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On Rethinking Development Economics

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Introduction

Do we need to rethink 'development economics'? An answer to that question must begin with a delineation of its subject matter, consisting of a specific set of stylised facts that are its starting point, leading to a set of assumptions and a mode of reasoning that help address and answer a range of questions.
In my view development economics starts from the fact that integration through the market does not ensure that the developed countries provide the developing an image of their own future. The transformation wrought through such integration, while triggering some capitalist development in the less developed world, also generated structures that rendered the process gradual, incomplete and adverse for growth and welfare.

Development economics was concerned with understanding the specific structures, global and national, generated by the process of integration of economies with varying initial conditions into the world capitalist system, with analysing the mechanisms by which those structures constrained the process of development and with deriving from that analysis the policy options available to redress the adverse consequences of integration. In this sense it shared with the Keynesian tradition the project of making the abstract world constructed for economic analysis correspond more closely with the world as it exists, and of making the aim of economic analysis the generation of appropriate policies.

Some Implications

There were a number of implications that flowed from the very nature of this project. Among them, a few are especially noteworthy. The first of these was the proposition that markets as they exist, domestic and international, in which agents with differential power participate, are by no means benign. Rather, their unfettered operation often resulted in the reproduction and strengthening of structures that were inimical from the point of view of growth and equity. This in turn implied that state intervention and public action were prerequisites for development, and the task of development economics included the delineation of the measures needed to increase the area of control and manoeuvre for the state, as well as the nature of public action to be adopted in specific contexts in the pursuit of specific goals.

The second implication of note was the centrality of the problem of raising the rate of investment, as opposed to the preoccupation with static, allocational efficiency within the framework of neoclassical economics. Development economics in the early years singled out investment as the key to growth. This was certainly true in the Indian context where the 1950s and the early 1960s saw much discussion on the need for raising the investment ratio. Even the celebrated Mahalanobis model shared the same belief in the need for raising the investment ratio, while putting forward a novel view of what constrained such an increase; but the view was much more widely held. In fact the group of highly-distinguished development economists headed by Arthur Lewis who authored the well known *Measures* document of the United Nations in 1951, made this, namely raising the investment ratio, the cornerstone of their recommendations for development in the underdeveloped countries.

A third implication was that growth and equity were not seen as separable problems, deserving independent policy initiatives. Rather, redressing inequality was very often seen as a prerequisite for growth itself. For example, land reforms that undermined the monopoly over land and did away with the worst forms of insecure tenancy and sharecropping were seen as prerequisites for raising agricultural productivity, because high land rents often dampened incentives to invest in land improvement and irrigation and insecure tenancy combined with rack-renting practices left the actual tiller with little means and no incentives to invest. The importance of this interleaving of growth and equity questions is obvious when we take note of recent tendencies to argue that globalisation and market mediation are good for growth, but public action is needed to ensure a degree of equity, alleviate poverty and enhance the capacity of the poor to participate effectively in markets.

Finally, while there were some common propositions, objectives and mechanisms that entered in the analysis of development problems in different contexts, an essential ingredient was pluralism in policy, to take account of the specificities of each context. This contrasted with the neoliberal tendency to prescribe a similar policy package to all developing economies, independent of whether they were heavily populated economies of continental proportions, or small island economies in the Pacific.

These and other conclusions arrived at by choosing a specific, realistic set of stylised facts and a set of concerns different from those inherent in neoclassical theory, were substantially at variance with those derived from within the neo-liberal framework. This consequence of the assumptions and method underlying development economics soon defined for it a terrain of its own, leading to its crystallisation as a separate field within the discipline of economics.

With the rise to dominance of neoclassical and neo-liberal economics in both teaching and research, the presumptions and formulations of development economics as defined above have been under attack. The process started with the celebrated multi-country OECD study coordinated and synthesised by Little, Scitovsky and Scott (LSS), which held that the problem with the interventionist, import-substituting strategies adopted by most developing countries after the Second World War was not their failure to successfully translate strategy into practice, but the erroneous nature of the strategy itself.

This neo-classical critique of the late 1960s fundamentally sought to shift the emphasis in the study of development, from questions of growth to questions of resource allocation, from the problem of *raising the investment ratio* to the problem of the *efficiency of resource use*. So long as such efficiency can be ensured, surpluses available to the system would be maximised, and those surpluses would, in pre-Keynesian fashion be automatically reinvested. What mattered, according to this perception then, is the *economic regime* within which development took place, whether or not this regime was conducive to the achievement of resource use. What a regime conducive to such efficiency would do to the investment ratio was never discussed, a reflection essentially of a shift of attention from macro to micro issues underlying the development process. In short, the investment ratio dropped out of the picture as a significant phenomenon to concentrate attention upon.

Of course, the 'marketist' stance in this micro discussion argued against attempts by developing country governments to promote autonomous industrialisation by limiting the degree of integration of their economies into the world system. The alternative strategy suggested by LSS was one of complete decontrol and deregulation, which would allow market forces and world prices to determine the allocation of resources in developing economies. This was seen as the only means of realising a host of objectives ranging from the acceleration of growth to the redressal of rural-urban inequality, reduction in income disparity and alleviation of poverty. Since a similar economic regime was seen as relevant to the developed, industrialised nations as well, the neoliberal argument implicitly challenged the case for development economics as a special field of study.

Given the coexistence of these two paradigms (and their many variants), the commonly advocated case for rethinking development economics reduces to the case for choosing the neoclassical variant, since a host of circumstances have allowed the votaries of that paradigm gain ascendance in policy-making at a global and national level. This tendency has on occasion been backed by the argument that, since economics should be a single apparatus for analysis, consisting of a set of theorems or propositions arrived at by starting with a set of axioms or assumptions, which can be applied in different contexts, developed or developing, the neoliberal perspective is the most appropriate.

However, a case for a single apparatus of analysis does not amount to a case for arriving at similar conclusions on the best regime to be adopted by developed and developing countries. The case for a single apparatus of analysis should lead to the conclusion that the apparatus of analysis implicit in 'development economics' of the kind that is of relevance to the experience of two-thirds of humanity, is indeed the only warranted form of apparatus of analysis for all contexts. It is only because in the contested terrain that economics seeks to analyse, obfuscation is necessary for some as much as truth is necessary for others, that alternative forms of analysis continue to prevail.

Seen in this sense, even Keynesian economics, with its emphasis on the role of uncertainty and expectations, which leads to the conclusion that Say's Law does not hold, that investment determines savings rather than the other way around and that a full-employment equilibrium is an exception rather than the norm, is part of way of 'thinking economics' to which development economics belongs. This is why, despite the effort to incorporate Keynesian results within the framework of mainstream theory, which has been

successful in terms of the influence of that strand of "Keynesianism" in teaching and research on economics, there remain many who still jealously guard the separate terrain of reasoning that the Keynesian framework and its development deserves.

Challenges for Rethinking Development Economics

Does all this mean that there are no new challenges that warrant a reconsideration of development economics as it evolved in the post-War years ? It does not. There are two reasons why a reconsideration may be warranted. First, there is the need to take account of structural changes in the world system that may have altered some of the fundamental propositions of the earlier development economics. These include the rapid rise to dominance of finance over industrial capital in the developed economies since the 1970s, the changed access to international liquidity that this implies, and the associated increase in the importance of services as economic activities. Several question emerge from such changes. Insofar as there is greater access to liquidity, this does allow developing countries to finance larger current account deficits for some time. Does this mean that the highly protectionist strategies that were adopted earlier to deal with external vulnerability are no longer relevant? Or does it expose them to new kinds of vulnerability, which in turn warrant different kinds of insularity ? Does the growing role of services, combined with the possibilities offered by information technology of providing services remotely, create new opportunities for growth, and do these imply structural changes which do not require the kind of policies advocated in the 1950s and 1960s?

The second reason why some rethinking is warranted is a consequence of the rise to dominance of neoliberal policies in most developing countries that led to the wave of liberalisation in the 1990s. Has such liberalisation generated structures which make a substantial roll-back of the liberalisation process difficult? Or stated otherwise, does path-dependence foreclose certain policies that derive from the existing set of stylised facts and methods of reasoning characteristics of development economics, needing some revision in the way the problem of development is approached?

These are indeed controversial questions, but need to be (and are being) addressed if the neoliberal challenge in development economics is to be consistently met. They are not exhaustive, but are being mentioned as illustrative of the kind of reasons why some reconsideration is indeed warranted.