Economic Development

Theory, Policy, and International Relations

IAN M. D. LITTLE

A TWENTIETH CENTURY FUND BOOK

BASIC BOOKS, INC.
HARPER TORCHBOOKS TB 5095

ECONOMIC DEVELOPMENT

THEORY, POLICY, AND INTERNATIONAL RELATIONS

A Twentieth Century Fund Book

Ian M. D. Little

Basic Books, Inc., Publishers

New York

The Twentieth Century Fund is an independent research foundation which undertakes policy studies of economic, political, and social institutions and issues. The Fund was founded in 1919 and endowed by Edward A. Filene.

Library of Congress Cataloging in Publication Data

Little, Ian Malcolm David.
Economic development.

"A Twentieth Century Fund study."
Bibliography: p. 425
Includes index.
1. Economic development. 2. Underdeveloped areas.
3. International economic relations. I. Title.
HD82.L49 1982 338.9 82-71366
ISBN 0-465-01787-8 (cloth)
ISBN 0-465-01793-2 (paper)

Printed in the United States of America
Designed by Vincent Torre
10 9 8 7 6 5 4 3 2 1

Foreword

The demands of the developing countries for a so-called new international economic order have become something of a ritual incantation in recent years, gaining some credence from constant repetition. There had been critical studies of the new order, but none that placed it in perspective in terms of either economic theory or political reality. Thus, the Twentieth Century Fund was receptive when Ian M. D. Little, the British economist, expressed an interest in exploring the pattern of economic development in the postwar era.

All during that era, both the theory and the practice of economic development were subject to changes, sometimes abrupt, often costly. The theory, originating for the most part in the West and influenced by the pattern of the advanced industrialized countries, has been substantially revised; the practice, carried out in the developing countries, has been erratic, characterized by drastic shifts in economic policies and entrepreneurial activities. In general, the economies of these countries have changed less than their policies. Perhaps the most notable shift in recent years has been the increasing unity, at least in rhetoric, of the developing countries, commonly banded together as the Third World. They have made use of the variety of international institutions to press their demands and influence public opinion.

In his proposal to the Fund, Little, a fellow of Nuffield College and formerly professor of the Economics of Underdeveloped Countries at Oxford, proposed to undertake a major study dealing with the economics and politics—as well as myths and realities—of development. It was his view that the developing countries opposed the present system, although it was not necessarily operating to their disadvantage, largely because they saw it as having been foisted on them. It was his intention to suggest a system that both sides would find more satisfactory. The Fund, which has long been involved in economic development studies and international affairs, decided to support Little's project.

In his book he analyzes the three major periods of development planning: the early postwar years, dominated by ambitious planning for large-scale investment in industry and maximum economic growth; the 1960s, when planning was less detailed and the emphasis switched from industry to agriculture; and today's demand for a new order, with controls of trade and complex and discriminating preference systems, which he strongly opposes.

Little champions the formulations of younger American and British economists, and some Third World economists trained in the United States and Britain, who reject planning in favor of decentralization and the freeing up of market forces. Bringing his accumulated wisdom and critical intelligence to bear on the recent course of development, he has provided recommendations that are as significant as they are controversial. It is always pleasing when a proposal lives up to the expectations we had for it, and we are delighted that this one has managed to do so.

M. J. ROSSANT, DIRECTOR
The Twentieth Century Fund
March 1982

Preface

This is a rather comprehensive, critical survey of development economics, including the main international economic issues that have given rise to North-South confrontation. It is not written in the style of a textbook, and may contain too much personal judgment to be considered as such. While some professors may nevertheless find it useful in graduate courses, it is intended to be read by nonacademics and noneconomists who are interested in less developed countries. Probably 90 percent of the book is accessible to anyone with only a smattering of economics. There is no algebra and no geometry. In some parts, however, the analysis gets intricate, and economic concepts are occasionally used without the very full explanation that a noneconomist might need for total understanding. The reader who finds himself almost out of his depth should persevere, as he will quickly find his footing again.

A full bibliography would have left no room for the text. The nearly five hundred works cited bear close relevance to the text, but the list is far from comprehensive and is not intended even as a select bibliography. However, reference is often made to other authors' specialized bibliographies, so that a lead-in is provided for more intensive study of most of the topics treated.

Despite its broad coverage, there are limits. Much of development economics is policy oriented. Economic policies serve both political and moral ends; but means and methods are shaped also by prejudices associated with different histories, value systems, and intellectual influences. I touch upon these interfaces, so that the book contains some elements of political economy. But it is more superficial in this respect than I once hoped. In common with almost all the development literature, the centrally planned economies are largely ignored. Little is known outside about those countries that would rank as less developed by normal criteria, and the more developed centrally planned economies have negligible trade and aid relations with all but a very few LDCs; and they also play little part in North-South dialogues or confrontation on trade and payments systems. The omission of China will be regarded by some as lamentable, but I decided that in the present state of knowledge I would have little confidence in the validity of anything I wrote about the economy.

Even within the above disciplinary and territorial bounds there are gaps. Apart from defense expenditure, I deal with almost all topics that have excited interest in the literature or in the North-South debates. Some of these are, however, of less importance than topics that I omit. The short- and medium-term macroeconomic management of LDCs was a much neglected subject until very recently, when some work began to appear. But this is too recent, and perhaps as yet too tentative, for me to have been able to absorb it. Another important topic that has given rise to relatively little research, and that I ignore, is the international migration of workers. Finally, I should say that I have consulted only the English language literature.

Part II concerns the first wave of thinking about development. The difference between this and post-1960 work on LDCs is marked. A person in a hurry could omit Part II (and also the section on planning in chapter 9, which makes little sense except as a continuation of chapter 3). But this would be a pity because the older thinking, although I argue it was mostly wrong, still casts a shadow. Part V consists of a description of some features of the Third World in the late 1970s and changes in previous decades. Some may prefer to read it earlier, either before Part II or Part IV. Finally, the reader interested only in international systems and confrontation will find Part VI reasonably self-contained, although some of the judgments rely on earlier discussion.

I come to acknowledgments. The following have read or otherwise contributed to some part of the text: S. Anand, H. Bull, C. Diaz Alejandro, V. Joshi, P. Oppenheimer, A. Premchand, T. King, L. Scandizzo, M. FG. Scott, A. K. Sen, R. Skidelsky, T. N. Srinivasan, E. Thorbecke, J. von Pischke, and M. Yudelman. I am very grateful to them. But, apart perhaps from members of the Twentieth Century Fund and its referees, no one has read it all, and some parts have been seen by no one but the author. The usual disclaimers apply. Some of the ideas were presented in seminars given at the Woodrow Wilson School, Princeton University, in 1980; I am grateful to members of the seminar for comments and to the Woodrow Wilson School for support. Boston University; Nuffield College, Oxford; and the Institut für Weltwirtschaft, Kiel, also provided facilities for my work. I am further grateful to audiences at the Department of Overseas Development in London, the Université Libre de Bruxelles, Hamburg University, the Institute for International Economic Studies, Stockholm, and the Graduate Institute for International Studies, Geneva.

I thank the Oriel Press for permission to republish excerpts from my contribution to P. Oppenheimer (ed.), *Issues in International Economics*, 1980, in chapter 16 of this book; and the American Enterprise Institute for permission to publish excerpts from my contribution to R. C. Amacher, G. Haberler, and T. D. Willett (eds.), *Challenges to a Liberal International Economic Order*, 1979, in chapter 4.

Finally, I am indebted to my wife for acting as research assistant throughout and for typing all preliminary drafts. Another draft was typed, with great speed and efficiency, by Ruth Saxe, and sent to the Twentieth Century Fund in early June 1981. A few amendments were made between then and the beginning of September, mainly in response to anonymous referees. With rare exceptions, literature appearing after early 1981 is ignored.

Ian M.D. Little

Contents

PART III
A Resurgence of Neoclassical Economics After 1960

PART IV
The New Radicalism

PART V
Description and Record of Less Developed Countries

PART VI
International Systems and Confrontation

PART I

Basic Notions

Chapter 1

The Meaning of Development

In the past decade, the idea that economic development could be identified with the growth of national income per head has been under heavy attack. For example, an article by Dudley Seers called "The Meaning of Development" has twice been published, (in 1969 and 1977)[1] in the *International Development Review,* the organ of the Society for International Development. This article sought to dethrone the target growth rate of 5 percent in the national incomes of developing countries set by the United Nations for the First Development Decade, the 1960s. It sought instead to concentrate attention on equality and the reduction of unemployment and poverty, though wisely without actually defining the meaning of development.

Discussion of this issue leads one back to first principles and to problems of social values. What is the meaning of an increase in national income? Measuring it at marginal cost, and given some very strong assumptions and a suitable quantity index, it implies that the set of goods and services of some earlier period could be made available in a later period with something to spare. This is usually called an increase in real product. If we use market prices rather than resource costs, we get, again with very strong assumptions, a utility measure telling us that the real product of the first period would not have sufficed to give everyone as much utility as he has in the second period—not, of course, that everyone is actually better off. Why not call one or another of these indices a measure of economic growth or of economic development?

The trouble is that even the more neutral term "economic growth" is not wholly neutral. To quote myself of thirty years ago: "To say 'the real income of the community is greater' is not much different from saying 'the income of the community is really greater' which is again not much different from 'the community is better off.'"[2] If these welfare implications are to be avoided, the fact that they are not intended must be reiterated to the point of tedium. Even that does not work. Let me illustrate from Harvey Leibenstein (1957), who says, "we shall utilize per caput output or per capita income as our index of development."[3] He goes on to explain that a rise in per caput output merely means that the community has the *possibility* to achieve a higher standard of life.[4] He calls per caput output an "observation index" and adds that "an index of observation is bereft of welfare implications."[5] Whether this latter statement is true depends on what it is called. An index of development certainly has welfare implications because "development" is a word that undoubtedly carries value overtones, just as do words like "welfare" and "optimum."[6]

If the above were false, Seers would not repeatedly write about the meaning of "development," which he rightly recognizes to be a normative word. With such words, there is liable to be a competitive struggle to get one's own definition accepted. Those who struggle, wishing to influence policy, are right to do so. If a definition gets accepted, it tends to deemphasize considerations not included in the definition. If, for instance, "development" were measured by poverty, equality, and employment, somehow combined, the potentiality of the economy for future achievement, even in these self-same dimensions, would tend to be ignored. If one were just tracking past achievement this might not matter; but an index of development also becomes an objective, and it would clearly be tragic not to provide for the future.

Anyone who writes that such-and-such a policy would further economic development is making a value judgment. But surely, it will be protested, one can discuss the causes of the growth of national income per head (that is, a series of numbers concocted by government statisticians) in a neutral way. If, in so doing, it is shown that some policy change would make this series grow faster in the future, that is not to say that the policy change should be made. I agree that verbal neutrality is possible. I am saying only that it is very difficult where the description of the change studied normally carries overtones of approval or disapproval. The author has to go to great lengths to neutralize such overtones. If, as so often happens, he does the opposite and substitutes words like "progress" or "development," then he has very clearly, even if unintentionally, entered the realm of persuasion.

I differ from Gunnar Myrdal, whose views on value judgments in the social sciences are well known. He and some others take the view that it is wrong to try to exorcise the value overtones that cling to many social science concepts.[7] Rather, the value judgments should be brought out into the open.[8] But what of the person who wants to explain changes in national income per head without taking a position on whether a rise is bad or good? He has no intentional value judgment to make explicit, and must therefore exorcise the overtones of his subject matter to avoid any unintentional implicit judgment. Alternatively, of course, the writer may want to promote policies to increase national income per head. In this case, I agree that he does best to make an explicit statement in favor of increasing income per head, which will involve him in making value judgments.

In some areas of study, the economist has little difficulty in being positive. He may study the elasticity of the supply of tea from Assam. The values that lead him to this work might include the view that the Assamese are nice people and should be helped. We can easily suppose that the most likely way his study will help them is to produce a correct answer. His conclusion that the elasticity is 1.3 does not look like a value judgment, nor is it. This would not seem worth saying if Myrdal did not seem to argue that value judgments are all-pervasive in the social sciences if only because writers and researchers have motives for doing what they do that are inevitably influenced by society. This is true, but it does not follow that they inevitably make value judgments. Nor does it even follow that their positive statements are biased, though this is often the case, especially with work on developing countries. My point is that one should make a clear distinction between false or biased positive statements and value judgments. There is nothing morally wrong with preaching; but it is wrong to mislead people knowingly about what is true or false. Finally, I should add that whether a proposition is true or false is not itself dependent on the choice of a value system, for even this abhorrent proposition has been advanced by some social scientists.

My discussion of value judgments implies that there can be no objective definition of development and therefore no universally acceptable indicator. The best one might hope for would be to get some rough consensus on objectives and hence on how progress toward these objectives can be measured. But I very much doubt whether this can be achieved.

Development or Welfare?

There is a definition that I believe to be acceptable to most liberal economists. I think one could almost call it the liberal economic definition. It integrates economic development with welfare economics. Economic development (or economic progress or real economic growth) occurs if there is a rise in the present value of average (weighted) consumption per head. The future starts now, and consumption is measured at market prices or at the maximum prices people would be willing to pay for what they consume.

This definition is open in that the weights to be attached to each individual's consumption are left open. Everyone can attach his own weights, in the light of his views about inequality and poverty now and in the future. Or, if he believes there is sufficient consensus in society, he can attach what he believes to be social weights. This openness will enable us, I hope, to see how various authors and governments have differed in the course of time in their views about poverty, equality, and the amount by which the future should be discounted. One limit is to attach the same weight to a marginal unit of consumption, whosoever and whensoever the consumer. Another limit is suggested by John Rawls.[9] His anti-utilitarian theory implies that the welfare of society increases only if the welfare of the poorest person increases. This is extreme even for the author, and he substitutes the poorest class for the poorest person. This view can be incorporated in the liberal economists' welfare definition by giving a weight of unity to each member of this class and zero to all other persons.[10]

Although the welfare definition of development is open, it is not completely open. It would be futile if it were. In effect, our economic welfare function is defined in terms of the consumption of individuals.[11] This seems to imply that all collective goods are excluded. But this need not be so if they can be validly imputed to individuals. Whether such an imputation is valid depends on two considerations: first, on the nature of the public good, some public goods being much more like consumption than others; and, second, on how the collective decision is taken.

Let us take two rather extreme cases: a municipal public park and military expenditure. The first is surely consumption for those who use it. But to say that individuals consume the services of the armed forces sounds farfetched, although one could argue that military expenditure is a cost of consumption; thus, in assessing the likelihood of future levels of consumption, one might want to take military expenditure into account..But this is not satisfactory either, for defense is probably more a cost of independence than of consumption. Nor can we assume, because it is euphemistically given that label, that all military expenditure is defensive.

Let us turn now to the nature of the collective decision. If a kibbutz, say, decides to provide itself with a discothèque, the