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FROM PLAN TO MARKET:

Post War Evolution of Thought

On Economic Transformation and Development

by

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ABSTRACT

This paper provides a birds eye view of the evolution of thought on public policies for economic development since the Second World War. It outlines the origins and effects of the postwar "dirigiste dogma", and how ideas and events undermined it, leading to the neoclassical resurgence of the 1970s. The origins of the debt crisis and its denouement which led to economic liberalization (through structural adjustment -- World Bank -- and stabilization -- IMF -- programs) is outlined. The new policy consensus of the late 1980s and 1990s is shown to be based on the revival of classical political economy which had been suppressed by neoclassical technocracy. It is shown how this revival provides a historically relevant framework for understanding the dynamics of economic reform. A final section examines various new and current areas of debate concerning good governance, poverty alleviation and culture.

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development of non industrial countries, encompassing both the Second and Third Worlds. In a nutshell the mainstream view soon after the war placed primary emphasis on economic planning and on an autarkic pattern of development but has now evolved towards emphasizing the market, and integration in the world economy. Both ideas and events have contributed to this remarkable transformation.

I. The Postwar Dirigiste Dogma -- Origins and Effects

The post-war story must begin with the long shadow cast by the Great Depression on the minds of both theorists and practitioners of economic development. The collapse of world trade and the drastic decline in the prices of primary products fed a post war export pessimism, which became the dominant assumption underlying the early theories of economic development. The inter-war collapse of the international capital market which had funnelled essential finance to the Third World through the relatively impersonal and arms length bond market, led to widespread default and the imposition by the U.S. of the "blue sky" laws which forbade U.S. financial intermediaries from holding foreign government bonds. In Europe exchange controls closed their capital markets to the Third World -- in the U.K. till 1979! It seemed natural therefore to assume that neither foreign trade nor foreign