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JOHN P. POWELSON**

**THE
ECONOMICS
OF
DEVELOPMENT
AND
DISTRIBUTION**

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PREFACE

This book is addressed to students (in the broad sense of the word) who, having mastered basic principles of economics, wish to understand how a society lifts itself from penury to affluence, how equitable distributions of income and wealth are defined, and how they come about. These students might be upper-level undergraduates, graduates, professors, or professional economists. Since students rapidly become professionals, and some professionals are (like us) perennial students, the distinctions among them become blurred.

We define development as sustained material well-being, which can occur only with distributions tending toward equality. The study of development includes how institutions and relationships to sustain development are formed and nurtured, and how they sometimes erode for lack of care. We identify units of development, which are not always nation-states. Sometimes they are groups within states, sometimes groupings of states. The comparative development of subnational units implies a study of income distribution.

Some students may wish no more than to understand the process of development. It is to these students that this book is addressed. Others may also wish to become practitioners, such as foreign-aid administrators, economic advisers to governments, or part of the staff of development ministries or international lending agencies. Since we question whether the goals of practitioners are always compatible with maximum development, we consider them to be a subject of inquiry rather than a learning target. This is not a how-to-do-it book, but a why-did-it-or-did-it-not-happen book.

We write this book because we are not happy with the ways development has been taught for the past quarter-century. We believe that development texts

have overemphasized macro-approaches such as growth theory and production functions while paying insufficient attention to institutions and the history of development. In addition, we feel the time has come to draw together the lessons emerging from a large number of micro-development studies, now widely scattered, but which in the aggregate provide new and valuable insights.

We can best describe this book in two distinct ways: How we prepared to write it and how we finally organized it. The former consisted of the following steps. First, we selected a number of conventional topics, such as growth models, development planning, income distribution, employment, technology, agrarian reform, and development policy, along with the theories and research of social scientists outside economics. We examined the literature in all these fields for overall insights.

We found the fields disorganized. Sociologists, anthropologists, social psychologists, and political scientists not only paid little attention to economists, but paid even less attention to each other; economists in turn paid little heed to any of them. Within economics, macro-growth theory seemed miles apart from the micro-studies of population, employment, and the like. Even technology meant something different when studied by macro- and micro-economists respectively.

We then read in economic and political history. The lessons of the past appeared to us revealing but little related to conventional interpretations of the present. In total disarray, we asked ourselves: How can all this scattered information be brought together into some consistent pattern?

It was then that we decided that present ways were inadequate and that we had better think of new ones. Rigorous, mathematical approaches were richly developed, but they told us much about only a small portion of the field. By and large, the concepts of development seemed to us primarily intuitional, and less than rigorously definable. Once we had swallowed that pill, we were ready to put the book together.

The core of our approach lies in three development paths (personal, socio-political, and economic), set forth in Chapter 1, plus five historical propositions that are not revealed until Chapter 15 (except for being previewed in this preface). In Chapter 2, we take our bow to growth theory, economic models, and planning. We pay less attention to the first two than do most textbooks, and we criticize conventional approaches to the third. This chapter is necessarily more technical than the rest of the book. Students who wish to be less technical may skip portions of it (indicated in a footnote at the beginning of the chapter).

In Chapter 3, we explore the offerings of the noneconomic social scientists, in an attempt to integrate their offerings with the work of economists.

In Chapter 4 (Part II), we turn to the plight of the poor. We are concerned for these people. Why is a large part of the world's population—from thirty to sixty percent, depending on how you measure it—malnourished or underfed, underclothed, and underhoused? Why do they die early? What, if anything, can be done about it? Most development economists believe that certain policies will alleviate poverty and that it is the government's task to identify such policies and implement them. We are not so sure. We consider government (for the most part) to be a contending party, which will help the poor if it is to the

government's interest to do so, but which will not help otherwise. More than that, government is many contending parties, vying with one another. Only the poor themselves can alleviate their poverty, and only as their productivity is increased, by themselves or by others. (This is what history tells us.)

In Chapter 5, we evaluate different measures of income distribution and suggest a new measure of growth and distribution. In Chapter 6, we question whether income distribution improves or worsens with development. Some economists have argued the latter, but we believe they are mistaken. They have relied too heavily on cross-sectional comparisons of dubious validity. Our interpretation of the evidence is that economic growth not only enhances the positions of the poor but often increases their relative shares as well.

In Part III, we take up a number of development topics, generally the same as those found in conventional texts: employment and unemployment, technology, population, human capital (nutrition, health, and education), agriculture and agrarian reform, rural and urban development, migration, imperialism, multinational corporations, proposals for a New International Economic Order, dependency theory, and government and economic policy. For each of these topics, we believe we have an approach that varies somewhat from the conventional and that will therefore be controversial. For example, we see population control, agrarian reform, and other social reforms coming only when fundamental relationships between poor and rich are already changed—in other words, such reforms follow, rather than lead. We find that third-world governments have, for the most part, planned ineffectively and inefficiently, often harming development more than they have helped it. We suggest that the proposed New International Economic Order would, if adopted, have the opposite effect from that intended: It would transfer income and wealth from the poor to the rich, not vice versa. This is not a neutral book, and we do not expect our colleagues and students to agree with all of it. But we trust it will stimulate debate.

In Part IV, we turn to history, both past and present. We formulate five propositions for Europe, and then we ask whether they also apply to less-developed countries today. The propositions are these:

1. The history of Europe is one of protracted struggle for liberalism: freedom from serfdom, from monopoly, from crippling controls, from privilege, and for freedom of trade. The struggle has not yet ended.
2. Less-advantaged socio-economic groups in Europe have levered their power upward, by making strategic alliances with more powerful groups that were contending with one another and shifting those alliances when it was to their advantage to do so. The leverage of power, not the power itself, has been the secret of income distributions becoming more equal than before. Social pluralism has been an important factor.
3. The introduction of more complex means of production required institutions of trust, which were formulated slowly, painfully, and erratically, along benefit-cost principles.
4. Europe's economic development depended on the elimination of endemic warfare.

5. Development was also associated with a shift, among the rulers, away from a propensity for power and toward a propensity for material wealth.

Since these propositions are accompanied by clarifications and qualifications in Chapter 15, the reader is asked not to judge them at this point. In Chapter 16 we survey a number of less-developed countries today, questioning whether the propositions also apply to them.

In compiling a list of references for this book, we debated whether it would be useful to present a bibliography at the end of each chapter, for topical convenience, or to present all references at the end of the text for completeness. We decided to list at the end of each chapter only the references cited in that chapter and to publish our larger bibliography separately and by subtopics. See Powelson, J.P., *A Select Bibliography on Economic Development, with Annotations*, Boulder, Colorado, Westview Press, 1979.

Our responsibility as authors is equally shared. Each of us originally composed half of the chapters, but each carefully read, commented on, and sometimes revised the other half. Others provided assistance in one way or another. We are indebted to our students, in the University of Denver and the University of Colorado, for their many useful suggestions as they used the manuscript in graduate seminars. In particular, research done by Mark Bykowsky, Valerie Solheim, and Richard Stock has become part of the text. Stephen Fisher-Galati and Frank Hsiao, colleagues at the University of Colorado, have reviewed chapters in their specialized areas. Bruce Herrick and Geoffrey Hainsworth, as well as reviewers unknown to us, read the entire manuscript and made helpful comments. For all of these, we offer the usual qualification of "it goes without saying that . . ." (Therefore, we do not say it.)

We also thank Velma Shanahan, Barbara Kuiper, and Catherine Kearns for helping us organize materials, Angela Gill for typing the entire manuscript several times, and Zeke Little and Michael Greenstein for assisting with computer calculations. Robin Powelson helped with the proofreading, and Judy Powelson enlightened her father on the fundamentals of astrophysics (see Prologue and Epilogue).

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PROLOGUE

Economic development is to the economist what astrophysics is to the physicist: the evolution of a universe, how it began (if it ever did), how it came to be where it is, and where it is going, to the extent we can project.

Apart from the difference in subject matter, we see two major contrasts between economic development and astrophysics. The first is in how economists behave (compared to physicists), while the second lies in the nature of economics (compared to physics).

In the first (behavior), economists have been more modest than physicists. Indeed (as Winston Churchill said of his political opponent), we have much to be modest about. We have no big bang theory, for we have paid little attention to how economies began. We distinguish between economic historians and development economists. Why? With some notable exceptions (for example, Gerschenkron, Tuma, and Rostow), there has not been much communication between them. Why not?

Students of economic development are so caught up in what is happening *now*, or at most in the past two centuries, that we rarely look back at how it evolved. Pick up any book on today's less developed countries (LDCs); rarely will you find mention that all the current experiments in credit, agricultural extension, land reform, and redistribution of income were tried by the Chinese before the twelfth century and that many of them were tried in medieval Europe or even the Roman Empire. Surely a knowledge of these outcomes would be helpful in avoiding mistakes today.

Instead, however, the models for economic development are derived principally from the world depression of the 1930s. Their initial purpose was to

help restore a prosperity shattered by insufficient demand in more developed countries (MDCs); their prescription was an increase in investment or government spending. But in LDCs half a century later, the problem is not insufficient demand, and government expenditures will not automatically lead to more employment and output, for the requisite institutions are not always there.

When astrophysicists look "out there," they examine whatever they find. If a strange phenomenon erupts, they do not first ask whether it is chemistry or physics, to decide whether they will ignore it because it belongs to other scientists. They do have models, but in the last quarter century they have done a fundamental turnabout, dropping the stationary-universe model in favor of the big bang. Economists, who have defined some variables as economic and others as ones to be ignored, are not so disposed to a fundamental change in models.

The second difference, in the nature of the two fields, is only to degree. As astrophysicists go farther out into the universe, they discover that concepts once thought to be clear become ambiguous: time, distance, and direction, for example. It is the same with economic development, *but much more so*. Yet we economists, in trying to be as rigorous as physicists, have (unlike them) confined ourselves to variables relatively close, hence clearly defined. Thus factor quantities, technology, and elasticities explain gross national product. These independent variables are clear bordered, either because by nature they are quantifiable or (more often) because economists have agreed on arbitrary distinctions.

But suppose one goes on to inquire, "What causes investment to be what it is? or elasticities?" And if one further asks, "What causes whatever that is to be what it is?" And if one carries the inquiry far out into space, one very early crosses the threshold beyond which lie only vague-bordered sets.

A *vague-bordered set* (some call it a "fuzzy set") has at least one element that is clearly within it, but at least one other element might be put either in that set or in another set by different observers. Alaric in the fifth century clearly belonged to the set of Visigoths, while the emperor he opposed, Honorius, was clearly of the Roman set. But because of intermarriages, physical moving, and defections, some were not clearly Visigoths or Romans but were surely one or the other. "Hard" subject matters are those that deal primarily in clear-bordered sets; "soft" subject matters deal mainly in vague-bordered sets.

Sets in physics tend to be clear bordered because of physical properties on which agreement is easy. In economics, by contrast, sets are almost never clear bordered until elements of different physical properties are put together by agreement. An electron contains physical properties identical to those of all other electrons; the set of "all electrons in the universe" is clearly distinguished from the set of "all protons." But "soil in Gujarat" and "iron in Minnesota" are assembled in the set "land as a factor of production" only by agreement for convenience. Such sets tend to become "frozen," and it then becomes difficult to change them when the convenience changes. It seems as though economists believe that economics can become a hard science simply by agreement and that there is virtue in so doing. In our approach to development in this book, we challenge both beliefs.

To our minds, therefore, development economists are not enough like astrophysicists in ways we should be (examining all forces affecting our universe), while trying to be like physicists in ways we should not be (by pretending our field is harder than it is by nature).

But wait! Have we not exaggerated? No, we have not, but we have told only the underside of the story. The other side is more hopeful. Working outside the models of economic growth, economists have studied specific subtopics of development, transcending the earlier confines of “economic.” Unfortunately, their works have not been adequately integrated into overall models of growth and/or development.

Most of these studies are topic-specific and location-specific, such as “income distribution in Brazil” or “choice of technology in the diamond mines of Sierra Leone” or “poverty in Djakarta.” It is difficult to generalize from such studies, for each location and each time has its own peculiarities. An enormous number of such studies must be done before commonalities can be perceived.

But an enormous number *is* being done. Furthermore, the time and place differences are turning out to be not so fearful, and social scientists *are* seeing commonalities. Reviews of the literature are proliferating, so that nonspecialists can start to put the whole together.

Historically, there is at least one similarity between our approach and that of physics, which is illustrated in the following story. Greek philosophers such as Aristotle, Democritus, and Epicurus had much to say about astrophysics. Epicurus deduced that the universe was infinite in time and space. Now, how could he deduce that in the fourth century B.C., lacking the prerequisites that leave even present-day scientists uncertain? He did not just guess; he applied his intuition to his observations. Indeed, he thought he had proved it.

Although he did not know it, Epicurus’s contribution lay in framing the concept, not in solving it. Yet he could hardly have framed it at all, had he not had some intuitive idea about it, based on his observations, however unscientific. As rigorous tools were fashioned over the centuries, his ideas were put to test. Each test, of course, led to new enigmas.

By the same token, when we ask questions about development, successively into more remote tiers, we uncover enigmas for which contemporary tools are inadequate. At present, our rigorous tools apply (in macroeconomics) primarily to the “close-up” relationships defined in production functions and (in microeconomics) to many statistically-isolated studies that are explanatory only when taken together. Let us hope that in the future we are able to develop rigorous tools to treat these interrelationships, along with others constantly unfolding. In the meantime, observation-*cum*-intuition is all we have. We applaud its use, even though the results (like those of Epicurus) may be wrong. For only in discovering that they are wrong do we come upon what is right.

We do not agree with those who would confine development studies to statistically-provable relationships, for we believe they have not told the whole story. Yet observation-*cum*-intuition has had a bad press in the development literature. It is called “speculative” and “journalistic,” both pejorative words. Rather, we believe intuition should be used, but it is important to distinguish

between what is rigorously shown and what is intuition. All economists use intuition. Those who deny it make implicit assumptions that they fail to recognize. We prefer to put those assumptions out into the open.

Thus we mark the direction of the present book. We believe growth models have revealed most of what they can, until the rest of the field catches up. We believe history has been grossly ignored. We believe economists have pretended we are not intuitive, when really we are. We therefore examine the growth models rather briefly, explaining only the earlier, basic ones; we review the literature on microstudies in a number of subfields; we expand on history; and we offer a set of propositions which appear to us reasonable but which can be neither proved nor disproved.

In sum, let development economists explore our universe more widely. But let us treasure our identity as well. We are a *soft* science, which does not imply a lack of worth. Economic development is soft by its nature; it is worthy because it affects us vitally. Let us not seek to be what we are not, and let us respect ourselves for being what we are.

(To be continued in the Epilogue, on the assumption that the book has been read in between.)

1

INTRODUCTION