

# **DEVELOPMENT STRATEGIES RECONSIDERED**

**John P. Lewis and  
Valeriana Kallab, Editors**

**Contributors: John P. Lewis, Irma Adelman, John W. Mellor,  
Jagdish N. Bhagwati, Leopoldo Solis, Aurelio Montemayor,  
Colin I. Bradford, Jr., Alex Duncan, and Atul Kohli**



**U.S.-Third World Policy Perspectives No. 5  
Overseas Development Council**

# **DEVELOPMENT STRATEGIES RECONSIDERED**

**John P. Lewis and  
Valeriana Kallab, Editors**

**Irma Adelman  
John W. Mellor  
Jagdish N. Bhagwati  
Leopoldo Solis  
Aurelio Montemayor  
Colin I. Bradford, Jr.  
Alex Duncan  
Atul Kohli**

**Series Editors:  
Richard E. Feinberg and  
Valeriana Kallab**



**Transaction Books**

**New Brunswick (USA) and Oxford (UK)**

Copyright © 1986 by Overseas Development Council, Washington, D.C.

All rights reserved under International and Pan-American Copyright Conventions. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any information storage and retrieval system, without prior permission in writing from the publisher. All inquiries should be addressed to Transaction Books, Rutgers—The State University, New Brunswick, New Jersey 08903.

Library of Congress Catalog Number: 86-24582

ISBN: 0-88738-044-1 (cloth)

ISBN: 0-87855-991-4 (paper)

Printed in the United States of America

**Library of Congress Cataloging-in-Publication Data**

Main entry under title:

Development strategies reconsidered.

1. Developing countries—Economic policy—Addresses, essays, lectures.
  2. Developing countries—Commercial policy—Addresses, essays, lectures.
  3. Industrial promotion—Developing countries—Addresses, Essays, lectures.
- I. Lewis, John Prior.

HC59.7.D482 1986 338.9'009172'4

86-24582

ISBN 0-88738-044-1

ISBN 0-87855-991-4 (pbk.)

The views expressed in this volume are those of the authors and do not necessarily represent those of the Overseas Development Council as an organization or of its individual officers or Board, Council, Program Advisory Committee, and staff members.

# Development Strategies Reconsidered

## Acknowledgments

*Guest Editor:*

John P. Lewis

*Series Editors:*

Richard E. Feinberg

Valeriana Kallab

The Overseas Development Council gratefully acknowledges the help of the Ford, William and Flora Hewlett, and Rockefeller Foundations, whose financial support contributes to the preparation and widespread dissemination of the policy analysis presented in the ODC's U.S.-Third World Policy Perspectives series. The Council's special thanks for support and encouragement of this volume in the Policy Perspectives series go to the Johnson Foundation and to the International Development Research Centre (IDRC).

On behalf of the ODC and the contributing authors, the editors wish to express special thanks to members of the ODC Program Advisory Committee and others who participated in the discussion of early versions of the papers included in this volume at the conference on "Development Strategies: A Synthesis," sponsored by the ODC and the Johnson Foundation, with assistance from the IDRC.

Special thanks for their respective roles in the editorial preparation and production of this volume are due to Patricia A. Masters, Linda Starke, Carol J. Cramer, Lisa M. Cannon, and Robin E. Ward.

# Foreword

When the Overseas Development Council launched its U.S.-Third World Policy Perspectives series in 1984, firm criteria were established that each issue should analyze different facets of a major U.S.-Third World policy issue on the current agenda of decision makers. The initial volumes in the series thus were devoted to the debt crisis, the role of the commercial banks in financing development, and U.S.-Third World trade issues relating to a new round of international trade negotiations.

*Development Strategies Reconsidered* departs from that pattern. We asked John P. Lewis, Senior Advisor to ODC and Chairman of its Program Advisory Committee, to take on a more difficult task: to set out, for non-specialists, an overview of current thinking among development strategists on the broad issue of how best to promote development in the economic and political environment of the mid-1980s. That task seemed urgent for three reasons. First, while development as an international policy goal is only about four decades old, a great deal has been accomplished; in fact, the record of both economic growth and human improvement in the developing countries has been nothing short of spectacular (albeit very uneven between and within countries). Second, there currently is a pervasive feeling that somehow development has "failed"—a feeling reinforced, at the extremes, by the food and environmental problems of Sub-Saharan Africa and by the debt crises of the more advanced developing countries. Third, there is no agreement among policymakers as to the "correct" development strategy for Third World governments or aid agencies.

This volume of Policy Perspectives was deliberately designed not to recommend one correct development strategy—whether for aid agencies or Third World governments; rather, it was designed to analyze what has been learned from nearly 40 years of development cooperation in terms of economic growth, societal equity, and political participation. The reader will then be in a much better position to participate in what we hope will be the coming debate over how U.S. policy can best support both legitimate U.S. interests in the Third World and the developing countries' own hopes and aspirations for economic progress and improved human wellbeing.

No one is better qualified for this task than John P. Lewis. During a distinguished and productive career, Dr. Lewis has served in the Council of Economic Advisers under President Kennedy, as head

of the U.S. Aid mission in India, and as Chairman of the OECD's Development Assistance Committee. For many years, he has alternated between government posts and academia; he is Dean and professor of economics and international affairs at Princeton University's Woodrow Wilson School of Public and International Affairs. He has been an active participant in the evolution of development theory, policy, and practice that is analyzed in this policy volume.

On behalf of the Overseas Development Council, I would like to express special thanks to the Johnson Foundation of Racine, Wisconsin, and particularly to its President and Vice President, William Boyd and Rita Goodman, for their support and encouragement of this project.

February 1986

John W. Sewell, *President*  
*Overseas Development Council*

# Contents

Foreword, by John W. Sewell .....	vii
-----------------------------------	-----

## Overview:

<b>Development Promotion: A Time for Regrouping</b>	
John P. Lewis .....	3
I. Looking to the Next Round of Development Strategies ..	5
Past Development Strategy Fashions in Quick Review .....	5
The New Orthodoxy and the Mainstream State of Play .....	8
Issues Debated by the Contributors .....	10
II. Is Development Promotion a Lost Cause? .....	16
Sources of Disillusionment .....	16
The Record: No Grounds for Quitting .....	23
Net Assessment .....	31
<b>Summaries of Recommendations .....</b>	<b>35</b>

<b>1. A Poverty-Focused Approach to Development Policy</b>	
Irma Adelman .....	49
The Theory of Poverty: Lessons of a Decade .....	50
Types of Anti-Poverty Policy .....	57
Conclusion .....	64
<b>2. Agriculture on the Road to Industrialization</b>	
John W. Mellor .....	67
Development Failings and Agriculture's Potential .....	69
Historical Sketch of the Agriculture versus Industry Debate .....	71
An Agriculture- and Employment-Based Strategy of Economic Growth .....	76
Policy Issues .....	81
<b>3. Rethinking Trade Strategy</b>	
Jagdish N. Bhagwati .....	91
Some Important Clarifications .....	92
EP versus IS Strategy: Old Arguments and Findings .....	94
EP versus IS Strategy: Old Wars, New Battles .....	97

<b>4. A Mexican View of the Choice Between Outward and Inward Orientation</b>	
Leopoldo Solis and Aurelio Montemayor .....	105
The Experience of Outward-Oriented Countries .....	106
The Record of Inward-Oriented Countries .....	108
The Vista for the 1980s. ....	110
Conclusions .....	112
<b>5. East Asian "Models": Myths and Lessons</b>	
Colin I. Bradford, Jr. ....	115
The Debate: Theory, Politics, and Policy .....	116
The East Asian Experience: Another Look .....	119
Conclusions and Implications. ....	122
<b>6. Aid Effectiveness in Raising Adaptive Capacity in the Low-Income Countries</b>	
Alex Duncan .....	129
Recent Trends and the Growth of Aid .....	130
Building Capacities. ....	132
Tailoring Aid for Specific Needs. ....	146
Building Capacities: What Is To Be Done? .....	148
<b>7. Democracy and Development</b>	
Atul Kohli .....	153
The Impact of Democracy on Economic Development. ....	154
The Dynamics of Third World Democracy .....	163
Conclusion .....	177
<hr/>	
About the Overseas Development Council and the Contributors .....	183

Development Strategies Reconsidered:

# Overview and Summaries of Recommendations



# Development Promotion: A Time for Regrouping

John P. Lewis

---

The promotion of Third World development, both as a subject for study and as a realm of public policy, is about thirty-five years old. In this comparatively short period, both the practical and academic sides of the field have had star-studded histories. Currently, however, both are in the doldrums.

In the U.S. case, references to "aid fatigue" have become commonplace. Compared with twenty years ago, the study of development has lost standing in the universities. Whether or not the appeal of careers as development practitioners has diminished for young Americans (some of them, certainly, are as eager as ever) there are fewer jobs for them. We are into the second term of an administration that has reduced the official focus on North-South economic matters, especially on those which are not country- or region-specific.

Moreover, the sag in pro-development energies and efforts is not uniquely American. It is evident in a number of other developed countries. One cannot attribute quite the same policy lapse to the developing countries themselves; clearly, their interest in their own development has not flagged. Yet distracting circumstances have mounted, and in many, not all, developing countries, the resources assignable to development have thinned and expectations have diminished. In this sense, the current wilting of development effort and analysis is a global, not just a "North-Western," phenomenon.<sup>1</sup>

This situation and mood provide the occasion for this book. The authors are all adherents to what might be called mainstream development doctrine (although some of them are not entirely happy with the label). By "mainstream" doctrines I here mean those which broadly reflect the views of most influential North-Western analysts and policy advisers, and which typically are widely shared by (indeed, often are derived from) counterparts in the South.<sup>2</sup> By "doctrine" I mean theories about how public policies, both in the Third World itself and in the international community, can promote Third World economic development. Such policies of course include development assistance, or aid, but they include as well a whole array of other policies—mainly in the developing countries themselves but also in the industrialized world—that shape the environment for development both indirectly and directly.

The contributors to this volume agree that this is a "down" time, a period of slack, in development thought and efforts. To them, this is no surprise—in that development doctrine has evolved in a series of revisionist surges throughout its thirty-five-year history. The process has been roughly dialectical: In a particular period, an effective majority of theorists and policy makers has pursued one theme to the partial neglect of one or more others; then has overcorrected; and then perhaps has achieved a synthesis that itself becomes an input to further zigzagging forward.

And right now, most of the authors and most (although, as I shall be emphasizing, not all) mainstream analysts agree, we are between conventional wisdoms. This is not because some disembodied cycle or rhythm is at work, but because, just as happened when mainstream doctrines reached turning points in the past, events have forced shifts in the dominant beliefs. In the present case, as my sketch of the sequence of mainstream strategies will try to indicate, the critical events prompting such a shift have been the pre-emptive claims of the adjustment and debt crises that since 1979 have been preoccupying North-South attention—and, indeed, the attention of the Overseas Development Council in its own analyses.<sup>3</sup>

Those of us writing in this volume share this concern with the adjustment and debt crises as well as with the overlapping but distinguishable trauma afflicting much of Sub-Saharan Africa in these years. But we attempt to look through and beyond these immediate crises to the resumption of more effective long-term development promotion. How, we ask, can the lessons that have been learned now be put to work? Can a reasonably coherent set of

strategies be articulated? What should be the thrust of the next revision of development doctrine?

The first half of this overview chapter introduces the authors' responses to these questions. The second half takes on the quite different task of establishing the *relevance* of their reflections for policy, and for development itself—attempting to address the views of those observers who assert that the whole development promotion effort, past and prospective, is a waste of time.

## **I. Looking to the Next Round of Development Strategies**

In this section, I first briefly trace the path that dominant ideas concerning development have taken from the 1950s down to the present. Thereafter, I characterize today's "mainstreamers"—noting those whom the category leaves out, noting that all of those whom it includes are proponents of active development promotion, but noting also a present cleavage within the mainstream set. One faction (probably a minority, but it has the louder voice) preaches what I am calling the new orthodoxy; the ideas of the others are more heterodox, but no less positive as to the feasibility of development promotion. At the end of the section, I turn to our own particular authors and their topics.

### **Past Development Strategy Fashions in Quick Review**

In the 1950s, mainstream development strategists—adopting the new neo-Keynesian growth model of Roy Harrod and Evsey Domar and following the intellectual lead of such Third Worlders as Arthur Lewis, Raul Prebisch, and P. C. Mahalanobis—were preoccupied with industrialization and with lifting the capital constraints on development. There was pessimism about the ability of developing countries to increase their earnings from exports fast enough to keep pace with import requirements. Accordingly, two measures were emphasized for helping countries gear themselves up onto paths of self-sustaining growth: They needed net inward transfers of preferably concessional capital (i.e., aid), and they needed to encourage import substitution.

At that time, in the aftermath of the 1930s and of World War II, many theorists as well as policy designers were less than awed by

the magic of the market. In the poor countries—the older ones of Latin America, those newly independent in Asia, and others yet to achieve independence in Africa—there was need, it was felt, for massive, restructuring interventions by governments that could be adequately knit together only by comprehensive economic planning. The planning pressed upon clients by the U.S. and other bilateral aid programs and by the World Bank was inspired at least as much by the models of U.S. and British World War II economic mobilization as it was by the Soviet example that the literature now so typically cites. And planning in most developing countries—under circumstances of thin, imperfect, slow-acting markets and import-substitution-induced imbalances—tended to be coupled (although the linkage was not logically essential) with proliferating direct controls and proliferating bureaucracies to administer them.

Although it is customary these days to ridicule the kind of 1950s conventional wisdom I have just sketched, one of the lessons our story tells is that one set of mainstream doctrines is never totally abandoned. Elements are sloughed off or revised, but others are retained. Nevertheless, there plainly was a major reaction, a change of course, in mainstream circles in the 1960s. The virtues of the market as an instrument of social control were rediscovered. In the estimates of development analysts, the importance of policies and needed policy changes began to dominate the importance of quantitative planning. There were related efforts to unshackle economies from direct controls internally, liberalize their trade regimes, rationalize their exchange rates, and thereby shift toward export-promotion strategies. Both the focus on agriculture, which had suffered from the emphasis on industrialization, and the effectiveness of strategies for agricultural expansion were greatly enhanced. At the same time, the commitment to aid slowly gathered strength and coherence, in part because of the priority that some major donors assigned to agricultural development.

The conventional wisdom about conventional wisdoms has it that then—at the beginning of the 1970s—the emphasis shifted from growth to equity. Many Indian economists, including Jagdish Bhagwati, rightly argue that the issue of poverty was discovered long before the 1970s—that growth was not pursued as an end in itself in the 1950s and 1960s. They note that from 1961 onward, the Indian Planning Commission was defining and trying to implement minimum-needs programs as a way of contending with domestic poverty.

Nevertheless, the folklore is mostly right. It is true that in India and in much of the rest of the developing world, as well as in

much of the development cooperation community, a kind of double-take occurred at the very end of the 1960s. There was a sense that development professionals had become so operationally preoccupied with growth promotion that they had lost sight of poverty. Much more attention was addressed to intra-national distributional questions—in particular to low-end, “absolute” poverty, but also to inequalities up and down the income scale. The pejorative “trickle-down growth” entered the mainstream vocabulary. There was renewed concern with the problems of unemployment and underemployment, which in poor countries were seen to merge with the problem of poverty. Direct attacks on the latter, along with growth promotion, were needed. Meeting “basic human needs” became a target, if not the primary target, of development promotion. However, most analysts and policy makers (if not publicists) argued that basic needs had to be met mainly by raising the productivity and therefore the earned incomes of the poor, not via handouts. Yet it is also true that much of the basic-needsmanship of the 1970s was closely associated with an array of social-sector or human-resource issues (health, nutrition, population, education), as well as with a variety of innovative but complex integrated-rural-development ventures.

This new shift in conventional wisdom—some, perhaps speaking pejoratively themselves, called it “populism”—spread, and quickly, to most of the development promotion community in the early and mid-1970s. Robert McNamara became the school’s most prominent spokesman, but he did not invent it or set its boundaries. Anti-poverty cum basic needs was particularly a donor fashion. It was favored by various multilateral agencies, and nearly every bilateral aid donor represented in the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) adopted the nomenclature and reformed its operations in some of the directions indicated. But most developing countries also went along for a while. The populist movement reached its crest in the remarkably substantive Declaration of Principles and Programme of Action adopted with very few reservations by all the developed- and developing-country delegations to the International Labour Office’s (ILO) World Employment Conference of June 1976.<sup>4</sup>

Thus by the middle 1970s, we had been through two versions—that of the 1950s, then that of the 1960s—of how to accelerate growth, followed by a heavy pro-equity shift in mainstream development policy. It would appear the time was ripe for a tidy growth-cum-equity synthesis. But from here on things became more com-

plicated. The model of successive fashions and reactions continued to serve reasonably well, but the dialectics started fragmenting and overlapping.

For one thing, if John Mellor is right in his chapter in this volume, the basic-needs, integrated-rural-development thrust fell partly of its own weight. It gave too low a priority to aggregate agricultural output as well as to building human and institutional infrastructure for development. Beyond this, developing-country tolerance for intrusions into various internal distributional issues was short-lived. The conciliatory tones of basic-needs dialoguing were soon overtaken by the harsh cadences of "NIEO" dialoguing,<sup>5</sup> wherein the developing countries of the "Group of 77," emboldened by the newly evident muscle of their oil-exporting members, demanded faster reductions in inter-country inequalities while asserting sovereign prerogatives to deal with their own internal equity issues as they saw fit.

This last, however, suggests an overlapping 1970s phenomenon whose impact was far more direct and profound than were the effects of any shifts in North-South, inter-bloc diplomacy. I refer to the effects of the oil shocks—first in 1973–74, then in 1979–80. The first shock (in ways that have been described in various ODC publications<sup>6</sup> among others) established the context in which the newly industrializing countries (NICs) and some of the middle-income countries pressed ahead with the export-oriented growth strategies they had adopted in the 1960s. In continuing their productive expansions, some of these countries made more, some made less, precarious use of the temporarily cheap, variable-rate credit that was available. The production and income advances of all of them, however, contributed to the widening differentiation of development performances that characterized the 1970s. With many low-income countries (especially in Africa) not sharing these advances and even in economic retreat, it became clearer than ever that in the future even the broadest development strategies would need to be country-group specific.

The second oil shock (along lines also reviewed in other ODC publications,<sup>7</sup> including two earlier volumes of the Policy Perspectives series) pushed us into the present era of adjustment. The oil-price jump triggered a set of macro policy decisions, especially in the United States, that in turn triggered financial crises—not only in the most heavily indebted Latin American countries but also in much of Africa and parts of Asia. Arguments over the appropriate goals of development strategy—growth or equity? or what balance between them?—were pre-empted. Both goals had to yield priority