

## **ECONOMIC AND FINANCIAL SYSTEM DEVELOPMENT INFORMATION AND KNOWLEDGE**

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### **Summary**

The state of economic and financial knowledge concerning development can be broken into several components. The first component is the past experience of “developmentalism,” which has been evaluated too much in terms of performance, and not enough in terms of actors, processes, or intergenerational transfers. The second is the renewal of the themes and the emergence in the development field of the improvement in economic thought theoretical backgrounds. Each of the new themes raises questions about aims and methods of regulation for sustainable development in a market economy. A large consensus has appeared concerning the notion of equity; the divisions are based on some hypotheses of economic theory, notably those relating to the behavior of agents faced with the uncertainty of the future. The recent debates tend to be focused on the globalization process, particularly through the financial crises of the last decade.

## **1. Introduction**

The emergence of the concept of sustainable development, at the end of the 1980s, reintroduced the long-term dimension into policies which, inspired by the International Monetary Fund (IMF) and the World Bank, were centered on the liberalization of markets. This dimension has been present since then in a number of debates: the debate on human development proposed by the UNPD with its annual reports, since 1990; the debate on the respective roles of the state and the market in the “miracle” of the rapid growth in Asia; the debate on the sustainability of the politics of exchange rate between credibility and competitiveness, and the debate on the deregulation of the markets following the financial crises, etc.

In this sphere, as in others, the point of view of economic analysis is generally “utilitarian”: it consists of reasoning in the function of a maximization of a product, using limited resources and focusing on the allocation of these resources. For a long time, this approach polarized the controversies surrounding the choice between efficiency and equity in all economic policy. Greater attention is now being given to the institutional reinforcement of the lessons of experience. But how is the question of the long-term sustainability of growth tackled? The hypothesis concerning the cumulative nature of the process of accumulation of capital, or the future and uncertainty in economic analysis are decisive for this point of view.

This contribution presents the experience gained during the last half of the twentieth century, in the developing countries. This experience is precious for our understanding of the conditions of long-term structural change and intergenerational transfers. The economic and financial literature from international institutions (World Bank, International Monetary Fund (IMF), United Nations) and organizations has influenced the approach taken by academic research, as well as having provided the major part of the statistics.

Also presented are the shifts which were observable in the 1990s, which introduce some new themes in the economic and financial field with human development paradigm, democracy, the institutional reinforcement, the battle against corruption, good management practices (“governance”), and the architecture of the international financial system. Outside the academic sphere there emerges the renewal of economic theories: thus the hypothesis of rational expectations redesigns the marketplace on a global and national level; at the same time, the hypothesis of imperfect information, in keeping with the neo-Keynesian thinking, implicates economic and financial active policies. The questions concerning the methods of regulation, which would be fit to assure sustainable development, are linked closely with these common themes.

## **2. The Lessons of Experience**

### **2.1 Two Periods**

We can generally distinguish two periods in the history of development since the Second World War, with success stories and poverty traps in the Less Developed Countries (LDC—per capita revenue below \$755 per year, to 2000). During the first

period, which lasted from the beginning of the 1950s to the end of the 1970s, the politics of development proceeded from a paradigm of modernization based on planned industrialization. The literature of this time is dominated by the “pioneers” who often combine an academic activity with international expertise (Lewis, Singer, Prebisch, Hirschman, Chenery, etc.). Because their preoccupations were simultaneously scientific, ethical, and operational, the contributions of these pioneers remain indispensable in an analysis of sustainable development. They attach much importance, most notably to the analysis of intersectorial relations between agriculture and industry, without emphasizing, as experience will later show, the importance of the mixture of the activities in the rural environment. They underline external dependencies (commercial, technological, financial) and the problems involved in the mobilization of resources. Globally, they give a critical role to investment in capital goods and consequently, to the level of national rate of saving.

The second period began with the debt crisis of 1982, to which is consecrated a literature that demonstrates, after the event, the non-sustainability of the 1970s levels of debt. The “Washington Consensus” between the World Bank, the world’s first multilateral public aid lender, and the IMF, whose function is to supply central banks with loans to meet payments, has broken away from the goal of long-term accumulation of capital, and has put in its place, by way of conditions attached to loans, stabilization and structural reform policies. The objective of these policies is to re-establish the macro-financial equilibrium via drastic cuts in monetary supply and credit, and to proceed to a general liberalization of the markets.

The literature of this period is centered on the macroeconomics of stabilization and privatization, and abandons the areas of industrial economics and project evaluation, as well as the controversies surrounding strategies of industrialization. It becomes a literature that finds its origins in the fundamentalism of the perfect market, which is a regression in relation to the inputs of economic theories which occur during this time.

The second major change in the mainstream is a reverse of perspective between the economic and the financial spheres. Until the debt crisis, the Keynesian idea concerning the sustainability of debt was that finance would follow the production of goods, and that savings would grow as a variable dependent on growth. The development was therefore considered as a promise of financing from an increase in production and revenue. The financial sphere has been straight away moved into the center of decisions involving the allocation of resources. Furthermore, if this sphere has ever been a determining factor through its role in collecting savings and distributing credits, it was considered, even in orthodox conceptions, as being fragile and a source of instability. It required particular controls, notably for the management of the financial system, the currency, and the exchange rate in an open economy.

Financial development has become a determining dimension of productive development, while at the same time being closely linked to financial liberalization. The numerous contributions on this theme are composed of two facets: one in the tradition of a normative liberalism arguing for the efficiency of the market against the intervention of the state, and the other more specific to the sphere of development. The interest of the seminal work by Ronald MacKinnon, who popularized the expression of

“financial repression,” is that it presents itself as specific: in fact, one of the main problems of development lies on the integration of the small self-financing producers of the domestic economy into the formal financial sphere. But the essential part of this contribution will have retained only two facets from this thesis: first “financial deepening,” i.e. the reinforcement of financial intermediaries by a policy of a level of interest rates designed to encourage savings and second, the gradual but complete opening, commercial and financial, of the economies, and their consequent integration into the system of world prices. Latin America has served as a laboratory since the 1970s, with an initial shock treatment of liberalization of its already diversified financial system. This doctrine will serve also as a reference for the policies put in place by international institutions in Eastern Europe in transition towards the market economy, with some controversies concerning gradualism versus shock treatment as a means to liberalization.

## **2.2 Quantitative Evaluation of Development**

The information available on the experience acquired is dominated by the quantitative comparative approach. This evaluates the historic processes through large econometric studies computable on a base of a battery of statistical indicators using the largest sample of the country possible. It has two principal preoccupations: to compare performances (of growth, of sector-based changes, of the distribution of revenues, of macroeconomic stability, etc.) and to reveal the regularities in the correlations treated as causalities. This approach gives us a classification of countries, and a way to regroup them.

The “New Industrial Countries” (NIC) of Asia were traditionally characterized, before the financial crisis of 1997, as combining high performances in terms of growth, a good capacity for macroeconomic management and a relative equity in the division of revenues. Comparatively, the NIC of Latin America have taken a course that is less regular and has generated more inequality.

These two observations have led to a limited number of contributions on the relation between growth and inequality of revenue. These contributions remain to be rediscovered and deepened from the point of view of sustainable development. As for the Sub-Saharan economies, they have accumulated the indicators of low growth per capita, except during the periods when there has been a rise in price of commodities.

The approach of comparing performances affects the consensus, which forms around sustainable development perception. It has served especially to give importance to outwards industrial strategies, allied to the presumed efficiency of the market and comparative advantage, and does not take in account the numerous failures experienced by this strategy by creating free zones of exportation.

## **2.3 Developmentalism**

In the economies of late industrialization, in what conditions has a development, which combines growth and structural change, been achieved? Though each country has followed its own specific route, which would require detailed historical studies that are

still too rare, one can recognize two types of developmentalism: that of the Latin American countries, and that of East-Asian NIC. The first, of a structuralist inspiration, is initially centered on a strategy of substitution of importation and then on the promotion of exportation. It was based on urbane populism, whereas the second, while exhibiting an extrovert strategy, was based on agrarian reform and communitarianism (to take up again the distinction made by Y. Hayami). In the two types of experience, the economic policy has been composed of a wide range of technological and financial measures—training of labor, creation of infrastructures, industrial organization, intersectorial articulation policies, and promotion of outlets.

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### **Biographical Sketch**

**Elsa Assidon** is professor agrégée of economics, has a PhD in economics of University Paris-Dauphine, and she is graduate of the Institut d'Etudes Politiques of Paris. She has been in the Institute of Latin American Studies (Université Paris 3, de la Sorbonne, Nouvelle) since the beginning of 1999, before which she was at Paris-Dauphine University for many years. Her fields of research are development economics, with regard to various topics, successively and mainly: economic history in West Sub-Saharan African countries, with the study of the commercial activities of the big export-import companies during the colonial era—this research points a particular process of monetarization that may be considered a genesis of the integration of these economies in the French monetary zone (*Le commerce captif*, L'Harmattan, 1989); a comparative study relative to the impact of exchange rate management on macroeconomic adjustment in 16 Sub-Saharan countries, not included in the French monetary zone (*Politiques de change et ajustement en Afrique sub-saharienne*, P. Jacquemot, co-author, La Documentation Française, Ministère de la Cooperation et du Développement, 1989; translated into English, L'Harmattan). For 10 years, she has focused her researches on financial development matters (various articles) and on economic development thinking (*Les Théories Économiques du Développement*, La Découverte, Repères, two issues, 1992 and 2000; translation of the last issue in Spanish, forthcoming). Her main center of interest lies on market structure studies, particularly in monetary and financial spheres—monetary integration and dollarization, exchange rate management and foreign payments arrangements, credit rationing and banking fragility, micro-credits organizations, with regard to the sustainability of liberalization policies, particularly in Latin America. Among current debates on development policies and globalization processes, she has published various articles relative to the controversies on the “Consensus of Washington,” with her theoretical background in market theories. She is an editor of the series *Bibliothèque du Développement*, L'Harmattan. A native of Morocco, she has committed herself to support struggles for human rights in this country for many years, and therefore punctually is an expert to NGO campaigns or to trade-unions in the French banks. She is a member of the French High Council of International Cooperation.