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DEVELOPMENT ECONOMICS: SOME THOUGHTS ON ITS PAST AND ITS FUTURE

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In 1943 Paul Rosenstein-Rodan published his seminal article that signalled the rebirth of the subject of Economic Development. In the forty years since then economic development has been a major conscious goal of the people and governments of the less developed countries of the world, whether newly independent or long so. Economists in developed countries, in international organizations, and in the developing countries have sought to develop a theory of economic development that would better enable them to understand the character of underdevelopment, how development begins and proceeds, and the role of public policy in that process. They have also, as scholars and policy makers, applied the theory and what they have learned to the policies and actions of governments and international organizations involved in stimulating economic growth.

Economists have identified key variables in the process of economic change, explored the interaction of those variables through theoretical formulations and statistical measurements, and explored alternative policy options by using the theories and the results of their analyses. There has been a higher rate of economic growth since 1945 in many of today's developing countries than took place in the 18 th and 19 th centuries in today's developed countries. The work of the development economists has been associated with that result. However, the economists have themselves learned from the interaction between their theories and research and the actual process of economic change, and in the learning have become more aware of both the strengths and the limits of economics as a discipline in understanding that change, and contributing to it.

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The earliest efforts of economists emphasized the key role of externalities in contributing to growth, and also the benefits arising from a pool of underemployed labor in agriculture that might shift to more productive economic activities. Capital was stressed as the catalyst of growth, and policy sought to increase domestic savings, supplemented by strategic amounts of foreign aid, to raise resources for more investment. The capital/output ratio was a major analytic tool in estimating both the anticipated results of that investment and the requirement of future savings and investment for continued growth. This physical investment bias was associated with a high degree of pessimism with respect to international trade prospects for both the manufactured and natural products of the developing countries. This led to an emphasis upon import substitution as a major policy instrument for development. Both the emphasis upon investment and import substitution contributed to a stress upon industrial growth as the major area of development, and capital goods production as the key sector of industry. Many countries took active steps to support production of a wide range of capital goods behind a high protective screen, which was also extended to other industries. Those policies also seemed to be consistent with the desires of many countries for political and military strength.

But over time the limitations of such approaches became clearer. They were more quickly obvious for smaller countries which did not have the resources for setting up a wide variety of capital goods industries, or the internal markets to absorb their output. Such industries would not be profitable. Those smaller countries were forced, almost willy-nilly, to try to produce manufactured goods of all types for international trade, which meant those goods in the production of which they had a comparative advantage because of natural resources, location, or low labor costs. Those goods would, in fact, probably be more labor intensive light consumer goods products, than capital intensive basic industry outputs. Larger countries, such as China and India, also found that these capital intensive industries employed only a small proportion of their labor forces.

To bring the benefits of economic growth to the very large percentage of the population that depended on agriculture, and would continue to do so, it would be necessary to give a high priority to directly increasing the per capita output of agricultural products and of incomes in that sector. Since agricultural land in most developing countries was privately owned, or was cultivated by family units, policy questions rapidly arose as to the set of incentives that would motivate farmers to produce more, and the relationship between the institutional structure of the rural sector, the appropriate incentives, and the desired greater output. Most economists, urban residents and urban trained, knew little about rural society. This lack of knowledge stimulated research in rural economies by local economists. One early assumption that had to be dropped was that peasants did not know what was good for them, and that they were waiting for the greater wisdom of government officials and /or city people to tell them what to do. It is now recognized that peasants know what is or is not good for them; they respond in ways that will benefit themselves; if the conditions of production and incentives to produce are such as are advantageous to higher output they will produce more. This had significant implications for the nature of appropriate government policies toward agriculture, and for the relevance of detailed economic planning for this sector. In many developing countries too there is not only an absence of data and knowledge with respect to agriculture, but a wide gap between the local areas where production occurs, and the capital cities where plans and policies are made. This awareness has led to a greater emphasis in the thinking of development economists and government officials upon creating a framework of policies that provides incentives for farmers to raise output, and an infrastructure network that provides the water, power, credit and other inputs for growth in an area, rather than detailed and elaborate national plans for the rural sector.

With respect to industry, for those smaller countries in which international trade is an important outlet for production, it became obvious that correct pricing is a necessary ingredient of policy; and that managing entrepreneurs are better judges of competitive prices and can move far more quickly than complex bureaucracies in responding to international competititon on prices, terms and quality. It was further recognized that indefinite protection is self-defeating by raising costs and reducing quality, since there is no pressure on the producer in such a market. In larger countries such as India and China, there is a growing awareness that heavy investments in inefficient industries are counter productive in that they are wasteful of scarce capital resources, and it is a continued drain on current resources to subsidize inefficient firms. General protection for any industry over a long period of time regardless of efficiency, is increasingly recognized as a drain on the economy rather than a contribution to development. Policies that will promote efficiency and contribute to lower prices and higher quality are beneficial to growth, rather than otherwise. Micro-economic theory, conventional price analysis, and social cost-benefit analysis are therefore increasingly recognized as providing a basic tool kit for research and policy formation in developing, as well as developed countries. These tools are just as appropriate for public sector enterprise decision-making on prices and investment, as for private enterprise. Micro-theory is applicable to "socialist" economies as well as to "market capitalist" economies, and used appropriately can contribute to greater efficiency in both systems[1]. Furthermore, there is clear evidence from the experience in some countries that the deliberate ignoring of economic restraints and the adoption of uneconomic policies on a large scale contribute to economic disaster. The lack of economic policy in Indonesia under President Sukarno before 1967 contributed to his political collapse; that experience also provides clear evidence that a dictatorship may not lead to economic efficiency or rapid growth.

But economists may have also learned the limits of the application of conventional economic analysis and price theory applied to development. Rosenstein-Rodan's justification of an active government role in economic development was based on what subsequently became recognized as market failure due to externalities; unless infrastructure which yielded externalities were provided private entrepreneurs would not come forth.Economic theory of course also assumes that entrepreneurs exist or will come forth quickly if proper incentives exist. But in some societies private entrepreneurship is absent, or its response is limited by the social structure of the society, or the attitudes of a society towards business activity. (Hirschman's work has laid much stress on this). The structure of rural society may have a significant impact on the response of the farmers in a society to incentives and new technologies. Kusum Nair has argued persuasively that in India the different responses of the farmers of Punjab /Haryana and the farmers of Eastern Uttar Pradesh and Bihar to the new wheat-growing technologies and policies of 1967 that contributed to the Green Revolution in Punjab /Haryana, were the result of different social struc-

1 J. Bhagwati and P. Desai's classic book, (**Bhagwati and Desai**, 1970) drew that conclusion with respect to India in the late 1960's; the present Chinese govermnent has drawn that conclusion with respect to Chinese economic policy since 1978.

tures and attitudes in the two areas. (See Hirschman, 1958; Nair, 1979).

A major limit on the strict reliance on market criteria and micro-economic analysis for economic policy making in a developing country is that standard micro-analysis assumes an initial distribution of income and assets. Where a society begins the process of development with a highly skewed distribution of wealth and income, relying entirely upon market forces for decision-making, can lead to a still greater skewness of incomes and assets, as those groups initially controlling a country's resources reap most of the gains of development. At the same time the more dependent groups in such a society, who formerly may have had a measure of security in the customs of a traditional society that provided some protection by patrons in the event of economic failure, could find themselves dispossessed from land or from work as the money value of their traditional activities declined and the cost of their protection to their patrons increased. In such a case the poorer groups in the society may find themselves more dependent and closer to starvation as a result of the development process than they were at the start of development. It is to protect such marginal groups and to provide for their minimum needs that many economists, including some in the World Bank, have argued that governments of developing countries should take account of the income distribution effects of their policies and projects. Others have argued that the protection of the "basic needs" of the poorest groups within a society should be a first priority of a country as it develops (Chenery, 1974; Streeten, 1981, especially part IV).

There seems to be general agreement that ignoring the income distribution effects of economic development, especially where economic wealth and politicial power are combined, has contributed to revolution in Latin American countries. Where the splits between economic control and /or political power, and the distribution of the gains of development, take on regional dimensions within a country, this may lend support to the political breakup of that country. That process took place in Pakistan from 1958 to 1970, even though the national economic planning was of a high order of competence, and contributed to the establishment of Bangla Desh in 1971. There may also be certain characteristics and expectations of behavior in a society, say a "peasant society", that influence the goals and processes of public decision-making and implementation, quite apart from past ideology or broad public statements. In fact, the similarities of government policies and bureaucratic behavior in countries with ostensibly different economic systems may arise from the underlying "peasant" nature of those societies, that override ideological differences between "socialism" and "capitalism". (see Rosen, 1975; Scott, 1975).

Apart from an understanding of the social and economic structure of the country to better predict the impact of alternative economic policies upon actual incentives, and thus the results of those policies, the development economist, who is advising on policy, should understand that country's political system. Economic analysts in their policy recommendations for government action, often assume that the government is unbiased and impartial between various groups in the society. But this ignores the fact that governments must rely on various groups for election or for maintenance of its power; and that the governors themselves come from particular groups (say the army, or specific urban or rural groups) in the country. Both democratic and dictatorial governments must adopt policies, and implement policies, in such a way that supporters are not harmed and alienated at minimum, and are helped at maximum.

What this implies is that economic planning and government decision-making in economic affairs are by their very nature political since such plans and decisions influence the distribution not only of wealth and income, but of economic activities in general among various individuals, groups, and regions within a society. It cannot be otherwise, and economists who lament that fact simply close their eyes to politics. An economist advising on policy may see his ideas and recommendations diluted, changed or ignored. If he feels that this has gone too far in a democracy, he may be able to resign; in a dictatorship this will probably be more difficult. As an economist professional he should only give policy recommendations that he can live with professionally, but if he wishes to make policy he must recognize that it is the political leader who has that responsibility.

Recognizing that economic policy making is necessarily political, that in a developing society government officials are frequently inexperienced, and that the flow of information between the government at the center and the periphery where economic activity takes place is normally slow and spotty, one of the main tasks of an economist may be to try to define those areas of activity which only the government can do in that country or that only it can do well. This will enable it to best use its scarcest resources, essentially its human and administrative skills. Apart from those areas of direct activity, the economist might best encourage the government to create a framework of institutions and incentives that will encourage individuals and non-government groups to act in a way that will contribute to economic development, while minimizing any harmful effects of those actions.

Most development economists today realize that economic development is a far more complex process than they thought when the discipline was first being formulated. In the early days of development the economist was "king"; today his role is far more limited, and his work is most valuable when it is associated with other disciplines, such as anthropology and political science. The economist is a technician with a very useful bag of tools. If those tools are used effectively they can have desirable consequences; if they are not so used the results can be costly and even disastrous. But an awareness of this limited role calls for modesty on the part of the economist. It also calls for a recognition of the difference between his or her role as a scholar trying to understand what is happening in a country, or trying to estimate future economic trends, other factors remaining constant, and a role as a policy adviser or maker of policy. In some specific areas of policy-making it may be possible to isolate economic issues and advise specifically on those. In other borader areas of policy making, this advice may require a knowledge of the social and political character of the country, its past history, and possibly even its language. This inevitably means that a local economist of equal technical competence can better advise his political leaders on economic policy issues than a foreign economist present in that country for only a short time. In fact, in today's era of "high tech" economics using advanced mathematics and complex models, a local economist with a command of basic theory and a good knowledge of his country, can do better as an adviser than a foreign economist who may be more technically advanced, but who could not practice his advanced technique because of the paucity of data and possible inapplicability of the models. What the foreign economist may be able to offer better than the local one is a fresh insight, or the ability to say something that the local economist may be unable to say for political or other reasons, or better knowledge of a narrow technical matter or of issues external to the developing country but impinging on it. But these are somewhat unusual cases, and even if relevant are best served by the foreign economist as adviser working with and through a local economist.

This awareness of the complexity of economic development as a process, and the need for a far wider range of knowledge than economists normally have, or are interested in acquiring, of a foreign country, has contributed to the decline in the interest that American academic economists have in economic development as a discipline and the work they are doing in it. Many of the American economists who entered the field in the 1950's and 1960's did so because of their interest in influencing policy at that time in the developing countries. They found that more difficult, and calling for a greater commitment to a foreign country, than influencing economic policy in the United States or in international aid agencies. Fortunately that decline in the American interest in economic development has been compensated by rising interest in other developed countries, and especially by the far larger number of well-trained economists in the developing countries working on their own problems than in the 1950's or 1960's.

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