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9

### 3 THE THEORETICAL DEBATE IN DEVELOPMENT ECONOMICS FROM THE 1940s: AN OVERVIEW

Since the mid-1970s various social scientists have reviewed the evolution of theorising about economic and social change in the Third World.<sup>1</sup> The approaches taken have varied in terms of purpose, coverage, the numbers of schools of thought identified, the categories used and the classification of individual theoretical contributions. It is impossible to review all these approaches here; all one can hope to do is to give some flavour of their variety.

Some analysts have adopted a partial approach, concentrating their review upon one or more analytical perspectives without attempting a general overview. These include Chenery (1975), Killick (1978), Seers (1979), Love (1980), Kitching (1982) and Chilcote and Johnson (1983). Chenery and Love both focus on the evolution of structuralism, although they each focus on different contributors to this school of thought. Killick reviews the dominant tendencies in economic thought on development in the 1950s, including some of the contributions that Chenery classifies as structuralist (but without himself using this classification), in order to demonstrate their influence on Nkrumah's policies. Seers focuses on the evolution of development economics in Western Europe and North America in the 1950s and 1960s (ignoring, for example, the development of structuralist thought in Latin America), in order to demonstrate its limited usefulness. Kitching selectively reviews the evolution of the populist content of development theory, while Chilcote and Johnson review the evolution of dependency theory (according to their categorisation of the latter).

Among reviews of the evolution of theorising on economic development by economists may be noted in particular those of Chenery, Killick and Seers (already mentioned), as well as Streeten (1981), Little (1982), Hirschman (1982) and Leeson (1983 and 1988). Meier (1984) also provides a useful (non-classificatory) review of the evolution of development economics in the early years (the 1940s and 1950s). The primary purpose of most of these surveys

(though not that of Killick) is to review the current state of development theory. This has been a recurring preoccupation of development economists since the 1960s, as Scers (*op.cit.*) and Leeson (1988) both show.<sup>2</sup> One consequence of this is that the categorisation of theoretical contributions tends to be a subsidiary issue, and, indeed, is not always undertaken.

Of the social scientists who have undertaken more comprehensive reviews-cum-classifications of development theory, Foster-Carter (1976) categorises all social scientific development theory into two diametrically opposed paradigms—a mainstream western development paradigm and a neo-Marxist paradigm. A more common approach, however, is a three-way classification which specifies also the contribution of neo-classical theory (see e.g. Chenery, 1975; Little, 1982). Both these studies, however, substitute the category 'structuralism' for Foster-Carter's 'mainstream Western development theory'.<sup>3</sup>

Hirschman (1982) identifies four main schools of thought that have been applied to the study of economic development and underdevelopment—neo-Marxist, neo-classical, classical Marxist and his counterpart to Foster-Carter's western development paradigm, which he labels simply as 'development economics', noting, however, the 'far from unified' nature of this body of doctrine and policy (see Hirschman in Gersovitz *et al.*, 1982: 379).<sup>4</sup> Hirschman's classificatory review also takes note of a fifth category of analyses which emphasise distributional issues. (Little also discusses the emergence of these.)

Other social scientists reviewing the evolution of development studies have introduced different classifications into the discussion. Modernisation theory (which emphasises the political, sociological, and administration theory counterparts to Foster-Carter's 'mainstream western economic development theory', as well as the latter itself) is the best known and most widely used. Other classifications that have been introduced into the literature have achieved less widespread currency (see Preston, 1982, for the example of 'neo-institutionalism', a classification which he applies to the analytical work of Myrdal, *inter alia*).

These and other surveys use diverse standards of characterisation and classification. One indication of this is the variety of ways in which leading contributions to early theorising on economic development are characterised and classified. For example, Foster-Carter focuses on four propositions concerning the fact that development is a non-contentious process which involves becoming more like the West as the defining characteristics of a school of thought (Foster-Carter, 1976: 1972). Chenery, on the other hand, uses the significance assigned to distinctive features of economic structure in the theorisation of underdevelopment and development as a basis for categorisation.

In the present study, the basis upon which a range of contributions to the literature on economic development and underdevelopment have been classi-

fied is as follows. Contributions have been grouped together when they can be shown to have in common:

1. A distinctive interpretation of the essential nature of development and/or underdevelopment.
2. Important common elements in their specification of the key causal factors generating development and/or underdevelopment.

Such contributions have been further characterised as one of the dominant perspectives or paradigms in development economics when, in addition, it can be shown (as indicated in Chapter 1) that the following are true:

3. The features specified under 1 and 2. above have commanded the support of a significant group of scholars.
4. The initial articulation of these ideas can in turn be seen
  - (a) to have given rise to further theoretical development;
  - (b) to have guided more practical action (for example, in policy formation).

In applying this approach the author will reject the notion that all early development theory is sufficiently homogeneous to justify uniform characterisation. Rather, it will be argued that from among the early theoretical work of development economists in the 1940s and 1950s two dominant perspectives emerged: one in Western Europe and North America (the paradigm of the expanding capitalist nucleus), and one, initially at least, largely in Latin America (the structuralist paradigm). These perspectives generated two different sets of propositions and lines of reasoning concerning the nature of development, the dominant causes of underdevelopment and the route to be followed in overcoming these. True, these early theories had in common a rejection of the neo-classical paradigm as a viable basis for the analysis of the problems of underdeveloped economies. It is also true that these two dominant perspectives have certain policy conclusions in common. Indeed, with some give and take of emphasis they may be regarded as complementary (see Chapter 11). However, this does not make either the perspective or the argument identical, as will be shown in this and the following two chapters. Later on, it will also be argued that following the subsequent emergence of the neo-Marxist paradigm, development economics has given rise to the articulation of two other distinct, but related, interpretations of the development process: the Maoist and basic needs paradigms.

Of the various classificatory approaches used by previous analysts, the one which comes nearest to that used in this book is that of Hirschman. He, as we have seen, distinguishes four basic (but arguably five in total) analytical perspectives applied to the study of economic development and underdevelopment: neo-classical, Marxist, development theory of the 1940s and 1950s (out of which it is argued in the present study that two dominant perspectives emerged), neo-Marxist theory, and analyses that emphasise

income distribution and basic needs (which in the present study are associated in part with two new perspectives: the Maoist and 'basic needs').

What follows is, however, again one individual's personal attempt at categorisation, and others may wish to take issue with some aspects of it. Most notably, not all development economists are agreed that there is such a thing as a 'basic needs' paradigm; nor, indeed, is the designation of a paradigm of the 'expanding capitalist nucleus' established currency among development economists. In what follows it will, therefore, be necessary to justify these categories. I will attempt to do this firstly by outlining in this chapter the core of each paradigm that is to be explored in detail later. In this way the reader should have a clear indication at the outset of the basis for the categorisation used. At the same time this chapter provides the reader who is unfamiliar with these issues with a brief account of the context and chronology of the emergence of different analytical perspectives on economic development.

The rest of this chapter is structured as follows. A survey of the origins of development economics in the 1940s and 1950s in Latin America on the one hand, and Western Europe and North America on the other, is followed by a summary of the origins and content of the structuralist paradigm and a review of the leading contributions to the early 'pre-paradigm' debate in Western Europe and North America. The role of Lewis and Rostow in the articulation of the dominant perspective that emerged from this debate – the paradigm of the expanding capitalist nucleus – is then discussed. The following sections review the subsequent emergence of the neo-Marxist, Maoist and basic needs paradigms, providing a summary of each, and provide a brief review of the neo-classical revival in development economics.

## THE ORIGINS OF DEVELOPMENT ECONOMICS

The origins of development economics as we know it today can be traced to Latin America in the 1930s and 1940s, and to Western Europe – chiefly England – and North America in the fifteen year period from 1943 to 1958. These two contexts were markedly different in a number of key respects. In Latin America economists were grappling with the immediate and severe problems imposed first by the Great Depression of the 1930s and then by the further disruptions to the international economic system caused by the 1939–45 war. Individuals who had been trained in the neo-classical tradition were now confronted with empirical conditions which brought into question the continued espousal of the theory of comparative advantage and the doctrine of *laissez-faire*. Economists such as the Argentinian Raoul Prebisch were first forced into making *ad hoc* policy recommendations to cope with unfamiliar circumstances: the collapse of international trade and the consequent severe shortages of foreign exchange and manufactured imports. With

the passage of time they began to develop a new body of theory that reflected their changed assessment of economic conditions in Latin America and the international economy.

Meanwhile in the 1940s and 1950s most of the economists in Western Europe and North America who turned their attention to the economically 'backward' or 'underdeveloped' regions of the world did so in response to different pressures and at a greater remove from the day-to-day problems of economic policy formation. As Seers, Preston and others have indicated, there was, after the Second World War, a growing sense of political urgency concerning the promotion of economic development in the underdeveloped regions in order to maintain international stability and to contain the expansion of communism.<sup>5</sup> This is confirmed in many of the writings of contemporary development economists (see e.g. Myrdal, 1957: 7 and Myint, 1954, reprinted in Agarwala and Singh, 1958: 135 and 151–2). However, the point is perhaps most graphically affirmed in Rostow's *An American Policy in Asia*:

We as a people (the United States) have made a momentous choice. We have now clearly ruled out one conceivable approach to our international problem: namely a military attack on the Soviet Union and Communist China initiated by the United States. . . . That American decision has an important consequence, it means that the American people must find other ways for protecting their interests. The alternative to total war initiated by the United States is not peace. Until a different spirit and a different policy prevail in Moscow and Peking the alternative for the United States is a mixture of military, political and economic activity. . . .

(Rostow, 1955: vii.)

and

The United States must develop a more vigorous economic policy in Asia. Without such a policy our political and military efforts in Asia will continue to have weak foundations. . . . Asia's economic aspirations are linked closely to the highest political and human goals of Asia's peoples: and American economic policy in Asia has, therefore, important political as well as economic meaning.

(*Ibid.*: 43.)

The development economists in Britain and North America who now concerned themselves with the problems of the economically backward regions were concerned with a geographical area that embraced much of Asia and Africa as well as Latin America, and one that consequently contained a wider array of economic, social and political conditions. For instance, not all these countries were experiencing shortages of foreign exchange of the scale that contributed to the development of the structuralist perspective in Latin America. Indeed, some still had buoyant foreign balances due, *inter alia*, to the accumulation of sterling balances during World War II and the impact of the Korean War on primary commodity prices. From the outset, the British and American debate on economic development of the 1940s and 1950s concentrated upon issues of long-term strategy and basic theory. The start of

the debate is usually dated to the publication in 1943 of Rosenstein-Rodan's paper proposing a strategy for the post-war economic development of South and South-eastern Europe. Rosenstein-Rodan was primarily concerned with practical rather than theoretical issues. However, the emphasis in the new literature quickly shifted towards the search for a basic theoretical perspective from which the correct strategy for economic development could be deduced.

The common tendency in this search was to look first to the existing body of neo-classical and Keynesian economic theory for inspiration and insight. Where, as was generally the case, this corpus of theory was found wanting, a number of economists each sought to specify a new theoretical perspective. The latter was intended both to throw light on the nature and causes of economic backwardness and to pinpoint the key causal factors in the process of economic development. This period was, *par excellence*, an example of 'pre-paradigm science' in which 'every individual scientist starts over again from the beginning'<sup>6</sup> in the search for an effective theoretical framework.

The list of early writers on economic development in Britain and North America who contributed some basic theoretical insight to the emergent discipline includes Rosenstein-Rodan, Lewis,<sup>7</sup> Nurkse, Rostow, Myint,<sup>7</sup> Myrdal, Leibenstein, Hirschman and Bauer. Rereading the major contributions to this early debate on economic backwardness, underdevelopment and development is still, today, a stimulating experience. Among the majority of these writers and those working on the theory of economic underdevelopment and development in Latin America there were important elements of common ground. Firstly, there was a widespread rejection of the neo-classical paradigm as a meaningful source of insight into either of these phenomena. Rather, most saw economic development as Schumpeter had done, as a cumulative process which falls completely outside the purview of comparative static equilibrium analysis. Almost all were to question, and most would reject, the static theory of comparative advantage as a basis for determining the appropriate pattern of imports and exports for developing countries. It was widely accepted that industrialisation was the key to economic development, and that this would not be promoted by indefinite concentration on expansion of primary exports in exchange for manufactured imports. There was also a widespread acknowledgment of the existence of both open and disguised unemployment (or underemployment) in poor economies, particularly in the agricultural sector, and a general agreement that an important aspect of economic development consisted of mobilising this labour into more productive activities. Most also took the view that achievement of a satisfactory rate of resource mobilisation for economic development would require a substantial degree of state intervention with the current operation of market forces in underdeveloped regions.<sup>8</sup> However, a common position on these issues still permitted considerable divergence of perspective and analysis. The following discussion first reviews the emer-

gence of development economics in Latin America. Contrary to common convention (and the ordering of the next two chapters) this will be taken first because, as noted above,<sup>9</sup> the origins of the structuralist paradigm take chronological precedence (albeit slight) over the emergence of development economics in Western Europe and North America.

The discussion will, however, pass on quite quickly to review the ideas on development that evolved in Europe and the United States. Here there is a more complex story to tell, and this chapter will be used partly to give a flavour of the pre-paradigm debate in these regions. The author will then attempt to show why out of this debate a particular viewpoint was to achieve dominance, before completing the chapter with a brief summary of subsequent developments in the discipline.

## THE EMERGENCE OF THE STRUCTURALIST SCHOOL IN LATIN AMERICA

The historical background to the emergence of the structuralist school of development economics in Latin America has been traced by Love (1980). Parts of the following summary are based on his work.

The emergence of economic structuralism in Latin America provides a graphic illustration of paradigm failure and replacement. The Argentinian economist Raúl Prebisch, who was the founder of the structuralist school, had, like his peers in Latin America, been educated in the neo-classical tradition. On graduation in the early 1920s he worked as a professional economist and statistician in an environment in which the application of the static theory of comparative advantage was accepted as the underlying explanation of Argentina's rapid growth over the previous six decades.

Not only did powerful export groups espouse comparative advantage, but the Argentine Socialist Party—viewing itself as the defender of worker and consumer interests—vigorously opposed industrial protectionism in the 1920s.<sup>10</sup>

However, in the late 1920s, and particularly from the start of the Great Depression in 1929, there was a dramatic change in Argentina's trading conditions.

From the late 1920s, Prebisch found himself working in a context in which the Argentinian authorities were compelled to introduce a series of *ad hoc* measures to protect the balance of payments and debt repayments. Exchange controls were introduced in 1931, import controls in 1938. As world prices of primary products fell relative to manufactured goods, so Argentina's import capacity declined. However, in the 1930s, in response to the shortage of imports, there was a rapid growth of industry in Argentina (as also in Chile and Southern Brazil). These and related events were to move Prebisch to rethink the theoretical basis of policy formation in Argentina and in Latin

America in general. In 1942 Argentina's Central Bank, of which Prebisch had been made the first director in 1935, broke with the past by championing industrialisation, which was to be promoted through management of imports: the new objective was to change the composition of these from consumer to capital goods.<sup>11</sup>

During the 1940s Prebisch continued, both in academic and policy advisory work, to advocate industrialisation for Argentina and other Latin American countries as a means of making them less economically vulnerable. In 1948, at the University of Buenos Aires, he specifically attacked the theory of comparative advantage, adducing a number of reasons why primary exporting countries could not, in the mid-twentieth century, expect to follow a path of export-led growth. Not only did industrial countries tend to retain the fruits of technological progress in the form of higher wages (rather than passing them on in reduced prices), but the world's dominant trading nation, the United States, had a much lower import coefficient than the previously dominant Great Britain had had in the nineteenth century.<sup>12</sup>

1948 saw the formation of the Economic Commission for Latin America (ECLA), of which Prebisch soon became director. The ideas he had by then developed, and was still evolving, were to be central to ECLA's work. The commission drew together a band of Latin American economists, including the Brazilian Celso Furtado, who were all influenced by their knowledge of Latin America's economic experience in the 1930s and 1940s: declining primary export prices and worsening balance of payments crises, followed by war-time disruptions to international trade and continuing shortages of manufactured imports. These, and a conviction that in the long term the situation for primary exports would worsen rather than improve, led the ECLA economists to reject conventional trade theory as a basis for national economic policy formation. Convinced that the way forward lay in a transformation of domestic economic structures via the development of the industrial sector, the ECLA economists developed a new body of theory designed to explain and justify the need for such a strategy.

The new theory emphasised both the economic structure of underdeveloped economies and the nature of their exposure to the international economic system as potential constraints to growth. While growth based upon specialisation according to comparative advantage might have occurred in Latin America in the past, it could not be expected to revive on a sustained basis after the outbreak of peace and the revival of growth in the industrially advanced countries. The replacement of Britain, a very open economy relying on substantial primary imports, by the United States, with only a very small proportion of its GDP entering international trade, as the leading industrial nation, combined with other factors such as the low income elasticity of demand for primary products in the industrially advanced economies, strongly militated against such a long-term revival. Meanwhile, the industrial development of Latin America and other underdeveloped

countries was deterred both by foreign competition and the small size of domestic markets. The problem was not so much lack of investible resources as of inadequate inducements to invest. In view of this, development could only be promoted by deliberate measures to block off foreign competition and to compensate for small market size. The structuralists, however, also acknowledged that the initial period of import-substituting industrialisation would put continuing pressure on the balance of payments, due to increased demand for imports of capital and intermediate goods. Preoccupation with this problem led the ECLA group to press firstly for improved conditions of trade for primary exports (something Prebisch had first done in the 1930s<sup>13</sup>) and secondly for improved opportunities for manufactured exports. Domestic supply rigidities were also anticipated, and this led to a new analysis of the structural causes of inflation, and of appropriate responses thereto.

During the 1950s and early 1960s the structuralist perspective attracted a number of important economists from outside Latin America who contributed to the articulation and extension of this paradigm. They included Hans Singer (whose early work on the prospects for primary exports was conducted independently of Prebisch<sup>14</sup>), and Dudley Seers. Myrdal also had much in common with the structuralist perspective.<sup>15</sup>

However, many concur that it was essentially from the ECLA context that the structuralist paradigm emerged.<sup>16</sup> The key elements of this paradigm can be summarised as follows:

1. There is a distinction between economic growth and economic development. Structuralist definitions of economic underdevelopment and development are not always identical but always emphasise both structural factors and technological advance. Two widely accepted definitions are those of Furtado:
  - (a) an underdeveloped economy is one in which the technological level of some branches of the economy falls well below the technological level (and, hence, labour productivity) of the most advanced sector, and well below the level that could be achieved with known technologies;
  - (b) economic development consists of the introduction of new combinations of production factors which increase labour productivity.
2. Essential features of economic development are a steady expansion in the number of branches using the most advanced production technologies and a change in the sectoral composition of total output. Unless the latter occurs, sustained expansion of production and productivity will not be possible (see points 4-8).
3. An expansion of output generated by an expansion of economic activity using existing production technologies represents growth but not development.

4. The existing structures of underdeveloped economies have been historically determined by the manner in which these economies have become incorporated into the international economy.
5. They have been drawn into this economy as suppliers of cheap raw materials to the industrially advanced economies, and as markets for mass-produced goods exported from the industrially advanced economies.
6. The result has been the generation of dualistic economic structures, as identified in point 2, with the modern sector oriented to production of primary products for export.
7. Machinery and technology for the modern sector are imported, as are manufactured consumer goods.
8. As long as underdeveloped economies maintain these structures they will be incapable either of generating their own growth dynamic or of achieving economic development.
9. The economic structures of underdeveloped economies also explain the nature of certain stresses that the latter commonly experience. Of particular importance are low internal supply elasticities. For example, inflationary pressures in UICs are often due not to easy monetary policies but to low domestic elasticity of supply in key sectors. Likewise pressure on the balance of payments can be explained in terms of low external income elasticities of demand for primary products, and internal price elasticities of supply and demand for primary and manufactured goods. It too is an inevitable consequence of attempts to promote growth given the existing structure.
10. Only government promotion of a steady process of structural transformation, focusing above all on the development of a diversified domestic industrial sector, including capital goods production, can overcome these problems.

Thus in structuralist theory the object of development is the structural transformation of underdeveloped economies in such a way as to permit a process of self-sustained economic growth more or less along the lines of today's industrially advanced countries. To achieve this it was recognised that it would be necessary to break away from reliance on foreign demand for primary exports as the engine of growth, switching instead to a supply-side dynamic to be provided by an expanding domestic industrial sector.

The policy recommendations generated by members of the structuralist school were geared to this end. To a large extent they focused on conventional policy instruments - tariff, monetary and fiscal policy in particular. (However, with time, and growing foreign exchange shortages, the pursuit of import-substituting industrialisation also came to be associated with less orthodox policy instruments, most notably investment licensing and foreign

exchange licensing.) The structuralists' policy recommendations were intended for adoption by existing governments. The structuralists were, as Preston indicates, intellectuals and bureaucrats who unlike the neo-Marxists (see below) accepted a philosophy of development through capitalism. In order to make this possible, they sought to bring about long-term change in the structure of the economy through reforms in existing economic policy rather than through radical political and social change.<sup>17</sup>

#### THE EMERGENCE OF DEVELOPMENT ECONOMICS IN NORTH AMERICA AND WESTERN EUROPE

As already noted, during the 1940s and 1950s some economists working in Western Europe (mainly the United Kingdom) and in North America also turned their attention to the problems of underdevelopment. Some, as Scers has noted,<sup>18</sup> already had experience of working in, or teaching courses on, colonial economies. Meanwhile, the contemporary international context arguably also had a significant influence on the tenor of their work. The most notable features of this context were the successful completion in the late 1940s and early 1950s of the Marshall Plan for economic reconstruction in Europe (which generated confidence in the role of economic aid); the acquisition of political independence by a number of Asian and Arab countries, followed in the late 1950s and early 1960s by the decolonisation of much of Africa; and the emergence of the cold war between the Western and Eastern blocs. All of these events were associated with a growing political focus on the provision of economic aid to underdeveloped countries.<sup>19</sup>

The period that we are considering also came soon after a lengthy war in which many academics had worked closely with and for their respective governments, in support, as they often saw it, of certain strongly held ideals concerning the protection of the free world. Given these circumstances it would have been surprising if many of the economists who now turned their attention to Third World problems had not done so in order to develop a theoretical framework which in various ways was intended to inform government policy - both government policy in the Third World and Western government aid policy. It was accepted that in the long term industrialisation was desirable for underdeveloped economies. However, the dominant constraints to economic growth were widely seen as internal rather than external. Partly they lay in the indigenous institutions and attitudes, but for many the overriding constraint was seen to lie in the low rate of saving out of national income that was found to be characteristic of poor countries.

In this pre-paradigm debate economic development was generally equated with rising national per capita income. From this it was assumed that, with time, some of the benefits of growth would 'trickle down' to the mass of the population (see Streeten, 1981: 108).

### The pre-paradigm debate in Western Europe and North America

The names of some of the leading contributors to the early debate on economic development have been noted on page 46. The elements of the intellectual heritage that influenced these and other contemporary analysts were various. Many, however, turned either directly or indirectly to the classical economists for inspiration. Lewis, Myint and Rostow all refer directly to classical growth theory, while Rosenstein-Rodan and Nurkse take Allyn Young's 1928 article<sup>20</sup> as their starting point. Some (e.g. Liebenstein and Rostow) also drew upon Schumpeter's emphasis on the key role played by entrepreneurship in economic development. Meanwhile, the most recent contribution to dynamic theory, the Harrod-Domar model, probably also exercised some influence on these analysts, although it should be pointed out that, in so far as these economists' emphasis on the role of savings and capital accumulation is taken as evidence of Harrod's and Domar's influence on them, such emphasis is also to be found in classical growth theory. Furthermore, as Hirschman and others have pointed out, in so far as the Harrod-Domar model did influence economic development theory, this was via a new interpretation and use of the model, in which the search was not for the equilibrium growth rate given *existing* savings propensities, but upon the means of *raising* the savings rate in order to warrant higher growth.<sup>21</sup>

As we saw earlier, one important feature which characterised the analyses of almost all these early writers on economic development was a rejection of the neo-classical paradigm. Almost all emphasised the lack of realism in a theoretical perspective which assumed that 'every disturbance provokes a reaction within the system, directed towards restoring a new state of equilibrium'.<sup>22</sup> Some also pointed, either explicitly or implicitly, to the failure of the static theory of comparative advantage to provide the correct basis for long-run resource allocation strategies in primary exporting economies. The rejection of the macro-economic aspects of the neo-classical paradigm was complemented by a critique of the assumptions of general equilibrium theory (in particular, perfectly competitive markets, perfect divisibility of factors and products and the absence of significant technological or pecuniary externalities) as an empirically valid basis for individual investment decisions. In other words, in the eyes of most development economists the paradigm failed to reflect a world characterised by indivisibilities, externalities and market failures and imperfections. With the notable exception of Peter Bauer, the logic of their alternative analyses was to lead the majority of early development economists in North America and Western Europe, as in Latin America, to advocate in one form or another public sector interventions designed to accelerate the pace of economic development.

The following paragraphs review the contributions to development theory of the writers named at the outset<sup>23</sup> in the following order:

2. Hirschman
3. Leibenstein
4. Myrdal
5. Myint
6. Bauer and Yamey
7. Lewis and Rostow

The purpose will be to give an indication of the distinctive nature of the contribution of each of these writers, and to suggest why, out of these various contributions, a particular perspective, found in the work of Lewis and Rostow, achieved dominance (in the sense that it provided the inspiration for significant further theoretical work and the authentication for policy and plan content).

### *Rosenstein-Rodan and Nurkse on balanced growth*

The names of Rosenstein-Rodan and Nurkse are both closely linked to the concept of *balanced growth*. In the work of Nurkse<sup>24</sup> the concept not only provides the basis for a development strategy, but is also linked to his 'vicious circle' analysis of the causes of underdevelopment and of the constraints to development. Nurkse, indeed, provided a tightly articulated theorisation of underdevelopment and development which was widely debated but which achieved little practical influence.

Rosenstein-Rodan, in a paper published in 1943, and Nurkse, lecturing in Brazil eight years later, both drew their inspiration from Allyn Young and Adam Smith, each of whom had emphasised the importance of expanding markets as a stimulus to growth.<sup>25</sup>

The key points of Rosenstein-Rodan's paper are as follows:

1. The economic development of backward economic regions (he focuses on Eastern and South-eastern Europe) is necessary for international political stability.
2. The key economic characteristics of these regions are:
  - (a) low income and, hence, purchasing power;
  - (b) substantial unemployed and underemployed labour in the agrarian sector.
3. In order to raise income it is necessary to industrialise.
4. Industrial development strategy may be pursued either under conditions of autarky—developing self-sufficiency in all branches of industrial production, including capital and intermediate goods—or through specialisation and integration into the international economic system, according to the principle of comparative advantage. The latter is preferable to the former because it:
  - (a) permits a higher level of aggregate world output;
  - (b) prevents an increase of international excess capacity in certain sectors;

#### 1. Rosenstein-Rodan and Nurkse

- (c) permits the mobilisation of international capital to fund part of the development effort with loans to be repaid from export revenues.
5. Three key factors impede spontaneous industrial investment by private enterprise in backward regions:
- (a) the small size of the domestic market;
  - (b) the inability of individual firms to internalise the value of the external economies that they generate (for example, the training of labour which may leave to work for other enterprises<sup>26</sup>);
  - (c) the inability of individual firms to anticipate the external economies which may be generated by the investment of other firms.
6. These constraints can be overcome by:
- (a) state investment in the training of the workforce;
  - (b) state planning and organisation of a large-scale investment programme. The more or less simultaneous implementation of a range of investments in different branches of light industry and essential infrastructure will permit individual firms to find larger market outlets (due to the expansion of wage employment) and to benefit from external economies.<sup>27</sup>
7. State intervention would also be needed to help mobilise the finance for a large-scale programme of industrialisation in backward regions. If consumption standards in Southern and South-eastern Europe were not to be forced down to intolerably low levels, up to 50 per cent of the necessary funding would have to be borrowed abroad. State intervention would be necessary to guarantee these loans. This must be combined with international collaboration in programming the expansion of exports in order to permit loan repayment from export revenues without major disruption to the light industries of creditor countries.

Rosenstein-Rodan set the stage for the emergence of a body of literature on underdeveloped economies that emphasised market failure and the need for state interventionism. However, he had not entirely abandoned the neo-classical orthodoxy. Although writing about a region large in area and population and endowed with appropriate natural resources, he argued against the development of heavy industry and in favour of the development of labour-intensive light industries in over-populated areas, combined with integration into international markets. On the other hand, without analysing the reasoning behind this proposition, he saw some form of industrialisation as an absolute necessity.<sup>28</sup>

Eight years later Nurkse reiterated and developed Rosenstein-Rodan's argument in a set of lectures delivered at the Brazilian Institute of Economics. He restated it in such a way as to provide a carefully articulated, internally consistent statement of the causes of economic backwardness as

well as a statement of the way forward. His argument was as follows:

1. Underdevelopment has two key causalities that jointly lock backward economies into a vicious circle of self-replicating poverty and stagnation. These are low per capita incomes which limit the size of the market and hence the inducement to invest, and inability to generate significant savings from low per capita incomes, so that even if the inducement to invest existed the domestic resources to finance such investment would not be available. This latter problem is exacerbated by the operation on an international scale of the Duesenberry effect—even if per capita incomes in backward regions rise due to buoyancy in primary export markets, any potentially favourable impact on savings will be annihilated by an increase in the propensity to consume as people in these regions try to catch up with the consumption standards prevalent in the industrially advanced countries.
2. To achieve a way out of this impasse requires simultaneous action on both fronts: the inducement to invest and the mobilisation of investible funds. With respect to the former, Nurkse considers and rejects a growth strategy based upon the continued expansion of primary exports, i.e. upon an external market. He rejects this due to the low international income and price elasticities of demand for primary products. Nurkse then restates points 4 and 5 from Rosenstein-Rodan's argument,<sup>29</sup> reconfirming the case for balanced domestic growth in consumer goods industries in order to create a balanced market, and accepting the probable need for state planning to promote this.

With respect to resource mobilisation, Nurkse also accepts Rosenstein-Rodan's assertion of the need to mobilise both domestic and foreign resources to finance the investment programme. However, his analysis of the prospects for achieving this is both more profound and less sanguine. Nurkse argues as follows:

1. Increased voluntary saving is improbable due to the Duesenberry effect noted above.
2. 'Some of the backward countries have large masses of disguised unemployment on the land, which could be mobilised for real capital formation, but not without strict curbs on any immediate rise in consumption' (Nurkse, 1952, reprinted in Agarwala and Singh, *op.cit.*: 265.) Again the demonstration effect may hamper such restraint.
3. Any increase in domestic incomes is also likely to put pressure on the balance of payments as people demand more imported consumer goods.
4. Luxury and semi-luxury import restriction is, if implemented, likely to



be only partially successful as a means of raising capital formation, for the release of foreign exchange must be matched by a corresponding increase in domestic savings. However, the potential consumers of luxury imports will not necessarily replace their thwarted consumption outlays by saving; they will look for domestic consumption outlets. The likely result is that there will be increased inflationary pressure in the domestic economy. This may generate some forced saving as profits are built up while real consumption is curtailed by availabilities, so that, as long as inflation does not get out of control, there may be some increase in net investment, but not to the full extent theoretically made possible by import control.

5. However, apart from the question of the quantity of investment, there is also that of quality. If import restrictions are not matched by restraints on consumption, and if there is sufficient effective demand, the increase in investment is likely to be channelled into relatively inessential uses, producing luxury and semi-luxury items.
6. Nurkse is also sceptical about the automatic efficacy of foreign aid in raising investment, being one of the first to emphasise the fungibility of foreign resources (*ibid.*: 270).

Nurkse's conclusion is that the onus for breaking the vicious circle of poverty in backward countries rests firmly upon their governments, with respect not only to planning a programme of balanced industrial investment but also to mobilising domestic resources, and ensuring effective use of foreign aid, through curtailing the growth of domestic consumption. The key to growth lies in the ability of these governments to match expanded investment with an effective fiscal policy. 'No solution is possible without strenuous domestic efforts, particularly in the field of public finance.'<sup>30</sup>

#### *Leibenstein on the 'low level equilibrium trap'*

In 1957 Harvey Leibenstein published another explanation of economic backwardness and a specification of the route to growth which had at least one important element in common with the strategy of balanced growth.

Leibenstein explains economic backwardness in terms of a 'low level equilibrium trap': at low levels of income forces operate to restore increased *per capita* incomes to their original level. Of these forces the most important are population growth—already high, but accelerated by any increase in mass living standards—and a high marginal propensity to consume stimulated by the Duesenberry effect already emphasised by Nurkse. In contrast, at higher levels of economic development advanced economies are more accurately seen as 'dis-equilibrium systems' in which change is cumulative, while development itself is an 'explosive dis-equilibrium path.'<sup>31</sup> The problem then, is presented as one of breaking out of the trap into cumulative growth. Any relatively small-scale effort designed to generate gradual change will be inadequate; any potential increase in savings will be absorbed in increased

consumption, and any initial increase in per capita incomes will soon be offset by an induced acceleration in population growth.

For Leibenstein the only solution lies in a *critical minimum effort* in which the scale of increased investment enables a country to achieve, and sustain, a growth rate which exceeds the maximum feasible rate of population growth by enough to permit the following to occur:

1. Rising consumption per capita.
2. Maintenance of the growing capital stock.
3. Generation of sufficient net savings to sustain further growth.

Leibenstein acknowledges that the effort will have to be substantial, since the maximum feasible rate of population growth may be as high as 4 per cent per year. On the other hand, an effort on this scale should make it possible to reap the benefits of external economies and industry interdependence, and to achieve 'balanced growth' (where the balance referred to relates chiefly to inter-industry demand).<sup>32</sup> Attainment of the critical minimum effort will depend heavily on the development of entrepreneurship, knowledge and skills.<sup>33</sup> Governments, Leibenstein indicates, can help to foster the growth of these factors. Meanwhile the supply of savings *per se*, although important, is not seen as the dominant constraint to growth. The problem lies at least as much in achieving more productive use of the existing savings potential, currently used up in luxury consumption and unproductive investments such as land purchase.

Unlike Nurkse, Leibenstein's analysis leaves the international trade aspects of economic development out of the discussion; what he offers must, therefore, be regarded as a 'partial' theory of development. By implication, however, it is reasonable to assume that Leibenstein sees the central causes of backwardness and the main key to growth as lying within the underdeveloped economy and not in the international sector.

The concepts of balanced growth and of the critical minimum effort both received widespread discussion in the 1950s, and by the 1960s the writings of Nurkse and Leibenstein featured widely on reading lists for courses in development economics. It would seem inevitable that both had some influence in the applied field of policy formation. The growing interest in the 1950s and 1960s in the use of input-output analysis as a planning tool was linked to a preoccupation with the need for balance in national investment programmes. Meanwhile, there has been a continuing preoccupation amongst development economists and others with the interrelationship between economic development and demographic change. Yet neither Nurkse's thesis nor Leibenstein's came to be accepted as the basis of a dominant paradigm of development. Nurkse's, as we shall see, was to be hotly debated at the conceptual level.<sup>34</sup> However, almost certainly of equal significance in the failure of both theses to achieve dominance was their emphasis upon paths to development which seemed particularly difficult to achieve. In both

cases there was, as Furtado noted in his critique of Nurkse,<sup>33</sup> a presumption that the main impetus for a substantial growth programme must be generated internally, through the interaction of government and domestic entrepreneurs. Not merely that, but the scale of the effort to mobilise resources for productive investment would, as compared with past experience in backward economies, have to be massive, as would the investment programme itself, for only in that case could the diseconomies of small scale be overcome, risks of market failure reduced, and external economies fully exploited. Only then, too, could output growth surpass that of population and generate sustained increases in per capita income. To many economists, particularly those working in the Third World, what Nurkse and Leibenstein proposed must have seemed, quite simply, unrealistic.

#### *Myrdal's thesis of cumulative causation*

In the mid-fifties Myrdal presented another perspective on the nature and causes of underdevelopment in his theory of cumulative causation. Focusing on the link between low average incomes in the underdeveloped countries and the pattern of change elsewhere in the world economy, his argument states essentially that a small group of countries, having achieved major advances in science, technology and industrial production, have become locked into a path of cumulative development, while the majority of countries, which have not achieved these breakthroughs, are condemned to stagnation or, worse, declining per capita incomes. Factors making for growing international inequality and continuing Third World poverty include continuing scientific and technical progress in the advanced countries, the presence of larger markets in these countries, the tendency of finance capital to flow into areas where cost structures and market prospects look most promising and the relative income elasticities of demand in the industrially advanced countries for manufactured and primary products. Meanwhile in poor countries low levels of per capita output and savings, high rates of population growth, low levels of skills, the poor health of the work force, a production structure locked into the export of primary products facing poor world market prospects, and the import of cheap manufactures which undercut local artisan production, all contrive to perpetuate and exacerbate existing poverty. Within these countries, low government revenues prohibit major outlays on social and economic infrastructure, and what limited infrastructural resources and modern productive capital there are tend to be concentrated in the regions with most economic potential, mainly export enclaves. Thus national poverty is associated with rising intra- as well as international inequality. For poor countries to break out of this impasse can only be achieved by government planning and deliberate interference with market forces. The static theory of comparative advantage fails to provide an adequate guide to resource allocation. Industrial development must be promoted, and this can only be achieved by protecting infant

manufacturing industries from foreign competition. Only then can they overcome the problems posed by the small size of the domestic market and be adequately compensated for the external benefits that they generate.

Myrdal's analysis had much in common with the work of the Latin American structuralist school. This was quite quickly recognised, and as such his perspective on underdevelopment came to be regarded as complementary to other structuralist analyses and, thus, part of the corpus of structuralist literature.

#### *Myint on the nature of economic backwardness*

Another widely respected early writer on economic development was Hla Myint. In no single publication did Myint proffer a potential paradigm of underdevelopment and/or development. Yet he did offer, in an article published in 1954, a distinctive analysis of the nature of economic backwardness, couched in terms of backward peoples rather than backward nations, in which can be found an anticipation of later concerns with poverty reduction and meeting basic needs.

In Myint's view economic backwardness is a state of being characterised by an objective and a subjective component. The former is reflected in low productivity and stagnation, the latter in a 'sense of economic discontent and maladjustment' generated by awareness of the higher living standards attained in industrially advanced economies. Myint specifies a number of causes of economic backwardness, based upon the typical economic circumstances of backward people as unskilled workers and peasant producers, borrowers of capital, and consumers. His thesis is that as underdeveloped regions have been 'opened up' to international markets the pattern of trade and development that has ensued has consolidated rather than transformed the condition of backward peoples – they have 'specialised' in unskilled work as wage labourers or peasant producers. As the latter they face monopsonistic buyers of their produce, while as consumers they face the monopolistic markets of the big import companies and of middlemen merchants and moneylenders. A combination of unequal market forces, social institutions and prejudice act to prevent backward peoples from improving their economic status, and these forces are compounded by their lack of business experience.

In principle, suggests Myint, the way forward seems to lie in the development of countervailing powers to counteract the existing unequal distribution of market power. The development of trade unions, state marketing boards and peasant co-operatives are all potential sources of such countervailing power. But here too he strikes a note of pessimism. In reality these latter institutions require a high degree of businesslike behaviour, and such advances can be fostered only slowly. Furthermore, even where marketing boards and co-operatives mobilise additional resources, the problem of finding investment outlets for them remains. Meanwhile, the scope for use of

other forms of countervailing power such as economic protection or development of trade unions is also limited by the potentially adverse effects these may have in terms of reduced efficiency and increased costs of production.<sup>34</sup>

In Myint's analysis, as in Nurkse's, there is a noticeable tone of pessimism concerning the prospects for development, seen in this case as raising the incomes of backward peoples.

#### *Hirschman's strategy of unbalanced growth*

In 1958 Hirschman published a critique of early development theories which included a major attack on the balanced growth theories of Rosenstein-Rodan and Nurkse. Hirschman argued that previous attempts to identify dominant causes of underdevelopment in terms of the lack of a key factor, be it savings, entrepreneurship, or skilled labour, had all been disproved; each of these factors had been shown by experience to be latent in underdeveloped economies. What was lacking was a 'binding agent', the organisational capability to call forth and combine these latent resources in order to generate growth. Hirschman argued that where organisational and managerial skills are in scarce supply the pursuit of balanced growth would overstretch these resources. Consequently, he proposed a strategy of unbalanced growth, in which planners and policy-makers would not attempt to anticipate supply and demand imbalances, but would be guided by major resource bottlenecks as revealed in the market. Such a strategy would emphasise 'induced investment' in both the public and private sectors. However, Hirschman too identified an interventionist role for government in guiding resource allocation. To maximise the rate of development, investment should be encouraged in branches of production with substantial backward and/or forward linkages. His analysis can be interpreted as providing a justification for backward-linked import substitution (starting with consumer goods production).

Hirschman also advocated the use of large-scale capital-intensive techniques of production which, he claimed, tend to minimise demands on organisational and managerial resources. He also favoured foreign capital for its ability to pick successful priority sectors and regions, its innovative capacity, and its foreign market contacts which can be used to ease temporary input bottlenecks.<sup>37</sup>

Agriculture received little attention in Hirschman's analysis. Primary production in general has, in Hirschman's view, virtually no backward linkages (strangely he ignores its demand for means of production). Meanwhile, the forward linkages from agriculture to other branches of production he also sees as minimal, since most agricultural output in underdeveloped countries is either consumed or exported. Again Hirschman plays down the scope for forward linkages into the expansion of agricultural processing.<sup>38</sup>

The ECLA economists did not regard Hirschman as a member of the

structuralist school. His analysis can, however, be regarded as providing an *ex post facto* theoretical justification for the particular pattern of import substituting industrialisation that was pursued in Latin America in the 1950s. Indeed, his analysis was based upon a year's experience of working in Colombia.

#### *Bauer and Yamey*

In 1957 Peter Bauer and Basil Yamey published a reaction in the neo-classical tradition to the dominant interventionist trend amongst development economists. However, Bauer and Yamey go beyond the conventional confines of the neo-classical paradigm in their frequent references to traditional institutions and cultural values in underdeveloped economies. Their central theme concerns the positive role of expanding market opportunities in the generation of economic growth. They accept that in certain cases traditional institutions may impede the efficient operation of market forces (for example the determination of the reserve price of labour in the traditional sector at a level nearer to average per capita income than to the marginal product of labour,<sup>39</sup> and the operation of the extended family system). However, they argue that in general small-scale producers in the Third World are highly market-responsive, and that relative prices guide their productive effort.<sup>40</sup> Governments of underdeveloped countries, rather than trying to mobilise large quantities of capital for public development expenditure, should concentrate upon removing the numerous impediments to private saving and investment. 'These include the imperfect maintenance of law and order, political instability, unsettled monetary conditions, lack of continuity in economic life, the extended family system with its drain on resources and its stifling of personal initiative, and certain systems of land tenure which inhibit savings and investment' (*ibid.*: 132). The role of governments is not to interfere with the operation of market forces, but to concentrate upon making markets operate more efficiently and upon ensuring widely dispersed dissemination of new technical knowledge to private producers.<sup>41</sup>

However, in the 1950s the preponderance of opinion among development economists remained interventionist. In Western Europe and the United States a version of the view that capital accumulation was the key to economic development, and that the state has a role to play in promoting this, came to dominate both theorising on development and the formation of economic policy. However, this version did not take the form initially articulated by Rosenstein-Rodan and Nurkse, but instead gave greater emphasis to autonomous capital accumulation in the private sector as one of two potential routes to economic development. It is to the emergence of this perspective, as reflected in the largely complementary contributions of Lewis and Rostow, that we now turn.

### THE LEWIS MODEL, ROSTOW'S 'STAGES OF GROWTH' AND THE EMERGENCE OF THE PARADIGM OF THE EXPANDING CAPITALIST NUCLEUS

Lewis' 1954 article on 'Economic development with unlimited supplies of labour' and Rostow's work on the stages of growth (subsequently heavily criticised for the rigidity of his interpretation of the five stages) at first inspection may seem very different in focus and character—the one almost pure theory, the other much more historical. Indeed, in some classifications of early development theory Lewis has been classed as a structuralist (see e.g. Chenery, 1975) and Rostow as a modernisation theorist (see e.g. Toye, 1987). Yet more careful inspection reveals a common theme in Lewis' seminal article on the one hand, and Rostow's (1956) work on the take-off into self-sustained growth on the other. Our concern in what follows is primarily with the most enduring part of Rostow's theoretical contribution, his theorisation of the take-off.

The basis for Chenery's classification of Lewis' work on economic development as structuralist lies in the latter's emphasis on the dualistic structure of underdeveloped economies. These Lewis represents as having a large subsistence sector dominated by family farming and a small emerging capitalist sector using wage labour. Starting from this proposition Lewis develops a theory of the relationship between the two sectors, in which lies much of the originality and significance of his analysis. However, it is typical of early attempts to theorise the causes of underdevelopment and development, including those by neo-classical theorists such as Bauer and Yamey, to begin with a statement of the relevant distinguishing characteristics of less developed countries. These invariably include the characteristics just specified. Using this criterion probably all early work on development could be classified as 'structuralist'. Certainly one could make out a case that Rostow's preoccupation with the role of different productive sectors in the 'take-off' justifies the label. What is equally important, however, is the theorisation that is derived partly from such interpretations of empirical reality, in combination with other premises reflecting the values, judgements and beliefs of the theorist.

Common elements in the perspective articulated by Lewis in his 1954 article and by Rostow in various writings on the take-off into self-sustained growth include the following:

1. Economic growth, measured by rising per capita income, is the focal defining characteristic of economic development.
2. More broadly interpreted, economic development entails the transformation of a traditional, stagnant, subsistence-oriented economy into a dynamic, capitalist economy based on wage-labour, capable of self-sustained growth and of providing, in the long term, rising real wages.
3. It is possible to specify the common—and dominant—characteristics of

this transformation process for all countries, both those now relatively developed and those less developed, provided that their starting point is a condition of abundant supplies of labour in the traditional sector (see Lewis, 1954, and Rostow, 1956, reprinted in Agarwala and Singh, *op.cit.*: 157–9).

4. A key determinant of the rate of growth is the rate of capital formation, which is in turn governed by the share of savings in national income.
5. The capitalist/entrepreneurial class plays a crucial role in capital accumulation, for its members have a higher propensity to save and invest out of their profit income than any other class.
6. An essential element in the *initiation* of economic growth is therefore the emergence of a class variously described as entrepreneurial (Rostow) or capitalist (Lewis) operating either in the private or the public sector.
7. In order to *maximise the subsequent rate of growth* it is necessary to concentrate as large a share as possible of national income in the hands of those with a high propensity to save, i.e. the capitalist class. The aim should be to steadily increase this share over time.

From these propositions more specific recommendations follow with respect to wages policy, monetary policy, fiscal policy and the choice of production technology, all designed to enhance the rate of profit and the command over scarce resources of the capitalist class, and, hence, the rate of productive accumulation.

Within this framework Rostow also explores both the cultural and institutional preconditions for development, and the role of different productive sectors in contributing to the take-off. Lewis on the other hand focuses, as we have seen, on various aspects of the interaction between the capitalist and pre-capitalist sectors.

The main attractions of this perspective may be said to have derived from the relative simplicity of its fundamental elements, its potential fruitfulness at the theoretical level (see Chapter 4), its relative optimism, and the fact that it pinpointed a constraint to growth about which there was both widespread, though not universal, consensus and a feeling that, with aid, it could be overcome. Finally, the fact that it was politically acceptable, both in Western industrially advanced countries and in many of those countries in which it was to be applied, also helps to account for its widespread influence during the late 1950s and the early 1960s.

### THE SUBSEQUENT EVOLUTION OF DEVELOPMENT ECONOMICS

In the late 1950s and early 1960s development economics witnessed the coexistence of the structuralist paradigm and the more optimistic paradigm

of the expanding capitalist nucleus as the dominant perspectives that governed theoretical work in the discipline. However, by the mid-1960s there were growing indications of dissatisfaction with both perspectives and by the late 1960s they were being widely challenged. Some critics argued that after a decade and more of emphasis on capital accumulation and import substitution, a period which in many countries had indeed seen high growth of GDP, the lot of the masses in the Third World had not improved and in some cases had worsened. Moreover, in some countries growth itself was also apparently slowing down. Meanwhile other critics argued that attempts to maximise the rate of modern sector capital accumulation and, more particularly, to promote import substitution, had been associated with widespread inefficiency in resource allocation.

The critics of the early development orthodoxies came both from the radical left and from the tradition of neo-classical economics. The former will be reviewed first, and then the neo-classical critique on pages 69–71.

#### The neo-Marxist paradigm

In the 1950s Paul Baran, working in the United States, had, more or less alone among leading development economists of the time, explored in depth the relevance of Marxist principles to the analysis of the contemporary problem of underdevelopment. Baran found Marxist theory a fruitful source of insights into underdevelopment, but he also found it wanting in certain respects. He argued that Marx had not had sufficient information to develop a comprehensive theory of the nature of underdevelopment. More specifically, he claimed that Marx had been over-optimistic concerning the prospects for capitalist development in the Third World. In developing an alternative view of the impact of political and economic imperialism on backward economies, Baran drew his inspiration from the work of Lenin and his contemporaries. He also introduced a conceptual innovation into his analysis, by focusing upon the class modes of appropriation and use of the 'actual economic surplus' in underdeveloped economies, where the latter is defined as the difference between actual output and actual consumption (Baran, 1962: Chapter 2).

In the late 1960s Baran's approach to the analysis of underdevelopment gained a wide following. This was partly due to the work of Andre Gunder Frank. Frank went from the University of Chicago to work in Latin America in the early 1960s. He writes that he went there thinking of the problems of development 'in terms of largely domestic problems of capital scarcity, feudal and traditional institutions which impede savings and investment, and many of the other universally known supposed obstacles to the economic development of supposedly traditional societies' (Frank, 1969: xviii). Frank, however, rapidly became converted to Baran's perspective which he applied,

with some modification, to the analysis first of particular Latin American economies and then, generalising from these case-studies, to Latin America as a whole.

For Baran, underdevelopment is a state characterised by low per capita incomes. For Frank, however, taking up a theme actually introduced by Baran, it is a process: the process of continuing extraction of surplus from the underdeveloped countries, and its transference to the centres of world capitalism. The manner in which this process occurs within individual countries (chiefly through monopsonistic trade) leads to the perpetuation of mass immiseration.

For both Baran and Frank the cause of the perpetuation of underdevelopment lies in the failure of the dominant classes in underdeveloped countries to use the surplus for productive accumulation within the domestic economy. Instead the surplus that is extracted from peasants and wage labour is either exported or used to finance luxury consumption, land purchase and urban property speculation. Both concur that these propositions apply as much to merchant capitalists and to any capitalist with investments in production as to that traditionally prodigal class, the landlords. For capitalist activity in underdeveloped countries, whether foreign or domestically owned, is typically monopolistic and, hence, conservative and non-dynamic. Underdeveloped economies have bypassed the phase of *competitive* capitalism due to the mode of their incorporation into the international economy. Their monopoly capitalists are content to appropriate existing monopoly profits and have no interest in promoting a competitive, dynamic capitalist sector. Meanwhile the classes that control the use of the surplus also hold political power, and they use this power to maintain the status quo. In these circumstances, the only possible way forward is through a social and political revolution that will replace the existing alliance of the domestic *comprador* bourgeoisie and foreign capitalists with a socialist regime committed to social and economic development.

An important element of Frank's version of the neo-Marxist paradigm, for which he was later criticised both by more orthodox Marxists and fellow neo-Marxists, was his emphasis upon surplus appropriation through trade. Frank implicitly equated capitalism with relations of exchange rather than interpreting it as a system of production. He argued that monopolistic merchant capitalism had penetrated the remotest reaches of all underdeveloped economies via a series of trading networks in which small-scale merchants in rural areas were linked to larger monopolistic suppliers, and monopsonistic buyers, and so on up the chain to large-scale import-export activities dominated by foreign interests. He used this thesis as the basis of his widely-contested claim that all branches of underdeveloped economies have been incorporated into the world capitalist system.

In the late 1960s Emmanuel contributed to the analytical content of the neo-Marxist paradigm through his elaboration of the theory of unequal

exchange. This provided a more sophisticated account of surplus extraction through trade (and was subsequently espoused by Frank).

The neo-Marxist paradigm can be summarised as follows:

1. The prospects for the development of the capitalist mode of production in any one country are largely determined by its position in the international economy.
2. This position is in turn historically determined.
3. Present-day underdeveloped countries cannot expect to pass through the same phases of economic development as the now industrially advanced capitalist economies because the international conditions are different.
4. The industrially advanced countries at various stages of their development have been able to use today's underdeveloped economies as sources of cheap raw material, markets for their goods, and outlets for surplus capital.
5. These opportunities are not open to contemporary underdeveloped economies. Instead the very nature of foreign capitalist investment in the Third World has locked these countries into the production of primary products for export based on cheap labour drawn from the traditional sector. The manufactured goods supplied in exchange for these exports have destroyed indigenous industries and represent a strong disincentive to the local development of manufacturing production. In these countries production is characterised by export of primary products and by the existence of a small, protected, monopolistic modern industrial sector dominated by foreign capital and using imported technology. Meanwhile the mass of the population remain impoverished. Indeed, in some cases the appropriation of land for plantations and mines, the destruction of indigenous industry and the intervention of middlemen and moneylenders between small-scale primary producers and their markets have led to increasing immiseration.
6. Given their sources of income, the dominant classes—landlords, the commercial bourgeoisie, owners of monopoly capital, and foreign capitalists—have limited interest in the development of producer capitalism in the periphery. Instead, they channel most of the surplus abroad.
7. Meanwhile trade between advanced capitalist economies and underdeveloped economies is characterised by unequal exchange, i.e. the difference in returns to labour embodied in the products traded exceeds the difference in labour productivity. In this way too surplus is extracted from the periphery.
8. Only following a socialist revolution can these economies embark on a path of full development, through productive and equitable use of the surplus.

Parts of the neo-Marxist analysis of the position of underdeveloped economies in the international system reveal similarities with the structuralist analysis of the same phenomenon, yet the two analyses are certainly not identical. The neo-Marxist paradigm employs a class analysis to determine the causes of continuing underdevelopment, while the concept of the 'economic surplus' also plays a central role, although the interpretation given to this concept is no longer that used by Marx.<sup>42</sup> In the structuralist paradigm existing economic structures are the immediate cause of underdevelopment, but in the neo-Marxist paradigm the existing pattern of class control over the disposition of the surplus is the immediate cause.

A fundamental difference between the two perspectives also emerges when it comes to the conclusions which they generate. Most members of the structuralist school have aimed to play an active part in influencing policy design in underdeveloped countries, trying to achieve policy reforms within individual countries and within the international economic system. As has been shown, from the 1940s to the 1960s they emphasised import substitution as the means to structural change and economic development. Neo-Marxists conclude that the path to development within the international capitalist system is blocked for underdeveloped countries. If economic development is to occur, the masses must replace the existing ruling class alliances in the countries of the periphery, take control of the economic surplus and move immediately to a socialist development path, withdrawing from the international capitalist system. As Little (1982: 219) notes, this conclusion is also in stark contrast to Marx's conclusion that capitalism (and its ultimate collapse) is almost certainly a necessary and inevitable stage on the road to socialism.<sup>43</sup>

#### Dependency theories

Neo-Marxist theory has been subject to criticism both from other Marxists and from non-Marxists. Throughout the 1970s these critics were able to mobilise a growing quantity of evidence to question the empirical validity of the neo-Marxist paradigm. That is to say, they were able to point to a growing number of countries in the Third World which had experienced very respectable rates of capital accumulation over quite prolonged periods of time.<sup>44</sup> There remained none the less considerable disquiet amongst neo-Marxists concerning the nature of the economic changes taking place in the countries of the periphery. Yet, confronted with the evidence of high growth rates in some of these countries, they were forced to concede that some form of capitalist accumulation, associated with expanding industrial production, was taking place.

Frank and Amin, both influential neo-Marxists, responded to this criticism partly by emphasising a concept already present, although not strongly highlighted, in some of the earlier work written from a neo-Marxist

perspective—the concept of dependence. The argument now given prominence was that while industrial growth had indeed occurred in some countries of the periphery, this growth had particular undesirable features that distinguished it from economic growth in industrially advanced countries. Specifically, such growth was not generated by an autonomous indigenous capitalist class within these economies and, indeed, the latter remained incapable of generating their own internal growth dynamic. Rather, the underdeveloped economies remained dependent on the world metropolitan economies for access to markets, finance and, above all, technology. As a result, and as a result also of the continuing class alliance between the *comprador* bourgeoisie of the periphery and the metropolitan bourgeoisie, the latter continue to determine the pattern of change in the periphery. The conclusion is still that the only route to full autonomous development is via socialist revolution (see e.g. Frank, 1978).

However, neo-Marxists were not alone in focusing on international dependency in the 1970s. From the late 1960s there emerged from several different schools of thought a cluster of theoretical analyses, all of which focused upon the extent and significance of the international dependence of Third World economies. One of these groups of analyses was undertaken by analysts from the structuralist school. These reflect a strong sense of disillusion with the consequences of import-substituting industrialisation. They were written at a time when not only had most Latin American countries exhausted the easy opportunities for import-substituting industrialisation, but there was also growing disenchantment with the dominance of this process by multinational corporations.

Both the neo-Marxist and the structuralist dependency theorists attempt to provide a basic framework from which the analysis of dependence, and its implications for development and underdevelopment, can proceed. The neo-Marxists do this largely by incorporating the concept of dependent industrial development into their evolving analytical perspective. In the 1970s the latter, while still using many of the tools and concepts developed by the neo-Marxists in the 1960s, was focused upon explaining the evolution and *modus operandi* of the capitalist system as a whole, rather than just the causes of underdevelopment in the periphery. The structuralists, meanwhile, sought to achieve the same end by identifying a primary case of economic dependence (the cultural dependence of the élite in the case of Furtado, 1973; multinational corporations in Sunkel, 1973), and by then tracing the manner in which, through a series of causal linkages, economic dependence is created (see Chapter 7).

Meanwhile, however, during the 1970s a body of literature also developed based on the thesis that not only is dependent development possible and, in some countries, occurring, but that this may also lead to the breaking of existing dependency relations. This is the theme of Cardoso and Faletto, 1979. Warren (1973 and 1980) develops a similar theme, arguing that changes

have been taking place in the international economic and political system that are conducive both to industrialisation in at least parts of the periphery and to a shift in the balance of international (inter-) dependence.

Thus, while from the late 1960s dependence became a focus of study, no single perspective on its significance emerged. (Cf. Palma, 1978, revised and reprinted in Seers, 1981, who argues this same point at length.) Nor, indeed, did any one of the perspectives from which dependency was studied both during the 1970s and subsequently generate a major new analytical framework for the interpretation of the causalities of development and underdevelopment, however defined. Yet none the less, as will be shown in Chapter 7, the focus on the concept of dependency did serve to draw attention to a number of factors which can constrain the degree of autonomy faced by less developed countries in the choice of development strategy.

#### The revival of the neo-classical paradigm<sup>13</sup>

In the latter part of the 1960s, neo-classical theorists initiated a major critique of the policy recommendations of the structuralist school. This was the 'rightist' counterpart to the neo-Marxist attack on received development theories. But whereas the neo-Marxists were preoccupied chiefly with the class distribution of control over, and use of, the surplus, the neo-classical theorists were preoccupied with efficiency in resource allocation and its implications for growth.

The main focus of the neo-classical critique was the programme of import-substituting industrialisation that had been followed by most politically independent underdeveloped countries. By the mid-1960s it was clear that a number of countries were experiencing a slowing down in their rates of industrial growth, and of GDP as a whole, as the easy opportunities for import substitution were exhausted. Simultaneously a number of problems were emerging which suggested that any intensification of existing policies could be counterproductive—merely exacerbating the tendency for the pace of growth and structural change to decline. Most notable of these problems, which were now becoming serious constraints upon further advance, were a worsening balance of payments combined with rising shortfalls in domestic food production (which contributed to the foreign exchange shortages), domestic inflation and an unwillingness on the part of industrial firms in the larger underdeveloped economies to support backward-linked import substitution by switching their purchases of intermediate and capital goods from overseas suppliers to domestic producers.

The dominant theme of neo-classical critiques of import-substituting industrialisation was that policy-makers should have paid greater attention to promoting a structure of prices which gave producers a true indication of the relative opportunity cost of resources, rather than using a mixture of selective import controls together with underpricing of both foreign

exchange and bank credit to encourage industrial investment.<sup>46</sup> There would then have been far less short-run inefficiency, exports might have expanded and the pace of growth might have been sustained.

In the face of growing concern about income distribution it was also claimed that prices which more accurately reflected the relative scarcity of labour and capital would help to expand employment opportunities and, hence, the incomes of the poor.

From the late 1960s the neo-classical critique was complemented at the micro-economic level by a growing volume of literature on cost-benefit analysis, designed to contribute to greater efficiency in investment decisions. This literature acknowledged market failure in a number of key areas (for instance the failure of the supply price of labour from the traditional sector to reflect its true social opportunity cost), and emphasised the need for adjustment for both market failure and government-induced market distortion through the correct estimation of shadow prices.<sup>47</sup> In other words, the underlying thesis was that neo-classical principles could, and should, be used to govern resource allocation even where the market did not conform to the perfectly competitive characteristics assumed in neo-classical general equilibrium models.<sup>48</sup>

In the late 1970s the pace of revival of the neo-classical paradigm in development theory received a temporary set-back as attention was diverted to proposals for meeting basic needs (although neo-classical theorists were among the critics of these proposals). However, in the 1980s the neo-classical revival gathered renewed vigour. 1981 saw the publication by the World Bank of *Accelerated Development in Sub-Saharan Africa*, a widely circulated and influential report that emphasised the importance of correct pricing policies and reduced government intervention in economic activities as two of the main keys to a revival in African growth rates. The neo-classical revival was reinforced in the early 1980s by the increase in applications from developing countries to the International Monetary Fund for assistance with stabilisation and structural adjustment programmes. The terms on which the Fund provides assistance, which emphasise not only control of the money supply but removal of price distortions (including that of foreign exchange) and the freeing of markets from public sector interventionism, are underpinned by the neo-classical paradigm.<sup>49</sup>

The foregoing paragraphs already indicate a particular difficulty that arises in analysing the neo-classical contribution to the development debate: many of the contributions focus on particular issues, such as the optimal forms of adjustment for domestic price distortions, investment appraisal or stabilisation policy. It is rare for a neo-classical theorist to begin a contribution to the development debate from what, from the perspective of this book, might be regarded as a statement of first principles—for example, with a definition of development. On the one hand, the first principles of neo-classical theory are taken as given (i.e. already known) and, on the other,

many neo-classical welfare economists regard it as the task of governments, not economists, to set development objectives. They claim that what they can offer is guidance on the most efficient means of reaching these. None the less it is widely held that there are identifiable values and beliefs, including certain presumptions about key economic objectives, that underlie the various neo-classical contributions to the development debate. Chapter 10 will seek to identify these before turning to the specific contributions in the areas just noted.

Now, however, further contributions to the development debate in the 1970s will be considered. These, unlike the neo-classical approach, did give particular and explicit emphasis to the interpretation of development.

## THE REDEFINITION OF DEVELOPMENT

In the late 1960s and early 1970s, neo-Marxist class-based analyses of the causes of the perpetuation of mass poverty in the Third World had a widespread appeal, particularly among young social scientists. However, they were not the only ones to be preoccupied by the problem of continuing widespread poverty. The fact that the fruits of development over the preceding decade had been unevenly distributed was widely acknowledged. Among some economists it was accepted that an increase in inequality was inevitable in the early stages of economic growth, to be followed later by a tendency towards greater equality when wages are bid up after surplus labour has been absorbed.<sup>50</sup> Others, however, were dissatisfied with this argument, while at the same time they were unwilling to accept the political conclusion of the neo-Marxists. Their unwillingness to accept the inevitability of growing inequality in the early stages of growth stemmed from a variety of factors both humanitarian and political—concern to contain mass discontent and pre-empt political violence, and misgivings concerning the length of time for which poor countries might expect to experience growth combined with growing inequality and continuing mass poverty. Some also questioned the inevitability of a trade-off between growth and equity.

Discussion of these issues was pursued in various fora including both academic institutions and certain branches of the United Nations, most notably the International Labour Office (ILO). Out of this debate there emerged during the early and mid-1970s a number of key publications which reflected the evolution of thinking amongst this group of economists. Three of these publications were widely noted. Secrs 1972 argued that development should be reinterpreted to take account of trends not only in growth but in poverty, income distribution and employment. The 1972 ILO Kenya report identified the 'informal sector' (consisting of very small-scale labour intensive enterprises) as an important potential source both of output growth, and of employment and productivity gains for the working poor. None the less,



72 *The theoretical debate in development economics from the 1940s*

the report accepted that a transfer of resources from the rich in order to promote small-scale productive investment by the poor would entail a trade-off between growth and equity; the authors made the conventional assumption that the marginal savings rate of the rich and middle income groups (partly enforced through taxation) is high, while the poor save little.<sup>31</sup> Two years later a team drawn from the World Bank and the Institute of Development Studies (IDS) at Sussex published *Redistribution with Growth* (Chenery *et al.*, 1974). This collection of papers was clearly intended to provide the analytical foundations for a new approach to development analysis and planning. Seers' definition of development was endorsed, and a more sophisticated version of the quantitative model of redistribution with growth contained in the Kenya report was presented. This again assumed different savings rates for rich and poor and, consequently, also endorsed the conclusion of a trade-off between the rate of growth of GDP and greater equity. The authors of *Redistribution with Growth* also explore in depth the measurement and policy implications of the new definition of development—what sorts of uses of redistributed resources would minimise the growth/equity trade-off which they regard as inevitable.

*Lefebvre on redistribution for growth*

In 1974 there also appeared in print a paper which reached a smaller audience than those already cited, but which arguably merited a readership at least as wide. This was Lefebvre's 'On the paradigm for economic development'. Lefebvre's more radical paper argued the logic for a new perception of the development process. His case rests not so much on equity as on the need to sustain the growth process itself. In the structuralist tradition, Lefebvre emphasises the demand constraint to growth and reaffirms that this must be overcome internally. However, writing at a time when in many underdeveloped countries the phase of rapid industrial growth based on import substitution was drawing to a halt,<sup>32</sup> he argues that if the demand needed to support growth and industrialisation is to be generated internally, this can only be achieved by first raising output and incomes in that sector which still contains the majority of the Third World's population—agriculture.<sup>33</sup> Yet there is also a demand constraint to the expansion of agricultural output. The upper income groups have a low income elasticity of demand for food, while the poor cannot afford to pay for it. Hence the generation of a sufficient volume of effective demand depends on the redistribution of income towards those in the rural sector who have a high marginal propensity to consume food, as well as other locally produced goods—the rural poor.<sup>34</sup> Furthermore, if growth is to be sustained, not only should the existing agricultural demand constraint be overcome, but the foundations must be laid for the steady expansion of demand. In future industry must serve agriculture, providing it with the improved inputs and equipment needed to generate further increases in income and demand.

Lefebvre argued that in overpopulated underdeveloped countries the most effective means of combining income redistribution with output expansion (rather than simply generating a one-off increase in consumption demand) would be through the redistribution of land rights and the creation of a communal framework of rural production along Chinese lines. With India in particular in mind, Lefebvre reasons that the prohibitively high budgetary costs of large-scale public works projects, however productive, combined with distributional problems pertaining to who would benefit from public works in irrigation and land drainage where land is privately owned, both militate in favour of communal land ownership and communal labour mobilisation. In reaching this conclusion Lefebvre reflected a growing interest in the Chinese experience amongst development economists at this time. This was heightened by the growth in concern that in most Third World countries industrialisation had over the 1950s and 1960s proved highly inequalitarian and that industrial growth was in any case slowing down due both to lack of foreign exchange and inadequate domestic demand.

## THE THEORISATION OF THE CHINESE DEVELOPMENT EXPERIENCE, 1949-1976: 'THE MAOIST PARADIGM'

We have just seen that during the 1970s a growing interest developed in the West in the Chinese experience of growth and development after the revolution in 1949. The fact that the Chinese appeared to have succeeded in combining growth and structural change with improvements in mass welfare made the Chinese development experience of particular interest. (There were of course also other political and economic reasons for the growth of interest in China, in particular the decision of the Chinese authorities in the early 1970s that China should play a greater role in the international arena.<sup>35</sup>)

It is widely agreed, and was already acknowledged by China scholars in the 1970s, that the policies pursued in China from 1949-1976 were not consistent. Partly for this reason, and partly for the standard reason associated with all social theorising—that one cannot in theory reproduce the whole of reality, but only what are perceived to be certain key elements of it—the theorisation of a dominant development perspective that prevailed in China during this period inevitably entails a degree of simplification and selectivity. Many sinologists at this time were, as we have seen, impressed by China's development performance, and their theorisation of the dominant perspective reflects this favourable impression. More recent, and less sympathetic, critiques of policy and performance in the Maoist era have, as we shall see, tended to interpret this performance in a different light.

Meanwhile, the question arises, why in this present study should one review a particular interpretation of development policy in a particular country and a particular period. There are at least four objections to doing so: that the philosophy, policies and development experience concerned are

country-specific; that this 'package' is not replicable elsewhere; that one might equally well study other country and/or leader specific approaches to development, such as Castroism; and that the development perspective concerned has insufficient economic theoretical content to justify its inclusion in the present study.

Against these points, however, there are a number of countervailing arguments. In so far as one can accurately specify a dominant perspective that guided policy formation in China at this time, it is one that directly affected the lives of over one quarter of the population of the Third World. The approach followed in this period achieved some notable successes, starting from a very poor resource base in terms of cultivable land and physical capital. Elements of the policy innovations introduced in China *have* proved replicable elsewhere, even though the approach followed in its entirety is not duplicatable. What is often referred to as the 'Maoist perspective' is not totally devoid of economic theoretical content, and that content includes some significant innovations as compared to other earlier contributions to economic development theory. This perspective presents an integrated view of social, political, ideological and economic change, and this arguably adds to its interest value given that other intellectual approaches to economic development have been criticised for giving insufficient attention to these issues. Lastly, elements of what is often referred to as the 'Maoist perspective', as this was theorised in the 1970s, and of Chinese 1949-76 development experience influenced some of the subsequent attempts to theorise a more generally applicable 'basic needs first' approach to development.

The interpretation of the Maoist view of the nature of socio-economic development and of how this can be achieved will be reviewed in greater detail in Chapter 8. However, it can be summarised as follows:

1. The ultimate aim of economic development is to achieve material abundance with income differentials abolished and all productive property socially owned and operated.
2. To achieve progress towards this goal it is necessary to simultaneously build up the economy's productive capacity and to socialise the production process by moving towards social ownership of the means of production and social control of production decisions and distribution of the product.
3. In the development of productive capacity the build-up of modern heavy industry plays a central role.<sup>26</sup>
4. However, expansion of different branches of production (heavy industry, light industry, agriculture) as well as the emphasis given to different scales of plant, using different technologies, and to the rural-urban distribution of these, are all perceived to be interlinked. It is necessary to search for that set of relative emphases (varying over time) in resource mobilisation and allocation which will maximise the overall

rate of capital accumulation while providing for a sufficient increase in mass welfare to maintain support for socialist transformation.

5. The expansion of small-scale heavy and light industry in rural areas can serve both to increase the rate of surplus mobilisation for state investment in heavy industry and to increase mass welfare. It raises the surplus through
  - (a) mobilisation of slack resources for productive use;
  - (b) the short gestation and capital cost recovery periods for investment in small-scale industry, after which a part of the value of the increased output can be mobilised by the state.
 Expansion of small- and medium-scale rural industry can increase mass welfare through its direct and indirect contributions to expanding employment and labour productivity (indirect via the production of producer goods such as farm implements), and through expansion of the supply of basic consumption goods. Such industries also contribute to human capital formation through the development of technical skills.
6. In the rural sector seasonally slack labour can and should also be mobilised for labour-intensive capital formation.
7. Concerning economic equity and economic incentives:
  - (a) economic and political equality between regions should be promoted by
    - (i) promoting regional self-sufficiency in heavy and light industry and in basic food-stuffs;
    - (ii) giving greater power in decision-taking to the regions;
  - (b) income differences between persons should be minimised as fast as possible, but not faster than the masses are prepared to accept. As a part of this process reliance on material incentives should be steadily reduced;
  - (c) professionals should work among the masses, learn from them about their needs and use their skills towards helping to overcome concrete difficulties.

During the 1970s the Chinese authorities released a growing volume of data on development performance. Among the data on China's development performance that received emphasis in the West were not only those for the growth of GDP and modern industry, but those for food-grain production per capita and for the development of small- and medium-scale rural industries which provided extra employment and income to the rural population while producing both agricultural inputs and basic consumer goods.<sup>27</sup>

## BASIC NEEDS APPROACHES TO DEVELOPMENT

The same preoccupation with growing economic inequality within Third World countries that contributed to Western interest in the Chinese experience

76 *The theoretical debate in development economics from the 1940s*

resulted also in the articulation in the late 1970s and early 1980s of basic needs oriented approaches to the formulation of development targets and policy. These emerged from a growing concern, manifest in the literature from the mid-1970s, that policies of redistribution with growth might not be sufficient to guarantee an increase in welfare for the poorest of the 800 million or so people estimated to be living in absolute poverty, mostly in developing countries.<sup>38</sup> There was a preoccupation, *inter alia*, that redistributive policies would be focused chiefly on the least badly-off of the poor—those whose incomes could most easily be raised above the poverty line (see e.g. Singer, 1979). During the mid-1970s a growing body of evidence on the extent of mass poverty in much of the Third World became available. The impact of such evidence in the West was probably increased by the reports of widespread human and livestock deaths from famine during the 1973–4 Sahel drought.

In 1976 the ILO attempted to increase the national and international emphasis given to poverty alleviation. In his report to the 1976 World Employment Conference the ILO Director-General proposed that all countries should give priority to the meeting of the basic needs of all members of their populations by the year 2000, such needs being defined to include the minimal consumption requirements needed for a physically healthy population, certain minimal standards of access to public services and amenities, access by the poor to employment opportunities which would enable them to achieve a target minimum income, and the right to participate in decisions that affect the lives and livelihood of the people. The proposal that all governments should work to ensure that these needs be universally met by the year 2000 was endorsed unanimously by the delegates of all the member states of the ILO. The conference also endorsed the outlines of a Programme of Action both for national governments and the ILO itself to promote attainment of the target.

As will be shown in Chapter 9, the early proposals for meeting basic needs encountered a wide range of criticisms. These included criticisms of the feasibility of the objective, of its implications for growth and structural change, of the motives of many of the national governments that endorsed the proposal, and of the nature of the economic analysis used to support it, *inter alia*. These early criticisms prompted further work, partly by the staff and associates of the World Employment Programme, designed to examine in greater depth the resource implications of, and the case for, acceptance of this priority. In the subsequent literature there emerged certain differences of emphasis and interpretation. Some analysts, including several associated with the World Bank, concentrated on arguing the case for, and assessing the resource costs of, improved public service provision chiefly in education and health care, justifying this as investment in human capital. Others took a broader and more radical view of what was entailed in a 'basic needs first' strategy, arguing that the latter incorporates, but goes beyond, improved

public service provision. Emphasising the need also to raise directly the incomes of the working poor, these analysts explored the nature of, and the case for, a comprehensive 'basic needs first' strategy. In justifying this they argued that not only was there no need for a growth:equity trade-off, but that a 'basic needs first' approach to development could provide the basis for faster and more self-sustained growth. It is from these contributions to the debate that it can be argued that a 'basic needs paradigm' has emerged. Following Lefebvre (1974), a central element of the theoretical core of this paradigm is that the expansion of a homogeneous mass market is likely to promote faster long-term growth and structural change than is the concentration of expanding demand in the upper income bracket, for the latter has a much higher direct and indirect import content than the former. The paradigm has much in common with Lefebvre's earlier proposal (although this is not widely cited, and may not have been seen by all the later contributors to the debate). This perspective is also clearly influenced by Western interpretations of the 'Maoist paradigm' and Chinese development strategy. However, it is argued by proponents of the 'basic needs first paradigm' that growth combined with absolute poverty elimination can be achieved also in market economy underdeveloped countries, Taiwan and South Korea being cited as examples.

**Summary of the basic needs paradigm**

The main elements of the basic needs paradigm can be summarised as follows:

1. Economic development includes not merely economic growth but steady, measurable progress towards absolute poverty elimination and a sustained expansion in the employment opportunities and incomes of the poor.
2. A 'basic needs first' development strategy can lay more effective foundations for sustained growth than any other strategy.
3. This is primarily because of its impact on the structure of domestic demand and the associated inducement to invest.
4. Among the range of consequences that flow from the restructuring of domestic demand that is entailed in a basic needs first strategy are an easing of the two dominant constraints encountered by traditional strategies of import-substituting industrialisation—the domestic demand constraint and the balance of payments constraint.
5. A redistribution of resources towards the poor would also both increase the productive mobilisation of at present untapped small-scale savings potential, and provide opportunities to tap and develop the technical and inventory skills of the labour force.
6. In addition to the foregoing, in agriculture an expansion of small-scale labour-intensive farming could lead to greater efficiency of land use,

reduced use of imported machinery, and reduced food imports (and/or increased agricultural exports).

7. Compared with development strategies based on unequal income distribution, this pattern of development is likely to promote more effectively the development of capital and intermediate goods production within developing countries. Some of this would be achieved by small- to medium-scale relatively labour-intensive methods. However, where large-scale capital-intensive investments remain essential, foreign exchange savings in other branches would increase the supply of this resource to finance essential imports.
8. Such a strategy can be expected to help to promote trade between developing countries as more goods appropriate to their needs are produced by them.
9. Meanwhile, the rate of expansion of essential services can also be accelerated by greater and more imaginative use of low-cost, often labour-intensive, methods of capital construction and service provision.

In contrast to the paradigm of the expanding capitalist nucleus, this paradigm emphasises the high marginal propensity to save of the *petite bourgeoisie*, the small-scale producers who often work in their own enterprises and tend to use labour-intensive production methods. Meanwhile, while there are significant structuralist elements in the analytical methodology embodied in this paradigm, this interpretation of development and of its key causalities differs markedly from classical structuralism.

The main policy recommendations that follow from the basic needs paradigm concern the following:

1. Removal of the legal, institutional and financial impediments which discriminate against the expansion of small-scale and labour-intensive production.
2. Use of a package of policy instruments to promote small farm production (land reform, agricultural research, extension, credit, marketing).
3. Commitment of more resources to research on the development of small-scale, labour-intensive production technologies in all sectors in which these are likely to be efficient.
4. Expansion, and revision of the technologies and methods, of public service provision, in order to reach the poor more effectively.

While the paradigm of the expanding capitalist nucleus is a paradigm of capital concentration, the basic needs paradigm is a paradigm of capital dispersal.

The debate on meeting basic needs initiated in the mid-1970s has served to reinforce concern to raise the welfare of the poor in the Third World. However, with the revival of the influence of the neo-classical paradigm in the 1980s, and with major policy changes in China, both the Maoist para-

digm and the basic needs paradigm have declined in influence and appeal, for various reasons. In the case of the former, these range from criticism of Maoism for generating inefficiencies in resource use to its advocacy of 'utopian socialism'. In the case of the basic needs paradigm, criticisms range from the perceived costs in reduced growth of a comprehensive basic needs strategy to, probably the most telling criticism of all, its political non-viability in most developing countries. Currently it is advocacy of a more modest approach to meeting basic needs – public service provision justified as investment in human capital – that predominates. The arguments for this are presented, as we shall see in Chapter 9, in a manner apparently intended to be compatible with the neo-classical perspective. Meanwhile, in the mid- and late 1980s, substantial criticism of the policy recommendations of the neo-classical school continue to stem from the structuralists in particular, some of whom have modified their interpretation of development to incorporate a concern with meeting basic needs.

## CONCLUSION

At the time of writing, the second half of the 1980s, the sub-discipline of development economics still lacks a generally received paradigm. Since the mid-1970s there has been a minor spate of retrospective writing, reviewing both trends in development theory and the current state of the discipline, as a result of which there has been some increase in readiness to acknowledge the contribution made by different analytical perspectives.<sup>59</sup> Certainly, however, none of these has achieved unequivocal dominance. Nor, as Hirschman observes, has a new synthesis yet emerged.

Instead, while the debates of the 1970s continue, two new themes have come increasingly to the fore, which leave the theoretical debate wide open. First, some economists have revived the early emphasis of writers such as Leibenstein and Myint on the importance of non-economic factors in the development process.<sup>60</sup> Secondly, analysts of all ideological persuasions are increasingly agreed that that basic construct sought by theorists from the 1940s to the 1960s, the 'typical underdeveloped country', simply does not exist. Increasingly it is being emphasised that the circumstances – economic, political and social – of each underdeveloped economy vary, and that the appropriate path of economic and political development cannot be determined a priori, but only in the context of these specific conditions. At most one can seek to theorise in terms of groups of countries with similar conditions<sup>61</sup> and key characteristics.

While harking back to some of the early writings of the 1950s in his emphasis on the relevance of non-economic variables (sociological, political, cultural, moral) to the economic development process, Bruton (1985) sees the

80 *The theoretical debate in development economics from the 1940s*

key to the way forward as lying in certain *processes* which each economy must undertake within the constraints and opportunities presented by its own specific conditions. The processes he emphasises – search, learning and choice – are more abstract and open-ended than previous specifications of the key to development.

However, such theorisation, and the search for development options emphasised by Bruno, are unlikely to be undertaken *de novo*. Whether consciously or unconsciously, they are likely to be informed by elements of one or more of the analytical perspectives that have already been applied in development economics. Given these facts, the present study has two purposes: firstly, to analyse the essential elements of the main perspectives that have, and do, dominate the economic development debate, and, secondly, to establish the bases of the main areas of incompatibility between them, as well as any potentially complementary elements. For these different approaches are not invariably exclusive. In some cases they are, but in others they deal with a distinct, or partially overlapping, range of issues and may be seen as containing potentially complementary elements. That this is so arises partly due to the diversity of interpretations of development that the different approaches employ, and partly due to their focus on different key causalities.

This is not to say that incorporation of elements of one perspective into another would not alter the latter, for clearly it would; but sometimes such incorporation is logically possible and may serve, in the minds of some, to enrich a particular perspective. Such incorporation may entail a modification of the interpretation given to development itself, but this is not necessarily so. The issues of incompatibility and complementarity are explored in Chapter 11, after a more detailed analysis of the individual perspectives and of the main criticisms to which they have given rise.

Finally, a word of warning: one should not necessarily try to classify all important elements of the debate on development under one or other of a limited number of paradigm headings. Apart from anything else, unduly extreme deference to classification can lead to a most unfruitful intellectual rigidity. The merit of classification is simply that it can help to clarify what otherwise seems at times a confused mass of contradictions (and sometimes unanticipated agreement) between analyses which all purport to be concerned with closely-related issues. Such clarification, to be successful, must spell out the underlying values and assumptions and the internal logic of each of the main lines of reasoning. This will be attempted in more detail in later chapters.

## NOTES

1. This term was coined in 1952 by the demographer and economic historian Alfred Sauvy on the model of the Abbé Siéyès's revolutionary *Tiers Etat* of 1789 (see Love, 1980: 56).

2. A further range of recent publications have this objective but do not attempt an historical overview; see e.g. Lewis, 1984.
3. Thus their classification is: structuralist, neo-Marxist and neo-classical.
4. See also Streeten, 1981: 101.
5. Preston, 1982: 41 *et seq.* and Seers, 1979: 708.
6. See Masterman in Lakatos and Musgrave, 1970: 74; see also Kuhn, 1970: 13 and Chapter 1 above.
7. Although Lewis and Myint came from the West Indies and Burma respectively, both these economists were based at this time in Britain.
8. Two notable sceptics in this regard were Peter Bauer and Basil Yamey.
9. See p. 44 above.
10. Love, *op. cit.*: 48.
11. See Love, *op. cit.*: 51.
12. *Ibid.*: 55. See also Prebisch, 1962.
13. *Ibid.*: 50, 1.
14. *Ibid.*: 58. See also Singer, 1950.
15. The analytical contribution of Myrdal is discussed briefly below; see pp. 58–9.
16. For an alternative account of the origins of structuralism which gives less weight to the ECLA contribution see Chenery *op. cit.*
17. See Preston, 1982: 145, 6.
18. Seers, *op. cit.*
19. See e.g. Rosenstein-Rodan, 1943, Hansen, 1945, and Rostow, *op. cit.*; also Little and Clifford, 1965: Chapter 1, and Preston, 1982: Chapter 4.
20. See Chapter 2, pp. 12–13.
21. See Hirschman, 1958: Chapter 2. See also Myint, 1954: 157 and Rostow, 1953: 88–96.
22. Myrdal, 1957: 9.
23. See p. 46.
24. See Nurkse, 1952 (reprinted in Agarwala and Singh, 1958) for a succinct statement of the essence of Nurkse's thesis. Nurkse, 1953, provides a more elaborate exposition; it also includes a statement of Nurkse's views on the scope for labour-intensive capital formation in underdeveloped countries. (A useful idea of the scope and focus of early work in development economics can be obtained from the classic set of readings collated by Agarwala and Singh. The readings include examples of work which reflect various schools of thought, but particularly well represented is the work of non-Marxist economists working in the United States and Western Europe.)
25. See Chapter 2, pp. 10–13.
26. The case in which a firm benefits from the labour market created by the establishment of other firms is probably the most widely cited example of an industrial external economy; cf. Scitovsky, 1954, reprinted in Agarwala and Singh, *op. cit.*: 299.
27. Rosenstein-Rodan, reprinted in Agarwala and Singh, *op. cit.*: 249.
28. Implicitly, Rosenstein-Rodan seems to have assumed that any expansion of primary production in Eastern and South-eastern Europe would occur chiefly through labour productivity gains. Industrialisation was necessary to absorb underemployed labour.
29. See pp. 53–4 above.
30. The quotations in this section are all from Nurkse's 1952 article. His ideas are developed at greater length in a book published one year later. Nurkse notes that two economies, Japan and Soviet Russia, minimised the international operation of the Duesenberry effect through radical isolation of their economies during the early phases of industrialisation.

31. Leibenstein, 1957: 15-17.
32. See Leibenstein, *op.cit.*: 96 and 106.
33. *Ibid.*: 111.
34. See the section on unbalanced growth, pp. 60-61.
35. See Furtado, 1954, reprinted in Agarwala and Singh, *op.cit.*: 309 *et seq.*
36. Myint notes the potentially contradictory role of trade unions as expanders of effective demand on the one hand, but as a source of increased costs on the other.
37. See Hirschman, *op.cit.*: 206, 7.
38. *Ibid.*: 109, 110 and 112.
39. Bauer and Yamey, 1957: 77.
40. *Ibid.*: 91-101.
41. See, for example, *ibid.*: 153 and 156. The contribution of Bauer and Yamey to development theory is discussed further in Chapter 10.
42. In Marx's own work the rate of surplus value is given by the ratio of surplus labour to necessary labour used in production. Baran in fact introduced two broader interpretations of economic surplus into his analysis of underdevelopment and these have been widely adopted by other neo-Marxists. The most commonly used interpretation is that which, as noted above, defines the actual economic surplus as the difference between the total domestic output of an economy and the actual consumption of its residents; the second defines the potential surplus as the difference between total output and essential consumption.
43. See Palma in Scers, 1981: 23-27 and 30-31 for a review of Marx's writing on this with specific reference to backward regions.
44. See e.g. Warren, 1973 and 1980; see also Chapter 6, pp. 190-1.
45. A summary of this paradigm is provided in Chapter 2, pp. 31-4.
46. See e.g. Little, Scitovsky and Scott, 1970 and McKinnon, 1973.
47. See e.g. Little and Mirrlees, 1974 and Little, 1982: 25.
48. However, shadow pricing as a basis for public sector investment decisions remains controversial. See Rudra, 1972 and Chapter 10 below.
49. See Khan and Knight, 1981.
50. See Kuznets, 1955 and 1963, Oshima, 1962 and Paukert, 1973, for the main studies that provided the basis for this belief.
51. In the report's quantitative model the poor save nothing. ILO, 1972: 369.
52. Cf. the quotation from Palma on p. 208 below.
53. Lefebvre in Mitra (ed.) 1974: 166 and 174.
54. *Ibid.*: 168-170.
55. President Nixon visited China in 1972, the first United States President to do so. During the 1970s China both substantially expanded her foreign trade and embarked upon a number of joint investment ventures with foreign companies.
56. Heavy industries are those which produce capital and intermediate goods. Their main components are mining, cement production, power production, steel and machinery and petro-chemicals.
57. See e.g. Paine, 1976, Singh, 1979 and Magloff, 1975.
58. Estimates of the numbers living in absolute poverty varied. This is the figure given by MacNamara, 1973.
59. See in particular Hirschman, 1982; also Killick, 1978: Chapter 2, and Little, 1982.
60. See e.g. Scers, 1979 and Bruton, 1985.
61. See e.g. Cardoso and Faletto, 1979 and Bruton, *op.cit.*

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351/12