NATIONAL DEVELOPMENT STRATEGY:
THE KEY INSTITUTION

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In the last forty years institutions became a central concern of political scientists, and in the last twenty years, also a major research program for economists. Before that, when this science was still dependent on sociology, political scientists used to adopt a more structural or socio-economic approach, and neoclassical economists just ignored institutions. The sociological theory of modernization and Marxism shared this structural approach as they saw institutions as part of a larger social and economic structure. Thus, when political scientists and economists focused in institutions, this was under a certain point of view a progress. For the former, it was a way to make political science independent from sociology, for the others, a way of broadening the scope of economics that had been narrowed by neoclassical economics. Yet, the form that this inclusion of institutions in development economics took place ended up being also reductionist in so far as the new institutionalists claimed that if property rights and contracts were assured, economic development would automatically ensue from the market forces. In this paper, my central concern is not to criticize this claim which frailty is self-evident, but to offer an alternative institution central to economic growth: a ‘national development strategy’ or a ‘national competition strategy’.

In the past two centuries of capitalist development, experience shows that, when a country that already completed its capitalist revolution is enjoying full growth, this is a sign that its nation is strong – that politicians, business entrepreneurs, bureaucrats and workers are operating within the framework of a loose but concerted national strategy. A nation’ strength is expressed in its commitment to the political objectives of contemporary societies — security, freedom, economic development, social justice and protection of the environment — and in its ability to gather together and formulate strategies to achieve these objectives. Economic development can be facilitated by free

markets that foster efficient allocation of factors of production, but, usually, is the outcome of a deliberate endeavor of a nation using the state as its principal institutional instrument of collective action. It is the result of an informal agreement involving entrepreneurs, workers and the middle classes with the intermediation of government. Laws, policies, understandings and shared beliefs orienting innovation and investment form this agreement that is not manifest, but can be seized up by a shrewd observer.

Economic development tends to be self-sustained inasmuch as, in an environment of rapid technological change, firms have no choice but to reinvest their profits. It is, however, perennially subject to crises, low growth rates and eventual long-term stoppages, as was the case in Latin America since 1980. It speeds up at times, indicating the presence of a national development strategy; at others, it becomes quasi-stagnant, because the previous strategy has become exhausted and the country was unable to replace it, or because the country got subordinated to its competitors. The challenge each nation faces in overcoming these difficult transition phases involves national autonomy and societal cohesiveness; only in this way they will be able to have a national development strategy that creates the conditions for global competition and cooperation.

In modern democracies, the state is the nation's instrument of collective action, and the government, the body of people – of elected officials and high-ranking bureaucrats – who rules it in name of the citizens.[1] The strategic nature of economic development arises from the need and opportunity of a nation to organize efforts in order to raise living standards, and from the high correlation between economic growth and the achievement of other major political objectives. Even though development may, in the short-run, take place at the expense of social justice and environmental protection, in the medium term the positive correlation will show up because social justice and environment defenders will be empowered by economic growth. Yet, the key factor

[1] In English the term 'government' is often used synonymous with state, while 'administration' denotes what in Europe and Latin America we call government ('governo', 'gobierno', 'gouvernement'). I will use state, not government, to mean the organization that defines and enforces the law; administration or government is formed by the group of politicians and senior officials that direct the state; nation-states will be here synonyms of countries or national state; 'states', in the plural, is often used as synonym of nation-states or countries, but I will avoid that. Note also that I distinguish nation and state from nation-state: a nation or a national society plus a state and a territory form a nation-state. States, in the plural, is often used as synonym of nation-states or countries.

making a national growth strategy necessary is the highly competitive nature of capitalism. Today, within the framework of globalization, where commercial and technological rivalry among nations is stronger than ever, the need for a national development or competition strategy became evident. Although nation-states don't have the same cohesiveness of organizations, they also need strategic planning to succeed in international competition. In governing, a large portion of politicians' efforts and struggles is centered on how best promote the country's economic growth. On the economic relations front, in regard to trade as well as to technological and financial matters, nation-states and their business enterprises experience tough competition that requires constant initiative on the part of their governments. Nation-states also cooperate because in all cases where competitors are involved in frequent competition cooperation is necessary to define the rules of the game and to avoid conflicts damaging both sides, but, in general, competition prevails over cooperation.

In this paper, I argue that usually economic growth implies a national strategy, which, in turn, assumes the existence of a nation and nation-state. When society is viewed as 'civil society', civil liberties are the focal point; when it is viewed as a 'nation', economic growth is the central concern. When a nation is able to agree on a national development strategy, this is a signal that this nation is strong and lively. In contrast, as Fabio Comparato (2005: A3) underlines, "when a nation no longer defines a historical horizon to be pursued with courage and hope, it enters the unhappy state of awareness that Hegel referred to: the inability to take a harmonic stance before life."

DEFINITION

What is a national strategy? This is not an easily answered question, as national strategies vary widely across time and space. Yet, a historical definition attempting to capture its main characteristics may be offered. A national development strategy is a concerted economic action oriented to economic growth that has the nation as its collective actor and the state as its basic instruments of collective action. It is an informal or implied political coalition or political pact in which social classes under the leadership of the government suspend their domestic conflicts and cooperate when the problem they face is international economic competition. It is an institution or a cluster of institutions guide the main political and economic actors in their decision-making process – politicians on how to define new public policies or reform the existing ones,

businessmen, on when and where to invest. Thus, a national development strategy always involves the inducement o innovation and capital accumulation. It is a nationalist institution in so far as it establishes a clear priority to the interests of national labor, national knowledge and national capital, but this nationalism is usually moderate and democratic, open to international cooperation and rejecting ethnic criteria.[2]

Since people in modern world are organized in three levels – families, organizations, and nation-states – that compete and cooperate among themselves, a national development strategy is the form that each nation chooses to perform its double role. Cohesive and autonomous nations will have stronger national development strategies than divided and dependent ones. The cohesiveness of a nation tends to increase with economic growth, but the process is far from being monotonic: gradual deterioration followed by crisis is common; in so far as that nations gain and loose cohesiveness, their national development strategies are sometimes clear, sometimes blurred, and their economic achievements correspondingly variable.

National development strategies must not be confused with economic planning or even with a national project. In most cases of successful national development strategies there has being some sort of planning, particularly in the early stages of growth when the establishment of the economic infrastructure and of heavy industry were the order of the day. Later on, the market coordination becomes a must, and general planning will be just indicative if any. Since the capitalist revolution began, but principally in globalization, a national development strategy is a competition strategy. It must always consider the reactions of 'adversaries', which will be either the other national competitors, or the new facts demanding a policy change. A national development strategy is the result of a collective decision making process. It is, therefore, a means to manage the national economy, to pursue alternatives capable of steering it competitively towards development. As firms plan their activities strategically, so nation-states outline national development strategies in a necessarily less systematic but, nevertheless, in an effective form.

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[2] Nationalism is here understood as the ideology that legitimizes the formation and consolidation of the nation-state. Citizens will be nationalists if they have no doubt that their governments are supposed to protect national capital, labor, and knowledge. According to this definition, all developed societies are nationalists – so nationalists that they can dispense the adjective and use it pejoratively, generally together with 'populism', to indicate political movements from the right or the left that oppose hegemonic global views.

Herbert Simon and Peter Simon (1979: 42) identified strategy with program, and regarded the latter as a means by which economic actors with incomplete information and limited rationality appraise alternatives and make choices, instead of permanently 'optimizing', as assumed by neoclassical economics. Based on the analysis of a chess match, they tell that "a program or strategy is a series of decisions carried out in a well-defined manner that enables vast economy in terms of memory and the assessment of alternatives. On defining a strategy, the player must take three principles into consideration: (1) the attacker must consider 'strong' games only (like checks on the opposite King)...; (2) all alternatives available to the opponent must be explored...; (3) if any of the games that the attacker is considering, regardless of how strong it may be, allows the opponent make moves in response, the attack move is abandoned for lack of promise". It is no different with national strategies. Strategists must begin by diagnosing the situation, and then search for alternatives, always bearing in mind the fact that they cannot pursue 'every' alternative, but, within the framework of a program, only those that appear more promising or satisfactory. Strategists are under no illusion as to optimization, but know that they have limited time to make a decision, to choose under uncertainty. In order to implement the eventually defined strategy or program, those in charge of it will use all means available: they will write laws, adopt economic policies, they will define public investment plans and the national budget, and all sorts of other institutions; they will try to make the most of the markets' resources, but not hesitating to intervene as needed.

When social scientists discuss models of capitalism as distinct as the Anglo-American and the corporative models, the Scandinavian and Japanese, they are also discussing the respective national growth strategies that proved effective in promoting economic development of rich countries. [3] As models or varieties of capitalism, national growth strategies are also ideal types. The difference is that models are oriented to describe and look for the interrelations between all the social, economic and political variables, while strategies concentrate in the variables that cause (or preclude) growth: a national strategy implies accelerated growth while a model of capitalism may be consistent with relatively low per capita growth rates. National growth strategies are specific to each

[3] There is already a large and competent literature on models of capitalism. See, among others, Schmitter (1974), Esping-Andersen (1990), Albert (1991), Goodin et al. (1999), Hall e Soskice eds. (2001), Robert Boyer e Pierre-François Souyri, eds. (2001), Huber, ed. (2002), Stephens (2002).

country, but, as in the case of models of capitalism, we can devise and analyze national growth strategies that encompass several countries. Describing the East Asian model of capitalism, Ha-Joon Chang (2002: 229) listed six characteristics that are typically traits of the respective national growth strategies. They are: "(1) the pro-investment rather than anti-inflationary macroeconomic policy; (2) the control of luxury consumption, which served both economic and political functions; (3) the strict control of foreign direct investment, which is contrary to the popular impression that these economies (except perhaps Japan) have an 'open' FDI policy; (4) the integrated pursuit of infant industry protection and export promotion; (5) the use of export as tool to exploit scale economy and, thus, to accelerate the maturation of infant industries; (6) and the productivity-oriented (as opposed to allocation-oriented) view of competition". To this list I would only add the neutralization of the tendency to the over-appreciation of the exchange rate to define what I call the 'new developmentalist strategy' (Bresser-Pereira, 2006).

SOME HISTORY

In the case of Latin America, to search for national development strategies only makes sense after 1930 when some countries that were already independent since early nineteenth century turn effectively independent and got industrialized. In the case of Asia and Africa, such search must be made after World War II, when these countries become formally and, in most cases, substantively independent (it is the case of the dynamic Asian countries). For the Latin American countries, the great depression of the 1930s creates an opportunity to begin or boost industrialization. The national revolution, which began formally more than a century before with the political independence, then gets moving. In Brazil, in Mexico, and, at a lesser degree, in other Latin-American countries, a national-developmentalist strategy based in import substitution and state intervention attempts to emulate and adapt the experience of late-development central countries such as Germany and Japan. Aiming to neutralize the Dutch disease or more broadly the tendency to the over-appreciation of the exchange rate (that economists did not known at that time but policymakers had an intuition on it) countries use multiple exchange rates that caused the transference of income from export agriculture and mining to industrial firms. Countries also resort to several forms of planning and industrial policy to stimulate investment in higher per capita value added industries.

At first, these national development strategies used local resources to finance development. This was the right thing to be done since it avoided the appreciation of the local currency and the loss of competitiveness of local industries that is inevitable when capital inflows are bigger than the demand for hard currency. However, since the early 1970s, given the assumption that 'rich countries are supposed to transfer capital to capital poor countries', they increasingly resorted to foreign loans and to direct investment, while maintaining the protectionist strategy and preserving pessimism towards exports of manufactures that no longer made sense. These two mistakes lead to a great crisis in the early 1980s, which Latin-America countries have yet to fully overcome. Since around 1990, out of their own national fragility and responding to the increased ideological pressure coming from the North – the neo-liberal wave –, Latin American countries fell back to the condition of quasi-colonies, and their elites accepted an imported strategy – conventional orthodoxy – which rather neutralizes than promotes economic development.

In contrast, some Asian countries that somehow remained subject to European imperialism until World War Two, gained autonomy at that moment.[4] Some of them, like Korea and Taiwan, underwent in the 1950s agrarian reform. At first they used an import substitution strategy, but, whether because their natural resources were limited, or whether because their elites, being indigenous instead of transplanted from Europe, were better able to state their national interests, they changed to an export-led strategy as early as the 1960s, while keeping industrial policies. Japan's successful economic growth served as model for them. It is the 'flying geese strategy' that is beginning, where countries acquired the conditions for development in successive waves: first was Japan, followed by Korea, Taiwan, Hong Kong and Singapore; then Malaysia, Thailand, Indonesia; in the 1980s, China; and, in the 1990s India and Vietnam experience strong growth. In all of those countries, the macroeconomic price – the exchange rate – was deliberately kept competitive and industrial policies were markedly active while tariff protection was gradually reduced. By practicing competent macroeconomic policies that kept state finances sound, limited finance with foreign savings, and managed exchange rate, they avoided the 1980s foreign indebtedness that

[4] Japan was never a colony, and this was one of the reasons why it was the first Asian country to be part of the center. China also was not a formal colony but fell under foreign rule after the loss of the Opium War. India was a colony, and for that reason lost even more than China in the nineteenth century.

paralyzed development in Latin America and kept their economies competitive and growing.

The dynamic Asian countries, with their manufactured goods export-led strategy, had two crucial advantages over Latin-American countries: many underwent agrarian reforms that assured an evener income distribution, their foreign debt crisis in the 1980s was not so serious as in Latin because their indebtedness levels in relation to exports were much lower, the first Asian tigers were small and soon changed from import substitution to export led growth, their Dutch disease was much weaker if any and they kept limits to foreign investment and to growth with foreign savings policy – what permitted them to keep their exchange rate competitive. In the 1980s, while Latin American were immerse in economic populism and debt crisis, Asian countries were making their transition from the first to second stage of economic growth, or from old national-developmentalism to new developmentalism.

At the second phase, the state intervention required by national development strategies gradually goes down. This was due, on one side, to the higher stage of growth, but, on the other, to the enormous pressure for neo-liberal reforms coming from the rich countries since mid 1980s. Attached to such reforms there was a major attempt to limit the 'policy space' of developing countries, to what the WTO's Uruguay Round was instrumental (Wade 2003, Chang 2006). Yet, this does not impede that the Asian dynamic countries keep their national development strategies. Unlike Latin America, however, they made relatively smaller concessions to the Washington consensus or conventional orthodoxy. The foreign exchange rate, in particular, remained firmly under control, and they did not resort to foreign savings. Quite the opposite, in order to maintain a competitive foreign exchange rate, Asian countries resisted the pressure for admitting equity and credit capitals and reported increasing current account surpluses and international reserves. It is true that some of them bowed to pressures and fell into the 1997 crisis, but immediately depreciated their currencies and returned to growth. Today, some of these Asian countries, like Korea and Taiwan, are already regarded as developed, while Latin-American, African, Middle-Eastern and Central-Asian countries remain indebted, dependent and accepting the advice of rich countries instead of devising national development strategies.

COMMON TRAITS

National development strategies will vary from moment to moment, and from country to country. Two countries that in the last 20 years experienced national development strategies – China and Ireland – could not be more different. Yet national development strategies have certain common traits that are related to concept of economic development and its causes. On the supply side, economic development results of the increase in productivity caused by capital accumulation with the incorporation of technological knowledge, from investments in the infrastructure that have positive externalities, from entrepreneurs innovations, from the transference of manpower from the production of goods and services involving higher per capita value added. Still on the supply side, economic growth depends on technological progress and innovation, on education, food, and health care, or, more broadly, on human capital. On the demand side, economic growth depends on the elements that compose effective demand: investment, consumption, state expenditures, and exports minus imports. When demand is sustained, entrepreneurs will face investment opportunities to use the existing recourses created on the supply side. To identify if a country has a national strategy or not we are supposed to look not only to its main outcome – GDP growth per capita – but also if the main characteristics on the supply and on the demand sides of economic development are present.

On the supply side, all development strategies require or suppose a financial system to finance investment or capital accumulation. In the early phases of development, when the country is beginning its capitalist revolution, finance is obtained through 'forced savings' originated in the state, through profits realized in some primary goods industry using natural resources in which the country is rich, and through foreign investment. The essential task is to profit from the positive externalities caused by state and foreign investment (Rosenstein-Rodan 1943's big push model), and to transfer manpower from traditional activities to capitalist ones (Lewis 1954's model). The existence of a primary goods industry using local natural resources from which the country is able to collect Ricardian rates is a standard form of initiating capitalist development that will be as much effective as the state is able to tax such rents thus neutralizing the Dutch disease, and using the resources to finance its own investments and increase social expenditures. As industrialization takes place, or the industrial revolution is completed, the reinvestment of profits will tend to become the main source of finance to investment.

On the other hand, the private and the state financial system develop, and become capable of investment finance. The main agents of the accumulation process are business entrepreneurs, but in the first stages of development, the state plays a strategic role in promoting forced savings either through the creation of social security funds, or through taxes, or through investment banks.

A second trait of national development strategies is informal planning and industrial policy. Liberals reject both, but all countries used them, particularly in the first stages of growth. National development strategies involve channeling idle funds or funds originated from forced savings towards public investment or business firms for investment by means of incentives or subsidies. In almost every country, the state played an important role in the creation of the basic infrastructure of the economy and in increasing the rate of capital accumulation from around 5 to more than 20% of GDP. Yet, as the economy's complexity and diversity increase, forced savings cease to be required while industrial policy looses relative significance as markets assume a larger role in resource allocation. As shown by Gerschenkron (1962), in the early stages of growth of backward central countries, the state played a decisive role in causing capital accumulation and growth. Yet, after some time, as the national economies gain in complexity, markets assume the coordinating role. In the transition from one to the other mode of development, a crisis will usually turn out, after which the nation will have to devise a new national development strategy in which the role of markets and entrepreneurs increase. In any circumstance, the state will conserve its capacity to achieve public savings to finance the always required and strategic public investments. In this second stage, national growth strategies will develop a national financial system able to finance investment and technological progress. It will also continue to get involved in industrial policy despite conventional orthodoxy condemnation of it. It could not be different, since globalization made the nation-states more interdependent but not less relevant as is usual to hear; on the contrary, globalization made them more strategic, since it is characterized by an acute competition among nation states through their business enterprises.

A third common trait of national development strategies are policies connected with public education, health care, science and technology. All economic development theories emphasize human capital and technical progress, where the role of state agencies is strategic, but the business enterprises are supposed to have an increasing

responsibility. Innovation lies, naturally, in the hands of business entrepreneurs – be them the classical individual entrepreneurs, or the executive entrepreneurs.

A fourth canonical trait of national development strategies on the supply side are state investments in the infrastructure, principally in energy, transportation, and communications. The state-owned enterprises, many of which were privatized in the 1990s, are the best example of such characteristic. As growth

These three common traits are on the supply side of economic growth. Yet, many developing countries have unused specialized labor, including highly educated people, that migrate to rich countries for lack of internal demand. Or have capable entrepreneurs that are unable to innovate and invest for lack of demand, or, in other words, for lack of investment opportunities. That is why in every national development strategy a central characteristic is its capacity to ensure a strong aggregate demand. How do they do that? Usually, Keynesian economists underline the need of fiscal and monetary policies to increase investment and consumption. This is OK, but the limits of such policies are well-known: fiscal policy must be temporary because fiscal balance is a condition for state capability; monetary policy is also a short term anti-cycle policy, not a development policy; careless policies in these two areas may cause inflation instead of growth. To have a competent macroeconomic policy, that assures in the long run moderate interest rates and competitive exchange rate, is a condition for growth, but in this domestic arena the policymaker is permanently constrained by tight checks. To keep the public deficit and the public debt under control is a necessary part of any national growth strategy. The reason for that is not the neoliberal demand of a smaller state, but the developmentalist demand for a sound and capable state.

There is, however, a form of effective demand that is less constrained economically. I refer to exports – a strong export increase and a moderate export surplus able to cover the costs of real services (insurances, transportation, royalties, profits, interests) that are usually negative in developing countries balance of payments. If the country has, on the supply side, efficient productive capacity, the key problems turns the exchange rate: it is necessary to have a competitive one in order to have an export-led growth strategy. For some time, in the beginning of the process, they may resort to import substitution, but economies of scale establish definite limits to this alternative, while there is no limit to an export strategy except for the productive capacity of the country and a competitive

exchange rate. That is why all countries that grow strongly are able to keep the exchange rate and keep it competitive. For that, the main problem that national development strategies are supposed to solve is how to neutralize the tendency to the over-appreciation of the exchange rate – a tendency that derives from the Dutch disease existing in practically all developing countries, and from the attraction that these developing cause to international capitals given higher rates of profit and of interests coupled with conventional orthodoxy's recommendation of growth with foreign savings. As I discuss in another paper (Bresser-Pereira 2008), the Dutch disease exists in different levels of gravity in the countries where abundant and cheap resources are origin of Ricardian rents. Such rents make the economic exploitation of the resource viable at a smaller exchange rate (more appreciated) than the one consistent with the international competitiveness of industries using technology in the state of the art. The consequence is that the only tradable good that the country is able to produce is the one(s) that originate the Dutch disease. A national development strategy will only materialize if the country is capable to neutralize the effects of the Dutch disease through the imposition of a export tax on the commodities that originate it.[5]

The other main cause of the tendency to the over-appreciation of the exchange rate is the capital inflows. They are the outcome of the structural attraction that higher rates of profit and of interest cause on international capitals. But they are also the outcome of an insistent policy of growth with foreign savings that conventional orthodoxy recommends. Since business enterprises investments require finance, orthodox economists conclude that the country as a whole will also need foreign finance. Yet, this is a classical situation in which microeconomic reasoning (the need of finance on the part of entrepreneurs) cannot be transferred to the macroeconomic one. In some cases, foreign finance may be positive, but, as I showed in another paper (Bresser-Pereira and Gala, 2007), in most cases the attempt to grow with foreign savings fails. The problems with foreign finance happen in three stages. Beginning from the last one, in this stage the country gets excessively indebted and falls into a balance of payment crisis. Before this, the foreign indebtedness or the capital inflows turn the country dependent on the

[5] The "Dutch disease" is consistent with the usual concept of equilibrium exchange rate: the one that intertemporally balances the current account. And it suggests an alternative growth concept of equilibrium exchange rate: the equilibrium exchange rate consistent with growth is the one that, given effective supply capacity, allows higher value added industries to be competitive internationally.

roll over of its debts, and forces it to get involved in 'confidence building' policy – i.e., in doing what rich countries tell them to do instead of doing what they should do. Even, however, when this does not happen, growth with foreign savings or current account deficits will usually be economically negative as they appreciate the exchange rate, and cause a high rate of substitution of foreign for domestic savings. This takes place because, as the exchange rate appreciates, wages and consumption increase artificially while export oriented investment opportunities fall or disappear. The outcome is the referred replacement of domestic for foreign savings, or, in other words, is foreign debt financing consumption. Thus, a common feature to development strategies is that they must count with domestic resources. As Barbosa Lima Sobrinho (1973), following Ragnar Nurkse (1953), puts in the title of one of his books, 'capital is made at home.' Only in special moments, when a country is growing at an extraordinary pace and expected profit rates are high, foreign savings or current account deficits may be positive in causing growth because in such moments the increase in real wages caused by exchange rate appreciation will not flow mostly to consumption but to investment.

In order to cope with the Dutch disease and the wild capital inflows, or to keep its exchange rate competitive, the country is supposed to manage it. For long developing countries did that indirectly through complex systems of tariff protection and export subsidies. In consequence, the resulting effective exchange rate was more depreciated than the nominal exchange rate.[6] Today, when such practices are not anymore compatible with the complexities of the industrial economies of developing countries, the exchange rate is being managed more directly and more market friendly through the imposition of export taxes on the commodities causing the disease, through purchase of foreign currencies and the build up of international reserves, and, when these measures are not enough, through the adoption of controls to capital inflows. This was what Latin America did up to the 1980s, and what the Asian dynamic countries do up to the present.

THE KEY INSTITUTION

It is easier to understand the role of national growth strategies in development if we view it as the key institution in economic growth. In the societies where the modern

[6] Look that 'nominal' here is not opposite to 'real' (inflation controlled) but to 'effective' exchange rate (implicit after protection and export subsidies).

nation rose as the central political actor, and the state is the main instrument of collective action, a national development strategy is the institution or collection of associated institutions to achieve economic growth. It is a cluster of laws, policies, agreements, understandings, and shared beliefs – i.e., of formal and informal institutions – that create investment opportunities and orient competitive economic actions undertaken on one hand by business entrepreneurs, workers, and the professional middle-class, and, on the other, of politicians and state bureaucrats.

Since Douglass North (1990) wrote his book on institutions aiming to make neoclassical economics broadly consistent with institutional analysis, and won a Nobel Prize, institutions became again fashionable in economics. Classical, Marxist, German historicists, and principally the American institutionalists had always attributed a central role to institutions, while neoclassical economics practically ignored them for around a century. When, in the early 1990s, institutions were eventually brought back to mainstream economics, many hailed this as good news. Yet, this institutions' 'revival' did not open the horizons of economic analysis nor turn it more realistic because it took a reductionist approach: growth would take place in a country whenever two institutions were present: the guarantee of property rights and of contracts. In this way, the new institutionalists were just repeating the old laissez faire or the new neo-liberal saying that economic growth will be assured whenever society assures the well functioning of markets.

This view is not empirical – it does not correspond to historical reality – but ideological. In capitalist development, the protection of property rights and contracts is a relevant but not a sufficient condition, nor the more important condition. Entrepreneurs are not either bureaucrats or inactive rentiers that prize security over all things, but risk-taking agents aiming for profits and self-achievement; they are interested in security, but they are much more interested in monopolist profits derived from innovation and in the expansion of their enterprises. Growth oriented institutions may sometimes not guarantee property rights and contracts, but offer excellent investment opportunities. In China, national and foreign firms are investing so much and the country is growing so extraordinarily not because Chinese institutions guarantee property rights (only recently they are beginning to do that), but because there is national development strategy in place that, combined with high rates of growth, offers to entrepreneurs extraordinary opportunities of realizing profits and expanding their enterprises.

A national development strategy is made up of a set of institutions defining economic growth's rules of the game. Some are laws that should be relatively general and permanent expressing basic values and objectives; others are policies that may be more specific and temporary, defining means. Several forms of planning, starting with the fiscal budget and the plan defining public investments and infrastructure investments, are an essential part of it. If they are matched with business enterprises' strategic planning, this is a signal that a national development strategy is really in place. The same is true in relation to business association's and union's policies and practices that lie beyond the scope of the state but have normative power. All such instruments are the outcome of some form of an understood agreement, and guide investment and innovation.

Marx regarded development as a process where institutions change at a slower pace than economic and technological relationships, so that they eventually face a revolutionary updating process. Thus, he viewed institutions as an obstacle rather than an incentive to development. During the 20th century, however, as nations learned how to devise and implement national development strategies using their state, the institutions involved became an effective and positive tool. Marx, living in the times of the liberal but not yet of the democratic state (which would only arise in the twentieth century) did not see the state as an instrument of democratic collective action, but just as an instrument of political domination. Even at that time, however, the state was already being the nations' main instrument for promoting economic growth. In the time of globalization, despite the neo-liberal attempts to diminish the size and intervention capacity of the state organization, his active responsibility for advancing economic growth was eventually enhanced as the completion among nation-states got tougher.

Historically the forms of state intervention and national growth strategies depended on the stage of economic growth of each individual country, and on the model of capitalism that it adopts. In all circumstances, the state was an effective instrument in so far as the government was able to lead a national agreement. Such agreement did not eliminate domestic class conflicts, but showed that such conflicts were not strong enough to prevent the nation to get together when the problem was to compete internationally. Besides being an organization that guarantees the law, the state is the law system itself; thus it both an organizational and a normative institution – the constitutional matrix of the other formal institutions. When this complex organizational

system institution gets dynamic, when the officials that form it (politicians and bureaucrats) get embedded in society oriented to promote hard work, innovation and investment, the correspondent normative institutional system will be also dynamic and forward looking – and we will realize to be in the presence of a national development strategy. The guarantee of property rights and contracts is only one of the institutional aspects and not necessarily the more important of this strategy.

If it is true that national development strategies do not suppose overarching planning experiences, it is also true that those responsible for the strategy will not count with self-regulated markets capable of allocating resources. According to the new institutionalist assumption, the market is the default form of production coordination, while organizations and institutions are second-best means for such coordination that become necessary when transaction costs are too high. This kind of reasoning is alien to the actual assumptions behind successful national development strategies. According to neoclassical economists' assumption that, in order to start drawing a strategy, the policymaker part from a general equilibrium situation, and, then, abandons successively the assumptions that are not realistic, to, finally, , to arrive to the reality of the country's economic and political system. Instead, the pragmatic policymaker parts from the existing mixed reality and from an open macroeconomic model that must be constantly adapted and updated, to exam the clout of the strategic macroeconomic variables: exchange rate, interest rate, public deficit, public savings, current account, etc. Equally alien to the pragmatic policymaker participating form a national development strategy is the statist assumption that the state should be able to manage or plan the entire economy. National development strategies are always pragmatic institutions that arise from social practice and, therefore, cannot be driven by ideological dogmatisms, whether being interventionist or neo-liberal. The market is an extraordinary institution for resources allocation, but, as Polanyi (1944) remarked, it is just one of the institutions existing in a given society, and it is intrinsically limited in its capacity to coordinate the economic system. Similar constraints limit state intervention. Thus, national development strategies imply viewing the state and the market not as competitors but as complementary institutions that a national growth strategy is supposed to make the best use of.

When we think in the causes behind economic growth, there is a reasonable consensus that the two direct causes are capital accumulation and technical progress. A national

development strategy is the institution guaranteeing macroeconomic stability and a vision of the future for economic agents. In the short run, it assures macroeconomic stability and effective demand by managing the key macroeconomic prices. In the medium term, other institutions that foster growth are part of the national strategy. That is the case of education. It is always an essential part of a national development strategy, but its results take time to materialize. Another crucial institutional reform that is part of national development strategy is the reform of the state as an organization or apparatus: in present times, public management reform. The state does not just embody the rules of the game – it is also an organization formed of politicians, state bureaucrats and military. If the state plays such a strategic role in development, it is important that the state organization be more than just effective. This was the requirement of the small liberal state. In times of the larger social state, the state organization must also be efficient through public management reform, because the increase in the productivity of the public services will have a weight in the overall productivity increase. Yet, and again, the outcomes of public management reform will be necessarily lengthened in time.

CONCLUSION

In conclusion and summing up, national development strategies differ, depending on the stage of growth and the model of capitalism. At the early development stages, the two main strategies countries adopt to develop are forced savings and protection of the infant industry; at later stages, they resort to dynamic macroeconomic policies that maintain the fiscal budget in long term balance, keep the exchange rate competitive neutralizing the tendency to the over-appreciation of the exchange rate, assure a clear differential between a satisfactory expected profit rate and a low interest rate, allow for wages and salaries to increase with productivity, and involves stable prices and reasonable full employment.

In the short term, national development strategies promote capital accumulation and technical progress by achieving a dynamic macroeconomic stability that includes full employment. Additionally, it involves industrial policies stimulating or protecting high per capita value added industries. Differently, however, from what happened in the times of old national-developmentalism, in new developmentalism industrial policies and tariff protection are less important than market friendly competent macroeconomic

policies which necessarily involve a competitive exchange rate. In the 1950s, when the manufacturing sector was an infant industry, the assumption was that developing countries would not be able to compete in this area. Yet, manufacturing industry soon ceased to be infant, and since the 1970s the countries that adopted an export led strategy became major exporters of manufactures. Yet, the exchange rate remained an essential problem. While developing countries' policymakers were not aware of the Dutch disease and of the growth with foreign savings policy as the main causes of the tendency to the over-appreciation of the exchange rate, they adopt confused policies that in some cases were effective and caused growth. Now, they begin to be more consistent in their policies aiming to guarantee a competitive exchange rate.

National development strategies involve the participation of different social classes in the nation. Thus, it implies class negotiations where government is supposed to play an intermediary role. At the same time, the strategy must be able to provide more profits to business entrepreneurs, higher wages and salaries for the workers and the professional middle class – something that can only be achieved if growth or increase in productivity is taking place. If labor negotiations do not count with growth, they either turn into aggressive behavior among the classes or into loss of societal cohesiveness or anomy. The more democratic and economically advanced is a country, more attention to equality of opportunities and political freedom will be required from the strategy. In a developed country where social and democratic values are better entrenched, the social justice and the democratic constraints will be stronger than in developing countries, but in none they can be ignored. National development strategies involve political agreements, and politics implies always argument and compromise to create new institutions – to develop new and better rules of the game.

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