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The Need to Rethink Development Economics

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Introduction

Up until the 1970s, problems of welfare and unemployment in the developed countries, and those of poverty and underdevelopment in the developing ones, were interpreted through the lenses of the corpus of knowledge recognized as Keynesian economics and "development economics" respectively. But the oil crisis, "stagflation" and subsequent indebtedness of the developing countries severely put to test the models and the theories that had underpinned their welfare and development policies.

Although there was little in common between the actual analytical content of Keynesian doctrine and that of development economics, the two approaches shared critical views of neoclassical economic theory, and the related acceptance of state intervention. They also had in common the understanding that the economy described by neoclassical economists was a "special case", and there were many other economies that could be "stylized" by entirely different models because they were characterized by different structural features. Furthermore, they shared the view that the state could play an important role in addressing these structural features, which often resulted in "market failures". Both were induced by the need to solve policy problems and were not merely formal theoretical disciplines whose modelling was based on "real economies" trapped in a particular equilibrium (unemployment or underdevelopment) from which they had to be extricated. These positions opened them to attack from neoliberalism.

It is perhaps not surprising that the neoclassical counterrevolution and the ascendancy of monetarism in the advanced industrial countries during the late 1970s and early 1980s led to the rejection of development economics in the South. For the neoliberal economists, development economists falsely denied the universality of rational economic behaviour and, by their focus on perversions of standard economic theory, opened doors for dirigisme. For some, the whole enterprise of development economics was a futile one, and the dirigisme associated with it was blamed for poor economic performance.

For two decades, starting from the beginning of the mid-1970s, the status of development economics in both academia and policy circles was not enviable. The titles of some of the articles published in the 1970s and 1980s clearly suggest that all was not well with the discipline: "In Praise of

Development Economics" (Thirwall, A.P. 1978), "The Birth, Life and Death of Development Economics" (Seers, Dudley 1979), "The Rise and Decline of Development Economics" (Hirschmann, Albert O. 1981), "The Poverty of Development Economics (Lal, Deepak 1983), "The State of Development Theory" (Lewis, Arthur 1984). The beleaguered discipline of development economics found itself hounded out of economics departments, development finance institutions and journals as what Albert Hirschman has called "monoeconomics" spread itself. The "pioneers" of development economics were forced into a defensive posture as they fended off accusations of providing the intellectual scaffolding for dirigisme, which had failed, as well as of downplaying the role of the market.

The "death" of development economics was not merely an academic "paradigm shift". It was given official sanction by the United States government. The US representative to the Asian Development Bank is reported (Newsweek 13th May, 1985) to have announced that the "United States completely rejects the idea that there is such a thing as 'development economics'" (cited in Toye, John 1987: page 73). Development economics became, as John Toye remarks, "an Orwellian un-thing" in the eyes of the most powerful nation. The Spartan certainty of the ascendant neoliberalism as to what was required left no room for specialized knowledge of the problems of development. Mrs. Thatcher's strident "There is no alternative" was echoed in international financial organizations through a standardized set of policies that was applicable to all economies.

Aside from the attribution of the causes of the crisis of the 1970s and 1980s, and the ideological ascendance of neoliberalism in leading OECD countries and financial institutions, the demise of development economics had a lot to do with interpretation of the development experience of the postwar period. Up until 1997, the spectacular economic performance of the East Asian countries stood out sharply against the poor performance of most countries in Latin America, Asia and Africa, and the transition economies. As with all successes, these successes aroused many claims of paternity. From the mid-1970s, through a series of OECD studies (Little, I., T. Scitovsky, and M. Scott 1970), the "counter-revolution" of neoclassical economics claimed that success was evidence of the wisdom of relying on market forces. In contrast, the "lost decades" of much of Africa and Latin America were blamed on "development planning", which distorted prices and led to slower growth. Indeed, the experiences of the quintessential development states were evoked as evidence against development economics.

New Interest In Development Economics

There are new signs of revival of interest in development economics, or at least, in its paradigmatic preoccupations. The most immediate reason for interest in development economics today is the failure of the "Washington consensus" that underpinned the structural adjustment programmes of the Bretton Woods institutions. Given their focus on stabilization and static allocative efficiency, and their deflationary bias, these "adjustment" programmes have failed to induce the kinds of structural changes associated with development.

In addition, the Asian "financial crisis" and the standard prescriptions that the IMF recommended raised questions about the appropriateness of the Washington consensus to address problems of economic development. The call from within the BWIs themselves for going "beyond the Washington consensus", "second generation reforms", and "reinvigorating the state's capability" all point to the need to return to the "development" which has been argued for, by a wide range of scholars and institutions. The World Bank itself began calling for "comprehensive development frameworks" whose ingredients are reminiscent of the "development planning" associated with development economics. However, despite all these calls for rethinking, there is currently no programmatic intellectual effort in that direction.

Interest in development economics has also been stimulated by the "revisionist" account of the period of interventionism, which argues that the period was not the unmitigated disaster that it has been portrayed. It was marked by rates of growth that have yet to be equalled in the era of globalization. For most countries, the industries that emerged under the much-maligned import substitution strategies were the first move toward industrialization. In other words, these industries were not simply characterized by inefficiencies born of protection. In a significant number of cases, they enjoyed high productivity rates and created the foundations for subsequent forays into world markets. Great strides were made in health and education. "Revisionist" writing on the Asian experiences also suggests that the neoliberal reading of the Asian experience was tendentious and had downplayed the central role of the state.

Indeed, the "developmental state" can be viewed as the outcome of an understanding of the development process as informed by development economics. The policies pursued by such states drew inspiration from the corpus of knowledge generated by development economics. These countries, more than others, had taken the tenets of development economics seriously and acted *as if* they actually took heed of the message of development economics: its pessimism about the prospects of primary commodities-driven growth and counsel for export diversification through industrialization; its emphasis on high savings and high investment, and the need for deliberate policies for resource mobilization; its focus on "manpower" or education; its insistence on an active role for the state to deal with coordination problems (Nurkes's balanced growth approach or development planning); its emphasis on market imperfections and the need for corrective state policies. Such states acted as if they recognized "path dependence" and the impacts this had on "late industrializers".

Development economics had proposed that for late industrializers it was necessary to make the "big push" (Rosenstein-Rodan, P. 1943) or "critical minimum effort" (Lebeinstein, Harvey 1963) or the "great spurt" (Gershenkron, Alexander 1962), to turn the process of "cumulative causation" (Myrdal, Gunnar 1957) into a virtuous cycle of positive feedback, to identify "poles of development" (Perroux, François 1950). All this was intended to get countries out of the "low equilibrium trap" that history had landed them in, and move them toward higher equilibrium to "take off" (Rowstow, W.W. 1960).

Development economics was keenly aware of the disequilibrating nature of the development process, and while the market might be able to correct some of the more marginal disequilibria, the systemic ones would necessitate state action through some form of "programming". In the words of Rosenstein-Rodan:

"The programming of investment in a developing country is necessary to correct for such distortions as indivisibilities and externalities, and information failures. 'Programming' is just another word for rational, deliberate, consistent, and coordinated economic policy." (Rosenstein-Rodan, Paul 1984)

Development Economics in Changed Circumstances

The call for "development economics" is not informed by nostalgia for the "Golden Era" of developmentalism, nor does it assume simply resuming where one left off. Rather, it is informed by the impasse of the Washington consensus and the immediacy of the agenda that development economics sought to address – eradication of poverty through economic development and equitable distribution. However, in the light of changed circumstances and accumulated experiences, the new "development economics" will have to take on a whole range of new issues in a vastly changed global environment. The crucial changes include:

- The changed international context
- Changes in economics
- New views of the state
- The new social agenda.

1. The Changed International Context

Development strategies have been always premised on some view of the international order, and have been expressed in response to the pressures and opportunities of such an order. Much of the early thinking on development was influenced by the disruption of trade engendered by the First World War, the Great Depression and the Second World War. It was also coloured by the nationalist quest for decolonization and "catching up". In the post-World War II international regimes, underpinned by the Bretton Woods agreement, the nation-state could pursue a wide range of policies relatively autonomously. World trade increased while individual countries pursued their own national goals on employment and economic growth.

Consequently, a significant number of policy instruments were available to nation-states. Indeed, it did not seem far-fetched to assume "closed models" of accumulation and development. It was in such a context that the welfare state—and the Keynesian economics serving it—thrived. It was also in this context that development efforts and the trade policies emerged. It is important to underscore that a widely held view of the international order took for granted the Prebisch thesis on trade and primary products, and the belief that industrialization led to export diversification.

The situation, today, is said to differ radically from this "Golden Era" of capitalism. The view today is that globalization has severely restricted the range of available options. Indeed, some go as far as to argue that the kind of autonomy enjoyed by developmental states is no longer possible under the global trade regime, as embodied in the World Trade Organization. The simplistic advice has been that countries should "open up" to trade and adjust to the exigencies of globalization. The policies recommended have tended to assume applicability in all countries. In this view, there is no need for any special policies for countries that are underdeveloped. Yet one remarkable feature of the "era of globalization" has been the generally lower rates of economic growth worldwide.

And, so in discussing globalization it is necessary to consider what global arrangement or "architecture" would be developmental, and what strategies individual countries should pursue in order to benefit from whatever new order emerges. Clearly, only those countries that have strategically mapped their participation in the globalization process have been able to benefit. Whatever is the right position, development economics will have to address the implications of this order for different development options.

2. Changes in Economics

One area of economics that has, at least potentially, close affinity to development economics is growth economics. Indeed, a feature of Keynesian economics that played a significant role in development planning is the Harrod-Domar model. Other neo-Keynesian models linking savings, income distribution and technology to economic growth have also been present. On the neoclassical front, the dominant growth model (by Solow) did not leave much room for deliberate action by the state, suggesting, as it did, that growth was determined by exogenously given technology. For much of the 1970s and early 1980s, there was little interest in long-term growth in the macroeconomic literature, and this neglect was reflected in development economics by the shift in emphasis toward short-term stabilization issues, foreign debt and stimulation of exports (Barros, A. 1993).

However, significant changes led to a renewal of interest in economic growth. Part of the new interest in growth economics was induced by concern among American economists faced with economic stagnation in the United States, while other countries like Japan forged ahead. The apparent threat of "de-industrialization" in the United States, which was being inundated by imports from countries that had clearly articulated industrial policies, rekindled interest in trade and industrial policy, leading to theories on strategic trade policies. It was necessary to introduce greater realism in order to account both for the failure of convergence among economies—as suggested by neoclassical theories—and for the divergent performance even among economies at the same level of development. Concern with economies of scale, human capital and information harked back to the issues that were central to development economics, and pointed toward the same role for the state in the development policies.

Furthermore, a growing number of economists accepted that the developmental state had been instrumental in the high-performing East Asian economies. They agreed on the need to provide a developmental explanation for such a performance by taking on board a number of issues: economies of scale, imperfect information, learning by doing and structural rigidities, which, in turn, revived interest in the issues that were central to development economics—problems of missing markets, the need for planning to address coordination problems, the importance of regulation and the inherently imperfect nature of financial markets, the "lumpiness" of investment, etc. This led to what Paul Krugman (Krugman, P. 1992), probably immaturely, called the "counter-counter-revolution".

There are, however, a number of issues that were central to development economics that have yet to be theorized in these new approaches. One major lacuna is the whole question of structural transformation. Vernon Ruttan categorically states:

> "An attempt to analyze economic development with a model in which there is no mechanism to generate structural transformation can hardly be regarded as serious. It resembles an attempt to perform Hamlet with no role for the Prince of Denmark". (Ruttan, Vernon W. 1998:p.13)

Moshe Syrquin makes a similar point and faults the new growth theory for not dealing with the stylized facts of structural change that have been identified in historical studies of economic development (Syrquin, Moshe 1994). The new growth theories (NGT) do not systematically tackle the issue of poverty and equity in the growth process. A similar inadequacy shows up with respect to institutions. Although considerable progress has been made to include variables that proxy institutional or political arrangements, institutional changes and their relationship with development do not figure much in these new approaches.

3. New Views of the State

One of the criticisms levelled against development economics was its failure to say much about the social base of the state, and the power relations that it reflected or accommodated. Indeed, much of the early work in this area was premised on the notion of a benevolent state that selflessly pursued developmental goals on behalf of society. The approach also tended to underestimate the vital role of the market in the development process, either as a disciplining device on individual actors (including the state) or as an instrument available to the state for allocation of resource and monitoring performance. There is now greater sensitivity to the need to understand the political and institutional constitution of states, partly as a result of the failure of a wide range of developing countries, the crisis of the welfare state and the "public choice" critique of policy making.

However, the wide recognition of "government failure" has been used to override any argument for the need to correct for "market failure". Even economists who have contributed to the elaboration of models suggesting the need for state intervention (e.g. strategic trade theories, endogenous growth theories) in light of market failure have either shied away from explicitly drawing the interventionist implications of their analysis, or have been constrained to negate the strategic implications of their model by arguing

that the state cannot be entrusted with the task since the likely outcome of "government failure" would be worse than that of "market failure".
In addition, the new institutional economics has revived some of the issues that were central to development economics and the adjacent fields of economic and political development.

4. The New Social Agenda

One of the greatest challenges in development policy is the edification of a state society nexus that is developmental (in the sense that it facilitates and promotes economic growth and structural transformation), democratic (in the sense that it derives its legitimacy through popular participation and electoral process) and socially inclusive (in the sense that it pursues social policies that ensure equitable entitlements) of all its citizens, to ensure that their capacities and functionings are adequate for decent inclusion. The centrality of these values and concerns is clearly spelled out by Amartya Sen in his "Development as Freedom" (Sen, Amartya 1999). In addition, there is the awareness that such social orders must be attentive to the environmental sustainability of their policies.

Social Equity

The problems of equity and growth have been at the heart of development economics, both in the form of the assertion of a trade-off, and in the historical sequencing suggested by Kuznets. Early literature was characterized by a "distribution pessimism" often associated with the view that greater inequality facilitated higher savings, because the rich had higher propensity to save than the poor. In the era of neoliberalism, distribution issues were left to the market and any activities, such as social policy, were seen as either likely to "distort" the market or scare investors. More recent empirical and theoretical development suggests that neither the trade-off view nor the Kuznets' hypothesis are fixed laws. Indeed, there is persuasive evidence that equity has facilitated growth in some of the most recent success stories.

We are now more aware that embedded in the policies of late industrializers were social policies that served as key instruments for development. And we are now more conscious how gendered a process development is. Consequently, new thinking in development will have to integrate issues of social equity much more closely than earlier versions of development economics. In this respect the integration of economic and social policy will be a central preoccupation, since social policy not only addresses the