CHAPTER 3

TRYST WITH DESTINY

The Rise of the Third World

MASSES OF PEOPLE filled the streets of New Delhi that evening; it was the beginning of the end of colonialism. With night's fall, torches were lit everywhere, and everywhere the same few chants resounded through the darkness. In the hours before midnight—the time chosen to appease the astrologers—conch shells, traditionally used to invoke the gods in Hindu temples, were sounded. Emotional but controlled in his trademark jacket, Jawaharlal Nehru strode to the podium of India's Constituent Assembly. Only three years earlier, he had been Britain's prisoner—for the ninth time. Now, with midnight about to usher in August 15, 1947, he would assume the role of Britain's successor, the first prime minister of a newly independent India.

"Long years ago," he said, "we made a tryst with destiny"—to win independence for India. "Now the time comes when we shall redeem our pledge." Indeed, Nehru and his allies had made good on their hard-won promise. The world's biggest colony—the centerpiece of the British Empire, the raison d'être for imperial policy, the very symbol of imperialism—was now to be an independent nation, the world's largest democracy. That midnight hour marked the beginning of the end of all of Europe's empires, although much blood would flow before the imperial sun finally set around the world—and much more blood in its aftermath.

But August 15 was not a complete victory for Nehru; the pledge was not redeemed in its entirety. While balkanization into a myriad of states and principalities had been avoided, British India was divided into two countries, the Hindu-dominated India and Muslim Pakistan.* And although hurried British

* At the time of independence in 1947, the total population of the Indian subcontinent was 300 million—95 million of whom were Muslim. Today the subcontinent's population is 935 million in India, 120 million in Pakistan, and 125 million in Bangladesh—a total of 1.18 billion.

improvisation had averted the feared total "breakdown" into civil war and anarchy, the upheaval that came with Indian independence was enormous. Fifteen million Hindus and Muslims fled as refugees in opposite directions, passing each other across the newly drawn India-Pakistan borders. With their lives disrupted, filled with harrowing fear and resentment, they soon fell prey to savage violence. Trains loaded with refugees were ambushed before they crossed the border. When the doors swung open at the stations, they revealed only corpses inside. In the cities, neighbors who had long lived in peace turned on one another. Altogether, at least a million people are estimated to have been killed in the Hindu-Muslim strife that came with independence.

For the spiritual leader of the struggle for independence, Mahatma Gandhi, who had preached the unity of Hindus and Muslims, the exultation of victory was lost in the pain of a bitter defeat. While Nehru prepared for power, Gandhi spent Independence Day in silent prayer in Calcutta, fasting in the vain hope of halting the communal violence that had engulfed the city.[1]

Nation Building

The British Raj was finished. Now the task for Nehru and his Congress Party was to turn a colony into a nation. They had inherited from Britain the Westminster model and were committed to making India a federal, parliamentary democracy—and keeping it so. But meeting the challenge of "nation building" meant more than creating political institutions. It required the development of a modern economy. In order to do so in a country desperately short of resources and skills, Nehru often said, the state would have to capture and control the commanding heights of the economy. And for the next forty years India would be dominated by Nehru's vision of a modern, planned, industrializing, socialist economy. Advised by talented economists with international experience and reputations, convinced he was drawing on and integrating the best of the Western and Soviet economic models, and buoyed by the electoral dominance of the Congress Party, Nehru found little to stop him from developing one of the world's most thoroughgoing, complex, tangled, and, ultimately, cumbersome systems of national economic planning and administration. Private firms could prosper. But the core of the Indian economy, its commanding heights, was left to an overwhelming array of public enterprises.

This public sector was central to the overall vision of the planned economy, Indian-style. The model would come to have wide appeal. India's economic choices reflected profound faith in rationalism, predictability, quantification—and planning. These choices embodied the dominant economics of the day, which, with the best of intentions, economic thinkers and international agencies were promoting around the world. In one form or another, the prevailing view came down to a single point: The state would have to generate development. There was no other way. The impact of this approach would be far-reaching and lasting, across the entire developing world. The zenith would be reached in the 1970s, when the third world seemed to be on the road to victory in its confrontation with the rich countries. That was before the great disillusion.

Nehru's Discovery

The approach that Nehru articulated grew out of his view of the modern world and his belief in its technology, combined with his confrontation with the realities of Indian society—or, as he put it, his "discovery of India."

The Discovery of India was, in fact, the title he gave to a book he wrote during his twenty months of incarceration in the remote Ahmadnagar fort during World War II. He had started his autobiography during an earlier prison stint but had never finished, because he was released early in December 1941. Not long after, he was again arrested, this time for leading protests against British rule during some of the worst moments of World War II. He generally was not ill-treated during his prison stays. The fact that he had been a student at Harrow, one of England's most prestigious public schools, seems to have won him some special consideration. At Ahmadnagar fort, he spent hours each day digging at the rocky soil in the prison yard, preparing beds for flowers. But he also wrote by hand over a thousand pages of manuscript detailing his expectations for the future—and explaining his "discovery" of India and how it had transformed his life.

Nehru had grown up in a privileged setting in the city of Allahabad, on the banks of the Ganges, in India's northern heartland. His father, Motilal, was among the most prominent barristers in India, successful and increasingly rich. An early leader of India's national economic elite, Motilal Nehru was one of the founders of the Congress Party, which called for independence. Yet he also prided himself on his achievements as a man of the empire. As a boy, young Jawaharlal lived in a house with fifty or more servants, a swimming pool, and the latest European cars. His father, endlessly doting, wanted everything for his only son. Specifically, he wanted him to join the Indian civil service—at the time, the most prestigious appointment an Indian could enjoy in the Empire. He sent the boy to Harrow (where he was nicknamed Joe) and then to Cambridge, to Trinity College, where the young man studied natural sciences with considerable indifference and amused himself in the social life along the Backs, as the banks of the River Cam were called. He then studied to be a barrister in London, spent rather lavishly, toured Europe, and wrote his father about actors and actresses he saw in plays in different cities. He was deeply interested in technology. He followed with fascination the development of aviation. He also had recurring dreams about flying effortlessly in the sky.

In 1912, Nehru returned home to Allahabad, where for eight years he practiced law without much enthusiasm. His lifestyle bordered on the opulent.

He worked as a lawyer, went to parties, and read *Punch* on Sundays. But he itched for something more. As a boy he had been stirred by stories of the Indian mutiny of 1857–58. He had also devoured histories about Giuseppe Garibaldi and other nationalists, and dreamed of "greatness." Moreover, he would write, "I was always, like my father, a bit of a gambler, at first with money and then for highest stakes, with the bigger issues of life." By this time, Mahatma Gandhi had begun his long journeys on foot through the country's villages, gathering followers and breathing a new urgency into the Congress Party's independence movement. Emotionally compelled, Nehru grew close to the mahatma, and became engaged in the cause. Even in his own privileged life, he saw that Empire and British rule were a humiliation. The senior officials of the British Raj would come to his father's house and drink his champagne, but they would never invite his father back to their own houses for dinner.

In 1919, the British Army massacred protesters in the city of Amritsar. Enraged, Nehru was raised out of his lethargy and stirred to action. He joined in an independent inquiry that the Congress Party established. But for Nehru, the decisive event came the next year, in 1920. His family had escaped the stifling heat of Allahabad for the elegant Savoy Hotel in the hill station of Mussoorie, leaving him to follow. A delegation of Afghani Muslims was in the same hotel. The British authorities, fearful of Hindu-Muslim collaboration, forbade Nehru to meet them. Rather than be ordered around by the British, he decided to stay at home in Allahabad. At the same time, a group of peasants, protesting against exorbitant taxes and mass evictions, arrived from the hinterland district of Rae Bareli in hopes of finding Gandhi in the city. But he was elsewhere. So instead, they headed for the Nehru family compound. And there they asked Nehru to go in Gandhi's stead, to lead a new inquiry. Nehru, with little else to do, agreed.

What followed would overwhelm him. The peasants built roads overnight so that his car could pass deep into rural India; they rallied together again and again to lift his car when it became stuck in mud. Nehru had never seen anything like the wretched poverty he now encountered. "After all," biographer M. J. Akbar would write, "he was still an Indian sahib in a hat and silk underwear." But under the scorching and blinding sun, Nehru was transformed. "I was filled with shame and sorrow," he later wrote, "shame at my own easygoing and comfortable life and our petty politics of the city, which ignored this vast multitude of semi-naked sons and daughters of India, sorrow at the degradation and overwhelming poverty of India." He had also discovered his political vocation—and the focus for his ambition. To his father, with whom he corresponded candidly, he wrote: "Greatness is being thrust on me." He moved to the fore in the independence movement and emerged as Gandhi's designated heir. Joe, the public-school boy at Harrow, had become Pandit—Teacher—and the leader with Gandhi of the Congress Party.[2]

"Tractors and Big Machinery"

If independence was the central political issue, then fighting poverty was the central economic issue. With independence achieved in August 1947, poverty was *the* problem. Whereas Gandhi and Nehru were united on political objectives, they were divided on economics. For Gandhi, the model was *swadeshi,* self-reliance—simple home production of basic goods, self-sufficiency in the village, and a spinning wheel in every hut. Why should colonial India export cotton to Manchester, only to import it back in the form of expensive clothing? Indians should make their own clothes. Gandhi had little time for socialism and class warfare. After independence, he lectured a group of Communists: "What to me is even more pathetic is that you regard Russia as your spiritual home. Despising Indian culture, you dream of planting the Russian system here." Nehru's view disagreed fundamentally with Gandhi's. He sought a different kind of self-sufficiency—industrialization and the steel mill. His central objective was "to get rid of the appalling poverty of the people." He believed in technology and progress, in machines and industrialization—"I'm all for tractors and big machinery," he said—and he intended to use twentieth-century means to achieve his goal.

Lenin had said that "communism equals Soviet power plus electrification." Nehru offered a variant in his formula for India's development—"heavy engineering and machine-making industry, scientific research institutes, and electric power." He certainly shared in the Attlee consensus. His adoption of the themes and ideas of the Labour Party was evident in his recurrent evocation of the commanding heights, the mixed economy, and the need for planning. But he was also much impressed with the Soviet model, and embraced five-year plans and central planning. While troubled by what communism did to freedom, he wrote during his last term in prison that "the Soviet Revolution had advanced human society by a great leap and had lit a bright flame which could not be smothered and that it laid the foundation for a new civilization toward which the world could advance." Private property, yes, but it was to be subordinate to the state in the building of the Indian economy.

Their sharply differing economic visions put Gandhi and Nehru very much at odds. In 1945, Gandhi accused his appointed heir of being unfaithful to his economic vision of *swadeshi* and an India composed of harmonious villages. "I do not understand why a village should necessarily embody truth and nonviolence," Nehru shot back. "A village, normally speaking, is backward intellectually and culturally and no progress can be made from a backward environment. Narrow-minded people are much more likely to be untruthful and violent." The master's vision, said Nehru, was "completely unreal."

A Hindu extremist murdered Gandhi on January 30, 1948. The country was thrown into shock and pervasive grief. Nehru had lost his spiritual father. But now there was also nothing left to stop his economic program, which he pursued as prime minister until his death in 1964. Under Nehru, India embarked on a socialist course that had already been laid out in the late 1930s in the Congress Party's National Planning Committee—chaired by Nehru. He had then divided the world between two groups of people. There were those "who want to advance the world further and free the people from the chains of imperialism and capitalism. On the other side, there are a handful of people who are deriving benefit from the present state of things." India, he concluded, would take its stand on "independence and socialism"; for, he added, that was what was needed, "in our own poverty-stricken country, where unemployment prevails."[3]

"The Idea of Planning"

A series of measures between 1948 and 1952 established the process of national economic planning, devised the instruments and agencies to carry it out, and designed the first five-year plan. It was to be a mixed economy, heavily weighted toward the state. The Planning Commission was established in 1950 and its preeminence was quickly clear. Chaired by Nehru, it became a quasi-government on its own, the real manager of the economy.

The next several years reaffirmed India's commitment to a government-dominated economy. In 1954, both the Congress Party and the Parliament called for "a socialist pattern of society." But what India actually aimed for was a mixed economy, borrowing from both the European and Soviet systems. As with France, the system was to be tripartite: a state-owned and state-controlled sector composed of the key heavy industries, a state-regulated sector, and a private sector. But the Indian model put much greater emphasis on the role of government. It was to be dominant; it was to provide the "big push," through heavy industrialization, that would deliver development and growth. The state would be the guardian of wisdom and impartiality, with the elite managing the development process in order to ensure that it met the needs of the "nation" and not of "special interests."

To achieve all this, India put in place a more complicated and intricate system of planning than any of the European nations, with detailed tables of economic "inputs" and "outputs," as if the economy were something that could be measured and rationally managed with the precision of a physics experiment. Nehru blessed the entire process. "The idea of planning and a planned society," he said, "is accepted now in varying degrees by everyone."

The hyperrationalist scientism of the Indian "planning-and-control system" reflected the fact that it was shaped by a brilliant scientist who had turned to economics in later life. P. C. Mahalanobis was the outstanding Indian economist of his time, and he influenced an entire generation. Like Nehru, he had gone to Cambridge to study natural sciences; but unlike Nehru, he had done very well indeed, getting a first in physics. He became a statistician and only later an economist. But he retained the scientist's belief in rationality, and thus, in contrast to the indicative planning that Jean Monnet had established in

France, he promoted highly quantitative planning, fed by complex mathematical matrices based on "scientific" study of the economy and the linkages among sectors and enterprises. As one of his younger colleagues put it, Mahalanobis subscribed wholeheartedly to the dictum of the British physicist William Kelvin "that qualitative reasoning was nothing other than 'poor quantitative reasoning.' " Mahalanobis sought to apply that precept to the economy of a country of many hundreds of millions of people.

The expansion of the public sector was carried out with great enthusiasm. The state would control some sectors exclusively; in others, existing private enterprise could survive, but the state would take charge of all new undertakings. Economic policy ruled out nationalization of existing companies, with only a few exceptions. Commerce and small-scale activities stayed private, and the large private industrial empires of the Tata and Birla families, and others, remained intact (with the exception of Tata Air, which was nationalized and became Air India). Rather, the state would take charge of all new large ventures. Hosts of new public companies were created—ranging from power utilities to chemical plants to automobile assemblies, even hotel chains—along with state-owned banks.

These various companies would be national champions, the economic embodiment of India's independence. They would demonstrate India's skills and capabilities to the nation and the outside world and they would help tie the new nation together. That last objective was critical to a nation struggling to forge itself out of many provinces, as well as numerous principalities, whose hereditary rulers had dealt directly with the British. And the state companies would be a source of national pride. In their recruitment notices and on their letterheads, the public enterprises proudly announced, after their names, "A GOVERNMENT OF INDIA UNDERTAKING."[4]

The Permit Raj

The impact of the Indian system was felt far beyond its borders. India was the most prominent example of decolonization of the postwar years. Nehru was widely respected, a figure of rectitude, the man who had prevailed against the British Empire without a sword, the leader of the third world bloc. India's many economists were trained in the state of the art; they were committed to their models. They were also worldly and wonderfully articulate. And the Indian economic model seemed to be at the very forefront of development. As a consequence, it proved to be enormously influential.

There was, however, one problem. The Indian economy did not perform as the model had predicted. The creators of the system thought they were putting in place an eminently rational—indeed, the only rational—solution to the conundrum of industrial development for the social good in a country engulfed by poverty. The results proved otherwise. It turned out that the economy of India could not be reduced to the laws of physics. It could not be controlled, at least with any degree of efficiency, by planners at the center; nor could it be satisfactorily "pushed" by a vast collection of state-owned enterprises that were not subject to the discipline and tests of the market. Instead of gaining the perfectly constructed mechanism for the "big push," India developed a thoroughly complex and enormously cumbersome system. It operated through a byzantine maze of quantitative regulations, quotas and tariffs, endless permits, industrial licenses, and a host of other controls—a maze in which incentives and initiative and entrepreneurship either were lost or became hopelessly distorted. All of this made the economy increasingly inefficient; bureaucratic dispensation took over the functions of the marketplace. The British Raj, some would eventually say, had given way to the Permit Raj.

The restrictions brought economic stagnation. They frustrated the businessmen who had so ardently supported the Congress Party and independence. They also created a great paradox. India developed an immensely talented world-class pool of scientists and engineers. Yet the emphasis on self-sufficiency and state enterprises meant that India stepped out of the global flow of technology and imposed upon itself a form of technological retardation. In *The Discovery of India,* Nehru had postulated that science and engineering would drive India into economic growth and development. But in the two decades after independence, India was to discover that the system put into place would end up frustrating both economic and technological progress. Its symbol was seen on the streets of India in the "Amby"—the Ambassador—the domestic car modeled on the British Austin of the 1960s, an automotive time warp still being produced in the late 1990s.

The system fell prey to politics, too. As Nehru grew old, the Congress Party's grip on politics began to loosen. Faced with competition, the party turned to patronage and, sometimes, to graft. Public enterprises found themselves caught between the political tugging of constituencies and the bickering of organized interests. As India's democracy grew livelier and more clamorous, the economic structures—imagined by an intellectual elite and based on science and rationality—could no longer be kept above the fray of ordinary, "vulgar" politics.

Yet was there an alternative? None that Nehru and the politicians and technocrats and economists around him could easily see. In the years after independence, the nation's political and economic problems were enormous and the country was terribly poor. There was no capital market to speak of, and not much of a middle class. The past, as Nehru saw it, was mired in mysticism. The future should be based upon rationality. To "develop" meant to harness science and technology. They could not afford to wait a hundred years. Private capitalists were by definition suspect; they would pursue their own private interests. They had no moral or ethical claim. What models, then, were there to choose from? The answer: some combination of the mixed economy of Western Europe and the command-and-control model of the Soviet Union, with its five-year plans and big push into industrialization. So the models were fused and erected upon the partial legacies of Gandhian self-sufficiency and the imperial civil service that Gandhi had fought—and a strong state tradition going back to the Mogul emperors. And at the heart of the whole system was the powerful conviction that necessity required the nation's economic future to be entrusted to the state.

"An Agenda for a Better World": The Development Economists

India hardly existed in a vacuum. On the contrary, that country's experience was to have tremendous impact, both as a focus of effort, the greatest laboratory, and as an example to many other nations. For although India was the largest, it was but the first of the newly independent nations to emerge after World War II. As decolonization cascaded with the disintegration of the European colonial empires, the number of independent countries swelled from fifty-five in 1947 to over 150 by the end of the 1980s (before the breakup of the communist empire). Most were poor; many, desperately poor. Poverty was also endemic in countries whose independence had long predated World War II, as in Latin America.

This specter of poverty was a powerful rallying point. During the war, Franklin Roosevelt had summoned the world to a battle against poverty with the fourth of his four freedoms—the freedom from want. In Britain, the Beveridge Report had simultaneously called for the slaying of the giant of poverty and the creation of the welfare state. Such became the animating spirit for a great effort to bring a better life to what had been called in former days the backward or underdeveloped areas but would soon enough be known as the third world, or, more optimistically, the developing world.

Idealism and altruism were not the only driving forces. The cold war confrontation made development a primary concern for Western governments. The Soviet Union was deploying both its development model and its foreign aid to win countries over to its camp. The competition with communism made the American and other Western governments eager to embrace a noncommunist path to development, one that would lead to stability. And the success of the Marshall Plan and postwar reconstruction—and the experience gained therein—not only reinforced the effort but also provided the confidence to proceed. Indeed, the crusade to overcome poverty and despair in the developing world seemed almost the logical continuation of postwar reconstruction. "After the success of the Marshall Plan," the economist Albert O. Hirschman recalled, "the underdevelopment of Asia, Africa, and Latin America loomed as the major unresolved economic problem on any 'Agenda for a Better World.' "

But how was development to happen? The answer came from a group of economists who enlisted in a crusade. In response to the poverty of newly emerging nations, they fashioned a new branch of the dismal science called development economics and, in so doing, became grand strategists of the crusade. They sought to answer a set of basic questions: What drives economic growth? How can it be accelerated? In a way, these questions had been central to Adam Smith's inquiry in *The Wealth of Nations,* for he had set out to explain "the natural progress of opulence." But in the late 1940s and the 1950s and 1960s, "natural" was unacceptable. For the development economists, the urgent drive was to accelerate—not to wait on what was thought to be a one-hundred-year cycle but rather to see what could be achieved in a decade. They asked how to get something going now. And their work was to prove yet again Keynes' dictum about the impact of "academic scribblers," for their ideas were to be enormously influential in shaping the economic systems of dozens and dozens of countries across two generations of world history. The power of their ideas arose from the fact that they were not only thinkers but also "doers," drawn into the work of design and implementation.

Their beliefs were at least in part an outgrowth of Keynesianism—in the focus on state-driven growth, in terms of the tools of macroeconomic analysis, and in the bedrock of Keynesian self-confidence. The Beveridge welfare agenda also influenced them greatly. But so did India. "Keynes and Beveridge were both proponents of active state intervention," wrote Hans Singer, one of the most prominent of the original development economists. "This preconditioned me to take a direct interest in the problems of development planning, much in vogue in the immediate postwar year, with special focus on India. P. C. Mahalanobis became the prophet (or guru) of the development economists in this respect, and Calcutta became their Mecca."

Idealism, morality, justice, human sympathy, the shock of confronting poverty, the vision of a better world—all of these brought people into the crusade. Their outlook was summed up by Albert Hirschman, one of the most distinguished of the "pioneers of development." As he put it, "These economists had taken up the cultivation of development economics in the wake of World War II not as narrow specialists, but impelled by the vision of a better world. As liberals, most of them presumed that 'all good things go together' and took it for granted that if only a good job could be done in raising the national income of the countries concerned, a number of beneficial effects would follow in the social, political, and cultural realms." The overall objective was to "bring all-around emancipation from backwardness."[5]

Their individual stories help explain their drive to develop an agenda for a better world. Hirschman's life reflected what he called the "calamitous derailments of history." He was born in Berlin, received his Ph.D. at the University of Trieste, served five years in the army during World War II (the French and the American), worked after the war for both the U.S. Federal Reserve and the Marshall Plan, and spent four years as an economic adviser in Colombia. Paul Rosenstein-Rodan was born in Kraków, Poland, and grew up in a world and culture that were to be completely obliterated by the Nazis. During World War II, he helped organize a study group at the Royal Institute of International Affairs in London on the upcoming postwar problems of the underdeveloped countries. His premise was that "if we were to emerge alive, we should not return to the previous status quo but . . . form a better world." As he saw it, the challenge after the war was to move from "the national welfare to the international" welfare state. "Not to do enough about inequality of opportunity and poverty when our world resources are sufficient to improve the situation is the real moral crisis," he wrote.

Jan Tinbergen, who was to win the Nobel Prize in economics, was preoccupied with reconstruction as the director of the Central Planning Bureau in the Netherlands after World War II. Then, in 1951, P. C. Mahalanobis invited him to India. Although Tinbergen had seen want as a result of the war in his own country, "the poverty prevailing in India—as a normal situation—was such a contrast that it redirected my thinking and main activities." Arthur Lewis grew up in St. Lucia, in the British West Indies. He left school at fourteen. A few years later he won a scholarship to the London School of Economics, which launched him on a distinguished career in economics that would lead him, like Tinbergen, to the Nobel Prize. The conquest of poverty was his central preoccupation: Not only should it be conquered, it *could* be conquered. "My mother had brought me up," he recalled, "to believe that anything they can do we can do." Walt Rostow summed up his vocation by citing a few lines from the poet for whom he was named, Walt Whitman: "All peoples of the globe together sail/sail the same voyage/are bound to the same destination."

The development economists looked to history for guidance. Alexander Gerschenkron's masterpiece, *Economic Backwardness in Historical Perspective,* first unveiled in 1951, was enormously influential. Gerschenkron explored how the industrial "latecomers"—Germany, France, Russia—sought to "catch up" with Britain. He showed that there were many paths by which nations industrialized. The latecomers did not get there by Adam Smith's route. Rather, they seemed to move in double or triple time, via much more intense involvement by the state—through the direction of investment and a close alliance among government, finance, and industry. This perspective suggested ways to mobilize capital in the face of inadequate institutions and proved that governments could close the gap and provide the means for speeding up the "progress of opulence." And it struck a deeply responsive chord for the development economists, who were seeking to close the gap for the "late latecomers."

Certain basic assumptions served as the underpinnings for development economics. The third world was abundant in land, labor, and natural-resource potential, but what it desperately lacked was capital. Without capital, markets were disabled or even absent, and the signals they sent were unreliable. The developing countries needed infrastructure—roads, railways, electric power—to provide the foundations for a modern economy, and markets in their then-truncated state were unlikely to mobilize the vast sums of capital such projects required. Governments would have to do it instead, because, unlike private financiers dogged by shareholders in search of near-term paybacks, governments could assume the risks and bear the responsibilities of investments that might take decades to mature.

The development economists were doubtful about the market and its vigor, and for this reason, they were suspicious of the private sector in the developing countries. It seemed desperately small: In the colonies of Africa, it had been kept confined to the traders of basic goods—surely no base for industrialization. Where a larger private sector existed, especially in Latin America, it appeared to consist of a handful of excessively wealthy families, which were content with what was regarded as an "exploitative" social order and were loath to accept change. In short, either the private sector would pursue special interests rather than the "public good" that Nehru had articulated or it would lack the capability, vigor, and "heart" to get the job done. But if they were inherently pessimistic about the private sector, the development economists were optimistic about what governments could do. The result: "the conviction that, in underdeveloped areas, industrialization required a deliberate, intensive, guided effort." There was not to be the "storming" of the Soviet five-year plans. Rather, there was to be a concentration of effort and capital—variously called the "big push" or the "take-off" or the "great spurt" or, less colorfully, "backward and forward linkages"—that would carry the developing country into a new reality.

To be sure, some development economists focused, with more optimism, on the effectiveness and utility of markets, prices, and international trade. Drawing upon his work with rubber farmers in Malaya and traders in West Africa, P. T. Bauer argued that entrepreneurship existed in the third world, too, and that the sum of the efforts of the entrepreneurs would be much more efficacious than government direction. But critics of mainstream development economics like Bauer were considered eccentric and off the mark. As the 1930s had discredited capitalism, so had it discredited market-focused economics. Instead of concentrating on how markets worked, economists emphasized the imperfections and failures of the market. The dominant view in development economics envisioned a much larger—and central—role for government. The obvious way to correct the imperfections was with a strong state.[6]

"The Bank"

Spurred by decolonization, fueled by the profusion of foreign-aid dollars and the dominant cold war imperative of making allies of the newly independent countries, a vast development enterprise was born. It was made up of governmental donor agencies, private foundations, international development banks, universities, and research institutes, along with ministries of finance, industry, and development. Amid this constellation, one institution was central—the International Bank for Reconstruction and Development, otherwise known as the World Bank. It was the pivot around which policies and funding were put into place, and around which the debate was organized.

The World Bank was created at the Bretton Woods conference in 1944 to coordinate the awesome job of economic reconstruction in what would soon be postwar Europe. But its mandate quickly expanded—exactly as its founders, including Keynes, had intended—to investing in the infrastructure of developing countries. Its first loan to the third world was $16 million to Chile in 1948, for power-plant and agricultural machinery. It made its first loan to Asia (excluding reconstruction loans to Japan) in 1949—to India, for a hydroelectric project. Its first loan to Africa came in 1950—to Ethiopia, for communications equipment. By the early 1950s its focus had fully shifted from "reconstruction" in Europe to "development" in the third world. Its basic mandate was to raise multilateral finance from the capital markets of developed nations and use that money to make long-term loans on concessional (i.e., very favorable) terms to the public sectors of developing countries. Those loans would be secured by repayment guarantees from the developing country. Thus the bank would get capital flowing across borders—old and new. But it had to start from almost nowhere, for "the pattern and flow of international investment were ruptured beyond recognition by the Great Depression and the Second World War."

The World Bank's role was to help ensure that the conditions for market development were in place. Its lending was meant to correct market failure—or what might even be called market absence. That is, it would fund the nonexistent or sorely lacking infrastructure that was required for the development of market economies. Thus, most of its funding went for transportation (ports, roads, railways), communications, and, above all, electric power—often by means of large hydroelectric dams. Such infrastructure, the bank said, was "an essential precondition for sustained economic growth." It was driven to this orientation by, in the words of the bank's historians, "a series of emergency situations." Power shortages were endemic in Asia and Latin America; in Africa, there was little infrastructure at all. It was easier for Brazil to import potatoes into Rio de Janeiro from Holland than to ship them from a hundred miles inland. Deliveries by the Indian railway system were weeks and weeks late. How could private entrepreneurs be expected to make investments and take risks in the face of such obstacles, uncertainty, and disorganization?

The World Bank stepped into this role because the developing countries could not mobilize sufficient domestic savings to get such projects done. Foreign investors could not count on a sufficient rate of return to be attracted to such projects. Moreover, foreign capital was not very welcome during this era of "nation building." Private investment in what were seen as critically important infrastructure projects meant either foreign management and foreign enclaves and the repatriation of profits or further enrichment and power for a few families that were already very rich.

If there was a single model in the mission of the World Bank, it was America's Tennessee Valley Authority, a public enterprise devoted to a great need. The TVA was efficient, with a powerful sense of mission and sufficient scale to be effective, insulated from politics and corruption, a generator and focuser of skills, and capable of the longer view. It had succeeded mightily in the middle South of the United States, and its first leader, David Lilienthal, was the living expression of the dedicated, disinterested, capable public servant who could effectively, and even brilliantly, operate at the intersection of public and private interests. As with the TVA in the United States and the state companies in Europe, so state-owned companies would be the means of development and modernization in the third world.

The image of the TVA fit the charter of the World Bank. The bank could lend only to public agencies, and better than ministries were semi-independent state-owned companies that would mobilize skills and capital to the achievement of important national objectives. Moreover, the bank wanted to encourage scale and efficiency, just as the creation of the TVA had done. And with the passage of time, it became increasingly open to working with state-owned companies in areas other than infrastructure—for instance, industry and finance. The World Bank did create an affiliate, the International Finance Corporation in 1956, to make loans to private-sector companies, but it played a small role for many years.[7]

The Rise of the State-owned Company

Indeed, the most visible embodiment of development economics was the state-owned company. Such corporations would be the specific vehicle for capturing the commanding heights. Since private enterprise assuredly could not raise the capital necessary for development, the government would mobilize and direct resources through the state-owned companies. They would serve as the engines of modernization, the drivers of economic growth, the mobilizers of development, the mechanisms for achieving a better future. They would pursue the public good—the nation's interest—rather than the special interests of particular merchants and industrialists and various clusters of super-rich families. They would be staffed by meritocracy, not by patronage or lineage. They would compensate for market failure and achieve economies of scale. And in these ways and more, they would express sovereignty, dignity, and the birth of national identity in countries that were trying to create themselves as nations. In sum, the state company came to be seen as essential both to development and to nationhood.

The development economists were sanguine about the efficiency of the public enterprises. The "type of ownership," as Jan Tinbergen put it, did not really matter. What did matter for efficiency was "the quality of its management," and that was quite irrespective of ownership. Thus, "efficiency considerations need not be a stumbling block if public enterprise is chosen as a means for furthering a country's development." Rather, public ownership would streamline the process of coordination among ministers, planners, and company managers—all for the greater good.

Indeed, careful coordination would be required if the developing countries were to successfully negotiate the much-desired industrial transition.

New industries started off at a disadvantage against established low-cost imports. So governments protected their "infant industries" with trade barriers. Only in this way could they force the process of "import substitution"—gradually replacing imported goods with home production, starting off with textiles and light manufactures and ultimately aiming for heavy machinery and other industrial products. Once the process was securely under way, the trade barriers could come down and the country would reconnect to international commerce. Most developing countries followed this path to some degree. But only a few—particularly in Asia—would prove successful at weaning their "infants" at the right time. In all too many countries, protection and public ownership became commonplace; and rather than facilitating the emergence of the private sector, they would eventually come to constrain and crowd it out. The number of "parastatals," as state companies were sometimes called, grew rapidly, encompassing not only infrastructure but industry, finance, and services. In Argentina, the government even owned the circus.

Public enterprises took a variety of forms. Some were government agencies, branches of existing ministries or government authorities, that carried out a specific task or service. They had neither working capital of their own nor any autonomy. They were directly controlled by the ministry. (This was what the British Labourites had dismissed as the Post Office Model.) Others were public corporations—separate legal entities that existed as companies, with their own capital but overseen by one or more ministries. There were also mixed firms—the government held majority ownership, but a board of directors provided some insulation between management and government. Some of these state enterprises had complete monopolies; others were the national champions, which competed from a favored position with domestic and foreign rivals. Often these companies took on welfare roles—providing workers and their families with company towns, housing, scholarships, and health clinics. They would ensure the development of homegrown "human capital"—a term rediscovered in the 1950s—and perhaps that would turn out to be their most important role of all. But they could also become sources of favoritism and nepotism. Sometimes they were clearly subordinated to the government ministries; in other cases, they became powerful "states within states."[8]

"The Wind of Change"

Development needed customers, and soon there would be many. India's independence inspired nationalist movements and provided a model for decolonization all over the world, launching a tide of independence. In every way, the old colonial order seemed to have lost its force, its historical relevance. Two world wars had thoroughly discredited the European powers' claim to a "civilizing mission." Back at home, colonial rule was losing its advocates, more and more of whom felt that the economic benefits no longer outweighed the growing burden of administering empires. And a new elite was on the rise throughout the colonies, made up of the lucky few who had acceded to Western education and returned with technical credentials as engineers, lawyers, or accountants. This new professional class had also absorbed Western political values, and could ably challenge colonial rule on its own terms. They formed political parties—inspired, in many cases, by the Congress Party of Nehru and Gandhi—and pressed for greater degrees of self-rule. They also became plausible candidates for a peaceful handover of power. In Britain and France—by far the two largest colonial powers—the view grew steadily in the 1950s that decolonization was inevitable. British prime minister Harold Macmillan called it "the wind of change." There would, of course, be exceptions. France would attempt to hold on to two of its colonies, Vietnam and Algeria, by force—an ultimately futile effort that would carry a dire human cost. Portugal would cling to Angola and Mozambique until its own transition from dictatorship to democracy in 1975.

The change was most striking in Africa. France granted independence to almost all its African colonies in a single year, 1960; Britain, more gradually, from 1957 to 1965. Almost everywhere, the process began with an interim self-rule government, the colonial power retaining ultimate control and responsibility for currency, defense, and foreign affairs. As momentum gathered, local groups expanded their scope of responsibility. By the time of the emotional flag-lowering ceremony at government house and the assumption of formal power by the elected local leaders, a peaceful transition had taken place. In the background, economic links usually remained intact.

The new leaders faced formidable challenges. Colonial infrastructure was scant, and what little existed was designed for swift extraction of natural resources, not for bolstering local trade and civic life. Where railways existed, they connected mines to ports; where roads were paved, they served plantations. Villages along these routes grew into trading posts, while historic centers on old commercial routes became backwaters. In the towns, public services were minimal. The typical electricity network in an African country on the eve of independence consisted of erratic diesel turbines that supplied the villas and offices of the colonial administration. Factories and wealthy traders installed their own generators. Water supply and telephones were similarly inadequate. Primary education and public health were rudimentary. With independence, town and country dwellers alike raised their hopes for rapid growth in all of these areas at the same time. And the new leaders, strained by the quick pace of change and the small numbers of qualified technical staff, became the custodians of these aspirations.

"First the Political Kingdom"

In the period of transition, the beacon country from Africa was Ghana, first to achieve independence, in 1957; and the most influential figure was its prime minister, later president, Kwame Nkrumah. When Nkrumah was born in 1910, Ghana was still the Gold Coast, a British colony known for its plantations and for being the world's largest producer of cocoa. Its frontiers were the result of bargains among the colonial powers—Britain, France, and Germany—that did not correspond to the historical boundaries of the kingdoms that preceded colonization, particularly the once-mighty Ashanti Empire. Nkrumah, who came from a modest, traditional family, received his early education at the hands of Catholic missionaries. He went on to train as a teacher and for a few years taught elementary school in towns along the coast. He was popular and charismatic, and earned a decent living. But exposure to politics and to a few influential figures sparked in him a greater interest—to go to America. He applied to universities in the United States, and with money raised from relatives, he set out on a steamer in 1935. He reached New York almost penniless, and took refuge with fellow West Africans in Harlem. He then presented himself at Lincoln University in Pennsylvania and enrolled; a small scholarship and a campus job helped him make ends meet.

In the United States, Nkrumah saw alternatives to the British tradition of government. He also became suffused with an acute consciousness of the politics of race relations. Unlike many new African leaders, who sought to emulate their European instructors, Nkrumah plunged into America's black communities. Founded before the Civil War, Lincoln University was America's oldest black college, and its special atmosphere inspired and comforted Nkrumah. In the summers, he worked at physically demanding jobs—in shipyards and construction and at sea. He studied theology as well as philosophy; he frequented the black churches in New York and Philadelphia and was sometimes asked to preach. He also forged ties with black American intellectuals, for whom Africa was becoming, in this time of political change, an area of extreme interest. Moving to London after World War II, Nkrumah helped organize Pan-African congresses, linking the emergent educated groups of the African colonies with activists, writers, artists, and well-wishers from the industrial countries. It was a time of great intellectual ferment, excitement, and optimism. India's achievement of independence in 1947 stirred dreams of freedom for the other colonies. "If we get self-government," Nkrumah proclaimed, "we'll transform the Gold Coast into a paradise in ten years."

Returning to the Gold Coast in 1949, Nkrumah found that India's independence had set in motion a process of gradual transfer of power in Britain's other colonies. The terms and timing were highly unsettled, and indeed would provoke conflict and violent clashes, but the basic principle of self-government was becoming the consensus. Nkrumah was dissatisfied with the existing nationalist grouping, finding it staid and conservative, overly tied to colonial business interests. With several associates he set up a new party, the Convention People's Party (CPP), in the process demonstrating his supreme organizational abilities. Within two years the CPP had won limited self-rule elections, and Nkrumah became "Leader of Government Business"—a de facto prime minister, responsible for internal government and policy. He set his sights firmly on independence. No amount of autonomy or self-rule, he argued, could match the energy, commitment, and focus of a government and people in a truly independent country. It was a precondition for growth. He summarized his philosophy in a slogan that became famous and influential across Africa: "Seek ye first the political kingdom, and all else shall be added unto you."

To reach this goal, Nkrumah began to work closely with the British administration and reached a compromise with the domestic opposition. The process of transition accelerated—peacefully—and on March 6, 1957, the new flag was hoisted. The country took the name Ghana. It was a deliberate historical misnomer. The old Empire of Ghana had been a glorious African state of the medieval era. But it was not situated in the Gold Coast—instead, it was well inland, in present-day Mali. But the idea of past African glory was paramount; Nkrumah and his associates chose the name that they felt best conveyed it, and nobody complained.

Ghana's route to independence became the model for the rest of the continent. By the mid-1960s, over thirty African countries were independent and many had charismatic leaders, including Jomo Kenyatta in Kenya, Julius Nyerere in Tanzania, and Kenneth Kaunda in Zambia. Their economic views were very much those of the time, in line with the consensus among development economists. Here again, only the state could mobilize the funds and coordinate the activities of economic transformation if it was to be achieved in the leaders' lifetime—let alone during their time in office. Indeed, pessimism about markets was even greater in Africa than elsewhere. After all, the colonization of Africa had come with little regard for local education, health, or infrastructure. It was tainted with racism and contempt. As a result, people were not equipped to participate in markets, or so it seemed. Instead, the new leaders hatched schemes for "African socialism" that could somehow combine modern growth and traditional values. "Capitalism is too complicated a system for a newly independent nation," Nkrumah argued. "Hence the need for a socialistic society." Few disagreed. It was, after all, the received wisdom of the time.[9]

Marketing Boards: The Tools of Control

Ironically, the economic device in which Africa's new leaders invested their trust was itself a colonial invention—the marketing board, a public agency responsible for buying crops from farmers and reselling them for export. Seemingly innocuous and indeed almost boring in name, marketing boards were in fact powerful tools of control for the new governments. They were born of necessity, when the Great Depression drove down world commodity prices and the wartime boom drove them up again. African farmers lived on a shoestring and were highly vulnerable to such volatile swings in world markets. They might overplant in times of high prices and abandon crops when prices fell.

Meanwhile, the state would lose both tax revenue and its ability to plan ahead. The marketing boards were set up to correct this situation. They would purchase crops at stable prices. In times of high world prices, they would accumulate a surplus of money; in times of low world prices, they would use that financial surplus to support the local price. This would protect farmers from the tumult of markets, over which they had no control. Because the marketing boards deliberately paid farmers prices other than the world-market prices, they could not function in a competitive market. Hence, they were granted monopolies. Virtually all crops for export had to go through the marketing board. This was the prevailing system at independence in almost every African country. All that varied from country to country was the exact number and range of crops concerned.

For Nkrumah and his peers, retaining the colonial marketing boards seemed the expedient, indeed the sensible, thing to do. The boards would provide the mechanism both to capture the "surplus" generated by agriculture and to raise revenues. The resources levied this way could be combined with investment and foreign aid to jump-start industrial development and the "great transformation" away from rural-based economies toward industrialization. There were some problems, to be sure. When the marketing board imposed prices lower than world prices, how would it stop crops from slipping away into a black market or crossing borders into neighboring countries? Frontiers were artificial and porous, and there was, after all, a considerable history of long-distance African trade. Moreover, if the marketing board did accumulate a cash surplus, who would oversee its sound management and investment?

But amid the enthusiasm for independence and the overriding concern with market failure, these questions seemed of little import. Governments instead threw their energy into enlarging the existing marketing boards and creating new ones for commodities that were hitherto unregulated. They ran their economies through the boards. In Ghana, the Cocoa Marketing Board grew in size, staffing, and power. It was joined in short order by marketing boards for timber and diamonds, and a host of other state organizations aimed not only at exports but also at regulating local trade in foodstuffs, fish, and household goods. This pervasive, confident—or, as some would say, intrusive—involvement of the state in almost every aspect of investment and commerce made Ghana a case of "development economics in action."

The Volta Dam: The High Tide of African Socialism

The same confidence extended as well to the other half of the process—industrialization. Nkrumah very much believed that the "big push" was necessary and could be rapidly achieved. He harnessed his hopes to a dramatic plan for a huge multipurpose undertaking known as the Volta River Project. Ghana had large reserves of bauxite and hence the potential to become a major exporter of aluminum. But this required building a smelter and a very large dam and power plant to feed it. That, in turn, would support a national electricity grid; and the cheap, abundant power would jump-start industrialization all over the country. It was a grand vision that accorded perfectly with development theory. The dam would set in motion the "forward and backward linkages" that the economists sought, and it would give Ghana economic independence. It would also create the world's biggest man-made lake, forcing the resettlement of tens of thousands of people.

When it was all added up, the Volta River Project was the most ambitious and complicated development project of its day, and certainly one of the most prominent. It also gave rise to lengthy and arduous negotiations between the government of Ghana and its would-be partners—the World Bank, the governments of Britain and the United States, and the aluminum firms Kaiser and Reynolds, which agreed to build the smelter. Several years of frustrating discussion culminated in a series of contract documents that one participant described as the world's "most complex since Queen Marie was selling Roumanian bonds."

But the deal was not yet done. As the negotiations dragged on, the stakes grew higher. Nkrumah's views were hardening, reflecting an increasing attraction to "scientific socialism" and a mounting preoccupation with control. Already in 1960, he had made Ghana a republic and proclaimed himself its president. In April 1961, he delivered a "Dawn Broadcast" in which he lashed out at "self-seeking" and "careerism," and which he used to force the resignation of potential rivals. Soon there were political arrests. He also threw out the British officers assigned to train his army.

All this occurred shortly before Queen Elizabeth II was scheduled to make a state visit to Ghana in November 1961 to celebrate the new area of decolonization. But then, after several bombs went off in the capital of Accra, sentiment mounted in Britain's House of Commons that the trip should be canceled, because it was too unsafe. Prime Minister Harold Macmillan feared, however, that cancellation would provoke Nkrumah into leaving the Commonwealth and moving into Moscow's arms. To prevent such a turn, he appealed to President John Kennedy to confirm that the United States would help underwrite the Volta River Project. When, on the eve of the queen's departure, it became apparent that the House of Commons might vote to cancel the trip, Macmillan made clear that he would resign that very evening—even if it meant having to awaken the queen. The vote against the trip did not eventuate, and the queen took off.

As it turned out, the trip was a great success. The local press in Ghana hailed the queen as "the greatest socialist monarch in the world." With the conclusion of the visit and the queen safely back in Britain, Macmillan immediately telephoned Kennedy. "I have risked my Queen," Macmillan said. "You must risk your money!" Gallantly, Kennedy replied he would match the queen's "brave contribution" with his own. The United States signed on to the Volta River Project.

In the same year, Nkrumah visited the Soviet Union and returned much impressed at the pace of industrialization there. He came back with a rigid seven-year plan. "We must try and establish factories in large numbers at great speed," he argued. State-owned companies and public authorities mushroomed in all fields. So did mismanagement and graft. The price was most painfully felt in the countryside as Nkrumah used cocoa revenues, controlled by the official marketing board, to cover the growing losses of public companies. The imposition of unrealistically low cocoa prices on farmers, combined with the bloated organization of the marketing board, devastated the industry. Many farmers switched crops altogether; others found ways to smuggle their cocoa through neighboring countries, where better prices were offered. Ghana lost its mantle as the world's largest cocoa producer. Its currency reserves depleted, it fell back on barter trade and loans from the Soviet Bloc.

Nkrumah became increasingly remote, preferring to focus on grand schemes of African unity than on running the country. He turned the country into a one-party state in 1964, and took to indulging in a sordid cult of personality, dubbing himself Osagyefo, "the Redeemer." It did not take long for resentment to set in. He evaded several assassination attempts. On January 22, 1966, he inaugurated the Volta Dam, proudly pressing the button that released power into the new national grid—unaware that even this project would be only half a success. Ghana's bauxite mines would never be developed; the smelter found it more economic to process bauxite imported from Jamaica. The inauguration would be his last moment of glory. On February 24, as he stopped in Burma on his way to China at the start of a grand tour aimed at solving the Vietnam conflict, army officers intervened at home and took power. "The myth surrounding Kwame Nkrumah has been broken," announced an army colonel on the radio. Nkrumah did not learn of the coup until he arrived in China. Premier Zhou Enlai, unsure of the protocol to follow, went ahead and hosted an eerie state banquet in his honor. Nkrumah ended up taking up exile in Guinea, where another experiment in "African socialism" was in progress. Guinea's president, Sékou Touré, his own rule increasingly repressive and arbitrary, endowed Nkrumah with the title of "co-president." Nkrumah made regular shortwave broadcasts to Ghana, published ideological treatises, and plotted a triumphal return to power until he grew ill and died in 1972, still in exile. The "political kingdom" had crumbled as fast as it had been built. "The Redeemer," who had once inspired a continent, had fallen far from grace.[10]

"Third Worldism"

Ghana was hardly an exception. In the decade of the 1960s, the high hopes of independence gave way through much of the developing world to a continuing saga of coups and political upheavals. In the process, the optimism of the independence era gave way to an intellectual reformulation that saw North and

South—industrial and developing countries—as permanent antagonists. The political struggle for independence was transmuted into a continuing struggle against what was variously described as "economic imperialism" and "neo-imperalism"—and, particularly, against the multinational corporation. Indeed, "exploitation" became the fashionable way to view relations between developed and developing nations. Karl Marx had not said much about the developing world, and what he had said was quite ambiguous. He saw capitalism as a necessary improvement on the "Asiatic mode of production." According to Marx, British imperialism definitely served to modernize "backward" lands like India. Nevertheless, most Marxist theorists, dependency theorists, and many plain liberal theorists propounded the argument that developed nations and the dynamics of international trade and investment exploited developing countries. Strong state control was necessary to protect the developing nation against these forces, and the state company would occupy the high ground formerly held by the foreigner.

The problem of national control was most acute for the great many countries that depended for survival on exports of primary products, whether agricultural—like coffee, rubber, or pineapples—or mineral—like copper and bauxite. The choice seemed to be whether foreign multinationals would capture all the "rents" from these products or whether a national firm could step in. If multinationals found it cheaper to export raw materials than to invest in a processing plant, what hope was there that the producer countries would ever turn their plantations to modern agro-industry? And if multinationals brought economic distortion, not growth, then could the humiliating effects of watching expatriate managers drive new cars and enjoy "hardship pay" be justified any longer? Surely a state-owned company, a national champion, could better represent the national aspirations.

The epiphany for the mixed economy and state domination in the developing world was reached in the late 1960s and 1970s, when the Vietnam War generated a liberal guilt about the entire third world. As opinion shifted against the war and the United States, so it did against the economic system identified with the United States. Markets and capitalism seemed to lose legitimacy. The war was partly blamed on them. National liberation movements aimed not only at defeating pro-Western governments but also at overturning the market and replacing it with state ownership in the name of "the people." Socialism and Marxism enjoyed a renaissance. Capitalism lost confidence in itself, and the young rebelled against it. Moral virtue was to be found in the third world and in its solidarity against the first. All this was part of the loose ideology of "third worldism," which enjoyed a vogue in the developed world in these years. But third worldism also came from the third world itself. As more and more countries acceded to independence, they formed alliances, organizations, and a voting bloc in the United Nations. As early as 1955, at the Bandung Summit in Indonesia, Nehru joined Sukarno of Indonesia, Gamal Abdel Nasser of Egypt, and Josip Broz Tito of Yugoslavia in calling for a "nonaligned movement" to bypass the cold war. Despite differences—and

Western skepticism—the movement grew, and through the 1960s, third world countries transacted in economic ideas. By the end of the decade, they too felt ready to assert their identity and their true worth on the world stage.

Good-bye, Coca-Cola

In some ways, all this came to a head on October 6, 1973, when Egypt and Syria launched a massive attack on Israel, starting the Yom Kippur War. For a number of days, Israel's very survival was in doubt, until it finally succeeded in turning the tide. But before the war was over, the Arab oil exporters had used the "oil weapon"—an embargo—to punish the United States and other Western nations for their support of Israel. By the time this first oil crisis had run its course, the price of petroleum had increased fourfold.

It was a climactic event. It accelerated the process of nationalization of oil concessions that had begun before 1973. In 1975 and 1976, the great oil concessions of Saudi Arabia, Kuwait, and Venezuela were all nationalized and integrated under the control of newly established state companies that were now expected to dominate the international oil business. The creation of these companies was meant to put an end not only to the concessions themselves but to the humiliation that went with them, and to capture the bulk of the oil earnings for the nations that produced the oil.

But the oil crisis was also considered to be something much more—a radical shift of power in the international political system. As one eminent foreign policy expert put it, the crisis marked the first time since the Japanese had sunk the entire Russian fleet at the Battle of Tsushima in 1905, ending the Russo-Japanese War, that the third world had defeated the first world. It held out the prospect of a no less radical global redistribution of income from developed to developing nations, thus righting the wrongs of alleged exploitation. Plans were bruited for a variety of other commodity cartels, from copper to bauxite, although, eventually, none was to succeed. Nationalization was on the domestic agenda; only the terms were in question. The world's two largest copper-producing countries nationalized the foreign-owned mines on their soil. Kenneth Kaunda's Zambia nationalized peacefully, paying the British mining firms compensation; but Salvador Allende's Chile did it more abruptly and, in so doing, helped precipitate the government's violent downfall. In India, the Janata Party, in power between 1977 and 1980, expelled foreign firms that refused to share their technology with local champions. IBM packed its bags, as did Coca-Cola—penalized for its refusal to reveal its sacred and jealously guarded formula. Around the world, governments were taking over even greater responsibility for the workings of their economies, while multinational companies and foreign investment were derided as evils to be driven away. This was indeed the apogee for government.

As it turned out, many developing countries were among those worst hit by the oil crisis—the markets and prices for their commodities and manufactures declined with the global recession that followed the quadrupling of the oil price. But this reality was submerged by the spirit of third worldism and the apparent solidarity of South against North in what some were to call an international class war over a "New International Economic Order." Developing nations came together as the Group of 77 in the United Nations. Their argument, supported by the Soviet Union, was that, as commodity exporters, they had been exploited by the industrial countries through the low prices paid for their products. Not only, they said, should the developed countries pay higher prices, they should also pay compensatory reparations. In order to mitigate the North-South confrontation, a North-South Dialogue convened in Paris in 1977. It was intended to redistribute income, protect commodity prices, ensure "control," and accelerate the flow of technology. It was also meant to defuse tensions. Despite two years of tractations, there was not much to show for it; at the end, the conferees could not even agree on a communiqué.

The End of an Idea

Yet underneath the rhetoric and expressions of solidarity was the dawning realization of a gnawing, uncomfortable fact. To be sure, the sometimes violent ups and downs of world markets stood to harm the economic programs of developing nations. But the problem, it now appeared, was also internal. In many of the countries of Latin America, Africa, and South Asia, ordinary people were not getting better off. State-led development was falling far short of its promise; corruption and the waste from dubious investments were all too common. And mysteriously, several countries in Asia, which were notoriously poor in natural resources and dependent on imported oil, appeared to have weathered the storm and embarked on an impressive path of growth. All this suggested that commodity prices and world markets were only a part of a problem that, in fact, began at home.

Politics had also degraded in most of the developing countries. On three continents, elected governments had all too often given way to authoritarian ones. Most countries of South America were under military rule by the late 1970s. Notorious autocrats emerged to plunder national resources in increasingly brash and blatant fashion. In the Philippines, Ferdinand Marcos diverted national wealth into private coffers, bankrolling a lavish lifestyle for his family and cronies. Under the guise of economic nationalism, Idi Amin Dada in Uganda expelled and expropriated the Indian traders who were vital to the domestic economy. Mobutu Sese Seko changed the name of the Congo to Zaire and financed extravagant expenses by stealing foreign aid and printing money, making the currency worthless and forcing trade into the parallel economy.

The damage was greatest to ordinary people. Unable to profit from the pervasive reach of the state sector, they suffered from shortages, decaying infrastructure, bureaucratic harassment, petty corruption, and the continual postponement of promised improvements. One of the greatest indictments was the decreasing ability of some agricultural countries to feed themselves. In the late 1970s, it was hard to draw precise links among world markets, state domination of the economy, corruption, poverty, and political decay. But one thing was certain. The hope of the development economists—born out of the cataclysm of World War II and mass poverty in the developing world—that "all good things go together" had come undone, tolling the end of an idea.

Looking back on all the hopes of progress, the eminent economist Sir Arthur Lewis asked himself what fundamental errors development had made. He identified two basic mistakes, each of which had proved very costly. One, he said, was the underestimation of the power of international trade to propel growth. The other, he continued, was being too slow to learn that "market prices are more powerful incentives than ministerial speeches."[11]