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The rise and decline of development economics

Development economics is a comparatively young area of inquiry. It was born just about a generation ago, as a subdiscipline of economics, with a number of other social sciences looking on both skeptically and jealously from a distance. The forties and especially the fifties saw a remarkable outpouring of fundamental ideas and models which were to dominate the new field and to generate controversies that contributed much to its liveliness. In that eminently "exciting" era, development economics did much better than the object of its study, the economic development of the poorer regions of the world, located primarily in Asia, Latin America, and Africa. Lately it seems that at least this particular gap has been narrowing, not so much unfortunately because of a sudden spurt in economic development, but rather because the forward movement of our subdiscipline has notably slowed down. This is of course a subjective judgment. Articles and books are still being produced. But as an observer and long-time participant I cannot help feeling that the old liveliness is no longer there, that new ideas are ever harder to come by and that the field is not adequately reproducing itself.

This retrospective essay, which is also to appear in the forthcoming collection in honor of Sir Arthur Lewis (London: George Allen and Unwin), is of course a highly selective review. In particular, it does not treat the development of our factual knowledge about the development process which has often included the testing of theories; here the main debt is owed to such figures as Simon Kuznets and Hollis Chenery. A number of other surveys of the sort here attempted have appeared recently. See, in particular, Paul Streeten, "Development ideas in historical perspective," in *Toward a New Strategy for Development*, Rothko Chapel Colloquium (New York: Pergamon Press, 1979), pp. 21–52, and Fernando Henrique Cardoso, "The originality of a copy: CEPAL and the idea of development," *CEPAL Review* (second half of 1977), UN Commission for Latin America, UN Publication E.77.II.G.5, pp. 7–40. See also the introductory section of Chapter 4 for a brief review of "theorizing on economic development in historical perspective" with a rather different focus.

When scientific activity is specifically directed at solving a pressing problem, one can immediately think of two reasons why, after a while, interest in this activity should flag. One is that the problem is in fact disappearing – either because of the scientific discoveries of the preceding phase or for other reasons. For example, the near demise of interest in business-cycle theory since the end of World War II was no doubt due to the remarkably shock-free growth experienced during that period by the advanced industrial countries, at least up to the mid-seventies. But this reason cannot possibly be invoked in the present case: The problems of poverty in the Third World are still very much with us.

The other obvious reason for the decline of scientific interest in a problem is the opposite experience, that is, the disappointing realization that a "solution" is by no means at hand and that little if any progress is being made. Again, this explanation does not sound right in our case, for in the last thirty years considerable advances have taken place in many erstwhile "underdeveloped" countries – even a balance sheet for the Third World as a whole is by no means discouraging.[1]

In sum, the conditions for healthy growth of development economics would seem to be remarkably favorable: the problem of world poverty is far from solved, but encouraging inroads on the problem have been and are being made. It is therefore something of a puzzle why development economics flourished so briefly.

In looking for an explanation, I find it helpful to take a look at the conditions under which our subdiscipline came into being. It can be shown, I believe, that this happened as a result of an a priori unlikely conjunction of distinct ideological currents. The conjunction proved to be extraordinarily productive, but also created problems for the future. First of all, because of its heterogeneous ideological makeup, the new science was shot through with tensions that would prove disruptive at the first opportunity. Secondly, because of the circumstances under which it arose, development economics became overloaded with unreasonable hopes and ambitions that soon had to be clipped back. Put very briefly and schematically, this is the tale I shall tell – plus a few stories and reflections on the side.

[1] See, for example, David Morawetz, *Twenty-Five Years of Economic Development: 1950 to 1975* (Washington, D.C.: World Bank, 1977).

I. A simple classification of development theories

The develpment ideas that were put forward in the forties and fifties shared two basic ingredients in the area of economics. They also were based on one unspoken political assumption with which I will deal in the last section of this paper.

The two basic economic ingredients were what I shall call the rejection of the *monoeconomics claim* and the assertion of the *mutual-benefit claim*. By rejection of the monoeconomics claim I mean the view that underdeveloped countries as a group are set apart, through a number of specific economic characteristics common to them, from the advanced industrial countries and that traditional economic analysis, which has concentrated on the industrial countries, must therefore be recast in significant respects when dealing with underdeveloped countries. The mutual-benefit claim is the assertion that economic relations between these two groups of countries could be shaped in such a way as to yield gains for both. The two claims can be either asserted or rejected, and, as a result, four basic positions exist, as shown in the following table.

Types of development theories

	Monoeconomics claim: *asserted*	*rejected*
Mutual-benefit claim: *asserted*	Orthodox economics	Development economics
rejected	Marx?	Neo-Marxist theories

Even though there are of course positions that do not fit neatly just one of its cells, this simple table yields a surprisingly comprehensive typology for the major theories on development of the periphery. In the process, it makes us realize that there are two unified systems of thought, orthodox economics and neo-Marxism, and two other less consistent positions that are therefore likely to be unstable: Marx's scattered thoughts on development of "backward" and colonial areas, on the one hand, and modern development economics, on the other. I shall take up these four positions in turn, but shall give major attention to development economics and to its evolving relations with – and harassment by – the two adjoining positions.

The orthodox position holds to the following two propositions: (a) economics consists of a number of simple, yet "powerful" theorems of universal validity: there is only one economics ("just as there is only one physics"); (b) one of these theorems is that, in a market economy, benefits flow to all participants, be they individuals or countries, from all voluntary acts of economic intercourse ("or else they would not engage in those acts"). In this manner, both the monoeconomics and the mutual-benefit claims are asserted.

The opposite position is that of the major neo-Marxist theories of development which hold: (a) exploitation or "unequal exchange" is the essential, permanent feature of the relations between the underdeveloped "periphery" and the capitalist "center"; (b) as a result of this long process of exploitation, the political-economic structure of the peripheral countries is very different from anything ever experienced by the center, and their development cannot possibly follow the same path – for example, it has been argued that they cannot have a successful industrialization experience under capitalist auspices. Here, both the mutual-benefit claim and the monoeconomics claim are rejected.

A cozy internal consistency, bent on simplifying (and oversimplifying) reality and therefore favorable to ideology formation, is immediately apparent in both the orthodox and the neo-Marxist positions. This is in contrast with the remaining two positions. It should be clear why I have placed Marx into the southwesterly cell (mutual-benefit claim rejected, monoeconomics claim asserted). Writing in *Capital* on primitive accumulation on the one hand, Marx describes the process of spoliation to which the periphery has been subject in the course of the early development of capitalism in the center. Thus he denies any claim of mutual benefit from trade between capitalist and "backward" countries. On the other hand, his well-known statement, "The industrially most developed country does nothing but hold up to those who follow it on the industrial ladder, the image of its own future," coupled with the way in which he viewed England's role in India as "objectively" progressive in opening the way to industrialization by railroad construction, suggests that he did not perceive the "laws of motion" of countries such as India as being substantially different from those of the industrially advanced ones. Marx's opinions on this latter topic are notoriously complex and subject to a range of interpretations, as is indicated by the question mark in the table. But to root *neo*-Marxist thought firmly in the southeasterly cell took considerable labors (which involved, among other things, *uprooting* an important component of the thought of Marx). The story of these labors and revisions has been told elsewhere,[2] and my task here is to deal with the origin and dynamics of the other "hybrid" position: development economics.

It is easy to see that the conjunction of the two propositions – (a) certain special features of the economic structure of the underdeveloped countries make an important portion of orthodox analysis inapplicable and misleading, and (b) there is a possibility for relations between the developed and underdeveloped countries to be mutually beneficial and for the former to contribute to the development of the latter – was essential for our subdiscipline to arise where and when it did: namely, in the advanced industrial countries of the West, primarily in England and the United States, at the end of World War II. The first proposition is required for the creation of a separate theoretical structure, and the second was needed if Western economists were to take a strong interest in the matter – if the likelihood or at least the hope could be held out that their own countries could play a positive role in the development process, perhaps after certain achievable reforms in international economic relations. In the absence of this perception it would simply not have been possible to mobilize a large group of activist "problem solvers."

II. The inapplicability of orthodox monoeconomics to underdeveloped areas

Once a genuinely new current of ideas is firmly established and is being busily developed by a large group of scholars and re-

[2] B. Sutcliffe, "Imperialism and Industrialization in the Third World," in R. Owen and B. Sutcliffe, eds., *Studies in the Theory of Imperialism* (London: Longman, 1972), pp. 180–86, and P. Singer, "Multinacionais: internacionalização e crise," Caderno CEBRAP No. 28 (São Paulo: Editora Brasiliense, 1977), pp. 50–56. On the complexity of Marx's views, even in the preface of *Capital* where the cited phrase appears, see Chapter 4, this volume, pp. 89–90.

searchers, it becomes almost impossible to appreciate how difficult it was for the new to be born and to assert itself. Such difficulties are particularly formidable in economics with its dominant paradigm and analytical tradition – a well-known source of both strength and weakness for that social science. Accordingly, there is need for an explanation of the rise and at least temporary success of the heretical, though today familiar, claim that large portions of the conventional body of economic thought and policy advice are not applicable to the poorer countries – the more so as much of this intellectual movement arose in the very "Anglo-Saxon" environment which had long served as home for the orthodox tradition.

Elements of such an explanation are actually not far to seek. Development economics took advantage of the unprecedented discredit orthodox economics had fallen into as a result of the depression of the thirties and of the equally unprecedented success of an attack on orthodoxy from within the economics "establishment." I am talking of course about the Keynesian Revolution of the thirties, which became the "new economics" and almost a new orthodoxy in the forties and fifties. Keynes had firmly established the view that there were *two* kinds of economics: one – the orthodox or classical tradition – which applied, as he was wont to put it, to the "special case" in which the economy was fully employed; and a very different system of analytical propositions and of policy prescriptions (newly worked out by Keynes) that took over when there was substantial unemployment of human and material resources.[3] The Keynesian step from one to two economics was crucial: the ice of monoeconomics had been broken and the idea that there might be yet another economics had instant credibility – particularly among the then highly influential group of Keynesian economists, of course.

Among the various observations that were central to the new development economics and implicitly or explicitly made the case for treating the underdeveloped countries as a sui generis

[3] Dudley Seers leaned on this established terminological usage with his article "The Limitations of the Special Case," *Bulletin of the Oxford University Institute of Economics and Statistics*, 25 (May 1963): 77–98, in which he pleaded for recasting the teaching of economics so as to make it more useful in dealing with the problems of the less-developed countries. The "special case" that had falsely claimed generality was, for Keynes, the fully employed economy; for Seers, it was the economy of the advanced capitalist countries, in contrast to conditions of underdevelopment.

group of economies, two major ones stand out, that relating to rural underemployment and that stressing the late-coming syndrome in relation to industrialization.

1. *Rural underemployment*. The early writers on our subject may have looked for an even closer and more specific connection with the Keynesian system than was provided by the general proposition that different kinds of economies require different kinds of economics. Such a connection was achieved by the unanimous stress of the pioneering contributions – by Kurt Mandelbaum, Paul Rosenstein-Rodan and Ragnar Nurkse – on *underemployment* as a crucial characteristic of underdevelopment. The focus on rural *under*employment was sufficiently similar to the Keynesian concern with *un*employment to give the pioneers a highly prized sensation of affinity with the Keynesian system, yet it was also different enough to generate expectations of eventual independent development for our fledgling branch of economic knowledge.

The affinities were actually quite impressive. As is well known, the Keynesian system took unemployment far more seriously than had been done by traditional economics and had elaborated a theory of macroeconomic equilibrium with unemployment. Similarly, the early development economists wrote at length about the "vicious circle of poverty" – a state of low-level equilibrium – which can prevail under conditions of widespread rural underemployment. Moreover, the equilibrium characteristics of an advanced economy with urban unemployment and those of an underdeveloped economy with rural underemployment were both held to justify interventionist public policies hitherto strictly proscribed by orthodox economics. The Keynesians stressed the task of expansionary fiscal policy in combating unemployment. The early development economists went farther and advocated some form of public investment planning that would mobilize the underemployed for the purpose of industrialization, in accordance with a pattern of "balanced growth."

In these various ways, then, the claim of development economics to stand as a separate body of economic analysis and policy derived intellectual legitimacy and nurture from the prior success and parallel features of the Keynesian Revolution.

The focus on rural underemployment as the principal characteristic of underdevelopment found its fullest expression in the work of Arthur Lewis. In his powerful article "Economic Development with Unlimited Supplies of Labour" he managed – almost miraculously – to squeeze out of the simple proposition about underemployment a full set of "laws of motion" for the typical underdeveloped country, as well as a wide range of recommendations for domestic and international economic policy.

With the concept of rural underemployment serving as the crucial theoretical underpinning of the separateness of development economics, it is not surprising that it should have been chosen as a privileged target by the defenders of orthodoxy and monoeconomics.[4] For example, Theodore W. Schultz devoted a full chapter of his well-known book *Transforming Traditional Agriculture* (Yale, 1964) to an attempt at refuting what he called "The Doctrine of Agricultural Labor of Zero Value."[5] This suggests an interesting point about the scientific status of economics, and of social science in general. Whereas in the natural or medical sciences Nobel prizes are often shared by two persons who have collaborated in, or deserve joint credit for, a given scientific advance, in economics the prize is often split between one person who has developed a certain thesis and another who has labored mightily to prove it wrong.

At the outset of his celebrated article, Lewis had differentiated the underdeveloped economy from Keynesian economics by pointing out that in the Keynesian system there is underemployment of labor as well as of other factors of production, whereas in an underdevelopment situation only labor is redundant. In this respect, my own work can be viewed as an attempt to generalize the diagnosis of underemployment as the characteristic feature of underdevelopment. Underdeveloped countries did

[4] See, for example, Jacob Viner, "Some Reflections on the Concept of 'Disguised Unemployment,' " in *Contribuições à Análise do Desenvolvimiento Econômico* (Essays in honor of Eugênio Gudin), (Rio de Janeiro: Agir, 1957), pp. 345–54.

[5] His principal empirical argument was the actual decline in agricultural output suffered when the labor force suddenly diminished in a country with an allegedly redundant labor force in agriculture, as happened during the 1918–19 influenza epidemic in India. Arthur Lewis pointed out later that the consequences he had drawn from the assumption of zero marginal productivity in agriculture would remain fully in force provided only the supply of labor at the given wage in industry exceeds the demand, a condition that is much weaker than that of zero marginal productivity. See W. Arthur Lewis, "Reflections on Unlimited Labor," in *International Economics and Development: Essays in Honor of Raúl Prebisch* (New York and London: Academic Press, 1972), pp. 75–96.

have hidden reserves, so I asserted, not only of labor, but of savings, entrepreneurship, and other resources. But to activate them, Keynesian remedies would be inadequate. What was needed were "pacing devices" and "pressure mechanisms"; whence my strategy of unbalanced growth.

My generalization of the underemployment argument may have somewhat undermined the claim of development economics to autonomy and separateness. As the work of Herbert Simon on "satisficing" and that of Harvey Leibenstein on "X-efficiency" were to show, the performance of the advanced economies also "depends not so much on finding optimal combinations for given resources as on calling forth and enlisting . . . resources and abilities that are hidden, scattered, or badly utilized" – that was the way I had put it in *The Strategy of Economic Development* for the less developed countries.[6] A feature I had presented as being specific to the situation of one group of economies was later found to prevail in others as well. Whereas such a finding makes for reunification of our science, what we have here is not a return of the prodigal son to an unchanging, ever-right and -righteous father. Rather, our understanding of the economic structures of the West will have been modified and enriched by the foray into other economies.

This kind of dialectical movement – first comes, upon looking at outside groups, the astonished finding of Otherness, and then follows the even more startling discovery that our own group is not all that different – has of course been characteristic of anthropological studies of "primitive" societies from their beginning and has in fact been one of their main attractions. In the field of development economics, something of this sort has also happened to the ideas put forward by Arthur Lewis. The dynamics of development with "unlimited" supplies of labor, which was supposed to be typical of less developed countries, have in fact prevailed in many "Northern" economies during the postwar period of rapid growth, owing in large part to massive immigration, temporary or permanent, spontaneous or organized, from the "South."[7] One of the more interesting analytical responses to this situation has been the dual labor market theory

[6] New Haven: Yale University Press, 1958, p. 5.
[7] C. P. Kindleberger, *Europe's Postwar Growth: The Role of Labor Supply* (Cambridge, Mass.: Harvard University Press, 1967).

of Michael Piore and others. This theory is easily linked up with the Lewis model, even though that connection has not been made explicit as far as I know.

2. *Late industrialization.* I have suggested in the preceding pages that the concept of underemployment achieved its position as foundation stone for development economics because of its affinity to the Keynesian system and because of the desire of the early writers on our subject to place themselves, as it were, under the protection of a heterodoxy that had just recently achieved success. There was, moreover, something arcane about the concept, often also referred to as "disguised unemployment," that served to enhance the scientific aura and status of the new field.

Along with the mysteries, however, the common sense of development also suggested that some rethinking of traditional notions was required. It became clear during the depression of the thirties and even more during World War II that industrialization was going to hold an important place in any active development policy of many underdeveloped countries. These countries had long specialized – or had been made to specialize – in the production of staples for export to the advanced industrial countries which had supplied them in return with modern manufactures. To build up an industrial structure under these "late-coming" conditions was obviously a formidable task that led to the questioning of received doctrine according to which the industrial ventures appropriate to any country would be promptly acted upon by perceptive entrepreneurs and would attract the required finance as a result of the smooth working of capital markets. The long delay in industrialization, the lack of entrepreneurship for larger ventures, and the real or alleged presence of a host of other inhibiting factors made for the conviction that, in underdeveloped areas, industrialization required a deliberate, intensive, guided effort. Naming and characterizing this effort led to a competition of metaphors: big push (Paul Rosenstein-Rodan), takeoff (Walt W. Rostow), great spurt (Alexander Gerschenkron), minimum critical effort (Harvey Leibenstein), backward and forward linkages (Albert O. Hirschman). The discussion around these concepts drew on both theoretical arguments – new rationales were developed for protection, plan-