32:4 Part II (Winter 1993) pp. 631–638

History of Development Economics

PAUL OSLINGTON

There are many ways we could approach the history of development economics. We could tell a story of theories replacing and supplementing each other, finishing with the current body of knowledge. Alternatively we could explore the relationship between the evolution of theory and the development experience. Another way of telling the story would be to put the evolution of theory in a wider social, political and philosophical context and explore the interactions. This historical outline will be mainly restricted to the first and simplest method but at certain points where insights from the other two methods can be gained they will be used.

Searching for the roots of development economics is also problematic. One possible beginning for this historical outline would be the beginnings of peoples reflections on the evolution of societies, perhaps to the reflections embodied in early mythology. A less extreme approach would begin with the first systematic reflections on the material progress of societies. Moving closer to the approach of most histories of development economics we could begin with systematic reflections on the first industrial revolutions in Europe or finally we could begin after World War II when this sort of enquiry was applied to Asia, Africa and Latin America and began to be called development economics. The beginning chosen depends on the purpose of the history, and here because the focus is on the academic discipline of development economics the story will begin after WWII.

The discipline of development economics grew out of colonial economics, which trained policy-makers and administrators for their work in the colonies, and was very much a British affair. Colonial economics was concerned with developing the natural resources of the colony and with political stabilisation. It assumed that major changes in the welfare of the native people was unlikely, and in any case best promoted by a policy of stabilisation. When the question of whether the colonial system was good for the colonies was raised the discussion moved swiftly on to the positive aspects of western culture and the benefits of trade with the colonial power.

What transformed colonial economics into development economics around the end of World War II? It was certainly not that there was a major change in the material conditions of the people of Asia, Africa and Latin America. Instead it came from a series of political changes, most significantly the granting of independence as the colonial empires crumbled. The leaders of these new nations wanted advice

Paul Oslington is an Associate Lecturer in the Department of Economics, University of Sydney, Australia.

on how to promote this thing called economic development that they all sought. International organisations like the United Nations then the World Bank and International Monetary Fund were formed and these too needed policies and advice. The fear of communism combined with the view that economic growth in the former colonies was a good way of preventing its spread gave the West a strong reason for promoting such growth.

These political factors influenced the theoretical content of the main branch of the new discipline of development economics, but other factors were also at work. The recent success of Keynesianism in the West was one such factor. The depression and instability of the inter-war years had weakened the faith in orthodox economics, and the Keynesian Revolution was understood to have shown orthodox economics to be an analysis only of a special case of a fully employed economy. Perhaps orthodox economics was less general in other ways and new sorts of analyses were needed for the issues of Africa, Asia and Latin America. This influence meant that development economics took shape as a distinct body of theory rather than just an application of orthodox economics. Resonances of this influence are strongest in the early work of Lewis (1954); Rosenstein-Rodan (1943) and Nurske (1953).

A related influence was the new work being done in the West on growth theory. Harrod's (1939) equilibrium condition $g = s/k$ (g is the rate of growth, s is the ratio of savings to income and k is the capital to output ratio), usually misinterpreted as a causal proposition, was made the foundation of a whole series of models which stressed the role of savings ratios and capital accumulation in development. Foreign aid played an important role in these models, supplementing inadequate domestic savings. Development at this stage was seen as indistinguishable from growth of per capita GDP.

The experience of the USSR, which seemed to have achieved high rates of growth through a policy of squeezing consumption and investing in heavy industry in a closed economy, lent further support to models which focused on these variables.

A policy of import substituting industrialisation also seemed attractive considering the protectionism and sluggish international trade of the inter-war years. The chances of large scale expansion through exports seemed slim. Adding Singer's (1950) argument about the tendency of the terms of trade to turn against the developing countries and the case for import substituting industrialisation was difficult to resist. Prebisch (1984) sets this argument out well.

A general distrust of the price mechanism characterised the formative years of development economics and is perhaps a common element of the tendencies we have been considering.

The emerging discipline had an uneasy relationship with other disciplines which had an interest in the same problems. History, even economic history did not play as much of a part as we might have expected in moulding the shape of development theory. The works of Marx and Gerschenkron, for example, were never allowed to be more than curiosities at the margins of development economics. The work of Rostow (1961) was more influential and had the form of serious history, but the content was Cold War anti-communist rhetoric mixed with the discipline's consensus on the importance of savings ratios.

Another discipline which could have made a valuable contribution if it had been allowed was anthropology. Hill (1986) argues this persuasively.

Let us now draw together the main strands of theory that took shape to become the new discipline of development economics. One writer summarised the content of the main branch of the new discipline fairly accurately as follows:

> "External trade is at best ineffective for the economic advance of less developed countries (LDCs), and more often it is damaging. Instead, the advance of LDCs depends on ample supplies of capital to provide for infrastructure, for the rapid growth of manufacturing industry, and for the modernisation of their economies and societies. The capital required cannot be generated in the LDCs themselves because of the inflexible and inexorable constraint of low incomes (the vicious circle of poverty and stagnation), reinforced by the international demonstration effect, and by the lack of privately profitable investment opportunities in poor countries with their inherently limited local markets. General backwardness, economic unresponsiveness, and lack of enterprise are well-nigh universal within the less developed world. Therefore, if significant economic advance is to be achieved, governments have an indispensable as well as a comprehensive role in carrying through the critical and large-scale changes necessary to break down the formidable obstacles to growth and to initiate and sustain the growth process" [Bauer (1984), p. 27].

As well as this main branch of the discipline we have been considering so far there were smaller sub-branches. We will now consider two of these; dependency theory and the neo-classical resurgence.

Dependency writings are sometimes called Neo-Marxist but have only a vague relationship to the writings of Marx. An early dependency writer was Baran (1962). His basic thesis was the animosity of contemporary imperialism towards genuine economic development, and he accused the West of malicious intent in relation to the development of other nations and suggested some mechanisms of suppression. Frank (1969) took this further, arguing that underdevelopment in the satellite countries (of Asia, Africa and Latin America) is caused by relations with the metropolitan countries (of the West). In Frank (1972) the alliance of the national bourgeoisie with the West is discussed and the conclusion about the necessity of revolution and socialism comes out clearly. This sort of dependency analysis was taken up by Amin (1974); Wallerstein (1974) and, in a more moderate form, by Cardoso and Faletto (1979). It was strongest in Latin America.

Dependency theory was pushed along by the tensions and failures that were emerging from the first decade of pursuing development using the theories of the main branch of the discipline. In recent years, though, the early hopeful expectations about development have been adjusted downward and the failures in the development experience do not seem so shocking. This has taken some of the steam out of dependency theory but perhaps a more significant blow has been the publication of some devastating critiques of dependency. Warren (1980) pointed out the problems dependency theory has in explaining early European development, and also assembled an impressive amount of data against the key dependency proposition that development has not happened in Asia, Africa and Latin America. Warren's conclusion is that dependency theory is little more than nationalist mythology. Since Warren wrote, the experience of South Korea, Taiwan, Singapore, Hong Kong and others have cast even more doubt on the key dependency proposition. Baran's argument that Japan was an isolated historical accident now seems absurd. On the theoretical level Palma's (1978) critique is similarly devastating. He observes that dependency theory defines underdevelopment as dependency and then purports to explain underdevelopment by dependency, and that this ends up being unhelpfully tautological. While he concedes that some of the mechanisms of suppression identified in concrete situations, especially by Cardoso, are valuable contributions, his overall conclusion is that dependency is inadequate as an overall theory of development. Booth (1985) and Vandergeest and Buttel (1988) repeat some of Palma's points but see the impasse in dependency theory as arising at a deeper methodological level from a fundamentally structuralist/ functionalist approach.

If dependency theory is at an impasse this is certainly not true of the other offshoot of development economics: neo-classical theory. There have always been neo-classical critics of the body of theory that took shape after World War II, particularly Schultz (1964) and Haberler (1959), but these isolated voices gathered strength as the same failures in the development experience that nourished dependency theory became apparent. The neo-classical writers focused particularly on inflation and balance of payments failures and their constant charge was misallocation of resources.

Theoretical developments since the late 1960s have nourished the neo-classical resurgence. Schultz's contention that peasants were not irrational but constrained maximisers was strengthened by analyses which explained what was thought to be the results of sloth and stupidity by uncertainty and imperfect information. An example of this work is Stiglitz (1986). Also health, education and other non-economic factors were brought under the neo-classical umbrella as human capital by Becker (1964); Stigler (1981) and others. Haberler's case for free trade was refined and energetically promoted. Haberler (1987) describes these developments. Cost/Benefit analysis which tended to break planning issues up into small scale allocation problems was also refined and popularised. Manuals like Little and Mirlees (1974) replaced discussions of economic planning on the bookshelves of most development economists. The confidence of the neo-classical writers was given a further boost by the experience of South Korea, Taiwan, Singapore and Hong Kong, irrespective of whether their experiences actually vindicate the neo-classical view. International organisations like the World Bank and the IMF became increasingly neo-classical and allocated funding and influenced policy accordingly. The success of the neo-classical approach has brought a reintegration of development economics with the rest of economics and a

Rostow, W. W. (1961) *The Stages of Economic Growth*. Cambridge: Cambridge University Press.
Schultz, T. W. (1964) *Transforming Traditional Agriculture*. New Haven: Yale University Press.
Singer, H. (1950) The Distribution of Gains and Losses between Investing and Borrowing Countries. *American Economic Review Papers and Proceedings* 40:2 433–444.
Stiglitz, J. (1986) The New Development Economics. *World Development* 14:2 257–265.
Vandergeest, P., and F. Buttel (1988) Marx, Weber, and Development Sociology: Beyond the Impasse. *World Development* 16:6 683–695.
Wallerstein, I. (1974) *The Modern World System*. New York: Academic Press.
Warren, B. (1980) *Imperialism: Pioneer of Capitalism*. London: New Left Books.

Comments on
"History of Development Economics"

One of the most interesting and exciting developments during the latter half of the 20th Century has been the emergence of economic development as a separate discipline. In this paper, Dr Oslington presents a lucid and concise account of development economics by surveying some recent evaluations. These evaluations have been undertaken by such notable figures who have written on the subject of development economics as Gunnar Myrdal, Dudley Seers, Peter Tamas Bauer, Albert Hirschman, Arthur Lewis, Paul Rosenstein-Rodan, Paul Streeten and Amartya Sen to name a few.

The author begins by tracing the history of development economics which can conveniently be taken to be from the end of World War II. It is only from that time that analysts and policy-makers have extensively and explicitly focused on the causes of and barriers to growth and development in areas that were categorised as backward. The author lists various political and other developments that help shape development economics as a separate body of theory but which also brought it into prominence. These developments include the disruption of world trade during the inter-war period and the fall in commodity prices which resulted in countries following an inward-oriented/import substituting growth strategy, particularly in Latin America. During the same time, the developed economies of the West were in the theories of the Keynesian revolution which challenged the neo-classical orthodoxy by pursuing more interventionist policies. In addition, the breakdown of the old colonial empires and the rise of the cold war were also important factors that contributed to the interest shown in development economics. In particular, the Allied Declaration of 1941 revealed that the only secure basis of peace was the enjoyment of economic and social security by free people. Hence the increased interest in matters of economic relevance. A final factor which is not explicitly mentioned in the paper, but which I think is important to the increased awareness about development is the increased availability of information on world poverty. This was due to the evolution in communication techniques (TV) and the availability of data on economic conditions throughout the third world.

So having discussed the history of development economics, the author goes on to examine the state of development economics. Here the viewpoints of economists like Dudley Seers, P. T. Bauer, Hirschman, etc. are presented. Finally Dr Oslington presents his conclusions.

He is of the view that what has been legitimately criticised in the discipline of development economics can be brought together under the umbrella of classical economics–economic thinking that prevailed in the period from the mid-18th Century to the mid-19th Century. Classical economic theory examined growth and development, looking particularly at the nature and causes of the wealth of nations as well as the distribution of the national product among the factors of production within the framework of a growing population and finite resources. More interesting is that classical economics was strongly oriented towards policy recommendations and in favour of government intervention on pragmatic grounds, usually when the market failed. Thus development is a historical process which has a dynamic of its own. The long view and a multidisciplinary approach is stressed. The author also stresses reality, a point with which I am in agreement, as professional economists all too often live in a simplistic world.

However, two things are bothersome–both are definitional. The first deals with development and the second is how does one characterise a developing country. Development means different things to different people. The consensus in terms of economics defines development as an increase in per capita income that is sustainable over time or lack of development is referred to as those countries which have not experienced modern economic growth. However, one of the outcomes of development is to bring about structural transformation–e.g. a shift of activities from say, subsistence agriculture to other more modern sectors. More recently, accelerated development has given rise to environmental problems. Thus we have, on one hand, increasing per capita incomes and on the other, increased environmental pollution causing health and other problems. Therefore, it is important that the concept of development be objectively defined.

Similarly, what is meant by a developing country. The term is quite value laden. Backward countries was the first label that was attached to less developed countries which gave way to underdeveloped and then developing countries. However, the fact remains that developed implies better and better and is thus implicitly linked with material progress. Willy Brandt tried to divide the world into a developed North and an underdeveloped South, a classification which had its own shortcomings. Again within the developing countries one can have further categories e.g. newly industrialising countries, least developed countries or non-oil developing countries, etc. One could also break them down by region, Latin America, Sub-Saharan Africa, South Asia, etc. The point to be made here is that the economic development process is peculiar–it cannot be generalised. Thus although there is now a wealth of data as well experience about the processes of development, much more still remains to be learnt.

Finally, two issues come to mind–one is on the role of institutions in development and the second is on technology transfer both of which can make a significant contribution to economic development and both which appear to have been inadvertently not mentioned by the author at least explicitly.

Mir Annice Mahmood

Pakistan Institute of
Development Economics,
Islamabad.