

Is Development Economics a Dying Subject?

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The demise of development economics, following its repeated trouncing, is likely to be conducive to the health of both the economics and the economies of developing countries (Lal, 1983:109).

Introduction

This essay sets out to examine the moot issue of whether the last forty years of development economics have achieved anything. It asks if individual or societal welfare in any of the sixty-two recognized Less Developed Countries (LDCs) has been improved as a direct result of the implementation of development policies.

Section one defines development economics, delimits its objectives, and traces the evolution of development theory. Then in section two, specific attention will be directed at the neo-classical theoretical revolution, and the challenge to development economics embodied in its prescription of non-interventionism. It will be concluded that, despite this challenge, development economics will remain a vibrant and useful sub-discipline.

Development economics

It is possible to take a very broad view of the concept of development economics. According to Sen:

“...interest in development has traditionally provided one of the deepest motivations for the pursuit of economics in general....The enhancement of living conditions must be an essential - if not the essential - object of the entire

economic exercise, and that enhancement is an integral part of the concept of development” (1988-9:10).

Development economics involves

“the study of the economic structure and behaviour of poor developing countries. It encompasses reduction in poverty, improvements in education and [the] health of the population, as well as increases in productive capacity and G.N.P. per capita” (Lewis, 1988-9: ix).

Toye (1984) sees it as multidimensional subject which allows for the effects of politics, history, institutions, technology and economics to explain the current situation in LDCs.

The study of the LDC economy only began after World War II, when the need to analyze the economic structure of the newly independent former colonies became apparent. The initial brief of the sub-discipline was to “improve the lot” of the populations of these countries. In the last forty years, sweeping changes have occurred in our world, and these have been reflected in scope of development theory. It has now been modified so as to accommodate the economics of technology transfers, rapid population growth and debt crisis.

Initially, development was synonymous with growth, and during the 1950s and 1960s, the main thinking focussed on

development as a series of successive stages through which all countries must pass. This linear stages (evolutionary) theory of development emphasized the need to accumulate capital in order to promote investment, particularly in the industrial sector. Capital could be sourced either domestically or through international channels.

Soon, however, it became apparent that development could not legitimately be equated with growth. The need to focus on other priorities such as equity was promulgated. During the 1960s and throughout the 1970s, the evolutionary approach was replaced by two differing schools of thought - the structuralists and the neo-Marxist/dependency theorists¹.

Common to these schools was an advocacy of government intervention to correct for market failures and to plan development. However, beyond this, the analyses diverge. Structuralist writers locate the source of the difficulties faced by developing economies in a general inflexibility of markets. Agents fail to respond to price signals, and intervention is needed to remedy this deficiency. Structuralists also propound government planning and *dirigisme* of the economy, and are generally dismissive of the possibility of gains accruing from international trade.

As mentioned, the dependency school also advocate government intervention, but this intervention is aimed at reshaping the political, economic and social structure of society. Dependency theorists see underdevelopment as an externally induced phenomenon - it is not a stage through which economies must pass, but rather a condition instigated by developed economies. This paradigm can be contrasted

with the evolutionary growth and structuralist models which view underdevelopment as the consequence of internal factors.

This, then, is the nature of development economics, and the predominant schools of thought which have propagated. The following section will analyze the neo-classical challenge to these established ideas.

The Neo-Classical Revolution: a challenge to development economics

During the mid 1970s, LDCs were beginning to set the world agenda with their demand for a New International Economic Order. They sought to be consulted on areas such as trade, international technology transfers and socio-political issues. However, these new beginnings foundered at the start of the 1980s, with the changing *Zeitgeist* and the resurgence of conservatism in the Western World. The governments of the US, Canada, West Germany and the UK committed themselves to Neo-Classical policies, engineering recessions in a fight to curb inflation. This had auxiliary effects in LDCs. The high interest rate policies of western creditor nations, for example, increased their already massive debt burden which had accumulated during the 1970s.

The embryo New International Economic Order was soon discarded. More stringent credit restrictions were put in place. In order to be eligible for new loans (or to roll over debt), LDCs had to enter into structural adjustment agreements, entailing the privatization of state owned enterprises, the opening up of economies to international trade and less intervention by governments. In essence, the promulgated neo-classical policy prescriptions came to the fore.

On a theoretical level, these changes were mirrored in the "Neo-Classical Resurgence", evidenced in the works of

¹ Representative of the structuralist school are the works of Chenery, Lewis and Prebisch. Neo-Marxist/Dependency theorists include Frank, Cardoso and Dos Santos.

Lal, Little, and Bauer. They looked on the performance of the "Asian Tigers" (Hong Kong, Singapore, Taiwan and South Korea) as evidence that the outward looking free market approach would achieve development and alleviate poverty and inequality. These neo-classicals believed in market flexibility, and that people do respond correctly to prices. This is apparent in the following quotation from Lal:

"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 so called 'policy induced distortions' which are more serious than any of the supposed market imperfections it was designed to cure" (1983:77).

He goes on to argue that:

"...the best service the North can give to the third world is to ensure that the post-war liberal international economic order is maintained by refusing to surrender to the blandishments of either the Southern dirigistes or the Northern advocates of the new protectionism" (1983:69).

A Defence of Development Economics.

Accepting that the Neo-Classical view is a long term and justifiable solution to the economic problems of LDCs doesn't signal the end of development economics. Toye (1987) has stated many reasons "why development economics shouldn't be absorbed into the mainstream of economics" (1987:16). The Neo-Classical resurgence is merely advocating the use of traditional economic principles as solutions to the problems of LDCs. There is no doubt that improved efficiency in production and

distribution, through a properly functioning market system, will benefit everybody and is therefore necessary to the success of any development project. However, it may not be sufficient.

In this context, there are two main reasons why development economics should continue to flourish. The first is that it concentrates on four central issues - economics, technology, institutions and politics. The Neo-Classical approach can therefore be seen only as a subset of development economics, as it only looks at the economic problems. Consideration of the other issues is beyond its scope. For example, in recent years, considerable emphasis has been placed on the importance of international technology transfers. This issue is crucial to the production structure of the LDC and therefore to employment and income distribution. Yet it is ignored within the Neo-Classical paradigm.

The second reason why development economics will survive lies in the mechanistic way in which neo-classical economics must be applied. There are special considerations which must be taken into account in discussion of LDCs as their markets do not necessarily function in the same way as those of more developed economies. Development economics is best equipped to take account of these special consideration.

Conclusion

This essay has defined and traced the evolution of development theory. The main challenge to this branch of economics the Neo-Classical free-market resurgence was also discussed. It was argued that development economics will outlast this challenge, due to special characteristics of developing economies.

Bauer writes:

"I believe that in economics, as in

other disciplines, it is a sign of maturity and not of obscurantism when the practioners recognize the limitations of their subject” (1976:303).

However recognizing the limitations of development economics is not equivalent to sounding its death knell.

References

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