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 Laborites 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."