

THE EVOLUTION OF DEVELOPMENT CONVENTIONS*

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(*in memoriam*)

ABSTRACT: This paper presents a conceptual view on development and its translation into development policies. It argues that society's perception of development is structured by conventions, which provide a view of the past, present and future and, at the same time, allows a certain hierarchy of problems and solutions to such problems. The prevalence of a specific convention depends on the international conditions faced by this society and on the distribution of economic and political power within that society. Therefore, in complex societies there is always a struggle for hegemony between competing development conventions.

KEYWORDS: Development; convention; policies; political economy.

JEL CODE: A1; B1; B2; O2.

A EVOLUÇÃO DAS CONVENÇÕES SOBRE O DESENVOLVIMENTO

RESUMO: O artigo apresenta uma visão conceitual do desenvolvimento e discute como essa visão se traduz em políticas públicas. Argumenta-se que a percepção do desenvolvimento em uma determinada sociedade é estruturada por convenções, que fornecem uma visão sobre o passado, o presente e o futuro e permite certa hierarquização de problemas e de soluções para esses problemas. A predominância de uma ou outra convenção depende das condições internacionais a que essa sociedade se encontra sujeita e também da distribuição de poder político e econômico dentro dessa sociedade. Logo, em sociedades completas, sempre existe uma disputa pela hegemonia entre diferentes convenções sobre o desenvolvimento.

PALAVRAS-CHAVE: Desenvolvimento; convenção; políticas públicas; economia política.

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1. INTRODUCTION

Keynes' remark about "practical men" being guided by ideas of long-dead economists is well known and goes a long way to explain this paper, which is part of a research project on how we think about development and how such ideas are translated into policies.

Schumpeter's analysis of the "ideas of economists" provided complementary support. In his early (1912) work on the evolution of such ideas, he warned readers against the "intellectualist error" and argued that one of the two main roots out of which took shape the "science of economics", was the "interest in practical problems of the day" (Schumpeter, 1954a, p. 9)². More than 40 years later, in his monumental *History of Economic Analysis*, he took pains to distinguish "Systems of Political Economy", which supported a broad set of economic policies unified by normative principles, such as liberalism and socialism from "pure economics" (*i.e.* economic theory as a box of tools). At a given time, such Systems tended to reflect the class structure of the society and the "spirit or attitudes" of the groups therein (Schumpeter, 1964, p. 64-65). However, "pure economics" was socially embedded too. Schumpeter explained that the analytical endeavor is always preceded by a "vision" which selects the phenomena to be analyzed and identifies their relationships. Thus "ideology... enters on the very ground floor, into the pre-analytical cognitive act" and provides the start of the theory "with material provided by our vision of things" (*ibid.* p. 70). Moreover, even theories and tools which could originally be envisaged as "ideology-neutral" may be used as ideological artifacts in political struggles (*ibid.* p. 72). In the same book, anticipating some of the ideas of Kuhn (1970) about "normal science" and "scientific revolutions", Schumpeter pointed out the role played by academic communities, hierarchically structured, in the reproduction and incremental advance of theory, arguing that the cohesion of such communities was partly provided by the same attitudes towards political and social questions, a similarity which could not be ascribed to scientific reasons only (*ibid.* p. 74).

My experience as an academic, as a policy advisor and, sometimes, as a policy-maker had some influence in the paper too. As a consequence of such combination, the paper presents a political economy approach as well as a Brazilian bias.

I argue below that the collective perception of development is structured by a "convention", which provides policy-makers and other social actors with a view of the past, present and future and with a hierarchy of problems and solutions to such problems. The prevalence of a convention depends on the international conditions faced by a society and on the distribution of economic and political power within

² The other root lays in the study of philosophy.

that society. Therefore, in complex societies there is always a struggle for hegemony between competing development conventions.

The concept of a development convention, in terms of its cognitive and political economy components, as well as the evolution of such conventions, is analyzed in the following section. Section 3 applies the concept to the evolution of development conventions in the post-Second World War period, focusing on the developmental and neoliberal conventions. Since the latter has recently lost its power, section 4 attempts to answer the question about where do we stand now, arguing that there is no hegemonic development convention at the moment – on the contrary a “stability” convention seems to prevail. The last section sums up the arguments presented in the paper.

Space and time considerations imposed selectiveness: readers are duly warned that development conventions of marxist inspiration are not dealt with in the paper. Further justification of this choice may be found in the fact that, apart from the socialist countries, such conventions were not hegemonic in most of the developing world.

2. THE CONCEPT OF A DEVELOPMENT CONVENTION

I start with a time-honored distinction in development studies: development is not equivalent to growth. The former implies structural change, while the latter is simply “more of the same”. In technical parlance, development is a nonergodic process, where agents face ontological uncertainty, which cannot be eliminated by the search for more information.

Such uncertainty reduces the scope for the coordination of agents’ actions, especially of their strategies. The externalities and synergy which arise out of joint action are reduced and change is slower and more erratic.

Institutions provide society with means to cope with the problems of uncertainty and coordination. An important part of the institutional structure is composed by cognitive devices.

Social psychologists as Johnson (1987) have argued that moving from one point to the other along a “path” is one of the basic image schemata we use. Coupling “path” to the “scale” schemata which organizes our experience of “more” and “different” (*ibid.*) provides a metaphor of development.

As pointed out by Schön (1988), we think about social problems “in terms of certain *pervasive, tacit generative metaphors*” (p. 139, emphasis added) which are used for problem setting, “to describe what is wrong with the present situation in such a way as to set the direction for its future transformation” (p. 147). Social actors need some guiding rules to reduce uncertainty and induce coordination, rules which specify positive and negative agendas – a hierarchy of problems (e.g. inflation control,

income distribution) which must be tackled; solutions to such problems which are acceptable (e.g. inflation targeting) or not (e.g. administrative price controls), organizations in charge (e.g. the Central Bank), as well as rules and regulations (e.g. Basle banking rules).

The guiding power of such rules is considerably strengthened if they gain coherence through a historical metaphor – a story, a theory, which explains how the present arose out of the past and, especially, how the future will be if the rules are followed. In short, a teleology.

Such set of rules, the positive and negative agendas they generate and the teleology underlying them are a **convention** – a collective representation which structures individual expectations and behavior (Orléan, 1989), in the sense that, given a population P, we observe a behavior C which holds the following characteristics: (1) C is shared by all members of P; (2) every member of P believes all other members will follow C; (3) such belief provides members of P with a sufficient reason to adopt C (Orléan, 2004). A convention arises out of the interaction of social agents but it is external to such agents and cannot be reduced to their individual cognition, *i.e.* it is an *emergent* phenomenon (De Wolf and Holvoet, 2005).

In every society there are many conventions dealing with different aspects of economic and social behavior (e.g. the quality of traded goods, the working of the financial system). Following our definition, a **development** convention is concerned with structural change. This begs the question about which “structures” are to be changed? The answer to that question differentiates development conventions. However, before discussing such differences, it is convenient to consider in some more detail the “beliefs” which structure the convention, *i.e.* its cognitive content, and the economic and political power of the population P which holds the convention. Both elements, cognition and power, play a major role in the “strength” and evolution of the development conventions.

A convention is a “social representation”, defined by Jodelet (1989) as a form of knowledge, socially produced and shared, which has a useful objective and leads to the establishment of a reality which is shared by a social set. As such, it comprises a “hard core” and a “peripheral belt”, akin to Lakatos’ (1970) research programs³. The “hard core” has an axiomatic nature and plays three essential functions: to generate the social representation, to organize the relationships between the elements of the representation and to stabilize the representation by resisting changes. The “peripheral

³ Several analysts of conventions compare them to paradigms of the Kuhnian type (Orléan, 1989; Choi, 1993). The structural, Lakatos-type, approach used by the École du Midi group to study social representations (Jodelet, 1989; Alves-Mazzotti, 2002) is, in my view, more precise and more useful.

belt”⁴ enables the hard core: it makes the hard core operational by detailing it in accordance to the specific circumstances at hand and thus prescribes the desirable and undesirable patterns of behavior. Moreover, the peripheral belt protects the hard core by accommodating changes in the context by means of *ad hoc* hypotheses and prescriptions.

The cognitive content of development conventions comprises codified and tacit knowledge. The former is provided by economics, sociology and political science and the latter by learning through experience and social *mores* and custom. Both deserve some more discussion.

As argued by Sá-Earp (2000), social theories are presented under several guises, according to the different audiences to which they are directed: there is an erudite version, produced by academics for consumption by their peers, a state-of-the art version (V1), a version designed to be used by applied social scientists (V2), an introductory version, as set in handbooks to be used by students (V3) and a highly stylized version for the layman use (V4), as put forward by the medias.

The transition from one version to another involves many simplifications and offers scope for significant misuses. This applies especially to the important (from the policy-making point of view) transition from V1 to V2, more so when V1 is cast in highly abstract and formal terms, as present-day economic theory⁵. Compare, for instance the statement of Lucas (2005, p. 301) that “equilibrium is just a property of the way we look at things, not a property of reality” with the ubiquitous statements of policy-makers about the “equilibrium interest rate” (or “exchange rate”).

I suggest that V1 is located in the hard core of the convention, V2 is used in the peripheral belt by decision-makers to transform general into specific proposals, V3 performs the role of reproducing the convention: it educates people in the belief that V1 is “the” knowledge and enables students to use V2. Finally, V4 legitimates the convention by widening the number of adherents to it.

The use of scientific language and supposedly scientific knowledge in this process of legitimating is a powerful rhetorical instrument in modern times. The remark that the “justification of decisions by reference to research or investigation committees has acquired in America a symbolic-ritualistic function similar to the medieval practice of linking important decisions to precedents and predictions from the Holy Scripture” (Ezrahi, 1972, p. 217) is now applicable more widely and more strongly.

⁴ “Protective belt” in Lakatos’ terminology.

⁵ The way Lucas (2005) uses “theory” and “models” as synonyms is a good example of present-day epistemology and rhetoric. See the quote below, on p. 13.

The preceding quote leads us to tacit knowledge. Development conventions are “stories” told about change – of how change is necessary and, especially, feasible, even under difficult circumstances and of how the future will be much better than the present if we follow the prescribed rules. Similar stories, Schon’s “tacit and pervasive metaphors” deeply embedded in our culture, are told by myths. In fact, the function of the myth is to reveal models, reducing uncertainty (Eliade, 1963)⁶. Although they may have lost their sacred meaning, some myths are metaphors which are widely shared in a society – they provide “stories” about change everybody knows.

Consider, for instance, a millenary myth we all know. A People is immersed in sin and it is leading a miserable life under the rule of the Daemon. A courageous Leader guided by the Doctrine given by a Deity comes, and with the help of a devoted band of early followers, defeats the Daemon and leads the People to a Promised Land. However, before reaching this wondrous place they must surmount many obstacles. Some of the obstacles are external (e.g. a desert), others are internal (doubts). Doubters must be convinced to continue by the combination of menaces and promises. Many of the persons who started the journey will not end it: either because of weakness or because they have backtracked and became allies of the Daemon. The latter must be eliminated ruthlessly. Faith and Perseverance are essential. Finally, the People reach the Promised Land. History (and the story) ends there.

A characteristic of myths is that they have many variations⁷. Fairy-tales, heard in our childhood, such as Sleeping Beauty and Snow White, have the same structure and content – in fact they are an off-shoot of myths related to the passing of seasons. The millions of viewers of the first trilogy of Star Wars saw and heard the same story. Readers of a Judeo-Christian culture will probably have recognized the story told in the previous paragraph as that presented in the Exodus chapter of the Bible but Romans acquainted with Virgil could have recognized in the story several elements of the Aeneid. As for individuals, all initiation rites (from those performed in Amerindian cultures to those necessary to be admitted to academic communities, such as Doctoral degrees) share some of the structural features of this myth (Johnson’s schemata): the path from a “bad” to a “good” situation is fraught with sacrifices and helped by a superior force.

A myth is no ordinary story – ancient people distinguished between “myths” (true stories) and “fables” (false stories) (Eliade, 1963). To be a “true” story it had to be told

⁶ “Myths guarantee to Man that what he is preparing to do *was previously done*, they help him to chase the doubts he could hold about the result of his enterprise” (*Ibid.* p. 173, his emphasis, my translation).

⁷ It is not by accident that one of the classical studies of mythology is entitled *The Hero of a Thousand Faces* (Campbell, 1949). See also Calasso (1990) for a discussion of myths’ variations.

by someone holding special powers, a priest or a shaman. Nowadays, such sacred role is performed by scientists. If a version of the myth is presented under scientific language the original sacredness of the myth is restored and its power reinforced. The difficulty most people face in following the arguments presented in the more erudite versions of social theories (V1), enhanced by their mathematical rhetoric, increases their sacredness.

An integral part of mythical thinking is the belief of the initiated that they hold the Truth. In modern times and rhetoric the Truth is embodied in V1. Skeptics, which point out that the myth may reveal only part of reality, are not tolerated. At best they are misguided and must be enlightened, but if they persist in their doubts this is a clear sign of being allies of the Daemon. The politics of many academic institutions, which produce the different versions of codified knowledge, and of bureaucracies which put such knowledge to work, show how this operates.

All development conventions have a teleological content, which is part of their hard core. Such teleology has the same structure of the myths described above and is strongly reinforced by the tacit knowledge imparted by mythical cognition, strengthening the adherence to the convention. Myths tell us that change must be sweeping: the New World cannot come into being unless the Old World has been destroyed (Eliade, 1965). Similarly, development conventions purport to replace the Old World by a New and better World.

Not all tacit knowledge is structured as myths are. Custom, through education and personal experience, provides knowledge about how society operates and the possibilities of change it offers⁸. In many, probably most, societies this tacit knowledge has a conservative bias, which is at odds with the quick change prescribed by the codified knowledge. It is the role of the protective belt to try to accommodate the different timing of codified and tacit custom-based knowledge.

As argued above, a convention contains several cognitive elements. Its capacity to guide actions by stipulating positive and negative agendas – its strength – is proportional to the convergence of such elements.

The *strength* of a convention is also proportional to the size of P and to the economic and political power of P members. Such strength apportions benefits to its adherents and sanctions to dissenters, e.g. as regards the uncertainty and profitability of investment decisions. As a consequence, P contains not only “true believers” but also “opportunists” driven by utilitarian reasons only (Choi, 1993).

⁸ Proverbs provide a rich material to understand the working of a society. Two Brazilian examples elucidate its authoritarian and clientelistic aspects: “who can commands, who is sensible obeys” and “whomever has a godfather does not die a pagan”.

Although a development convention is always presented as a “national project”, leading to the common good, in fact it reflects the distribution of power, economic and political, prevailing in that society. Since development is a process of structural change, an efficient development convention must offer scope to emerging groups other than those present in the power block ruling that society, especially when the political regime is to some extent democratic.

In other words, development conventions play an important role in the shaping of political coalitions sustaining development strategies. As a consequence, their study pertains to the political economy realm.

A development convention tends to spread into other institutions, such as laws and regulations and to become embedded into organizations, such as private and public bureaucracies and the academia. In this sense, it is a *constitutional* institution. As it becomes embedded in many different institutions and organizations, the convention gains further strength and legitimacy. As a consequence, uncertainty is reduced and coordination induced. This diffusion process has strong cumulative and self-organization characteristics⁹.

An important part of this institutional spreading out is macroeconomic policy – fiscal, monetary and foreign exchange policies, especially. Under a development convention, such policies are means to achieve the ends purported by the convention – e.g. the under-valuation of the foreign exchange rate to substitute imports and foster local industry in the period in which the developmental convention prevailed.

The legitimacy of conventions is contingent upon their results and, if the latter are according to the expectations held by the members of P and P is a relevant group in the power hierarchy of the society, the legitimacy of the social order in which the conventions are inserted is strengthened. In other words, as Weber (1995) pointed out long ago, conventions play an important political role in the maintenance of social order.

Nonetheless, in complex societies, where there are many conflicting interests, no development convention can accommodate all. As a consequence, in such societies there are always different development conventions competing with the ruling convention. For instance, as shown in detail by Bielschowsky (1988), the prevalence of the developmental convention in Brazil from the fifties to the sixties, did not prevent liberals to uphold a different development convention and, conversely, during the heyday of the neoliberal convention in the same country, vocal defenders

⁹ De Wolf and Hovoet (2005, p. 7) define self-organization as “a dynamic and adaptive process where systems acquire and maintain structure themselves, without external control”.

of a developmental approach were heard (see Sochaczewsky [2000] on industrial policy and Sallum Jr [2000] on dissent within the Government).

Conversely, a convention may loose strength if its results are not according to the expectations of P, or if the power of P in that society diminishes, for economic or political reasons, generated locally or internationally. The decline of the socialist convention exemplifies this process well.

Development conventions arise out of the interplay of the internal economic and political forces with the international context and a crisis of such forces, such as the debt crisis of the early eighties, may prevent the incremental and cumulative process of change of a development convention, leading to an attack on its hard core which the peripheral belt cannot cope with. Under such circumstances the hegemonic development convention tends to plunge into a crisis and tends to be replaced by a new convention.

The new convention will tell a new story about the past, the present and the future, but, all the same, will promise a New World better than the Old¹⁰. To reach the new Promised Land, a new set of rules and new forms of behavior will be necessary.

As mentioned above, this process of change does not imply the disappearance of the superseded convention: although many of its former upholders will become converts to the new convention, a hard core of its supporters will retain their allegiance to the old convention. Such convention survival, which reflects the different economic and political interests present in the society, reinforces the path-dependent nature of the evolution of development conventions.

In other words, conventions may go through a life-cycle: they emerge, flourish and then may decline. In the next two sections we present an outline of the evolution of development conventions.

3. WHICH STRUCTURAL CHANGE? THE LEADING PAST DEVELOPMENT CONVENTIONS

If we restrict our focus to the countries which emerged from the Second World War as providers of primary products to the more industrialized countries, what were then called “underdeveloped countries”, two distinct and successive answers to the question of structural change predominated, provided by two conventions: developmental and neoliberal conventions. Because of such prevalence and its implications for policy-making, we concentrate our analysis on them only.

¹⁰ Variety provides breath to myths. See Calasso (1990).

The first convention, the **developmental convention**, which predominated from the end of the Second World War to the 1970's, focused on changing the **productive structure** by promoting industrialization. Given the economic structure inherited from the past and how internal and international markets functioned, State guidance and direct intervention were required to achieve such structural change. There were strong divergences about the path to be followed, ranging from Rostow (1960) "stages" approach, whereby the trajectory of underdeveloped countries would be akin to that of the more "advanced" countries, to Furtado's (1961) assertion that trajectories were national-specific and about the "balanced" (Nurkse, 1953) or "unbalanced" (Hirschman, 1958) path of industrialization. Although the expectations about the role to be played by direct foreign investment varied, there was a widespread skepticism about its importance – development was a task of the State and of national entrepreneurs. Nonetheless, views converged on the objective of having a productive structure similar to that existent in the central capitalist countries. Although industrialization required changes in institutions (e.g. for planning, financing and protecting local industry against foreign competition) the institutional **structure** received scant attention – changes were introduced in *ad hoc*, haphazard fashion. Even the State was not scrutinized – it was largely assumed that it would benevolently and knowingly look after the "national interests".

The geopolitical context of post Second World War period was an important determinant of this convention: the decolonization of Asia and Africa and the struggle for hegemony between the capitalist and socialist blocks provided ideological, financial and technical support to the industrialization of the LDCs. The stability given by the Bretton Woods system and the exceptions granted to LDCs by the GATT provided a congenial institutional framework. In Latin America, where formal political independence dated back to the beginning of the XIX century, light industry, supplying mainly nondurable consumers had developed during the War periods and the Depression, when imports had been curtailed. Most importantly, national State bureaucracies, committed to greater political autonomy, had evolved and viewed industrialization as a necessary ingredient to such goal. In Africa and Asia, the new State bureaucracies held the same view, albeit sometimes hampered by the lack of national industrial entrepreneurs.

As a result, a powerful coalition of international and local interests was formed in favor of industrialization. Such coalition was greatly reinforced by the international competition within oligopolies fighting for market shares on a global scale, following the reconstruction of the industrial power of Western Europe and Japan. Facing export barriers, producers of durable consumer goods, capital goods and intermediary products jumped over such obstacles establishing subsidiaries in LDCs, especially in those countries which had large, protected and highly profitable markets.

High rates of urban employment, absorbing migrants from the countryside, coupled to the supply of durable consumer goods provided mass-support to industrialization, even where political regimes became authoritarian.

Nonetheless, the V1 of the developmental convention was never fully developed. Although the prevailing “keynesian consensus” provided support to State intervention, its hard core was not directed to issues of structural transformation of economies with the characteristics of LDCs, as Lewis (1958) pointed out. The analytical core of the developmental convention consisted mainly of an assembly of keynesian growth models, of the Harrod-Domar vintage, of analyses of the functioning of local and international markets and of historical analyses, following a structural-historical method. It was never given a full formal treatment, as Krugman (1994) regretted.

As a consequence, “development” remained the realm of applied economists and other social scientists. Such weakness did not prevent the elaboration of V2, as shown by the abundant literature on how to plan and implement industrialization. The historical approach to V1, which stressed the specificity of underdevelopment, further justified such pragmatism. In The Economic Commission for Latin America and the Caribbean (ECLAC) of United Nations performed a very important role in the elaboration and diffusion of such V2 literature, as well as in the technical education of government bureaucrats by short courses given locally, throughout the region and longer courses taught at its headquarters in Chile¹¹. V3 versions of the convention were prepared for the latter purpose and were afterwards transformed into handbooks widely used. The media followed suit, heralding the benefits industrial “modernity” would bring.

Such convention did not go unopposed (Viner, 1958). Liberals repeatedly criticized the developmental convention on three main grounds: excessive State intervention, interfering thus with market mechanisms; a tendency to autarky, depriving the economy of the benefits of foreign trade, direct investment and finance and, finally the priority attached to industry, especially when coupled to protectionism related to trade, investment and finance. The result of such combination was, they claimed, inefficiency – slow growth and inflation.

Nonetheless, in many countries in Latin America, such as Mexico and Brazil, the developmental convention followed its path-dependent trajectory until the crises of the seventies and eighties, when the hard core of the convention – industrialization under State intervention – became untenable, paving the way for the hegemony of the liberal convention.

¹¹ Local graduate education was very limited as were scholarships for studying abroad.

The economic and political processes which led to such outcome are well known: the crisis of the socialist system in Europe and China, the debt crisis of some of the main followers of the developmental convention, such as Mexico and Brazil, which, coupled to inflation, crippled the legitimacy of the developmental State, the crisis of fordism and the welfare state in the central capitalist countries, the liberalization of international trade and finance and the coming to power of conservative forces represented by leaders such as Reagan, Thatcher and Kohl. The demise of the “keynesian consensus” and its replacement by the renewed faith in the market, supported by the revolution of rational expectations, methodological individualism and the “invasion” of political science and sociology by economics, discussed below, provided the epistemological support to the conservative *tsunami* which swept the world.

During the eighties the developmental convention was superseded by another – the **neoliberal convention**, which was symmetrically opposite to the old convention on every ground.

Norberto Bobbio has argued that “the whole history of political thought is dominated by a great dichotomy: organicism (holism) and individualism (atomism)” (Bobbio, 1990, p. 45). Such dichotomy can be extended to economic theories as well. Dobb, for instance, divides the latter into two groups, of which the first starts “the study of Political Economy and the analysis of exchange-value” from “the socio-economic conditions that shaped the class relations of society” and the second which “derive an explanation of exchange-value from the attitudes of individual consumers towards commodities as use-values catering for the satisfaction of individual wants” (Dobb, 1973, p. 31-33). More generally, Caporaso and Levine (1992) argue that the term “economic” has at least two meanings. One of them refers to “activities”, especially the production and reproduction of goods and their circulation, which, in turn, leads to focus “on the system or structure of reproduction of the society as a whole, or at least of that aspect of society tied to satisfying wants” (p. 25). In contrast, “economic” may be identified with a way of understanding

human action as an effort to achieve given ends in the face of external constraints... The central metaphor is *allocation*... When we identify the economic with a way of calculating, we immediately place emphasis on the mental processes of the individual agent who does the calculation... Indeed, it becomes a way of thinking about all of our activities. (Caporaso and Levine, 1992, p. 22-23, emphasis in the original)

From the viewpoint of the dichotomy above, the developmental convention was situated in the first half, as shown by its emphasis on the structure of productive activities and social classes, while the neoliberal convention draws its inspiration from the individualistic tradition of liberal thinking.

The neoliberal convention faced different conditions from the developmental convention as regards V1. It could rely on a highly structured analytical frame, which fed directly into the other versions of the convention. From the new classical school micro foundations based on rational expectations, it garnered the suspicion that the State is unreliable because of the “inflationary bias” induced by electoral considerations as well as inefficient because agents anticipate what the State will do. From the public choice and coalition theories came the assertion that the State is prone to capture by private interests and by its own bureaucracy, leading to rent-seeking strategies which jeopardize efficiency and growth – as a consequence the State is not only inefficient but positively harmful, the solution being to reduce the scope for State intervention and, when this is inevitable, to insulate the bureaucracies, to make their decision process transparent and the decision makers accountable for what they do, the independence of the Central Bank being a prime example of such general conclusions. Stemming from endogenous growth theory, technical progress, transferred from the more advanced countries by means of direct investment and trade, became a prime objective and the neo-classical variety of the “new institutional economics” argued that institutions which guaranteed private property rights were essential to foster innovation and reduce transaction costs. Methodological individualism and universal institutionalism provided the coherence of such theoretical structure and endogenous growth theory aimed at getting “a single model neoclassical model that can account for rich and poor countries in the same terms. This contrasts with the view we had in the 1960s that there was one theory for the advanced countries and some other model was needed for the Third World” (Lucas, 2005 p. 308).

International institutions, especially the World Bank, with the help of the academia and a wide array of private institutions, from consultants to banks and risk-assessment agencies, transformed such theory into V2, summarized by the Washington Consensus Decalogue, implemented through the Structural Adjustment Programs and the conditionality of the Brady Plan debt renegotiations. The overwhelming hegemony of the new orthodoxy in the academia was quickly transformed into handbooks and the national and international media adhered enthusiastically to the liberal convention, proclaiming the coming of an “emergent modernity”. The rhetorical fate of the expression “Third World” expresses this well: what was, under the developmental convention, a proud proclamation of cultural and political autonomy, became, under the neoliberal convention a synonym for poverty and low-quality products and services.

Modern versions of the Promised Land myth can be found in the two development conventions but it is more structured in the neoliberal convention: try replacing “sin” by “inflation and inefficiency”, the Leader by the World Bank, the Daemon

by the State and rent-seekers, the Desert by the darwinian weeding out of inefficient institutions and the Promised Land by post-historical societies.

The new convention focused on **institutional change**, aiming at reestablishing the primacy of market institutions by, on the one hand, reducing and controlling State intervention, increasing the rights of property and, on the other hand, increasing the openness of the economy to trade, investment and finance flows. As such, it was a highly selective institutional change, focused on making the markets function¹². Changes in the productive structure, led by foreign investment, would follow the change in institutions in accordance to “comparative advantages”.

The former development agenda was overturned. “Picking the winners” and sector-specific industrial policies became mortal sins. “Get the institutions right” became the development mantra.

The “right institutions” were patterned upon Western capitalist democracies, and they could, it was supposed, be applied *urbi et orbi*. As a consequence the process of institutional reform was a “universal consensus”. Having got the “right” institutions, it was claimed, the economic and political structures of all countries would present a similar pattern – an economy ruled by the market and a liberal-democratic polity. No better alternative was available and, therefore, History, led by ideas, would end there.

The case of some asian countries, such as Korea and Taiwan, where high and sustained growth and low inflation were combined with strong State intervention, including authoritarian regimes, posed an obvious problem to such interpretation of development. The conundrum of the “East Asia miracle” was “solved” by the World Bank (1993), which argued that the importance of State intervention in such countries was not clear and that, in any case, it had been “market-friendly”. Moreover, the Bank strenuously advised readers that the experience of such countries was not replicable. The heterodoxy of such cases was thus disposed of.

The initial success of the neoliberal convention in reducing high and sustained inflation provided it with great popular support. The political consequences of such support were duly acknowledged, strengthening the adhesion of the State and political parties to the convention. The maintenance of price stability through over-valued exchange rates and high interest rates established a powerful coalition between the monetary authorities, importers, the financial system and higher-income groups. Opening the economies to trade, investment and finance reinforced such coalition. In most cases, foreign investors benefited considerably from the privatization of State enterprises. Although the State duly enhanced propriety rights, strengthening the

¹² To give but an example: individual rights were reduced to property rights, assuming that the other rights (political, social) would follow from the former.

coalition, other structural State reforms, such as the fiscal, administrative, political and labor legislation reforms faced incumbent interests and actors and tended to stall, leading to demands for “second generation” institutional reforms.

4. WHERE DO WE STAND NOW?

The neoliberal convention, in its full-fledged form, has been superseded too. The days in which Fukuyama proclaimed the “end of History” and Williamson dubbed the Washington Consensus the “Universal Consensus” which “summarized the common core of wisdom embraced by all serious economists” are long past¹³. Gone are also the laundry-lists of institutional reforms to be applied everywhere to promote “good governance” and thus to transform Zambia into Sweden overnight. “Big bangs” lost their gilt. The fact that the world evolved so differently from what was predicted proved that the story told by the neoliberal convention was no myth, it was simply a fable.

The retreat of the liberal convention can be partly ascribed to the cognitive debate, as alternative approaches, such the neoschumpeterian, post-keynesian and neokeynesian in economics and theories of State embeddedness in politics have recovered some ground. Formal treatment of market failures, pointed out in nonmathematical terms by early development economists – such as indivisibilities and information asymmetry – have provided academic legitimacy to such factors. Nonetheless, the agnosticism presently prevailing in development theories seems to indicate that a new V1 is still in the making. In fact, most of the criticism leveled at the Washington Consensus, spearheaded by highly visible and legitimated actors such as Joseph Stiglitz, has been directed to the V2 version of the neoliberal convention. Although the media has conveyed such criticism, its influence on V3 seems to be still limited.

Nonetheless, the neo-liberal convention was superseded mostly by reality: by the international crises of the nineties, the failure of showcases such as Argentina and the success of heterodox paths of development followed by China, India and Vietnam, among others and by the limited growth developing countries achieved under the hegemony of the neoliberal convention. In fact, as Chang (2007) has pointed out, the *per capita* growth of developing countries during the neoliberal period was about half of the growth of the sixties and seventies, when such countries were following the developmental convention.

Given its results, the demise of such convention should be commemorated. But what is the alternative?

¹³ See Fukuyama (1989) and Williamson (1993, p. 1.334).

The recent *Growth Report – Strategies for Sustained Growth and Inclusive Development* (Commission on Growth and Development, 2008), probably is a good representative of the present day orthodoxy about development – the Commission which prepared the *Report* was composed of “19 leaders, mostly from developing countries” (p. vii), including two Nobel Prize winning economists and the *Report* is the result of two years work, over which 12 workshops were held and “more than 300 distinguished academics wrote and presented papers and discussed the issues” (p. viii). The *Report* is sponsored by the World Bank and by several developed countries institutions concerned with development.

The general conclusions about growth are based on the study of 13 “success stories of sustained high growth”: a very heterogeneous group, ranging from diamond-rich Botswana to China and Japan¹⁴. Although the *Report* duly recognizes the heterogeneity of the success stories, it is worth stressing that none, with the possible exception of Hong Kong, fits the neoliberal paradigm. Moreover, the inclusion of Brazil among the successes is due to its growth record during the developmental years, before neoliberal reforms were introduced. In other words, following development strategies different from those sponsored by the neoliberal convention has become respectable, a rhetorical trick similar to that performed by the *East Asia Miracle* in the early nineties.

The *Report* identifies (p. 21) “five striking points of resemblance [between the success stories]:

1. They fully exploited the world economy.
2. They maintained macroeconomic stability.
3. Mustered high rates of saving and investment.
4. They let markets allocate resources.
5. They had committed, credible and capable governments.”

However, when the *Report* turns to the “policy ingredients of growth strategies” it presents a remarkable caution, as shown by the *caveats* that “we do not know the sufficient conditions for growth” (*ibid.* p. 33) and “our model of developing economies is too primitive at this stage to make it wise to predefine what governments should do” (p. 30) to conclude that “just as we cannot say this list [of policies] is sufficient, we cannot say for sure that all ingredients are necessary”(p. 33). Such caution pervades the whole document.

Diversity, a hallmark of some of the old developmental convention versions, has made a comeback: countries follow different trajectories. Institutions change gradually,

¹⁴The other countries are: Brazil, Hong Kong, Indonesia, Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand.

the polity plays an important role in institutional change, institutions may be formally identical and operate differently depending on their context. The State has important roles to play. Political economy is back, “history matters”, path-dependency and cumulativeness are important. Even “industrial policy”, that bad word, has had a reprieve by none less than the World Bank (2007).

However, behind the recognition of diversity and the caution about general recipes, lies, unabated, the belief in the need for “sound fundamentals”. This is an expression with strong rhetorical power (as was “rational” expectations) because nobody is in favor of “unsound” fundamentals (or “irrational” expectations). The problem lies in how one defines “soundness”.

As we know, the canonical answer now is fiscal equilibrium, low inflation and flexible exchange rate. The rationale of this policy is well-known: price stability is a condition for sustainable growth. Stability creates an environment in which relative prices play their allocation role efficiently, fiscal and private accounting systems are trustworthy and long term contracts and funding can be signed in confidence. In other words, the objectives of stability and growth are complementary. The Central Banks have become the high priests of this canon and to fulfill their role they must be free and independent¹⁵.

Price stability, says the canon, is best achieved by inflation targeting: the Central Bank has an inflation target (normally a narrow band) and uses all its instruments (mainly the prime interest rate) to achieve such goal. Fiscal policy targets are set so as to allow for the public debt payment entailed by the interest rate set by the Central Bank. The foreign exchange rate is left free to fluctuate, but not too much upwards, since this will increase the price of tradables and, therefore, threaten the intended inflation rate. Ideally, the Central Bank should be legally independent to establish the inflation target. Under a second best solution, the Bank acts as the agent of the political authorities (e.g. the Finance Ministry): the latter establish the target and the Bank pursues it as it deems necessary. In any case, the Central Bank enjoys full operational autonomy but is bound by transparency and accountability institutional instruments.

The target set by the Central Bank is supposed to provide an “anchor” to the expectations of private agents. Since the latter hold rational expectations and know how the Bank will react to price increases, they will avoid raising prices.

Given soundness and a well working price mechanism, growth will follow suit. If it doesn't it is either because some institutions are not working properly (each case is now different) and/or because poor information leads the agents to hold bad expectations

¹⁵ See Artus (2007) for the views of Central Banks of developed countries and Bevilaqua *et al.* (2007) for the Brazilian Central Bank. All subscribe to the same *credo*.

about inflation. To remedy the former, introduce institutional reform (bearing in mind the context). As for the latter, stick to your guns and keep firing until expectations change and a new trajectory is established. It takes time but, as one humorist has put it, “in the end all will be well and if it is not well yet it is because it has not ended”.

Therefore, we have a “soundness” convention, with all its attributes. But, is it a **development** convention? In so far as development is interpreted as implying structural change and a long term prospective, the answer is negative. The developmental convention focused on changes in the productive structure, the neoliberal convention on the institutional structure. Both had a long term horizon. Notwithstanding its importance, macroeconomic policy was a means to turn a specific vision of society into reality. The “sound” fundamentalists draw their convention from the same V1 of the neoliberal convention and both share the faith on the market and the mistrust of the State. Nonetheless, the former focus on **stability** and their convention looks, at best, at the near future only. Macroeconomic policy has become an objective by itself. It is an essentially conservative convention: the Central Bank wants to preserve price stability, the financial system and high-income groups want to preserve their high earnings and their freedom of action¹⁶.

The strength of the “sound fundamentals” convention and the role played in it by Central Banks are not fortuitous: the convention seems to be a response to the instability of the capitalist system provoked by uncontrolled international financial capital, to the increasing integration of “emergent” countries into this system and to the increased power of financial capital.

The increasing complexity of the global development agenda, with the forceful inclusion of issues related to the environment and the related scarcity of food, raw materials and energy as well as to poverty and migration, coupled to the lack of answers to such problems, has probably increased the bent towards a more restricted and conservative agenda. If this is the case, decision-makers are following the ostrich convention – to bury the head into the short-term to avoid uncertainty.

Nonetheless, doubts have been creeping into this stronghold too. The *Report*, in its typical style of confirming the orthodoxy and, then, introducing *caveats*, states that “no economy can flourish in the midst of macroeconomic instability” but then admonishes that “Economists and policy-makers, however, disagree about the precise definition of stability and the best way to preserve it” and that “fiscal and monetary rules need to be left with an element of ‘creative ambiguity’ ” (p. 53-54). The same pattern is to be found in the analysis of Ben Bernanke, a commentator above suspicion of heterodoxy.

¹⁶ The Brazilian case presents an extreme case of the working of such convention. See Bruno (2007) and Erber (2008).

After stating that “price stability... is a good thing in itself” and that “in the long term, low inflation promotes growth, efficiency and stability – which, all else being equal, support maximum sustainable employment”, he goes on to admit that “measuring the long-term relationship between growth or productivity and inflation is difficult”, settling for a minimalist proposition – “I think we can agree that, at minimum, the opposite proposition – that inflationary policies promote growth in the long run – has been entirely discredited” (Bernanke, 2007, p. 1-2). To such cautious remarks should be added his plea for using “an analytical framework that involves learning by private agents and possibly the central bank as well” and his assessment that the Federal Reserve forecasting “continues to involve art as well as science” (*ibid.*, p. 3-6).

The present crisis, which, at the time of writing (October 2008), is still unfolding, will probably lead to deep changes in the prevailing modes of thought of social scientists and to changes in the economic and political power distribution. So far, it has put an end to the faith in the self-regulation capability of markets and has put the State back as a central institution for the survival of the capitalist system. It has also brought to light to developing countries the downside of their international financial integration. The evolution so far observable (at least by the author) does not provide yet for a new development convention. In fact, the crisis will probably focus attention on the maintenance of stability. Even if fiscal equilibrium may lose its axiomatic weight, maintaining “sound fundamentals” is likely to retain overarching importance. Nonetheless, given the roles fulfilled by a development convention, a new convention will arise. As I have argued in more detail at a previous ISS Conference I think a cross-fertilization of the post-keynesian and neoschumpeterian research programmes could provide a useful starting point (Erber, 2004).

5. CONCLUSIONS

I have argued that a “development convention” is a constitutional institution, shaped by epistemology and political economy elements, which serves as a device to reduce uncertainty and increase coordination of economic and political actors by establishing a hierarchy of problems and solutions. Development conventions are an emergent phenomenon, with strong self-organization features, which present an evolutionary path-dependent trajectory with incremental and cumulative changes introduced in its peripheral belt, until a crisis undermines their hard core and they are replaced by a new convention. After reviewing the evolution of the two development conventions which prevailed after the Second World War, the present time is characterized by the absence of a hegemonic development convention and the prevalence of stability preoccupations. The crisis now under way will probably usher into a new development convention.

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