders' (Acemoglu et al. (2005): 387). However, one emerging challenge associated with this line of research is the inability to establish a causal link between any particular institutional design feature and growth, reflecting the potential effects of extraneous factors on the efficacy of institutions. Indeed, as pointed out by Rodrik (2008), different institutions may have similar outcomes while the same institutions may give rise to different outcomes in different contexts. The difference between failure and success on the development path may therefore lie on singling out what makes institutions function effectively.

The 'New Structural Economics' put forth by leading proponents such as Chang (2002), Lin and Monga (2011), Stiglitz and Lin (2013) advocates a synthesis of structuralism and liberalism ideology, without necessarily striving for a unified theory of economic development. Their proposed framework is the application of a neoclassical economic approach to understand the drivers of economic structure and its evolution in development. It emphasizes the need to take into account structural features in the analysis of economic development and the role of the state as the agent driving the modernization of economic infrastructure for growth and integration of local and regional markets. The new approach recognizes the presence of both state failure and market failure.

Although the market remains the basic mechanism for effectively allocating resources under this new framework, it is just one of the instruments in the development tool box. More broadly, development is seen as a dynamic process that requires constant industrial and technological upgrading and corresponding improvement in hard and soft infrastructure. And the potentially large externalities to firms' transaction costs and returns to capital investment associated with the need to constantly upgrade economic infrastructure calls for government intervention.

The common thrust to the two emerging development frameworks is the departure from the one-size-fits all approach to take into account the specific institutional and structural features of each country at different stages of the development process. These approaches look at the realities in each country and adapt policy tools to local conditions. They could be appealing in Africa where poor governance and the deficit of infrastructure remain major constraints to economic development. Furthermore, the two approaches may also be highly complementary in the African context where widespread poverty is associated with massive capital flight. Strengthening the institutions of good governance could raise the prospects for domestic resource mobilization in support for infrastructure development.

3 Explaining Africa's short end in the global development bargain

Even reducing the concept of development to the single one-dimensional income vector, Africa consistently exhibited a poorer record compared to other regions of the developing world, both during the structuralist ascendancy and neoliberal hegemony. This time-invariant outcome suggests that other factors besides ideology have been at play. The economic literature has condensed these factors to a combination of a number of effects, including poor governance and institutions, macroeconomic instability, conflicts and resource curse (Rodrik 2008; Sachs and Warner 2001; Easterly and Levine 1998). Regarding the latter, three channels of causation from natural resource abundance to poor growth outcomes are often put forward: rent seeking through the voracity effect, TOT shocks through the commodity prices volatility channel and Dutch Disease (Isham et al. 2005; Fofack 2010).

Not much attention has been given to historical and philosophical determinants of development in the region, however. Yet, these additional drivers are extremely pertinent and may even trump economic factors in a zero-sum-game globalization mindset where the gains of any given country from trade are increasingly viewed as resulting from losses of utility for other participants in the global trading game. Recently, the rise of these mercantilist policies has been reflected in the push for competitive devaluations and concerns about global macroeconomic imbalances.

The case may even be stronger for historical and philosophical determinants, especially for young nations coming out of the colonial experience which subverted traditional institutions to serve the interest of imperial powers (OAU 2001; Akyeampong and Fofack 2014). For instance, to the extent that ideology may shape economic structure, with direct impact on patterns of trade, by focusing on TOT, one may be looking at the consequences of a phenomenon and overlooking the fundamental causes of under-development. This session reviews the historical processes and asymmetric forces which have locked Africa in the short-end of the global development bargain.

A focus on ideological drivers suggests that the leading ideas shaping the development process in Africa over the last few decades have been largely determined by the dominant ideology at the global level (Adedeji 2002). In effect, until recently (rise of the Asian emerging markets) the development wisdom across Africa was the monopoly of industrialized countries in the north, even though the philosophy underpinning that wisdom did not necessarily reflect the social and historical contexts or Africans' development aspirations. In part, this bias was the consequence of a mindset which assumes that the intellectual wisdom informing the development process could not possibly emanate from backward nations which were for the most part at the bottom of the development ladder.

The asymmetric distribution of power and knowledge which confined Africa to the receiving end of the development wisdom affected development outcomes. The policy recommendations emanating from such models were not always grounded in Africa's historical and contextual realities and often failed to lead to development takeoff. The push for privatization of SOEs in the region in a context of limited depth of capital and financial markets is one of the most glaring examples. Even though Africa provided the fertile ground for that experiment the reform dividend did not follow. In contrast, Asia, which was more refractory to it, produced more successful entrepreneurs and achieved economic diversification for a better integration into the world economy (Norman and Stiglitz 2012; Stiglitz et al. 2013b).

However, the costs and implications of the much stronger bias of African countries for the globally dominant ideology have been much broader. Probably in no other area have these costs been more significant and consequential than the overemphasis on economic growth (i.e. rise in per capita income) under the neoliberal ideology and less on 'growth fundamentals'. In particular, the exclusive monitoring of the one-dimensional income vector and concurrent benign neglect of 'growth fundamentals' has perpetuated the colonial production model of excessive reliance on primary commodities as the main connecting link to the global economy (Fofack 2013).

As long as per capita income growth was secured over time, there was no need to be concerned with sources of growth and distributional issues. However, even under the best case scenario, the strategy did not lead to improvement of living standards, owing in part to the fact that the export of primary commodities entails huge forgone income through lack of value addition, the export of jobs to countries adding value, and exposure to high risks due to dependence on exhaustible commodities and fluctuations in commodity prices and demands. The consequences of this myopic approach to development and insularity in thinking are even broader. The continued benign neglect of 'growth fundamentals' in the post-colonial period has reinforced the dependency syndrome whereby African economies essentially serve as feedstock in the global economy.

However, the nature of the relationship linking African economies to the rest of the world has historical roots going back to the colonial era. It was part of the colonial construct which confined production in the colonies to primary commodities and natural resources, a pattern that has persisted in the post-colonial period in the region. Albert Sarraut (1872-1962), Colonial Minister for France from 1920-24 and 1932-33 best captured the structure and intent of the colonial economy:

> Economically, a colonial possession means to the home country simply a privileged market whence it will draw the raw materials it needs, dumping its own manufactures in return. Economic policy is reduced to rudimentary procedures of gathering crops and bartering them. Moreover, by strictly imposing on its colonial 'dependency' the exclusive consumption of its manufactured products, the metropolis prevents any efforts to use or manufacture local raw materials on the spot, and any contact with the rest of the world. The colony is forbidden to establish any industry, to improve itself by economic progress, to rise above the stage of producing raw materials, or to do business with the neighboring territories for its own enrichment across the customs barriers erected by the metropolitan power (Fetter 1979: 109).

The persistent bias for exogenous development models has shaped the structure of production and may be largely responsible for Africa's commodity dependency trap. In particular, by specializing in the export of primary products and becoming dependent on the world economy for imports of manufacturing goods, African countries have fallen in a condition of underdevelopment (Rodney 1982). The idea that a foundation of growth solely resting on natural resource export may stifle the development of a country entered mainstream economics through the *Dependency Theory* in the early 1950s. This thesis took its origins in the seminal work on developing countries' TOT by Prebisch (1950) and Singer (1950). It became very influential in the 1960s and 1970s as an antithesis to modernization theories (Amin 1972).

In addition to its effects on economic structure, the costs of uncritically embracing exogenous development models for developing nations which are price takers is the rise of conformity to the norms and development paradigms imposed by imperial powers and surrendering of national aspirations (consciously or unconsciously). In essence, the logic goes as follows: if the more advanced and industrialized countries are successful development models to which the least developed and backward nations should aspire, then embracing the ideology which has taken these countries to the pinnacle of success should be the sure path to development for latecomers. This idea which assumes that the ideology sustaining development in more advanced economies has not been subject to changes over time is rooted in the grand Marxian generalization of history of development.[12] It gained more traction with Rostow (1959)'s *Stages of Economic Growth* model.

Arguably, the transcending power of exogenous development models, which are informed by the globally dominant ideology on backward nations grew significantly under the Washington Consensus when the conformity with the global trend of thought was no longer done on a voluntary basis, but became a precondition for accessing resources for countries facing recurrent balance of payments crises. Still, in the African context, the erosion in the sovereignty of nations was further exacerbated by debt overhang which consolidated the power of creditor nations.

However, whether the process of surrendering national aspirations on the development path is voluntary or involuntary, a cross-section and trend analysis of the history of development suggests that development is fundamentally an endogenous process whereby the 'spirit' and driving 'ideology' are fully informed by the country's political, historical and institutional contexts, which are themselves subject to changes over time (Gerschenkron 1962; Currie-Adler et al. (2013). This historical finding is supported by the contrasting nature of development models adopted by European countries, most notably France and Germany, after the industrial revolution in Great Britain.

These countries did not exactly follow the path beaten by Great Britain decades earlier. Instead, their development process was informed by their historical and institutional settings as documented by Gerschenkron in *Economic Backwardness in Historical Perspective*. In effect, Gerschenkron's historical analysis of development patterns in Europe after the industrial revolution suggests that the development of a backward economy might differ considerably from that of the now more advanced economies. In a context of rapidly changing technology, late-industrializers might be able to even leap-frog into more technologically advanced sectors, through imitation and learning from pioneers.

This historical analysis has highlighted two of the most critical development pitfalls which might have stifled the development process in Africa: the acquiescence to the globally dominant ideology which is neither immune from geopolitical considerations nor rooted in Africa's historical and institutional realities, and the costs of development mimicry (or aspiring to become like developed countries in the north, even though models informing development in these countries have been in a constant state of mutation). Interestingly, other countries in the developing world, especially in Asia, successfully avoided these two development pitfalls through the emergence of development models of their own. The next sections discuss the meanings of development from an African perspective and sketch out the contours of an African development model.

4 An emerging African view and perspective of development

The pre-eminence of exogenous development models over the African development and policy space, especially in the post-structuralist era, is not necessarily a reflection of a larger deficit of endogenous models rooted in African institutional and traditional realities. In effect, several attempts have been made to craft development models which are informed by indigenous

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[12] According to Marx, 'The industrially more developed country presents to the less developed country a structure of the latter's future' (Marx: 1867: Preface).

development paradigms in the region and which address local realities. Hence, the analysis undertaken in this section is based on desk research and informed by a review of existing African-led conceptual development frameworks and representative surveys of opinion. These approaches, derived from evidence gleaned from several decades of development experience, should provide a good representation of Africans' vision of their future.

This is not the place for a comprehensive review of all African-led development frameworks.[13] However, it is worth mentioning some of the most prominent ones. In particular, a few that fall under that category include the Lagos Plan of Action (LPA) for Economic Development of Africa (1980-2000), the Africa's Priority Programme for Economic Recovery 1986-90 (APPER), the African Alternative Framework to Structural Adjustment Programme for Socioeconomic Recovery and Transformation (AAF-SAP) developed in 1989, the African Charter for Popular Participation for Development (1990) and the widely publicized New Partnership for African Development (NEPAD) released in 2001.[14]

The common thrust of these African-led development frameworks is the emphasis on self-reliance encompassing socioeconomic transformation accompanied by a holistic human development and democratization of the development and governance process (Adedeji 2002) (see Figure 2). Self-reliance does not, however, mean that Africa should embrace autarky as a development strategy. Instead, it implies that external support should not be the mainstay of African development, but rather a boost to existing endogenous efforts. After all, economic growth which is necessary, though not sufficient for development, depends on trade and investment, both domestic and foreign direct investment.

Nevertheless, the emphasis on self-reliance in these development frameworks rhymes with the decolonization of political economy and affirmation of independence, especially for newly independent nations emerging from decades of colonialism. In particular, the quest for self-reliance reflects the growing aspiration of Africans to assume the full responsibility of their destiny by exiting the dependency trap as perpetual recipients of foreign aid. Most African countries became even more dependent on foreign aid during the implementation of adjustment programmes, in part because the external response to balance of payments crises that was supposed to be short-term bailouts took a life of their own and became permanent operations.

In practice, as the ultimate development objective, self-reliance cannot be achieved when economic decisions undertaken by countries aspiring to it are largely predetermined by foreign governments and international organizations acting as donors, though not always altruistic ones (Easterly 2006, 2013; Moyo 2009). In effect, bilateral and multilateral agencies providing assistance to African countries have influenced policy choices and the design of development programmes through the implementation of conditionalities. To take one prominent example, the privatization of public enterprises which gave birth to the emergence of private monopolies largely owned by foreign firms and concessions was part of that effort.

At the same time, the choice of self-reliance as the long-term development goal fundamentally reflects the core values in effect in countries and across the region. Although society's values tend to differ and may even be subject to changes over time as a result of shifting social norms and even religious beliefs (as convincingly established by Max Weber (1905) in the *Protestant Ethic and the Spirit of Capitalism*), a review of successive development strategies and analysis of surveys

[13] For a comprehensive review of these plans see OAU (1980, 2001), Adedeji (2002) and Bujra (2004).

[14] NEPAD is thought to have been less organic and endogenous in its conception than the earlier development plans, particularly in light of its top-down approach and excessive reliance on external financing (Adedeji 2002).

of opinion undertaken in the region single out trust, freedom and justice, self-respect and equalization of opportunity as core values (Justesen and Bjornskov 2012; Richmond and Alpin 2013).

At the heart of these core values is the notion of equity, probably reflecting the focus on human capital as both a means and end objective in a context of corruption-fuelled growing income inequality and poverty. Perhaps the democratization of the development and governance process articulated in various African development plans has been seen as a possible solution to poor governance. Nonetheless, while the drive for good governance is rooted in the notion of social justice and therefore may enhance the quest for trust and freedom, inclusive economic growth is the path to sustenance and self-respect. By uniformly expanding the access to opportunities, a more balanced type of accumulation is likely to ensure that the benefits of growth are not regressive in their distribution.

Still, the core values and development aspirations are very much intertwined. The development priorities are actually shaped by the core values which often reveal the priorities of societies. For one, the pursuit of self-reliance as the collectively shared aspirational goal can only be achieved at the national level if the core value of self-respect is uniformly shared and accepted by most if not all individuals. In this regard and reflecting the invisible hand metaphor the core value of self-respect which is intrinsically incompatible with the idea of being chronically dependent on the state or alternatively on a generous social capital in the absence of effective social welfare systems will eventually accelerate the convergence towards the ultimate development goal of self-reliance at the national and regional level.

Arguably, this interaction between the societal core values and the derivation of development aspirations, whereby the latter is regularly refined according to prevailing social norms and cultural values, is also likely to affect the sequencing and choice of instruments. In particular, departing from the old framework (underpinned by the two-gap model) where development did not envisage structural transformation and instead implies extrapolating past trends, choosing investment patterns that would produce an acceptable increase in national income over time, the proposed framework starts with a vision of an optimal development path consistent with the collectively-shared aspirations, and then works backward to align the development of human and physical capital to support the realization of that end-development objectives—self-reliance.

In addition to affecting the quality of human resource development and content of education, the core values are also likely to condition the parameters defining the role of the state and the market. This is particularly the case in the field of education where markets have historically played a less prominent role during early stages of development when government policies have promoted equalization of opportunities and greater access to address chronic shortage of skills in a context of structurally low-income. However, the role of the state has decreased with economic expansion and per capita income growth. In this regard, the quest for development is clearly conceived as a medium to long-term process under the proposed development framework. It may not even follow a linear path, in the sense that the process of structural transformation expected in the medium and long run may involve short-term costs in terms of growth and welfare.

Now turning to instruments and mechanics of development, the quest for broad-based and inclusive growth is one means to achieve the ultimate goal of self-reliance (Figure 2). Taking into account the triangulation between growth, income inequality and poverty, these frameworks recognize that growth alone may not be sufficient to achieve sustainable development and poverty reduction, especially in a context of rising income inequality. In effect, in a region where the recurrent cycle of commodities price boom-and-bust has invariably been accompanied by the persistence of widespread poverty as the experience of petroleum economies show—(i.e. Gabon is often referred to as a middle-income country with low-income country development outcomes)[15] it is not at all surprising that distributional issues are at the heart of development.

In practice, the proposed African development frameworks have advocated policies in favour of inclusive growth, underpinned by expansion of labour-intensive industries and progressive eradication of unemployment. In other words and unlike Washington Consensus models, growth is not an end, but a means to expand employment opportunities, reduce income inequality and poverty. To a certain extent, the parameters underlying the Africans' vision of development are consistent with models behind the transformation of Asian emerging markets where growth was not only sustained, but also more inclusive, resulting in a concurrent reduction of income inequality and poverty as a result of expanding labour-intensive employment opportunities in the manufacturing sector (Nelson and Pack 1999; Lin and Monga 2011; Stiglitz et al. 2013a).

In other words, growth becomes development-enhancing under these frameworks only when it leads to a *concurrent* decline in unemployment, inequality and poverty. Conversely, if there is deterioration in any of the three development outcomes, especially if all three worsened during growth spurts, then economic growth can hardly be associated with development, even in the face of sustained increase in per capita income. Equally important is the sharp contrast between development models advocated under the Washington Consensus and the vision Africans have of their production patterns and possibility frontiers.

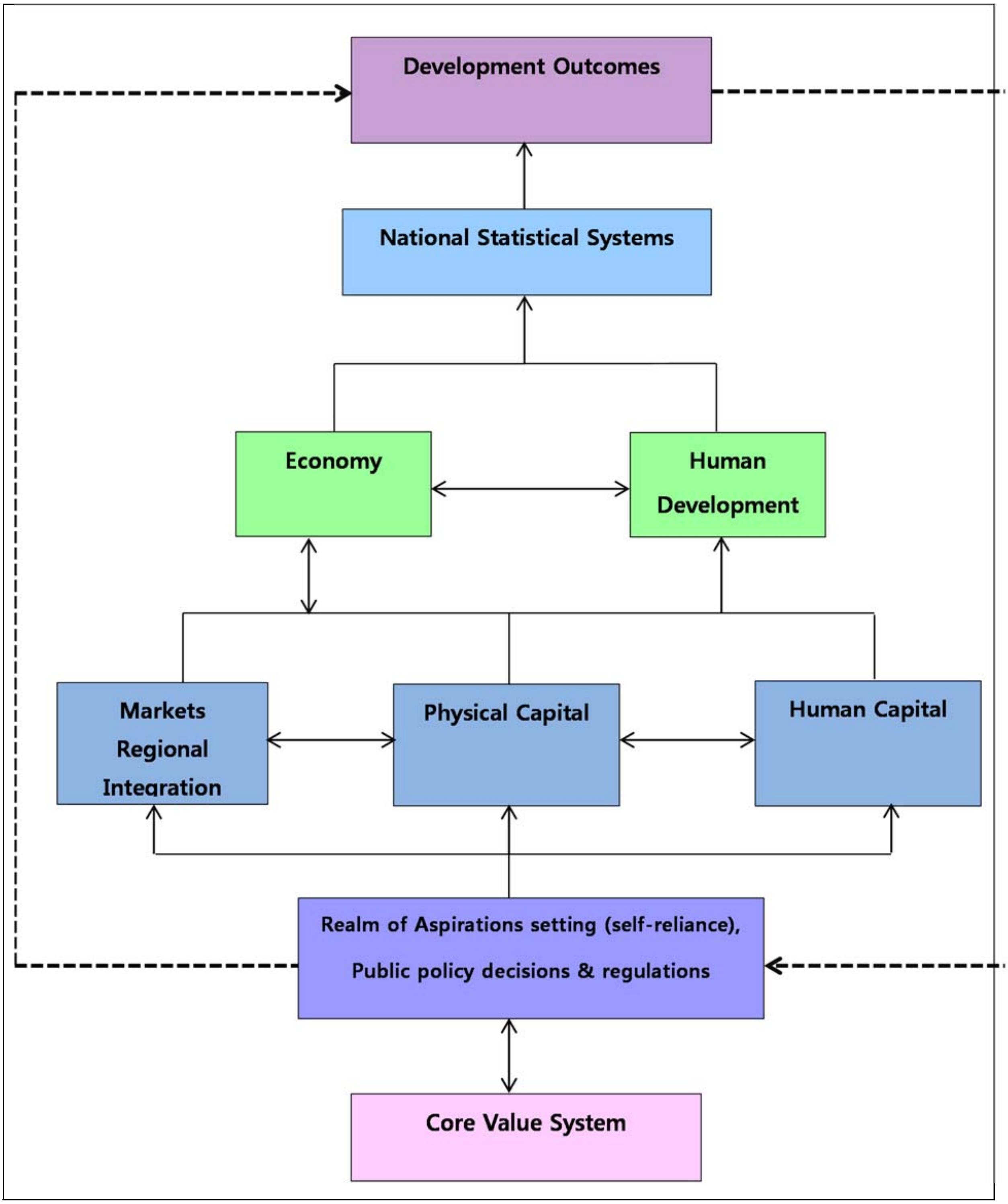
Although there is heterogeneity of views, the emerging consensus is that aspiring Africans do not see their production patterns as static, but see the modernization and diversification of their economies as a path to a more balanced growth and insurance against recurrent risks of adverse TOT shocks which for decades have made sustainable growth and poverty reduction elusive to the region (Stiglitz et al. 2013b). Hence, departing from the highly orthodox era of adjustment which accepted the existing structures of African economies as given and set to adjust them within the prevailing production paths, African-led development models advocate a stronger role for the state in the economy and structural transformation—reallocation of economic activity across the three broad sectors (agriculture, manufacturing and services) and greater value-addition nationally, as well as increased competition.

Structural transformation entails a gradual reduction of the craft economy underpinned by the colonial mode of production (largely dominated by mono-culture, natural resources and increasingly informal activities), and transition to a more efficient and technology-based economy largely dominated by manufacturing industries. Over time, it is expected that the rise of successful entrepreneurs and technology adoption through knowledge transfers will tilt the balance of the production structure towards more technologically-advanced and efficient methods of production and industries operating on frontier technologies. In the process, this transition will enhance the competitiveness of African economies and their integration into the world economy that is increasingly dominated by manufactured goods.[16]

[15] See World Bank (2005b).

[16] Manufacturing products now account for more than 85 per cent of developing country exports, from less than 15 per cent in the 1960s (see World Bank 2002).

Figure 2: A framework for sustainable development in Sub-Saharan Africa



Source: Author's compilation.

Embracing the structural diversification path may also strengthen the quest for self-reliance by decolonizing the African political economy. This view is well articulated in the LPA. In particular, Article 52 of that Plan calls upon member states to give 'a major role to industrialization, in view of its impact on meeting the basic needs of the population, ensuring the integration of the economy and the modernization of society. To this end, and in order for Africa to achieve a greater share of world industrial production and attain an adequate degree of collective self-reliance rapidly, Member States proclaimed the years 1980 to 1990: Industrial

Development Decade in Africa'. However, these calls were not followed by actions at the policy level, in part due to the lack of commitment of African leaders, but also because the implementation of fiscal austerity during the adjustment era curtailed the expansion of public investment, with pernicious effects on growth.

The emphasis on science and technology and call for a holistic human resource development is another constant in the various conceptual frameworks put forward by Africans (OAU 1980, 2001). The centrality of science and technology for progress and development has been consistent over the years and throughout the world. In fact, existing empirical evidence suggests that technological convergence between formerly backward nations and advanced industrialized countries has always preceded income convergence (Gerschenkron 1962; Fofack 2008). More recently, a review of various models that could produce a generalized balanced growth and structural transformation as simultaneous outcomes singled out technological progress as one of the primary drivers (Herrendorf et al. 2013).

In this respect, the promotion of science and technology, which has become the main driver of productivity in the knowledge economy, may emerge as a key instrument to achieving the ultimate objective of self-reliance and structural transformation. In particular, technological absorption and application will enable resource-rich countries in the region to go beyond the simple production processes and export of primary products to move up the value chain. It will also boost agricultural productivity and accelerate progress toward the green revolution which is a pre-requisite to structural transformation, as it may reduce the risks associated with shifting labour away from that sector when the assumption of unlimited supply of labour embedded in Lewis' model is relaxed.

However, the success of countries in their attempt to move from factor-driven to efficiency-driven economies on the competitiveness ladder will depend on their ability to absorb existing technologies and global knowledge and on the speed with which they adopt new ones in order to constantly operate on global frontier technology. At the same time, it also depends on other efficiency enhancers such as the quality of higher learning institutions, adequate economic and scientific infrastructures, the pools of well-educated and skilled workers, market size and efficiency of labour and goods markets (in terms of alignment of supply and demand).

Regional integration and intra-African trade expansion which constitute the mainstay of African development strategies provide the path to grow market size beyond the confinements of national boundary. In addition to encouraging greater exploitation of increasing returns to scale, economic integration may also reduce the recurrent risks of asymmetric shocks and exchange risks, especially in regional common currency zones. For one, regional integration may provide a much smoother path for firms to gradually grow into more competitive global value chains.

Presently, the acute shortage of technical skills, the structural mismatch between supply and demand of labour as well as the deficit of adequate scientific and economic infrastructures is pervasive and highlights co-ordination and market failures. Another symptom of market failures specific to African economies is the absence of markets for the production and transfer of knowledge or the imperfection of these markets wherever they exist (Stiglitz et al. 2013b). In order to close Africa's scientific and knowledge gap with the rest of the world and enhance the valuation of traditional knowledge, human resource development is set as a continuous process under the various African development plans.

However, in the long run, the sustainability and success of that human resource strategy will depend on incentives put in place to continuously raise the rate of returns to education. In this regard, providing the right incentives for the growth of entrepreneurship could create a virtuous cycle under the complementarity of public and private capital accumulation argument. Meanwhile, more than just addressing market failures, the less dogmatic approach underpinning African development strategies has carved an even greater role for states. In addition to providing the right infrastructure for economic development, states are expected to play a more active role in the area of human resource development and utilization, industrialization, including the promotion of import substitution industries (ISI) which were central to economic diversification in Asia and are increasingly advocated by scholars of African development (Adedeji 2002; Fokam 2013; Stiglitz et al. 2013b).[17]

In the African context, ISI and policies could be an important means to correct capital and sectoral misallocations and to address the pervasive discrepancies between private gains and social costs which skyrocketed after the privatization of public infrastructure in the region. Still, they could also ensure an adequate transfer of resources from low- to high-productivity sectors, including internal migration of Africa's unskilled rural labour to unskilled labour-intensive industries as recently argued by Stiglitz et al. (2013b). The new model foresees the rise of *developmental states*, more growth-oriented with greater sensitivity to prices and markets, than their predecessors in the 1960s and 1970s.

Over the years, development models advocated by Africans have been intrinsically self-reliant and underpinned by development policies that take into account socio-cultural values. Human development is at the heart of these models and the various tools and instruments available to sustainably improve the living standards of the population include economic growth, science and technology, human resource development and utilization, massive increase in capital formation including through infrastructure development and regional integration to expand opportunities, both in terms of increasing returns to scale and employment. Human resource development is a means to promote economic growth through the productivity channel; but it is also an end in itself. Raising life expectancy and education levels will improve living standards and contribute to the construction of a more harmonious society where the core values of equity and fairness are enhanced (see Figure 2).

Over time, the effectiveness of the proposed framework will be assessed on the basis of impacts on development outcomes, which include both monetary and non-monetary indicators to monitor progress towards self-reliance and account for emphasis on human development. In practice, the challenge associated with the operationalization of these development plans lies in the capacity of countries to establish adequate monitoring systems to assess development impacts on a regular basis, not only on the three aforementioned development outcomes (unemployment, inequality and poverty), but also vis-à-vis the declining rate of foreign aid or alternatively a diversification of sources of foreign aid and reduced dependence on a single donor. The ability of a country to sustainably draw on strong capital formation to wean itself off aid-dependency should be a good indicator of progress towards self-reliance in the medium and long term.[18]

Equally central to this new paradigm is the view that the agent of development is the state and the instrument for optimizing the allocation of public resources is the market. The state is expected to play an activist role in the sphere of modernization of the economy, including in the

[17] A recent study assessing the development impact of ISI in Latin America also concluded on the efficacy and net positive returns of that experiment, with state-wide benefits largely exceeding budgetary costs (Ocampo and Ros 2013).

[18] Although, the various plans have called for such systems, the production of timely statistics on poverty, income inequality and unemployment remains an exception rather than the rule in the region. South Africa is one of the few countries in the region which produces reliable statistics on poverty and unemployment on a regular basis.

form of import substitution industries and increasing substitution of domestic factor inputs for external factor inputs. But it is also meant to support nascent industries while fostering competition by improving the business environment and regulatory framework for a better integration into the global economy.

These policies were particularly successful in East Asia where the pervasive and catalytic role of governments and leadership commitment ensured their successful implementation. However, the success of Asian emerging markets over the last few decades has equally rested on the strength of national institutions and governance which insulated the meritocratic and competent bureaucracies from political capture. In particular, these institutional features and designs enabled civil servants to enforce strict performance criteria for industries that received support from governments. In the process, the ability of these able bureaucrats to systematically optimize the allocation of public spending and public investments largely contributed to the rise of homegrown multinational corporations in that part of the world. Hence, strengthening the governance framework will be essential to the creation of effective development states that will set African countries on the path of economic transformation.

In addition to governance and institutional strengthening, another challenge which has stifled the implementation of national development strategies is the resource constraint. The implementation of fiscal austerity and the systematic implementation of a balanced budget rule in the face of macroeconomic imbalances constrained the policy space, significantly curtailing public investments. More recently, a combination of debt relief and commodities price boom has increased the fiscal space across the region. In the short term, countries, especially the resource-rich, could further increase their fiscal space by improving the regulatory framework to raise additional revenues from mining, oil and gas concessions in support of infrastructure development, making the most of Africa's commodities.

At the same time, raising the marginal propensities to save and invest to levels enjoyed by Asian emerging market economies during their golden years is essential and should be a priority in the post-HIPC commodity price boom. This intermediate objective should be facilitated by increased additionality from improved regulatory framework in the management of natural resources. More generally, increasing prospects for domestic resource mobilization should be facilitated by the improvement of governance and institutions to systematically apply the golden rule in the rationalization of public investment. Financing sound projects under the ISI should also be facilitated by the adoption of a macroeconomic framework where deficit target setting takes into account inter-temporal fiscal sustainability.

5 Analytical framework for sustainable development in Africa

We outline a simple framework that captures important elements of the African transitional development path. Central to this framework is generalized balanced growth (sustained over time) and structural transformation. Equally important is the underlying hypothesis of sustained accumulation of physical and human capital which is essential for a continuous increase in the level of output per worker. A two sector growth model that incorporates balanced growth and structural transformation as desirable outcomes is used to represent that transitional development path. It closely resembles that in Nelson and Pack (1999), Acemoglu and Guerrieri (2008) and Herrendorf et al. (2013).

Under the framework, development is measured by the transition from the traditional economy inherited from the colonial era to the modern and more technologically advanced one. Over time, structural transformation is measured by growth in the size of the modern sector. This is illustrated by a gradual shifting of resources from the traditional sector (mono-culture, natural resources and increasingly informal production) to the more technologically advanced sector dominated by manufacturing. Against this background, let's assume that production functions in both sectors (traditional and modern) are Cobb-Douglas, with complementarity between factors. If we denote these production functions by r (for rudimentary) and by m (for modern), then the two-sector production function can be represented by:

$$Y_{i,t} = A_{i,t} K_{i,t}^{\alpha_i} L_{i,t}^{1-\alpha_i} \quad i \in \{r, m\} \tag{1}$$

where α with (0< α <1) is the elasticity of income with respect to capital when the production is based on rudimentary technology ($i = r$) or alternatively ($i = m$) when it is based on modern technology. Accordingly, ($K_{r,t}$, $K_{m,t}$) are capital stocks in the production sector that draw on rudimentary and modern technology at time t, respectively, and likewise ($L_{r,t}$, $L_{m,t}$) are labour inputs in the sector with rudimentary and modern technology at time t, respectively. The subscript t reflects the fact that the structure of production is changing over time, with the transitional shift in the allocation of factors between the two sectors resulting in increasing labour and capital intensity in the modern sector.

$A_{i,t}$ is total factor productivity or an index of efficiency in the use of factor inputs at time t. The modern technology is more efficient than the rudimentary one $(A_{r,t} < A_{m,t})$. This inequality reflects the prevalence of productivity-enhancers in the modern sector, including the quality of labour, the business climate and environment, physical infrastructure, technology and support to entrepreneurs in various forms, including government-sponsored research and development, innovations, import-substitution industries and strong legal and regulatory frameworks for efficient allocation of resources. Furthermore, let's assume that output per unit of labour and capital is much higher in the modern sector as a result of labour and technology-augmenting productivity.

Factor prices are different in the two sectors, reflecting the fact that production in the modern sector requires well-educated and skilled labour, while education is neither necessary, nor productive in the rudimentary sector. Over time, the complementarity between the traditional and modern sectors follows a binomial distribution. In the absence of structural transformation most production is done with rudimentary technology. So at time t_0 (before the country effectively enters the process of modernization) the overwhelming share of production is from the rudimentary sector which accounts for a larger share of aggregate output. However, as structural transformation kicks off the shrinking rudimentary sector is exactly compensated by growth of the modern sector.

In other words, while almost all of capital and labour is in the rudimentary sector (with just a small fraction of it in the modern sector to seed the development process), over time, an increasingly larger share of factor inputs is shifted to the modern sector, with increasing aggregate output, consequence of a much higher productivity of factors there. The subscript t is included in the specification to account for that over time transitional shift in the structure production. The shift in the proportion of capital in the sectors drives development. Although constraints such as misallocation of capital and credit rationing in a context of financial repression cannot be excluded, the proposed framework assumes that market allocation of capital across the two sectors is such that the marginal product of capital in all its uses is always equal to the interest rate that is paid on savings.

Now, let L_t be the total stock of labour at time t such that$L_t = L_{r,t} + L_{m,t}$, with $\lim_{t\to\infty} L_t = L_{m,t}$ (per the modernization hypothesis), then, total output per capita from the aggregate production function is given by:

$$\frac{Y_t(\cdot)}{L_t} = \frac{A_{r,t}K_{r,t}^{\alpha}L_{r,t}^{1-\alpha}}{L_t} + \frac{A_{m,t}K_{m,t}^{\beta}L_{m,t}^{1-\beta}}{L_t} \tag{2}$$

$$= O_r + (O_m - O_r)\frac{L_{m,t}}{L_t} \tag{3}$$

where O_r and O_m are output per capita in the rudimentary and modern sectors, respectively, with $O_r < O_m$. Since $\left(\lim_{t\to\infty}\left(\frac{L_{m,t}}{L_t}\right) \to 1\right)$, the growth of aggregate output per capita depends on productivity in the modern sector ($O_r < O_m$). Similarly, assuming that the transitional shift in the allocation of capital follows the same distribution (i.e. $K_t = K_{r,t} + K_{m,t}$, with $\lim_{t\to\infty} K_t = K_{m,t}$), then the aggregate output-capital ratio is given by:

$$\frac{Y_t}{K_t} = OC_r + (OC_m - OC_r)\ \frac{K_{m,t}}{K_t} \tag{4}$$

Likewise, OC_r and OC_m are output-capital ratios in the rudimentary and modern sectors, respectively, with $OC_r < OC_m$.

Let W_r be the price of labour in the rudimentary sector and W_m the same price in the modern sector. Furthermore, let's assume that W_m=gW_r, with ($g > 1$) reflecting the education premium in the modern sector. In addition, let P_r be the price of goods in the rudimentary sector and P_m the same price in the modern sector. Following Nelson and Pack (1999), let's assume that the price of the product is constant and the same, whether it is produced using modern or rudimentary technology, and that the cost of capital is the same in the two sectors. This assumption essentially means that the difference in labour cost is the only factor that affects the relative profitability in the two sectors. Facing wage $W_{r,t}$ and price $P_{r,t}$ a profit maximizing firm hires labour (L) to the point where $MPL = W_{r,t}/P_{r,t}$. Then, the difference between the two sectors in profits, per unit of output and capital is:

$$\Delta\pi_t = \pi_{m,t} - \pi_{r,t} = \frac{w_{r,t}}{P_{r,t}}(g-1) \tag{5}$$

$$\Delta\pi_t = \frac{w_{r,t}}{P_{r,t}}(g-1)$$

$$> 0\ (g > 1)$$

The higher profitability of the modern sector provides an incentive for structural transformation. The reallocation of resources from the traditional sector to the rapidly growing one is motivated by that profitability. The factors behind the higher profitability in the modern sector include multiple drivers of total factor productivity, including quality of labour and capital, skilled labour, infrastructure, research and development and entrepreneurial methods. Provided that the education premium associated with the increasing demand for skilled labour never becomes too large, the modern sector will continue to enjoy the productivity and technological advantage.

From (2), (3) and (4) we know that as capital and labour shifts to the modern sector, K/L and Y/L will increase. As long as the amount of educated labour is responsive to demand, human capital will continue to expand. However, the relatively higher productivity in the modern sector that is driving the reallocation of factors also holds when the assumption of constant price across sectors is relaxed. This can be verified by looking at the implications of differences in sectoral capital intensities for structural transformation. In particular, assuming that capital intensities differ across sectors, then the first-order conditions for the stand-in firm in sector $i \in \{r, m\}$ can be derived from equation (1) as follows:

$$R_t = P_{it}\alpha_i A_t \left(\frac{K_{it}}{L_{it}}\right)^{\alpha_i - 1} \tag{6}$$

$$W_t = P_{it}(1-\alpha_i)A_t \left(\frac{K_{i,t}}{L_{i,t}}\right)^{\alpha_i} \tag{7}$$

where R_t is the rental rate of capital and W_t is the wage rate. Dividing these equations by each other gives:

$$\frac{1-\alpha_i}{\alpha_i} \cdot \frac{K_{it}}{L_{it}} = \frac{1-\alpha_j}{\alpha_j} \cdot \frac{K_{jt}}{L_{j,t}} \tag{8}$$

Equation (8) implies that sectors with larger capital shares have larger capital-labour ratios. The capital-labour ratio grows at the same rate in all sectors. Substituting (8) into (7) produces the relative prices as follows:

$$\frac{P_{it}}{P_{jt}} = \Omega_{ij} \left(\frac{K_{i,t}}{L_{it}}\right)^{\alpha_j - \alpha_i} \quad i, j \in \{r, m\} \tag{9}$$

where Ω_{ij} is a constant that depends on the capital share. Since the capital-labour ratio grows at the same rate in the two sectors, equation (9) implies that the relative prices of the sector with a higher capital share (modern sector) decreases as the aggregate capital stock grows. The implications of the much higher rate of returns on capital in the modern sector, following a reallocation of factors can also be interpreted using the Rybczynski theorem. According to that theorem, at constant relative good prices, a rise in the endowment of one factor will lead to a more than proportional expansion of output in the sector which uses that factor intensively.

In addition to sustained human and physical capital accumulation, the structural transformation of Asian economies has been attributed to the effectiveness of entrepreneurship in terms of their ability and speed of response to profit-making opportunities. In the proposed African development framework, this constraint is expected to be alleviated by the activist role of the state which supports the growth of entrepreneurship in several ways, including through the provision of infrastructure, improvement of the business and investment climate, import-substitution industries and greater exploitation of increasing returns to scale in a context of deepening regional integration and strengthening governance and regulatory framework for efficient allocation of capital.

6 Concluding remarks

A review of the history of development in Africa over most of the post-independence era shows that development models applied to the region have been divorced from the local context and reductionist in their approach. In general, these models have assimilated development to growth in national income measured by changes in per capita income—the sufficient statistics expected to capture both the dynamics and complexity of the development process in any given country in the region. The overemphasis on economic dimensions of development reflected the ascendency of the neoliberal ideology and rise of market forces, but also the vulnerability of African countries in an era where the conformity with the global trend of thought became a precondition for accessing resources for countries facing recurrent balance of payments crises.

Besides establishing that these models failed to meet expectations strictly on the income growth objective, this paper also shows that the pre-eminence of exogenous development models over the African development and policy space was not necessarily a reflection of a relatively larger deficit of endogenous models rooted in Africa's institutional and traditional realities. Over the years, several attempts have been made to conceive reflexive development models that were organic and more comprehensive in the region. The cornerstone of development in these Africa-led frameworks has been self-reliance. And economic growth—not just measured by income growth, but by broad-based growth and structural transformation—has been advocated as one out of several means to achieve that higher development goal.

Other means equally central to the pursuit of self-reliance under these frameworks include a holistic human resource development and effective utilization, acceleration of capital accumulation and regional integration to expand opportunities, both in terms of increasing returns to scale and employment. Human resource development is a means to promote economic growth through the productivity channel, but also an end in itself. The complementarity between the market and the state is another important feature of these models. While the state is the ultimate agent of development (expected to be active in all the different phases of development, from aspirational settings to monitoring of development outcomes), the market is the instrument for optimizing the allocation of public resources under the structural budget constraint.

Hypothetically, the analysis suggests that development outcomes in the region would probably be superior under African-led development frameworks which emphasize structural transformation and technology-led productivity growth. The concurrent pursuit of generalized balanced growth and structural transformation as simultaneous development outcomes advocated under these frameworks would provide the insurance against the recurrent adverse TOT shocks which for decades have made sustainable growth elusive in the region. At the same time, it would foster the integration of African countries into the new global economy where the globalization of trade is increasingly synonymous to the globalization of manufacturing exports.

However, to successfully embrace the structural transformation path and enhance the competitiveness of their economies to become global players, African countries should first and foremost reclaim their policy space and establish the right conditions (both in terms of valuation of indigenous knowledge and domestic resource mobilization) to avoid the development pitfalls which are associated with the globalization of the development thought. Two pitfalls that loomed large in the past and potentially stifled the development process in the region are the acquiescence to the globally dominant ideology and development mimicry.

Under the present international financial architecture, these development pitfalls are not likely to disappear anytime soon. Still, although the risk exposure to these pitfalls remains much higher for low-income countries subject to recurrent balance of payments crises, the rise of Asian emerging market economies over the last few decades suggests that they can be overcome in the quest to self-reliance. However, in the African context where implementation has been the main binding constraint, this is not likely to happen unless the development aspirations are collectively shared and all the national treasures (human and financial resources) are strategically deployed to serve the overarching development objective—self-reliance.

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