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The neoliberal «Rebirth» of development economics

Rémy HERRERA

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Maison des Sciences Économiques, 106-112 boulevard de L'Hôpital, 75647 Paris Cedex 13
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THE NEOLIBERAL 'REBIRTH' OF DEVELOPMENT ECONOMICS

Rémy HERRERA*

Summary This article is to be published in the May 2006 issue of the *Monthly Review*. Nowadays, neoclassical economics' domination of development theory is on par with that of high finance's neoliberal power over development policies. There are important complementarities between these two forms of ideological domination which are mutually reinforcing and interdependent. Thus, it is not only the absence of a scientific basis and the logical inconsistencies that disqualify these approaches, but the ideological function and antisocial project that their methodologies and conclusions support in the service of world capital.

Key-words Development, neo-classical economics, neo-liberalism, crisis, heterodoxies.

La renaissance néolibérale de l'économie du développement

Résumé Cet article est à paraître dans le numéro de mai 2006 de la *Monthly Review*. Aujourd'hui, la domination de l'économie néo-classique sur la théorie du développement accompagne celle du pouvoir de la grande finance sur les politiques de développement. Il y a d'importantes complémentarités entre ces deux formes de domination idéologique, qui sont interdépendantes et se renforcent mutuellement. Ce ne sont donc pas seulement l'absence de fondements scientifiques et les incohérences logiques qui disqualifient ces approches, mais encore la fonction idéologique et le projet anti-social que leurs méthodologies et conclusions soutiennent au service du capital mondialement dominant.

Mots-clés Développement, économie néo-classique, néo-libéralisme, crise, hétérodoxies.

JEL Classification

A12, B24, B41, F20, N10, O11.

Introduction

Development economics, as a branch of economics that attempts to show how the world's poor economies can develop, had its origins in the 1940s and 1950s. One of its earliest ideas was that the economies of the less developed countries were mired in a cycle of poverty and needed a "big push" to develop. This push was seen as a large boost in investment, helped by the state's infrastructural and social spending, as well as by private foreign capital spending and aid from the governments of the developed nations. Much of development economics was expressed in narrative form; it was one of the least formal and mathematically modelled branches of economics. For this reason (and others as we shall see), it fell out of favor less than a generation after it began. Mainstream economics thought of itself as a rigorous "science," and for its economists what wasn't rigorously mathematical was simply not economics. However, in the late 1980s, development economics began to rise again, thanks to its reformulation in more "scientific" terms. According to some economists, the previous demise of development economics was a pity – if only its originators had been more rigorous. Paul Krugman, noted neoclassical economist and New York Times columnist, put it this way: "When I look at the Murphy et al. [whose article helped resurrect development economics] representation of the Big Push idea, I find myself wondering whether the long slump in development theory was really necessary. The model is so simple: three pages, two equations, and one diagram."¹ This is how Krugman summarizes the "fall and rise of development economics," a half-century of history of development thought, between the "big push" formulation by Paul Rosenstein-Rodan in 1943 and its formalization by Kevin M. Murphy, Andrei Shleifer, and Robert W. Vishny in 1989. Because of its lack of rigor, by this account, the "glory days of 'high development theory'" lasted only fifteen years, ending with the 1958 publication of Albert Hirschman's *The Strategy of Economic Development*. According to Krugman, development theory was, until its reformulation, no more than an approximate literature, with "some wonderful writing, some inspiring insights," but which couldn't mathematically model its basic assumptions. Because of this, it became an "intellectual dead end." It was only in the 1980s, when Krugman and others managed to integrate concepts like increasing returns or externalities (called "non-convexities" in economics) into the neoclassical paradigm did development theory experience a rebirth and achieve scientific status. This thesis of a disappearance-reappearance of development theory is now shared by a majority of specialists – not just by hardcore neoclassicals, for whom there is no science out of the mainstream and therefore no discussion of development without reference to their standard models, but also by numerous more heterodox economists. The present article, however, takes strong issue with the mainstream interpretation of development economics. It intends to show how neoclassical economics, which has now absorbed development as one of its components, is prisoner of a deep crisis, and how mainstream domination in this theoretical field is inseparable from that of neoliberal development policies.

Neoliberalism against Development

Development theory was born in the 1940s and 1950s from a double differentiation: (1) with respect to standard neoclassical economics, by the rejection of the dogmas of systematic trade benefits and the virtues of the market; and (2) with respect to Keynesian economics (mainstream from 1945 to 1975 approximately) through its critique of the inadequacy of the Keynesian analysis of unemployment and short-term growth in examining the structural problems encountered by developing countries. Thus, there was a heterodox element in development theory from the beginning. Because of this, the new field encouraged those who were more radically heterodox to analyze development, such as Marxists and structuralists, and these in turn begat the economics of planning, structural-Cepalism,³ dependency theory, and theories of the capitalist world system. These evolutions in the history of thought were connected to those occurring in the history of facts: the great revolutions of the twentieth century (Russia, China, Vietnam, and Cuba), national liberation movements (India, the Arab world, and Africa), and even the needs for rebuilding in the postwar period (the Marshall Plan in the West). The emergence of authors from the South, such as Raul Prebisch and Celso Furtado in Latin America, P. C. Mahalanobis in Asia, and Samir Amin in Africa, showed us that development theory, born in Europe, like political economy before it, is not a monopoly of the North. Thus, development economics appeared in the intellectual space opened by the social transformations occurring under the pressure of the peoples' struggles worldwide, more or less radical attempts to break away from the laws of the world system. The state was placed at the heart of all strategies for structural change, endeavoring to make autonomous, to "self-center," as far as possible, the conditions of accumulation: planning and industrialization in the East and in the socialist countries of the South, and capitalist developmentalism of the national bourgeoisies elsewhere. One understood it all the better because the only takeoff of a non-European country within the capitalist system, Japan, offered the example of an industrialization thoroughly led by the state (Meiji era). It is this space, the product of the histories of facts and ideas, that was reconquered in the 1970s and 1980s, by neoliberalism in practice, and by the new neoclassical mainstream in economic theory. Neoliberalism means the return to power of finance, that is, the most powerful (mainly U.S.) world capital owners. It started at the end of the 1970s—precisely since the rise in interest rates in the United States (1979), exacerbating the third-world debt crisis. This return took place on the ruins of the world system pillars (for example, fixed currency exchange rates), built after the Second World War. The decline in profit rates recorded in the center countries at the end of the 1960s deepened and in the 1970s spread into an open capitalist crisis, characterized by a swing of the whole system into monetary-financial chaos, exploding inequalities, and mass unemployment. The conjunction of the questioning of Keynesian regulation of capitalism in the North (brought on in the 1970s by stagflation, the simultaneous increase in unemployment and prices), the failures of the national-bourgeois developmentist projects in the South (the debt crisis in the 1980s), and the collapse of the Soviet bloc in the East (by the early

1990s) caused a very deep change in capital-labor relations on a worldwide scale. As the ways followed by its pioneers were not those of the mainstream, and as the social forces carrying it were losing ground, postwar development theory could only be considered by the neoclassical orthodoxy as a backwater of unscientific decline. The failures of development policies, especially import substitution industries, became obvious in the 1980s, the period of the advent of neoliberalism.

It is in this context of the retreat of workers and people of the periphery that the global offensive of the neoliberal ideology in managing the capital expansion crisis must be understood. Its dogmas are known. At the national level, it is a question of carrying out an aggressive anti-state strategy by: (1) deforming the structure of capital ownership to the benefit of the private sector, (2) reducing public spending for social purposes, and (3) imposing wage austerity as a key priority in fighting inflation. At the global level, the objectives are to perpetuate the supremacy of the U.S. dollar over the international monetary system, and to promote free trade by dismantling protectionism and liberalizing capital transfers. The standardization of this planetary deregulation strategy is one of the functions of the major international organizations (primarily the International Monetary Fund [IMF], the World Bank, and World Trade Organization [WTO]), and the local monetary-financial institutions ("independent" central banks). The entire edifice is thus brought under the control of the United States, whose military supremacy guarantees the global functioning of the system.

As a consequence, any idea of development outside of neoliberal capitalism is prohibited, as well as any independence of development theory as a discipline distinct from the dominant neoclassical corpus. Since the beginning of the 1990s, international organizations, especially the IMF, have been lavishing upon their "client countries" recommendations for "good governance."⁴ The IMF seeks to promote good governance covering "all aspects of the conduct of public affairs," aiming to make policy decisions more transparent, to make available a maximum of information regarding public finances and audit procedures, and, more recently, to "combat the financing of terrorism."⁵ What is at stake is the shaping of the policies of national states to create those institutional environments most favorable to the South's opening up to globalized markets. As a reflection of the needs of finance under neoliberalism, good governance can thus be seen as an inversion of what could objectively be called "good government." The aim is not the promotion of the democratic participation of individuals in decision-making processes, or the respect of their right to development, but state-sponsored market deregulation, that is, a new regulation by the dominant forces of capital. Confronted with neoliberalism's inability to manage the crisis and with the refusal of the IMF, World Bank, and WTO to acknowledge the urgency of finding alternatives that might impose dynamic limits upon capital's expansion, independent of its drive for maximum profits, good governance can only intensify its criticism of state failures. Civil servants are not only accused of "rent seeking"; what is called into question is their capacity to manage public affairs, especially in the indebted South, and to build and sustain "decent" institutions not so much for people, but for capital. The accompanying moralizing rhetoric about the responsibility of states (to which alone all errors are

imputed) and discourses about the irresponsibility of their agents (when it is not their basic decency that is being questioned) is nothing other than a legitimizing of what we might call the “ultraliberal” options of abandoning the normal prerogatives of the state, which in some cases goes so far as to outsource national defense, substitute a foreign currency for the national one, and privatize tax collection.

Thus we have a striking paradox, inherent in “good governance”: the international organizations call on national governments to adopt neoliberal economic policies imposed from without while the globalized financial markets dispossess these states of their sovereignty and foreign core capital insinuates itself into the periphery countries’ capitalist ownership structure. While the international organizations are managing the state apparatus of the South directly from the center of the world system, they are neutralizing the power of these states by stripping them of all prerogatives and reducing to a minimum their margins of maneuver. Would this not be, in fact, the secret of ideal governance? What democracy could public authorities pretend to adhere to when they limit the exercise of national sovereignty to the liberalization of markets, to the payment of dividends on foreign investment, and to the repayment of the foreign debt?

The Absorption of Development by Neoclassical Economics

For more than twenty years, almost alone, the neoclassicals have dominated economic theory, including the theory of economic development. Their ambition is to analyze all socioeconomic facts by starting from the maximizing behaviors of individuals. The heart of neoclassical economics and the source of its claim to being a science is general equilibrium theory. This theory claims to show that when every buyer and seller in the marketplace acts out of self-interest, competition will produce a unique set of prices and quantities that will create a perfect match between the supply and demand of every good and service and every input used in production. What is more, once this set of “equilibrium” prices and quantities is reached, social welfare will be as high as it can possibly be, in the sense that no individual will be able to be better off without making someone else worse off. Heavily mathematical, strongly normative, and reliant upon a host of absurdly unrealistic assumptions, general equilibrium theory is the key stone of all standard microeconomics. Its very purpose is to determine the way by which the choices of the many agents (buyers and sellers) can be coordinated within a framework integrating the whole of the interdependences linked to their exchanges. Assumed to be free, rational, and driven by personal interest, these choices depend not only on the agents’ characteristics (production factor endowments, tastes and preferences, conjectures, and production functions), but also on the form of the social organization in which their relations operate. The privileged case is a market structure of perfect competition which allows the model, given the Arrow-Debreu assumptions (named for Kenneth Arrow and Gérard Debreu, both Nobel laureates),⁶ to give an equilibrium solution for which the coordination of individual choices is possible, and resource allocation “optimal” (in the sense described above, given originally by the economist Vilfredo Pareto).

While this model aims at processing information concerning a great number of individuals, the technical difficulties encountered by the neoclassicals often lead them to develop the model with a very restricted number of agents, on the assumption that these are “representative” of all agents. In extreme cases, but far from being rare, since they allow mathematical simplifications, there is only a single agent; it is assumed that the entire analysis can be successfully worked out in the case of one individual, like Robinson Crusoe on his island. Insofar as general equilibrium provides an ultimate theoretical reference for almost all neoclassical models, knowledge of it is also crucial for the critical heterodox authors.

From the end of the 1970s, this theory has been amply applied in the field of development, thanks to the use of computable general equilibrium models. These models calculate, on the basis of individual behaviors, the values of equilibrium variables in the economy, for example price or quantity effects of variations of the model’s parameters linked to economic policy, such as taxes or subsidies. For instance, if a nation establishes a minimum wage for workers, will this lead to an increase in unemployment?

The World Bank systematically used these tools in order to try to justify theoretically and to make politically credible the antisocial measures of structural adjustment imposed on the South, thus contributing to their broad diffusion within the academic spheres. Furthermore, the study of the role of institutions in growth (such as labor unions, the state, the military, religious organizations and rules, and the like) also led the neoclassicals to consider issues of development. For a long time, according to the standard perfect competition theory, institutions were regarded as exogenous data, that is, they had to be taken as given and economic analysis could not be applied to them. Thus, analysis of institutions was excluded from economic reasoning and left to other disciplines in social sciences dealing with collective categories, such as sociology or political science. However, more recently, economists have been placing institutions right inside the general equilibrium models and applying standard economic analysis to their behavior. But to do this, orthodox economists simply assume that individual maximizing behavior can fully explain what institutions are and what they do. For instance, when George Akerlof used game theory to analyze Indian castes, he began by assuming that there is a standard model of economic behavior, applicable in all times and places, namely, the Arrow-Debreu perfect competition general equilibrium model.⁷ One economist even assumes, to facilitate the argument, that “in the beginning,” there were markets.⁸ In macroeconomics, development economics has been much influenced by the new neoclassical growth theory, called “endogenous growth.” These models (by Paul Romer or Robert Lucas for example) seek to explain gross domestic product growth by the accumulation process itself, or endogeneously (i.e., by the production factors), without resorting to exogenous engines as in the famous 1956 Solow model. The gist of the Solowian model was the idea that “steady-state” growth in any economy, rich or poor, will occur automatically if there is complete reliance on competitive markets. No “big push” was really necessary, just an institutional structure that will allow competitive self-interest to play itself out. One of the predictions of the new

endogenous growth theory is the absence of growth convergence between countries, with the key conclusion that, in market economies, the state must intervene to accelerate capital accumulation, thus growth in the long term. Thanks to these models, the neoclassicals are now in a dominant position in long-run growth modeling. And many heterodox economists, exasperated by the neoliberal antistate thesis, responded to this new neoclassical theory's charms.

The Crisis of Neoclassical Economics

Thus, mainstream neoclassical economics has heterodox economists on the defensive, attacking them on the fronts of micro- and macroeconomics, as well as that of the institutions. However, it is important to understand that the neoclassical onslaught is not due to its theoretical superiority. Neoclassical economics is in a deep theoretical crisis. In microeconomics, it is (mathematically) impossible for the neoclassicals to prove the uniqueness of the general equilibrium—discussed above—from the agents' maximizing behaviors.⁹ To be sure, such theoretical problems are never mentioned in the neoclassical studies devoted to development, especially computable general equilibrium models, but they constitute the most serious challenge for the mainstream. Neoclassical economics has no answer to them. In macroeconomics, the often used postulate of the representative agent¹⁰ raises a question of whether speaking about a "market," an "exchange," or a "price" makes sense if there is only a solitary agent. Furthermore, the new neoclassical growth theory is unable to explain such a fundamental concept as "capital" seen as the engine of growth (how is it related to knowledge, human capital, or infrastructure?), or even the state (how is it to be distinguished from the single agent?). In the neo-institutional fields, the ideology of free individual choices leads to intellectual catastrophes, such as the explanation of feudalism by C. Douglass North¹¹ or that of the current resurgence of sharecropping in the South by Joseph Stiglitz.¹² Did not Oliver E. Williamson teach to us that all "private contracts" resulting from inter-individual transactions were rational and efficient at each period of history?¹³ Is it surprising to see him asserting the paternity and validity of the "institutional reforms" of the Washington Consensus? What the neoclassicals present as advances in the theory are actually intellectual regressions, changing economic science into economic science fiction.

What must be understood is the ideological function of the neoclassical theories.¹⁴ They serve to give a scientific veneer to the politics of neoliberalism. It is no coincidence that the theory preaches what neoliberalism does: neoliberalism puts the state solely in the service of private capital, and, indeed, what had once been public goods are now to be privatized. Everything must be "marketized," including the production of all knowledge and education. It is not that the state must not act—in this way modern neoclassicals differentiate themselves both from the old antistate ones, and from the libertarian position of economists such as Friedrich Hayek. The state should just make sure that private capital and transnational firms reign supreme. Any claim of objectivity by the neoclassicals was rendered questionable when Nobel economists Milton

Friedman, Gary Becker, and Robert Lucas appeared together to “enthusiastically endorse the economic program of George W. Bush.”

The Crisis of Neoliberalism

Neoliberal policies have been used for three decades now to manage the capitalist crisis. They have offered much by way of speculative investment opportunities to the great capital owners, that is to say, to high finance, especially from the United States. To counter the lack of investment outlets for the enormous surplus these owners have extracted from the world’s workers, peasants, and peoples, neoliberal policies have aimed to widen such outlets and avoid any devalorization of capital. These policies have been harmful to most of humanity. The global South especially has suffered from odious debt repayments, capital flight, and the repatriation of profits on foreign investments. Neoliberalism is not a development model; it is the strategy put into practice by high finance to plunder the South while achieving slow capital accumulation in the North. In spite of its failures in all fields (and by implication, the failure of its legions of experts¹⁵), it continues to be imposed unilaterally and undemocratically. Meanwhile, intra- and international inequalities are exploding.

Even the regulating mechanisms of global capitalism are in crisis. Today, the fundamental feature of the power of global finance under U.S. hegemony is its militarization. This is measured less by the rise in the “military burden” indicator—military spending as a percentage of GDP—than by the aggressive expansion of U.S. military bases worldwide, as well as by the growing presence of transnational corporations within the military-industrial complex. The name of globalization is imperialism, and an imperialism more and more openly enforced by war. Finance is at war against whoever tries to carry out or affirm autonomous development, and such development is the basic cause of the imperialist wars supporting finance. In Iraq, for instance, there is the obvious desire of capital to control the oil. However, there is a still more decisive reality: what is at stake and what makes this and other wars necessary for high finance is the reproduction of the conditions that allow capital’s power to be maintained and to grow. The capitalist class can no longer retain its power except by war. It is interesting to note that neoclassical economists have begun in earnest to develop a defense economics, but so far they have been unsuccessful. One reason for this failure is the inability of neoclassical economics to deal with conflict, a real problem in an analysis of war!

From the Struggle against Poverty to War against the Poor

The pursuit of neoliberal policies, one of whose ideological underpinnings is that such policies will reduce poverty, has become more and more a total war against the poor. In this war, most economists, including those usually portrayed as sensitive to the social aspects of development—or even those thought of as critics of neoliberalism—such as Joseph Stiglitz and Amartya Sen, do not propose alternatives to neoliberalism’s

wide deployment. To be sure, the criticisms raised by the “great” economists (Nobel Prize winners) are sharp, especially on issues raised by the United Nations’ Millennium Development Goals. Thomas Schelling, Nobel laureate for his “discoveries” in game theory (and also once employed by the Rand Corporation, in which capacity his work influenced Robert McNamara in decisions made during the long escalation of the war in Vietnam) was part of the “expert group” of the 2003 “Copenhagen Consensus” formed to evaluate the Millennium Development Goals. (The so-called “Copenhagen Consensus” was convened by anti-environmentalist Bjørn Lomborg of The Skeptical Environmentalist fame—with the backing of Denmark’s National Environmental Assessment Institute.) Schelling recommended that: (1) the UN give a lower priority to the goals directed at the reduction of greenhouse gases (he had previously supported the U.S. rejection of the Kyoto Protocol); (2) the UN promote more trade liberalization; (3) greater protection be given to corporate patents of AIDS medicines; and (4) genetically modified organisms be promoted to fight against malnutrition.

One is tempted to see Schelling as exceptional in his views among Nobel Prize-winning economists. But this is hardly the case. Remember Robert Fogel’s (1993 prize-winner) interpretation of U.S. slavery as basically a free choice type of relationship between masters and slaves! Fogel too was a member of the expert group of the Copenhagen Consensus and made recommendations similar to those that Schelling—with trade liberalization placed by him near the top of global priorities and attempts to address malnutrition and hunger and combat global warming at the bottom.¹⁶ And how can we forget Milton Friedman (1976 prize-winner), who believes that state intervention beyond educational services offered by the market “is not necessary” and that it leads to a system much worse than that which would have developed if the market had played an increasing role. Or Hayek (1974 prize-winner), whose ultraliberal positions are too well-known to need explication here. Gary Becker (1992 prize-winner) declared that the willingness of the “Chicago Boys” [University of Chicago economists] to work for General Pinochet was “one of the best things that happened to Chile.”¹⁷ As one of their inspirations at the University of Chicago, he said he was “proud of their richly deserved glory.” In the same spirit, Robert Barro (Nobel hopeful) wrote that the current “good” economic performance of Chile is undoubtedly due to the neoliberal reforms implemented by Pinochet during 1973–1989, since nobody did more than him to prove the “superiority” of capitalism over socialism.¹⁸

The Kinder and Gentler ‘Great Economists’

The reactionary ideology of some “great” economists, indicated above, is relatively well-known and often denounced. But the basically pro-neoliberal arguments of more moderate Nobel Prize winners, usually viewed as popular critics of the system, like Stiglitz and Sen for example, get far less critical attention. These two “in-fashion” authors know how to “surf” on the wave of protests against wild neoliberalism and on the necessity for market regulation to promote a capitalism “with a human face.” However, this is a serious misunderstanding, because neither of them recommends

rebuilding the welfare state, modifying the ownership structure of capital in favor of the public sector, applying a policy of income redistribution, or promoting public services – much less arguing in favor of state-led planned development. In spite of a few nuances or subtleties, their arguments always imply that the state should fully submit to the dominant forces of global capital and help its capital accumulation.

Stiglitz (2000 prize-winner) was still chief economist in the World Bank when the 1998–99 report on “Knowledge for Development”¹⁹ was published. This report teaches us what “cooperation” with the private sector means in the fields of information and telecommunications: privatization, dismantlement of public research (even the transformation of research institutes into joint stock companies), and marketization of education (even by helping the poor to pay for their studies). It matches the series of reports previously published by the World Bank on infrastructure, environment, health or peace dividends, which supported transnationals by: insuring them against any risk of nationalization; having transnationals take charge, at state expense, of building infrastructure for capital accumulation; promoting forest exploitation for export; cutting public budgets and social programs; and opening juicy outlets for their military-industrial complexes (before recommending disarmament in order to continue the refunding of the third world debts).

Sen (2004 prize-winner) is traditionally presented as proposing “another voice” in the struggle against poverty. His analysis concentrates on the paucity of the assets (especially in human capital) of the poor, preventing them from escaping their poverty by taking an active part in markets. Sen’s ideas have influenced considerably the international organizations related to human development. Nevertheless, his reasoning is mainly a perfectly compatible copy of neoclassical theory (including general equilibrium and its methodological individualism). And, in his ethical “pluralist” speeches—which are often very confused—his proposals join those of the good governance crowd at the World Bank and IMF. Obsessed by the solitary individual and his/her opportunities (and capacities) for choosing, Sen almost systematically neglects the question of resource distribution between social groups, and above all that of capital ownership inequalities. Just like Stiglitz, and so many others (from Krugman to Jeffrey Sachs), Sen loses himself in the fiction of the agents’ free individual choices. This is closely related to the ideological concept of “democracy” as simply resting on individual choices, concealing the effects of class and/or national domination and the violent relations of forces between exploiters and exploited – that is, the essential contradictions of capitalism since its very origins.

Conclusion

Nowadays, neoclassical economics’ domination of development theory is on par with that of high finance’s neoliberal power over development policies. This does not mean that all the neoclassicals are neoliberal. One of the complexities of the present arises precisely from the schizophrenia of a number of economists, neoclassical at the office, but pseudo-populist during the weekend. It simply means that there are

important complementarities between these two forms of ideological domination which are mutually reinforcing and interdependent. Thus, in my opinion, it is not only the absence of a scientific basis and the logical inconsistencies that disqualify these approaches, but the ideological function and antisocial project that their methodologies and conclusions support in the service of world capital. Heterodox authors can no longer afford to be disunited by useless polemics, reproducing out-of-date divisions. Nevertheless, it is not by preaching new “syntheses,” nor by submitting themselves to the neoclassical mainstream that they will manage to mobilize forces for the rebuilding of a genuine critical alternative, actively resisting the mainstream and reaffirming a combative radicalism. Today more than ever, the question remains: How can we move beyond the failures and errors of the past to construct an authentic development project in a post-capitalist alternative – one that is simply social, or better yet, socialist? This is the engine that has animated the heterodoxies in development economics from the beginning.

Notes

(*) Rémy Herrera is a researcher at the CNRS (National Centre for Scientific Research) and teaches at the University of Paris 1 Panthéon-Sorbonne.

1. Paul Krugman, “The Fall and Rise of Development Economics” (1993), <http://www.wss.princeton.edu/pkrugman/dishpan.html>.
2. Paul Krugman, “Increasing Returns and Economic Geography,” National Bureau of Economics Research Working Papers 3275 (Cambridge, Massachusetts, 1990).
3. From CEPAL, the Spanish acronym for the Economic Commission for Latin America and the Caribbean (ECLAC).
4. Rémy Herrera, “Good Governance against Good Government,” Report for the 60th Session of the UN Commission of Human Rights, E/CN.4/2004/NGO/124 (Geneva, July 2004).
5. International Monetary Fund, Good Governance: The IMF Role (Washington D.C.: International Monetary Fund, 2003).
6. Alan P. Kirman, “The Intrinsic Limits of Modern Economic Theory: The Emperor Has No Clothes,” *Economic Journal* 99, no. 395, (1998).
7. George A. Akerlof, “The Economics of Caste and of the Rat Race and Other Woeful Tales,” *Quarterly Journal of Economics* 90, no. 4 (November 1976).
8. Oliver E. Williamson, *Markets and Hierarchies* (New York: Free Press, MacMillan, 1975).
9. Hugo F. Sonnenschein, “Do Walras’ Identity and Continuity Characterize a Class of Community Excess Demand Functions?,” *Journal of Economic Theory* 6 (1973).
10. For an example of real business cycle theory see Finn E. Kydland and Edward C. Prescott 1982 (2004 Nobel prize-winners).
11. The lord would offer collective goods for which no market exists (defense for example) and in counterpart the remuneration of his services takes adequate institutional forms (serfdom, “implicit contract”) to prevent any “free riding” behavior on behalf of his subjects. See Douglass

C. North, *Institutions, Institutional Change, and Economic Performance*, (Cambridge: Cambridge University Press, 1990).

12. The contract of sharecropping, rational and efficient, would be that whose terms ensure to landowners balancing between risks of uncertainty associated with the fluctuations of the receipts from land and labor incentives of sharecroppers. See Joseph Stiglitz, "Incentives and Risk Sharing in Sharecropping", *Review of Economic Studies* 41 (1974).

13. Oliver E. Williamson, *Markets and Hierarchies* (New York: Free Press, MacMillan, 1975).

14. Rémy Herrera, "The Hidden Face of Endogenous Growth Theory: Analytical and Ideological Perspectives in the Era of Neoliberal Globalization," *Review of Radical Political Economics* 38, no. 2 (2006).

15. For example see Jeffrey Sachs, *The End of Poverty* (London: Penguin Press, 2005).

16. Bjørn Lomborg, ed., *Global Crises, Global Solutions* (Cambridge: Cambridge University Press, 2004).

17. Gary S. Becker, "Latin America Owes a Lot to Its 'Chicago Boys,'" *Business Week* (June 9, 1997).

18. Robert J. Barro, *Nothing Is Sacred* (Cambridge: MIT Press, 2002).

19. World Bank, *World Development Report 1998-99* (Washington D.C.: World Bank, 1999).