

## ECONOMIC DEVELOPMENT AND GOVERNMENT

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### Summary

Economic development is a general concept usually extending beyond growth, variously to include significant dimensions of human wellbeing. Governments have always played a role in establishing conditions for economic development. There is no scholarly or ideological consensus on exactly what this government role should be. Determining the right mix of markets and government has thus been one of the most fundamental controversies in modern times.

This article outlines the substance of this debate and traces its evolution with respect to capitalism and socialism. Seven major theoretical schools have emerged to explain, in different ways, economic development. Significant agreement has emerged on many of the requirements for development, although no single theoretical approach dominates the debate.

While governments and markets have often been seen as separate options, the empirical evidence suggests that it is more the nature of their interaction, their intermingling and mutual modification that has given shape to economic, political and social requirements for human development.

The challenge of economic development is a matter of political economy. At the dawn of a new century, it remains one of the most important global challenges. Changes in the world economy, including the continuing impoverished circumstances of millions of people across the globe, requires revisiting basic questions regarding government and economic development. An interdisciplinary approach to political economy, disciplined by ideas of moral economy, can potentially provide important ways to pose research

questions and craft government policies required for human development.

## **1. Introduction: Economic Development as Interplay of Markets and Government**

Economic development is one of the most pressing needs of our times. The world is more prosperous than ever. Global growth rates increased almost tenfold during the last five decades of the twentieth century. However, annual reports of The World Bank and the United Nations Development Program reveal that aggregate success hides enormous disparities both among and within countries. Rich countries have been growing faster than poor countries since the industrial revolution of the mid-nineteenth century. A majority of people in the world today live in conditions in which hunger, poverty, illiteracy, disease and early death are commonplace. These merciless conditions are not restricted to low-income countries, estimated by international agencies to be roughly 172. The impoverished, inadequately-educated, sick and homeless can be found in the richest, most industrial countries in the world as well.

Economic development is not a fixed point, the end of a long journey from traditional to “modern” ways. Nor can a nation’s growth rates—measured by aggregate figures such as gross national product (GNP) or gross domestic product (GDP) per capita—be considered definitive measures of developmental progress. The experience of the last few decades demonstrates the need for a very broad vision of development, a multi-dimensional conception that applies not simply to national economies, including governments and firms, but to regions, communities, families and individuals. The international dimension of development is also more significant as globalization proceeds and international solutions to global-scale problems are more frequently sought.

How can nations move from poverty to widely shared standards of wellbeing? The evidence is abundantly clear: it is possible, but not easy. Establishing the right mix of markets and governments has been one of the fundamental political controversies in modern times. Understanding the dimensions of this debate is not an academic concern exclusive to poor countries or limited to the specialized academic field of development studies. Nor can understanding of development be found simply by examining the historical record of recent decades or by limiting analysis to nations currently enjoying high levels of prosperity.

Economic development is not a simple technical process of applied engineering. Nor has it proven to be the product of benign human intentions. Quests for personal power and national glory, zealous ideological commitment and authoritarian fanaticism, class exploitation and a narrowly technical search for efficient solutions are all aspects of chronicles recorded by scholars who have studied the role of government in economic development. Government intervention has been attached to multiple goals, woven into a variety of policy mixes, carried out in multiple ways. Economic development threatens vested interests, bestows a privileged place to rising political and economic interests, and is often used by those who wield political power to enhance their own personal political advantages.

There is no place in which economic development has been entirely unplanned or not

intertwined with political, economic, social and even military calculations. Core aspects of economic orders, whether domestic or international, capitalist or socialist, have required political foundations. In many cases cynical or simply misguided political decisions have made human conditions extremely grave or worse. And while governments and markets have sometimes been seen as having separate options, as following separate logics, it is more the nature of their interaction, the intermingling and mutual modification of government and markets that has given shape to economic development.

## **2. The Idea of Mercantilism**

Discussion can begin with mercantilism, shorthand for a body of economic thought that appeared in early modern Europe. Well before the industrial revolution, the legal claim to private property was spreading, labor was being sold, land rented out, and capital invested freely. With money values attached to “factors of production”, as marketization of social life gradually expanded, an emerging merchant class and its allies sought to legitimize their economic activities and political ties with government.

Mercantilist pamphleteers and self-promoting men of affairs (and they were a diverse lot) wrote to promote the independent commercial activities of private entrepreneurs which they held would create new national wealth and also help strengthen the emerging monarchies seeking to wrest political power from parliaments and feudal lords. These writers viewed the crown in countries like England and France as the concrete expression of state and nation. In an era of growing international trade, mercantilists declared accumulation of gold and silver as a key source of national wealth and economic development. Monarchies were in need of new sources of fiscal support, and gold and silver would buy arms and pay the crown’s troops.

This view proposed that commerce and government should be closely aligned. Exclusive trading privileges were to be given to members of the new merchant class. Subsidies and regulatory protection by the crown would assure commercial profits of those in business and the professions. An expanding national treasury, based on a favorable balance of trade promised to provide royal government with the material means to consolidate domestic authority and increase military capacity for overseas excursions.

The notion of mercantilism is far broader now, going beyond its association with trade and favorable balance-of-payments surplus. The core ideas envisage a commercial world that places the nation-state and government at its center. Modern mercantilist ideas emphasize national economic and political objectives, and proclaim that each nation must pursue commercial policies that reflect domestic needs and external ambitions, rather than the requirements of other countries or the impact that such national approaches will have on the international economy. Mercantilist views are especially appealing in countries where it is believed that the only way to “catch up” with the advanced world is with an active government that encourages industrialization and other positive programs of economic development. Policies of neo-mercantilism pursued by a number of East Asian countries in recent years fall into this category.

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### **Biographical Sketch**

**Michael Donnelly** is the Dr. David Chu Professor Emeritus of Asia Pacific Studies and also Professor Emeritus of Political Science at the University of Toronto, Canada. He has written extensively on a broad range of topics concerning Japan, including the politics of agriculture, American-Japanese relations, and most recently the development of nuclear power in Japan. He has been a visiting professor at Keio University, Meiji University, Japan's Woman's University, and a visiting research scholar at the Institute of Developing Economies in Tokyo. Altogether, he has lived in Japan for 10 years.