appreciates the dialectic relationship between the society, the
polity, and the economy.

Within a given paradigm or world view several competing
theories may exist. These internal arguments are part of any school
of thought’s historical legacy—varying interpretations of what
happened and why. In “The Misconceptions of ‘Development
Economics,’” Deepak Lal claims that the attempt to create an
economics of development is fundamentally misguided. This is so
because it involves a denial of the applicability of traditional
economic theory to the problems of developing countries. In
particular it denies the universal existence of economizing
behavior, exaggerates the importance of market failures, and
believes that political authorities can allocate resources better than
the market. Amartya Sen defends the record of “development
economics,” claiming both that the criticisms are inaccurate and
that there has been substantial development.

Howard J. Wiarda claims in “Toward a Nonethnocentric
Theory of Development: Alternative Conceptions from the Third
World,” that rejection of the Western model of development; in its
several varieties, is now widespread in the Third World. There are
many new and exciting efforts to construct indigenous models of
development that are more compatible with local values and
traditions. In this sense they are more in line with the political
economy paradigm.

1

Paradigms of Economic
Development and Beyond

Charles K. Wilber and Kenneth P. Jameson

1. INTRODUCTION

During the more than thirty years since the end of World War II and the
 founding of the United Nations, “development” has captured the attention
 of economists and statesmen alike. Of course international inequalities are
 not new, but three factors account for this recent emphasis: (1) the realization
 that the worldwide spread of markets has not automatically brought the
 benefits promised by nineteenth-century economic theory; (2) the emergence
 of socialism as a viable development alternative; and (3) the pressure for
economic development exerted by the newly independent countries of Latin
America, Asia, and Africa with the resulting challenge to existing economic
relations. In all of these cases, the meaning of “development” is a crucial

element.

Theorists and practitioners of development have written and labored in
universities, government agencies, and international institutions. Interna-
tional conferences have been held, billions have been spent on foreign aid,
and thousands of experts now earn their living from development. However,
this prolonged preoccupation has not resulted in a generally accepted expla-
nation of the process of development. Indeed, an initial survey of the field
would seem to suggest an analogy with the Tower of Babel. Closer examina-
tion, however, shows that there are two main categories of treatments of
development, one we will term “orthodox” and the other “political econ-
omy.”

One of the purposes of this chapter is to suggest how the diverse writings
on development can be understood as belonging to these two competing

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House, New York.
categories. But a second goal is to show that the intellectual strictures which accompany work within either of these two traditions may actually hamper our understanding of development; we must move beyond them to an approach based on what we term "convoluted history. . . ."

The initial problem is to establish the context in which the interplay of the two main approaches is played out. Thus the question of intellectual competition in economics must be considered.

II. INTELLECTUAL COMPETITION IN ECONOMICS

The status of economics as a science has provoked active debate in recent years. Some claim that economics has indeed gained the coherence and explanatory power to qualify as a science, while others claim that it is presently in a pre-scientific state and is likely to remain there forever. Of course the entire debate traces back to the work of Thomas Kuhn[^1] who in his history of science used the construct of the "paradigm" to show that science and its development are much more complex than the simple march of value-free knowledge which progresses by its own persuasiveness.

There is no need to enter into the debate on the nature of economics nor into the hot philosophical debate sparked by Kuhn. As a device for ordering thinking about economic development, the concept of a paradigm will be useful.

For our purposes a paradigm is a world view shared by a group working on or thinking about a particular topic, e.g., economic development. Such a world view affects their activity across the board: the questions which are asked, the information which is collected, the method of interpretation of that information, and even the group with which there will be communication about the questions. Because of the functioning of this world view and this scientific community, advances in knowledge about the particular concerns of this community are facilitated; but it is very difficult to move from one world view or one community to another. As long as the paradigm relates successfully to the questions addressed, there is substantial "progress" in understanding and knowledge. On the other hand, even when the questions are not addressed with a high degree of success, i.e., when there is a crisis in the community, members of the community continue to follow the paradigm's guidelines rather than breaking with that world view and adopting another.

This paradigm or general theory—which it be neoclassical economics, Marxism, or some other—is usually so much a part of the very thought process that empirical disconfirmation of some particular hypothesis is almost automatically rejected. There are a variety of specific problems that make it easy in economics to reject a disconfirmation as invalid and thus to protect the scientist's theory or paradigm.

First is the ceteris paribus problem. Hypotheses in economics must always be stated in the form of "if . . . then" propositions. Since the "ifs" do change, an econometric test that disconfirms the theory can always be rejected as "mis-specified." In addition, since hypotheses are stated in probabilistic terms, a nonoccurrence of the predicted event cannot be used as a refutation of the general law from which the particular hypothesis was deduced.

Second is the difficulty of constructing a clear-cut test of a hypothesis in economics. Most of the traditional statistical tests (for example, null hypotheses) are very weak and a large number of different theories are capable of passing them. The choice among alternative theories, therefore, cannot be settled on empirical grounds. Instead, the desirable qualities of a logical model—simplicity, generality, specificity, and aesthetic quality—are used, and the relative evaluation of these qualities is probably determined by one's own paradigm.

In the area of development—which is multidisciplinary by nature—these problems of verification are multiplied many times over. When a general theory or paradigm has achieved a high level of insulation from falsification it might best be termed an ideology or, less pejoratively, a parable. As parables, both the orthodox and political-economy paradigms of economic development serve two essential and related functions. Each acts to restrict the scope of what is considered "scientific" inquiry and each serves as a policy stance for molding society in its image.

Before turning to specific consideration of the two paradigms, let us indicate in a general manner what the main components of paradigms or parables of development are. It will be seen that a major consideration is the view of history implicit in the paradigm, a theme to which we will return in later sections.

An Outline of Development Paradigms

Both the orthodox and the political-economy paradigms grow out of Western modes of thought, and thus they have similarities in their patterns of analysis and thinking. This fundamental similarity can be seen by going back to the definition of development given in Webster's Third New International Dictionary. Development is defined as "the act, process, or result of developing: the state of being developed: a gradual unfolding by which something . . . is developed; gradual advance or growth through progressive changes." This obviously requires examination of the word "develop," which is defined as "to cause to unfold gradually: conduct through a succession of states or changes each of which is preparatory for the next."

From this we see that development has the implication of a gradual unfolding or of a passing through stages, each of which prepares for the next. When applied to the context of countries existing in time, it shows that
development must be dealt with in a historical context. The historical experience will condition the stage in which a country finds itself and the degree to which its development has unfolded.

From the definition, there is another sense in which history is important. To talk of an “unfolding” implies the stripping off of overlays which are hiding the true nature of the subject; it suggests the gradual emergence of the nature of the entity which for some reason has been hidden but which reveals itself with the passage of time. There is in this view a type of teleology, an end to which history is tending or should tend. So development is more than simply change or the passage of time; it is change in some particular direction.

Such a stance fits quite nicely with the other definition of development, the passage from stage to stage. As long as each succeeding stage is a “higher” stage, then the process of history and development is again teleological. This can be seen most clearly in the writings of W. W. Rostow on the stages of economic growth, but it also appears in a close reading of virtually any text on development. Thus, Bauer and Yamey talk of “the widening of the range of alternatives open to people as consumers and producers”; Higgins sees development as “a discernible rise in total and in per capita income, widely diffused throughout occupational and income groups, continuing for at least two generations and becoming cumulative.” Seers says that it must be treated in relation to a “universally acceptable aim—the realization of the potential of human personality” while, finally, Denis Goulet in talking of the French school describes their view as “development itself is simply a means to the human ascent.”

Joining together the historical element of development with the teleological, it is rather easy to arrive at a view of history as a parable of “progress” toward that final goal. It is this aspect of development thinking whose philosophical roots are examined by Celso Furtado, . . .

In his Economic Development, Culbertson points out that “belief in progress” characterized the classical writers and Marx as well as the neoclassical school of development thinking, i.e., that progress is a component of both of the competing paradigms of development. The fundamental role of “history = progress” will be emphasized in the final section of this chapter.

Two other components complete the skeleton of the analytical framework of the two paradigms. The first is their attempt to deal with the continued existence of “underdevelopment.” Obviously few if any countries have developed fully, and an explanation for this must be a part of the paradigm. More particularly, why is it that the range of performance is so vast, from that of the United States or Sweden on one end, to a Chad or Guinea-Bissau on the other? Thus, a complete view of development must contain a “theory of underdevelopment” which can provide a plausible explanation for the existing state of events. The second component, naturally, is a “theory of development.” In other words, there must be offered some explanation of the mechanism or motive force which moves countries through history in their process of development. It is in the theories of development and underdevelopment that the two paradigms differ most radically.

With this as background, we are now ready for a rapid tour through the two main paradigms of development before turning to an alternative view of history and to the essays in this volume and their contribution to an understanding of the process of development.

III. THE ORTHODOX PARADIGM

Development thinking in the United States has long been dominated by what we term the “orthodox” paradigm. Although it has certainly undergone an evolution and has several variants, its basic outlines adequately encompass a majority of the writers on economic development in this country. Following the schema outlined above in terms of its major components, we can sketch out the general outlines of this paradigm.

The basic goal of development has been seen traditionally as the attainment of a “high mass consumption” society, to use Rostow’s term. It is understandable, therefore, that orthodox development economists have usually measured the level of economic development by the level of per capita income or product. The implicit goal of development appears to be the creation of societies that replicate the political-economic system of the United States: a private enterprise economy combined with a representative, democratic political structure.

The view of the historical process contained in the orthodox paradigm is clear from this characterization: it is one in which developing societies move toward greater availability of goods and services for their citizens. This is the nature of progress, and, as a result, growth in the per capita output of goods and services is often used synonymously with development. Since the general unit of analysis is the nation-state, it is the average per capita income of the whole population of the nation-state that moves to higher and higher levels as the historical process of development continues.

As might be expected, the treatment of this historical process is closely intertwined with the theory of development incorporated in the paradigm. It is often held that development and progress are almost natural and lawlike and that history is simply a continuum from the poorest to the richest countries. The main difference between them, aside from natural resource base, is the time which separates them from underdevelopment.

Rostow’s stages-of-growth model is the best known and most explicit presentation of this view of historical development. The use of this model as a framework for analysis of the process of development assumes that present-day countries correspond to the “traditional society” stage or, at best, the
preconditions stage in the Western developed countries. That is, the present-day developed countries were once underdeveloped and all countries move through all these stages.

How can this development best be brought about, that is, what mechanisms will most surely lead to growth and development? Of course there is a variety of approaches to this problem, but the one which has greatest claim to the orthodox position is the view that development will be facilitated by doing nothing, by letting things alone: "laissez faire."

This view grows out of the model of competitive market capitalism. Since an uncoerced person can be depended upon to act rationally to maximize his/her individual self-interest, it is thought that an automatic, self-regulated mechanism to manage economic affairs naturally emerges in the course of history. These free choices are expected to overcome scarcity and to result in progress through the automatic adjustments of free exchange in markets. The forces of competition ensure that the economy produces those goods which people desire and that maximum output is produced in the most efficient manner.

Since the process is virtually automatic and technically determined, this suggests the theory of underdevelopment. If development has not occurred, then the reason must be that something interferes with this automatic process. The analysis of obstacles to development is, in effect, the theory of underdevelopment contained in the orthodox paradigm. Two examples can illustrate the concept of obstacles. One obstacle to growth may be nonrational behavior, that is, nonmaximizing behavior. Because of cultural dualism, lack of n-achievement, or other social/cultural/psychological constraints, people tend to behave in ways that perpetuate traditional forms of economy, and thus retard development. Another is the obstacle to the free working of markets created by government regulation and participation in the economy and by the imperfections of markets caused by the low level of development. These two categories of obstacles hamper the automatic progress of development which otherwise would take place.

The possible existence of such obstacles represents a challenge to policymaking, and two main responses to this challenge have developed since World War II. In addition a third response, growth with equity, has developed in recent years as a reaction to what is perceived as the failure of development programs.

Laissez Faire and Planning Responses

Suggested policies to overcome these obstacles to the automatic process of development have been quite varied. However, they fall into two major groupings: a continued defense of the laissez faire strategy or a belief that substantial government planning will be required to overcome these obstacles.

The laissez faire response is twofold. On the one hand, it questions the observations of nonrational behavior. There is a large literature in the economic anthropology area which finds rational maximizing behavior in widely varying situations that would seem on the surface to preclude such rationality. While this may only indicate the protean nature of the concept of "economic rationality," it is a viable response. Similarly the apparent market failures can be dismissed either as nonexistent or as causing minimal economic loss. Harberger's earlier work examines the question for the problem of monopoly power, and his chapter in this book presents a similar view critical of claims of inappropriate factor proportions in production. If such problems do not exist, then it is apparent that the policy of laissez faire continues to be viable and indeed desirable from a development standpoint. Once again the problem of development will be solved with the passage of time as the underdeveloped countries pass through the same stages as did the now developed countries.

On the other hand, it is admitted that there may indeed be deviations from laissez faire. The best example of this is the role which government has come to play in Third World countries. Government interferes in all areas, setting prices by nonmarket considerations, distorting the operation of labor markets through minimum-wage legislation and through providing employment in the government sector. In addition, the government artificially stimulates demand through deficit spending, thereby generating inflation in the domestic economy. In this case, the detrimental aspects cannot be overlooked; action must be taken. Government interference must be curtailed and the size of government deficits must be cut drastically. The best example of such an attempt is the effort to implement a "social market economy" in Chile after the military coup in 1973. This was seen as necessary because of the distortions caused to the economy by the previous socialist regime. Following the dictates of economic policymakers, generally trained at the University of Chicago, the government is attempting to implement the above policies, in essence moving the economy back to a market-based operation.

The planning response is quite different. Those with this perspective conclude that government must intervene in the economy to offset the antiddevelopment impact of the two types of obstacles to development. On the side of nonrational behavior, the government can attempt to convince its citizens of the need for "modernization" while at the same time substituting its own entrepreneurial ability and knowledge to fill that vacuum. On the side of markets, the government can again offset the difficulties through economic planning. By developing a coherent overview of the economy and by forcing this on the actors in the economy through the various means at its disposal, the orthodox result of growth in income can be attained.

It should be pointed out here that the willingness of government to begin to supplement or supplant the market has another important result. It also opens the door to a deviation from consumer sovereignty in deciding the
availability of goods to the economy and brings to the fore questions about the distribution of income which are generally submerged in the laissez faire approach. These questions can no longer be ignored because it is obvious in a planned economy that income distribution is highly conditioned by the political process, not given by some endowment of ability and drive. This suggests that the problem of the “social-welfare function” must be taken into consideration, and the definition of development must be consciously decided rather than simply taken as growth in output.

The preponderance of work in the orthodox mold can fit into either of the two responses noted above. We must now take note of the recent work of the “growth-with-equity” group which is a response to the historical record of development programs in the postwar period.

The Growth-with-Equity Response

While there are important differences between the laissez faire theorists and the planners, they both agree in their assessment of the success of postwar development. They both point to the resounding success of the effort to raise growth rates of GNP. As Morawetz19 points out, “GNP per capita of the developing countries grew at an average rate of 3.4% per annum during 1950–75, or 3.0% if the People’s Republic of China is excluded. This was faster than either the developed or the developing nations had grown in any comparable period prior to 1950, and exceeded both official goals and private expectations.” While there is diversity in GNP performance across countries, there is an almost universal increase in other indicators of welfare such as life expectancy, which has increased as much in the past two decades in developing countries as it did in a century in the industrialized nations. The same can be said about the tremendous increase in the availability of education and about performance on measures of literacy.18 Of course, these data take into account both the socialist and the capitalist countries, and thus the success cannot be ascribed solely to the advance of capitalism. But the capitalist countries have succeeded in these terms, which seems to indicate the success of the orthodox strategy.

Despite its success in raising growth rates of GNP, the orthodox strategy of economic development has seemingly failed in some crucial areas: there is continued unemployment, increased income inequality within and among nations, and the stagnation of real income levels among the poorest. The common theme that animates all of these criticisms is that the benefits of the orthodox strategy of development have failed to “trickle down” to the poor of the world, and thus there must be a new strategy, growth with equity. Let us look at these failures more closely.

In employment, the general experience has been that unemployment has risen despite the high growth rates; it exists in the world today on an enormous scale, much more severe than in the 1930s. Some economists argue that open unemployment in the world is going up at the rate of 8 percent a year, though Morawetz is much less alarmed. Of note is that this widespread unemployment emerged during the 1960s, a decade of worldwide expansion of trade and rapid growth in the economies of developed countries, and that it often appeared in the countries that were growing the most rapidly.

The second change that is apparent in the data is an increase in the inequality of income distribution in underdeveloped countries. While there is an active debate on the meaning of the data, since 1965 the share of Brazil’s national income going to the top 5 percent of the people has risen from 29 percent to 38 percent, and by some estimates to 46 percent. In Kenya, the top 20 percent appears to receive 68 percent of the income; in Ecuador, 74 percent of the income; and in Turkey, 61 percent of the income.

The third problem area is absolute poverty: the inability of persons to provide for their basic needs. Adelman and Morris studied income shares in 43 noncommunist, underdeveloped countries during the post–World War II period. They found that as economic growth proceeded, the share of the bottom 60 percent of the people fell relatively. But they also found that in poorer countries the income of the bottom 40 percent had fallen absolutely as well, i.e., these people had less income in absolute terms at the end of these two decades of development than they had had at the beginning. Adelman and Morris’s statistical results correspond well with evidence gathered in certain areas: India, Pakistan, northern Mexico.

In response to these depressing results many orthodox development economists began to search for ways to modify their vision of “development = growth in per capita GNP” to include a concern for channeling the benefits of growth to the poorest. Thus there is emerging a third major response within the orthodox paradigm, one that has been termed “growth with equity.”20

The growth-oriented theory of economic development stresses that inequality of income is necessary to provide incentives for investment. If self-interested, maximizing individuals are allowed to seek differential rewards for their efforts and risk-taking, total income will be maximized in the process. Then (if you are a conservative) the benefits will eventually “trickle down” to the less successful in the form of higher wages; or (if you are a liberal) the state could redistribute the benefits when society is rich enough so that incentives will not be drastically impaired. Unfortunately, as seen above, the results of these two strategies in underdeveloped countries are not very encouraging. Forty percent of the people live and die all too early in the meantime.

The growth-with-equity adherents argue that the “grow now, trickle later” approach not only has problems of execution but is badly flawed in its conception of strategy. Three problems are cited most commonly.

First, a country cannot grow now and redistribute income later because of the structures which develop with unequal growth. For example, as growth
proceeds, those receiving the income obtain increased political power to oppose any attempt to redistribute later. In addition, income becomes embodied in goods—Mercedeses, luxury apartments, college educations—which cannot be redistributed. There is no way to turn a Mercedes into bicycles or a luxury apartment into public housing. Thus income becomes a stock which cannot be redistributed.

A second problem with the growth strategy is that the poor moved into the cities in far greater numbers than theory assumed. Todaro argues that for every job opening up in the cities, three people migrate from rural areas looking for jobs. Thus, for every job created, two people are attracted who end up unemployed. In addition, the demonstration effect of urban life has been a major magnet in drawing people from the rural sectors to the urban areas.

Finally the argument is made that certain key aspects of the development process simply have been ignored. Agriculture is one of these. It was given the role of fueling the industrialization process by providing various surpluses. But it turns out that this was often at the expense of the vitality of the sector, and in many cases agriculture has become unable to provide the basic food needs of the population. Similar benign neglect was accorded broader social and political aspects of development, with little concern given to social and political mobilization and participation.

Growth–with-equity economists are relatively united in their critique of the economic growth strategy and there are other areas of basic agreement as well. They generally accept the idea that social revolution is unlikely and probably undesirable for most poor countries in the near future. Thus these theorists are struggling to come up with an approach that will achieve some degree of equity short of social revolution. They are convinced that the poor can improve their standard of living without revolution, and they cite Taiwan, Hong Kong, Israel, Japan, Singapore, and Sri Lanka as examples of countries where this has happened. This places them to some degree in the “history = progress” school, but they are much less sure of this than of other orthodox responses.

Another common factor is their implicit assumption concerning the peasants in less developed countries. They regard most of the poor in the poor countries as responsive to economic opportunities; thus the bottleneck in the poor countries is not the peasant, but is more likely the capital city’s powerful elite who have failed to design projects that provide meaningful opportunities to peasants. Common explanations of this failure are: first, the people at the top do not understand the people at the local level and their needs; second, they have been following a development—from-above syndrome, keeping all the incentives, all the management, all the cash in the hands of the central planners; or, finally, they have been following misguided policies favoring urban consumers. Any effort at growth with equity must correct these inadequate economic policies.

Finally, growth–with-equity theorists all give considerable emphasis to the social and political variables in achieving growth and equity. They argue that one of the crucial limitations of past approaches was their narrow focus on simple economic factors—land, labor, and capital—to the exclusion of political, social, and cultural factors.

Despite these common starting points, growth–with-equity theorists espouse a wide variety of development strategies; in fact, some seven growth–with-equity strategies are discernible: employment generation, the redirecting of investment, the meeting of basic needs, human resource development, agriculture–first development, integrated rural development, and the New International Economic Order. They are not all mutually exclusive, of course, and some are quite complementary. They simply approach the problem of eliminating poverty from different angles. Their unifying thread is the intention to deliver greater benefits to the bottom half of the population.

The two most fundamental strategies are “meeting basic needs” and the “New International Economic Order.” Streeten argues that the goal or target of development should be to meet the basic needs of all people everywhere—food, water, clothing, shelter, medical care, education, and participation in decisionmaking. In addition to meeting these needs directly, employment generation, the redirection of investment, human resource development, agriculture–first development, and integrated rural development can all be seen as indirect ways of meeting basic needs.

All but one of these strategies focus on efforts within the underdeveloped countries. However, those who call for a New International Economic Order argue that while internal changes are necessary they cannot succeed without a major restructuring of those international institutions—the international monetary system, tariffs, multinational corporations, etc.—that at present result in discrimination against the poor countries.

It should be noted that growth with equity has not brought unanimity to the orthodox camp. The traditionalists within the orthodox paradigm argue that the growth–with–equity case is built on sand. They claim that the data are insufficient to prove a worsening of living standards and, in addition, that traditional strategies are being judged too soon. Western development exhibited increasing unemployment and income inequality as a stage before growth finally spread its benefits to the poorest part of the population. More time is needed before the growth approach can be declared a failure.

While the growth–with–equity approach developed within the orthodox paradigm and still has one foot firmly planted there, its tendency to endorse policies that supplant markets and deliver goods and services directly begins to move it closer to the political–economy paradigm. Certainly many of those who call for a New International Economic Order are adherents of dependency theory, one of the two main variants of the political economy paradigm. Celso Furtado is one of the best examples.

At this point the boundaries between the two paradigms become blurred, and the view of history as progress is not so clear. The growth of unemploy-
ment, inequality, and absolute poverty certainly have tarnished that belief. We will return to these questions after consideration of the political-economy paradigm.

IV. THE POLITICAL-ECONOMY PARADIGM

The other main approach to development is what we term the political-economy paradigm. It takes a very different stance from the orthodox approach, and the contrast highlights the arena of paradigm competition.

Within the orthodox paradigm the more traditional laissez faire and planning economists focus on economic growth as the key to development, while the growth-with-equity economists concentrate on the distribution of the benefits of growth to the poor. Political economists are more concerned with the nature of the process by which economic growth is achieved. In addition, traditional economists look on people’s values as means. Since the goal is growth, if people’s values have to change in order to get growth, then society must effect that change. But for political economists, one goal is to enhance people’s core values. Development becomes the means, not the end, for the end is to enhance what people value. Development or growth is desirable only if it is consistent with people’s deepest values. Thus, political economists such as Denis Goulet define development as “liberation.”

This means liberation from oppressive and exploitative relationships both internally, among people within the country, and externally, among nations. The key question is: Who is controlling the development process? To apply Paulo Freire’s terminology of the educational process to the development process implies the question: Are people (or classes) and nations objects of development under someone else’s control or are they subjects of development, in control of their own destiny?

Development is thus seen as the unfolding, in human history, of the progressive emancipation of peoples and nations from the control of nature and from the control of other peoples and nations. A major task then becomes that of explaining why this process has progressed much more with some peoples and nations than others. At this point there emerge within the political-economy paradigm two major schools of thought—the Marxists and the dependency theorists. The key difference between them resides in where they identify the locus of power and control. The control and use of the economic surplus of society is seen as the key to power and control of development. The Marxists focus on the internal class structure as the key to understanding control of the economic surplus. Dependency theorists focus on relationships between nations. This is primarily a matter of emphasis. Marxists have always been concerned with imperialism, and dependency theorists are concerned with the connection between the internal class structure and external dependency. But the different emphasis is important in understanding the political-economy paradigm.

The economic or social surplus is viewed as a residual factor—that which remains after necessary consumption has been subtracted from total output. Political economists argue that control of this economic surplus determines the nature of the development process. If a landed aristocracy controls the surplus you will get one style of development, if the middle class controls it then you will get a different style. The degree of foreign control of the surplus also will shape the strategy of development.

The economic-subsurplus concept is used by both Marxists and dependency theorists to analyze historical development and explain the existence of underdevelopment. We now turn to that analysis.

Development and Underdevelopment

At least at a superficial level, the stance of the political economist vis-à-vis history is quite similar to that of the orthodox writer. As Marx said, “the developed countries simply show the less developed countries their future.” Thus the forces of nature will of necessity push economies from a precapitalist stage through the capitalist stage into either a socialist stage, which is the prelude to a communist society for the Marxist, or into self-reliance within a New International Economic Order for the dependency theorist. The process is inexorable, ensuring that history will bring progress. Nonetheless, there is a substantial difference between the two paradigms on specifics of the process. Whereas an automatic process was simply assumed by the orthodox approach, no such automatic transit is assumed by the political economists. The progress of history will come about only through the efforts of men: “Man makes himself.” It will be through a long and costly struggle that history will advance, with each phase containing within it contradictions which must be exploited and which in their resolution will move the system the next step on the path. But those who control the economic surplus at a given time will not give in easily and thus progress will always be difficult. But it will come about as history and development move synchronously.

In this paradigm, the theory of underdevelopment has received the bulk of the interest, for it is only by understanding the forces of underdevelopment that the contradictions can be located and the struggle launched to resolve them. Let us take as our starting point the treatment of Western capitalist development, common to both variants of the political-economy paradigm, which, in turn, is the springboard for their separate theories of underdevelopment.

Capitalist Development in Europe and the United States

The development of capitalism in the West faced the need for change in the social structure so that the change-oriented middle class could become the leaders of society. This often involved a more or less violent struggle for
supremacy between the old social order and the emerging new one. The English Revolution of 1640, ending with the supremacy of Parliament in 1688, replaced the feudal lords with the landed gentry and urban middle class as the dominant classes in England, thus preparing the way for later economic progress. The French Revolution of 1789 replaced the old aristocracy with the new middle class. The lack of such social change was a major factor in the economic stagnation of Spain after the seventeenth century.

This change in social structure enabled the economic surplus to be productively used. As Professor Dudley Dillard has pointed out: "Productive use of the 'social surplus' was the special virtue that enabled capitalism to outstrip all prior economic systems. Instead of building pyramids and cathedrals, those in command of the social surplus chose to invest in ships, warehouses, raw materials, finished goods and other material forms of wealth. The social surplus was thus converted into enlarged productive capacity."

Before this productive investment could take place, the economic surplus had to be channeled into the hands of the new progressive class of society. In England, the profit infusion (the rise of money prices faster than rents and/or money wages) of 1540–1640 and 1795–1815 redistributed income in the first instance from landlords with fixed money rents to the rising gentry and merchants, and in the second from wage earners to profits on capitalist enterprise. Also the lag of real wages behind increases of productivity in the eighteenth and nineteenth centuries further increased profits from which new investment was made. This accumulation of capital enabled new technology to be utilized, which, by reducing costs, enabled more capital to be accumulated.

Such a period of development is always characterized by discontent and unrest because of the great changes taking place. In the case of the development of the capitalist countries, this required action on the part of a powerful national state to facilitate the social changes and accumulation of capital and to suppress any attempted interference with the process.

The appearance of a new "spirit" not only facilitated social change in the capitalist countries but also promoted capitalist accumulation and economic development. The Protestant ethic encouraged thrift and reinvestment of savings by the middle classes, and hard work and obedience by the working classes.

The sum of these historical events was a social revolution that destroyed the old feudal social order and brought to the fore a new class that was change oriented, and into whose hands the economic surplus was channeled for productive use. This, coupled with the rationalization of agriculture that took place, enabled capital to accumulate and economic development to proceed.

Since this process revolutionized the economies of Western Europe and North America, why did it fail to do so in Asia, Africa, and Latin America? That is, what are the causes of underdevelopment suggested by the two political economy variants?

Two Theories of Underdevelopment

Let us start with the Marxist view. Capitalism entered most underdeveloped countries the "Prussian way"—not through the growth of small, competitive enterprise but through the transfer abroad of advanced large-scale business. Thus, capitalist development in these countries has not been accompanied by the rise of a strong property-owning middle class and by the overthrow of landlord domination of society. Rather, an accommodation has taken place between the newly arrived business class and the socially and politically entrenched agrarian aristocracy.

Therefore, there is neither vigorous competition between enterprises striving for increased output and rationalized production, nor accumulation of the economic surplus in the hands of entrepreneurs forced by the competitive system and the spirit of a middle class society to reinvest as much as possible in the continuous expansion and modernization of their businesses. The result is that production is well below the potential level, with agriculture still being operated on a semifeudal basis, and with waste and irrationality in industry protected by monopoly, high tariffs, and other devices.

For these and other reasons the actual economic surplus is much lower than the potential social surplus, which is the difference between the output that could be produced in a given natural and technological environment and what might be regarded as necessary consumption. A large share of the potential social surplus is used by aristocratic landlords in excess consumption and the maintenance of unproductive laborers. In addition, a large share of the actual social surplus is taken by businessmen for commercial operations promising large and quick profits, or for the accumulation of investments or bank accounts abroad as a hedge against domestic social and political hazards. Furthermore, in order to obtain social status and the benefits and privileges necessary for the operation of a business, they must emulate the dominant aristocracy in its mode of living. The potential social surplus is further reduced by the substantial quantity of resources used to maintain elaborate and inefficient bureaucratic and military establishments.

Although other factors undoubtedly have much to do with the inadequacy of the amount and composition of investment, the waste of a large portion of the social surplus due to the prevailing social structure is probably one of the major causes of economic stagnation.

In addition, the prevailing social and economic structure breeds a system of social relations, habits, customs, and culture that retards social and economic development. The preindustrial attitudes of peasants and workers operate against change, but even more important is the attitude of the ruling classes and the state which they usually dominate. These ruling classes know that if social and economic development comes, their power, status, and way of life will be threatened. Therefore, they continuously and actively oppose all kinds of social change.
generalizations from the historical development experience of the Soviet Union and China. Until recently the Soviet model of development was looked to for guidance in development strategies. Thus it is worthwhile to take a closer look at it.

The Soviet model, as historically derived, can be subdivided into three aspects: the preconditions of the model, the institutions characteristic of the model, and the strategy of development in the model.

The preconditions of the model include severance of any existing colonial bond with capitalist countries, elimination of economic domination by foreign capitalists, and redistribution of political and economic power. In sum, this will usually mean a social revolution which, at least nominally, redistributes political and economic power to the workers and peasants.

The institutions characteristic of the model include collectivized agriculture, publicly owned enterprises, comprehensive central planning, centralized distribution of essential materials and capital goods, and a system of administrative controls and pressures on enterprises, in addition to incentives, to ensure compliance with the plan.

The strategy of development in the model encompasses high rates of capital formation; priority of basic capital goods industries; bias in favor of modern, capital-intensive technologies in key processes combined with labor-intensive techniques in auxiliary operations; an import-substitution policy in international trade; utilization of underemployed agricultural labor for capital formation; and heavy investment in human capital.

Parallel, in time and intent, to the revolt of the growth-with-equity theorists within the orthodox paradigm, many Marxists and dependency theorists turned to Chinese experience as an alternative to the Soviet model of development. Many factors played a role in this shift in allegiance: the Soviet obsession with growth that relegated people’s values to a secondary position, the concentration of power in the hands of the Communist party at the expense of the mass of people, the focus on industrialization to the neglect of agriculture, and so on.

To many political economists China seems a more appropriate model of development. A great deal of work has been done on the accomplishments in China. A review of this literature finds extensive and numerous treatments of China’s gains in health care, sanitation, worker organization in industry, rural development, and rural mobilization. It is apparent that if China had not existed, political economists would have had to invent it, for the validation that it gives to the political-economy approach is substantial and crucial.

The general model drawn from Chinese experience is one in which self-reliant development is pursued with an emphasis on fulfilling people’s basic human needs (food, shelter, health, education) and on providing institutional structures (brigades, communes, etc.) that enable people to exert control over the conditions in which they lead their lives.

Most dependency theorists are more circumspect about citing China as their model of development. They concentrate instead on the elimination of dependency relations through the call for a New International Economic Order. This is frequently coupled with a rather vague endorsement of a self-reliant socialism that is without the dictatorial political control of China. Thus, their major concern is returning control of the development process to the individual nation-states. Some dependency theorists realize that eliminating external dependency does not necessarily empower the mass of poor people in the underdeveloped countries. A class analysis demonstrates that the leading elites in many underdeveloped countries—particularly those countries most integrated into the international economy—are less than eager to pass control to the poor.

In general, then, political economists see the historical process of development sidetracked into the blind alley of underdevelopment. Traditional Marxists see this as due to the failure of the middle class to perform its historical mission of creating a dynamic capitalist society. Dependency theorists argue that specific conditions led to a dependent relationship between center and periphery countries that distorted the development of the latter. Marxists call for social revolution to replace the middle class with control by workers and peasants, and dependency theorists call for an end to dependency so nation-states can take control of their own development.

In closing this discussion of the political-economy paradigm it should be noted that this reading of historical development is not universally agreed upon by political economists. Writers such as Bill Warren, although speaking from a Marxist perspective, claim that there have been tremendous increases in the forces of production in the postwar period, that development is indeed occurring in exactly the way that Marx would have predicted. Countries such as Brazil, Mexico, and Nigeria are going through a capitalist revolution. This process and its success will bring forth the contradictions which will eventually lead to a socialist overthrow of the capitalist system. Thus, these political economists agree with the traditional economists of the orthodox paradigm that development is occurring. They differ in believing that, after development occurs, conflict that will eventually lead to socialist revolutions will develop among all the advanced capitalist countries. Here again, the boundaries between the two paradigms become blurred, but these two sections should have made clear the basic utility of the paradigm division.

Nonetheless, it is the contention of the remainder of this chapter that it is necessary to pass beyond these paradigms and, in particular, to break free of their implicit belief in the natural progress of history. We suggest that seeing history as "convoluted" avoids many of the reductionist fallings of our postwar paradigms, and in general that the remaining chapters of the volume...
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The governments of these countries are poor agencies for enforcing the necessary changes, even though they claim the desire to do so, because often they are controlled or at least heavily influenced by these same wealthy classes. Governments which have attempted basic alterations in the social and economic structure have usually fallen, victims of a coup d'etat.

Many of these governments fear the prospects of development; their ruling classes realize better than we do the revolutionary potential which is contained in social change. They realize that even an attempt at peaceful, evolutionary development could quickly gain momentum and proceed to a situation where whole social classes are destroyed and basic institutions remolded.

John Gurley has elsewhere encapsulated this view quite succinctly:

Social scientists these days usually suppose that all governments really want economic development, and if they do not achieve it, then it must be because the problems are unusually difficult to solve, or that solutions take a rather long time to work themselves out. Persistence and technical knowledge are what is required for success. This supposition, however, does not adequately take account of the class structure of societies, the often conflicting aims that exist among the various classes, and the class nature of "success" and "failure." When poverty is looked at from the standpoint of the ruling classes, it may not be a failure of the system at all but rather a prerequisite for the continuation of their accumulation of wealth, their privileges, and their social, political, and economic domination of the society.

A thorough-going programme of economic development, which is spread widely and reaches deeply into the structure of the society, is a dangerous thing to ruling classes, for it tends to undermine the very attributes of the masses of people that nourish the wealthy and powerful. Such a programme awakens people, and it is often best that they doze; it mobilizes people for gigantic economic efforts and such organization can be turned into political subversion; it sweeps away illusions, but may open their eyes to the causes of their own oppression.

Furthermore, any serious economic development programme that involves industrialization threatens existing class structures by creating new economic bases from which arise new social classes, and weakens the economic foundations which support the present dominant classes.

Thus there is little likelihood that underdeveloped countries will simply progress along the path which has been traversed before. Capitalism has failed in its historic mission to develop the Third World. Rather, they are doomed to underdevelopment unless they undertake a process of struggle to take advantage of the contradictions of the capitalist order.

Dependency theorists would not necessarily disagree with this view of Third World underdevelopment; but they would argue that it does not give enough emphasis to the underdeveloped countries' own history and to their interaction with the developed countries.

Starting with the historical studies of underdevelopment pioneered by Celso Furtado, André Gunder Frank, Keith Griffin, Osvaldo Sunkel, and others, a dependency perspective on this process of development and underdevelopment has been in the making, particularly in regard to Latin America. This structural approach builds on the history of capitalist development presented above. The development of capitalism and the world market is seen as a twofold process. A highly dualistic process of underdevelopment of Africa, Asia, and Latin America is the consequence of the process of development of Europe and North America. This twofold process created a situation of dependence in which the underdeveloped countries became appendages of the developed countries.

This approach emphasizes the role of dependence in shaping the internal economic, social, and political structures (and thus control of the economic surplus) and in shaping the external relations of underdeveloped countries. Dependency means that many of the most important decisions about development strategies—decisions about prices, investment patterns, government macroeconomic policies, etc.—are made by individuals, firms, and institutions external to the country.

The simplest way to understand the meaning of underdevelopment in dependency theory is to see it as a process whereby an underdeveloped country, characterized by subsistence agriculture and domestic production, progressively becomes integrated as a dependency into the world market through trade or investment. Its production becomes geared to the demands of the world market and particularly of the developed countries, with a consequent lack of integration between the parts of the domestic economy. Thus both agriculture and industry become export oriented.

Two Views of Development

The final component of the models is their theory of development. Here the lack of elaboration is as notable as the wealth of analysis in the theory of underdevelopment. The Marxist theory of development suggests that the capitalist structures which exist and inhibit the development of Third World countries must be overthrown and replaced by a socialist society. This will in turn become a communist society over time, but the basic step must be the overthrow, violent or otherwise, of the capitalist structures.

What is to be done after the revolution? Political economists, Marxists, and dependency theorists alike have not developed any theories of development. Rather Marxists and many dependency theorists have drawn empirical
should be taken as examples of analyses which do move beyond these confines.

V. CONVOLUTED HISTORY

A look at the postwar record indicates that countries prospered and stagnated regardless of social system or development strategy. Brazil and Mexico grew while their poor suffered. Costa Rica grew and Cuba failed to grow while their poor prospered. Both China and Taiwan are cited as “models” of development. Both Tanzania and Peru are floundering. Capitalism has not brought freedom to Chile or South Korea and socialism has not brought liberation to Cambodia or North Korea. There have been increases in both per capita GNP and malnutrition, decreases in both infant mortality and political freedoms, and decreases in both external dependency and control by the poor of their own lives. This concrete record of “progress” challenges us to rethink our approach to “development.”

As noted above, the starting point for thinking about development is some conception of history. An initial response to our idea of convoluted reality which might aid in understanding the later chapters would be to become wary of the accepted conception of history and to attempt to avoid assuming the view of historical progress which is common to both of the paradigms. History as we live it simply does not seem to be moving in that direction. The parable of historical progress common to both the orthodox and political-economic paradigms is a metaphor that may be useful in studying an abstraction—civilization or socialism—but it is misplaced in studying the actual development of Peru or Uganda.

Nisbet summarizes the difficulty succinctly and elegantly:

The relevance and utility of the metaphor of growth are in direct proportion to the cognitive distance of the subject to which the metaphor is applied. The larger, more distant or more abstract the subject, the greater the utility of metaphor-derived attributes...

We may now state the proposition in reverse. The less the cognitive distance, the less the relevance and utility of the metaphor. In other words, the more concrete, empirical and behavioral our subject matter, the less the applicability to it of the theory of development and its several conceptual elements.

It is tempting enough to apply these elements to the constructed entities which abound in Western social thought: to civilization as a whole, to mankind, to total society; to such entities as capitalism, democracy, and culture; to social systems as functionalists and others conceive them; and to so-called evolutionary universals. Having endowed one or

other of these with life through the familiar process of reification, it is but a short step to further endowment with growth—with internal mechanisms of growth and development around which laws of progress and evolution are constructed. Such has in very large measure been the history of social thought in the West since the time of Aristotle.

It is something else entirely, however, when we try, as much social theory at present is trying, to impose these concepts of developmentalism upon, not constructed entities, but the kind of subject matter that has become basic in the social sciences today: the social behavior of human beings in specific areas and within finite limits of time. Efforts to extract this further from the metaphor of growth are . . . wholly unsuccessful.39

Convoluted History, Convoluted Development

It might be well to examine an alternative view of history, one which comes out of the writings of the Latin American novelist, Gabriel García Márquez. In his major work, One Hundred Years of Solitude, García Márquez provides us with a parable of Latin American history since independence which is quite at variance with our progress notion. History moves forward, progresses, but it is always doubling back upon itself. In some cases the march of history gets mixed up and only later resumes its “natural” course. This view we can call “convoluted history.”

Let us briefly review the story of the book to aid our understanding. It is the history of a village, Macondo, from its founding to its demise, as seen through the eyes and lives of one family, the Buendías. Ostensibly there is the progress which we call development. From an obscure, virtually deserted swamp Macondo grows and its people prosper. Macondo experiences technical or scientific progress as new inventions become known: ice, the astrolabe, the pianola. It experiences economic progress as the diversity of activities increases, the capstone being the arrival of a banana company which raises per capita GNP substantially. It also experiences political modernization as the national political structure develops and incorporates Macondo into its bosom.

Throughout these experiences of progress, there are doubts. The inventions of science, known for years elsewhere, are used by the gypsies to dominate the people of Macondo. The banana company effects substantial changes in the town and the people; but when the company cannot have its own way, it leaves town and calls down a tremendous rain which “purifies” the town of its past. In addition, the political structure is often quite repressive and unresponsive.

But the real questioning of historical progress comes from viewing the lives of the Buendías. Every generation has two recurring tendencies. One is the “Aurelio” tendency, calm and reflective, given to studying the historical manuscript of the family, yet when challenged, able to react with fury. In one
case the fury was so great as to drive Colonel Aurelio to lead thirty-two unsuccessful rebellions.

The other recurring tendency is the "José Arcadio" tendency. This describes modernizers, the entrepreneurs, who participate and enjoy the new changes which history is bringing them, and usually die a violent death. But history is more complex than simply continuity and repetition. For at one point the twins, Aureliano Segundo and José Arcadio Segundo, are mixed up; and they live part of their lives acting as the other. Finally history triumphs and brings them back to their own nature.

But underlying the currents of history is one consistent concern: the attempt to understand and to decipher the parchments left by Melquíades the gypsy. There is a gradually growing understanding, which reaches its fruition when the last Aureliano, Babilonia, learns to read the parchments which are the entire history of his family condensed into one moment. As he reads, that history ends and is blown away by the wind "because races condemned to one hundred years of solitude did not have a second opportunity on earth."

... This is certainly a different version of history.

Yet it is a version which may fit the process of development better than the idea of "progress," and it is one which can place the chapters of this book in a useful perspective. In some sense the writers of the later chapters are attempting to decipher the parchments of development, to read and understand the history of development in Third World countries. In addition, they are doing so in an effort to wipe out that history, to call forth the wind to banish underdevelopment and to facilitate policy which can bring about meaningful development.

The import of García Márquez's parable of convoluted history is that there is no simple historical march of progress. There are no general paths to development just as there is no general definition of development. Each people must write its own history. As Denis Goulet says regarding the strategy of development pursued by Guinea-Bissau: "Paradoxically, the lesson of greatest importance is that the best model of development is the one that any society forges for itself on the anvil of its own specific conditions."41

What does this mean for the development economist? There is an interesting parallel in modern medicine in a tension between the "scientific" explanation of a disease and the diagnosis a clinician makes for a particular patient.42 This is well described by Tolstoy in War and Peace:

Doctors came to see Natasha, both separately and in consultation. They said a great deal in French, German and in Latin. They criticised one another, and prescribed the most diverse remedies for all the diseases they were familiar with. But it never occurred to one of them to make the simple reflection that they could not understand the disease from which Natasha was suffering, as no single disease can be fully understood in a living person; for every living person has his complaints unknown to medicine—not a disease of the lungs, of the kidneys, of the skin, of the heart, and so on, as described in medical books, but a disease that consists of one out of the innumerable combinations of ailments of these organs.

While Tolstoy's depiction of every illness as a unique event may no longer be justified, economic development is even more of an art than medical diagnosis. Economic theorists can scientifically explain the results of underpricing capital regardless of country or time. Development economists, on the other hand, are diagnosticians of the particular illnesses of particular countries at specific points in time. They are forced to transcend a specific scientific paradigm to become artisans of the particular.

This throwing off of the conceptual blinders of the paradigms holds out hope that development will become a means to serve people and that there will be fewer tragedies like Chile and Cambodia, where people are seen as a means to promote development. "If there is to be a possibility of choosing a human path so that all human beings may become the active subjects of their own history, it must begin at the level of new analysis. Development should be a struggle to create criteria, goals, and means for self-liberation from misery, inequity, and dependency in all forms. Crucially, it should be the process a people choose, which heals them from historical trauma, and enables them to achieve a newness on their own terms."43

NOTES

7. Furtado also points out how development and progress have come to be focused on the nation-state as the major operational entity. In our treatment we will take as an unexamined premise that the basic unit of analysis is the nation-state. Gurley's essay indicates the empirical validity of this approach even with reference to the socialist states which place "internationalism" on a very high plane.


13. See particularly Bauer and Yamey, *Economics of Underdeveloped Countries.*


17. Ibid., p. 12.


22. This is based on Weaver, Jameson, and Blue, "Growth and Equity . . . ."


The Misconceptions of "Development Economics"

Deepak Lal

I ideas have consequences. The body of thought that has evolved since World War II and is called "development economics" (to be distinguished from the orthodox "economics of developing countries") has, for good or ill, shaped policies for, as well as beliefs about, economic development in the Third World. Viewing the interwar experience of the world economy as evidence of the intellectual deficiencies of conventional economics (embodied, for instance, in the tradition of Marshall, Pigou, and Robertson) and seeking to emulate Keynes' iconoclasm (and hopefully renown), numerous economists set to work in the 1950s to devise a new unorthodox economics particularly suited to developing countries (most prominently, Nurkse, Myrdal, Rosenstein-Rodan, Balogh, Prebisch, and Singer). In the subsequent decades numerous specific theories and panaceas for solving the economic problems of the Third World have come to form the corpus of a "development economics." These include: the dual economy, labor surplus, low level equilibrium trap, unbalanced growth, vicious circle of poverty, big push industrialization, foreign exchange bottlenecks, unequal exchange, "dependency," redistribution with growth, and a basic needs strategy—to name just the most influential in various times and climes.

Those who sought a new economics claimed that orthodox economics was (1) unrealistic because of its behavioral, technological, and institutional assumptions and (2) irrelevant because it was concerned primarily with the efficient allocation of given resources, and hence could deal neither with the so-called dynamic aspects of growth nor with various ethical aspects of the alleviation of poverty or the distribution of income. The twists and turns that the unorthodox theories have subsequently taken may be traced in four major areas: (1) the role of foreign trade and official or private capital flows in promoting economic development, (2) the role and appropriate form of industrialization in developing countries, (3) the relationship between the reduction of inequality, the alleviation of poverty, and the so-called different "strategies of development," and (4) the role of the price mechanism in promoting development.

The last is, in fact, the major debate that in a sense subsumes most of the rest, and it is the main concern of this article; for the major thrust of much of "development economics" has been to justify massive government intervention through forms of direct control usually intended to supplant rather than to improve the functioning of, or supplement, the price mechanism. This is what I label the dirigiste dogma, which supports forms and areas of dirigisme well beyond those justifiable on orthodox economic grounds.

The empirical assumptions on which this unwarranted dirigisme was based have been repudiated by the experience of numerous countries in the postwar period. This article briefly reviews these central misconceptions of "development economics." References to the evidence as well as an elucidation of the arguments underlying the analysis (together with various qualifications) can be found in A. O. Hirschman's Essays in Trespassing (Cambridge, 1981).

DENIAL OF "ECONOMIC PRINCIPLE"

The most basic misconception underlying much of development economics has been a rejection (to varying extents) of the behavioral assumption that, either as producers or consumers, people, as Hicks said, "would act economically: when the opportunity of an advantage was presented to them, they would take it." Against these supposedly myopic and ignorant private agents (that is, individuals or groups of people), development economists have set some official entity (such as government, planners, or policymakers) which is both knowledgeable and compassionate. It can overcome the defects of private agents and compel them to raise their living standards through various dirigiste means.

Numerous empirical studies from different cultures and climates, however, show that uneducated private agents—be they peasants, rural-urban migrants, urban workers, private entrepreneurs, or housewives—act economically as producers and consumers. They respond to changes in relative prices much as neoclassical theory would predict. The "economic principle" is not unrealistic in the Third World; poor people may, in fact, be pushed even harder to seek their advantage than rich people.

Nor are the preferences of Third World workers peculiar in that for them too (no matter how poor), the cost of "sweat" rises the harder and longer they work. They do not have such peculiar preferences that when they become richer they will not also seek to increase their "leisure"—an assumption that underlies the view that there are large pools of surplus labor in developing...
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Numerous empirical studies from different cultures and climates, however, show that uneducated private agents—be they peasants, rural-urban migrants, urban workers, private entrepreneurs, or housewives—act economically as producers and consumers. They respond to changes in relative prices much as neoclassical theory would predict. The "economic principle" is not unrealistic in the Third World; poor people may, in fact, be pushed even harder to seek their advantage than rich people.

Nor are the preferences of Third World workers peculiar in that for them too (no matter how poor), the cost of "sweat" rises the harder and longer they work. They do not have such peculiar preferences that when they become richer they will not also seek to increase their "leisure"—an assumption that underlies the view that there are large pools of surplus labor in developing
countries that can be employed at a low or zero social opportunity cost. They are unlikely to be in "surplus" in any meaningful sense any more than their Western counterparts.

Nor are the institutional features of the Third World, such as their strange social and agrarian structures or their seemingly usurious informal credit systems, necessarily a handicap to growth. Recent applications of neoclassical theory show how, instead of inhibiting efficiency, these institutions—being second-best adaptations to the risks and uncertainties inherent in the relevant economic environment—are likely to enhance efficiency.

Finally, the neoclassical assumption about the possibilities of substituting different inputs in production has not been found unrealistic. The degree to which inputs of different factors and commodities can be substituted in the national product is not much different in developed or developing countries. Changes in relative factor prices do influence the choice of technology at the micro level and the overall labor intensity of production in Third World economies.

**MARKET VS. BUREAUCRATIC FAILURE**

A second and major strand of the unwarranted *dirigisme* of much of development economics has been based on the intellectually valid arguments against *laissez-faire*. As is well known, *laissez-faire* will only provide optimal outcomes if perfect competition prevails; if there are universal markets for trading all commodities (including future "contingent" commodities, that is, commodities defined by future conditions, such as the impact of weather on energy prices); and if the distribution of income generated by the *laissez-faire* economy is considered equitable or, if not, could be made so through lump-sum taxes and subsidies. As elementary economics shows, the existence of externalities in production and consumption and increasing returns to scale in production, or either of them, will rule out the existence of a perfectly competitive utopia. While, clearly, universal markets for all (including contingent) commodities do not exist in the real world, to that extent market failure must be ubiquitous in the real world. This, even ignoring distributional considerations, provides a *prima facie* case for government intervention. But this in itself does not imply that any or most forms of government intervention will improve the outcomes of a necessarily imperfect market economy.

For the basic cause of market failure is the difficulty in establishing markets in commodities because of the costs of making transactions. These transaction costs are present in any market, or indeed any mode of resource allocation, and include the costs of excluding nonbuyers as well as those of acquiring and transmitting the relevant information about the demand and supply of a particular commodity to market participants. They drive a wedge, in effect, between the buyer's and the seller's price. The market for a particular good will cease to exist if the wedge is so large as to push the lowest price at which anyone is willing to sell above the highest price anyone is willing to pay. These transaction costs, however, are also involved in acquiring, processing, and transmitting the relevant information to design public policies, as well as in enforcing compliance. There may, consequently, be as many instances of bureaucratic as of market failure, making it impossible to attain a full welfare optimum. Hence, the best that can be expected in the real world of imperfect markets and imperfect bureaucrats is a second best. But judging between alternative second best outcomes involves a subtle application of second-best welfare economics, which provides no general rule to permit the deduction that, in a necessarily imperfect market economy, particular *dirigiste* policies will increase economic welfare. They may not; and they may even be worse than *laissez-faire*.

**FORETELLING THE FUTURE**

Behind most arguments for *dirigisme*, particularly those based on directly controlling quantities of goods demanded and supplied, is the implicit premise of an omniscient central authority. The authority must also be omnipotent (to prevent people from taking actions that controvert its diktat) and benevolent (to ensure it serves the common weal rather than its own), if it is to necessarily improve on the working of an imperfect market economy. While most people are willing to question the omnipotence or benevolence of governments, there is a considerable temptation to believe the latter have an omniscience that private agents know they themselves lack. This temptation is particularly large when it comes to foretelling the future.

Productive investment is the mainspring of growth. Nearly all investment involves giving hostages to fortune. Most investments yield their fruits over time and the expectations of investors at the time of investment may not be fulfilled. Planners attempting to direct investments and outputs have to take a view about future changes in prices, tastes, resources, and technology, much like private individuals. Even if the planners can acquire the necessary information about current tastes, technology, and resources in designing an investment program, they must also take a view about likely changes in the future demand and supply of myriad goods. Because in an uncertain world there can be no agreed or objective way of deciding whether a particular investment gamble is sounder than another, the planned outcomes will be better than those of a market system (in the sense of lower excess demand for or supply of different goods and services) only if the planners' forecasts are more accurate than the decentralized forecasts made by individual decision makers in a market economy. There is no reason to believe that planners, lacking perfect foresight, will be more successful at foretelling the future than individual investors.

Outcomes based on centralized forecasts may, indeed, turn out to be worse than those based on the decentralized forecasts of a large number of
participants in a market economy, because imposing a single centralized forecast on the economy in an uncertain world is like putting all eggs in one basket. By contrast, the multitude of small bets, based on different forecasts, placed by a large number of decision makers in a market economy may be a sounder strategy. Also, bureaucrats, as opposed to private agents, are likely to take less care in placing their bets, as they do not stand to lose financially when they are wrong. This assumes, of course, that the government does not have better information about the future than private agents. If it does, it should obviously disburse it, together with any of its own forecasts. On the whole, however, it may be best to leave private decision makers to take risks according to their own judgments.

This conclusion is strengthened by the fact, emphasized by Hayek, that most relevant information is likely to be held at the level of the individual and the household. A major role of the price mechanism in a market economy is to transmit this information to all interested parties. The “planning without prices” favored in practice by some planners attempts to supersede and suppress the price mechanism. It thereby throws sand into one of the most useful and relatively low-cost social mechanisms for transmitting information, as well as for coordinating the actions of large numbers of interdependent market participants. The strongest argument against centralized planning, therefore, is that, even though omniscient planners might forecast the future more accurately than myopic private agents, there is no reason to believe that ordinary government officials can do any better—and some reason to believe they may do much worse.

It has nevertheless been maintained that planners in the Third World can and should directly control the pattern of industrialization. Some have put their faith in mathematical programming models based on the use of input-output tables developed by Leontief. But, partly for the reasons just discussed, little reliance can be placed upon either the realism or the usefulness of these models for deciding which industries will be losers and which will be winners in the future. There are many important and essential tasks for governments to perform (see below), and this irrational dirigisme detracts from their main effort.

REDRESSING INEQUALITY AND POVERTY

Finally, egalitarianism is never far from the surface in most arguments supporting the dirigiste dogma. This is not surprising since there may be good theoretical reasons for government intervention, even in a perfectly functioning market economy, in order to promote a distribution of income desired on ethical grounds. Since the distribution resulting from market processes will depend upon the initial distribution of assets (land, capital, skills, and labor) of individuals and households, the desired distribution could, in principle, be attained either by redistributing the assets or by introducing lump-sum taxes and subsidies to achieve the desired result. If, however, lump-sum taxes and subsidies cannot be used in practice, the costs of distortion from using other fiscal devices (such as the income tax, which distorts the individual’s choice between income and leisure) will have to be set against the benefits from any gain in equity. This is as much as theory can tell us, and it is fairly uncontroversial.

Problems arise because we lack a consensus about the ethical system for judging the desirability of a particular distribution of income. Even within Western ethical beliefs, the shallow utilitarianism that underlies many economists’ views about the “just” distribution of income and assets is not universally accepted. The possibility that all the variegated peoples of the world are utilitarians is fairly remote. Yet the moral fervor underlying many economic prescriptions assumes there is already a world society with a common set of ethical beliefs that technical economists can take for granted and use to make judgments encompassing both the efficiency and equity components of economic welfare. But casual empiricism is enough to show that there is no such world society; nor is there a common view, shared by mankind, about the content of social justice.

There is, therefore, likely to be little agreement about either the content of distributive justice or whether we should seek to achieve it through some form of coercive redistribution of incomes and assets when this would infringe other moral ends, which are equally valued. By contrast, most moral codes accept the view that, to the extent feasible, it is desirable to alleviate abject, absolute poverty or destitution. That alleviating poverty is not synonymous with reducing the inequality of income, as some seem still to believe, can be seen by considering a country with the following two options. The first option leads to a rise in the incomes of all groups, including the poor, but to larger relative increases for the rich, and hence a worsening of the distribution of income. The second leads to no income growth for the poor but to a reduction in the income of the rich; thus the distribution of income improves but the extent of poverty remains unchanged. Those concerned with inequality would favor the second option; those with poverty the first. Thus, while the pursuit of efficient growth may worsen some inequality index, there is no evidence that it will increase poverty.

SURPLUS LABOR AND “TRICKLE DOWN”

As the major asset of the poor in most developing (as well as developed) countries is their labor time, increasing the demand for unskilled labor relative to its supply could be expected to be the major means of reducing poverty in the Third World. However, the shadows of Malthus and Marx have haunted development economics, particularly in its discussion of equity and the alleviation of poverty. One of the major assertions of development economics, preoccupied with “vicious circles” of poverty, was that the fruits of
capitalist growth, with its reliance on the price mechanism, would not trickle down or spread to the poor. Various dirigiste arguments were then advocated to bring the poor into a growth process that would otherwise bypass them. The most influential, as well as the most famous, of the models of development advanced in the 1950s to chart the likely course of outputs and incomes in an overpopulated country or region was that of Sir Arthur Lewis. It made an assumption of surplus labor that, in a capitalist growth process, entailed no increase in the income of laborers until the surplus had been absorbed.

It has been shown that the assumptions required for even under-employed rural laborers to be “surplus,” in Lewis’ sense of their being available to industry at a constant wage, are very stringent, and implausible. It was necessary to assume that, with the departure to the towns of the town's relatives, those rural workers who remained would work harder for an unchanged wage. This implied that the preferences of rural workers between leisure and income are perverse, for workers will not usually work harder without being offered a higher wage. Recent empirical research into the shape of the supply curve of rural labor at different wages has found that—at least for India, the country supposedly containing vast pools of surplus labor—the curve is upward-sloping (and not flat, as the surplus labor theory presupposes). "Thus, for a given labor supply, increases in the demand for labor time, in both the industrial and the rural sectors, can be satisfied only by paying higher wages.

The fruits of growth, even in India, will therefore trickle down, in the sense either of raising labor incomes, whenever the demand for labor time increases by more than its supply, or of preventing the fall in real wages and thus labor incomes, which would otherwise occur if the supply of labor time outstripped the increase in demand for it. More direct evidence about movements in the rural and industrial real wages of unskilled labor in developing countries for which data are available has shown that the standard economic presumption that real wages will rise as the demand for labor grows, relative to its supply, is as valid for the Third World as for the First.

ADMINISTRATIVE CAPACITIES

It is in the political and administrative aspects of dirigisme that powerful practical arguments can be advanced against the dirigiste dogma. The political and administrative assumptions underlying the feasibility of various forms of dirigisme derive from those of modern welfare states in the West. These, in turn, reflect the values of the eighteenth-century Enlightenment. It has taken nearly two centuries of political evolution for those values to be internalized and reflected (however imperfectly) in the political and administrative institutions of Western societies. In the Third World, an acceptance of the same values is at best confined to a small class of Westernized intellectuals. Despite their trappings of modernity, many developing countries are closer in their official workings to the inefficient nation states of seventeenth- or

eighteenth-century Europe. It is instructive to recall that Keynes, whom so many dirigistes invoke as a founding father of their faith, noted in The End of Laissez-Faire:

But above all, the ineptitude of public administrators strongly prejudiced the practical man in favor of laissez-faire—a sentiment which has by no means disappeared. Almost everything which the State did in the 18th century in excess of its minimum functions was, or seemed, injurious or unsuccessful.

It is in this context that anyone familiar with the actual administration and implementation of policies in many Third World countries, and not blinkered by the dirigiste dogma, should find that oft-neglected work, The Wealth of Nations, both so relevant and so modern.

For in most of our modern-day equivalents of the inefficient eighteenth-century state, not even the minimum governmental functions required for economic progress are always fulfilled. These include above all providing public goods of which law and order and a sound money remain paramount, and an economic environment where individual thrift, productivity, and enterprise is cherished and not thwarted. There are numerous essential tasks for all governments to perform. One of the most important is to establish and maintain the country’s infrastructure, much of which requires large, indivisible lumps of capital before any output can be produced. Since the services provided also frequently have the characteristics of public goods, natural monopolies would emerge if they were privately produced. Some form of government regulation would be required to ensure that services were provided in adequate quantities at prices that reflected their real resource costs. Government intervention is therefore necessary. And, given the costs of regulation in terms of acquiring the relevant information, it may be second best to supply the infrastructure services publicly.

These factors justify one of the most important roles for government in the development process. It can be argued that the very large increase in infrastructure investment, coupled with higher savings rates, provides the major explanation of the marked expansion in the economic growth rates of most Third World countries during the postwar period, compared with both their own previous performance and that of today's developed countries during their emergence from underdevelopment.

Yet the dirigistes have been urging many additional tasks on Third World governments that go well beyond what Keynes, in the work quoted above, considered to be a sensible agenda for mid-twentieth-century Western polities:

the most important Agenda of the State relate not to those activities which private individuals are already fulfilling, but to those functions which fall outside the sphere of the individual, to those decisions which are made
by no one if the State does not make them. The important thing for
governments is not to do things which individuals are doing already, and
to do them a little better or a little worse; but to do those things which
at present are not done at all.

From the experience of a large number of developing countries in the
postwar period, it would be a fair professional judgment that most of the
more serious distortions are due not to the inherent imperfections of the
market mechanism but to irrational government interventions, of which for-
ign trade controls, industrial licensing, various forms of price controls, and
means of inflationary financing of fiscal deficits are the most important. In
seeking to improve upon the outcomes of an imperfect market economy, the
dirigisme to which numerous development economists have lent intellectual
support has led to policy-induced distortions that are more serious than, and
indeed compound, the supposed distortions of the market economy they
were designed to cure. It is these lessons from accumulated experience over
the last three decades that have undermined development economics, so that
its demise may now be conducive to the health of both the economics and
economies of developing countries.

I. THE PROMISE AND THE DEFAULT

‘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.’ So writes Albert Hirschman, but the essay that begins so
cheerfully turns out to be really an obituary of development economics—no
longer the envy of the other social sciences. In this illuminating essay, aptly
called ‘The Rise and Decline of Development Economics’, Hirschman puts his
main thesis thus:

our subdiscipline had achieved its considerable lustre 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.

The would-be dragon-slayer seems to have stumbled on his sword.

There is some plausibility in this diagnosis, but is it really true that
development economics has no central role to play in the conquest of under-
development and economic backwardness? More specifically, were the origi-
 nal themes in terms of which the subject was launched really so far from
being true or useful? I shall argue that the obituary may be premature, the
original themes—while severely incomplete in coverage—did not point en-