THE RISE AND DECLINE OF DEVELOPMENT ECONOMICS

In 1979 Hirschman was invited to write an essay in honor of William Arthur Lewis. That same year, Lewis won the Nobel Prize in economics. Hirschman had sparred with Lewis in the 1960s: Lewis was a champion of more balanced growth; Hirschman favored disequilibrium. Lewis' winning the Nobel Prize meant—as Clifford Geertz, Hirschman's long-time friend, noted—that Hirschman would likely not. By then, Hirschman was growing more and more concerned that the field had grown stale. So he used the invitation to take stock of development economics, to show that it was mixed from the start. But the combination of a narrowing of the field (what he called "monoeconomics") and the insistence on the part of some (neo-Marxists) that economics in the periphery somehow earned it a different brand of social science sent the field off into a desert. In a sleight of hand, Hirschman affiliated Lewis with this trend. Now that the great hopes of development were largely dashed, the field had rallied around the opposite of what once motivated it; scholars replaced hope with futility. What Hirschman advocated was an approach premised on the idea that peoples of the Third World could chart their own futures, and did, despite the long-standing convictions of development economics that only outside forces and expertise could shake them from their lot.

—Jeremy Adelman

DEVELOPMENT ECONOMICS IS a comparatively young area of inquiry. It was born just about a generation ago, as a subdiscipline of economics, with a number of other social sciences looking on both skeptically and jealously from a distance. The forties and especially the fifties saw a remarkable outpouring of fundamental ideas and models which were to dominate the new field and to generate controversies that contributed much to its liveliness. In that eminently "exciting" era, development economics did much better than the object of its study, the economic development of the poorer regions of the world, located primarily in Asia, Latin America, and Africa. Lately it seems that at least this particular gap has been narrowing, not so much unfortunately because of a sudden spurt in economic development, but rather because the forward movement of our subdiscipline has notably slowed down. This is of course a subjective judgment. Articles and books are still being produced. But as an observer and longtime participant I cannot help feeling that the old liveliness is no longer there, that new ideas are ever harder to come by and that the field is not adequately reproducing itself.

When scientific activity is specifically directed at solving a pressing problem, one can immediately think of two reasons why, after a while, interest in this activity should flag. One is that the problem is in fact disappearing—either because of the scientific discoveries of the preceding phase or for other reasons. For example, the near demise of interest in business-cycle theory since the end of World War II was no doubt due to the remarkably shock-free growth experienced during that period by the advanced industrial countries, at least up to the mid-seventies. But this reason cannot possibly be invoked in the present case: The problems of poverty in the Third World are still very much with us.

The other obvious reason for the decline of scientific interest in a problem is the opposite experience, that is, the disappointing realization that a "solution" is by no means at hand and that little if any progress is being made. Again, this explanation does not sound right in our case, for in the last thirty years considerable advances have taken place in many erstwhile "underdeveloped" countries—even a balance sheet for the Third World as a whole is by no means discouraging.[1]

In sum, the conditions for healthy growth of development economics would seem to be remarkably favorable: the problem of world poverty is far from solved, but encouraging inroads on the problem have been and are being made. It is therefore something of a puzzle why development economics flourished so briefly.

In looking for an explanation, I find it helpful to take a look at the conditions under which our subdiscipline came into being. It can be shown, I believe, that this happened as a result of an a priori unlikely conjunction of distinct ideological currents. The conjunction proved to be extraordinarily productive, but also created problems for the future. First of all, because of its heterogeneous ideological makeup, the new science was shot through with tensions that would prove disruptive at the first opportunity. Secondly, because of the circumstances under which it arose, development economics became overloaded with unreasonable hopes and ambitions that soon had to be clipped back. Put very briefly and schematically, this is the tale I shall tell—plus a few stories and reflections on the side.

A Simple Classification of Development Theories

The development ideas that were put forward in the forties and fifties shared two basic ingredients in the area of economics. They also were based on one unspoken political assumption with which I will deal in the last section of this paper.

The two basic economic ingredients were what I shall call the rejection of the *monoeconomics claim* and the assertion of the *mutual-benefit claim*. By rejection of the monoeconomics claim I mean the view that underdeveloped countries as a group are set apart, through a number of specific economic characteristics common to them, from the advanced industrial countries and that traditional economic analysis, which has concentrated on the industrial countries, must therefore be recast in significant respects when dealing with underdeveloped countries. The mutual-benefit claim is the assertion that economic relations between these two groups of countries could be shaped in such a way as to yield gains for both. The two claims can be either asserted or rejected, and, as a result, four basic positions exist, as shown in the following table.

Types of development theories

Mutual-benefit claim:	*Monoeconomics claim:* *Asserted*	*Rejected*
Asserted	Orthodox economics	Development economics
Rejected	Marx?	Neo-Marxist theories

Even though there are of course positions that do not fit neatly just one of its cells, this simple table yields a surprisingly comprehensive typology for the major theories on development of the periphery. In the process, it makes us realize that there are two unified systems of thought, orthodox economics and neo-Marxism, and two other less consistent positions that are therefore likely to be unstable: Marx's scattered thoughts on development of "backward" and colonial areas, on the one hand, and modern development economics, on the other. I shall take up these four positions in turn, but shall give major attention to development economics and to its evolving relations with and harassment by—the two adjoining positions.

The orthodox position holds to the following two propositions: (a) economics consists of a number of simple, yet "powerful" theorems of universal validity: there is only one economics ("just as there is only one physics"); (b) one of these theorems is that, in a market economy, benefits flow to all participants, be they individuals or countries, from all voluntary acts of economic intercourse ("or else they would not engage in those acts"). In this manner, both the monoeconomics and the mutual-benefit claims are asserted.

The opposite position is that of the major neo-Marxist theories of development which hold: (a) exploitation or "unequal exchange" is the essential, permanent feature of the relations between the underdeveloped "periphery" and the capitalist "center"; (b) as a result of this long process of exploitation, the political-economic structure of the peripheral countries is very different from anything ever experienced by the center, and their development cannot possibly follow the same path—for example, it has been argued that they cannot have a successful industrialization experience under capitalist auspices. Here, both the mutual-benefit claim and the monoeconomics claim are rejected.

A cozy internal consistency, bent on simplifying (and oversimplifying) reality and therefore favorable to ideology formation, is immediately apparent in both the orthodox and the neo-Marxist positions. This is in contrast with the remaining two positions. It should be clear why I have placed Marx into the southwesterly cell (mutual-benefit claim rejected, monoeconomics claim asserted). Writing in *Capital* on primitive accumulation on the one hand, Marx describes the process of spoliation to which the periphery has been subject in the course of the early development of capitalism in the center. Thus he denies any claim of mutual benefit from trade between capitalist and "backward" countries. On the other hand, his well-known statement, "The industrially most developed country does nothing but hold up to those who follow it on the industrial ladder, the image of its own future," coupled with the way in which he viewed England's role in India as "objectively" progressive in opening the way to industrialization by railroad construction, suggests that he did not perceive the "laws of motion" of countries such as India as being substantially different from those of the industrially advanced ones. Marx's opinions on this latter topic are notoriously complex and subject to a range of interpretations, as is indicated by the question mark in the table. But to root *neo*-Marxist thought firmly in the southeasterly cell took considerable labors (which involved, among other things, *uprooting* an important component of the thought of Marx). The story of these labors and revisions has been told elsewhere,[2] and my task here is to deal with the origin and dynamics of the other "hybrid" position: development economics.

It is easy to see that the conjunction of the two propositions—(a) certain special features of the economic structure of the underdeveloped countries make an important portion of orthodox analysis inapplicable and misleading, and (b) there is a possibility for relations between the developed and underdeveloped countries to be mutually beneficial and for the former to contribute to the development of the latter—was essential for our subdiscipline to arise where and when it did: namely, in the advanced industrial countries of the West, primarily in England and the United States, at the end of World War II. The first proposition is required for the creation of a separate theoretical structure, and the second was needed if Western economists were to take a strong interest in the matter—if the likelihood or at least the hope could be held out that their own countries could play a positive role in the development process, perhaps after certain achievable reforms in international economic relations. In the absence of this perception it would simply not have been possible to mobilize a large group of activist "problem solvers."

The Inapplicability of Orthodox Monoeconomics to Underdeveloped Areas

Once a genuinely new current of ideas is firmly established and is being busily developed by a large group of scholars and researchers, it becomes almost impossible to appreciate how difficult it was for the new to be born and to assert itself. Such difficulties are particularly formidable in economics with its dominant paradigm and analytical tradition—a well-known source of both strength and weakness for that social science. Accordingly, there is need for an explanation of the rise and at least temporary success of the heretical, though today familiar, claim that large portions of the conventional body of economic thought and policy advice are not applicable to the poorer countries—the more so as much of this intellectual movement arose in the very "Anglo-Saxon" environment which had long served as home for the orthodox tradition.

Elements of such an explanation are actually not far to seek. Development economics took advantage of the unprecedented discredit orthodox economics had fallen into as a result of the depression of the thirties and of the equally unprecedented success of an attack on orthodoxy from within the economics "establishment." I am talking of course about the Keynesian Revolution of the thirties, which became the "new economics" and almost a new orthodoxy in the forties and fifties. Keynes had firmly established the view that there were *two* kinds of economics: one—the orthodox or classical tradition—which applied, as he was wont to put it, to the "special case" in which the economy was fully employed; and a very different system of analytical propositions and of policy prescriptions (newly worked out by Keynes) that took over when there was substantial unemployment of human and material resources.[3] The Keynesian step from one to two economics was crucial: the ice of monoeconomics had been broken and the idea that there might be yet another economics had instant credibility—particularly among the then highly influential group of Keynesian economists, of course.

Among the various observations that were central to the new development economics and implicitly or explicitly made the case for treating the underdeveloped countries as a sui generis group of economies, two major ones stand out, that relating to rural underemployment and that stressing the late-coming syndrome in relation to industrialization.

1. Rural underemployment. The early writers on our subject may have looked for an even closer and more specific connection with the Keynesian system than was provided by the general proposition that different kinds of economies require different kinds of economics. Such a connection was achieved by the unanimous stress of the pioneering contributions—by Kurt Mandelbaum, Paul Rosenstein-Rodan and Ragnar Nurkse—on *underemployment* as a crucial characteristic of *under*development. The focus on rural *under*employment was sufficiently similar to the Keynesian concern with *un*employment to give the pioneers a highly prized sensation of affinity with the Keynesian system, yet it was also different enough to generate expectations of eventual independent development for our fledgling branch of economic knowledge.

The affinities were actually quite impressive. As is well known, the Keynesian system took unemployment far more seriously than had been done by traditional economics and had elaborated a theory of macroeconomic equilibrium with unemployment. Similarly, the early development economists wrote at length about the "vicious circle of poverty"—a state of low-level equilibrium—which can prevail under conditions of widespread rural underemployment. Moreover, the equilibrium characteristics of an advanced economy with urban unemployment and those of an underdeveloped economy with rural underemployment were both held to justify interventionist public policies hitherto strictly proscribed by orthodox economics. The Keynesians stressed the task of expansionary fiscal policy in combating unemployment. The early development economists went farther and advocated some form of public investment planning that would mobilize the underemployed for the purpose of industrialization, in accordance with a pattern of "balanced growth."

In these various ways, then, the claim of development economics to stand as a separate body of economic analysis and policy derived intellectual legitimacy and nurture from the prior success and parallel features of the Keynesian Revolution.

The focus on rural underemployment as the principal characteristic of underdevelopment found its fullest expression in the work of Arthur Lewis. In his powerful article "Economic Development with Unlimited Supplies of Labour" he managed—almost miraculously—to squeeze out of the simple proposition about underemployment a full set of "laws of motion" for the typical underdeveloped country, as well as a wide range of recommendations for domestic and international economic policy.

With the concept of rural underemployment serving as the crucial theoretical underpinning of the separateness of development economics, it is not surprising that it should have been chosen as a privileged target by the defenders of orthodoxy and monoeconomics.[4] For example, Theodore W. Schultz devoted a full chapter of his well-known book *Transforming Traditional Agriculture* (Yale, 1964) to an attempt at refuting what he called "The Doctrine of Agricultural Labor of Zero Value."[5] This suggests an interesting point about the scientific status of economics, and of social science in general. Whereas in the natural or medical sciences Nobel prizes are often shared by two persons who have collaborated in, or deserve joint credit for, a given scientific advance, in economics the prize is often split between one person who has developed a certain thesis and another who has labored mightily to prove it wrong.

At the outset of his celebrated article, Lewis had differentiated the underdeveloped economy from Keynesian economics by pointing out that in the Keynesian system there is underemployment of labor as well as of other factors of production, whereas in an underdevelopment situation only labor is redundant. In this respect, my own work can be viewed as an attempt to generalize the diagnosis of underemployment as the characteristic feature of underdevelopment. Underdeveloped countries did have hidden reserves, so I asserted, not only of labor, but of savings, entrepreneurship, and other resources. But to activate them, Keynesian remedies would be inadequate. What was needed were "pacing devices" and "pressure mechanisms"; whence my strategy of unbalanced growth.

My generalization of the underemployment argument may have somewhat undermined the claim of development economics to autonomy and separateness. As the work of Herbert Simon on "satisficing" and that of Harvey Leibenstein on "X-efficiency" were to show, the performance of the advanced economies also "depends not so much on finding optimal combinations for given resources as on calling forth and enlisting . . . resources and abilities that are hidden, scattered, or badly utilized"—that was the way I had put it in *The Strategy of Economic Development* for the less developed countries.[6] A feature I had presented as being specific to the situation of one group of economies was later found to prevail in others as well. Whereas such a finding makes for reunification of our science, what we have here is not a return of the prodigal son to an unchanging, ever-right and -righteous father. Rather, our understanding of the economic structures of the West will have been modified and enriched by the foray into other economies.

This kind of dialectical movement—first comes, upon looking at outside groups, the astonished finding of Otherness, and then follows the even more startling discovery that our own group is not all that different—has of course been characteristic of anthropological studies of "primitive" societies from their beginning and has in fact been one of their main attractions. In the field of development economics, something of this sort has also happened to the ideas put forward by Arthur Lewis. The dynamics of development with "unlimited" supplies of labor, which was supposed to be typical of less developed countries, have in fact prevailed in many "Northern" economies during the postwar period of rapid growth, owing in large part to massive immigration, temporary or permanent, spontaneous or organized, from the "South."[7] One of the more interesting analytical responses to this situation has been the dual labor market theory of Michael Piore and others. This theory is easily linked up with the Lewis model, even though that connection has not been made explicit as far as I know.

2. Late industrialization. I have suggested in the preceding pages that the concept of underemployment achieved its position as foundation stone for development economics because of its affinity to the Keynesian system and because of the desire of the early writers on our subject to place themselves, as it were, under the protection of a heterodoxy that had just recently achieved success. There was, moreover, something arcane about the concept, often also referred to as "disguised unemployment," that served to enhance the scientific aura and status of the new field.

Along with the mysteries, however, the common sense of development also suggested that some rethinking of traditional notions was required. It became clear during the depression of the thirties and even more during World War II that industrialization was going to hold an important place in any active development policy of many underdeveloped countries. These countries had long specialized—or had been made to specialize—in the production of staples for export to the advanced industrial countries which had supplied them in return with modern manufactures. To build up an industrial structure under these "late-coming" conditions was obviously a formidable task that led to the questioning of received doctrine according to which the industrial ventures appropriate to any country would be promptly acted upon by perceptive entrepreneurs and would attract the required finance as a result of the smooth working of capital markets. The long delay in industrialization, the lack of entrepreneurship for larger ventures, and the real or alleged presence of a host of other inhibiting factors made for the conviction that, in underdeveloped areas, industrialization required a deliberate, intensive, guided effort. Naming and characterizing this effort led to a competition of metaphors: big push (Paul Rosenstein-Rodan), takeoff (Walt W. Rostow), great spurt (Alexander Gerschenkron), minimum critical effort (Harvey Leibenstein), backward and forward linkages (Albert O. Hirschman). The discussion around these concepts drew on both theoretical arguments—new rationales were developed for protection, planning, and industrialization itself—and on the experience of European industrialization in the nineteenth century.

In the latter respect, the struggle between advocates and adversaries of monoeconomics was echoed in the debate between Rostow and Gerschenkron. Even though Rostow had coined what became the most popular metaphor (the "takeoff"), he had really taken a monoeconomics position. For he divided the development process into his famous five "stages" with identical content for all countries, no matter when they started out on the road to industrialization. Gerschenkron derided the notion "that the process of industrialization repeated itself from country to country lumbering through [Rostow's] pentametric rhythm"[8] and showed, to the contrary, how the industrialization of the late-coming European countries such as Germany and Russia differed in fundamental respects from the English industrial revolution, largely because of the intensity of the "catching-up" effort on the part of the latecomers. Even though it was limited to nineteenth-century Europe, Gerschenkron's work was of great importance for development economics by providing *historical* support for the case against monoeconomics. As industrialization actually proceeded in the periphery, it appeared that Third World industrialization around mid-twentieth century exhibited features rather different from those Gerschenkron had identified as characteristic for the European latecomers.[9] But for the historically oriented, Gerschenkron's work supplied the same kind of reassurance Keynesianism had given to the analytically minded: he showed once and for all that there can be more than one path to development, that countries setting out to become industrialized are likely to forge their own policies, sequences, and ideologies to that end.

Subsequent observations strengthened the conviction that industrialization in the less developed areas required novel approaches. For example, modern, capital-intensive industry was found to be less effective in absorbing the "unlimited supplies of labor" available in agriculture than had been the case in the course of earlier experiences of industrialization. Advances in industrialization were frequently accompanied by persistent inflationary and balance-of-payment pressures which raised questions about the adequacy of traditional remedies and led, in Latin America, to the "sociological" and "structuralist" theses on inflation, which, interestingly, have now gained some currency in the advanced countries, usually without due credit being given.[10] Also, the vigorous development of the transnational corporation in the postwar period raised entirely new "political economy" questions about the extent to which a country should attract, restrict, or control these purveyors of modern technology and products.

The Mutual-Benefit Assumption

The new (far from unified) body of doctrine and policy advice that was built up in this manner was closely connected, as noted earlier, with the proposition that the core industrial countries could make an important, even an essential, contribution to the development effort of the periphery through expanded trade, financial transfers, and technical assistance.

The need for large injections of financial aid fitted particularly well into those theories advocating a "big push." It was argued that such an effort could only be mounted with substantial help from the advanced countries, as the poor countries were unable to generate the needed savings from within. Here the underlying model was the new growth economics, which, in its simplest (Harrod-Domar) version, showed a country's growth rate to be determined by the propensity to save and the capital-output ratio. Growth economics had evolved independently from development economics, as a direct offshoot of the Keynesian system and its macroeconomic concepts. While devised primarily with the advanced industrial countries in mind, it found an early practical application in the planning exercises for developing countries that became common in the fifties. These exercises invariably contained projections for an expansion of trade and aid. Their underlying assumption was necessarily that such enlarged economic relations between rich and poor countries would be beneficial for both. Now this proposition fits nicely into orthodox monoeconomics, but it might have been expected to arouse some suspicion among development economists and to mix rather poorly with some of the other elements and assertions of the new subdiscipline. For example, so it could have been asked, why are the countries of the South in a state where, according to some, it takes a huge push to get them onto some growth path? Why are they so impoverished in spite of having long been drawn into the famous "network of world trade"[11] which was supposed to yield mutual benefits for all participants? Is it perhaps because, in the process, some countries have been *caught* in the net to be victimized by some imperialist spider? But such indelicate questions were hardly put in the halcyon days of the immediate postwar years, except perhaps in muted tones by a few faraway voices, such as Raúl Prebisch's. Of that more later.

Action-oriented thought seldom excels in consistency. Development economics is no exception to this rule; it was born from the marriage between the new insights about the sui generis economic problems of the underdeveloped countries and the overwhelming desire to achieve rapid progress in solving these problems with the instruments at hand, or thought to be within reach, such as large-scale foreign aid. A factor in "arranging" this marriage, in spite of the incompatibilities involved, was the success of the Marshall Plan in Western Europe. Here the task of postwar reconstruction was mastered with remarkable speed, thanks, so it appeared at least, to a combination of foreign aid with some economic planning and cooperation on the part of the aid recipients. It has often been pointed out that this European success story led to numerous failures in the Third World, that it lamentably blocked a realistic assessment of the task of development, in comparison with that of reconstruction.

But the matter can be seen in a different light. True, the success of the Marshall Plan deceived economists, policymakers, and enlightened opinion in the West into believing that infusion of capital helped along by the right kind of investment planning might be able to grind out growth and welfare all over the globe. But—and here is an application of what I have called the "Principle of the Hiding Hand"—on balance it may have been a good thing that we let ourselves be so deceived. Had the toughness of the development problem and the difficulties in the North-South relationship been correctly sized up from the outset, the considerable intellectual and political mobilization for the enterprise would surely not have occurred. In that case, and in spite of the various "development disasters" which we have experienced (and which will be discussed later in this essay), would we not be even farther away from an acceptable world than we are today?

In sum, one historical function of the rise of development economics was to inspire confidence in the manageability of the development enterprise and thereby to help place it on the agenda of policymakers the world over. The assertion of the mutual-benefit claim served this purpose.

The Strange Alliance of Neo-Marxism and Monoeconomics against Development Economics

Predictably, when the path to development turned out to be far less smooth than had been thought, the hybrid nature of the new subdiscipline resulted in its being subjected to two kinds of attacks. The neoclassical Right faulted it for having forsaken the true principles of monoeconomics and for having compounded, through its newfangled policy recommendations, the problem it set out to solve. For the neo-Marxists, on the other hand, development economics had not gone far enough in its analysis of the predicament of the poor countries: so serious was their problem pronounced to be that nothing but total change in their socioeconomic structure and in their relations to the rich countries could make a difference; pending such change, so-called development policies only created new forms of exploitation and "dependency." The two fundamentalist critiques attacked development economics from opposite directions and in totally different terms: but they could converge in their specific indictments—as they indeed did, particularly in the important arena of industrialization. Because the adherents of neoclassical economics and those of various neo-Marxist schools of thought live in quite separate worlds, they were not even aware of acting in unison. In general, that strange de facto alliance has hardly been noted; but it plays an important role in the evolution of thinking on development and its story must be briefly told.

Doubts about the harmony of interests between the developed and underdeveloped countries arose at an early stage among some of the major contributors to the new subdiscipline. There was widespread acceptance of the view that the advanced industrial countries could henceforth contribute to the development of the less advanced, particularly through financial assistance, but questions were raised in various quarters about the equitable distribution of the gains from trade, both in the past and currently. In 1949, Raúl Prebisch and Hans Singer formulated (simultaneously and independently) their famous "thesis" on the secular tendency of the terms of trade to turn against countries exporting primary products and importing manufactures.[12] They attributed this alleged tendency to the power of trade unions in the advanced countries and to conditions of underemployment in the periphery. The argument was put forward to justify a sustained policy of industrialization. Arthur Lewis was led by his model in a rather similar direction: as long as "unlimited supplies of labor" in the subsistence sector depress the real wage throughout the economy, any gains from productivity increases in the export sector are likely to accrue to the importing countries; moreover, in a situation in which there is surplus labor at the ruling wage, prices give the wrong signals for resource allocation in general and for the international division of labor in particular; the result was a further argument for protection and industrialization.

Both the Prebisch-Singer and the Lewis arguments showed that without a judiciously interventionist state in the periphery, the cards were inevitably stacked in favor of the center. On the whole, it looked as though this was the result of some unkind fate rather than of deliberate maneuvers on the center's part. Critics from the Left later took Arthur Lewis to task for viewing unlimited supplies of labor as a datum, rather than as something that is systematically *produced* by the colonizers and capitalists.[13] Lewis was of course fully aware of such situations and specifically notes at one point that in Africa the imperial powers impoverished the subsistence economy "by taking away the people's land, or by demanding forced labour in the capitalist sector, or by imposing taxes to drive people to work for capitalist employers."[14] For Lewis these practices were simply not a crucial characteristic of the model—after all, a decline in infant mortality could have the same effect in augmenting labor supply as a head tax.

It appears nevertheless that the debate among development economists in the fifties included the canvassing of some antagonistic aspects of the center-periphery relation. The theories just noted attempted to show that the gain from trade might be unequally distributed (perhaps even to the point where one group of countries would not gain at all) but did not go so far as to claim that the relationship between two groups of countries could actually be exploitative in the sense that trade and other forms of economic intercourse would enrich one group at *the expense* of another—an assertion that would be unthinkable within the assumptions of the classical theory of international trade. Yet, even this kind of assertion was made at a relatively early stage of the debate. Gunnar Myrdal invoked the principle of cumulative causation (which he had first developed in his *American Dilemma*) in seeking to understand the reason for persistent and increasing income disparities *within* countries; but the notion was easily extended to contacts between countries. Myrdal's argument on the possibility of further impoverishment of the poor region (or country) was largely based on the likelihood of its losing skilled people and other scarce factors, and also on the possible destruction of its handicrafts and industries. Independently of Myrdal, I had developed similar ideas: Myrdal's "backwash effect"—the factors making for increasing disparity—became "polarization effect" under my pen, whereas his "spread effect"—the factors making for the spread of prosperity from the rich to the poor regions—was named by me "trickling down effect." (Optimal terminology is probably achieved by combining Myrdal's "spread" with my "polarization" effects.) We both argued, though with different emphases, that the possibility of the polarization effect being stronger than the spread effect must be taken seriously, and thus went counter not only to the theory of international trade, but to the broader traditional belief, so eloquently expressed by John Stuart Mill,[15] that contact between dissimilar groups is always a source of all-around progress. Anyone who had observed the development scene with some care could not but have serious doubts about this view: in Latin America, for example, industrial progress was particularly vigorous during the World Wars and the Great Depression when contacts with the industrial countries were at a low ebb. To me, this meant no more than that *periods* of isolation may be beneficial and I saw some alternation of contact and isolation as creating optimal conditions for industrial development.[16] In any event, both Myrdal and I looked at the polarization effects as forces that can be opposed and neutralized by public policies; and I tried to show that instead of invoking such policies as a deus ex machina (as I thought Myrdal did), it is possible to see them as arising out of, and in reaction to, the experience of polarization.

A strange thing happened once it had been pointed out that interaction between the rich and poor countries could in certain circumstances be in the nature of an antagonistic, zero-sum game: very soon it proved intellectually and politically attractive to assert that such was the essence of the relationship and that it held as an iron law through all phases of contacts between the capitalist center and the periphery. Just as earlier those brought up in the classical tradition of Smith and Ricardo were unable to conceive of a gain from trade that is not mutual, so did it become impossible for the new polarization enthusiasts to perceive anything but pauperization and degradation in each of the successive phases of the periphery's history.[17] This is the "development of underdevelopment" thesis, put forward by André Gunder Frank, and also espoused by some of the more extreme holders of the "dependency" doctrine. Given the historical moment at which these views arose, their first and primary assignment was to mercilessly castigate what had up to then been widely believed to hold the promise of economic emancipation for the underdeveloped countries: industrialization. We are now in the mid-sixties, at which time real difficulties and growing pains were experienced by industry in some leading Third World countries after a prolonged period of vigorous expansion. This situation was taken advantage of in order to characterize all of industrialization as a total failure on a number of (not always consistent) counts: it was "exhausted," "distorted," lacked integration, led to domination and exploitation by multinationals in alliance with a domestic "lumpen bourgeoisie," was excessively capital-intensive and therefore sabotaged employment, and fostered a more unequal distribution of income along with a new, more insidious, kind of dependency than ever before.

At just about the same time, the neoclassical economists or monoeconomists—as they should be called in accordance with the terminology of this essay—were sharpening their own knives for an assault on development policies that had pushed industrialization for the domestic market. In contrast to the multiple indictment from the Left, the monoeconomists concentrated on a single, simple, but to them capital, flaw of these policies: misallocation of resources. By itself this critique was highly predictable and might not have carried more weight than warnings against industrialization emanating from essentially the same camp ten, or twenty, or fifty years earlier. But the effectiveness of the critique was now greater for various reasons. First of all, as a result of the neo-Marxist writings just noted, some of the early advocates of industrialization had now themselves become its sharpest critics. Second, specific policies which in the early stage had been useful in promoting industrialization, though at the cost of inflationary and balance-of-payments pressures, did run into decreasing returns in the sixties: they achieved less industrialization at the cost of greater inflation and balance-of-payments problems than before. Third, the practice of deliberate industrialization had given rise to exaggeration and abuse in a number of countries, and it became easy to draw up a list of horrible examples that served to incriminate the whole effort. Fourth, a new set of policies emphasizing exports of manufactures from developing countries became attractive, because of the then rapid expansion of world trade, and the possibilities of success of such policies was demonstrated by countries like Taiwan and South Korea. Under these conditions, the neoclassical strictures became more persuasive than they had been for a long time.

The target of the complementary neo-Marxist and neoclassical writings was not just the new industrial establishment, which in fact survived the onslaught rather well; on the ideological plane, the intended victim was the new development economics, which had strongly advocated industrial development and was now charged with intellectual responsibility for whatever had gone wrong. The blows from Left and Right that fell upon the fledgling and far from unified subdiscipline left it, indeed, rather stunned: so much so that the most intrepid defense of what had been accomplished by the postwar industrialization efforts in the Third World came not from the old stalwarts, but from an English socialist in the tradition of Marx's original position on the problem of backward areas, the late Bill Warren.[18]

The Real Wounding of Development Economics

It would of course be silly—just as silly as the German proverb *Viel Feind, viel Ehr* (many enemies, much honor)—to hold that any doctrine or policy that is attacked simultaneously from both Left and Right is, for that very reason, supremely invested with truth and wisdom. I have already noted that the neoclassical critics made some valid points, just as the neo-Marxists raised a number of serious issues, particularly in the areas of excessive foreign control and of unequal income distribution. But normally such criticisms should have led to some reformulations and eventually to a strengthening of the structure of development economics. In fact, however, this was not to be the case. No new synthesis appeared. Several explanations can be offered. For one thing, development economics had been built up on the basis of a construct, the "typical underdeveloped country," which became increasingly unreal as development proceeded at very different rates and took very different shapes in the various countries of Latin America, Asia, and Africa. Lenin's law of uneven development, originally formulated with the major imperialist powers in mind, caught up with the Third World! It became clear, for example, that, for the purpose of the most elementary propositions of development strategy, countries with large populations differ substantially from the ever more numerous ministates of the Third World,[19] just as there turned out to be few problems in common between petroleum exporters and petroleum-importing developing countries. The concept of a unified body of analysis and policy recommendations for all underdeveloped countries, which contributed a great deal to the rise of the subdiscipline, became in a sense a victim of the very success of development and of its unevenness.

But there was a more weighty reason for the failure of development economics to recover decisively from the attacks it had been subjected to by its critics. It lies in the series of political disasters that struck a number of Third World countries from the sixties on, disasters that were clearly *somehow* connected with the stresses and strains accompanying development and "modernization."[20] These development disasters, ranging from civil wars to the establishment of murderous authoritarian regimes, could not but give pause to a group of social scientists, who, after all, had taken up the cultivation of development economics in the wake of World War II not as narrow specialists, but impelled by the vision of a better world. As liberals, most of them presumed that "all good things go together"[21] and took it for granted that if only a good job could be done in raising the national income of the countries concerned, a number of beneficial effects would follow in the social, political, and cultural realms.

When it turned out instead that the promotion of economic growth entailed not infrequently a sequence of events involving serious retrogression in those other areas, including the wholesale loss of civil and human rights, the easy self-confidence that our subdiscipline exuded in its early stages was impaired. What looked like a failure to mount a vigorous counterattack against the unholy alliance of neo-Marxists and neoclassicists may well have been rooted in increasing self-doubt, based on mishaps far more serious than either the "misallocation of resources" of the neoclassicists or the "new dependency" of the neo-Marxists.

Not that all the large and gifted group of development economists which had in the meantime been recruited into the new branch of knowledge turned suddenly silent. Some retreated from the position "all good things go together" to "good economics is good for people."[22] In other words, rather than assuming that economic development would bring progress in other fields, they thought it legitimate to operate on the basis of an implicit Pareto-optimality assumption: like plumbing repairs or improvements in traffic control, the technical efforts of economists would improve matters in one area while at worst leaving others unchanged, thus making society as a whole better off. Economic development policy was here in effect downgraded to a technical task exclusively involved with efficiency improvements. An illusion was created and sought that, by confining itself to smaller-scale, highly technical problems, development economics could carry on regardless of political cataclysms.

There was, however, another reaction that was to have a considerable impact. Experiencing a double frustration, one over the appalling political events as such, and the other over their inability to comprehend them, a number of analysts and practitioners of economic development were moved to look at the economic performance itself with a more critical eye than before. In a Freudian act of displacement, they "took out" their distress over the political side on the weaker aspects of the economic record. Within countries with authoritarian regimes, the displacement was often reinforced, unintentionally of course, by the official censorship that was much more rigorous with regard to political dissent than in matters of economic performance.

It was, in a sense, an application of the maxim "all good things go together" *in reverse*. Now that political developments had taken a resoundingly wrong turn, one had to prove that the economic story was similarly unattractive. Some economists were satisfied once the balance between political and economic performance had been restored in this fashion, be it at a wretchedly low level. But others were in a more activist mood. Impotent in the face of political injustice and tyranny, yet feeling a faint sense of responsibility, they were attempting to make amends by exposing *economic* injustice. In doing so, they paid little attention to John Rawls who argued, at just about that time, in *A Theory of Justice* that "a departure from the institutions of equal liberty . . . cannot be justified by or compensated for by greater social or economic advantage."[23] But perhaps it was fortunate—and a measure of the vitality of the development movement—that the disappointment over politics led to an attempt at righting at least those wrongs economists could denounce in their professional capacity.

Here then is one important origin of the concern with income distribution which became a dominant theme in the development literature in the early seventies. Albert Fishlow's finding, on the basis of the 1970 census, that income distribution in Brazil had become more unequal and that some low-income groups may even have come to be worse off in absolute terms, in spite of (because of?) impressive growth, was particularly influential.[24] An alarm based on this and similar data from other countries was sounded by Robert McNamara, the President of the World Bank, in his annual address to the Board of Governors meeting in 1972. A large number of studies followed, and an attempt was made to understand how development could be shaped in accordance with distributional goals, or to formulate policies that would combine the objectives of growth and distribution.

Before long, attention was directed not only to the relative aspects of income distribution, but to the absolute level of need satisfaction among the poorer groups of a country's population. Thus was born the concern with *basic needs*—of food, health, education, etc.—that is currently a principal preoccupation of development economics. Just as the construct of the "typical underdeveloped country" gave way to diverse categories of countries, each with characteristics of its own, so did the heretofore unique maximand of development economics (income per capita) dissolve into a variety of partial objectives, each requiring consultation with different experts—on nutrition, public health, housing, and education, among others.

There is of course much to be said for this new concreteness in development studies, and particularly for the concern with the poorer sections. Nevertheless, development economics started out as the spearhead of an effort that was to bring all-around emancipation from backwardness. If that effort is to fulfill its promise, the challenge posed by dismal politics must be met rather than avoided or evaded. By now it has become quite clear that this cannot be done by economics alone. It is for this reason that the decline of development economics cannot be fully reversed: our subdiscipline had achieved its considerable luster and excitement through the implicit idea that it could slay the dragon of backwardness virtually by itself or, at least, that its contribution to this task was central. We now know that this is not so; a consoling thought is that we may have gained in maturity what we have lost in excitement.

Looking backward, the whole episode seems curious. How could a group of social scientists that had just lived through the most calamitous "derailments of history" *in various major economically advanced* countries entertain such great hopes for economic development per se? Here I can perhaps offer some enlightenment by drawing on my recent work in the history of ideas. In *The Passions and the Interests* I showed that the rise of commerce and money-making activities in the seventeenth and eighteenth centuries was then looked upon as promising for political stability and progress; and I stressed that such optimistic expectations were not based on a new respect for these activities, but rather on *continuing contempt* for them: unlike the passionate, aristocratic pursuit of glory and power with its then well-recognized potential for disaster, the love of money was believed to be "incapable of causing either good *or evil* on a grand scale."[25] A similar perception may have been at work in relation to the less developed countries of Asia, Africa, and Latin America of the twentieth century. The Western economists who looked at them at the end of World War II were convinced that these countries were not all that complicated: their major problems would be solved if only their national income per capita could be raised adequately. At an earlier time, contempt for the countries designated as "rude and barbarous" in the eighteenth century, as "backward" in the nineteenth and as "underdeveloped" in the twentieth had taken the form of relegating them to permanent lowly status, in terms of economic and other prospects, on account of unchangeable factors such as hostile climate, poor resources, or inferior race. With the new doctrine of economic growth, contempt took a more sophisticated form: suddenly it was taken for granted that progress of these countries would be smoothly linear if only they adopted the right kind of integrated development program! Given what was seen as their overwhelming problem of poverty, the underdeveloped countries were expected to perform like wind-up toys and to "lumber through" the various stages of development single-mindedly; their reactions to change were not to be nearly as traumatic or aberrant as those of the Europeans, with their feudal residues, psychological complexes and exquisite high culture. In sum, like the "innocent" and *doux* trader of the eighteenth century, these countries were perceived to have only *interests* and *no passions.*

Once again, we have learned otherwise.

Notes

This retrospective essay, which is also to appear in the forthcoming collection in honor of Sir Arthur Lewis (London: George Allen and Unwin), is of course a highly selective review. In particular, it does not treat the development of our factual knowledge about the development process which has often included the testing of theories; here the main debt is owed to such figures as Simon Kuznets and Hollis Chenery. A number of other surveys of the sort here attempted have appeared recently. See, in particular, Paul Streeten, "Development ideas in historical perspective," in *Toward a New Strategy for Development,* Rothko Chapel Colloquium (New York: Pergamon Press, 1979), pp. 21–52, and Fernando Henrique Cardoso, "The originality of a copy: CEPAL and the idea of development," *CEPAL Review* (second half of 1977), UN Commission for Latin America, UN Publication E.77.II.G.5, pp. 7–40. See also the introductory section of Chapter 4 for a brief review of "theorizing on economic development in historical perspective" with a rather different focus.

1. See, for example, David Morawetz, *Twenty-Free Years of Economic Development*: 1950 to 1975 (Washington, D.C : World Bank, 1977).

2. B. Sutcliffe, "Imperialism and Industrialization in the Third World," in R. Owen and B. Sutcliffe, eds., *Studies in the Theory of Imperialism* (London: Longman, 1972), pp. 180–86, and P. Singer, "Multinacionais: internacionalização e crise," Caderno CEBRAP No. 28 (São Paulo: Editora Brasiliense, 1977), pp. 50–56. On the complexity of Marx's views, even in the preface of *Capital* where the cited phrase appears, see "A Generalized Linkage Approach to Development, with Special Reference to Staples," *Essays in Trespassing: Economics to Politics and Beyond* (New York: Cambridge University Press, 1981), pp. 89–90.

3. Dudley Seers leaned on this established terminological usage with his article "The Limitations of the Special Case," *Bulletin of the Oxford University Institute of Economics and Statistics,* 25 (May 1963): 77–98, in which he pleaded for recasting the teaching of economics so as to make it more useful in dealing with the problems of the less-developed countries. The "special case" that had falsely claimed generality was, for Keynes, the fully employed economy; for Seers, it was the economy of the advanced capitalist countries, in contrast to conditions of underdevelopment.

4. See, for example, Jacob Viner, "Some Reflections on the Concept of 'Disguised Unemployment,'" in *Contribuições à Análise do Desenvolvimiento Econômico* (Essays in honor of Eugênio Gudin), (Rio de Janeiro: Agir, 1957), pp. 345–54.

5. His principal empirical argument was the actual decline in agricultural output suffered when the labor force suddenly diminished in a country with an allegedly redundant labor force in agriculture, as happened during the 1918–19 influenza epidemic in India. Arthur Lewis pointed out later that the consequences he had drawn from the assumption of zero marginal productivity in agriculture would remain fully in force provided only the supply of labor at the given wage in industry exceeds the demand, a condition that is much weaker than that of zero marginal productivity. See W. Arthur Lewis, "Reflections on Unlimited Labor," in *International Economics and Development: Essays in Honor of Raúl Prebisch* (New York and London: Academic Press, 1972), pp. 75–96.

6. New Haven: Yale University Press, 1958, p. 5.

7. C. P. Kindleberger, *Europe's Postwar Growth: The Role of Labor Supply* (Cambridge, Mass.: Harvard University Press, 1967).

8. *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1962), p. 355.

9. A. O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," published in 1968 and reprinted in Hirschman, *A Bias for Hope: Essays on Development and Latin America* (New Haven: Yale University Press, 1971), Chapter 3.

10. See "The Social and Political Matrix of Inflation: Elaborations on the Latin American Experience," *Essays in Trespassing*, pp. 177–208.

11. This was the title of a well-known League of Nations study stressing the benefits of multilateral trade which were being threatened in the thirties by the spread of bilateralism and exchange controls. Its principal author was Folke Hilgerdt, a Swedish economist. In the immediate postwar period, Hilgerdt, then with the United Nations, noted that trade, however beneficial, had not

adequately contributed to a narrowing of income differentials between countries. With Hilgerdt coming from the Heckscher-Ohlin tradition and having celebrated the contributions of world trade to welfare, this paper, which was published only in processed form in the proceedings of a congress (I have not been able to locate it), was influential in raising questions about the benign effects of international economic relations on the poorer countries.

12. An account of the emergence of the thesis is now available in Joseph Love, "Raúl Prebisch and the Origins of the Doctrine of Unequal Exchange," *Latin American Research Review* 15 (November 1980): 45–72. See also my earlier essay "Ideologies of Economic Development in Latin America" (1961), reprinted in *A Bias for Hope,* Chapter 13. The latest review of the ensuing controversy and related evidence is in two articles by John Spraos: "The Theory of Deteriorating Terms of Trade Revisited," *Greek Economic Review* 1 (December 1979): 15–42, and "The Statistical Debate on the Net Barter Terms of Trade between Primary Commodities and Manufactures," *Economic Journal* 90 (March 1980): 107–28.

13. G. Arrighi; "Labour Supplies in Historical Perspective: A Study of the Proletarianization of the African Peasantry in Rhodesia," *Journal of Development Studies* 6 (April 1970): 197–234.

14. W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour," published in 1954 and reprinted in A. N. Agarwala and S. P. Singh, ed.; *The Economics of Underdevelopment* (London: Oxford University Press, 1958), p. 410.

15. "It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. . . . Such communication has always been, and is peculiarly in the present age, one of the primary sources of progress." J. S. Mill, *Principles of Political Economy,* Book III, Chapter 17, para. 5.

16. *Strategy,* pp. 173–5, 199–201.

17. This view has been aptly labeled "catastrofismo" by Anibal Pinto.

18. B. Warren, "Imperialism and Capitalist Accumulation," *New Left Review,* no. 81 (Sept.–Oct. 1973): 3–45, and "The postwar economic experience of the Third World," in *Toward a New Strategy for Development,* pp. 144–68.

19. This is stressed, for example, by Clive Y. Thomas, *Dependence and Transformation: The Economics of the Transition to Socialism* (New York: Monthly Review Press, 1974), passim.

20. On this subject, see also "The Changing Tolerance for Income Inequality in the Course of Economic Development" and "The Turn to Authoritarianism

in Latin America and the Search for its Economic Determinants," *Essays in Trespassing*, pp. 39–58 and 98–133.

21. See Robert Packenham, *Liberal America and the Third World* (Princeton: Princeton University Press, 1973), pp. 123–9.

22. An expression attributed to Arnold Harberger, in an article in the *New York Times* of February 7, 1980.

23. Cambridge, Mass.: Harvard University Press, 1971, p. 61.

24. "Brazilian Size Distribution of Income," *American Economic Review* 62 (May 1972): 391–402.

25. Princeton: Princeton University Press, 1977, p. 58.