

KENNETH P. JAMESON
CHARLES K. WILBER

SIXTH EDITION

**THE
POLITICAL
ECONOMY
OF
DEVELOPMENT
AND
UNDERDEVELOPMENT**

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SIXTH EDITION

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Given its fatal incorrigibility, humanity will probably have to go through many more Rwandas and Chernobyls before it understands how unbelievably short-sighted a human being can be who has forgotten that he is not God.

Vaclav Havel
President Czech Republic
Speech at Stanford University
September 29, 1994

Our hope as editors, and for those who use this book, is that a sense of our common humanity, along with a bias for hope, can make the Rwandas and Bosnias artifacts of the past, as we strive for development that is truly centered on the liberation of human beings.

PREFACE TO THE SIXTH 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 less developed countries. 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 had failed in the developing countries. The second edition of this book captured the beginnings of this movement.

The 1980s 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 made the design of development strategies a complex problem in political economy rather than a simple economic issue.

The fourth edition updated the continuing debate among the contending schools of thought, highlighted the international debt crisis along with the attendant stabilization and readjustment programs, and charted the resurgence of free market economics with its attack upon “development” economics. It critiqued the view that the “less developed countries” simply needed to make the adjustments required by the markets to become developed countries.

The fifth edition was published at the beginning of the last decade of the twentieth century when the old verities were collapsing. The cold war was ending, the Eastern European countries were moving from centrally planned economics of the Second World to market-oriented underdeveloped countries of the Third World. Regional conflicts were moving to center stage in the international political arena, e.g., the Persian Gulf War of 1991 and the subsequent chaos in the area. The narrow concentration by developmentalists during the 1980s on technical issues was certainly inadequate to the task of understanding the new world, and the fifth edition pointed to the many old and new challenges to development thinking and suggested how they might be met.

This sixth edition has the luxury of several years of hindsight on the disappearance of the Second World, on the continuing difficulties of the new Eastern European entrants into the ranks of the “South,” and on the often devastating return to ethnic and

tribal definitions of human relations. The outline of the course of events was anticipated quite well in the previous edition.

This edition continues the focus on the complex problems and even more complex solutions of human development within this changing international political context. There are no easy answers, but if progress is to be made against the poverty that afflicts the majority of the world's people the "bias for hope" must be rekindled and combined with serious analysis of problems and solutions. We hope this book is a contribution to that rekindling and analysis. The perspective of the mid-1990s and the return to some international stability provide an opportunity to focus on four of the central elements of development in the 1990s: reshaping the world's economic and political relations, democracy in the countries of the South, the pivotal role of women in human development efforts, and the elements of an environmentally sustainable development process. The articles new to this edition focus primarily on these elements.

Once again, we are indebted to many people for the valuable help they have given us in preparing this sixth edition. They provided critiques of the previous edition, suggested new readings, and encouraged us to go ahead. Most of all they remained committed to understanding and encouraging development, embodying the bias towards hope that is the hallmark of developmentalists. They helped us maintain that stance as well. We especially acknowledge Terry Karl at Stanford University and Jim Weaver at American University.

Tom Bates contributed in the initial stages of article selection, while Maryam Ghadessi was instrumental in getting the manuscript ready by the deadline.

Our thanks to Scott Stratford, Lucille Sutton, Victoria Richardson, and Annette Mayeski of McGraw-Hill whose good-humored professionalism helped surmount the many barriers to getting the book out in a timely and competent manner.

Kenneth P. Jameson

Charles K. Wilber

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. 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

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PART ONE

THEORY AND METHOD IN ECONOMIC DEVELOPMENT

In *The Rise of the West* (1963, p. 591), William McNeill suggests that the history of “the West” (Europe) has exhibited marked instability since the classical Greeks. This contrasts with “civilized Asia,” primarily India and China, whose complex social, economic, and cultural structures maintained themselves and never retreated for any length of time from any major geographical area. The expansion of Western Europe in the fifteenth and sixteenth centuries brought a process of change and instability to the rest of the world—which continues today. Although it might seem more appropriate to describe the current process as the “rise of the East” or the “fall of the Socialist bloc,” no description can ignore the fact that political, economic, and social change pervades our contemporary world. Improvements in transportation and communication have increased the pace of social change and have extended it to all corners of the world.

But instability and change are never easy. One response is to resist, to react against changes and reject any effort to accommodate. Wiarda (1983) examines social efforts to resist change and finds many positive elements in tribalism, Islamic fundamentalism, and Latin American corporatism. Experiences such as the tribal genocide in Rwanda show the other side of the coin, that reactionary movements during a process of rapid change can cause catastrophes. On the other hand, he is certainly correct in insisting that efforts to resist change must be respected and incorporated into any development process. However, it is likely that none of these movements will be successful in resisting change, in reacting successfully against the outside influences that will become increasingly prevalent.

McNeill locates the impetus for change during the past century in the growth of human control of the environment, particularly over inanimate forms of energy, and in the readiness to “tinker” with social institutions and customs in the hope of attaining

desired goals (p. 794). The result has been wide acceptance of the inevitability and the desirability of change. Today some countries that long resisted external influences have acceded to the inevitability of change. For example, Albania has moved rapidly away from its fierce postwar independence. North Korea is engaged in much broader dialogue with the world community.

Development economics was spawned during the 1940s and 1950s by the acceptance of the inevitability of political, social, and economic change and the need to skew that change in a positive direction. The problem of the lagging countries of Eastern Europe stimulated much initial development thinking; the success in rebuilding Europe and Japan emboldened development economists to extend their horizon to the rest of the world. Development economics incorporated an optimism that change could be for the better and that conscious reflection on, and control over, change, often through national governments and international organizations, could harness change and encourage development. The accomplishments over the period in improving key measures of human development are undeniable.

Growth of GNP throughout the world accelerated, infant mortality decreased dramatically, and life expectancy increased rapidly; access to education was extended far beyond what would have been imaginable in 1945. Data from the *World Development Report, 1990* (Table 3.1) give a more precise sense of the changes in developing countries over a mere twenty years:

	1965	1975	1985
Consumption per capita (1985 PPP dollars)	590	780	985
Life expectancy (years)	51	57	62
Primary net enrollment rate (%)	73	74	84

The article in this part by Amartya Sen makes a strong case that the factors which development economics concentrated on, and the policies advocated by development economists, had an important and positive contribution to these improvements. Albert Hirschman (1983) noted that the optimism of development economics often gave policymakers and others the courage to confront social change, to support it, and to ensure its most positive outcomes. He describes himself and other developmentalists as having a “bias for hope.”

The optimism of early development thinkers has certainly been tempered by time and experience, and the naive belief that the problems of poverty and stagnation could be solved completely and almost mechanically has long since disappeared. Human beings and societies are far too complex for any simple solution. In the words of Paul Streeten (1985), “every solution creates another problem.” The articles in this section reflect an acute awareness of the complexity of development, and of the need for a political economy of development that moves beyond development economics.

For example, Sen notes that fast economic growth will often outrun the required social change, an experience that often shows that defining development correctly is quite difficult and requires an evolution in our thinking. Development economists have

had to learn that “all good things do not go together,” that rapid growth and economic development may be accompanied by severe political problems, such as the emergence of authoritarian governments or the brutal reaction of those whose power is threatened. In addition, sustaining rapid growth is not easy. For example, the 1980s was a lost decade for Latin America and Africa in terms of growth. Income per person in Latin America actually fell from an average of \$2,512 in 1980 to \$2,336 in 1988. So the challenge of a “political economy of development and underdevelopment” is to represent this complexity while at the same time maintaining a “bias for hope” that there can be positive outcomes to this continuing period of instability and change.

The difficulties of the 1970s and 1980s resulted in the loss of momentum and hope in development, and diminished the courage to proceed along a conscious development path. This stimulated free-market or laissez-faire economists to attack development economics, attributing slackening development to the interference of government in the economy, and particularly to government-induced distortions of the resource allocation role of prices. The article in this part by Deepak Lal, published by the World Bank, is a clear statement of this position and a resounding attack on what he terms the “dirigiste dogma.”

Lal’s stance has gained wide acceptance among economists. In part, this is a reflection of the World Bank’s growing role in research on economic development. One indicator of the weight of the World Bank in development thinking comes from the affiliation of authors of articles that appeared in the five major journals of economic development between 1984 and 1986. World Bank authors were the most published in the development field, accounting for 1.6 times as many article pages in these journals as authors of the most productive independent research organization, the Institute of Development Studies at Sussex University in Great Britain. Adding the International Monetary Fund raises their joint production to 2.25 times that of Sussex. The importance of the World Bank and its corps of economists has given a major impulse to Lal’s critique of development economics. Few development economists today would advocate massive government planning and control nor dismiss the price system as a mechanism for resource allocation. To this degree the World Bank approach has been accepted. That said, as Helleiner notes, “there is room for considerable political and professional disagreement on [many development questions].”

G. K. Helleiner’s article examines the World Bank’s approach to the macroeconomics of contemporary development, characterizing it as “conventional foolishness.” He notes a series of discrepancies and inconsistencies, and suggests that such a simplification will surely be unable to deal with the complexities of contemporary development. His alternative draws on the mixed economy (government plus the private sector) strategy undertaken by the two unquestioned development success stories, Korea and Taiwan. He could also have noted that the postwar decade with the poorest development performance, the 1980s, was the decade during which the Bank’s program was implemented most widely.

Both he and Sen conclude by setting out an agenda for development studies in the coming years. They agree that there is much work still to be done, that we can still understand and encourage development, although not with the ease and success that

development economists had naively assumed in the early years. They implicitly suggest the need for a careful “political economy of development” and both point to several problems which have not been adequately addressed by development theory. The first of these is the environment and the imperative of sustainable development.

Development economists have not paid adequate attention to environmental limits and to the environmental costs of economic growth. True development must be “sustainable,” it must take into account the viability of the natural environment that serves as a source of resources and as a sink for the by-products of economic activity. This is a truism the repetition of which is important; but what are its fundamental implications? The article by Paul Ekins addresses this question, and places it in the context of the environmental debates of the past twenty years, which began with concern about “the limits to growth.” He concludes that the issue can only be addressed on a global scale, by both developed and developing countries together. The key problems require that both North (developed) and South (developing) be involved in sustainable development and adopt policies appropriate to their particular circumstances. It is likely that the decisions made in the North will have greater impact on the sustainability of world development than those made in the South.

The second problem area is the measurement of development: development is often hindered by ignoring issues of gender. In Sen’s terms, the capabilities and entitlements created in the process of development often differ according to gender. If policy formulators consciously consider this element, the benefits of development efforts can be increased. Diane Elson’s article examines how gender is absent from much development thinking, be it neoclassical (such as Lal’s) or structural (such as Helleiner’s). She then shows the implications, both for understanding and for policy development, of incorporating gender into development. Such an effort can help deal with gender inequality as well as contributing to a true “development.”

The political economy of development in the post-World War II period has come full circle in a sense. After fifty years of seeming success, the development of Eastern Europe, one of its first concerns, is again an important question. And we are again confronted with problems that have been created by our solutions, most important among which is the sustainability of the development process. Nonetheless, there are important success stories to build on, most notably Korea and Taiwan. And we continue to learn about development policies and approaches. Awareness of the importance of gender in development was reflected in the United Nations Cairo Conference on Population and Development in September 1994.

One major difference from the 1940s is that we now know that the naive belief in a simple and automatic process of development is untenable. Solutions do bring problems, reactions to change do occur, and development cannot be reduced to a simple formula; it must be studied as the political economy of development and underdevelopment. The variety and challenge of the development process must attract us. The crucial question is whether the acceptance of social change and the belief that it can be positive can energize development efforts, rather than lead to reaction or disillusion. Can we maintain a “bias toward hope”? Only our own openness to the drama that is human development will answer that question.