



**THE
POLITICAL
ECONOMY
OF
DEVELOPMENT
AND
UNDER-
DEVELOPMENT**

FOURTH EDITION

EDITED BY

CHARLES K. WILBER

FOURTH EDITION

THE POLITICAL ECONOMY OF DEVELOPMENT AND UNDERDEVELOPMENT

EDITED BY

Charles K. Wilber

University of Notre Dame

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New York

I have a dream that one day every valley shall be exalted,
every hill and mountain shall be made low, the rough
places will be made plain, and the crooked places will
be made straight, and the glory of the Lord shall be
revealed, and all flesh shall see it together.

Martin Luther King, Jr.
The March on Washington
August 1963

For my granddaughters, Heather Jean, Ashley Marie, and Erin Michelle,
that they may live in a world that cherishes and pursues this dream.

Fourth Edition

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PREFACE TO THE FOURTH EDITION

The decade of the 1960s was marked by an optimism that world poverty could be conquered by economic growth. The 1970s saw that hope dashed by growing unemployment and inequality and the intractability of absolute poverty in the Third World. The first edition of this book charted that disillusionment.

The 1970s witnessed the birth of a new optimism to replace the old. The pursuit of "growth with equity" or a strategy of targeting "basic human needs" would succeed where economic growth failed. The second edition of this book captured the beginnings of this movement.

The 1980s have ushered in a period of greater caution. World poverty will not be eliminated with simple economic panaceas. Resource shortages (particularly of energy), rising protectionism in the industrial world, militarism in the Third World, the international arms race, the structure of the world economy all make the design of development strategies a complex problem in political economy. The third edition charted the progress of debate among the contending schools of thought with emphasis on issues of political economy rather than on narrowly economic problems.

This fourth edition updates the continuing debate among the contending schools of thought, highlights the international debt crisis along with the attendant stabilization and readjustment programs, and charts the resurgence of free market economics with its attack upon "development" economics.

Once again, I am indebted to many people for the valuable help they have given me in preparing this fourth edition. They provided critiques of the third edition, suggested new readings, and encouraged me to go ahead. I particularly want to thank James H. Weaver of The American University and Kenneth P. Jameson at the University of Notre Dame. Their ideas have become so entangled with mine that it is no longer possible to sort out ownership. This fourth edition would not have been possible without the work of my graduate research assistant, Jim Harder. Finally, I want to thank Paul Shensa for his continued support.

Charles K. Wilber

UNIVERSITY OF NOTRE DAME
JULY 1987

PREFACE TO THE FIRST EDITION

Economists assume that the problem of a more human society is solved by expertise, by know-how. Since they assume that the question of the nature of a good society is already answered, the issue becomes one of solving certain practical problems. The good society is simply assumed to be an idealized version of the United States economy, that is, a consumer society. The key to a consumer society is growth of per capita income. Thus the vast bulk of the development literature has focused on growth rates as the *deus ex machina* to solve all problems. Even much of the socialist writing on development argues that the superiority of socialism over capitalism lies in faster growth rates.

There is much to be said for this approach because some minimum level of food, clothing, shelter, recreation, etc., is necessary before a person can be free to be human. However, the emphasis on consumption and growth of per capita income has not led to a decrease of poverty in the underdeveloped world. If anything it has increased. A thin layer has prospered while the vast majority of the population sinks ever deeper into the backwater of underdevelopment. Therefore, during the past several years a new look has been taken at the meaning of development. Dudley Seers, Mahbub ul Haq, Ivan Illich, and others have questioned the emphasis on chasing the consumption standards of the developed countries via economic growth. Instead they argue for a direct attack on poverty through employment and income redistribution policies. Denis Goulet and Paulo Freire argue that development must include "liberation" from oppression, cultural as well as political and economic.

Both of these positions have merit, and they are not necessarily mutually exclusive. That is, the study of political economy should lead one to ask whether stressing the importance of rapid economic growth has to mean that the growth will consist of movies, bikinis, deodorants, key clubs, and pollution. An analysis of political economic systems should lead one to see why growth has meant luxuries being produced for some while others go hungry.

This book is about economic development and underdevelopment, and is designed to be used with a standard textbook in advanced undergraduate and beginning graduate courses. The readings emphasize the *political economy* rather than the narrowly *economic* approach and issues.

Many of the readings are excellent examples of radical political economy. Political economy recognizes that man is a social being whose arrangements for the production and distribution of economic goods must be, if society is to be livable, consistent with congruent institutions of family, political, and cultural life. As a result, a political economy analysis must incorporate such noneconomic influences as social structures, political systems, and cultural values as well as such factors as technological change and the distribution of income and wealth. The readings are radical in the sense that they are willing to question and evaluate the most basic institutions and values of society.

While I hope that the work presented here is objective, there is no artificial stance of neutrality. I am committed to certain values that undoubtedly influence the choice of questions asked and the range of variables considered for selection. In general, my system of values posits material progress (at least up to some minimum level), equality, cooperation, democratic control of economic as well as political institutions, and individual freedom as positive goods. It should be noted that there may be contradictions among these criteria, and thus society is faced with choices. With these values in mind the reader can judge the degree of objectivity attained.

It is a pleasure to acknowledge my indebtedness to those who have helped me shape my ideas on economic development and underdevelopment. First of all I want to thank Professors W. Michael Bailey, James H. Weaver, Celso Furtado, Branko Horvat, E. J. Mishan, Ronald Müller, Brady Tyson, Albert Waterston, and Irving Louis Horowitz—critics, colleagues, and friends. Some of my greatest debts are to those whom I know only through their writings—Karl Polyanyi and R. H. Tawney. Their example of scholarship and social commitment has been a guide and inspiration. I want to thank Sandy Kelly for her invaluable help in editing and typing, and Bob Devlin for his assistance in research and editing. Barbara Conover and Nancy Perry, editors at Random House, have been invaluable in seeing the book through to publication.

My greatest debt, however, in this as in all my endeavors, is to my wife, Mary Ellen, and our children: Kenneth, Teresa, Matthew, Alice, Mary, Angela, and Louie. I owe all to their love and encouragement.

Charles K. Wilber

WASHINGTON, D.C.

SEPTEMBER 1973

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THEORY AND METHOD IN ECONOMIC DEVELOPMENT

Development economics is an art. Like the cultural arts, the understanding of the object studied varies among schools of thought. We all see a painting, but we each experience it differently, conditioned by the way we perceive the world in general and by our proficiency with the tools of art appreciation.

There are competing stories or explanations of development and underdevelopment. Our diagnosis of the problems and the specification of economic change depend upon underlying theories. These theories, in turn, are grounded in our world view—the “facts” as we see them through value-biased eyes. Therefore, to construct a robust story of the dynamics of development, we must clearly articulate the building blocks of values, facts, and theories.

The concept of *paradigms*, offered by Thomas Kuhn, helps us to organize these competing schools of thought. A paradigm is a world view shared by a group working or thinking about a particular topic. In the first essay Wilber and Jameson highlight two dominant paradigms in economic development, the orthodox and the political-economy approach. The orthodox paradigm is a theoretical umbrella spanning free market models, planning approaches, and the distributional issues raised by the growth-with-equity critique. Its unifying thread is the underlying value assumption that economic growth and consequent high mass consumption are desirable ends that rational and efficient utility-maximizing agents will pursue.

The political economy paradigm challenges economic growth as a static end-goal, contending instead that the *nature of the process* of economic development is crucial. What is important is the *means* by which economic development is pursued and how these means affect the everyday lives of people. This approach is historical and

appreciates the dialectic relationship between the society, the polity, and the economy.

Within a given paradigm or world view several competing theories may exist. These internal arguments are part of any school of thought's historical legacy—varying interpretations of what happened and why. In “The Misconceptions of ‘Development Economics,’” Deepak Lal claims that the attempt to create an economics of development is fundamentally misguided. This is so because it involves a denial of the applicability of traditional economic theory to the problems of developing countries. In particular it denies the universal existence of economizing behavior, exaggerates the importance of market failures, and believes that political authorities can allocate resources better than the market. Amartya Sen defends the record of “development economics,” claiming both that the criticisms are inaccurate and that there has been substantial development.

Howard J. Wiarda claims in “Toward a Nonethnocentric Theory of Development: Alternative Conceptions from the Third World,” that rejection of the Western model of development, in its several varieties, is now widespread in the Third World. There are many new and exciting efforts to construct indigenous models of development that are more compatible with local values and traditions. In this sense they are more in line with the political economy paradigm.

Paradigms of Economic Development and Beyond

Charles K. Wilber and Kenneth P. Jameson

I. INTRODUCTION

During the more than thirty years since the end of World War II and the founding of the United Nations, "development" has captured the attention of economists and statesmen alike. Of course international inequalities are not new, but three factors account for this recent emphasis: (1) the realization that the worldwide spread of markets has not automatically brought the benefits promised by nineteenth-century economic theory; (2) the emergence of socialism as a viable development alternative; and (3) the pressure for economic development exerted by the newly independent countries of Latin America, Asia, and Africa with the resulting challenge to existing economic relations. In all of these cases, the meaning of "development" is a crucial element.

Theorists and practitioners of development have written and labored in universities, government agencies, and international institutions. International conferences have been held, billions have been spent on foreign aid, and thousands of experts now earn their living from development. However, this prolonged preoccupation has not resulted in a generally accepted explanation of the process of development. Indeed, an initial survey of the field would seem to suggest an analogy with the Tower of Babel. Closer examination, however, shows that there are ~~two~~ two main categories of treatments of development, one we will term "orthodox" and the other "political economy."

One of the purposes of this chapter is to suggest how the diverse writings on development can be understood as belonging to these two competing

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categories. But a second goal is to show that the intellectual strictures which accompany work within either of these two traditions may actually hamper our understanding of development; we must move beyond them to an approach based on what we term "convoluted history. . . ."

The initial problem is to establish the context in which the interplay of the two main approaches is played out. Thus the question of intellectual competition in economics must be considered.

II. INTELLECTUAL COMPETITION IN ECONOMICS

The status of economics as a science has provoked active debate in recent years. Some claim that economics has indeed gained the coherence and explanatory power to qualify as a science, while others claim that it is presently in a prescientific state and is likely to remain there forever. Of course the entire debate traces back to the work of Thomas Kuhn,¹ who in his history of science used the construct of the "paradigm" to show that science and its development are much more complex than the simple march of value-free knowledge which progresses by its own persuasiveness.

There is no need to enter into the debate on the nature of economics nor into the hot philosophical debate sparked by Kuhn. As a device for ordering thinking about economic development, the concept of a paradigm will be useful.

For our purposes a paradigm is a world view shared by a group working on or thinking about a particular topic, e.g., economic development. Such a world view affects their activity across the board: the questions which are asked, the information which is collected, the method of interpretation of that information, and even the group with which there will be communication about the questions. Because of the functioning of this world view and this scientific community, advances in knowledge about the particular concerns of this community are facilitated; but it is very difficult to move from one world view or one community to another. As long as the paradigm relates successfully to the questions addressed, there is substantial "progress" in understanding and knowledge. On the other hand, even when the questions are not addressed with a high degree of success, i.e., when there is a crisis in the community, members of the community continue to follow the paradigm's guidelines rather than breaking with that world view and adopting another.

This paradigm or general theory—whether it be neoclassical economics, Marxism, or some other—is usually so much a part of the very thought process that empirical disconfirmation of some particular hypothesis is almost automatically rejected. There are a variety of specific problems that make it easy in economics to reject a disconfirmation as invalid and thus to protect the scientist's theory or paradigm.

First is the *ceteris paribus* problem. Hypotheses in economics must always be stated in the form of "if . . . then" propositions. Since the "ifs" do change, an econometric test that disconfirms the theory can always be rejected as "mis-specified." In addition, since hypotheses are stated in probabilistic terms, a nonoccurrence of the predicted event cannot be used as a refutation of the general law from which the particular hypothesis was deduced.

Second is the difficulty of constructing a clear-cut test of a hypothesis in economics. Most of the traditional statistical tests (for example, null hypotheses) are very weak and a large number of different theories are capable of passing them. The choice among alternative theories, therefore, cannot be settled on empirical grounds. Instead, the desirable qualities of a logical model—simplicity, generality, specificity, and aesthetic quality—are used, and the relative evaluation of these qualities is probably determined by one's own paradigm.

In the area of development—which is multidisciplinary by nature—these problems of verification are multiplied many times over. When a general theory or paradigm has achieved a high level of insulation from falsification it might best be termed an ideology or, less pejoratively, a parable. As parables, both the orthodox and political-economy paradigms of economic development serve two essential and related functions. Each acts to restrict the scope of what is considered "scientific" inquiry and each serves as a policy stance for molding society in its image.

Before turning to specific consideration of the two paradigms, let us indicate in a general manner what the main components of paradigms or parables of development are. It will be seen that a major consideration is the view of history implicit in the paradigm, a theme to which we will return in later sections.

An Outline of Development Paradigms

Both the orthodox and the political-economy paradigms grow out of Western modes of thought, and thus they have similarities in their patterns of analysis and thinking. This fundamental similarity can be seen by going back to the definition of development given in *Webster's Third New International Dictionary*. Development is defined as "the act, process, or result of developing: the state of being developed: a gradual unfolding by which something . . . is developed: gradual advance or growth through progressive changes." This obviously requires examination of the word "develop," which is defined as "to cause to unfold gradually: conduct through a succession of states or changes each of which is preparatory for the next."

From this we see that development has the implication of a gradual unfolding or of a passing through stages, each of which prepares for the next. When applied to the context of countries existing in time, it shows that

development must be dealt with in a historical context. The historical experience will condition the stage in which a country finds itself and the degree to which its development has unfolded.

From the definition, there is another sense in which history is important. To talk of an "unfolding" implies the stripping off of overlays which are hiding the true nature of the subject; it suggests the gradual emergence of the nature of the entity which for some reason has been hidden but which reveals itself with the passage of time. There is in this view a type of teleology, an end to which history is tending or should tend. So development is more than simply change or the passage of time; it is change in some particular direction. Such a stance fits quite nicely with the other definition of development, the passage from stage to stage. As long as each succeeding stage is a "higher" stage, then the process of history and development is again teleological. This can be seen most clearly in the writings of W. W. Rostow on the stages of economic growth,² but it also appears in a close reading of virtually any text on development. Thus, Bauer and Yamey talk of "the widening of the range of alternatives open to people as consumers and producers";³ Higgins sees development as "a discernible rise in total and in per capita income, widely diffused throughout occupational and income groups, continuing for at least two generations and becoming cumulative";⁴ Seers says that it must be treated in relation to a "universally acceptable aim—the realization of the potential of human personality";⁵ while, finally, Denis Goulet in talking of the French school describes their view as "development itself is simply a means to the human ascent."⁶

Joining together the historical element of development with the teleological, it is rather easy to arrive at a view of history as a parable of "progress" toward that final goal. It is this aspect of development thinking whose philosophical roots are examined by Celso Furtado.⁷ . . .

In his *Economic Development*, Culbertson⁸ points out that "belief in progress" characterized the classical writers and Marx as well as the neoclassical school of development thinking, i.e., that progress is a component of both of the competing paradigms of development. The fundamental role of "history = progress" will be emphasized in the final section of this chapter.

Two other components complete the skeleton of the analytical framework of the two paradigms. The first is their attempt to deal with the continued existence of "underdevelopment." Obviously few if any countries have developed fully, and an explanation for this must be a part of the paradigm. More particularly, why is it that the range of performance is so vast, from that of the United States or Sweden on one end, to a Chad or Guinea-Bissau on the other? Thus, a complete view of development must contain a "theory of underdevelopment" which can provide a plausible explanation for the existing state of events. The second component, naturally, is a "theory of development." In other words, there must be offered some

explanation of the mechanism or motive force which moves countries through history in their process of development. It is in the theories of development and underdevelopment that the two paradigms differ most radically.

With this as background, we are now ready for a rapid tour through the two main paradigms of development before turning to an alternative view of history and to the essays in this volume and their contribution to an understanding of the process of development.

III. THE ORTHODOX PARADIGM

Development thinking in the United States has long been dominated by what we term the "orthodox" paradigm. Although it has certainly undergone an evolution and has several variants, its basic outlines adequately encompass a majority of the writers on economic development in this country. Following the schema outlined above in terms of its major components, we can sketch out the general outlines of this paradigm.

The basic goal of development has been seen traditionally as the attainment of a "high mass consumption" society, to use Rostow's term. It is understandable, therefore, that orthodox development economists have usually measured the level of economic development by the level of per capita income or product. The implicit goal of development appears to be the creation of societies that replicate the political-economic system of the United States: a private enterprise economy combined with a representative, democratic political structure.

The view of the historical process contained in the orthodox paradigm is clear from this characterization: it is one in which developing societies move toward ever greater availability of goods and services for their citizens. This is the nature of progress, and, as a result, growth in the per capita output of goods and services is often used synonymously with development. Since the general unit of analysis is the nation-state, it is the average per capita income of the whole population of the nation-state that moves to higher and higher levels as the historical process of development continues.

As might be expected, the treatment of this historical process is closely intertwined with the theory of development incorporated in the paradigm. It is often held that development and progress are almost natural and lawlike and that history is simply a continuum from the poorest to the richest countries. The main difference between them, aside from natural resource base, is the time which separates them from underdevelopment.

Rostow's stages-of-growth model is the best known and most explicit presentation of this view of historical development. The use of this model as a framework for analysis of the process of development assumes that present-day countries correspond to the "traditional society" stage or, at best, the

“preconditions” stage in the Western developed countries. That is, the present-day developed countries were once underdeveloped and all countries move through all these stages.

How can this development best be brought about, that is, what mechanisms will most surely lead to growth and development? Of course there are a variety of approaches to this problem, but the one which has greatest claim to the orthodox position is the view that development will be facilitated by doing nothing, by letting things alone: “laissez faire.”

This view grows out of the model of competitive market capitalism. Since an uncoerced person can be depended upon to act rationally to maximize his/her individual self-interest, it is thought that an automatic, self-regulated mechanism to manage economic affairs naturally emerges in the course of history. These free choices are expected to overcome scarcity and to result in progress through the automatic adjustments of free exchange in markets. The forces of competition ensure that the economy produces those goods which people desire and that maximum output is produced in the most efficient manner.

Since the process is virtually automatic and technically determined, this suggests the theory of underdevelopment. If development has not occurred, then the reason must be that something interferes with this automatic process. The analysis of obstacles to development is, in effect, the theory of underdevelopment contained in the orthodox paradigm. Two examples can illustrate the concept of obstacles. One obstacle to growth may be nonrational behavior, that is, nonmaximizing behavior. Because of cultural dualism,⁹ lack of achievement,¹⁰ or other social/cultural/psychological constraints, people tend to behave in ways that perpetuate traditional forms of economy, and thus retard development. Another is the obstacle to the free working of markets created by government regulation and participation in the economy¹¹ and by the imperfections of markets caused by the low level of development.¹² These two categories of obstacles hamper the automatic progress of development which otherwise would take place.

The possible existence of such obstacles represents a challenge to policy-making, and two main responses to this challenge have developed since World War II. In addition a third response, growth with equity, has developed in recent years as a reaction to what is perceived as the failure of development programs.

Laissez Faire and Planning Responses

Suggested policies to overcome these obstacles to the automatic process of development have been quite varied. However, they fall into two major groupings: a continued defense of the laissez faire strategy¹³ or a belief that substantial government planning will be required to overcome these obstacles.¹⁴