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Constrained Autonomy and the Developmental State: From Successful Developmentalism to Catastrophic Failure

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ABSTRACT

As many authors have argued, the state has played a central role in capitalist development, both in developing and developed countries. The question is why have some states been more successful than others in promoting economic development? In this paper I propose a theoretical agenda to investigate the factors that have made some states more successful than others. I suggest that a complex set of historical, sociological, and political factors shape state formation and a country's international competitiveness; further international competitiveness itself shapes the ability to foster economic development. I argue that these factors determine the ways in which states and economies co-evolve. Additionally, since countries are embedded in a global system, an investigation of this co-evolution requires a very different theory of industrial organization and thus of international competition. Thus the state confronts a *constrained autonomy* in being able to obtain taxation revenue and foreign exchange so as to finance important developmental needs. Finally I conclude that the rationale for "bringing the state back in" has to not only critically examine the notion of "state failure" but also has to reject the notion of "market failure".

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1. Introduction

The 1980s constituted a watershed period in the postwar history of policymaking. *Laissez faire* reappeared as the dominant paradigm, and downsizing the state became a key policy goal. The ascendance of this paradigm was facilitated by the economic crisis in many countries at the time. It was claimed that "government failure" as opposed to "market failure" was the cause of the economic malaise, an argument that gained more credibility when the Berlin Wall and the Soviet Union collapsed. It is perhaps ironic, however, that Alice Amsden's *Asia's Next Giant* (Amsden, 1989) and Robert Wade's *Governing the Market* (Wade, 1990) were published in those halcyon years of the free market paradigm. Defying the conventional wisdom at the time, both of these important books discussed the central role that the state had played in East Asian industrialization. Subsequently, scholarly work that was historically-informed with regard to the role of the state in industrialization multiplied. Outstanding work in economic history by Ha-Joon Chang in his *Kicking Away the Ladder* (Chang, 2002a) pointed to the central and varying roles that the state played in the OECD countries as they were developing. As Chang argued persuasively, contrary to the popular view, the state in early American and British development history did not pursue a "hands-off" policy but used a wide range of industrial policies to promote industrialization.

Quite simply, as this dissenting economics literature argued, the developmental nature of the capitalist state has been a *fact* of the histories of most countries, whatever their ideological leanings. Capitalist states have seldom played a "nightwatchman" role in the development process. This is a stark critique of the so-called "Washington Consensus" view that has been so influential in policy circles

but is being increasingly challenged in the current economic crisis.[1] However, if we are indeed in a "post-Washington Consensus" world today, with crumbling markets, mounting unemployment, and growing political instability, scholars and policymakers need to confront an important theoretical question in proposing proactive state policies: Why have some states been more successful than others in promoting development ?[2] How does one understand in theoretical terms the existence of a range of states from highly effective ones to those that fail in catastrophic ways to secure the safety and well-being of their citizens?[3] These are the key questions that I would like to investigate.

Despite its important contribution, the dissenting economics literature mentioned above has an important shortcoming. Its strongly institutional nature notwithstanding, this literature does not explicitly discuss the nature of the state and political institutions and how these and the economy have coevolved historically. This is a central issue with regard to the questions posed in the previous paragraph and is left unaddressed in this particular economics literature. For example, Amsden (2001) discusses the ways in which a small group of non-OECD countries have developed globally competitive manufacturing sectors with the help of state policies. However, there is virtually no analysis of the ways in which these developmental states arose or why other peripheral countries mentioned by her have less effective states.

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[1] In November 2008 during a visit to the London School of Economics the Queen of England asked a group of distinguished neoclassical economists why no one had predicted the current economic crisis. See www.feed-charity.org/revitalizing-economics-after-the-crash.htm for the mainstream economists' response to the Queen and critique of their response by a group of distinguished British dissenting economists.

[2] I adopt the view that development constitutes both economic growth and human development (Edigheji 2010; Sandbrook, Edelman, Heller, & Teichman, 2007).

[3] Obvious examples that immediately spring to mind are the Pakistani and Haitian states' inability to deal effectively with the devastating floods and earthquake that they, respectively, confronted. One may also add other examples of catastrophic state failure such as the US government's weak response to Hurricane Katrina or the corruption and inefficiency of the US's Minerals Management Service that contributed to the BP oil spill disaster (http://www.americanprogress.org/issues/2010/06/cheney_deregulation.html)

Interestingly, in economics questions regarding state capacity and the quality of governance have principally been investigated by Douglass C. North (North, 1990) and other neoclassical economists in the so-called New Institutional Economics (NIE) tradition (Klein, 2000). This is a literature that consciously attempts to integrate the role of history and institutions (in particular the state) in the analysis of economic change. However, there are three major problems with this literature. First it is rooted in rational choice theory and methodological individualism. This point of departure has been critiqued at great length by a number of authors including Chang (2002b) and Milonakis and Fine (2007).[4] One major problem with this framework is that "(individual) agency takes precedence over structure, and the latter are either treated as the result of individual action (in the form of rational choice) or else taken as exogenously given, and as such are not explicable from within the model" (Milonakis and Fine, 2007, p. 37). On the other hand, a *methodological structurist* approach (Milonakis and Fine, 2007)[5] situates agency within a historically inherited structure. Thus

> …individual action never takes place in a social vacuum, it has to be located within its proper historical and social context from the outset… the individual is no longer the asocial, ahistorical, rational individual of standard economic theory but a social individual situated within a proper social and historical context. In other words, the "homo economicus" of neoclassical theory (with more or less occasional fits of irrationality, institutional conformity, and ideology) is replaced by "homo socio-economicus" (Milonakis and Fine 2007, pp. 38-39).

Second, North's framework does not depart from standard neoclassical microeconomic theory (Fine and Milonakis, 2003). This in turn implies acceptance of Arrow-Debreu general equilibrium theory, marginal productivity theory, and perfect competition although this framework's point of departure is the existence of market imperfections (Fine and Milonakis, 2003).[6] A critique of these building blocks, on the basis of the contributions of the historic "greats" of the profession such as John Maynard Keynes,

[4] For a general critique of the rational economic individual see Sen (1977).

[5] This would be equivalent to an institutionalist political economy perspective (Chang, 2002b).

[6] Note that the argument that markets are imperfectly competitive implies acceptance of the possibility of attaining perfectly competitive markets (Hahn, 1970, 1973). See also footnote 13.

Roy Harrod, Joseph Schumpeter, P.W.S. Andrews, Joan Robinson, Piero Sraffa, and others has been developed by many contemporary authors.[7]

Third, the neoclassical policy literature on governance and state capacity (World Bank, 2005) implicitly superimposes on this optimally functioning self-regulating economy a potentially neutral "nightwatchman" state that could, via suitable policies, be delinked from the economy. Again, such a view of the state has been extensively criticized (Held, 1989) as it ignores the differences in socio-economic power that shape the state structure.[8] Not surprisingly, issues of governance are discussed in this literature in fairly technocratic and ahistorical terms.[9]

2. **Core Theoretical Issues**

The theoretical core of the current paper differs in three principal ways from the existing economic development literature (Seligson & Passe-Smith, 2003; Rodrik, 2003). It is the mutual

[7] See Moudud (2010) and Taylor (2004) for detailed citations of contemporary authors who draw on these "classic" authors. These neoclassical principles jointly imply a smoothly functioning market economy where capital and labor are fully employed and each unit of a factor of production earns a revenue equal to how much it produces. The principal type of public policy that is economically defensible from the neoclassical perspective is the promotion of human capital formation and free markets. Since job shortages are never an issue under free markets, human capital formation raises worker productivity and thus *automatically* increases wages. In this view, differences in endowments (whether capital or labor) do not imply unequal power relations in the social and political arenas.

[8] As Milonakis and Fine (2007) argue, issues of unequal power relations and the socio-economic context in which human agency is exercised are investigated in very problematic ways in North's work.

[9] Stern, Dethier, and Rogers (2005) provide an interesting discussion about state capacity and public finance. While their policy recommendations are relevant their analysis, in my view, is problematic for two reasons. First, the reforms that they propose in order to make the developmental state more efficient require greater analysis of the historical processes via which what they call "vested interests" have shaped and controlled state power thereby leading to "government failure". In other words the question is this: in order to implement the public sector reforms that they propose can the role of powerful economic forces that control crucial private investment decisions be truly delinked from a state that is staffed by well-meaning and – qualified civil servants? An answer to this question in the affirmative would imply the validity of the liberal "nightwatchman" state, a viewpoint that I, following several authors discussed by Held (1989), would reject. Second, while Dethier et al discuss taxation policy their recommendations appear to be fairly technocratic and do not investigate the socio-political, economic, and historical forces that shape such policies, as emphasized by Kaldor (1963) and the fiscal sociology literature (Campbell, 1993). Tax policy reforms cannot be divorced from an analysis of such, in general, historically-created factors. See Mkandawire (2010) who discusses the impact of colonial policies on present-day African tax systems.

interaction of these factors that is central to the theoretical framework which will underpin my investigations.

First, much of this literature assumes that international inequalities arise from "market imperfections" the claim being that "perfect markets" or *laissez faire* will eliminate these inequalities. As I discuss (Moudud, 2010), the perfect vs. imperfect markets dichotomy is a highly problematic way of describing real-world markets.[10] My position is rooted in the empirically-observed fact that persistent differences in productivity and unit labor costs between firms within an industry exist under highly competitive conditions. These differences arise, not because of any putative "market imperfections," but primarily because of differences of capital accumulation rates, access to skilled labor, and technological knowledge, all of which are strongly influenced by finance and institutional factors.[11]

The implication is that when global integration pits low productivity firms/farms in less developed countries (LDCs) against those in more developed countries (MDCs), those in the former will be at a continuous disadvantage unless technological progress occurs sufficiently fast, a process in which the state generally plays a central role (Amsden, 1989, 2001; Wade, 1990; Chang, 2002a; Shaikh, 2003).[12] This growth in productivity could, *if the political institutions are present*, translate into higher

[10] In neoclassical theory, perfect competition is the highest stage of competition in which there are a large number of small-sized firms that are passive price takers. Price-setting behavior by large firms is said to exist under imperfect competition. However aggressive price- and cost-minimization by firms does not exist in any neoclassical model of the firm under highly competitive conditions (Moudud, 2010)—and yet these policies are central to how real-world firms behave in such situations. See also Clifton (1977), Shaikh (1982), Semmler (1984), and Bina (1985) whose analyses of competition substantially reflect my own. My own contribution to this literature, however, draws on the insights of the Oxford Economists' Research Group (Andrews, 1949, 1951, 1952, 1993; Harrod, 1952; Moudud, 2010) as well as Hayek (1948) and Schumpeter (2008) all of whom rejected perfect competition as a meaningful characterization of highly competitive markets.

[11] See W.E.G. Salter's classic (Salter, 1969). As Salter discusses on the basis of empirical evidence, in any given industry there are persistent differentials between what he calls *best-practice techniques* and the industry average where the former have higher productivity and lower unit costs and selling prices (ibid. chapter IV).

[12] Note that my support of proactive state policies does *not* rely on the existence of some type of market failure (e.g. of the monopolistic type), an argument that underpins the rationale for state intervention by neoclassical authors such as Krugman (1987). The reason is as follows. It must be recalled, as Hahn (1970, 1973) observed, that perfect competition is the benchmark against which all other market structures are compared. Thus calls for interventionist policies in the face of imperfect markets are vulnerable to the criticism that if in fact

wages and a creation or expansion of the social safety net. On the other hand, in the absence of indigenous technological change, backward firms will attempt to cope with the pressures of international competition in a number of different ways. They will rely on low-wage (sweatshop) labor and/or produce those goods with which the LDC is naturally endowed (e.g., cash crops or natural resources) so as to give them a cost advantage (Jenkins, 1988; Shaikh, 2003; Nàpoles, 2004). This latter strategy is likely to embolden traditional elites such as landlords, a topic which I address below.

With regard to the issue of international competition, an important issue is to investigate, in a historical context, the concrete ways in which state policies have influenced the channeling of private capital flows into long-term industrial projects. It is important to understand the particular *incentive structure* provided by the state to private capital, which either eventually leads to internationally competitive firms or inefficient state-subsidized ones. Following the sociology literature on industrialization (Evans, 1995; Chibber, 2003), it is necessary to investigate the specific state-industry policies that have generated various levels of industrialization, producing more or less competitive firms.

A country's international competitiveness will determine its foreign trade performance. Uncompetitive countries will run persistent trade deficits (Shaikh 2003) and accumulate foreign debt. The deficit will need to be financed through some combination of foreign short term capital flows

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laissez faire were implemented perfect competition would be reinstated and the rationale for state intervention would cease to exist. This is the argument made by Bhagwati (1999) in his critique of Krugman. While Bhagwati's argument is logically correct from a neoclassical standpoint, it however assumes the validity of perfect competition. Following Friedrich Hayek (Hayek, 1948), Joseph Schumpeter (Schumpeter, 2008), Frank Knight (McNulty, 1967), P.W.S. Andrews (Moudud, 2010), and others I reject the perfect competition framework *in toto*. My view is that the rationale for statist policies has to be grounded in very different microfoundations (Moudud, 2010; Moudud & Botchway, 2008).

Finally, note that in conventional theorizing (see for example Stern, Dethier, & Rogers, 2005) it is very problematic when the real-world of highly competitive global markets is implicitly seen to be consistent with perfect competition even though the actual competitive struggles of firms does not even remotely resemble the perfectly competitive model. See Kim & Mauborgne (2005) for an excellent analysis of actual competitive strategies used by real-world firms in which product differentiation, *aggressive* price- and cost-minimization, and the invasion of the market territories of large-sized firms by much smaller ones are pervasive features of real-world capitalist competition—features that are hardly consistent with the perfect competition model.

and/or aid. Foreign creditors and donors will impose their own policy agendas on a sovereign nation state, which may be opposed to the needs and will of the majority of the population. Further, high domestic interest rates needed to attract capital will drive up the state's finance charges on its own debt and thus increase the budget deficit (Taylor, 1988). This will generate increased political pressures on the government by bondholders to cut social and infrastructural expenditures, some of which are productivity enhancing. In short the persistence of trade deficits and thus of foreign debt constitute a powerful *external constraint* to a state's ability to promote various types of development policies that neither the serve the interests of domestic elites nor those of foreign creditors.

Second, we would need to study how successful the states have been in levying taxes, an issue not explored in the economics literature. Taxation capacity is a crucial determinant of development. There are several reasons for this relationship. For one thing, as per Wagner's law (Cardoso and Lains, 2010), a growing society's needs become more multifarious and generate the growth of public expenditures relative to income. Over time one would therefore expect greater pressures on the part of the state to both increase its tax base and promote the development of a financial system to which the state can sell its debt.[13]

Further, as a number of political scientists and sociologists have argued (Bräutigam, Fjeldstad and Moore 2008), state capacity formation is crucially shaped by taxation revenue. Increased tax payments can create pressures on the state from taxpayers to be more accountable (i.e., no taxation without representation) and provide better public goods and services. Historical evidence shows that oftentimes a state that levies higher taxes while being unaccountable and/or providing poor quality public goods/services will face opposition from civil society. While this opposition can take the form of

[13] "…a state's means of raising and deploying financial resources tell us more than could any other single factor about its existing (and its immediately potential) capacities to create or strengthen state organizations, to employ personnel, to co-opt political support, to subsidize economic enterprises, and to fund social programs" (Skocpol, 1982, cited from Woo-Cumings, 1999, 11).

either outright rebellion or a more passive form of opposition such as widespread tax evasion, the basic point is that direct taxation of the population may lead to political mobilization that could generate *tax bargaining* between taxpayers and the state leading to some level of disciplining of the latter by the former.[14] On the other hand, if a state is for the most part dependent on foreign aid, it will be less subjected to domestic pressures and more to foreign aid donors. Such a state is likely to be less effective in promoting development (Moore, 2008). Finally, as in England, the establishment of a more elaborate tax system can deepen state institutional development and the growth of schools that provide the professional talent in charge of the tax administrative apparatus.

The implementation of an appropriate tax system is, however, not a technocratic issue, as fiscal sociologists have argued. *Fiscal sociology* is an interdisciplinary area that traces its origins to Schumpeter (1918) and Goldscheid (1958). It is an area of study which "…differs from other approaches to the study of taxes and public finances because it considers how these things affect and are affected by a wide range political, economic, cultural, institutional, and historical factors" (Campbell, 1993, pp. 164). In a widely-cited paper Kaldor (1963) emphasized the importance of power relations in society on the ability of the state to extract taxes (Campbell, 1993). This ability may be compromised in an economic crisis when powerful business groups, the engine of private capital accumulation, lobby to cut taxes at a time when there is growing demand for social relief—a push-and-pull effect that may paralyze a State and make it weak (Held, 1989).

The nature of real-world competition within a given industry tends to generate a wide range of profit rates because of differences in production conditions (Salter, 1969; Shaikh, 2008). Thus if the most profitable –and thus most competitive—production conditions are located in a particular country (say China in the current global economy) then those production conditions will tend to attract

[14] These arguments draw on various articles in the edited volume by Bräutigam, Fjelstad, and Moore (2008). The notion of tax bargaining refers to attempts by taxpayers to discipline the state by demanding better public goods and services and/or greater fiscal responsibility.

investment flows[15] and the state will have greater leeway in imposing higher tax rates on them than those states whose geographic limits include less competitive firms. In the latter situation there will be far greater political pressure on the state by the capitalist class to cut business taxes.

In short an important question will thus be to investigate how each country's internal socio-economic structure, competitiveness of its firms/farms, and political history has shaped the state's ability to raise taxes and thus promote state formation and development.

Third, and finally, one would need to focus on different countries' *historical legacies, critical junctures,* and *path dependencies* that have determined its current institutions—issues not dealt with in the economics literature. The italicized terms collectively refer to the origins and relative durability of institutions.[16] There are several interlocked issues here. For one thing, by drawing on the insights of Kohli (2004) and Krieckhaus (2006) I want to investigate the ways in which the encounter with colonialism shaped state formation. A key question is this: did the post-colonial country inherit a weak or a functional state?

Further, what types of economic classes did the encounters with colonialism and the global economy create? Oftentimes such classes profit from cash crop and raw materials exports and have little incentive to move into manufacturing, given the uncertainties involved in domestic and

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[15] The groups of firms that such production conditions correspond to are what Shaikh (2008) calls the *regulating firms*.

[16] My theoretical framework is explicitly Schumpeterian in its emphasis on the fact that each historical stage is conditioned by previous ones. This relay-race like nature of the development process was discussed by Joseph Schumpeter (Schumpeter, 2008, pp. 82-83): "…in dealing with capitalism we are dealing with an evolutionary process…Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action;…these changes (wars, revolutions and so on) often condition industrial change…since we are dealing with a process whose every element takes considerable time in revealing its true features and ultimate effects, there is no point in appraising the performance of that process *ex visu* of a given point of time; we must judge its performance over time, as it unfolds through decades or centuries."

international markets dominated by highly competitive international firms. As Chibber (2003) discusses, the promotion of industrial policies requires not just a viable state but also the existence of business groups that are *willing* to accommodate themselves to the promotion of such policies. However, wealthy indigenous potential investors may be perfectly willing to let transnational firms import capital equipment to raise agricultural productivity or extract natural resources such as oil and gas. In such situations the state may just "hobble along" with relatively ineffectual policies, relying on its supposed "comparative advantage" in cash crops and raw materials. Such a development trajectory may strengthen the power of traditional landlords (such as those in Pakistan) who control the production or extraction of such goods. This social structure is likely to maintain high levels of poverty in rural areas (Sandbrook et al, 2007) while making it difficult for the state to levy taxes to finance industrialization.

To sum up, a country's development prospects are determined in part by the nature of its internal socio-economic structure, the global environment in which it is embedded, and the legacy bequeathed to it by its history. These factors jointly interact with the competitiveness of firms and farms located within it and thereby determine its position in the global hierarchy in any given historical moment. Thus a country's state formation is shaped both by its internal socio-economic dynamics and its relationships to other states, a perspective that one finds discussed by German sociologists such as Max Weber and Otto Hintze (Held 1989, pp. 46) and, among contemporary authors, Wallerstein (1974) and Skocpol (1979). Thus the state is "Janus-faced, with an intrinsically dual anchorage in class-divided socio-economic structures and an international system of states" (Skocpol, 1979, p. 32, cited from Held, 1989, p. 46).

3. Conclusion

One of central assumptions of neoliberal policies is that the state and the economy are fundamentally separable. Thus *laissez faire* is the key policy. While it is highly debatable that Adam Smith would have

agreed with Arrow-Debreu's general equilibrium theory it is the latter which reincarnated the famous "invisible hand" and enabled the World Bank to enshrine it as part of its policy framework:

> If the economy is producing efficiently, scarcity values must be equal to opportunity costs, and their common value is the efficiency price…An economy is efficient, as opposed to just production efficient, if it is impossible to make anyone better off without making someone else worse off. In addition to producing efficiently, the final consumers must have exhausted all possibilities of mutually beneficial exchange. This in turn requires they all face the same market prices and that these are equal to efficiency prices…The case for removing distortions and moving market prices closer to efficiency prices rests on the argument that prices influence production efficiency and reform will increase production efficiency (World Bank: 42. Cited from Mkandawire 2009:2)

It is this fundamental analytical framework, involving general equilibrium, Pareto optimality, and perfect competition, that underpins the contemporary fashionable concern for good governance and institutions.

The current paper has taken the view that good institutions do matter, in particular the state. However, the perspective adopted here rejects the classical liberal theory of the state because it conceives of the state as being structurally embedded in the capitalist economy. Thus, for better or for worse, the fate of the state is tied to that of the economy. To add a twist to Peter Evans' famous concept, from my perspective the state is embedded; the question really is what factors allow it to be relatively autonomous from sectoral interests so that it can pursue a coherent development strategy?

The framework developed in this paper suggests that the autonomy of the state in pursuing developmentalist policies is constrained by the global political economy in which the state and economy have historically been embedded. The internal class structure of the society, itself shaped partly by the nature of its incorporation in the global system, determines the state's ability to raise taxes while the latter feeds back on the development of state capacity. Furthermore, the internal economic structure determines the country's international competitiveness, foreign trade performance, and foreign debt. It

is this set of factors that determines the *constrained autonomy* within which the state operates and which shapes its ability to be more or less effective as a developmental state.

As Chang, Wade, Amsden and others have argued such a state cannot possibly be of the "hands off" kind conforming to some *market-enhancing* policies by confining itself to policies that promote good governance, respect property rights, minimize corruption etc. (Khan 2007). While capitalist development *at a minimum* requires such pre-conditions –it is difficult to imagine stable private investment if respect for private property is non-existent or uncertain—the shifting of the priorities of private investors to increasingly sophisticated technologies generally requires what Khan (2007) calls *growth enhancing* policies by the state. The reason quite simply, as Khan argues, is that the learning and using (or moving from imitation to innovation) of new technologies requires time and resources which private firms in developing countries are unlikely to have in great quantities.

> Growth in developing countries requires catching up through the acquisition of new technologies and learning to use these new technologies rapidly. Relying only on efficient markets to attract capital and new technologies is inadequate given that efficient markets will attract capital and technology to countries where these technologies are already profitable because the requirement skills of workers and managers already exist. Developing countries have lower technological capabilities and therefore lower labour productivity in most sectors compared to advanced countries, but as against this, they also have lower wages. If markets are efficient, capital will flow to sectors and countries where the wage advantage outweighs the productivity disadvantage. However, for many mid to high-technology sectors in developing countries, the productivity gap remains larger than the wage gap. This explains why most developing countries specialize in low technology sectors and why this specialization would not change rapidly if markets became somewhat more efficient. However, if developing countries could accelerate learning, and therefore productivity growth in mid- to high-technology sectors, this would amount to an acceleration of the pace of development. (ibid., p. 5)

The constrained autonomy approach developed in this paper problematizes the challenges faced by the state in developing countries in pursuing such activist policies.

Finally, this paper challenges the "state failure" versus "market failure" paradigm that has characterized the development literature from its inception. This is the traditional debate between

those who argue that *laissez faire* is the best policy because "state failure" is more egregious than "market failure" versus those who take the view that "market failure" necessitates activist state policies. The pro-*laissez faire* camp would also claim that free market policies will "cleanse" the economic system of its "imperfections"; on other hand contemporary authors such as Stiglitz have taken the position that the purported existence of market imperfections necessitates state intervention.[17] The framework discussed in this paper provides an alternative to this dichotomy by both problematizing the factors that make states more or less successful –and hence rejecting the New Right's broad brush description of the state—and by rejecting the perfect versus imperfect markets dichotomy which is accepted by both the Right and many on the Left.

If trade deficits are not a consequence of "market imperfections" and cannot be rectified via the imposition of "perfect markets" then there is an urgent need to build the analysis of international trade that rests on a very different theory of industrial organization. Drawing on the historical "greats" of the profession such as Smith, Marx, Hayek, Schumpeter, and Andrews a number of contemporary authors (Clifton 1977; Semmler 1984; Bina 1985; Shaikh 2008; Moudud 2010) have argued that neoclassical theories of competition are notoriously deficient in being able to explain the actual nature of business competition and by extension the dynamics of international competition (Shaikh 2003). Put simply, the external constraints faced by states depend centrally on the nature of the competitive pressures which national firms and farms face vis-à-vis international rivals.

[17] In the dissenting mainstream literature spearheaded by Stiglitz such policies would be considered part of a *post-Washington Consensus* framework. Fine at al (2001) provide an excellent critique of Stiglitz's market imperfections-drive-policy perspective although they do not question the false dichotomy of perfect versus imperfect competition.

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