On Development and the State in Africa

By
Lwazi Siyabonga Lushaba
Department of Philosophy
University of Ibadan
Oyo State, Nigeria
E-mail: taungnguru@yahoo.co.uk

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Introduction

Albeit the divergences on the debate about development in Africa, one issue on which there is agreement is the fact that the continent remains underdeveloped, after four decades of development efforts. From whatever vintage point one enters the debate, be it from the strictly economic perspective that narrowly focuses on economic variables particularly income growth, leading to the confusion of growth with development or Morris's (1979) 'physical quality of life index' or better still the United Nations Development Programme (UNDP) developed Human Development Index (HDI), broadened to encompass socio-economic indicators, the data points to the same conclusion. Gross National Product (GNP) per capita income levels in virtually all African countries remain below the acceptable threshold while other socio-economic indices, viz. infant mortality, adult literacy, access to clean portable water, life expectancy at birth etc., also paint a similar if not more disconcerting picture.[1]

Piqued by the failure of development, promised by the attainment of political independence, African scholars invested their energies towards unearthing the answer to the African development\underdevelopment conundrum. That development in Africa has had a long tortuous career is a fact borne out by the volume of scholarly literature so far generated and the litany of development blueprints that litter the entire African public policy spectrum. Entries into the long index of such scholarly literature and development blueprints include; the modernisation school leaning perspectives that were fashioned in the late 50's to the early 60's, the radical political economy perspectives subsumed under the dependency school that was to become dominant in the late 60's and early 70's, the neo-liberal development perspectives that were an intellectual apology for the Structural Adjustment Programmes (SAP) of the 80's and the alternative development plans, e.g. Lagos Plan of Action (LPA), fashioned in response to it. While these various, at times contradictory perspectives that were driven by different motivations, accentuate different aspects of the debate, the overarching objective remained the same for all; to proffer explanations for and antidotes to Africa's underdevelopment.

Observable though is a disjuncture between the feet so far attained at a theoretical level, evinced by the existing insights, prognostications and prescriptions that emerged from the previous efforts at unravelling the African development riddle, and the facts on the ground. After four decades of development and development discourse the African economic record speaks for itself. African economies continue to be marked by, dependence on raw materials, low levels of domestic capital formation, high indebtedness, absence of value adding industries, technological backwardness, problems of extraniety, deepening levels of poverty, deteriorating terms of trade, monoculturalism, etc. Collectively, these facts support the conclusion reached by Samir Amin that it may not no longer be helpful to retain the appellation 'Third World', 'for the countries that have been the object of the politics of development'. Rather, he continues, we talk of 'a newly industrialised and competitive Third World with a marginalised "Fourth World" that includes the whole of Africa' (1996: 200).

A few years into the twenty first century, hallmarked by globalisation, a process whose effects paradoxically lead both to the effacing from and further integration of African economies into the global capitalist economy, a need has once more arisen for new perspectives that will help proffer explanations for the stalled process of development and provide alternatives to transcend the current development impasse, that manifests itself both at the theoretical and political levels[2]. To be sure, perspectives that answer to this need have not been short in coming. However, there has, since the ascendance of liberal capitalism into a 'world ideology' been a two-pronged hubristic tendency by adherents of the neo-liberal paradigm, first to silence and denigrate as unscientific and\or populist alternative perspectives that are at variance with the logic of their model. Emboldened by the process of globalisation, - the breaking down of barriers to the flow of goods and services, capital and information, - supported by the western donor countries and acting in cohort with International Financial Institutions (IFIs) and other 'gate-keepers' of the global capitalist system, champions of the neo-liberal school have also virulently propagated a tendentious view that there is no alternative to the neo-liberal capitalist development model.

The situation has not been much helped by the uncritical embrace of and acceptance as sacrosanct the tenets of the neo-liberal paradigm by African political elites. By so doing they have lent credence to the interest begotten view, succinctly captured by the IMF Managing Director, Michel Camdessus's comments that 'open economic relations with the rest of the world provide one of the most reliable generators of growth.' Against this backdrop he concludes with characteristic hubris that; 'the jury (*appointed by who?*) is no longer out on this issue; the verdict is clear-the most open economies have been the most successful' (IMF; 1993: 195).

The above view is however not novel but a restatement of the long standing neo-liberal standpoint, that defines development in narrow economic terms, where the state's involvement in the economy is considered to have a dysfunctional effect because it stifles wealth generation and distorts the allocation of scarce resources, roles that only the market forces can effectively perform. Indeed, the reforms imposed on African states in the era of structural adjustment programmes were premised on this thinking, hence the sweeping privatization programmes, financial and market liberalisation, withdrawal of food and other subsidies, trade liberalisation, all meant to roll back the state from the economy and provide an enabling environment for the effective functioning of the market. With the ascendance of capitalism into a 'world ideology', globalisation seems to have sealed the state's exit from the market with the state's role further circumscribed by the commoditisation of social services.

The barrage of criticisms directed at the neo-liberal reform agenda that SAP promoted (i.e. Mkandawire and Olukoshi; 1995, Olukoshi; 1998, Gibbon, et al.; 1992), notwithstanding, globalisation has refurbished and repackaged it. It now markets it under a new brand name but the ingredients remain the same, withdrawal of the state from the market, attraction of foreign direct investment to trigger growth and cover the financing gap, financial and market liberalisation, trade liberalisation, export or supply side oriented trade and industrial policies, and a host of contractionary macro-economic policy reforms. Concluding that the results remain the same, if not more desultory, does not amount to being too liberal with probability.

Against the claim entered by defenders of globalisation that the economic policies wreaked along by the process (of globalisation) are new this paper seeks to expose the intellectual poverty of their position by arguing on the contrary that these policies are rather a rehash of the now adequately critiqued and discounted neo-classical economic development theories\models, i.e. Harrod-Domar-Lewis-Rostow, ICOR model[3], the financing gap approach, the Ricardian and the Heckscher-Ohlin international trade theories (for an elaborate exposition and critical discussion of these models see Easterly; 2002, Ray; 1998, Garba; 2003, Stiglitz; 2002). Focusing on the supposedly scientific mantra that supports the neo-liberal capitalist fad, which this paper does, enables the analysis to eschew two crippling tendencies in the debate on development within African political discourse. One is the tendency to focus exclusively on the negative consequences of the neo-liberal development policies as sufficient evidence for their inadequacy (we however do not deny the reality of such consequences). Second is the tendency to privilege labelling (as 'neo-liberal', 'anti-people', etc.) as an ersatz for critical analysis. The point about the political agenda, western interests and motivations behind the neo-liberal paradigm has been sufficiently made it can no longer help our search for new perspectives on African development, we argue.

Further, the limitation that such tendencies impose on African critiques of the capitalist model is discernible in the ease with which the champions of the neo-liberal school, who are adept to argue that the failure of their economic models does not dispel their scientific veracity, silence these criticisms by moving the locus of the debate away from the politics of their model to its epistemological\technical nuances. Such a shift away from the empirics and politics of the neo-liberal model to its strict epistemological and\or disciplinary foundations – development economics - consequently puts their models beyond the reach of a good number of existing frameworks and tools of analysis in African political discourse. Otherwise, how else may we explain the constant at times hapless lamentation that the capitalist developmental model is technicist (and\or neo-liberal)? Indeed it is, however. As stated earlier the point about the political agenda, western hegemonic interests and motivations behind the neo-liberal paradigm has been sufficiently made it now adds very little in terms of new insights and perspectives on African development. An alternative, in our estimates, is a multi-disciplinary approach that while exposing the; fallacy of disinterested markets and of development as a neutral process, the asymmetrical and exploitative economic relations between the developed western capitalist countries and underdeveloped African economies embodied in the neo-liberal paradigm also attends to the more nuanced scientific deficiencies of the mainstream economic thought.

Armed with such a multi-disciplinary approach, the paper confronts the capitalist foundational principle that markets in and of themselves lead to efficient outcomes whereas government intervention necessarily retards progress. Evidence abounds that the markets are never complete and perfect. Without pre-empting the argument, the following observations that;

-foreign aid\investment does not necessarily lead to increased GDP per capita income,

-astronomically high interest rates along with capital market liberalisation leads to volatile speculative short-term inflows,

- the counsel to substantially cut government spending in order to reduce budget deficit to zero in stagnated economies hurts aggregate demand,
- an expansionary fiscal policy through increased government spending triggers aggregate demand thereby leading to increased productivity,
- export oriented trade and industrial policies increases dependence on imported consumer goods,
- faced with the supposedly beneficial law of comparative advantage states still intervene in their patterns of trade and guide it in its directions,
- dependence on primary exports leads to declining terms of trade,

do more than support the clamour for a more proactive state involvement in the economy. Admittedly, our argument for greater economic role for the state resonates in most other studies, however the methodology differs. We do not state *a priori* the character such a state should assume but make it a function of the role set for it in the proposed development framework.

The remaining part of the paper is divided into three sections. Whereas the paper does not claim to provide an exhaustive discussion of the theoretical foundations of actually existing (global) capitalism, it critically examines its three key policy pillars; Foreign Direct Investment (FDI), macro-economic reforms, and trade liberalisation. Organised around these three elements, the first section of the paper elaborates on the meaning and logic of global capitalism. Section two amplifies the case for greater state involvement in the African development process, first by arguing that the dominant capitalist model over and above being scientifically flawed, cannot be an elixir for the development malaise mainly because it erroneously assumes the process to be neutral, mechanistic and devoid of contestations by different forces both within and outside the state seeking to define and appropriate its meaning. Secondly, an attempt is made in this section to provide an outline of an alternative development framework, pragmatic enough to eschew the limiting features of globalisation. The third and final section concludes the paper and enters a few propositions about the character of the state on the basis of the role set for it in the preceding sections.

Inside Orthodoxy: Elaborating on the and Logic and Meaning of Global Capitalism

> "The old Washington consensus emphasised the standard things; fiscal discipline, unified and competitive exchange rates, deregulation, financial liberalisation, trade liberalisation, privatisation, essentially price and market reform together with macro stability… Interestingly, this new Washington consensus has not dropped any of the items from the old consensus. What the new consensus is doing instead is adding other things on, which is partly driven by a sense of malaise and a sense that something is not going right" (Rodrick, cited in Marais; 2001: 209).

Debray's assertion that, '[H]istory advances in disguise, it appears on stage wearing the mask of the preceding scene and we tend to loose the meaning of the play', is perhaps truer of globalisation than any other historical development (cited in Shivji; 1976: 29). While more discerning scholars (i.e. Amin; 1996) have demonstrated the historicity of globalisation by proving it to be but a moment in the long historical evolution of capitalism since the fifteen century, many who fail to do so, thus loosing the 'meaning of the play', have tended to reach a somewhat curious conclusion that the novelty in global capitalism is that it could be non-polarising and beneficial to all who part-take in it. Such an erroneous conclusion has interestingly not been typical only of African political elites but surprisingly finds resonance in the thinking of many intellectuals.[4]

Indeed global capitalism has appeared on the African economic scene wearing the neo-liberal mask of the preceding SAP era. Tracing it to its SAP antecedents will however obliterate a fairly long part of its history, for its academic pedigree extends beyond the 1980's to early economic theory writing that the works of Adam Smith, Alfred Marshall and many others epitomise. In order to fully appreciate its antecedents we propose going further back in time, to its academic origins that foreshadowed its emergence in the policy arena.

Of the numerous policy (reform) prescriptions given in the name of globalisation to the ailing African economies, three have been imbibed with the status of universal laws- true for all times and places. Consequently, without regard to their varying contexts and initial conditions, all underdeveloped countries are counselled to; attract foreign direct investment, implement macro-economic reforms and liberalise their trade regimes and all they wish for in the name of development shall be added unto them. Does such a claim find support in any known economic development theory? To pose the question differently, what do economic development theories say on these three pillars of globalisation?

-On Foreign Direct Investment

> Foreign investment is not one of the three main pillars of the Washington Consensus, but it is a key part of the new globalisation (Stiglitz; 2002: 67)

One need not be an economics *fundi* to understand the (il-)logic behind the primacy given to FDI as a trigger to sustainable growth. As it will become glaringly obvious, the celebrated role that FDI is thought to play in triggering growth rests on a rotten mantra. Simply put it is founded on quaint economic development theories, whose scientific validity has been seriously questioned. That it continues to subsist in the blueprints that IFI's impose on underdeveloped countries to the flagrant disregard of scholarly evidence against its efficacy is more than baffling. To find evidence for its continued use one need not look any further than the year 2000 World Bank report on Africa.
Pretending to be in support of Africa's development yearnings the World Banks projects in its mockingly titles report, 'Can Africa Claim the 21st Century?' that '…reaching the International Development Goal of halving the incidence of severe poverty by 2015 [Africa] will require annual growth of 7% or more…'(2000:12). Among several hindrances listed as painfully threatening to leave 40% of Africa's 6000 million people below poverty line as a result of the failure to attain the required growth rate, one that does not escape advocates of the capitalist development model, is the fact that there is a low level of capital investment, which is in turn occasioned by the low savings rates in virtually all African countries[5]. In this wise the available savings within African economies averaging 13% of GDP income are considered too meagre for triggering investment growth. This leaves these economies with one option that IFIs announce in their pitched voices; attract FDI in order to fill the gap between available savings and the required investment rate to attain projected growth level. Moving from the same premise the earlier cited World Bank report avers that;

> '…foreign savings are essential to permit both higher investment for growth and higher consumption to reduce poverty. Even under favourable conditions for private inflows …the typical African country faces a resource gap of more than 12% of GDP relative to the investment needs of a growth rate likely achieve the poverty reduction goal for 2015' (2000: 44).

What the report in the above statement suggests is that the continent will require FDI equivalent to 12% of its GDP in order to fill the resource or financing gap – the excess of required investment over actual saving. In the era of globalisation where capital aided by information technology is able to traverse different economies unhindered by territorial boundaries and time constraints, with the right economic climate such inflows will automatically follow, so presupposes the model.

On no other theme and policy subject have market fundamentalists proved to be bad students than in the case of FDI. Amid the criticisms and subsequent rejection of the theoretical framework upon which rests their FDI argument they have continued rather arrogantly to impose it on African and other third world countries. Though in its current form the FDI model has gone through various stages of firmament, it has retained its essential features. First developed by Evsey Domar (1946) in an article titled '*Capital Expansion, Rate of Growth, and Employment*', it was to latter became known as the Harrod-Domar model, to reflect contributions made to it by the British economist, Roy Harrod (1939).

Urged on by different concerns several other economists expanded on the logic of this model. The Great Depression and high level of rural underemployment in poor countries, for example, led Sir Arthur Lewis (1954), to expand the model by pointing towards labour as a production factor, a contribution that was to result in his now acclaimed 'surplus labour' theory[6]. Deterred by the success of the Soviet model, W.W. Rostow (1960) published his famous book, **'The Stages of Economic Growth: A Non Communist Manifesto**' in which sought to demonstrate that communism was not, 'the only form of effective state organisation that can launch', underdeveloped economies to 'a take off to sustained growth' (1960: 37). Using his position as an advisor to the then USA President, John F. Kennedy, he convinced the US government to increase foreign aid to these countries in order to fill their financing gap. The ultimate goal was to dissuade underdeveloped countries from embracing the Soviet model[7]. Herein lies the seeds of the now fully grown FDI orchard tree whose harvests have repeatedly proved to be unfit for consumption.

Frightened by the possibility of continuous aid flows leading to excess indebtedness Hollis Chenery and Alan Strout (1966), who christened theirs the 'Two-Gap' model, added a caveat that the amount of foreign aid availed should be proportional to the recipient country's effectiveness in increasing the rate of domestic saving.[8] Last to add an imprint on the model was the World Bank through its economist, John Holsen who in 1974 computerised it and then named it the 'minimum standard model' (MSM). Four years later, slight modifications were again effected by another group of World Bank economists who renamed it the 'revised minimum standard model' (RMSM)[9]. For the ease of analysis we shall as we elaborate on the logic of this model use Harrod-Domar model and financing gap interchangeably and only make specific references to its distinct strands where necessary.

Simply put the Harrod-Domar model holds that income growth is the function of abstention from current consumption. Savings generated through such abstention are held as bank deposits and\or market shares. By saving households avail firms of the necessary buying power to acquire new capital stock and replace depreciated machinery. It is necessary at this stage to note that properly defined investment refers to the actual act of applying current resources to the purchase of fresh capital, capital understood as 'commodities produced for the purpose of producing other commodities (Ray; 1998: 53). New capital stock - the quantity of capital being the total stock of machines – added through investment increases productivity of the economy, which leads to economic growth. Essentially economic growth is positive only when investment exceeds the amount necessary to replace depreciated capital 'thereby allowing the next cycle to recur on a larger scale' (Ray; 1998: 54). In other words the model holds that GDP growth will be proportional to the share of investment spending in GDP. In this scheme of things a causal relationship is thought to exist between investment and growth, such that GDP growth this year will necessarily be proportional to last year's investment GDP ratio.

A simple statement of the model will take the following form; since growth is proportional to investment, it is possible to estimate that proportion for country A and get the required amount of investment necessary for country A to grow at a given target growth rate x. Supposing that to grow at 1 percentage point country A requires 4 percentage points of investment, to triple its growth from 1 percentage point to a growth target of 4 percentage points country A will have to upwardly adjust its investment rate from 4 % of GDP to 16 % of GDP. It therefore stands to reason that if country A' population is growing at 2% per year, the 4% GDP growth will lead to country A growing its per capita income at 2%.[10]

See Box 1 below for an abbreviated algebraic statement of the model.

Box 1

Where Y denotes total output, C denotes total consumption, t time period, and S denotes total savings, the following is hold true for all times t;

$$Y(t) = C(t) + S(t),$$

meaning, the total output or national income is divided between consumption and savings. On the other hand total output or the value of produced goods must be equal to goods produced for consumption plus those needed for investment; that is;

$$Y(t) = C(t) + I(t),$$

where I, denotes investment. To get closer to the Harrod-Domar equation let us recall that if investment expands the national capital stock K, and replaces depreciated capital, supposing that a fraction δ of the capital stock depreciates, then;

$$K(t + I) = (I - \delta)K(t) + I(t),$$

which informs us how capital stock must change over time. Two more concepts will complete our understanding of the model. One is savings rate which is savings divided by income; S(t)/Y(t). Let us call this s. The second concept is the capital-output ratio, which denote as θ. Capital output ratio is simply the amount of capital required to produce a single unit of output in the economy and is represented by the ratio K(t)/Y(t). We can therefore conclude that;

$$s/\theta = g + \delta,$$

where g is the overall rate of growth that is defined by the value of [Y(t + I) – Y(t)]/Y(t). This represents the Harrod-Domar equation in its simplest form. What it however does not at this stage tell us is how to get the total per capita GNP, for to do so we must factor in the net effect of population growth. Suppose the population (P) grows at the rate n, so that P(t + I) = P(t)(I + n) for all t, we can arrive at the per capita income that will be given to us by the following equation;

$$s/\theta = (I + g^*)(I + n) - (I - \delta),$$

where g* is the rate of per capita growth.[11] Captured in this expression are all the essential elements underlying growth; 'the ability to save and invest (captured by s) the ability to convert capital to into output (which depends inversely on θ), the rate at which capital depreciates (δ), and, the rate of population growth (n)' (Ray; 1998: 57).

Suppose though that country A is poor such that it can only afford to save 4% of its GDP. With only 4% of GDP savings available for investment, country A can therefore not hope to attain a growth rate of more than 1%, taking into cognisance that this year's GDP growth is proportional to last year's investment GDP ratio. Country A will therefore have a financing gap of 12% of GDP between the required investment and the current level of national savings. Foreign inflows, be it in the form of foreign aid, private and public loans or foreign direct investment provide the only alternative to filling this financing gap and thus trigger the economy to grow at the desired rate. We now have an idea of how the projections in terms of the required FDI that one encounters in the development blueprints, i.e. NEPAD, World Bank Reports, etc., are arrived at.

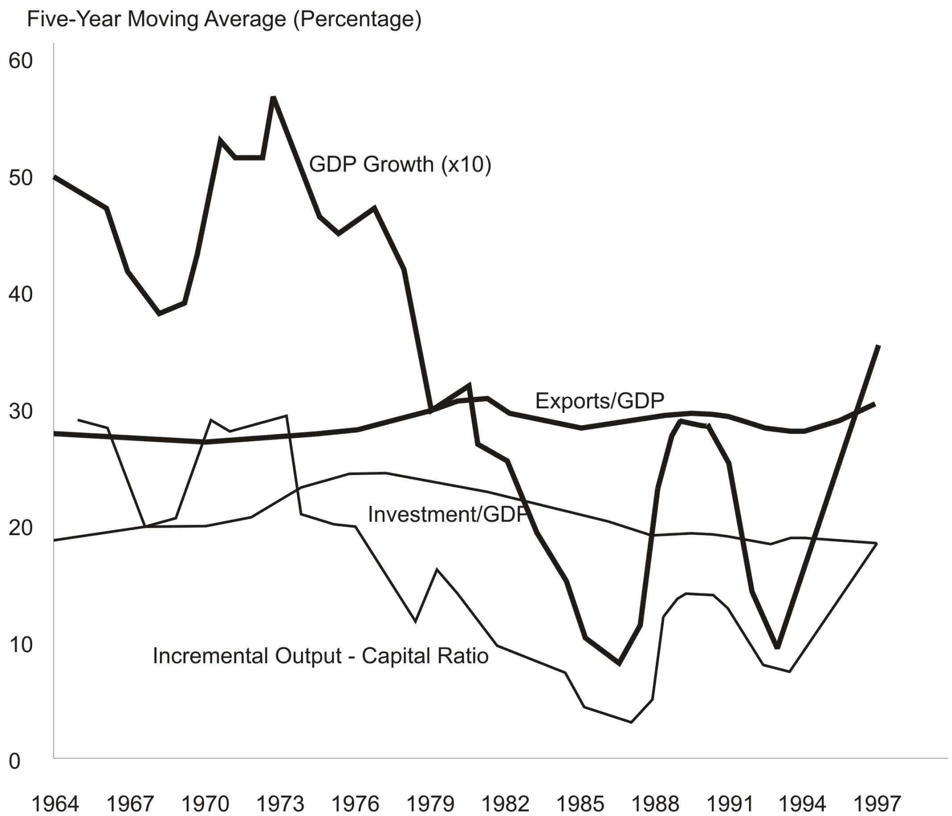
Having watched a few countries used as guinea pigs to test the efficacy of this model, economists began to tinker with it in light of emerging evidence. Many countries that had by then received substantial amounts of aid were slowly but surely drifting towards unsustainable debt levels. Bauer, an aid critique, noted for example in 1972 that 'foreign aid is necessary to enable underdeveloped countries to service the subsidised loans… under earlier foreign aid agreements' (quoted in Easterly; 2002: 34). However champions of this model remained unperturbed for as they reasoned aid receiving countries were naturally going to increase their savings as they grow at projected speed such that after ten to fifteen years they no longer will require foreign aid.[12] Very much against this grain of optimism much of the Third World's debt did indeed turn out to be unsustainable.

Worse still, several decades after, the much promised and eagerly awaited growth remains elusive. Prior to the empirical manifestations of the model's dysfunctional effects it had already suffered a serious academic blow as Domar, who in 1957, eleven years after he had helped lay the foundations of what was to be become one of the pillars of the neo-liberal orthodoxy, complaining of an 'ever guilty conscience', admitted that the model was unrealistic and made no sense for long-run growth. He pointed out that his focus was on a short business cycle and not to derive 'an empirically meaningful rate of growth' (1957: 7-8).

Reluctant to admit the failure of their model other economist began to defend it arguing rather unconvincingly that, '[A]lthough physical capital accumulation may be considered a necessary condition of development, it has not proved sufficient' (Meier; 1995: 153).[13] Despite its obvious failure to trigger growth in aid receiving countries the model is also fraught with several scientific flaws. To begin with for the model to hold there has to be a positive statistical relationship between aid and investment. More specifically foreign aid should pass into investment at least one for one, meaning that if 1 % of GDP in aid is injected into country A, country A should show an increase of at least 1 % of GDP in investment. Conducting a large cross sectional analysis may be an appropriate measure to test the above proposition but it falls beyond our scope. We propose to test the validity or otherwise of the above proposition by looking at available data for African countries. In this regard we found that while on the one hand African countries received between 1970 and 1997, large foreign aid transfers from grants and concessional flows amounting to 205% of GDP cumulatively, on the other their investment rates remained at about 18% of GDP (data drawn the World Bank Report; 2000). Clearly the model fails to pass the test of investment increasing at least one for one with aid.[14]

The second assumption inherent in the financing gap model is that investment necessarily or invariably leads to GDP growth. IFI's country missions use a slightly amended version of this projection in calculating the impact of investment on growth. In place of the one year period suggested in Rostow's (1960) book they use five year averages (the first being the investment year). In this wise investment it is presupposed will begin to affect growth over a five year period. When tested against the data the investment-growth linkage flounders. Figure 1.1 below tells the story. Africa's growth rate does not correspond to the rate of investment for the period covered. Even when tested on the basis of its slightly watered down proposition, where, investment is a necessary but not sufficient condition, the model fails once more to inspire confidence. In a two pronged correlation, Easterly tested this idea by first finding out how many four-year long high-growth episodes – 7 percent and above - were accompanied by the necessary investment rates in the previous four years. He then proceeded, once more using the four-year averages, to check whether where growth occurred did investment also increase by the required amount. In the case of episodes of increased growth with the four-year periods he found that 'investment increased by the required amount only in 6% of the time. The other 94% of the episodes violated the necessary condition'. When tested against the first proposition nine-tenth of the countries violated the necessary condition. (2002: 40). Again the data for African countries as shown in Figure 1 below does not support the weaker thesis formulated to save the model from its scientific flaws:

Fig. 1 GROWTH, EXPORTS, INVESTMENT, AND INVESTMENT PRODUCTIVITY IN AFRICA, 1964 - 97



Source: World Bank Report, 2000: 20

The scientific reach of the model is further curtailed by its failure to realise a basic fact in economics that growth often fluctuates around an average whereas investment has no patterned movement, it is capable of vacillating between extremes. What this points to is the fact that contrary to the model's postulation, growth is a function of multiple variables not just investment, thus making the relationship between investment and growth loose and unstable. In a bid to rescue their model IFIs, deploy a somewhat improvised measure called Incremental Capital Output Ratio (ICOR). Through the ICOR they shift the point of emphasis away from investment to what is known as 'investment productivity'. ICOR uses the ratio of investment to growth as an inverse measure of the productivity of investment. Indeed the World Bank's (2000) assertion that, '[P]roductivity differences also loom large in accounting for Africa's slow growth' is indicative of the Bank's subscription to this modification. According to the same report, 'Africa's investment productivity, as measured by the incremental output-capital ratio, was only half that in Asia in 1970-97', which explains the deceleration of growth during this period even though investment may have not fallen by a corresponding figure (2000: 19).

However, the shift to ICOR did very little to save the financing gap model from its imminent disintegration. Similar to the earlier version of the financing gap model, ICOR is afflicted with the same problem of reifying investment productivity as a single independent variable responsible for growth, which as we noted is contingent upon several other factors. How for example may we separate the effect that an increase in ICOR has on growth from worsening terms of trade or any other factor that negatively affects growth? Closely related to this is yet one other of many structural flaws in the model; its exclusive reliance on capital stock as the only factor of production. As Solow (1956) was to point out, labour and capital are the two major factors of production that work together to produce output. The implications are that where labour is in excess relative to capital, a constant increase in capital will lead to declining capital output ratio. In (African) economies that are characterised by excess labour, a constant increase in one factor of production capital (or better still employing capital intensive production methods), obviously leads to declining capital output ratio, a problems often addressed by importing foreign\expatriate labour. The consequences of which are well documented.

To conclude let us briefly examine the implications that FDI has for African and other underdeveloped economies. In defining underdevelopment we highlighted a number of features that qualify African economies as underdeveloped, the leading being; absence of value adding industries, high indebtedness and low level of capital formation. In relation to these how does FDI help African economies, if we may ask. We do not claim to have a monopoly over answer and thus leave it discerning eye of the reader. However as you ponder your way towards the answer you might be helped by the following facts.

Market fundamentalist counsel that to attract the much needed FDI poor countries have to create a conducive\market friendly environment. Creating such environment amongst other things entails capital market liberalisation, abolishing foreign exchange controls, which in simple terms means doing away with regulations that govern the flow of money in and out of the country. The logic behind this is that such deregulation will facilitate the inflow of money necessary to acquire new capital stock and to build new industries. Having headed the call to create an alluring investment climate South Africa began in 1996 phasing out its financial regulations with a hope that all that the FDI framework promises shall be added unto it. In the same year the currency lost more than 30% of its 1995 value against the US dollar, capital inflows went down by almost 90% to R 3.9 billion from R 19.2 billion the previous year (see Marais; 2001: 116 for the figures). Interestingly the depreciation of the Rand was blamed on the speculative short term inflows that the country had legalised by phasing out financial and capital market regulations.

At this point let us once more be reminded that properly defined investment refers to the actual act of acquiring capital goods necessary for production. This definition obviously excludes short-term portfolio investments, buying into the service sector and other unproductive sectors of the economy. For African countries development minimally defined means building an industrial sector, infra-structural development, creating social capital, industrialisation of agriculture and improving the standard of living, all of which require long term investment. Short-term financial speculative money and service sector oriented foreign (direct) investment capital that is looking for quick returns cannot obviously serve as a catalyst for this process. Stiglitz's observation on this point is equally revealing;

> "speculative money ', *which is what African countries get in the name of FDI*, 'cannot be used to build factorise or create jobs – companies don't make long-term investments using money that can be pulled out on a moments notice–and indeed, the risk that such hot money brings makes long term investments in a developing country even less attractive. The adverse effects on growth are even greater" (2002: 65-66 emphasis added).

From the above discussion one point becomes obvious that, viewed from all angles the financing gap leaning FDI framework does not survive scrutiny. Indeed as Easterly notes the '[F]inancing gap approach had a curious fate after its heyday in the 1960's and 70's. It died out of the academic literature altogether…' (2002: 35). However, with reckless and gay abandon IFI's and other market fundamentalists continue to impose on underdeveloped African countries the same discredited model.

-On Macro-economic Reforms

Couched under the umbrella term macro-economic reforms is a coterie of economic policy measures that one finds in a typical reform package handed to any structurally adjusting country, i.e. fiscal austerity, financial and capital market liberalisation, currency devaluation, privatisation and labour market deregulation. The umbrella term macro-economic reforms refer essentially to these economic policies that western capitalist hegemons, particularly the IFI's, have pursued with unparalleled tenacity. Both the IMF and the World Bank stringently imposed upon virtually all structurally adjusting African countries these policy reform measures irrespective of their varying economic conditions. Perhaps this can be said to be in keeping with their original mandates. With most western economies reeling under the effects of the Great Depression coupled with the urgent task of rebuilding European economies ravaged by the WWII, the International Monetary Fund (IMF), was established to prevent the recurrence for another global depression by ensuring that countries did their bit to maintain global aggregate demand while the World Bank was to be in charge 'of structural issues – what the country's government spent money on, the country's financial institutions, its labour markets, [and] its trade policies' (Stiglitz; 2002: 14). However the thin line of demarcation between the roles and functions of these two institutions is now blurred to say the least as the IMF in dealing with adjusting countries has dilated its scope beyond macro-economic issues while the converse also holds true for the World Bank. No longer confined to providing funds for development initiatives the bank now designs structural adjustment programmes meant to help in the recovery bid of countries in crisis.

Our focus on the two institutions as we critically examines the rationale behind macro-economic reforms is not meant to imply that these have been their exclusive preserve, indeed they also resonate both in the thinking of other western hegemons and policy recommendations penned by their academic converts. To discipline our analysis we shall focus on two policy aspects promoted under the banner of macro-economic reforms; financial and capital market liberalisation and fiscal discipline\austerity. All these it is said help to get the 'fundamentals right' thereby creating an economic climate for (foreign) investment and growth. We should not fail to state that the elision in our discussion of privatisation, which constitutes a third element in the macro-economic reform package under review, is in no way intended to downplay its importance, but such omission should be excused for reasons of space.

Ambassadors of the neo-liberal orthodoxy rest their belief in capital and financial market liberalisation as a catalyst for growth, wrongly interpreted to be synonymous with development, on three grounds. Firstly they argue that capital and financial market liberalisation opens the flood gates for the much needed foreign capital to augment the limited pool of funds available to firms within developing countries. The second reason they advance for this is that with the entry of foreign banks, efficiency increases as they bring along technical expertise and new technological innovations, a corollary of which is increased competition that drives down interest rates as banks vie to outwit each other in capturing a larger share of the market of borrowers. Lastly, they argue that liberalisation increases the stability of the market by diversifying the sources of funding.

All the three arguments entered in favour of capital market liberalisation deserve closer scrutiny in light of available evidence particularly from the experience of African countries that under SAP were compelled to remove all regulations that govern the flow of money in and out of their countries. To begin with, the assumed positive correlation between capital market liberalisation and long term investment remains spurious several decades after African economies were experimented upon. In return they have continued to attract short-term portfolio investments and short term loans that can be called in at short notice. Contrary to the dictates of this model the beneficiaries of such investments have been financial institutions that gamble on the exchange and interest rates and not the states that are in need of long-term investments for infrastructural and industrial development.

Aggravating the situation is the fact that African countries already suffering from crippling balance of payments are expected to cushion themselves against the negative effects of volatile money by insuring the short-term dollar denominated loans, in the name of good financial standing, albeit the fact that they do not have any influence over the decision as to what use such loans are put. This they basically do by setting aside in their reserves an additional amount equivalent to the total volume of short-term loans taken by private firms thus leaving them with no resources for new investment, either in infrastructural provisioning or in industrial development. For African countries in need of resources Greenfield investments the consequences have been dire. When short-terms loans are called in, when banks refuse to roll them over or when short-term portfolio funds are withdrawn many companies either default or fold up while the state incurs the responsibility of repaying the loans. It is easy to see then that rather than the liberalising countries benefiting it is the net lenders who not only benefit but cause instability whose effects are borne by the poor.

At face value the second argument that the entry of foreign banks and other lending institutions increases the efficiency of the market in its task to allocate resources to the most productive sectors of the economy seems to make sense. However a closer reading of the evidence reveals that rather than deploy their technological advancement to the benefit small scale farmers, informal traders, medium and small scale enterprises these institutions however impose on these sectors that are in dire need of credit complicated and technologically advanced evaluation schemes, developed for their advanced western markets. The information base line they set for their prospective customers excludes *ab initio* these sectors while advantaging multinational companies that are acquainted with these evaluation standards, in fact designed for them. Worse still, not only do they exclude those most in need of finances, the big financial houses often buy out of the market smaller local banks ostensibly designed to cater for the small farmers and small scale entrepreneurs through soft and low interest bearing loans, thereby leaving a yawning gap in the capital market that the government is restrained from addressing by the attendant financial regulations that capital and financial market liberalisation burdens them with. In this regard it becomes impossible to fathom the meaning of efficiency that neo-liberal modellers operate on the basis of.

All enlightened people by now know that the concept of social responsibility is foreign to the logic of capital. Foremost in its agenda is insatiable desire to maximise profit. The much professed corporate responsibility is an after thought that has recently entered its vocabulary. If not what explanations exists for the consideration of costs that emanate from socially responsible activities like environmental conservation as externalities? It therefore stands to reason that if capital is generally irresponsible, foreign capital can be said to be doubly irresponsible. African countries have been witness to the obstinacy of financial and other foreign institutions, which refuse to adapt their operational rules to the context within which they operate. MacEwan's contention is apt in this respect. He writes;

> "[A]s important sectors of capital become more international in their orientation, they are less willing to support the types of state policies, *such as extending credit to small farmers, local sourcing*, which would yield national growth. Industrial policies and programmes to develop national labour force, for example, are of little interest to firms committed *increasing the profits of their foreign shareholders*; indeed in so far as those policies and programmes carry a costs – as they always do – such firms are likely to oppose them" (1994: 13, italics added).

Closer to our consideration of the financial sector is a point that Stiglitz (2002) also highlights; the loss of economic sovereignty that follows from the domination of the financial sector by foreign banks. Through the instrumentalisation of central banks governments exert subtle pressure on domestic banks to respond to the prevailing economic conditions, for example when confronted with a possible economic slowdown governments might encourage banks to expand credit in order to trigger demand or withhold funds in cases of excess liquidity. Stiglitz (2002) discusses this phenomenon in terms of 'window guidance'. Foreign financial houses that do not owe their host government any obligation other than abiding by rules of incorporation consciously ignore such signals knowing that they are not backed by any statutory enforceable penalties. As he notes, 'foreign banks are far less likely to be responsive to such signals' (2002: 70).

The naivety of the third argument in support of rapid capital inflows into and out of a country lies not only in the fact that they cause large disturbances or generate what economists call 'large externalities, but in the thinking that countries facing an economic meltdown can find alternative sources of funding from foreign lenders. Basic economic understanding teaches that markets respond to incentives. What incentives does an economy in recession offer to financial lenders one is compelled to ask? Where regulations intended to control the flow of money in and out of the country have been done away with in line with the dictates of financial liberalisation lenders guided by the need to maximise profit pull their money out of the countries facing an economic downturn and move to more profit yielding markets (such countries must obviously offer higher interest rates or higher rates of returns in loans). The logic behind this thinking becomes more baffling if regard is had to the fact that economic downturn is a euphemism for (or logical consequence of) the absence of such conditions for high profitability. Moreover haven't capital flows shown themselves to be pro-cyclical, flowing out in times of recession, exactly at the time when a country is experiencing a cash crunch and flows back when the economy is showing signs of recovery in the process increasing inflationary pressure on the economy?

There is no gain saying that when governments spend more than what they generate in tax and other revenues and finance budget deficits, that result from such imprudent spending, through increased money supply in excess of the rate of output growth by printing more money, which in turn lead to high inflation inevitably hurt global aggregate demand. Having employed this strategy, to print more money, to finance their war expenditures, virtually all countries involved in the WWII, had contributed to the global economic stagnation that followed immediately after the war. Triggered by this development a leading British economist, John Keynes, published in 1935 an influential book titled, **The General Theory of Employment, Interest and Money**, in which he sought to explain the reasons for economic downturns and offered a set of prescriptions on how to stimulate aggregate demand. These were to constitute the basis for the discussions and policy measures later adopted to guide the operations of two institutions that emerged out of the 1944, UN Monetary and Financial Conference; the IMF and the World Bank. Not only were these institutions formed at a time when Keynesian economic thought reigned supreme but their policies were greatly informed by Keynes's thoughts who had been a key participant at the aforementioned UN conference. The primary objective in forming these institutions was to pre-empt the plausibility of another global depression. This they were to do according to Stiglitz by 'putting international pressure on countries that were not doing their fair share to maintain global aggregate demand, by allowing their economies to go into a slump' (2002: 12). For this reason Keynes's ideas on how to maintain economies at full employment and acceptable liquidity benchmarks become a useful starting point in understanding the second set of policy measures, viz. fiscal discipline promoted by IFIs as part of the broader macro-economic reforms.

A more elaborate discussion of Keynesian economic thought is beyond the scope of this paper however a short vignette will suffice for our purposes. Moving from the premise that markets do not always respond effectively and timeously to depressing economic conditions, Keynes argued that in stagnant economies afflicted by low levels of aggregate demand governments can trigger the economy through expansionary economic, particularly fiscal and monetary policies. This they can do either by increasing government expenditure, cutting taxes or lowering interest rates thus leaving consumers with more expendable income and encouraging borrowing for investment. Underlying Keynes argument was a simply but cogent reasoning that it is the ability to sell what is produced that guides investment decisions and determine productivity levels. In this wise it becomes counter-productive to, in times of depression, apply contractionary and inflation targeted monetary policies for this makes the economy unattractive. The setting up of the two leading IFI's and the determination of their mandates was indeed predicated on the logic that 'markets do not always work efficiently and that they might generate persistent unemployment' (see Stiglitz; 2002: 11-12, 196-197).

Contrary to the logic of the models upon which the leading IFI's were founded they now uniformly impose upon underdeveloped and stagnant African economies contractionary and austerity measures that rather than stimulate these economies steer them deeper into recession in the name of structurally adjusting\reforming them. Through the instrumentalisation of political\economic conditionalities and the international economic architecture western hegemons bring pressure to bear on African countries to institute policies, i.e. reducing budget deficits to zero by severely cutting government expenditure and borrowing, increasing interest rates to counter inflation, etc., that are all obviously at variance with the logic of the models upon which they were founded. These contractionary policies have sequestrated to summit of the economic agenda being pushed under globalisation. Once more their deleterious consequences have not only proven their inefficacy but also more importantly exposed their lack of internal and scientific coherence.

That these policies are contractionary is self-evident, we not detain ourselves establishing the fact. What deserves our attention is their incoherence and scientific nullity. To begin with no extant knowledge of economics is necessary for one to realise that the term macro invokes an aggregate understanding of the economy. Exclusive focus only on certain aspect of macro-economic policy like budget deficit or inflation to the total negation of other equally important issues like unemployment, government spending, growth, investment and productivity levels does not pass for a macro-economic understanding of the economy for it violates a simple logic of the interconnected nature of macro-economic variables. Further such an understanding has an inherent danger of mistaking parts of a system into wholes thereby for example essentializing inflation targeting and balanced budgets as ends in themselves.

Often market fundamentalist argue blindly without paying attention to the nature of the deficit, whether it's a structural or actual deficit, and irrespective of the purpose for which the deficit is budgeted, that when the government borrows to finance a deficit it competes with the private sector for funds and because of its advantage crowds (the private sector) it out. For this singular reason supporters of orthodoxy are wont to argue that any deficit portends an economic disaster albeit the fact that there exist a well supported view that if maintained in the region of 5-7 per cent of GDP and being part of a broader growth strategy, such a deficit might me tolerable. The intellectual poverty of this position is symptomatic of the more generic loss of 'intellectual coherency' that the IFI's have suffered according to Stiglitz (2002: 196). Let us attempt to unearth the reasons behind this harsh but plausible conclusion in relation to fiscal austerity that the IFI's have turned into an inviolable article of faith. Saying that an economy in recession cannot be expected to have a balanced budget is axiomatic.

Following Keynes responsible economist have consistently proven that expanded public productive expenditure on infra-structural provisioning and other social investments is an effective way to trigger the economy by increasing aggregate demand. By availing resources for improving the production function – technical knowledge of the economy- , upgrading roads, providing housing and other social necessities the state not only helps to make the economy liquid but also makes its attractive to investors. Viewed in this way targeted deficit budgeting rather than crowd out, it 'crowds in' private investment by creating an environment that supports long-term growth. The paucity of the position adopted by market fundamentalist partly emanates from their failure to see investment not as a function of investor confidence but as 'primarily determined by profitability of investment and the complementarity between investment by the state and the private sector' (ILO; 1996: 29).

Added to the IFI's severely flawed understanding of macro-economic management is the exclusive focus on inflation targeting. Undoubtedly profligate deficit-financed spending that most unpopular regimes employ by inflecting more money into the economy in order to legitimate themselves puts serious inflationary pressure on the economy and spells doom in the long run. However on its own this does not pass for an intelligible argument against deficit budgeting as outlined above. Obsessed with inflation targeting advocates of neo-liberal orthodoxy often fail to explore other creative ways to finance the deficit, i.e. going to the bond market, in a manner that does not increase the money supply in excess of output growth, rather they tele-guide underdeveloped African countries to hike interest rates irrespective of the negative effects such upward adjustments have on existing loans and new investments. Often this route is forced down even upon countries with single digit inflation benchmarks. While the need to forestall running or uncontrolled inflation cannot be dismissed a fanatical approach to it has no known intellectual basis. Arguing against such a single-minded approach Stiglitz notes that; 'controlling high and medium-rate inflation should be a fundamental policy priority but pushing low inflation even lower is not likely to significantly improve the functioning of markets' (1998: 6-7). Khan reports further that in a 44 country study between 1980 and 1988, no evidence was found to substantiate the;

> "notion that a low rate of inflation has in the past and in various countries been associated with improved growth rates; to support thus the statement that low or zero inflation is an essential or very important condition for high and sustained growth, or that government action to reduce inflation would be very likely to have such an effect" (cited in Khan; 1999: 28).

The consequences once more help to establish the intellectual nullity of the mainstream economic thought in this respect. In a context of high government indebtedness higher interest rates obviously lead to an inflated government debt, 'thus creating even more pressure for severe fiscal contraction' (Marais; 2002: 215). Beyond helping to control inflation advocates of this model argue that higher interest rates serve a double purpose of making the economy attractive foreign investors as well as encouraging savings. What this argument deliberately ignores are the facts that higher interest rates reduce the rate of returns to investments in the industrial sector that often depend on domestic borrowing and that the ability to save necessarily depends on the availability of disposable income that only a liquid economy avails.

Moreover such reasoning appears oblivious to the enormous benefits that follow from lower interest rates. The case for lower interest rates in economies that are going through a slump is fairly easy to make. Firstly, lower interest rates help to cheapen the cost of capital needed for both public and private investment leading to an investment and not savings led growth, as well as protect developing economies from the vicissitudes of opportunistic volatile capital inflows that prey on higher real interest rates to maximise short-term returns. To exacerbate the situation poor African countries are made to hike interest rates in tandem with capital and financial market liberalisation a situation that is alluring to speculative short-term portfolio investments. When such money flows out these countries are once more forces to increase interest rates in a bid to support the exchange rate. This serves as an invitation to another cycle of short-term inflows and the cycle continues *ad infinitum*. The 1997-98, Asian crisis offers incontrovertible evidence as to what rapid financial and market liberalisation juxtaposed with higher inflation targeted interest rate hikes leads to. It is therefore possible to conclude on the basis of the discussion above that rather than help stimulate aggregate demand within depressed African economies in accordance with the Keynesian model that formed the epistemological basis for the establishment of IFI's, these institutions have on the contrary subverted the logic inherent in Keynes analysis and as a result further aggravated the economic conditions of most African countries by promoting contractionary policies without proffering any scientifically proven theory in their favour.

-On Trade Liberalisation

> "There is a general tendency for governments and citizens in developed countries, as well as several international organisations, to view a regime of outward orientation as a good thing, or at any rate, as a lesser evil compared to inward orientation. A priori, it is hard to think of any objective economic basis for this sort of discrepancy in assessments. Arguments based on government-induced 'distortions' under inward orientation are not enough" (Ray; 1998: 676)

If the argument entered in defence of FDI invoke discounted economic development theories while the host of policies promoted under macro-economic reforms subvert the Keynesian logic upon which they are supposedly founded, the logic underpinning trade liberalisation certainly rest on weak theoretical grounds; the Ricardian and Heckscher-Ohlin theories of international trade. Before proceeding to examine in detail the two theories in light of contemporary evidence, it is necessary to restate three pertinent points, germane to our appraisal of their relevance for African economies. Firstly, that Africa has more than a comparative advantage in the production of primary goods evinced by the fact primary products from the mines and agriculture accounts for more than 90% of Africa's exports while Africa's share of (non-primary) world manufactured export commodities amount to less than 1 % (World Bank 2000: 21, Fig. 1.3). Closely linked to the above is the second point that, underdeveloped (African) countries export primary products and imports manufactured goods while the converse holds true for developed countries. Lastly, according to Engel's law supported by the Prebisch-Singer hypothesis, as incomes grow the share primary goods particularly food declines in importance in the consumption basket with the more sophisticated consumer products claiming a larger proportion of income. The implication is that countries that continue to rely solely on primary product for their exports are in the long-run bound to experience declining terms of trade.

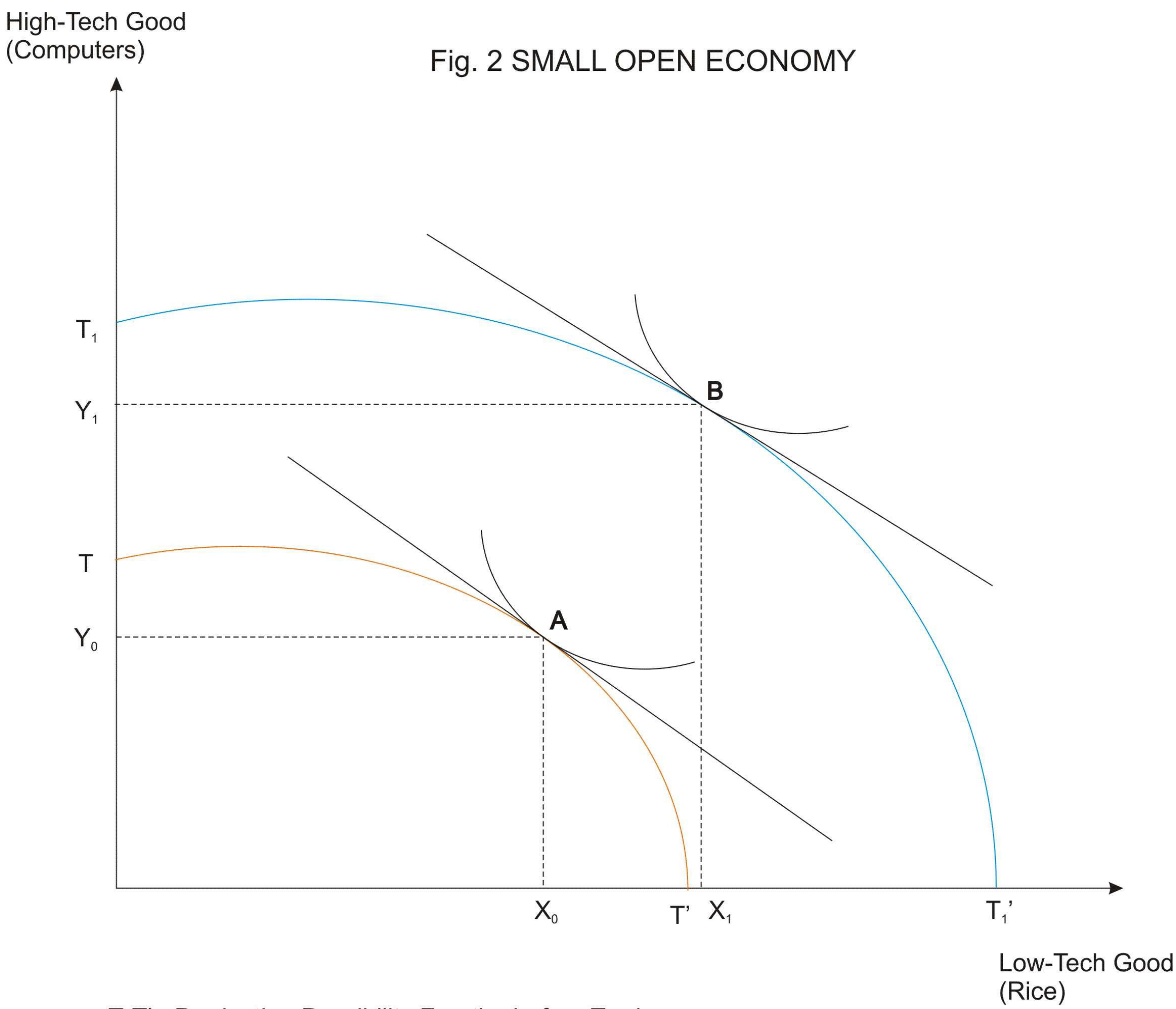
Ricardo's theory of comparative advantage moves from a simple premise that each country either for reasons of factor endowment, preferences or technological advancement will have a comparative advantage in the production of those commodities that utilise more intensely the factor of production (be it capital or labour) with which it is more endowed. A country that is technologically advanced (or highly industrialised) will, for example have a comparative advantage in the production of high tech goods over a technologically (non-industrialised) backward country. However prior to opening their economies to trade or under an autarkic economic situation, countries are compelled to become jacks of all trades meaning they have to stretch their resources or factors of production across all sectors of the economy in order to satisfy all their consumption needs. This consequently leads to reduced productivity and high commodity prices because the supply of production inputs will obviously fails to match the demand. Ricardo's theory then offers a simple and at this stage plausible antidote. According to him when countries open up their economies to international trade they inadvertently increase their production possibility frontiers (PPF) by shifting resources (labour since it is in the Ricardian model the only factor of production) from less productive to the more productive sectors of the economy. Effectively, with an expanded PPF they simultaneously produce – those goods in which it they have comparative advantage- and consume – those that they are relatively disadvantaged in their production - at increased level for less. Added to this advantage is the fact that commodities in which the country is relatively disadvantaged become available at a relatively cheaper international going price compared to the price that would obtain in an autarkic environment. Revenue earned from the export of the commodity in which the country is relatively less disadvantaged then become available for the import of those goods in which the country is relatively disadvantaged. Figure 2 demonstrates how this model works in reality.

The Heckscher-Ohlin model developed by two economists Eli Heckscher and Bertil Ohlin, basically elaborates on the logic of the Ricardian model, thus no extensive analysis of it is necessary here (see Krugman and Obstfeld; 1994 for an elaborate discussion of this model). Suffice to point out that in this model there are two factors of production, labour and capital, unlike in the simple Ricardian model where labour is the only production input. The Heckscher-Ohlin model enhances our understanding of the theory of comparative advantage by making the point that the increase in production at the margin or the expansion of the PPF that results from the maximisation of comparative advantage is not open ended. Read in full the model shows how a constant increase in the production factor needed in the production of a commodity in which a particular country has comparative advantage reaches a point non-increasing returns to scale.[15]

Albeit the differences between the two models they both lead to the same understanding of international trade and the implications thereof. Viewed from this light as a way to expand the production possibility frontier of each participating country, trade becomes ‘an alternative production activity, where quantities of some commodities (exports) are transformed into quantities of other commodities (imports)’ (Ray; 1998: 647). Potential gains from trade at this stage appear obvious enough. However, these gains are in large However, these gains are in large part more apparent than real.

What the model fails to take into cognisance are the implications that trade has for underdeveloped economies defined by extreme income inequalities and whose economies are still predominantly reliant on primary commodities. It is now a well known fact that for historical reasons labour and capital are held in unequal proportions between the North and the South, evinced by the relative advantage countries of the North have in the production of high-tech or manufactured goods while Southern countries, African countries specifically, are relatively more advantaged in the production of labour intensive (primary) goods and in harvesting natural resources.

Fig. 2 SMALL OPEN ECONOMY



T-T’= Production Possibility Frontier before Trade

T_1-T_1’= Expanded Production Possibility Frontier after Trade

A-B= Gains from Trade

X_1= Comparative Advatage for Country 1

Read against the above facts, what implications does trade liberalisation – the eradication of tariffs, quotas and other protective measures meant to protect infant industries – that advocates of the neo-liberal paradigm promote, portend for underdeveloped African countries? To begin with, according to the theories of international trade countries should exploit their comparative advantage by shifting their resources (production inputs) to the production of those products it has relative advantage in their production and import those that are relatively expensive to produce. For underdeveloped African countries that export primary and import manufactured goods the implications are clear enough for all to see, following the logic inherent in international trade theories to the letter implies for African countries accepting their underdeveloped status because any deliberate policy to promote industrialisation or value adding industries will distort the equilibrium thought by adherents of these theories to exist in the international economy. In other words the theory of comparative advantage is static. It holds sacrosanct the *status quo*, where African economies continue to rely for their exports on primary commodities while western countries exploit their comparative advantage in the production of manufactured goods.

Secondly, we made the point earlier that Engel's law supported by the Prebisch-Singer hypothesis holds that as incomes grow the fraction of income that is allocated to primary goods, food particularly exhibits a tendency to fall. Effectively this means that African countries that rely mainly on western markets for their exports and also depend on the same primary commodities for their hard currency earnings are perpetually going to remain under the spell of trade deficits. Fragments of evidence from the past three decades of international trade, which suggests that foreign earnings for countries that export primary commodities have been declining, indeed suggest that this is already the situation. Reaffirming this is the World Bank's (2000) claim that, 'Africa's share of world trade fell from more than 3 percent in the 1950s to less than 2 percent in the mid-1990s'. The report continues to state more emphatically that '[P]art of this loss reflected the erosion of the trade share for traditional products' as well as the failure to diversify into '*manufactured* products for which world demand was growing more rapidly'(2000: 20, italics added). It is near impossible not recognise that shifting into manufactured goods is an imperative for these countries if they are to escape the crippling negative terms of trade they will continue to suffer as a result of this failure.

Market fundamentalist argue in response that reliance on current comparative advantage yield more income today and implore African countries to increase output in order to counter the effect that falling prices have on their export earnings. By arguing in this short sighted manner defenders of orthodoxy implicitly suggest that revenue generated from the export of primary commodities in the short and medium run at the expense of long term growth and future generations is justified if the market forces vote in its favour. African governments barred from interfering in the workings of the market therefore have to sit idly by and watch as they cannot intervene to redirect revenue earned from primary goods to the construction of value adding industries that offer guaranteed long-term earnings. The animalist and irresponsible market desire for current accumulation in this order of things is sanctified as the altar to which the welfare and prosperity of underdeveloped African peoples is sacrificed.

Thirdly, according to the theory of comparative advantage the benefits of trade accrue to all as goods that are produced domestically at a relatively cheaper price are transformed into other goods through imports. Again this claim fails to find support in available evidence. We referred earlier to the fact that labour and capital are not equitably distributed both within and without economic boundaries. For African economies which are hallmarked by such skewed distribution of resources trade liberalisation is often followed by an influx of high tech consumer goods that are an exclusive preserve of the comprador bourgeoisie. Yet another manifest effect of trade liberalisation is the setting up by multi-national corporations (MNC's) of high-tech industries. It is unfortunately the poor that rely on small scale labour intensive industries for employment who suffer double jeopardy in form of lost incomes as these small industries that cannot compete with multi-nationals fold up, while on the other hand open trade increases the demand by the comprador bourgeoisie for ostentatious consumer goods that drive up the exchange rate thereby starving poor countries of the much needed resources for the acquisition of intermediate goods used in light industries. At a much wider scale the implications of trade liberalisation are far more disconcerting. For poor African countries it means the dislocation of their small industries and the domination of their manufacturing sector by western companies that often operate enclave economies without any backward linkage with the local economy. This serves somewhat to legitimate the colonially fostered North-South asymmetrical relations where African countries export raw materials and import finished products from the West.

To conclude, let us state that the international economic system does not mirror a natural state of affairs where factor endowment is naturally determined. The history of mature industrial western economies does not extend to the 'beginning of time' or to the act creation but shows that they were developed through deliberate state development policies while poor African economies were integrated into the western dominated international economic system through colonialism that had in turn imputed them with the comparative advantage in the production or harvesting of primary commodities. What this underscores is a subtle but significant fact that the order of entry matters. As Ray notes;

> "…there is a twist in the story that wasn't present a century ago. Then, the now developed countries grew in an environment uninhibited by nations of far greater economic strength. Today the story is completely different. The developing nations not only need to grow, they must grow at rates that far exceed historical experience. The developed world already exists, and their access to economic resources is not only far higher than that of the developing countries, but the power afforded by this access is on display" (1998: 50-51).

Beyond Orthodoxy

Of several explanatory factors advanced for the failure of the development project in the Africa, none remains more illuminating than the character of the post-colonial state, more specifically its problematic class content, colonial character and development credentials. Rather, as the literature points out, than transform the colonial state they inherited from the departing colonial masters, the political class inherited and preserved the state in its original colonial mould, much to the dismay of the popular classes that had helped fight against colonialism. For these classes political independence implied not just the sequestration of the black elite into political power but viewed it as necessary step towards ridding their economies of foreign domination, restoration of their economic independence and construction of the post-colonial social contract that would imposed upon the state the obligation to ensure improved standards of living and guarantee social and economic rights.

As these classes were soon to realise their expectations (of independence) were not coterminous with the ambitions of the new political elite that for its survival depended on the perpetuation of neo-colonial economic relations designed to ensure that Africa remained at the service of international capital located in the west. In the eventuality of the betrayal by the political class of the nationalist project piloted through the ill-conceived nationalist bourgeoisie development strategies, there was a much felt need for what the people of Congo Democratic Republic christened as the second independence (for an insightful analysis of the notion of second liberation and its utility see Osaghae; 2005. On its origins and meaning see Nzongola-Ntalaja; 1987). Emerging in the late 80's this movement for a second liberation seized the moment of heightened social and popular consciousness that was clearly on the rise across the continent. Triggered mainly by the failure of the post-colonial state this movement was equally heightened by the immerseration brought about by three decades of neo-liberalism imposed upon them first by their own political class and later by the western hegemons through structural adjustment programmes.

Analysing the political events in Africa since the late 80's through the second liberation concept, in our view, helps mainly because it underscores the centrality of the state in the development process as well as the fact that development is contested concept. Its meaning, ownership and agenda is subject to a vigorous contest among several contending forces including mature western industrial powers, multinational corporations, IFI's, donor agencies all acting in cohort with the local comprador bourgeoisie. In the era of globalisation, where economic boundaries have collapsed and where weak un-industrialised African countries are more than ever before coming under the dictates of international capital promoting a tendentious view that an alternative to capitalism does not exist, the need for a strong autonomous state capable of defending its economic sovereignty cannot be emphasised.

Unlike most other analyses that enter the debate from a neo-liberal vintage point like Sklar's (1987) notion of a 'developmental state' that do not question the character of the state, the mass of African peoples, who have witnessed their standards of living deteriorate, the state becoming more accountable to the external market forces and abdicate its social responsibilities to the all knowing market by commoditising social services, saw in the second liberation movement an opportunity to appropriate, domesticate the state and make it more responsive to their development needs. Discernable form this view is a rejection of the neo-liberal mechanistic and value-free definition of development that makes it an exclusive preserve of technocrats accountable only to themselves. Presupposing as the market fundamentalists do that the leadership is not an issue with which development is not concerned or the supposition that it reflects the interests of the people is actually meant to conceal the class interests and alignments that work in furtherance of their capitalist motives. Following Osaghae (2005) one of the few scholars who recognising the utility of the concept have elaborated its meaning, we argue that development in the African context will require a critical mass first capable of capturing and transforming the state and secondly will use such a state to set a new development framework capable of setting Africa free from the clutches of global capitalism. As he argues; 'in the circumstances of African and other developing states at least is primarily a political and social action construct…that would require greater and more conscious struggle by African states and peoples' (2005: 3).

On the basis of the discussion above that admittedly treats the political dynamics that the development imperative in Africa brings to the fore in rather summarised fashion we proceed by attempting to provide an outline of an alternative development framework (for a more concise treatment of the political implications for a state directed development see Osaghae; 2005, Anyang' Nyong'o; 1987, Amin; 1987, Turok; 1987). It is on the strength of such a framework that we shall then be able to proffer an answer to the question of the character the state should assume if it is to succeed in responding to the development challenge that Africa has grappled with in the past four decades.

It is fairly incontrovertible to argue that at the top of the African development agenda is the need to industrialise. Interestingly, this is a view that finds support from the benevolent international community. Amid the show of support however the hypocrisy of the west rears its ugly head as African countries encouraged to court FDI in order to industrialise are availed short term portfolio investments that cannot be used to build value adding industries; cajoled to outwardly engineer their economies through (export) supply-side oriented industrial policies they are confronted with western markets that are increasingly becoming more protectionist and while implored to create an investment friendly environment are on the other hand forced cut their public investment expenditures meant to improve the necessary infrastructure, i.e. transport, health, educational and other facilities.

To industrialise, according to Amin, 'implies, first to construct an internal market and to protect it from the ravages of competition' (1996: 201). Any formula to achieve this will largely depend on several other factors, i.e. the size of the internal market. However, in the African context such a strategy will unavoidable involve striking a balance between creating an internal market\demand and an appropriate supply-side industrial strategy. Essentially creating a domestic market means creating an economy that responds first to the most basic needs of the citizenry, food, clothing and shelter. Advantaging through tax and other incentives production for domestic consumption offers a number of long-term benefits. Not only will it help reverse the colonially bequeathed legacy of a mismatch between what is domestically produced and what is domestically consumed but will also create an environment conducive for the growth of light industries that produce mainly for the domestic market. Focusing first on light before moving on to heavy industries might in this case be a more beneficial as these industries betray a high return to scale tendency. Such an initiative obviously imposes large externalities that no singly market player will be ready to internalise. An entrepreneur state can in such a situation respond by creating economy wide complementarities through targeted productive investments that help to provide both the necessary infrastructure – railways, ports, communication etc., and improve the productive function in the economy. Often market fundamentalists argue that export-led economies benefit from hard currency earnings neglecting the fact that 'no known strategy of development has been oriented at the outset toward exportation-that is, determined principally by the objective piercing the world…' (1996: 202).

A second area of focus if African countries are to boost domestic investment in the manufacturing sector is that of monetary policy. A progressive revision of monetary policy geared towards lowering interest rates will not only help lower the cost of capital needed for investment but can stimulate higher levels of public and private investment, which indirectly triggers a chain of benefits. Higher investment levels open employment opportunities, as people earn the demand for goods and services increases which results in growth in the size of the markets and public resources earned through tax. These public resources can in turn be used to provide social services like health and education. Lower interests have an added benefit of discouraging short-term capital flows that engender instability.

The third element of our proposed framework is capital controls aimed not only at discouraging short term investments but regulate the sectors of the economy to which foreign investments are permitted. In this regard a useful tool available to African countries, first mooted in the 1970's applied by a few Asian countries in the wake the 1997 Asian crisis is what is popular known as Tobin Tax in terms of which a certain percentage point is be levied on all short-term investments. An expanded application of the principle would be to permit foreign investment only directed at the productive sectors of the economy coupled with set of exchange control rules that will set a minimum period within which profits earned cannot be exported out of the country. In furtherance of its industrialisation strategy the proposed entrepreneur state should devise a buy in strategy whereby the government acquires a significant stake in all such foreign investments, through which it can raise revenue for investment in other sectors.

Faced with several economic constraints particularly the contractionary macro-economic policies that IFI's impose on them African countries would obviously not be in a position to adopt the kind of reform measures proposed unless they demonstrate a political will to move beyond these constricting policies and adopt growth oriented macro-economic policies that will include increased productive public spending. If carefully designed and implemented as part of an overall growth and employment strategy budget deficits in the acceptable region of 4-8% of the GDP can be a veritable tool to trigger aggregate demand. Imposing tariffs on consumer goods will also help reduce pressure on their current accounts and avail them of the required resources for investment in the public sector.

Having attended to the fundamentals of the internal market only then can such re-born African economies shift their focus to the supply-side of their economies. Export promotion for African countries that export primary goods would of necessity entail promoting Greenfield investments in both light and heavy industries capable of competing internationally. Such a pragmatic export promotion strategy can include preferential bank lending at attractive interest rates, subsidised imports of intermediary goods, tariffs to protect these industries and creation as in the case of Korea of market agents or trading companies spanning several sectors particularly manufacturing and other value adding sectors. Contrary to the dominant thinking in mainstream economic thought developing such a strong outward oriented manufacturing sector cannot be assigned to the invisible hand of the market. Lending support to our argument for an entrepreneur state is Amsden's explanation that;

> "[T]he architect behind the emergence of this new 'Asian Tiger' is a strong, interventionist state, which has wilfully and abundantly provided tariff protection and subsidies, changed interest and exchange rates, managed investment, and controlled industry…Relative prices were relatively set 'wrong' to create and reap the benefits of dynamic comparative advantage, instead of letting them to the 'right' levels by the free play of the market forces, which would have led to short-run efficiency but economic anaemia in the long run. Korean development strategy has been primarily a pragmatic trial- and- error approach – with twofold commitment to growth of exports and protected nurturing of selected infant industries " (cited in Ray'; 1998: 683).

Implemented either in total of in fragmented manner the above strategy will quite expectedly not find support from western global hegemons who are likely to respond with counter measures, such as; withdrawal of financial support for insolvent African economies and\or imposing higher trade barriers against African exports. Since the late 70's radical African political economists (Turok; 1987 Amin; 1987, Leys; 1975)) have consistently argued that African countries should delink from the international economic system. Building on the arguments advanced by these scholars we aver that rather view the likely negative western response as a disincentive for restoring agency and autonomy back to the African development project, African countries should on the contrary consider the possibility of such a response as a welcome development as it will offer the continent space to redefine its development priorities in an environment unfettered by external forces whose interests are *sui generis* anti-thetical to the continent's progress. In anticipation they should strengthen the South-South community or more specifically the African trade bloc through increased intra-African trade, which in our view will help assuage the short-term effects of delinking and further increase the continent's bargaining power. Such power should in turn be used to energise the campaign for flexible trade rules that will allow;

> "…selective disengagement from multilateral discipline…The purpose of such an 'escape clause' mechanism would be to allow countries greater breathing rooms, under well specified contingencies and subject to multilateral procedures, to fulfil domestic requirements that may conflict with free trade" (Rodrik cited in Khan; 1999: 23).

In Conclusion

Writing in the inaugural issue of the African Communist in 1959, long before many sub-Saharan African countries gained their independence George Maxwell perceptively observed; '[U]p to the present the national liberation struggle in Africa has been by and large inspired and led by the bourgeoisie' and in a near prophetic manner but nonetheless characteristic of Marxian analysis, he warned that; '[T]he imminence of independence throughout most of Africa heralds the end of the positive contributions by the bourgeoisie'. This was far from being a Marxian vitriolic against the bourgeoisie for as he explains;

> "[I]n our era *and for all times* the bourgeoisie is not a revolutionary class except when it participates in the colonial revolution against imperialism. Even in the latter case the bourgeoisie cannot be thoroughly and consistently revolutionary. As soon as a certain point is reached in the revolution against imperialism the bourgeoisie and other reactionary social forces compromise with imperialism to preserve and advance their own interests at the expense of the people" (Maxwell; 1959: 22).

One need not be a Marxist to agree with Maxwell that bourgeoisie interests in Africa are tied to the perpetuation of the imperialist relations between the continent and the West, a fact that the post-independence history of most African countries has clearly put beyond doubt. What this situation dictates as the paper has argued is an entrepreneur state capable defending its sovereignty, broadly defined to include economic sovereignty. However such a state cannot be a bourgeoisie state but a national popular state.

Further for African economies whose defining features are the absence of an African rooted private sector, monoculturalism and vulnerability to the dictates of external forces particularly western hegemons, development cannot be a mechanistic process driven by the market forces but a social and political struggle driven by a critical mass of African people who for decades have been subjected to the neo-liberal development paradigm that rests as we have shown on weak theoretical foundations. The aims of such a popular struggle should amongst other things include; appropriating the state, redefining development in light of the African historical and social context, and dislocating the colonially created alliance between the international bourgeoisie and its African comprador partners.

Admittedly those expecting a radical alternative model will find our proposed approach unsatisfactory as does not appear to transcend the boundaries of the capitalist logic. We argue however that firstly by steering our academic lenses towards the epistemological foundations of the global capitalist model thus shifting the debate right inside its disciplinary contours and secondly by sharpening our tools of analysis make a modest and pragmatic contribution to the ongoing search for new insights and antidotes to the African development malady.

Endnotes

[1]According to the World Bank Report (2000) the regions income per capita averaged $510, a paltry figure when compared to the $ 5000 acceptable per capita income threshold. Excluding South Africa, the figure plunges further to $315, calculated at market exchange rates. On the other hand a reading of the Human Development Indicators, contained in the same report, paints a more disconcerting picture; infant mortality (per 1000 live births) stood at 89. 9%, adult illiteracy was as high as 43%; only 47 % of the continent's population has access to safe water while life expectancy at birth stood at 57 years a figure that does not take into consideration the full impact of the HIV\AIDS epidemic that is projected to reverse life expectancy by 20 years. Note that the figures are for 1997 meaning the situation might have deteriorated further taking into cognisance the 1997-98 Asian economic crisis.

[2] While in the name of globalisation African economies are increasingly becoming subject to the dictates of the international economic architecture that integrates them further into the global economic system by compelling them to open up their economies to international trade and investment, their share of the volume of world trade on the contrary suggests that they are on the other hand becoming more marginal to the system. Note that prior the crystallisation of the current global economic regime Africa's share of world trade stood at three percent (3%) in the 1950's while they now- since the 1990's- account for less than two percent (2%) of world trade and only 1.2 percent excluding South Africa. Stiglitz makes a similar point when he notes that following the Uruguay Round of negotiations, 'the net effect was to lower the prices some of the poorest countries in the world received relative to what they paid for their imports' meaning the price of their imports remained the same as before or actually increased (2002: 7).

[3] The Incremental Capital to Output Ratio (ICOR) model is a composite encompassing three different models; Harrod-Domar model, Sir Author Lewis's surplus labour model and Rustow's financing gap theory enunciated in his popular book 'The Stages of Economic Growth' published in 1960. Running through these models is the following logic; the excess of required investment over actual savings constitutes the financing gap to be filled either through foreign aid or investment. On the basis of this logic they conclude that 'investment to GDP will increase over the initial year by the amount that aid to GDP increases over the initial year. Then this investment will increase growth in the next period' (Easterly, 2002; 42). In this wise it becomes possible to trigger the economy into sustainable growth by injecting the required volume of aid.

4 Surprisingly Stiglitz (2002) opens his prescient critique of globalisation, by proclaiming that , 'globalisation …can be force for good and that it has a potential to enrich everyone in the world, particularly the poor' (ix). Less surprising and characteristic of other African leaders is President Mbeki's (2002) bold argument against market fundamentalism, '…we must be in the forefront in challenging the notion of the market as the modern god, a supernatural phenomenon to whose dictates everything human must bow in a spirit of powerlessness' (xviii), while in the same breath he embraces uncritically the logic of the market; '.. fundamental to everything we may say about these matters must be the consideration that we have to attract into the African economy the significant volumes of capital without which the development we speak of will not happen' (2002: xvii).

[5] Reputed to have the lowest savings rate is the United States of America which saves between 13-18% of its GDP income, however the World Bank (2000) for rather inexplicable reasons concludes that

'[A]veraging about 13% of GDP in the 1990's, the savings rate of the typical African country has been the lowest in the world'. More baffling is the failure of such an enlightened institution to recognise a matter of simple logic that the ability to save is contingent upon the level of one's income in relation to the cost of the living basket. It therefore stands to reason that in poor African countries where the majority of citizens are close subsistence level of consumption and having more than a family dependent on one income, a 13 % average of savings is more than salutary. Simply put the poor as well as poor African countries cannot save beyond this level even if they wish to do so.

[6] Lewis's Surplus labour model basically posits that underdeveloped economies are typically characterised by underemployment in the agricultural sector. Accordingly such economies can grow by shifting labour away from this sector to the industrial sector in the cities.

[7] The ideological motivations behind Rostow's Stages of Growth are clearly betrayed by the book's subtitle, A Non-Communist Manifesto. Perhaps this helps in part to explain its limitations.

[8] In the Hollis Chenery and Alan Strout (1966) model the investment-savings represent but one gap, the other being the trade gap, which as Easterly (2002) explains is, 'ex post equal to the investment gap, but ex ante might be a constraint in a shortage prone economy with fixed prices' (2002: 295), hence the referent, two-gap model. However the second, trade gap is off little interest to our concern here and receives no further attention.

[9] The minimum standard model (MSM) was developed in 1974 by John Holsen then a World Bank staff and an expanded further by another group of World Bank economists into what was to become known as the revised minimum standard model (RMSM). Albeit these revisions the crux of the model remained the same, the growth rate of GDP is proportional to last year's investment GDP ratio.

[10] Though this example is informed by Lewis's estimates (1954), it also finds expression in several other Development Economics texts.

[11] The equations in this section are drawn from Ray's discussion of the Harrord-Domar model. For a more detailed discussion of the model and the algebra behind these equations see Ray (1998) chapter 3.

[12] Rostow (1960) specifically predicted that it will take ten to fifteen years for aid receiving countries to attain adequate savings rate or arrive at what he called self-sustained growth level after which they will be in a position to discountenance foreign aid. Chenery and Strout (1966) were also of the same view that as income increases aid receiving countries will be able to finance their investment from their own savings, they however cautioned that the amount of aid supplied should be commensurate to the recipient's effectiveness in increasing the rate of domestic saving.

[13] Similarly Todaro (2000) advances an equally unconvincing argument that 'the basic reason why the investment led take-off didn't work was not because more saving and investment isn't a necessary condition – it is – but rather because it is not a sufficient condition' (quoted in Easterly; 2002: 35). The point made here does not arise because for those who know the basic rules of causality will be aware that for A to have a causal relationship with B, A should be both a necessary and sufficient condition for B's occurrence. Isn't that what the financing gap model said of investment this year leading to growth the following year? Observe further that in the equations earlier provided other than the depreciating capital stock somewhat controlled for no other intervening variable exist between investment I (t) and growth g.

[14] Using available data for eighty eight counties Easterly sought to test the model against two propositions; firstly that there is positive statistical association between aid and investment, secondly that aid should pass into investment at least one for one. What implications his findings have for the model will be abundantly clear to any discerning eye. Reporting his findings he write; '[O]n the first test, only seventeen of the eighty eight countries show a positive statistical association between aid and investment, Just six of these seventeen countries also pass the test of investment increasing at least one for one with aid.' As if to indict himself and his co-travellers he goes further to ask whether, 'investment and aid jointly evolved the way

that the users of the financing gap model expected?' In response he avers; '[W]e financing gap advocates anticipated that aid would go into investment,…According to my results, investment and aid did not evolve the way we expected' (2002: 38)

[15] Unlike in the Ricardian model where trade expands the production possibility frontier, in the Heckscher-Ohlin model countries experience a difficulty in expanding their productivity by transforming one good to another at the margin. The bowled line in Fig. 2 that represents the point at which it becomes impossible to increase production, called the isoqaunt, irrespective of additional production inputs being made available. This happens basically for two reasons as Ray explains; 'firstly, if each production function exhibits non-increasing returns to scale, then additional equal doses of capital and labour cannot lead to increasing output at the margin. Second, the ratio of capital and labour released by reduced production of one of the goods becomes inappropriate for the production of the other good'. (1998: 633, footnote No. 7). In other words labour released from the (agriculture) the production of rice may be inappropriate for the (industrial sector) production of cars. (1998: 633, footnote No. 7).

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