DEVELOPMENT ECONOMICS: 'TRUSTEE FOR THE POOR' OR 'GUARDIAN OF RATIONALITY'?

by

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Mr Vice-Chancellor, colleagues and friends, I am very honoured indeed to be able to give this inaugural lecture tonight. My association with Rhodes University has been a happy and fruitful one and I would like to thank all those who have made this possible.

Both development economics and the economic development of the Third World have recently come under attack from two distinct quarters. On the one hand it is argued that development scientists have deviated too far from the long established and time-honoured path followed by orthodox economists. Others claim the opposite, namely, that the profession has stuck too closely to this well-beaten track often missing out on the things that really matter in development. The issue at hand is not merely a question of whether a visitor to this country ought to follow the main routes indicated on the map of the South African Tourist Board; or whether his itinerary should also include Soweto, Salem and the Royal Hotel in Montagu. There is much more to the debate than meets the eye, as I shall try to show to you tonight.

The failings and frailties of development economics have lately been attributed to the inability or unwillingness of economists to be what Kenneth Arrow (1974, p 16) once called the "guardian of rationality".

All too often development economists have failed to appreciate the basic neoclassical tenet of relative scarcity when analysing the problems or advising the governments of poor countries. It is the neglect of neo-classical theory generally and of modern welfare economics in particular, that lies at the root of the many ineffectual and largely misguided planning models and policies adopted by Third-World governments. As Deepak Lal (1983, p 103) recently noted:

> "The many problems facing developing economies are _not_ those flowing from the inevitable imperfections of a market economy. (Rather they are) ... the policy-induced distortions created by (the) irrational _dirigisme_ promoted by development economics".

The view from the left holds that economic theory in the conventional sense is largely irrelevant to the problem of underdevelopment. Adherents to this view contend that received micro- and macroeconomic theory should either be changed extensively, or abandoned completely and replaced by a conceptual structure whose domain extends beyond the "economic", and whose methodology and basic premises would be more appropriate to actual conditions prevailing in the poor countries. It is only by broadening the scope of his analysis that the economist can ever hope to fill his proper role as "_trustee for the poor_".

Paul Streeten (1983, p 875) once said that "the world is divided into two groups of people: those who divide the world into two groups of people, and those who don't". Lest I be classified as one of the former, let me assure you that I take both pride and pleasure in the rich diversity of ideas, nuances and _modus operandi_ encountered in the field of development economics. Indeed, if we are to understand and appreciate the nature of the polemical discourse referred to above, it will be necessary to know what development economics is all about to begin with. I therefore propose to provide you with a bird's eye view of some of the more important contributions that have been made in this field; it should then be possible to address the question posed in the title of my lecture.

I

In his presidential address to the American Economic Association Arthur Lewis (1984) suggested that development economics has been in decline ever since the "spirited decades of the 1950's and 1960's". He maintained that the output of new development theories was at its highest during this period. My own view is that the "innovations and controversies" to which Lewis referred - "spirited" as they may have been - were not particularly novel. Most were derived from or availed themselves of neoclassical price theory and classical and Keynesian macroeconomic theory. The same can be said of recent developments in the field since the late 1960's.

In offering such an alternative interpretation, I am not trying to detract from individual achievements in the field or to lower the scientific status of the sub-discipline. Rather, the many attempts that have been made to refine and extend existing theory in accordance with the shift in professional focus may be viewed as a good example of scientific progress in the Kuhnian sense of the word; that is, they represent a series of problem-solving activities conducted within a given analytical framework. Indeed, there is much agreement within the profession that development economics has conferred significant external benefits upon other members of the economics family as a whole. These include various investigations into the operation of dual labour markets which have become part of the curricula of labour economists; the role of multinational companies in the world economy which is now being studied extensively by industrial economists; several analyses of international trade and finance for small, open economies which have become the concern of international economists; and the structuralist theory of inflation in the field of macroeconomics. It is tempting to add that many of these contributions were made only in the aftermath of the "spirited decades".

But development economics also has a distinctive character of its own. It differs from the neoclassical, Marxist and other mainstream theories in its basic methodological approach to the analysis of real-world phenomena. The main body of development economics has been referred to as a "structuralist" field of study. According to Hollis Chenery (1975) "structuralism" arose from a general dissatisfaction with the limited predictive power of mainstream theories when applied to the conditions in Third-World countries. As he (1975, p 313) puts it: "The neo-Marxist policy recommendations suffer from the same defects as the neoclassical in that they are implicit in their initial assumptions rather than being derived from an analysis based on empirical estimates of the underlying structural relations".

On this view, structuralists may indeed be said to include such 'establishment' economists as Keynes, Joan Robinson and Chamberlin, as well as several 'revisionist' economists in the areas of industrial economics, labour economics and macroeconomic theory. In the field of development economics itself the structuralist approach is associated with the names of Lewis, Eckaus, Prebisch, Myrdal and many others. These economists view the development problem as a consequence of certain structural rigidities and market imperfections which are present in one form or another in most developing countries. And it is within this context that I now turn to consider more precisely some of the highlights of my subject.

II

During the immediate postwar period several economists approached the world-wide problem of economic backwardness in a manner reminiscent of the old classical school. As they saw it, the distinguishing characteristic of a poor country was that it had not yet reached a so-called minimum threshold level of development, beyond which it would be possible to achieve a self-sustaining rise in living standards. In the words of Richard Nelson (1956), poor countries were caught in a "low-level equilibrium trap". In a seminal article entitled "Problems of Industrialisation of Eastern and South-Eastern Europe", Paul Rosenstein-Rodan (1943) argued that the individual entrepreneur in a poor country does not realise that his own productive activity may confer an external benefit on other members in society, for example, by lowering the production costs of other entrepreneurs operating in the same location. To the extent that he considers only the private returns and costs of his enterprise, the same entrepreneur will be unaware of the fact that he may also benefit from the actions of others. If private investors do indeed underestimate the social benefits associated with their own investment plans, it seems unlikely that sufficient investment will be forthcoming within a relatively free market environment.

In a similar vein, Ragnar Nurkse (1953) introduced the notion of the vicious circle of poverty to the literature. In his book, Problems of Capital Formation in Underdeveloped Countries, he (p 5) explained it as follows:

> "... the small capacity to save results from the low level of real income. The low real income is a reflection of low productivity, which in its turn is due largely to the lack of capital. The lack of capital is a result of the small capacity to save, and so the circle is complete. A situation of this sort ... can be summed up in the trite proposition: 'a country is poor because it is poor'."

According to Nurkse, the solution depends on a substantial increase in capital investment across a broad range of industries. Such a "big push" strategy of "balanced growth" would provide the stimulus necessary to break the vicious circle. Not only would balanced growth generate internal and external economies of scale but it would at the same time create the demand necessary to sustain it. In short, supply would create its own demand and lead the economy through the various Rostovian stages of economic growth (Rostow, 1960).

The basic idea emerging from these theories can be traced to the writings of the classical school, and more specifically to Adam Smith's (1776) well-known theory of specialisation. Smith argued that the division of labour into specialised productive activities is a necessary condition for productivity growth in most countries: "... when workers specialise in specific activities rather than undertake several production tasks (at the same time) they can collectively produce more with the same effort" (Baldwin, 1972, p 26). For this to be possible, however, workers must be furnished with specialised tools and equipment, which can only be accomplished by means of a continuous process of capital investment. This in turn requires an adequate volume of saving and a market that is sufficiently large to absorb the total product.

Turn this argument on its head and you have the original version of the vicious circle of poverty. The only difference between Smith and the "big push" theorists lies in their respective policy prescriptions. Whereas Smith believed that an "invisible hand" would guide a free and unfettered market economy to a state of bliss, Rosenstein-Rodan, Nurkse and others, writing in the aftermath of the Keynesian revolution, advocated a more active role for government in the economic development of the Third World.

The structuralist nature of development economics is perhaps best represented by several studies which have attempted to modify and extend the neoclassical, Keynesian and Marxist theories. Gunnar Myrdal's (1957) theory of cumulative causation, for example, discards the neoclassical assumption of constant returns to scale and effectively introduces increasing returns in, say, a given geographical region of a country; in contrast to the neoclassical theory, he thus envisages a cumulative process of regional divergence in terms of the income level per worker. According to Myrdal, any given increase in a region's income is assumed to have a dual effect on other regions, in the form of his well-known spread and backwash effects. The claim that the latter usually outweighs the former is largely due to the existence of regional differences in economies of scale.[1] Specifically, suppose an autonomous increase in the income of, say, region Y induces increasing returns and raises its marginal productivities and factor prices relative to those in the backward region, X. If factor mobility is assumed to depend on the corresponding price differentials only, then production factors will move in one direction only setting in motion a cumulative process of income expansion in region Y at the expense of region X. In the absence of "counterveiling forces", this process would continue ad infinitum augmenting regional differences in scale economies, real income and employment.

When it was first applied to the problem of economic underdevelopment (Myrdal, 1944), the theory of cumulative causation initiated a fairly radical departure from the ruling neoclassical orthodoxy. The basic idea behind the theory has recently re-emerged in various writings associated with the so-called dependency or "neo-Marxist" school.[2] These writers contend that past colonial empires and "neo-colonialists" like the multinational company have played an important part in both initiating and perpetuating a process of "development of under-development". For example, through various forms of international trade, investment and technological transfer, multinational companies establish a so-called "enclave" economy within the typical developing country, which eventually becomes fully integrated with the "international capitalist system". The chief function of the enclave is that of profit (or "surplus value") maximisation, which it does inter alia by partially destroying traditional (handicraft) industries and retarding or distorting indigenous processes of social and economic change. Implicit in the dependency argument is the belief that backwash or, more precisely, polarisation effects, far outweigh what spread effects may emanate from the enclave economy, at least during the early stages of development.

Several theorists have tried to explain the development problem in terms of the specific production processes used in developing countries. Richard Eckaus' (1955) explanation of the "Factor-proportions Problem in Underdeveloped Areas" is based on the "alternative" assumption of limited factor substitutability.[3] In a typical developing country, he argues, there are either in fact or entrepreneurs perceive there to be fixed technical coefficients with a relatively high capital-labour ratio. While this type of production function does in fact have a long history in the economics literature, it may also be viewed as an alternative to the non-linear function used by neoclassical economists.

The origin of the factor-proportions problem lies in what Hans Singer (1970-71, p 64) has called the system of international technological dualism, or "... the fact that knowledge is accumulated by the richer countries, in the richer countries, and in respect of the problems of the richer countries". This monopoly of knowledge enables the developed countries to control both the volume and composition of technical inventions and innovations in the world at large, as well as their eventual transfer to developing countries through international trade and investment. However, since most innovations are initially planned in and designed for rich countries where labour tends to be relatively scarce and expensive, their application generally requires large quantities of capital relative to labour. It is the unadapted application of such innovations, coupled with the failure of multinational companies to search for alternative techniques more suited to conditions in poor countries, that has led Eckaus (1955), Higgins (1958) and others to observe that production in these countries is often characterised by fixed proportions of a relatively capital intensive nature — despite, that is, the relative abundance and cheapness of labour.[4]

The employment implications of the factor-proportions problem are straightforward: consider a one-good economy in which the production of any quantity of the good requires the use of, say, 3 units of capital per labourer. If, in fact, capital and labour happen to be available in the ratio of 1,5 to 1, then for every 3 units of capital employed there would be 1 unemployed person. Clearly, under these conditions the employment of labour would be limited not only by a lack of capital but also by the limited degree of substitutability between the factors of production.

Much of the postwar literature on economic development has focussed on the imperfectly competitive structure of the product and factor markets in developing countries. The monopoly power of foreign business concerns has been a characteristic feature of the so-called "opening-up process" in developing countries. Hla Myint (1954) argues, for example, that monopolistic conditions affect virtually every person in a developing country, whether he is a peasant producer, an unskilled worker or a consumer of final goods. In the international context, Prebisch (1950, 1959) has shown how differences in the structure of markets between developed and developing countries may turn the terms of trade against the latter[5]; using a two-sector model, Bhagwati (1958) has demonstrated how such a deterioration in the terms of trade could bring about a net decrease in the welfare of the countries concerned. Likewise, import substitution policies have tended to restrict competition and encourage the growth of monopolies in most developing countries during the postwar period.[6] On a theoretical level at least it is possible to show that, compared to a competitive market, the effect of monopoly <u>ceteris paribus</u> is to limit production and raise the prices of most goods and services in the economy. These arguments therefore suggest that the problems of unemployment and low real incomes may be partly attributed to the monopolistic structure of markets in developing countries.

The labour market has been the focus of several dualist theories of development. The most famous of these is undoubtedly Arthur Lewis' (1954) analysis of "Economic Development with Unlimited Supplies of Labour".[7] The model generally views development as a relatively painless process according to which "surplus" labour is transferred from a low-productivity or non-capitalist sector, to a newly emerging, more productive capitalist sector. This transfer of labour is supposed to occur at a minimum subsistent wage, which enables capitalists to save, invest and continue employing surplus labour during the initial stages of development. Economic development is thus made synonymous with increased saving and capital investment which is, in turn, facilitated by a perfectly elastic supply of labour.

The Lewis model was one of the first to highlight the peculiarities of the factor markets in poor countries. It is now generally recognised that the prices of capital, labour and other production factors do not as a rule reflect their respective relative scarcities. Labour tends to be relatively overpriced due to the existence of fixed or rigid wages determined <u>inter alia</u> by law, social custom and other institutional factors. Likewise, capital is said to be relatively underpriced because of overvalued exchange rates, artificially low interest rates and various forms of tax exemption.[8] Not only do such distortions encourage the use of "inappropriate" production techniques, but they have also contributed to widespread inefficiencies in a large number of developing countries.

In a recent survey of 30 developing countries, for example, the World Bank (1983, p 57) found that "... during the 1970s those countries with the worst distortions experienced significantly lower domestic saving and lower output per unit of investment, thus leading to slower growth".

The effect on employment of these price distortions tends to be magnified by certain spatial patterns of labour mobility. Todaro (1969, 1971), Gugler (1969), Stiglitz (1982) and others[9] have all shown how the flow of labour to the cities has added to the problem of urban unemployment and increased per capita income differentials within developing countries. The Todaro model in particular provides a rational explanation for the massive migration of labour to the cities in spite of rising levels of urban unemployment. The rapid rate of urbanisation has also given rise to numerous attempts to explain the segmented nature of the urban labour market in poor countries. For example, in the absence of an adequate social security system the prospect of becoming openly unemployed in the urban areas is not an attractive one. But many new arrivals in the city join the so-called "unorganised" or informal sector where they are able to make ends meet while waiting for the chance of securing a well-paid job in the formal sector.[10] Although the informal sector itself may be viewed as a "relatively efficient, productive and creative" means of survival (ILO, 1972, p 51), its growth potential and ability to compete with the formal sector are nevertheless limited by several factors. These include its lack of legal protection coupled with potential harassment by the authorities, a deficient infrastructure, the high risk of business failure, and limited access to formal financial institutions.

This lack of competition between the constituent segments of the urban labour market may be partly responsible for the observed differences in wage rates and working conditions among persons of similar skill belonging to the same occupational groups.[11] While comparatively high wages and job security in the formal or "primary" sector have traditionally been attributed to education and on-the-job training,[12] and more recently to social and customary procedures and to turnover and other efficiency considerations,[13] it is in the urban informal or "secondary" sector that the problem of poverty manifests itself most visibly.

It is partly this spectrum of price distortions, rural-urban migration and the resultant segmentation of the urban labour market which prompted Michael Lipton's (1977) recent attack on the Urban Bias in World Development; and which caused Todaro (1977, p 199) to remark: "... it is now becoming painfully apparent that the conventional wisdom of economic theory, which placed top priority on the rapid accumulation of capital as the key to successful economic progress in the 1950s and 1960s, has led to the serious employment predicament of the 1970s".

From a macroeconomic perspective, the profession has witnessed the emergence of a structuralist theory of inflation for developing countries. According to Sunkel (1958), Olivera (1964) and other members of the Latin American structuralist school[14], inflationary price rises have been an inevitable outcome of the poor countries' attempt to promote industrialisation in the face of certain structural constraints. There are essentially three such constraints, namely, the inelastic supply of foodstuffs, a chronic shortage of foreign exchange and a government budget constraint. Industrial expansion necessarily raises the demand for food which, given inelastic supply conditions, leads to an increase in price rather than in the level of real income. Similarly, industrial development usually goes hand in hand with an increase in the demand for imported materials. But given low export earnings, the result is often a depreciation of the exchange rate and a consequential rise in the domestic price of imported commodities. A policy of industrialisation also requires a commitment on the part of government to provide the necessary social and physical infrastructure. In the absence of sufficient sources of revenue, however, this usually translates itself into a growing budget deficit and a concomitant increase in the money supply and/or interest rates.

It is at this stage that the so-called propagating factors come into play. Faced with higher food and import prices trade unions attempt to redress the balance by enforcing a compensating increase in nominal wages. At the same time as employers are faced with rising import prices and higher interest charges, they now also have to foot a growing wage bill. Given their monopolistic power, however, they are able to pass these cost increases on to consumers in the form of higher prices, thus triggering an inflationary spiral of successive wage and price increases. All this is made possible by a continuous increase in the money supply which, in contrast to the monetarist view, is considered to be a symptom of the basic problem rather than the cause of the inflation itself.

On the policy front, the Latin American structuralists also part company with Keynesian economists insofar as they reject their short term cure for inflation. Poor countries cannot afford the luxury of a contractionary monetary or fiscal policy aimed at stabilising the economy in the short run. Policy induced changes in the interest rate, exchange rate and tax structure tend to have a direct impact on the cost of production and, hence, on the supply of goods and services. A contractionary monetary policy may thus be expected to curb both demand and supply and precipitate a severe recession with little or no effect on the rate of inflation.[15] Structuralists maintain that the cost in terms of rising unemployment of such a policy is too high for countries already experiencing inordinately high levels of both structural and frictional unemployment. Instead they advocate increased foreign aid and international finance as the means of bringing about the necessary structural change, while some also support a prices and incomes policy.

On the whole, our cursory glance at the main body of development economics would appear to confirm its structuralist nature. Most existing theories of economic underdevelopment adopt an analytical approach which in effect amounts to relaxing some of the chief assumptions associated with the neoclassical, Keynesian and Marxist theories.

Development theories accordingly yield predictions which are significantly different from those emanating from their more conventional counterparts. In short, they seek to explain the problems of unemployment, low incomes and inequality in terms of the operation of input and output markets both at the micro- and macroeconomic levels, as well as in relation to the production process itself.

But what puts them apart from the neoclassical theory in particular, is their mistrust of the free market system and belief in the ability of government to relieve the poor of their misery. The policy proposals stemming from these theories are many and varied. They include the use of sophisticated econometric models as planning guidelines; the provision of basic infrastructural facilities deemed necessary for rapid industrialisation; the establishment of public enterprises and marketing boards coupled with the use of indirect taxes and subsidies in order to provide for the basic needs of poor people and thereby effect a redistribution of income from the rich to the poor; the imposition of import tariffs as a means of improving the terms of trade and of protecting infant industries against foreign competition; and a plea for greater foreign assistance together with the formation of a so-called new international economic order. It is at the level of policy that most of the wrathful criticisms of development economics have been directed.

III

Just as Keynesians and neo-Keynesians have been under attack and pushed off the centre of the stage in macroeconomics, so the interventionist bent of development economics has been questioned by several economists belonging to the neoclassical school. The name most closely associated with the neoclassical approach to development is that of Peter Bauer (1963, 1971, 1981). According to him there is nothing fortuitous about the fact that countries which have abided by the principles of the market have generally grown more rapidly than those opting for an interventionist or centrally planned economic system. While the former have allowed the incentive-providing mechanisms of the market to run their course, they have also benefitted a great deal from maintaining and expanding contact with industrially advanced countries through the operation of multinational companies, the transfer of technology and free international trade.

In a provocative and influential essay entitled "The Poverty of 'Development Economics'", Deepak Lal (1983) referred to 'development economics' as a "dirigiste dogma". According to him the interventionist policies advocated by economists and adopted by Third-World governments have made matters worse rather than better. Many of the distortions undermining the economies of Third-World countries have been induced by the paternalistic attitudes and irrational policies of government, and should not be viewed as manifestations of the basic imperfections of the market mechanism. A flippant though thoughtful remark by Ian Little (in Streeten, 1983, p 879) is worth repeating: "I see the story as one of a battle between structuralists who see the world as bounded and flat, and consisting of stick-in-the-muds who have to be drilled, - and neoclassicists who see it as round and full of enterprising people who will organise themselves in a fairly effective manner!"

Lal and others maintain that the policies of Third-World governments have proved to be singularly inappropriate in that they have tended to aggravate rather than correct the inevitable imperfections of the market system. The policy of tariff protection - or industrialisation through import substitution - is a case in point. It was originally envisaged as a means of arresting the decline in the terms of trade and of protecting infant industries with a view to creating more job opportunities for a growing population. In practice, however, its impact on the economy has turned out to be quite different. Much of the available evidence indicates that protectionist policies have led to a substantial increase in the cost of living, while at the same time suppressing competition in the import-competing sector, limiting the growth of food production, exports and employment, and weakening the balance of payments position of developing countries.[16]

Similarly, monetarist economists argue that inflationary price rises in developing countries are due to excess demand pressures brought about by expansionary monetary and fiscal policies.[17] The so-called "structural" constraints are not really structural at all but the direct result of the government's attempt to alleviate the effects of inflation, rather than remove its basic causes. The inability of the food producing sector to respond to increased demand, for example, is due to a deliberate attempt on the part of government to keep food prices low and thus to protect urban consumers from the ravages of inflation. The lack of foreign exchange is again caused by the government's policy of maintaining an overvalued exchange rate in order to prevent the prices of imported materials from rising. As the monetarists see it, the ultimate solution to the problem lies in a concerted effort to curb the growth of the money supply and hence to remove excess demand pressures in the economy. Once the rate of inflation has been brought under control the need for compensating actions by the government, and with it numerous artificial constraints too, would have disappeared altogether.

It is important to note that Deepak Lal's attack on development economics does _not_ imply support for the _laissez faire_ doctrine. The debate has long ceased to be about the virtues or vices of an unfettered, free and largely competitive economy. To Lal (1983, p 6) the real issue is "... the form and extent of government intervention, not its complete absence". Where developing countries have gone wrong, according to Lal, is in their application of _dirigiste_ policies based on principles that clash with those of modern welfare economics. Irrespective of the policy objective(s) agreed upon, welfare economics, and the theory of second best in particular, provides us with a consistent set of rules by means of which the respective relative merits of alternative policies may be judged. For example, it is theoretically possible to achieve an optimal distribution of income through a system of lump-sum taxes and subsidies without suffering any loss of production efficiency in the process. Likewise, optimal efficiency can be attained by means of indirect taxes and subsidies designed to offset those structural and institutional distortions which cannot be eliminated directly; as Samuelson (1947, p 252) puts it, in such cases "two wrongs _do_ make a right". Referring once again to the policy of tariff protection, Corden (1957), Johnson (1965) and Bhagwati (1971), among others, have shown that while the same objectives may be achieved by the use of domestic subsidies and taxes, the latter policy would nevertheless entail a smaller sacrifice in terms of real income foregone than a tax on imports.

To return to the main point of the argument: development economists and national planners have generally ignored the second best principle in welfare economics, and invoked a range of policy measures which have resulted in a 3rd, 4th or - if you like - an nth best solution. The fact that free and uncontrolled markets may not operate in an efficient and equitable manner does not render neoclassical welfare economics obsolete. On the contrary, as Deepak Lal (1983, p 106) notes: "... it is neo-classical economics which has provided the justification for rational dirigisme, by showing that there are methods of 'planning' through the price mechanism which may be both feasible and desirable."

But such theoretical niceties aside, recent evidence on the economic performance of newly industrialised countries like Hong Kong, Taiwan, Singapore and South Korea - collectively known as the 'Gang of Four' - does appear to lend support to Lal's thesis. The spectacular successes of these countries have traditionally been ascribed to the outward-looking, market oriented policies pursued by their governments. But this is only half the truth. Several recent studies[18] indicate that the growth of these countries can be explained in terms of many other factors too. These include various fortuitous developments in the world economy at large[19]; particular geo-political relationships with the USA; the formation of domestic political structures and class relationships conducive to economic progress; and, more importantly, what Lal might call the right kind of state intervention. The latter have included the selective use of export incentives together with import tariffs and quotas, various restrictions on foreign investment and a floating exchange rate. It can be argued, for example, that the use made of export incentives in South Korea and Taiwan amounted to a second best means of counteracting the effects of prevailing import restrictions (Lal, 1983, pp 45-47).

Generally speaking, these arguments would seem to provide a good example of the broad validity and relevance of the neoclassical theory of general equilibrium and welfare. This view is not based on a belief that the underlying assumptions of the theory are in any sense "realistic", or that its behavioural relationships are always capable of producing accurate predictions; as Friedman (1966) has pointed out, the theory does not in fact lay claim to any such properties. Rather, the usefulness of the theory derives from its capacity to accommodate a large variety of alternative assumptions. It is this built-in flexibility that enables it to yield alternative predictions that are applicable to many different real-world situations.

IV

Economists belonging to the "radical" school believe that economic theory, by itself, is largely irrelevant to the particular problems facing a poor country. Most existing theories of underdevelopment are considered too narrowly based on the so-called purely "economic" determinants of the development problem. It is held that economists too are inadequately trained to recognise, let alone analyse, the social, institutional and political factors that usually determine economic progress in the developing countries. While such an "omission" may be permissible in the context of industrially advanced countries, the relative importance of 'non-economic' variables in developing countries renders a purely economic approach largely meaningless.

At a methodological level, economists stand accused of trying to emulate the positivist methods of inquiry adopted by their colleagues in the natural sciences. Whilst the positivist approach is arguably an appropriate way of exploring the "hard facts" of nature, it often yields imperfect and sometimes even misleading results when applied to the study of human behaviour. The reason is that all observations in the social sciences are necessarily "value-laden" and thus tend to vary with the particular preconceptions and personal biases of the observer. This forms the basis of what Popper (1959) termed the 'problem of induction', and which has given rise to the holist approach in institutional economics and to various empirical research methods applied in the fields of sociology, anthropology and social psychology. The observer is thus expected to acquire a so-called "inside view" in order to understand human behaviour from the perspective of his subject's own frame of reference. The philosopher of science, Keat (1981, p 138), described it as follows: "Social reality may be seen to consist of rule-governed meaningful activity; and the understanding of this must involve an implicit dialogue between theorist and theorised, since the way in which the latter conceive of their own activities is itself a central part of social reality".

I am reminded here of Lilian Moore's delightful little poem about the Witch Child's idea of a bedtime story:

"Tell me a story",
Says Witch's Child,
"About the Beast
So fierce and wild.

About a Ghost
That shrieks and groans.

A Skeleton
That rattles bones.

About a Monster
Crawly-creepy.

Something nice
to make me sleepy!

(Lilian Moore, <u>See My Lovely Poison Ivy</u>, Atheneum Publishers, 1975).

You will no doubt agree that even the most sublime scientist, interested in the sleeping habits of the Witch Child, faces a pretty daunting task in securing "an implicit dialogue" with his subject!

At a more terrestrial level, radical economists agree with the neo-classicists that the villain of the piece in developing countries is the government. Under international capitalism, it is argued, the governments of most Third-World countries enter into a collaborative relationship with foreign and other private owners of the means of production. Such an arrangement suits both parties. Multinational companies need the cooperation of government in order to protect their own position of dominance against potential rivals. Likewise, the government depends on multinational companies for an adequate supply of foreign capital and a stable balance of payments position, as well as to further its own material well-being. It is largely for this reason that many developing countries have pursued a strategy of import substitution while at the same time maintaining an overvalued exchange rate in order to facilitate the entry of foreign capital. What these policies have achieved domestically, however, is to encourage multinational companies to initiate and expand the production of western-style luxury goods by means of inappropriate, usually capital-intensive techniques, thus precipitating a process of growing inequalities within the poor countries. Referring to the discriminatory effects of government policy in poor countries, Thomas Weisskopf (1983, p 896) recently suggested that the economist should strive not only to understand the nature of the social and political forces determining development, but should also "... participate in political action and contribute to movements for fundamental change".

The need for interdisciplinary research in the social sciences has been widely recognised during the past two decades. But the efforts made in this field thus far have not met with much success. Some writers have merely brought together under one umbrella a variety of individual contributions without actually trying to integrate them into a systematic whole.[20] Others have again tested various cross-sectional correlations which, even when found to be significant, do not tell us much about the causality or dynamic processes determining the underlying behavioural relationships.[21] Many have also tried to take on too much often recounting real-world complexities in a rather indeterminate and equivocal manner, thus limiting both the explanatory value and general usefulness of their respective stories, conjectures and theories.[22] As George Stigler (1963, p 16) once remarked: "It is all too easy to find specialists whose logical ability and standards of evidence collapse when they step outside their specialties".

There are presumably many reasons for this apparent failure. Stigler (1963) might say, for example, that the necessary knowledge and expertise are rarely found under one skull. Similarly, Dudley Seers (1963b) would blame the "chauvinistic" nature of educational systems in rich and poor countries alike, while Streeten (1972) might point to such attitudinal characteristics as ideological bias, vested interest and a preference for analytical convenience. Whatever the reasons may be, few would deny that the potential for meaningful contributions in this area does exist. It should not be too difficult to indicate the precise manner in which the existence of an extended family system may affect entrepreneurial behaviour, labour mobility and the savings propensity; or to specify the parameters in which particular forms of social stratification and political organisation may undermine the operation of product and factor markets - for example, through various entry requirements, licensing practices, land proclamations, pricing strategies, tender preferences and through the advancement of individuals on the basis of factors other than job-specific ability.

While such an endeavour may well require an "inside view" of the individual, community or institution under consideration, the research techniques and methodology used for this purpose need not - and in my view should not - be limited to empirical observation only. "Letting the facts speak for themselves" is neither practicable nor desirable if carried too far. The success of interdisciplinary research will ultimately depend on the ability of social scientists to separate the chaff from the wheat by choosing the most appropriate set of significant variables from among the multitude of real-world data. The plea for inter-disciplinary research is really an argument for a more judicious application of the ceteris paribus rule - which is arguably a necessary condition for the derivation of generally valid and useful theories and narratives in the social sciences.

Mr Vice-Chancellor, there is no reason why the economist should not broaden the scope of his analysis if it will help him to become a more effective 'trustee for the poor'. But there is every reason to expect that the quality of this trusteeship will depend on the extent to which he fulfills his task as the 'guardian of rationality'. It seems both pertinent and fitting to let the previous incumbent of this Chair, Mike Truu (1974, pp 24 and 14), have the last word: "The economist has not only a professional but also a moral commitment to the society of which he is a member. (But) no political reform can reverse the relationship between multiple needs and scarce resources, or render the processes of production and distribution completely independent of each other".

FOOTNOTES

1. See Myrdal (1957, p 27), Kaldor (1970) and Dixon and Thirlwall (1975). A two-sector application of Myrdal's theory is provided in Black (1981, pp 42-46).

2. See Baran (1957), Frank (1967, 1975), Sunkel (1969, 1973), Furtado (1970), Dos Santos (1970, 1973), Szentes (1971) and Cardoso (1972).

3. See also Fukuoka (1955) and Higgins (1968).

4. See Stewart (1972, 1974) and Helleiner (1975). Useful contributions appear in Stewart and James (1982), Fransman and King (1984) and Journal of Development Economics (1984).

5. Baer (1962) provides a systematic summary and Flanders (1964) a useful critique of Prebisch's thesis. See also Black (1983).

6. An up-to-date survey of the literature on import substitution can be found in Colman and Nixon (1986, ch 9).

7. See also Fei and Ranis (1961) and Lewis (1972, 1979). A useful interpretation of the Lewis model is given by Sen (1968).

8. See Taira (1966), ILO (1972) and World Bank (1983).

9. Surveys of the literature can be found in Berry and Sabot (1978) and Journal of Development Economics (1985).

10. ILO (1972) and Truu and Black (1980).

11. Mackay (1971) and McCartan (1986).

12. Schultz (1961) and Becker (1964).

13. See references quoted in McCartan (1986).

14. Literature surveys are provided in Seers (1963a), Baer (1967), Patrick and Nixon (1976) and World Development (1982).

15. The policy implications of structural inflation are well explained in Porter and Ranney (1982) and Taylor (1979, chs 3-5).

16. See footnote 6 above.

17. See Campos (1967), Ayre (1982) and Burton (1982).

18. Evans and Alizadeh (1984), Schmitz (1984) and Pack and Westphal (1986).

19. For example, the oil price hikes during the 1970's have encouraged a shift in manufacturing activity away from the western hemisphere towards low-wage regions in Southeast Asia.

20. See, for example, Jolly et al (1973) and Chenery et al (1974).

21. For example, Adelman and Morris (1967).

22. In Friedman's (1966, p 14) words, such an approach is likely to explain "little by much". See Black (1981, pp 9-10).

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