

# Economic Development and the Development of Economics: Some Observations from the Left

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## 1. INTRODUCTION

Rather than comment in great detail on the specific content of the papers included in this symposium I propose to make some observations on issues of a more general nature arising from the subject matter of the symposium. I will begin by suggesting an explanation for the apparent decline of development economics since its heyday in the 1960s. I will then consider the impact of development economics on the general body of the discipline of economics. Finally, I will illustrate some of my points with specific reference to the empirical work discussed in Hollis Chenery's contribution.<sup>1</sup>

My perspective is that of a radical political economist, whose interest in Third World development was first stimulated in the early 1960s by a year spent in India, and whose conversion to a radical outlook was consolidated both by the experience of working on economic planning problems in India and by the political and intellectual camaraderie of colleagues in the Union for Radical Political Economics (URPE) in the United States in the late 1960s.

## 2. THE DECLINE OF DEVELOPMENT ECONOMICS

In a recent and stimulating essay, Albert Hirschman has suggested that development economics is a field in decline: although 'articles and books are still being produced . . . the old liveliness is no longer there . . . and the field is not adequately reproducing itself'.<sup>2</sup> This admittedly subjective judgement strikes me as accurate, at least for the United States. With some notable exceptions, such as my co-panelists at this session, there are few prominent economists working in the field; a number of major US graduate economics programmes are having difficulty staffing their development

courses; and the graduate students themselves – other than those of Third World origin – are increasingly shifting their interest to other fields of specialization. Why has this happened?

There are no doubt many possible answers, and Hirschman in his essay has proposed some very plausible elements of an explanation. Here I would like to propose another such element that I believe to be an important part of the story. In brief, I believe that the apparent decline of development economics is linked to the general *decline of the liberal centre* in economics and politics during the last 10–15 years.

Like Keynesianism and the welfare state, the theory and practice of development economics has been largely a liberal project (of course in the modern, not the classical, sense of 'liberal'). As Hirschman has also observed, Keynesian economics had an important influence on the new development economics that arose in the 1950s. Both schools of economic thought share certain important features; e.g. the idea that structural disequilibria in market economies render *laissez-faire* economics and the market mechanism inadequate as a basis for economic activity, and the implication that a (presumably) neutral and beneficent state would have to play a judiciously active economic role in guiding and supplementing the market. This perspective opens up a very substantial role for skilled technocratic economic advisers, who are needed both to instruct political leaders on how to guide the economy and to carry out the detailed economic calculations needed to determine what the market fails to show as a matter of course. In the advanced capitalist nations these implications of Keynesian economics led to public policy activism and macroeconomic fine-tuning. In many developing nations the same implications of development economics led to increasingly elaborate development plans and (social) benefit–cost analyses. Needless to say, these developments attracted many economists

to advisory roles in government and many students to the disciplines of Keynesian and development economics.

This overall liberal-interventionist orientation reached its heyday in the United States in the 1960s. On the domestic front, the 'New Economics' and the 'War on Poverty' swung into high gear under the relatively activist Kennedy and Johnson administrations. In the international arena, the US Government stepped up its foreign aid and technical assistance programmes in many parts of the Third World, exporting American goods and personnel and promoting more systematic economic planning and decision-making in both the United States and overseas. Economists and politicians were confident that a new era of stable prosperity in the centre and balanced development in the periphery of the capitalist world was underway.

Subsequent events have of course dashed those expectations; neither the Keynesian nor the development economics activists achieved their desired and predicted results. The advanced capitalist economies stumbled into stagflation in the 1970s and into deepening recession in the 1980s. While some developing nations showed impressive aggregate rates of economic growth in the 1960s and 1970s, many did not; and almost all experienced mounting economic problems of inequality and unemployment as well as persistent political tensions linked to authoritarianism and repression. Now these unsatisfactory results were not primarily attributable to the liberal activist policies and programmes pursued at the behest of the Keynesian and development economists (although one can discern some links in some cases). Nonetheless, in no small part because they had promised so much that could not be achieved, the liberals and their programmes became increasingly discredited. And, *pari passu*, both Keynesian and development economics – as they had developed up to the 1960s – became increasingly vulnerable to attack from both the right and the left.

To the economists of the right, the setbacks of the liberal centre were both easily explained and readily overcome. The basic premise of both Keynesian and development economics – that the market is an inadequate guide to economic activity – was fundamentally mistaken. The market could and would do the job, if only given the chance. Thus what was needed was mainly to get the state – and its liberal economic advisers – off the market's back. Instead of working on development plans and economic analyses designed to enable government agencies to overcome ostensible

structural disequilibria and social problems, economists should disengage from the public sector and – if bent on departing academia for the 'real world' – make their expertise available to private enterprises operating in an unfettered market environment. Keynesian and development economics should properly be left to historians of economic thought, and orthodox neoclassical economics would resume its pride of place as the discipline most relevant and useful both to advanced and to developing capitalist economies.

For reasons having much more to do with politics and ideology than strictly intellectual competition, this message from the right has gained much ground in the United States in the last decade. But the demise of the liberal centre also opened up a new opportunity for critics from the left, who have been able to get a hearing for views that used to be dismissed out of hand. From this perspective the shattered expectations of the liberals are also quite readily explainable, but the conclusions drawn are of course very different – and, to my mind, much more persuasive.

Viewed from the left, liberal technocratic advisers are not in a position to guide a beneficent state looking after the general public interest. Rather, they are largely prisoners of the political powers-that-be. Policy is ultimately shaped most by those who have the greatest economic and political resources at their disposal, and they do not share the public interest in sustained full employment or equitable growth. Thus, before there can be a progressive role for economists, people must struggle in the political arena to change the balance of power. Once again – but for a very different reason – the role of the liberal economists/planners/advisors becomes largely superfluous, and the body of Keynesian and development economics designed to serve them loses its relevance and appeal.

Instead of devising economic plans and policies for governments that lack the political base to carry them out successfully, economists should contribute – by fostering greater understanding and/or participating in political action – to movements for fundamental change. In so far as Third World development is at issue, economists from the advanced capitalist nations are somewhat limited by their inability as foreigners to become directly involved in the politics of Third World nations. Thus their role is necessarily limited to academic research and to political action aimed at the international economic and political policies of the major powers, in so far as these have a significant

impact on development in the Third World. Either way, development economics — as it arose in the 1950s and 1960s — loses its significance; what is required is not a programmatic economic policy orientation but a much more fundamental and interdisciplinary analysis of the historical, social, political and economic forces that shape the environment in which development takes place and that condition the possibilities for change.

### 3. THE IMPACT OF DEVELOPMENT ECONOMICS

Whatever its success or failure in promoting economic development in the Third World, the new subdiscipline of development economics might have been expected to have some impact on the intellectual development of the discipline of economics as a whole. As Paul Streeten has noted, there are indeed numerous examples of analyses originally formulated by development economists in the context of Third World economies which have subsequently been found relevant to advanced capitalist economies as well — e.g. theories of dual or segmented labour markets and theories of structural inflation.<sup>3</sup> Beyond such cases of economic analysis informed by certain institutional realities, it was to be hoped that the study of economic development in the context of Third World societies would help to broaden the scope of economics in general in at least two significant respects.

First, by displaying examples of the diversity of historical experience and socioeconomic potential, studies of Third World societies could raise fundamental questions about the *purpose of economic growth*. Second, by demonstrating the manifest interdependence of political, social and economic factors in the development process, such studies could demonstrate the importance of *multidisciplinary analysis*. As it happened, however, development economics did not focus much attention on these kinds of issues, and the main body of economics was largely unaffected by them. It was left to the more iconoclastic development economists and to radical political economists to bring such issues to the fore.

With respect to the objectives of economic development, most development economists did not challenge the conventional economists' view that the main goal was a rapid increase in per capita national product or consumption. While many saw development as entailing significant shifts in the sectoral pattern of

production and trade, and some were concerned about the distribution of gains from economic growth, few thought it relevant for economists to worry about promoting 'social' goals other than increased material welfare. Only a small and radical minority of economists raised broader ethical issues and sought to define the purpose of development in social as well as economic terms — arguing the importance of such objectives as social and political equality, the development of communitarian rather than individualistic patterns of life and work, the fostering of ecological balance (between people and nature) and psychological balance (between the material and the spiritual), and the promotion of cultural and institutional diversity rather than the remaking of the Third World in the image of the advanced capitalist societies.

Why should emphasis be placed on development as a social as well as an economic transformation? Economists are usually content to concentrate on narrowly-defined economic issues and to let other issues take care of themselves (or be analysed by other social scientists). But evidence from both rich and poor societies suggests that gains in economic performance do not necessarily lead to any corresponding gain in people's general welfare; indeed, economic advances often give rise to many new problems — such as economic insecurity, ecological damage, cultural dependence or demise — even when they help to solve old ones. Economic progress can in principle facilitate broader human progress, but in practice it has often had a contrary effect. Moreover, even if and when sustained economic growth is likely to be beneficial, there is good reason to doubt that today's developing nations could follow the path of the advanced capitalist nations to their current levels of economic well-being, given the finite nature of the earth's resources and the extent to which economic advance in the rich nations has historically been dependent on their dominant relationship with the poor.

As for the role of multidisciplinary analysis, most economists working on development problems found it difficult to shed the blinkers imposed by their training in a discipline that was itself becoming steadily more inward-looking. The economic problems of developing nations are manifestly intertwined and social and political forces that beg for an institutional and political-economic analysis. (The same is true, but often less obvious, in richer nations.) Yet, with some notable exceptions as always, development economists succumbed to the professional drive to compartmentalize,

formalize and specialize, reacting to their position on the fringe of the economics discipline much less often by asserting their own uniqueness than by seeking to show their respectability as trained economists. Far from encouraging the profession as a whole to broaden the scope of its analysis, they lent support to the professions's vested interest in carving out a narrow sphere of arcane expertise.

This is not to say that development economics has had no salutary effect at all. On the plus side, economists studying Third World development experiences have in recent years helped to promote greater concern for some objectives other than aggregate economic growth. To people like Hollis Chenery and Paul Streeten, as well as many radical political economists, we are indebted for the growing attention paid to the distributional consequences of economic growth and for the formulation of policies designed to promote greater equity and to provide for 'basic needs'. To people like Albert Hirschman and Gunnar Myrdal, as well as many radical political economists, we are indebted for insightful analyses of development issues that link together integrally the political and economic forces at work.

But, on the negative side, these contributions have simply not had much effect on the economics profession at large (at least not in the United States). Relatively few economists are concerned with anything but growth and efficiency, and — as I have already noted — the profession is becoming less rather than more open to integrating economics with other disciplines. Even in the development field itself, these tendencies are apparent. As a consequence, some of the most interesting work on development issues is now being done not by orthodox economists but by historians, political scientists and sociologists, as well as by radical political economists.<sup>4</sup>

#### 4. COMMENTS ON HOLLIS CHENERY'S ARTICLE

In discussing 'The Interaction Between Theory and Observation in Development Economics', Chenery provides a useful review of the theoretical development and empirical application of neoclassical growth theory. Using this framework many studies have sought to explain the sources of aggregate economic growth, both in rich and in poor economies. Chenery's Figure 1 presents the results of some of the recent studies in a particularly instructive

form. As he observes, the typical high-income economy displayed relatively low factor input growth with somewhat higher total factor productivity growth, while the typical middle-income developing economy showed higher factor input growth but somewhat lower total factor productivity growth. Most interesting was the evidence of high factor input growth combined with exceptionally high total factor productivity growth for a distinct group of outliers: Hong Kong, Israel, Japan, South Korea, Spain and Taiwan. These countries are all, of course, among the postwar success stories of rapid overall economic growth.

Chenery is rightly sceptical about the ability of standard versions of the neoclassical growth model to capture the 'disequilibrium' effects that are especially likely to influence growth rates in the Third World economies (in this respect he echoes the development economist's critique of neoclassical economic orthodoxy for its typical assumption of market-honed equilibrium). He reports very favourably on the efforts of G. Feder at the World Bank to go beyond the usual neoclassical variables by including in a comparative study of growth performance (from the early 1960s to the mid-1970s) such 'disequilibrium' variables as (1) the shift of resources out of the agricultural sector; (2) the rate of growth of exports; and (3) other (unspecified) measures of structural change. Inclusion of these variables leads to a substantial improvement in the explanatory power of cross-country growth equations, and — in particular — accounts for the otherwise unexplained gap between the outlying cases of especially rapid growth and the remaining countries in the sample.

Chenery's and Feder's effort to break out of the neoclassical mould, in the light of evidence of structural disequilibrium in Third World economies, is certainly laudable. But the scope of the additional explanatory variables considered remains regrettably narrow: like the basic neoclassical variables representing factor inputs, the added structural variables are still purely economic in character. Moreover, their ability to explain differences in economic growth performance is suspect, for there appears to be a significant potential for reverse causality in the basic regression equation for economic growth. It seems at least as likely that a relatively rapid shift of resources out of agriculture, and a relatively rapid growth of exports, could be the *consequence* rather than the cause of relatively rapid economic growth. Thus the basic reasons for the growth performance of the postwar success stories may

remain concealed in variables omitted from the specification of the structural equation.

On the basis of work on productivity growth in the US economy that I have carried out jointly with Samuel Bowles and David Gordon,<sup>5</sup> I would suggest that studies of aggregate economic growth performance need to pay much more attention to the social and political variables that affect the growth process. (In this respect I am simply following the radical political economist's injunction to undertake multidisciplinary rather than narrowly economic analysis.) More specifically, I believe that degree of success in the growth performance of capitalist economies is likely to be positively related to such factors as: (1) the ability of capitalists to maintain control over their workers, which is in turn a function of the political and legal constraints imposed on worker organization and action; (2) the extent to which the character of labour-management relations encourages worker effort and cooperation on the job; (3) the degree to which feudal or other forms of pre-capitalist agrarian social relations have been eliminated; (4) the degree to which positions of privilege and power are held by newly arrived classes and individuals rather than by representatives of long-standing networks of vested interest and power; and (5) the extent to which a nation's political alliances have afforded it external economic and technical assistance.

These kinds of variables are admittedly difficult to quantify, and that may help to explain why they are so rarely admitted into statistical analyses of economic growth. But the effort is surely worth making. For one thing, none of them appears to be as vulnerable to problems of reverse causality as the economic structural variables discussed earlier. More

importantly, the unusually strong growth performance of each of the six success stories identified by Chenery appears to be explainable in terms of unusually high values for a subset of the five growth-favouring social and political variables listed above. During the relevant time period, Hong Kong scored high on (3) and was, by any reckoning, rather a special case; Israel was high on (3), (4), (5) and – in some sectors – (2); Japan was high on (3), (4) and – to a degree – (2); South Korea was high on (1), (3), (4) and, in the early postwar years, (5); Spain was high on (1) and – in the Basque area – (2); and Taiwan was high on (1), (3), (4) and, in the early postwar years, (5).

To summarize: the kind of growth studies favoured by Chenery are helpful in discrediting narrow-minded assumptions about the universal applicability of simple neoclassical models. As a development economist familiar with conditions in the Third World, he has appropriately stressed that such neoclassical models are (even) less applicable to developing economies than to more advanced capitalist economies. But Chenery's approach still remains constrained by a trained economist's view of the world. As I have suggested, such an approach is insufficiently informed by a multidisciplinary perspective. More generally, it does not even raise the broader question of the purpose of development that I emphasized earlier. Indeed, by concentrating attention on economic growth performance and by seeking to explain cross-country differences largely in terms of variations in a limited set of economic variables, this approach tends to reinforce the false notion of an underlying similarity in development experience and development potential across all societies and systems.

#### NOTES

1. Hollis Chenery, 'Interaction between Theory and Observation in Development', in this issue of *World Development*.

2. Albert Hirschman, 'The rise and decline of development economics', in Hirschman, *Essays in Trespassing* (Cambridge: Cambridge University Press, 1981), p. 1.

3. Paul Streeten, 'Development Dichotomies', in this issue of *World Development*.

4. I have in mind contributions from historians such as Frederick Cooper, political scientists such as Mahmood Mamdani, and sociologists such as Peter

Evans. Among radical political economists in the United States who have contributed significantly to the development literature are John Gurley, Alain de Janvry, Victor Lippit, Arthur MacEwan and Charles Wilber.

5. See Thomas E. Weisskopf, Samuel Bowles and David M. Gordon, 'Hearts and Minds: A Social Model of US Aggregate Productivity Growth', mimeographed, February 1983, and Bowles, Gordon and Weisskopf, *Beyond the Waste Land: A Democratic Alternative to Economic Decline* (Garden City, N.Y.: Doubleday, 1983), Chapter 6.