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Book Review

Ian Livingstone (Ed.). *Development Economics and Policy: Readings.* London: George Allen & Unwin. 1981. x + 353 pp. Hardback £ 17.50 and Paperback £ 7.95.

The editor of a 'book of readings' has generally his back to the wall before the onslaught of prospective critics clamouring "why one more". True, the marginal net *private* benefit to the editor from such publications can always be shown to be positive, or at least strictly non-negative, by reference to the notorious publish-or-perish syndrome. However, the need for a convincing demonstration of the positivity of the expected marginal *net* social benefit from such books drags the reluctant editor-gladiator into the arena. In many cases the spectacle is a pathetic one: the editor endlessly and vainly differentiating his goods from those of others even if that involves a comparison of the 'bads', indulging in omniscient subjectivism: "this is what *I* consider to be the best collection" (never mind if it is the *n*th-best), or patronizing those who have been forced by time, circumstance or public apathy into anonymity: "such articles were not easily accessible." If all fails, and the editor also happens to be teaching a course in development economics, then even if the social profitability of such a collection falls far short of its private profitability, the situation can still be redeemed by the *deus ex machina* of the cause of pedagogy needing the helping hand of yet another book of readings.

Prof. Livingstone's brief apologia on page x appeals to some of these arguments to justify his selections. The "primary criterion" he has used for selecting the various articles for the present volume has been "that these are what I considered to be good and valuable articles which I felt should be essential readings" for "undergraduate and postgraduate courses in development economics". Furthermore, in deciding on his choice set, the Editor has given preference "to good articles which were for various reasons less accessible than others." At least, the present reviewer finds it difficult to accept such 'reasons' sufficient for pushing onto the market yet another expensive book of readings on development economics. However, it will be grossly unfair if Prof. Livingstone's compilation is dismissed because of *his* reasons for undertaking it. It should be possible to evaluate the real worth of his 'repertoire' by reference to some more objective criterion: Do the readings collected in the present volume reflect faithfully the *main* strands of thought in the ever-changing kaleidoscope of development economics? Indeed, this is about the only valid defence of any book of readings. A quick look at the table of contents shows that the Editor has indeed cast his net wide to capture within a handy volume a variety of topics such as: Causal Factors and Theories of Development (Part One) ; Population, Labour and Employment (Part Two); Trade and Investment (Part Three) ; Industrialization Strategy (Part Four) ; Investment Choice and Project Appraisal (Part Five) ; Agricultural Development (Part Six) ; and Money and Finance (Part Seven).

The first thing that immediately strikes the reader as novel about this volume even on a cursory 'head count' is that most of the entries under the broad topics listed above relate to the decades of the Seventies and the Sixties: of the 39 readings included in the volume, 21 belong to the Seventies, only 5 to the late Fifties, none to the early Fifties while the rest have been gleaned from the Sixties. Why this 'revealed preference' for the Seventies and, to a lesser extent, for the late Sixties over the more exciting Fifties and early Sixties, when "bliss was it in that dawn to be alive, but to be young was very heaven" – at least, for the myopic economist? The early Fifties saw a spate of brilliant contributions to development economics which painted a broad picture to gain insight into the strategic factors affecting the complex development process. This was the decade of "great expectations" fuelled by the success story of the Marshall Plan, which had helped the war-devastated Europe to its feet with the simple device of injecting into the system the required billions of dollars. Then also the first few years of the Sixties were considered to be the "golden years" of development – e.g. Pakistan during this period was cited, not too unreasonably, as the model for developing economies. Since one could easily be carried away by the strident romanticism that success so often breeds, the economists countered it, with unsavoury agnosticism, by conjuring up one "vicious circle" after another to explain to the innocent 'believer' that the European experience could not be thoughtlessly transplanted onto economies which suffered from various structural deformities.

However, the duel between the believers and the agnostics was fought in the warm glow of an intellectual hothouse. With the passage of time, both the theories and the beliefs had to withstand the harsh glare of the tropical sun. The events of the late Sixties and the Seventies have confounded both the incurable pessimists and the incorrigible optimists. Some poor economies have grown notwithstanding the vicious circles; and yet in others the heady optimism of the Fifties was dashed to the ground. Many of them are still entrapped within vicious circles through the sheer inadequacy of their domestic efforts and also because, according to the aid-givers, they committed the cardinal sin of not responding fast enough to the inflow of foreign resources. It is then quite reasonable to argue that, armed with the experience of about 30 years of economic growth, "balanced and unbalanced", the development – or, more accurately, the developing – economists had better spend their time in evaluating the received wisdom on the subject to separate the grain from

the chaff. Thus the inter-temporal allocation of the readings by Prof. Livingstone may have been 'efficient'. However, the optimality of this allocation pattern remains open to question.

It is to an elucidation of this latter remark that I now turn. Who can blame an economist for using his 'fundamental right' to ask questions about the optimality of a given point within the choice set! It is, therefore, entirely fair to bang the economist's gavel to ask the earth-shaking question: What is the 'opportunity cost' of the various inclusions, measured in terms of what has *not* been included in the present volume? To begin from the beginning, let us look at Part One: "Causal Factors and Theories of Development". The various formulations of Nurkse (1953), Lewis (1954), Myrdal (1956), Singer (1950), etc. – who can justifiably be called the founding fathers of development economics – emphasized the various difficulties, which were 'encircled' probably to dramatize the difficult problems that developing countries faced, particularly in their relations with the developed countries. The Editor has not included any of these writings; nor does he go for the "balanced-unbalanced" growth controversy (Hirschman), or the "minimum critical effort" conjecture (Leibenstein).

Such exclusions can be explained, though not justified, by pointing out that these earlier perceptions are now an integral part of the accepted litany of development economics. Now that the "age of chivalry" is gone what we need, standing on the threshold of the Eighties, is not a re-run of these exciting intellectual episodes but their systematic evaluation. Agreed, but where are these evaluations? The light-hearted nihilism of the various entries (Readings 1 to 5), which possess considerable "intrinsic value" – even some "exchange value" – can be called fine examples of a nimble-footed foxtrot on the intellectual plane. However, it will be unfair, even to the authors of these brilliant pieces, to mistake them for serious evaluations of the various writings of the founding fathers. The 'vicious circles' cannot be 'exorcised' by reference to the 'fact' of development in many developing countries. This concept was used by the authors as expository device rather than a strait-jacket which even a Houdini could not escape from. Theirs was not a message to the lack-adaisical policy-maker to settle for the *status quo*, giving up all hopes for material advancement, but a call for purposive, conscious state action to find a way out of the poverty labyrinth. For instance, Nurkse's dictum, "a country is poor because it is poor" – quoted disapprovingly by Bauer –, could easily be suffixed by the phrase: "unless conscious government policies are adopted to solve the poverty problem. . ."

Nor can these "vicious circles" be ordered to go away by condemning them as "single-barrier" explanations of underdevelopment for the simple reason that this is *not* what these theories ever meant to imply. It is only that these factors – colonial exploitation, insufficient savings, national and international demonstration effects, inadequate incentive to invest productively, low literacy levels, etc. – were considered, one at a time, to be the strategic explanatory variables explaining the phenomenon of the recalcitrant problem of underdevelopment. If it is argued that not one of them but some presumably linear combination of all these factors can explain the underdevelopment phenomenon, then this position can't be maintained by first assigning a zero weight to each individual factor in this combination! It would have been more appropriate to include a more systematic evaluation of the various earlier points of view like the one given in Chenery ("Comparative Advantage and Development Policy", *AER*, March 1961). This, coupled with Ahluwalia's significant contribution (Reading 6), which empirically tests Kuznet's hypothesis – postulating an inverted U-shaped relationship between inequality and development – should have made "undergraduate and postgraduate courses in development economics at the present time" more meaningful, which is what Prof. Livingstone's book seeks to do.

The next theme in the present collection is an extremely important one: "Population, Labour and Employment" (Part Two), and the Editor should be given credit for recognizing it. However, the selection here (Readings 7-12) does not reflect any connected chain of the ideas which have gained currency in this area. In the literature on development economics, following the neo-classical (*not* classical) predilections, the population factor has generally been taken as exogenous to the main 'system', for which the most sensible thing to do according to the neo-classical diagnosis is to crawl lazily along the steady-state path. It is only recently, particularly during the Seventies, that efforts have been made to 'endogenize' the population factor and to focus the development economists' gaze on the economic-demographic interface. Most of this work is going on as part of the ILO-sponsored World Employment Programme. (See the ILO's *Population and Development,* January 1981, for a programme of research on the subject.)

Anker, Knowles, Wery & Rodgers, and Farooq have done important work in this area, all appearing in the Seventies. Particularly noteworthy are their efforts to build 'integrated' economic-demographic models (e.g. the various Bachue models for Kenya and the Philippines) with a view to simulating the interaction, both direct *and* indirect, between economic and demographic variables like education, labour force participation, income and expenditure, rural-urban migration and fertility. None of these significant works finds a place in Prof. Livingstone's plan of 'recreation'. This is not to cast aspersions on the quality of the work which is included in the volume; it is rather to question the Editor's perception of the problem. With the exception of W. C. Robinson's piece (Reading 7), none of the other entries belongs to the economic-demographic interface.

It would have been more appropriate to keep the economic-demographic problems apart from those relating to labour-market segmentation models – e.g. the Harris-Todaro piece (Reading 12) – and relating them to the more general problems of wages and unemployment, disguised and open, which dominate the

economic landscape in the developing countries. It may be noted here that the Harris-Todaro framework makes no mention of the effect of rural-urban migration on household decisions on fertility. It rather seeks to demonstrate the existence of urban (open) unemployment, even in equilibrium conditions, by reference to the 'fact' that the unemployed in the rural areas march unidirectionally, like lemmings, to the urban areas in the *expectation* of a higher (parametrically fixed) urban wage. While the Editor has done well to include this important work on the 'seminality' criterion – which unfortunately has not been applied systematically and consistently in this volume –, he has not put it into a proper perspective. He has failed to mention the important works by Bhagwati and Srinivasan, Stiglitz, Ali Khan, etc., which have corrected the original insight by relaxing the overly restrictive assumptions of capital immobility, and exogenously given urban wage and the absence of economic growth. Perhaps one can persuasively argue in this case that the Editor would have done well to sacrifice 'seminality' for the sake of expository originality and systematic evaluation: the beautiful paper by Corden and Findlay ("Urban Unemployment, Intersectoral Capital Mobility and Development Policy", *Economica,* 1975) conveys to the reader the essence of the message of the original model along with its necessary corrections and extensions much more clearly. The same holds for Jorgensen's paper (Reading 9), the main findings of which have been completely superseded by those of Dixit ("Growth Patterns in Dual Economy", *Oxford Economic Papers,* 1970). Here, as elsewhere in the present volume, the Editor has not taken into account the intellectual obsolescence factor in making his selections.

Unfortunately, Part Three of the volume, which concentrates on the problems of Trade and Investment, generates neither light nor heat! No mention is made here of the impressive theoretical literature, which has raised the spectre of trade leading to immiserizing growth in the presence of various domestic distortions – a subject to which Brecher, Bhagwati, and Alejandro have made notable contributions. Furthermore, trade theorists, particularly Johnson, have shown that the innocent-looking Heckscher-Ohlin theorem is pregnant – quite legitimately, of course – with far-reaching implications for trade theory and policy in developing countries. Of late, Ali Khan has demonstrated, though too late for the Editor to make a mention of it, that the apparently esoteric Heckscher-Ohlin, Stolper-Samuelson and Price-Equalization Theorems, combined with the various labour segmentation models, yield significant policy-relevant theorems. (See, for instance, his "Dynamic Stability, Wage Subsidies and the Generalized Harris-Todaro Model", *PDR*, 1980.)

However, the Editor does include valuable entries, in particular those by Myint (Reading 13) and Evans (Reading 15), which are relevant to the understanding of the many issues now being heatedly discussed in the interminable "North-South dialogue": the highly unequal distribution of gains from trade between the North and the South that will result if we stick steadily and steadfastly to the classical prescription of the comparative-advantage principle. Myrdal (1956), who has unwisely been left unrepresented in this volume, has been one of the most eloquent proponents of this point of view; but it remained for Prebisch (1959) to assume the mantle of the high-priest of this 'school'. It is surprising that such an eloquent exponent can't be heard in his own voice, but only through Flanders (Reading 14)! Perhaps the Editor's choice can be explained by reference to the pious indignation of economists over any argument for protectionism when the elasticity of domestic demand for import is greater than unity: for the optimum tariff argument is not strictly applicable in such a case. Never mind if the EEC and its economists do not care much about such arguments. However, the economists from the developing countries, who are supposed to be entrapped in the vicious circle of intellectual underdevelopment, cannot afford to commit such a mistake!

The shortage of space is a lame excuse here because the marginal cost of sacrificing the articles of Flanders (Reading 14), Ellsworth (Reading 16), Glezakos (Reading 17) and Santos (Reading 18) could have been more than compensated by the explicit inclusion of the pieces by Myrdal, Prebisch, Singer and Findlay to give the student and the general reader a flavour of the theoretical underpinnings of the North-South dialogue, which has found such an audible echo in the Willy Brandt Commission Report (1980). The rejection by the North of even such a level-headed report, *which really advocates North's own enlightened interest in helping the South,* has dramatically brought to surface the communications-gap that exists between the two. Social scientists must bridge this gap. They cannot afford to take an ostrich-like posture in the midst of a real-life storm blowing from the South to the North! No book on development economics, even a collection of readings, can ever perform its required educative role if it fails to highlight the North-South problems sufficiently.

Part Four of the Readings provides a re-run of the debate that raged during the Sixties on the relative merits and demerits of import-substitution and export-expansion strategies to maximize economic growth. However, once again the Editor's choice set does not give a clue as to what he is trying to highlight. It is important to remember that this debate was conducted in the context of a general discussion of sub-optimal state intervention, which mainly took the form of quantitative import restrictions. For instance, this is the underlying theme of Power's paper included in this volume. However, since then much work has been done under the leadership of Bhagwati and Krueger to analyse the problem of economies which work within the matrix of a variety of quantitative regimes with a more adequate analytical framework to establish the general conclusion that the developing countries caught in the import-substitution vs. export-expansion dilemma should "err on the side of allowing a higher marginal cost for earning than for saving foreign exchange". (See Bhagwati and Krueger, "Exchange Control, Liberalization, and Economic Development", *AER*, May 1973.) Equally lamentable is the Editor's failure to include a truly representative contribution on the highly topical issue of "effective protection" to which seminal contributions have been made by Johnson, Corden, Srinivasan, Krueger and Bhagwati. The most systematic exposition of this concept is given in Corden's classic piece ("The Structure of Tariff Systems and the Effective Protection Rate", *JPE*, 1966), which, along with the work on the practical application of this concept – e.g. by Lewis and Guisinger ("Measuring Protection in Pakistan", *JPE*, 1968) –, should give the student an excellent introduction to this important development in the literature on the theory of tariffs. The valuable work of Balassa and Schydlowsky (Reading 30), which has been somewhat thoughtlessly thrown in in Part Five, does not make the reader fully aware of all the relevant elements of this debate.

As for Part Five of the book on "Investment Choice and Project Appraisal", the Editor has in general shown good judgement in making his selections. In particular, Sen's piece (Reading 26) is very valuable. The literature on the subject offers a series of important insights into the structure of developing economies, where "shadows" are somehow more real than the reality! Hence, for instance, the economist's advice to the bewildered policy-maker *not* to use the market rate of interest but the shadow rate to obtain an efficient use of capital. The thinking on the subject has not yet attained its 'steady state'. Thus, if the reader comes away somewhat put off with too much of the Little-Mirrlees 'show', conjuring up one rule-of-the-thumb after another, then Prof. Livingstone cannot be blamed for reflecting whatever there is to reflect in this somewhat *ad hoc* literature. It would perhaps have been wise to include some representative piece from the large literature on social rate of discount to which Baumol, among others, made notable contributions.

It may be remarked in parenthesis at this point that, from an expository point of view, such basic policy issues as 'shadow pricing', trade policy and interest rate policy should have been lumped together into a separate section on 'Development Policy', rather than scattered all over the book. For instance, in Part Seven, Reading 39 on interest rate policy sits oddly with Reading 38 on inflation. (In this connection, one would have thought that Mohsin Khan's influential contribution – "Inflationary Finance and Dynamics of Inflation: Indonesia 1951-72" *AER*, 1977 – could have been quite appropriately included in this collection of readings on development economics.)

Part Six, on 'Agricultural Development' includes valuable pieces by Lipton (Reading 31), Livingstone (Reading 32) and Johnston (Reading 36). However, this section suffers from lack of a macro-perspective: it contains little discussion of the role of agriculture in the process of economic development. In this connection, the absence will be felt of the seminal contributions by Schultz (e.g. his influential book: *Transforming Traditional Agriculture,* 1964) and by Johnston and Mellor ("The Role of Agriculture in Economic Development", *AER*, 1961) which have done so much to put agriculture back on the development map, without insinuating that in growth dynamics only agriculture counts. These works cannot be ignored in any book of readings on development economics containing a selection of articles on agriculture. If the author's desire was to focus on problems that were still relevant in the Seventies, then he can be admonished for posing issues that are now part of the received wisdom on agricultural economics. Whether or not the peasant is an optimizing animal in that he responds to monetary incentives is a settled issue, thanks mainly to the important works of Nerlove, Behrman, Falcon and Livingstone. This is not to say that we should not talk about these matters any more, but if it is a question of the shortage of space then the issues that were more relevant in the Seventies should have received greater prominence – e.g. the problems of the terms of trade between agriculture and industry; of farm mechanization, involving the increasing use of tractors and tubewells; and of food self-sufficiency, which requires, among other things, an optimal cropping pattern.

One should not also forget the most fundamental problem in this area: that of land reform. Compiling a book on agricultural economics without including an explicit discussion of this problem is like staging Hamlet without the Prince of Denmark! However, it is not Prof. Livingstone's fault, but that of the agricultural economists, particularly the Western authors, who must be blamed for forcing the Prince to depart from the scene. This 'conspiracy' has been hatched, at least implicitly, on the strength of the 'findings' that agricultural productivity is invariant with respect to farm size (see, for example, Barnum and Squire, "Technology and Relative Economic Efficiency", *Oxford Economic Papers,* 1978). Even if such a result is accepted on its face value, does it not *strengthen* the case for land reform instead of weakening it? Considering that land reform will bring in its train immense social improvement, one can at least be sure that the overall picture will not be disfigured since productivity will not fall as a result of this 'event'. Furthermore, if despite the small farmer's handicaps *vis-a-vis* the big farmer's advantages, productivity is still as high on small farms as it is on large farms, is it not more natural to conclude that the small farmers may be more productively *efficient* than the big farmers? I think that the agricultural economists should have a harder look at their evidence before making any firm policy recommendations on this score. In the set-up that spoils the environment in the villages, nothing less than a structural transformation is required before the fruits of economic progress can even trickle down to the rural poor.

For fear of being accused of crass 'exhibitionism', I do not wish to dilate on the topics that this collection has ignored altogether – e.g. international monetary reforms, income distribution, international migration, and the economics of alternative sources of energy – which assumed much greater importance during the

Seventies than ever before. In fact, international migration, which is rapidly changing the socio-economic possibilities in many of the developing countries, assumed significant proportions only in the Seventies. Perhaps it may be asking too much of any one scholar, particularly of one who is neither of the poor world nor in it, to keep track, however hard he tried, of all the developments in a fast-developing and an ever-changing area. In such a milieu, expectations may always dwarf achievements, because, as in Alice's wonderland, in this strange world "it takes all the running to stay at the same place". However, mention must be made of the total absence from this volume of an adequate 'reading' on the planning experience of any of the developing countries. After all, much of the theorizing on development economics as well as that on growth economics did find an audible echo in the development plans of countries like Pakistan and India. One does not have to point out that the growth models – e.g. Harrod-Domar model of growth, the Mahalanobis model and even the more esoteric concepts like the turnpike theorem – as well as the balanced and unbalanced development hypotheses of Lewis and Hirschman provided no end of grist to the economist's mill. Not only the "mad man in authority" but also the high priests in the economics profession have distilled considerable wisdom from these writings. (Tinbergen's influential work on "Optimal Rate of Saving", *EJ*, 1956, and Sukhamoy Chakravarty's classic work, *Capital and Development Planning*, MIT, 1969, and his other papers like "Some Aspects of Optimal Investment Policy in an Underdeveloped Economy", 1968, are outstanding examples of such a 'distillation'.) The neglect of such an important strand of thought has diminished considerably the value of the present volume of Readings since this omission has prevented the Editor from focussing on the twilight zone in which theory is confronted directly with the most fundamental problems actually being faced by the developing world.

True, one cannot expect everything from one book of Readings. However, I do feel that if the Editor had tried to write a systematic introduction to the book – the absence of which has deprived him of the opportunity of conveying to the reader a synoptic overview of this fast-growing, multifaceted subject – synthesizing the various currents and cross-currents of thought in the area of development economics, he would have found out for himself that his book, instead of being a 'closed convex set', contains various 'holes' in it. It is, therefore, no wonder that he has failed to maximize the reader's comprehension of the problems of the development world! It is to be hoped that in a subsequent edition of this book or in some other volume, the Editor, by abandoning his enigmatic preference for the dispensable over the indispensable, would be able to come up with a more 'representative' volume. And this would be possible if individual readings in such a volume were welded 'naturally' into the underlying logic of development economics, and reflected the hard realities of the developing world, where the deeply entrenched vested interests, squelching the hopes and aspirations of the vast majority of people living in abject poverty, have issued instructions to *their* 'witches': "Fair is foul, and foul is fair; hover through the fog and filthy air". It is impossible to ignore the poverty maelstrom and still voice authentically or sympathetically the sentiments of a civilization which is stuck in it. Social scientists will not be doing any service to the cause of development by strengthening, on the margin, the obscurantist forces of conservatism and smuggling in old prejudices in the garb of new wisdom through epigrammatic scintillations and witty corsucations.

Pakistan Institute of
Development Economics,
Islamabad.

Syed Nawab Haider Naqvi