

# ECONOMIC DEVELOPMENT



THE NEW  
PALGRAVE

# ECONOMIC DEVELOPMENT

EDITED BY

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# General Preface

The books in this series are the offspring of *The New Palgrave: A Dictionary of Economics*. Published in late 1987, the *Dictionary* has rapidly become a standard reference work in economics. However, its four heavy tomes containing over four million words on the whole range of economic thought is not a form convenient to every potential user. For many students and teachers it is simply too bulky, too comprehensive and too expensive for everyday use.

By developing the present series of compact volumes of reprints from the original work, we hope that some of the intellectual wealth of *The New Palgrave* will become accessible to much wider groups of readers. Each of the volumes is devoted to a particular branch of economics, such as econometrics or general equilibrium or money, with a scope corresponding roughly to a university course on that subject. Apart from correction of misprints, etc. the content of each of its reprinted articles is exactly the same as that of the original. In addition, a few brand new entries have been commissioned especially for the series, either to fill an apparent gap or more commonly to include topics that have risen to prominence since the dictionary was originally commissioned.

As *The New Palgrave* is the sole parent of the present series, it may be helpful to explain that it is the modern successor to the excellent *Dictionary of Political Economy* edited by R.H. Inglis Palgrave and published in three volumes in 1894, 1896 and 1899. A second and slightly modified version, edited by Henry Higgs, appeared during the mid-1920s. These two editions each contained almost 4,000 entries, but many of those were simply brief definitions and many of the others were devoted to peripheral topics such as foreign coinage, maritime commerce, and Scottish law. To make room for the spectacular growth in economics over the last 60 years while keeping still to a manageable length, *The New Palgrave* concentrated instead on economic theory, its originators, and its closely cognate disciplines. Its nearly 2,000 entries (commissioned from over 900 scholars) are all self-contained essays, sometimes brief but never mere definitions.

Apart from its biographical entries, *The New Palgrave* is concerned chiefly with theory rather than fact, doctrine rather than data; and it is not at all clear how theory and doctrine, as distinct from facts and figures, *should* be treated in an encyclopaedia. One way is to treat everything from a particular point of view. Broadly speaking, that was the way of Diderot's classic *Encyclopédie raisonnée* (1751–1772), as it was also of Léon Say's *Nouveau dictionnaire d'économie politique* (1891–2). Sometimes, as in articles by Quesnay and Turgot in the *Encyclopédie*, this approach has yielded entries of surpassing brilliance. Too often, however, both the range of subjects covered and the quality of the coverage itself are seriously reduced by such a self-limiting perspective. Thus the entry called 'Méthode' in the first edition of Say's *Dictionnaire* asserted that the use of mathematics in economics 'will only ever be in the hands of a few', and the dictionary backed up that claim by choosing not to have any entry on Cournot.

Another approach is to have each entry take care to reflect within itself varying points of view. This may help the student temporarily, as when preparing for an examination. But in a subject like economics, the Olympian detachment which this approach requires often places a heavy burden on the author, asking for a scrupulous account of doctrines he or she believes to be at best wrong-headed. Even when an especially able author does produce a judicious survey article, it is surely too much to ask that it also convey just as much enthusiasm for those theories thought misguided as for those found congenial. Lacking an enthusiastic exposition, however, the disfavoured theories may then be studied less closely than they deserve.

*The New Palgrave* did not ask its authors to treat economic theory from any particular point of view, except in one respect to be discussed below. Nor did it call for surveys. Instead, each author was asked to make clear his or her own views of the subject under discussion, and for the rest to be as fair and accurate as possible, without striving to be 'judicious'. A balanced perspective on each topic was always the aim, the ideal. But it was to be sought not *internally*, within each article, but *externally*, between articles, with the reader rather than the writer handed the task of achieving a personal balance between differing views.

For a controversial topic, a set of several more or less synonymous headwords, matched by a broad diversity of contributors, was designed to produce enough variety of opinion to help form the reader's own synthesis; indeed, such diversity will be found in most of the individual volumes in this series.

This approach was not without its problems. Thus, the prevalence of uncertainty in the process of commissioning entries sometimes produced a less diverse outcome than we had planned. 'I can call spirits from the vasty deep,' said Owen Glendower. 'Why, so can I,' replied Hotspur, 'or so can any man;/ But will they come when you do call for them?' In our experience, not quite as often as we would have liked.

The one point of view we did urge upon every one of *Palgrave's* authors was to write from an historical perspective. For each subject its contributor was asked to discuss not only present problems but also past growth and future prospects. This request was made in the belief that knowledge of the historical development

of any theory enriches our present understanding of it, and so helps to construct better theories for the future. The authors' response to the request was generally so positive that, as the reader of any of these volumes will discover, the resulting contributions amply justified that belief.

*Peter Newman*  
*Murray Milgate*  
*John Eatwell*

# Preface

Economic Development is a subject that did not exist before the Second World War; for example, Seligman's massive *Encyclopaedia of the Social Sciences*, appearing in the 1930s, contained no entry on either 'economic development' or 'development economics'. Of course the same is true of several other important sub-disciplines of economics, such as game theory and financial economics. But while their creation was part of the inevitable speciation that accompanies the natural evolution of economic (or any other) theory, the birth of Economic Development as an academic subject was primarily a response to new and powerful historical forces at work in the outside world.

The European colonial empires were almost completely dismantled between 1945 and 1965, in a process whose speed turned the attention of colonized and colonizers alike to the problem of how fast the newly independent countries could be made to grow. The grim Cold War focused attention on the forced-draft investment policies of the Soviet Union and China, which in turn raised the question whether that was not a faster (and therefore better) path to wealth than that of Western capitalism. Meanwhile, the trauma of the Great Depression of the 1930s had driven both the industrial countries and their raw material suppliers into greater readiness to accept governmental interventions intended to maintain employment and prices, as well as to secure steady growth in output and trade.

The popular subject thus created has always appeared to have a two-fold mission. The first aspect is important and enduring. At any moment in time some nations will be regarded as poor and under-developed, and it will be natural to enquire what must be done to make them wealthier. In this sense, Economic Development is a well-established field of applied economics which has existed, in substance if not in name, since at least the time of Adam Smith. Since 'you have the poor with you always', this aspect of its mission is likely to be permanent.

The second aspect is more problematic and, perhaps, temporary. It was the putting into practice of a then widespread belief that, with its 'marginalist' revolution in the last quarter of the nineteenth century, economics had left behind

## Preface

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the concern with growth that was central to Classical Political Economy, and that it was high time to return to those earlier concerns. This belief led to some new theory, and to greater attention within standard economics to problems of growth and planning. It also led many students, especially from poor countries, to be given excessive doses of 'development economics', as if that were a substitute for, rather than a complement to, a thorough training in ordinary economic theory.

The many essays in this volume bear witness to the varied and vigorous debates that have taken place in Economic Development, and to the increase in understanding which they have brought. If the subject seems less ambitious now than forty years ago, its foundations are more secure.

*The Editors*

# Contents

General Preface		vii
Preface		xi
Development economics	Clive Bell	1
Absorptive capacity	Richard S. Eckaus	18
Agricultural growth and population change	E. Boserup	21
Agricultural supply	Jere R. Behrman	35
Agriculture and economic development	S.K. Rao	43
Appropriate technology	Alice H. Amsden	52
Balanced growth	Tibor Scitovsky	55
Bauer, Peter Tamas	A.A. Walters	59
Colonialism	M. Abdel-Fadil	61
Colonies	Donald Winch	68
Cost-benefit analysis	Sukhamoy Chakravarty	76
Countertrade	Helga Hoffmann	85
Courcelle-Seneuil, Jean Gustave	Albert O. Hirschman	88
Dependency	J.G. Palma	91
Development planning	Amiya Kumar Bagchi	98
Disguised unemployment	Amit Bhaduri	109
Dual economies	R. Kanbur and J. McIntosh	114
Famine	A.K. Ghose	122
Fiscal and monetary policies in developing countries	Éprime Eshag	130
Foreign aid	Hollis Chenery	137
Gerschenkron, Alexander	Albert Fishlow	145
Harris-Todaro model	M. Ali Khan	148
Hill, Polly	C.A. Gregory	154
Hirschman, Albert Otto	M.S. McPherson	157



## Contents

---

Industrialization	Amiya Kumar Bagchi	160
Inequality between nations	Albert Fishlow	174
International migration	M.P. Todaro and L. Maruszko	179
Labour surplus economies	Gustav Ranis	191
Land reform	E.V.K. FitzGerald	199
Latifundia	E.V.K. FitzGerald	204
Lewis, W. Arthur	Ronald Findlay	207
Linkages	Albert O. Hirschman	210
Mahalanobis, Prasanta Chandra	Sukhamoy Chakravarty	222
Malthus's theory of population	D.R. Weir	226
Marketing boards	Peter Bauer	232
Market places	Polly Hill	238
Moneylenders	Amit Bhaduri	243
Nationalism	Samir Amin	247
North-South economic relations	Ravi Kanbur	252
Nurkse, Ragnar	Kaushik Basu	257
Nutrition	C. Peter Timmer	259
Peasant economy	N.H. Stern	264
Periphery	Immanuel Wallerstein	270
Plantations	Adrian Graves	277
Poles of development	N. Hansen	286
Prebisch, Raúl	J.G. Palma	291
Rosenstein-Rodan, Paul Narcyz	Richard S. Eckaus	296
Schultz, Theodore Wilhain	Mary Jean Bowman	298
Schumacher, E.F. (Fritz)	G.D.N. Worswick	301
Seers, Dudley	Rosemary Thorp	303
Shadow pricing	Ravi Kanbur	305
Sharecropping	Joseph E. Stiglitz	308
Structuralism	J.G. Palma	316
Terms of trade and economic development	H.W. Singer	323
Unequal exchange	Ednaldo Araquem da Silva	329
Uneven development	Donald J. Harris	334
Contributors		341

# Development Economics

CLIVE BELL

As we are often reminded nowadays, economic development – in the sense of regular progress and rising prosperity – was a preoccupation of the classical economists. What has come to be called Development Economics, however, is of much more recent origin. Both during and immediately after World War II, the conditions of poverty, illiteracy, disease and mortality in backward agrarian countries aroused keen interest and concern in the West, inspired by humanitarian considerations and, no doubt, those ensuing from the Cold War. The search for ways whereby their people could escape such misery and enjoy rising prosperity engendered a body of diverse doctrines and strong controversy, which has by no means fully subsided.

Then, as now, the comparatively affluent living standards in industrialized societies provided a clear example of what was, in principle, possible. Of course, to reduce thus the problem of economic development to that of building an industrial society is to do it a good deal of violence. For those who place the realization of individual potential at the centre of things, dignity, liberty and satisfaction at the workplace count for quite as much as material affluence; see, for example, Seers (1969). And some writers in a more classical tradition emphasized the importance of expanding the range of choices open to individuals. Yet without claiming any causal connection, there appear to be quite strong associations between the share of industry in national income and at least some of the attributes of a decent life for the mass of the population, a set of regularities explored in considerable detail by Kuznets (1966) and Chenery and Syrquin (1975). There is also the point that industrialism is what most countries in the Third World aspire to. Together, these must do as a defence for the drastic reduction of the problem I have chosen in order to make the scope of this essay manageable.

Two themes are pursued. First, poor countries are starting out in a world in which there are already rich countries. As most of the latter are industrial economies and the former are still heavily agricultural, they will be referred to

henceforth as pioneers and latecomers, respectively. In this context, pioneers are inventing new products and processes, even – where legal obstacles are not insuperable – new institutions, such as the joint stock company and the multinational corporation, or, in centrally planned economies, Gosplan. This ferment in capitalist pioneers is the object of Schumpeter's (1926) celebrated work on economic development. Although modern development economics is concerned with the progress of latecomers, an important strand in much thinking on development is that the options and prospects facing latecomers are necessarily influenced by what is going on in pioneers. The very fact that pioneers and latecomers trade in goods, labour, capital and ideas itself suggests that latecomers are affected, though whether they gain or lose thereby is still controversial.

Secondly, much doctrine – and controversy – has been concerned with certain problems of economic coordination that arise in the course of industrialization. In this field, there has been no shortage of challenges to the proposition that economic coordination is best effected by the market mechanism, nor any lack of vigorous defence. It seems fair to say, however, that this is a field in which *étatisme* is a well-rooted doctrine, which finds ample reflection in the active role played by the state in many latecomers.

Finally, while the classical influence is still strong, development economics has come to absorb a good deal from other fields that are noticeably more 'modern'. Indeed, it might be argued that development economics has been absorbed back into the mainstream, and now enjoys no separate existence. That, too, will be assessed.

1. PIONEERS AND LATECOMERS: CATCHING UP. A summary record of the technological progress of pioneers can be thought of as a metaphorical 'book of blueprints'. Free access to this book is valuable to latecomers, inasmuch as they are then spared the expense of recreating what is already known. This seems to imply that latecomers have a potential advantage over pioneers, an advantage of backwardness, as Gerschenkron (1952) would call it.

While the above proposition looks virtually unassailable, some questions arise. First, is access to the book free? True, knowledge has some of the characteristics of a public good; so that the prices of goods produced by well established and widely diffused methods are unlikely to contain a significant element of rent corresponding to such knowledge. Where newer goods and processes are concerned, however, patent laws and the fact that key elements of know-how are often embodied in factors specific to the firm usually ensure some return to the knowledge possessed. In these cases, therefore, the question is whether the latecomer would be better off developing an alternative technique from whatever knowledge is freely available. Much proprietary knowledge is embodied in specific capital goods, which, with some exotic exceptions, are rarely produced by monopolies. Thus, unless the firm owning the knowledge and/or the producer(s) of the capital goods are able to pursue strategies that leave latecomers at their reservation levels, which may not always be possible, latecomers ought to enjoy a modest surplus over going it alone.

Secondly, many techniques in the 'book of blueprints' that have been discarded by pioneers are no longer available. The firms that produced the capital goods may have gone out of business or lost the intangible knowhow to make the process work; so that if the technique is to be revived, skills and resources will be needed. In many instances, current practice in pioneers will be the only techniques on offer, though it should be noted that this menu still contains many marginal methods, to pioneers at least. For this reason alone, there will be a tendency for latecomers to adopt 'advanced' techniques of production, relative to the pioneers at a comparable stage of their development.

Thirdly, is it socially desirable for latecomers to adopt 'advanced' techniques? To the extent that there is a real choice, advanced techniques may not reflect real scarcities in the economy: loosely speaking, they may be too 'capital-intensive'. In that case, the remedy is to change the incentives favouring advanced techniques through policy reforms, or to licence investments based on their profitability at shadow prices which reflect social scarcities (see Section 5).

If, however, the spectrum of techniques itself is unsatisfactory, rather different considerations arise. If the output(s) in question can be imported, foreign trade provides an alternative to producing them at home. Yet the point at issue is the absence of so-called 'appropriate' techniques for production at home. Now there is always the option of devoting resources to the development of new, 'appropriate' techniques. If such inventive activity is lacking or very limited, it is important to establish why this activity is unattractive relative to, say, producing textiles. It is sometimes argued that latecomers lack the engineers and technicians to undertake such work; but pioneers do not seem to have been greatly handicapped by a lack of card-carrying graduates when they set out. Others argue that the people in question have the wrong sort of training and attitudes, and aspire to emulate inventive activity in pioneers, where many of them were trained. There is some truth in this, inasmuch as men seek prestige as well as profit; but it is not wholly persuasive. It seems more plausible that the limited inventive activity in latecomers directed at 'appropriate' techniques stems largely from its uncertain profitability. Market prices may favour advanced techniques, while the legal system may hold out little prospect that private agents will recover their outlays in royalties or monopoly profits afforded by patent protection. Similarly, it is not clear that the incentives facing public sector agencies, which often employ the majority of a latecomer's technical personnel, are conducive to the development of appropriate techniques.

More generally, if the trappings of modernity are a merit want for governments, entrepreneurs, engineers and final consumers, then 'advanced' is also, for them, 'appropriate'. It can be argued, therefore, that the existence of pioneers is damaging to latecomers, not through the exercise of monopoly power or conspiracy, but through the inevitable demonstration effects on the tastes of latecomers.

In any event, the fact that latecomers face a different spectrum of techniques at the outset leads naturally to the question: will they grow faster than pioneers did at comparable stages, and so eventually catch up? Gerschenkron (1952) argues that this was certainly the case in the 19th century. In the leading sectors,

latecomers adopted the latest techniques, and the plants in question were usually larger in scale than representative plants in pioneers. The evidence, such as it is, suggests that some recent latecomers are growing faster still, again drawing heavily on current 'best practice' embodied in large scale plants, albeit not in all industries. While the performance of some other latecomers cautions against any strong claims, this part of Gerschenkron's thesis is given some support by contemporary experience.

Now, if there are constant returns to scale and some measure of choice, it will not usually be efficient for latecomers to adopt the 'best practice' technique – unless, of course, the latter dominates all others in the sense of requiring no more of any input per unit of output and less of at least one input. If, however, there are increasing returns to scale embodied in 'best practice' plant, then slavish imitation of the pioneers' path may be inferior to a leap straight to the most advanced methods. This is a slightly more formal way of stating Gerschenkron's contention that latecomers grow faster because there is greater tension between current practice at the outset in latecomers and unexploited possibilities in the form of current best practice in pioneers. Certainly, it is easier to see how this might be when there are increasing returns.

In the course of adopting and adapting new techniques, increasing returns also appear in the guise of learning-by-doing (Arrow, 1962; Kaldor, 1957). While the process of learning is by no means automatic, firms can expect the efficiency with which they use new techniques to improve following their adoption. Hence, if firms in latecomers organize themselves so as to profit from their accumulated experience as fully as do firms in pioneers and such improvements have a ceiling that is reached in finite time or cumulative output, as seems plausible, then catching up in that particular line of production with the technique in question will be complete.

Thus far, no mention has been made of natural endowments. As a matter of history, industrialization was launched in temperate climates, and most contemporary latecomers are in the tropics and sub-tropics, where pests harmful to man flourish the year round. Advances in medical science and public health, which originated in pioneers and were subsequently put to work in latecomers, have gone a long way towards eliminating this disadvantage, at fairly modest recurrent costs. That leaves the sapping effects of heat and humidity on human effort and efficiency, and poor soils as salient disadvantages of the tropics. Air conditioning deals with the former, just as heating takes care of winter's cold in temperate climes. As for poor soils, these are of no consequence for footloose industries, though a prosperous and productive agriculture may have a beneficial influence on the speed and sacrifice with which an industrial society is built. Besides, the examples of Switzerland, Denmark, Japan and, lately, Singapore and Taiwan indicate that ingenuity and flexibility may count for more than expanses of fertile land and/or an invigorating climate.

2. GROWTH: BALANCED AND UNBALANCED. It has just been argued that the transfer of knowledge and technique from pioneers to latecomers is an inescapable feature

of growth in latecomers. Little was said, however, about the nature of the growth process itself, how it might be launched and sustained, or the forms of economic organization which would make the associated investments in plant and equipment. In particular, the role of the State went virtually unmentioned.

Although the doctrine of 'balanced' growth, as first set out by Rosenstein-Rodan (1943) and subsequently developed and elaborated by Nurkse (1953), certainly appeals to the notion that latecomers can draw on an existing stock of knowledge and techniques, the central problem, as its protagonists saw it, was to get growth started by inducing investment in industry. Now, why did investment have to be induced at all, as opposed to arising naturally and optimally as the result of profit seeking by entrepreneurs? First, it is argued, ruling market prices do not convey all relevant information to private investors. Not only are market structures imperfect, they are also incomplete, insurance markets being conspicuously thin and limited. Secondly, firms perceive their demand schedules to be rather inelastic where an expansion of output is concerned. This assumption of 'elasticity pessimism' was perhaps a natural legacy from the inter-war period. Nurkse, certainly, was pessimistic about the prospects for international trade; but the distinction between tradeable and non-tradeable goods, which is central to Section 5, was not made clearly. In any event, if firms perceive their respective demand schedules to be at all inelastic, they must have significant size, actually or potentially, in their respective markets. Thus, if one firm expands its output, the consequences for other firms are not, in general, completely summarized by market prices.

In Rosenstein-Rodan's example, the workers employed in a new shoe factory spend most of their income not on shoes, but on other wage goods, thereby making it profitable for the industries producing the latter to expand. In turn, an expansion of those industries will lead to a rise in the demand for shoes, but not necessarily such as to validate the initial investment in shoe-making capacity. What matters in establishing equilibrium, therefore, is firms' perceptions of the strategic responses of other firms, not only in competing lines of production, but potentially in all lines. Of course, this is immensely demanding of information for the individual firm, which may confine itself to conjectures about the responses of the firms in the more obvious complementary lines, while entirely ignoring wider ramifications. The more restricted the scope of these conjectures, the more limited is the expansion of output likely to be.

In the case of constant returns to scale – or, more precisely, constant average costs – some output will be produced, provided average cost is less than (perceived) marginal revenue at zero output. If, as seems plausible, initial perceptions are on the conservative side, firms will find demand conditions somewhat more favourable than expected, so that further rounds of expansion may occur. Nevertheless, with Nash conjectures, the resulting equilibrium will still be based on restricted assessments of the ramifications of an individual firm's actions.

The assumption of constant costs does not, however, sit very well with the notion that firms have significant size relative to their respective markets. It seems

more fitting to assume that there are increasing returns to scale, at least in the form that the minimum efficient scale of production is large relative to perceived demand, so that average costs may well be falling over the relevant range. In this case, the indivisibility of investment requires the firm to make a substantial and irreversible commitment if any output is to be produced. This it will be reluctant to do, even if it makes extensive and possibly sanguine conjectures about the actions of other firms, unless it has strong assurances that the other firms will make their investments simultaneously. With obvious advantages to hanging back over moving first, it is quite possible that the outcome of this coordination game will be that no investments are made at all. This extreme outcome seems closer to the preoccupations of the balanced growth school than that of limited investment under constant costs, and better to characterize an agrarian economy in which modern industry has not yet been established. Indeed, Rosenstein-Rodan recognizes the importance of increasing returns in drawing upon Young's (1928) example of the tube line. In any event, the resulting failure of economic coordination under the conditions discussed here is greatly intensified in the presence of increasing returns.

Thus far, we have dealt with potentially beneficial effects of an expansion of one firm on the profits of others. But firms also use some of the same inputs, so that simultaneous expansion will raise costs more sharply, unless the inputs in question are in perfectly elastic supply. Thus, there are competitive as well as complementary effects to be considered (Fleming, 1955). The two resources used across the board are, of course, labour and investment.

Where raw, unskilled workers are concerned, no difficulties were anticipated, in view of what was presumed to be a great 'reserve army' of underemployed and unemployed labourers in peasant agriculture and petty trade, which could meet any conceivable (initial) expansion of organized industry. The discipline and rhythms of industrial life, as well as many specific skills, could be acquired on the job through learning-by-doing. Certain special skills, especially those of a technical and managerial nature, might not be so readily created, however, so that they would command a scarcity premium, which would increase with the overall scale of expansion, until additional supplies of such skills were forthcoming. This rise in costs is potentially damaging to the case for simultaneous expansion of all lines of production. In the short run, it could be mitigated by importing foreign technicians. Over the longer run, the training and education of nationals abroad and/or at home would be possible; but the gestation period for workers of this sort is so long that reliance on this option is scarcely feasible if a large programme of industrialization is to start straightaway.

The other resource for which firms clearly compete is capital goods. In a closed economy, the capacity of the machine-building sector will impose a limit on how much investment can be undertaken in other industries even if there is a willingness to save more, a point that is central to the models of Feldman-Domar (1957) and Mahalanobis (1953). If world supplies of such goods are highly elastic, imports remove this bottleneck, so that domestic savings become the limiting factor, provided they can be transformed into foreign exchange through exports.

Most proponents of balanced growth assumed that there was plenty of global capacity to supply the plant and equipment needed at home; but they were less sure that all potential domestic savings could be converted into foreign exchange. Besides, a strong push on many fronts with significant indivisibilities of investment would entail heavy sacrifices in current consumption, even if such conversion were possible at parametric terms of trade. Hence the strong accompanying plea for foreign aid to get the process going without undue pain.

A case for strong government intervention to coordinate individual investments is beginning to emerge from the balanced growth argument. Before addressing it, however, we must also consider the contrary thesis of Hirschman (1958), namely, that the right strategy is to pursue unbalanced growth. In such a strategy, the complementarities discussed above are not simply ignored; rather imbalances between supply and demand are deliberately induced after an examination of where the complementarities lie. The difficulty with Hirschman's thesis is that, unlike the doctrine of balanced growth, it has defied attempts to state it in a formal and rigorous way. This does not, of course, mean that it is wrong; but comparisons with balanced growth are rendered much more difficult thereby.

There are two features of Hirschman's argument that are particularly relevant here. First, he dismisses all so-called 'obstacles to development' save one, namely, the capacity to make rational economic decisions. If this capacity is adequate, so his argument runs, all the other 'obstacles', should they have an independent existence, will be easily surmountable. Now, the one thing that is needed above all else in pursuing a strategy of balanced growth is the ability to coordinate complementary investments without much help from the price system, so that balanced growth makes intensive demands on the very resource that Hirschman believes to be the scarcest.

How does unbalanced growth economize on this resource? In part, the answer goes, by giving up the attempt at detailed, centralized coordination implied by balanced growth. At first sight, this looks like no strategy at all – if it be granted that the price mechanism is defective – so we move on to the second feature of Hirschman's argument, which is at once poetic and slippery. When growth is unbalanced, capacity in some sectors will outrun others in such a way as to create an imbalance between supply and demand at 'normal' prices. The tension stemming from this excess demand is supposed to induce supplies of whatever is most lacking – savings, entrepreneurship, a decision to build a new road, or whatever. In effect, such tensions focus attention and resources on what should be done, and the stronger the tension, the sharper the focus. This, too, is a form of economic coordination; but if there is anything novel in Hirschman's thesis, it must exert its influence by something other than a change in relative prices under the pressure of excess demand. It is easier to coin descriptive phrases for the process – 'creative tension', for example – than to pin down what is at work and how it operates.

One possible interpretation is that unresolved excess demand induces additional supplies through changes in tastes, endowments or even both. Faced with a particularly lucrative and unusual opportunity a peasant may revise his ideas



about how much current consumption and leisure he should sacrifice in order to finance it. Similarly, the need to solve a particularly pressing problem may jolt managers and technicians from their ordinary routines, causing them to summon up hitherto unknown reserves of ingenuity and energy. (The performance of British industry on a three-day work week during the miners' strike of 1974 is perhaps an example.) These changes, it should be emphasized, are not the consequences of changes in relative prices with given tastes and endowments. Rather, they are changes in tastes and endowments triggered by the gap between market and 'shadow' prices when there is unresolved excess demand. Interpreted thus, the theory appears overtly and heavily 'psychological' – and formidably difficult to state precisely, let alone test. Welfare comparisons are also rendered moot, for once a man has eyed a prospect under such conditions, he is no longer the man he was. The idea that individuals are thus transformed by experience is not wholly alien to economics; but many economists would be bemused, rendered giddy even, by this version of it.

As strategic doctrines, balanced and unbalanced growth appear to call for very different roles for the State as an agent in promoting industrialization. Given its assumptions, balanced growth really expresses the desirability of exploiting complementarities through central coordination when the price mechanism cannot do the job efficiently. Inspired perhaps by the Soviet example, the proponents of balanced growth drew the conclusion that an optimal level and pattern of industrial development requires that all investment decisions be made centrally. In the presence of increasing returns and lumpy investments, the problems of isolation and assurance would also arise in a particularly acute form, with a high prior profitability of bankruptcy for the individual firm acting in isolation. Thus, if firms were privately owned, they would have to have a voice in the proceedings. The desire to reduce current sacrifices to manageable proportions through foreign aid and commercial capital also introduced lender's risk and lender's interest. These foreign agencies were therefore to have their seats on Rosenstein-Rodan's Investment Board as well. Thus, what starts out as an argument for the desirability of central coordination begins to look like a manifesto for the Corporate State. Even leaving aside this inherent element of political economy, one is still struck by the staggering demands for detailed information that such a central body would make in its attempts to realize a full optimum.

A government pursuing an unbalanced growth strategy will clearly eschew any scheme of the above kind, but it will not leave matters entirely to the market. To the extent that such things can be assessed, it will promote growth in sectors that generate the right measure of creative tension, and this will need occasional revision as the process unfolds. The promotion could take a number of forms, from taxation to investment by the state itself. Moreover, the decision concerning which sectors to promote is itself a central one, requiring much information, though not as much as balanced growth. Thus, unbalanced growth certainly implies an active role for the state, though its rationale favours intervention in a decentralized form.