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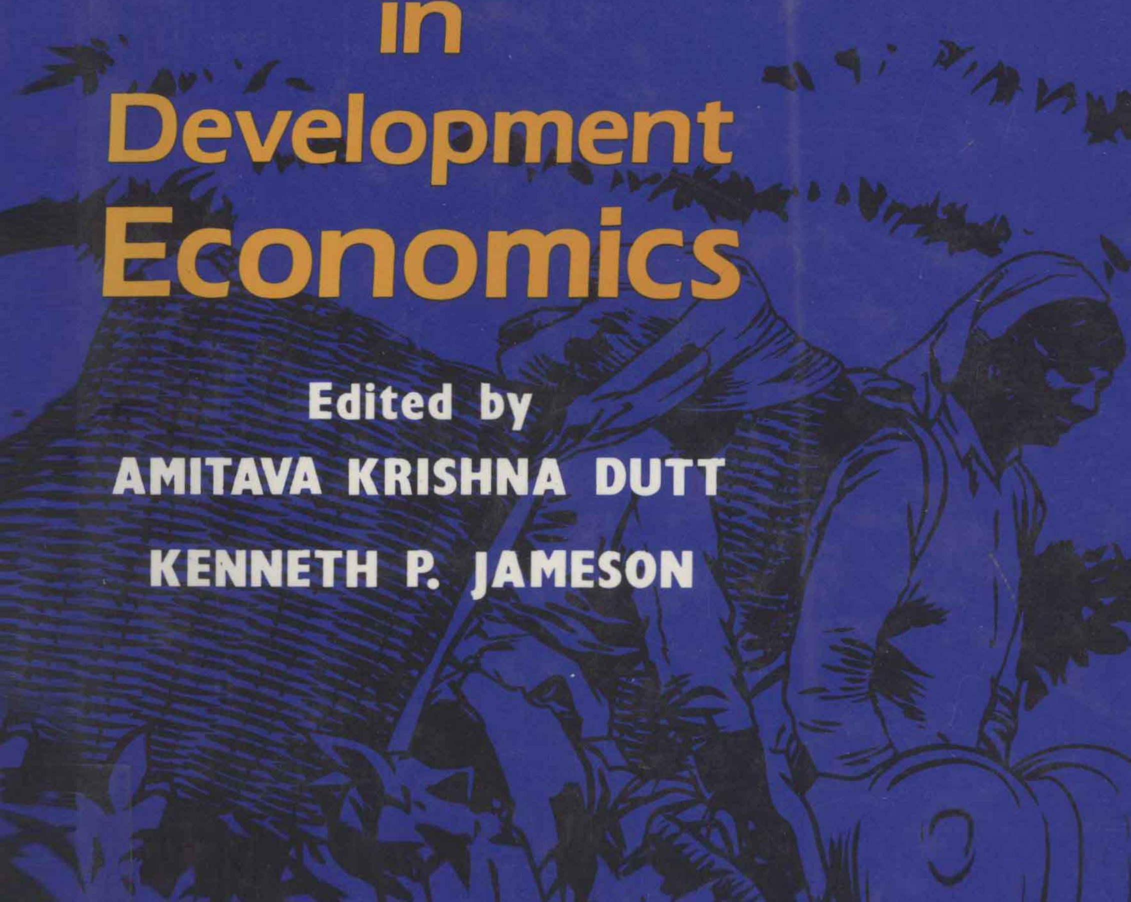
# New Directions in Development Economics



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# Introduction

During the 1980s a number of prominent development economists, in some cases 'pioneers of development' such as Albert Hirschman, looked back at the history of their subject and concluded that it was experiencing a decline. The fact of decline was largely acknowledged, although the question of whether it was warranted or not was hotly disputed. At the same time the momentum of development which had brought about dramatic changes in developing countries seemed to be lost; whole regions such as Africa and Latin America faltered and began to reverse the achievements of the previous 30 years.

The arrival of the 1990s calls for a reassessment of these realities and a reexamination of the decline of development economics and the pause occurring in economic development. The papers in this volume attempt to point out new directions which may hopefully be followed in coming decades.

The first three papers reexamine the state of development economics with the purpose of understanding its future course and its role in fostering economic development in less advanced economies.

Dutt argues that, contrary to claims made in the 1980s, there is no evidence that the subject is undergoing decline; significant developments are in fact occurring in several of its branches, representing alternative approaches to the subject. Dutt describes how such alternative approaches are distinguished according to methodology, vision, strategies and meaning of development. He argues that particular methodologies are not necessarily linked to particular economic visions and strategies and that, although there is disagreement on the meaning of development, this is not as sharp as is often thought. He observes a recent convergence of views between the proponents of alternative approaches which makes it possible to reduce dogmatism and increase communication; moreover, the coexistence of alternative methodological approaches and visions is beneficial for the continued healthy development of the subject and for the formulation of appropriate strategies for economic development.

The papers by Taylor and Stiglitz, respectively, discuss recent developments in what we may call 'new structuralist' and 'new neoclassical' development economics, two theoretical approaches to the subject which have experienced impressive growth in recent years.

Taylor, the leading force behind the recent growth in structuralist macroeconomics, concentrates on two areas in which structuralists have made major contributions – income distribution and growth, and money and finance. On the former issue he contrasts the Mill-Marshall neoclassical view with optimizing agents (which ignores important structural features) with the richer Marxian, Schumpeterian, stagnationist, two- and four-gap, fixprice-flexprice and Cambridge approaches. On the latter issue he develops a synoptic view of the history of monetary theory, distinguishing between alternative positions according to whether they focus on money or credit, whether they take these to be passive (endogenous) or active (exogenous), and whether they emphasize their price or quantity effects. Drawing on this discussion, Taylor argues in favour of a structuralist approach to development economics which takes an economy's institutions and own patterns of change as the basis of analysis, as opposed to one that focuses on optimizing agents.

Stiglitz, the leading contributor to new neoclassical development economics – or what he has called the information-theoretic approach – concentrates on the role of government in the light of recent moves towards greater reliance on markets in both capitalist and socialist economies. In his opinion government is not the cause of underdevelopment; in fact, there is much potential for government to improve the working of the economy, for instance, by providing legal infrastructure and helping to reduce the difficulties caused by informational problems (in the presence of which the economy is essentially always constrained Pareto inefficient). On the other hand, he argues that state planning and government intervention give rise to rent-seeking behaviour, and to information and incentive problems. Thus, though governments do have an important role to play, there need not be a choice of political freedom and economic liberty on the one hand, and economic progress on the other. He also argues that microeconomic issues relating to efficiency are more significant than macroeconomic material balance relations and capital formation rates; more important than the choice between sectors is an emphasis on dynamic comparative advantage, taking organizational complexity into account.

These three papers focus primarily on recent theoretical issues in development economics and are unanimous in their conclusions that significant advances in development theory are currently occurring. Thus the announcement of the demise of development economics was premature.

The next three papers take up the same refrain from the perspective of the experience of developing countries and the prospects for development in coming decades. They all agree that the 1980s represented a clear break in development processes, but that the 1990s and beyond hold the possibility of a viable redirection of development.

Singh highlights the differential economic performance across geographic regions during the 1980s, ranging from improved performance in East Asia to virtual economic collapse in Africa and Latin America. He disagrees with the conventional explanation that misguided policy was responsible, blaming instead the size of external shocks, combined with variations in economic structures. Criticizing the resource misallocation argument, he contends that the economic policies taken prior to the external shocks were quite appropriate, given the negative real interest rates of the 1970s and the buoyant industrial country markets for the output of debt-financed projects. Criticizing conventional World Bank and IMF policy proposals, Singh suggests that successful development policy in the future will consist of a more appropriate industrial pattern, a more efficient state-enterprise sector, greater internal liberalization and greater trade among small developing countries. Openness does not imply free trade, and efficient import substitution can still play an important role. Singh concludes that the proper set of policies can renew the development process during coming decades.

Jameson also examines differential development performance: the contrast within developing countries between macroeconomic performance and experience at the grassroots. The two perspectives give very different impressions of development since World War II. In the unbalanced growth period, 1950–70, the impressive macro performance came at the cost of imbalance and disruption at the grassroots level; the period of unbalanced decline, 1970–1990, saw an overall deterioration at the macro level, with the grassroots becoming a refuge sector while gaining greater autonomy from macro influence. Jameson next addresses the role of grassroots development efforts in coming decades, by investigating three conceptions of grassroots development. The actual role of grassroots movements in development will be conditioned by international and national factors; he makes the case that constraints on grassroots development have weakened considerably since the 1970s. As a result, grassroots efforts and processes have the possibility of moving development in a new and positive direction in coming decades, and he suggests a set of policies and changes which can facilitate and encourage this.

Finally, Griffin suggests an international development strategy for the 1990s. After reviewing the dismal development performance of the 1980s he argues that positive changes have occurred in the world economy which give grounds for future hope, provided that appropriate national and international development policies are pursued. Griffin's strategy calls for faster growth by increasing the rate of investment within developing economies and by increasing the efficiency of investment; for human development by increasing spending on education, health and housing; for direct measures to attack the problem of poverty; and for restraining the deterioration of the natural environment. He argues that this strategy can be seen as a world social contract which can benefit all nations, and discusses how the United Nations family can make it meaningful. Griffin's strategy combines the stress on capital accumulation characteristic of early post-war development economics, the neoclassical focus on efficiency, with a more radical emphasis on poverty and inequality, and a newer attention to environmental issues.

Amitava Krishna Dutt
Kenneth P. Jameson

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# 1. Two Issues in the State of Development Economics

**Amitava Krishna Dutt***

## INTRODUCTION

In recent years a number of appraisals have appeared on the state of development economics.[1] The purpose of this chapter is to examine two important questions raised in these appraisals. First, is development economics declining? Second, is there a convergence of views among alternative approaches to the subject?

Interest in the first question was aroused by Hirschman's (1981) obituary of the subject, which drew a picture of a new subject slain by neoclassical and neo-Marxian attackers. Many of the initial responses to this essay accepted that the subject was on the decline, and debated whether this fate was deserved or not.[2] Surveys of recent contributions to the subject, however, reveal that the obituary was premature. It will be argued below that the earlier prognosis resulted from the peculiar definition of the term 'development economics' used by Hirschman and that attacks on the subject were to a considerable extent aided by this definition. The peculiarity of the definition springs in large part from a failure to take into account the existence of alternative approaches to the subject.

The second question turns to this issue of alternative perspectives and asks whether they are converging or diverging. The traditional view of those who admit the existence of legitimate alternative approaches to the subject is that the divisions are too strong to allow consensus.[3] Some recent appraisals, however, point approvingly to important convergences in views among the more sophisticated followers of the different approaches.[4] It will be argued here that some convergence is in fact taking place. While this is to be applauded as a sign of reduced dogmatism and as opening up the possibility of mutually beneficial exchange, it will also be argued that important differences still exist, and that these should be nurtured for the healthy develop-

* I am grateful to Jose Cordero and Keun-Young Lee for their research assistance.

ment of the subject. After examining some views on alternative approaches to the subject, it will be suggested that a proper discussion of divergences must be conducted at several different – although not unrelated – levels. Finally, differences in what we call method, vision, strategies, and meanings of development will be discussed.

## THE DEMISE OF DEVELOPMENT ECONOMICS?

According to Hirschman (1981), after a period of remarkable growth in the 1940s and 1950s, development economics, the comparatively young subdiscipline of economics, experienced a decline: 'the old liveliness is no longer there, ... new ideas are ever harder to come by and ... the field is not adequately reproducing itself'.[5] Hirschman explained this decline in terms of the conjunction of attacks from mainstream neoclassical economists and neo-Marxian scholars.

In his discussion Hirschman characterized 'development economics' as a field of inquiry which: (i) viewed underdeveloped economies as being very different from developed economies and therefore requiring a non-traditional analysis (rejection of the 'monoeconomics claim'), and (ii) claimed that economic relations between developed and underdeveloped economies could be shaped to benefit both (the 'mutual benefit claim'). This characterization allowed Hirschman to distinguish the subject from the mainstream (which accepted the monoeconomics claim) and from neo-Marxism (which denied both the monoeconomics and mutual benefit claims), and to explain its demise in terms of the attacks by these approaches.

Contributors to the discussion provoked by Hirschman's analysis basically accept this definition of the subject, though they sometimes modify it to suit their purposes. Lal (1985) rejoices at the demise of the subject by attempting to expose its poverty, clearly directing his wrath at 'a particular school of thought on the economics of developing countries' which believes that: the price mechanism must be supplanted by direct government controls; the traditional concerns of orthodox microeconomics relating to resource allocation are of minor importance in comparison to macroeconomic concerns relating to aggregates such as saving and the balance of payments; the case for free trade is invalid, and massive government intervention is required for alleviating poverty and improving income distribution. He concludes that 'the demise of development economics is likely to be conducive to the health of both the economics and the economies of developing countries' (Lal 1985, p.109).[6] Others, while admitting shortcomings, have been more charitable towards the subject. Sen (1983) argues that traditional development economics (its major strategic themes being industrialization, rapid capital accumulation, mobilization of underutilized manpower, planning and an economically active state) was not very much off the mark 'and the time to bury it ... has not yet arrived'. He admits, however, that the subject has not been very successful in characterizing economic development, which he defines as an expansion of people's capabilities. Bhagwati (1984) admits that the market failure argument was overemphasized, and that the pessimism regarding trade opportunities which led to autarkic approaches was unjustified, but argues in favour of overall growth (without which there would be little to redistribute) and selective intervention by the government in favour of specific target groups for the alleviation of poverty. Lewis (1984) and Chakravarty (1987) are also supportive of development economics, but appear to shy away from the early overemphasis on market failures; they call for a development economics with greater emphasis on government, class formation and conflict, institutional arrangements and value systems, and with a greater integration of history and theory.

Hirschman's characterization of development economics, however, is problematic. While one may naturally define the subject as one which deals with the study of the growth and development of nations, especially those at early stages of development (and this is the sense in which we will use it hereafter, except where explicitly noted to the contrary), Hirschman's definition refers to a particular subset of development economics. To focus on *any* particular subset creates some problems, but Hirschman's specific definition of the subset raises further difficulties.

First, the focus on a subset fails to take account of the fact that development economics – even during what Hirschman calls its early days – was not a homogeneous subject, but a collection of different approaches and points of view. For instance, while there were those who stressed the importance of industrialization, there were others who emphasized the role of the agricultural sector; and while the majority favoured government intervention in the economy, some certainly stressed the value of free markets.[7] We will return to this theme of alternative approaches in subsequent sections of this chapter.

Second, the focus on a subset leads to endless and unilluminating attacks on the subject by selecting a set of theories and observations of which one disapproves. This is especially because it is difficult to agree on any specific criteria by which to define precisely the chosen subset of the subject.[8]

Third, the focus on a subset also makes it likely that important common features within the whole subject will be missed, yielding a myopic and distorted view of its history. Using our definition, development economics does not appear to be a new subject emerging in the post-war period, but one which has a long history with remarkable powers of resilience. Students of the history of economic thought have long recognized the subject's past (Robbins 1968, Lewis 1988); one can even detect a recent flurry of interest in establishing and analysing links between the less-developed economies of today and the history of currently-developed economies.[9] Although not identical, there may be important similarities in the problems facing, and the analytical approaches relevant for understanding, the two types of economies. This is not to claim that development economics has progressed in a linear manner. Quite the contrary; ideas on development were submerged after the marginalist revolution by the emphasis on resource allocation at a point in time, and interest in development was confined mainly to the followers of Marx, Schumpeter and some institutionalist writers, to scholars interested in colonial administration, and to some nationalist writers who drew on the work of precursors (such as List) from countries which had developed earlier.[10]

What thus appears to Hirschman to be the birth of a new subject is more appropriately seen as a return to prominence of an old one, caused by the conjunction of several powerful influences.[11] At one level the rise of Keynesianism paved the way for state intervention, for the development of analytical concepts such as unemployment, for the focus on macroeconomic aggregates, and generally for departures from neoclassical orthodoxy; the consequent development of growth theory by Keynesians and neoclassicals, input-output analysis and optimal programming also helped the growth of the subject. At other levels, the wartime experiences with active state intervention and planning; the experience of planning in the Soviet Union; the political independence of several less developed economies and the consequent desire of, and pressures on, new nationalist governments to prove themselves; the advent of international agencies fostering development, and the spectre of communism – all strengthened the need for development with active state intervention.[12] The combination of these factors helped to create a tremendous enthusiasm for the development of poor nations, prompting economists to study their specific problems. As they observed less developed economies closely they were struck by the enormous differences between them and the advanced economies (an opinion found earlier in Marshall (1920)), and this probably led many to reject the monoeconomics claim. But since the majority of economists were trained in neoclassical economics they did not travel far from its methods. Thus issues of market failure and planning were more prominent in their minds than the classical themes of economic evolution, growth and distribution. This probably added to the illusion of newness, making the subject appear quite different from what concerned classical economists.

Hirschman's particular characterization of development economics also raises some problems. First, he is inaccurate and imprecise regarding the mutual benefits claim of development economics.[13] Many development economists in his sense (including Nurkse (1956) who discussed the harmful international demonstration effects, and Myrdal (1957) in whose framework the negative backwash effects could overpower the positive spread effects of international linkages) thought that international interaction was actually harmful to poor countries in ways similar to neo-Marxists such as Baran (1957) and others, though they did not express such reservations in terms of Marxist notions of surplus transfer. Hirschman, however, defined the mutual benefit claim not in terms of what in fact happened, but what could be made to happen: North-South relations could be arranged for mutual benefit. But since he failed to define the precise terms and conditions under which this could happen (few would disagree if it meant a thoroughgoing restructuring of international economic relations and political frameworks of poor countries), Lal (1985) had no difficulty whatsoever in bracketing development economists in Hirschman's sense with neo-Marxists and criticizing them together.

Second, Hirschman is not precise in defining the monoeconomics claim. Does it mean that rich and poor nations are similar in nature? Or that they can be understood in terms of the same theoretical models? Or that they can be analysed using the same method? These are quite different claims, and each one can have several interpretations. But whatever sense was intended, many development economists accepted the monoeconomics claim. Haberler (1959), Bauer and Yamey (1957) and Schultz (1964) saw the two types of economies as essentially alike. Even those who would fit Hirschman's definition of development economists, such as Scitovsky (1954) and Bardhan (1964), used analytical approaches involving the concept of externalities, commonly applied to the economics of developed countries. The work of others, like Nurkse and Rosenstein-Rodan, was formalized using methods commonly applied to developed economies.[14] Even the dual-economy models of Lewis (1954) – and, more so, those of Jorgenson (1961) and his followers which assumed away unemployment – were modifications of models applicable to rich countries, using profit maximizing, price-taking behaviour.

Hirschman's ambiguity regarding the monoeconomics claim allowed Lal (1985) to attack its supposed rejection by development economics in his sense: all markets may not exist in poor countries because of high transactions costs; important externalities and economies of scale may also be present. All of this could be adequately handled with the tools of 'modern welfare economics', using the model of perfect competition as a benchmark. But Lal's is not the only type of monoeconomics claim that can be made: concepts and theories developed for less developed economies have been fruitfully employed for analysing developed economies. For instance, as Hirschman himself notes, Lewis' (1954) ideas on dual economies have found echoes in the dual labour market theories of Piore and others; and structuralist models developed primarily for less developed economies have