Introduction

The Formative Period

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THE SUBJECT MATTER OF DEVELOPMENT ECONOMICS is at once among the oldest and newest branches of economics. Beginning with Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations*, classical economists sought to discover the sources of economic progress and to analyze the long-run process of economic change. As Nobel laureate Arthur Lewis reminds us, what Smith called "the natural progress of opulence" is what we today call "development economics." During a long interim, however, the marginalist analysis of neoclassical economists introduced a static frame of thinking and shifted interests to the narrower problems of resource allocation and the theory of exchange. And the depressed conditions of the interwar period gave rise to the Keynesian analysis of short-period business cycles and the possible threat of secular stagnation in mature capitalist nations. A return to growth and development as the grand theme of economics did not come until after the Second World War. The late 1940s and 1950s then became in many respects the pioneering period for the "new" development economics that focused on the development problems of Asian, African, and Latin American countries.[1]

The Colonial Background

Introducing his *Theory of Economic Growth* in 1955, Lewis stated "A book of this kind seemed to be necessary because the theory of economic

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1. This chapter is not intended to be a survey of the development contributions of all those who wrote during this formative period. Instead, it concentrates on the intellectual and institutional environment in which the pioneers wrote. In addition to the pioneers represented in this book, this chapter refers only to some pioneers who are deceased and to some economists who analyzed some of the same issues as did the pioneers.

For a survey of the very limited discussions of economic development prior to 1945, see H. W. Arndt, "Development Economics before 1945," in Jagdish Bhagwati and

growth once more engages world-wide interests and because no comprehensive treatise on the subject has been published for about a century. The last great book covering this wide range was John Stuart Mill's *Problems of Political Economy* published in 1848."[2]

Economic thought is commonly induced by the need to solve policy problems. This was certainly true for the early period of thinking about development. Development economics did not arise as a formal theoretical discipline, but was fashioned as a practical subject in response to the needs of policymakers to advise governments on what could and should be done to allow their countries to emerge from chronic poverty. As their essays and biographies reveal, many of the pioneers in development were active in policymaking positions during the 1940s and 1950s.

The attention to postwar international reconstruction gave rise to three early works on development: Eugene Staley's *World Economic Development*,[3] Kurt Mandelbaum's *Industrialization of Backward Areas*,[4] and Paul N. Rosenstein-Rodan's article on "Problems of Industrialization of Eastern and South-Eastern Europe."[5]

Staley recognized that "there will be an insistent demand in many parts of the world for rapid progress in economic development after the war." His study explored the likely economic effects on the advanced industrial countries of development elsewhere—especially the effects of international investment for development purposes and of shifts in production, consumption, and trade.

Mandelbaum attempted to present a quantitative model of industrialization for the overpopulated and backward areas of Eastern and Southeastern Europe. The "depressed areas" of this region were believed to suffer from a lack of industrial development, which was driving the growing population into rural and urban occupations of very low productivity. As the foreword stated, "The vicious circle of population pressure, poverty, and lack of industries is by no means confined to this corner of Europe; it is present in other European countries and is most clearly seen in the Far East. That south-eastern Europe was selected as an example is partly accidental, and partly due to the fact that material about conditions in south-eastern Europe is slightly more plentiful than that dealing with other over-populated areas." Mandelbaum argued that the economic case for the industrialization of "densely populated backward countries" rests

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Richard S. Eckaus, eds., *Development and Planning: Essays in Honor of Paul N. Rosenstein-Rodan* (London: Allen and Unwin, 1972), pp. 13–29. For the classical period, see Lord Robbins, *The Theory of Economic Development in the History of Economic Thought* (London: Macmillan, 1968).

2. W. Arthur Lewis, *The Theory of Economic Growth* (London: Allen and Unwin, 1955), p. 5.

3. Montreal: International Labor Office, 1944; the quotation below is from p. 12.

4. Oxford: Basil Blackwell, 1947.

5. *Economic Journal*, vol. 53 (June-September 1943).

upon the "mass phenomenon of disguised rural unemployment." The principal barriers to higher employment were lack of demand and scarcity of capital. To overcome these, state intervention in a backward area was believed necessary so that redistributive measures might raise "necessary consumption" and thus counteract the potential deficiency of demand and directly relieve poverty; such measures might also institute a regime of state-enforced savings in support of a higher rate of capital formation. The increase in the rate of output and some needed adjustments of technology were derived from the aim of attaining full employment within about one generation.[6]

Rosenstein-Rodan recalls the essentials of his development theory in his chapter, "Natura Facit Saltum," below.

The problems of development were thrust upon economists by the breakup of colonial empires in Asia and Africa during the Second World War and shortly thereafter. Nationalist demands of the interwar period were fulfilled in the postwar period, and imperialism and colonialism were in full retreat. The charter of the United Nations pointed to the goal of colonial emancipation. In the short span of five years after the war, India, Pakistan, Ceylon, Burma, the Philippines, Indonesia, Jordan, Syria, Lebanon, and Israel all became independent. Colonialism was on the way out far more speedily than had first seemed possible at the end of the war, and many more colonies soon emerged as nations.[7]

Centuries of history were reversed. Unlike the League of Nations, the United Nations became immediately enmeshed in the colonial problem, and the Asian-African bloc symbolized a fundamental change in the balance of world forces. The self-assertion of Asian and African peoples through nationalism and political self-reliance led to a drive for development. The leaders of the new nations insisted that international attention be given to their development problems. Areas that had been considered in

6. *Industrialization of Backward Areas*, pp. iii, 2, 20ff. For a recent review of Mandelbaum's early study, see Hans Singer, "A Generation Later," *Development and Change*, vol. 10 (1979).

Two other early studies along some lines similar to Mandelbaum's were A. Bonné, *The Economic Development of the Middle East: An Outline of Planned Reconstruction* (London: Kegan Paul, 1945); and Sir P. Thakurdas and others, *A Plan of Economic Development for India* (London: Penguin, 1944).

7. In 1954 Cambodia, Laos, and a divided Viet Nam became self-governing, and in 1957 Malaya received its independence from Britain. In Africa, Libya was made independent, Eritrea was joined with Ethiopia, and Somaliland was promised independence in 1960. Sudan, Morocco, Tunisia, and Egypt were removed from imperial control. The Gold Coast was transformed into independent Ghana. Togoland, the Cameroons, and Guinea soon followed to independence. In the Caribbean, Puerto Rico and the Netherlands Antilles achieved new styles of self-government, and the Federation of the British West Indies approached independence within the Commonwealth. See Rupert Emerson, *From Empire to Nation* (Boston: Beacon Press, 1960); and Henri Grimal, *Decolonization* (London: Routledge and Kegan Paul, 1978).

the eighteenth century as "rude and barbarous," in the nineteenth century as "backward," and in the prewar period as "underdeveloped" now become the "less developed countries" or the "poor countries"—and also the "emergent countries" and "developing economies."

But how was development to be achieved? Although political independence could be legislated, economic independence could not. Nationalism could intensify the demand for accelerated transformation of the economy, but the process could not be simply willed. An understanding of the forces of development was necessary, and the design of appropriate policies to support these forces was essential. To accomplish this, the creative participation of economists was needed.

The earlier study of colonial economics would no longer suffice. Previous courses in colonial economics had catered mainly to those working in, or hoping to enter, the colonial services. In retrospect, the world assumed in these courses seems essentially static. Trade fluctuation had been a basic problem of the interwar years, and the main objective, implicitly at least, had been stabilization. This reflected both the needs of the colonial powers (especially those with interests in Africa where commodity exports were important) and the Keynesian fashion then current. Insofar as social and political change was considered, it was depicted as gradual progress requiring economic stability. The economic role of the state was very limited. The war not only disrupted the colonial systems; it upset this narrow way of perceiving problems. The newly independent governments were consequently under pressure to produce development, not stability.

The term "economic development" was rarely used before the 1940s.[8] During the pioneering period most economists came to interpret economic development as denoting growth in per capita real income in underdeveloped countries. Some, however, emphasized that development meant growth plus change, especially change in values and institutions.[9] For the underdeveloped countries, Hla Myint also distinguished between the

8. H. W. Arndt, "Economic Development: A Semantic History," *Economic Development and Cultural Change* (April 1981).

9. Substantial studies in this area were made by Bert F. Hoselitz. See his *The Progress of Underdeveloped Areas* (Chicago: University of Chicago Press, 1952); "Non-Economic Barriers to Economic Development," *Economic Development and Cultural Change* (March 1952); "Social Structure and Economic Growth," *Economia Internazionale* (August 1953); "Non-Economic Factors in Economic Development," *American Economic Review* (May 1957); and *Sociological Aspects of Economic Growth* (Glencoe, Ill.: Free Press, 1960).

Also see E. E. Hagen, "The Process of Economic Development," *Economic Development and Cultural Change* (April 1957).

Of earlier interest was the discussion of social dualism by J. H. Boeke, *Economics and Economic Policy of Dual Societies* (New York: Institute of Pacific Relations, 1953); and B. H. Higgins, "The 'Dualistic Theory' of Underdeveloped Areas," *Economic Development and Cultural Change* (January 1956).

"underdevelopment" of their natural resources and the economic "backwardness" of their people. Myint stated that there is "a greater need in the study of backward countries than in that of the advanced countries to go behind the 'veil' of conventional social accounting into the real processes of adaptation between wants, activities, and environment . . . In practice there is a real danger of the macro-models of economic development 'running on their own steam' without any reference to the fundamental human problems of backwardness on the subjective side."[10]

The meaning of development also began to be expressed in quantitative terms. Simon Kuznets painstakingly assembled considerable empirical evidence.[11] While emphasizing a cumulatively large rise in a country's per capita product, Kuznets was also concerned to note the implications of this rate—structural changes that necessarily accompany it and the large modifications in social and institutional conditions under which the increased product per capita is attained.

Early on, however, Jacob Viner levied strong criticism of the current criteria of development. He argued that even though per capita wealth, income, and production were all increasing, the population might still have increased substantially, and "the numbers of those living at the margin of subsistence or below, illiterate, diseased, undernourished, may have grown steadily consistently with a rise in the average income of the population as a whole."[12]

If the new nations were to face their development problems, they would now have to look beyond colonial economics. As Nobel laureate Gunnar Myrdal observed, the "colonial theory" was only too often apologetic writing that attempted to absolve the colonial regimes from responsibility for the conditions of underdevelopment.[13] The failure to develop was frequently attributed to conditions of tropical climate, population pres-

10. Hla Myint, "An Interpretation of Economic Backwardness," *Oxford Economic Papers* (June 1954), p. 149.

11. Simon Kuznets, "Quantitative Aspects of the Economic Growth of Nations: I. Levels and Variability of Rates of Growth," *Economic Development and Cultural Change* (October 1956); "Quantitative Aspects of the Economic Growth of Nations: II. Industrial Distribution of National Product and Labor Force," *Economic Development and Cultural Change* (July 1957); "Toward a Theory of Economic Growth," in Robert Lekachman, ed., *National Policy for Economic Welfare at Home and Abroad* (New York: Columbia University Press, 1955); "Economic Growth and Income Inequality," *American Economic Review* (March 1955); and *Six Lectures on Economic Growth* (Glencoe, Ill.: Free Press, 1959).

12. Jacob Viner, *International Trade and Economic Development* (Oxford: Clarendon Press, 1953), pp. 99–100. S. Herbert Frankel also emphasized this quotation in his *Some Conceptual Aspects of International Economic Development of Underdeveloped Territories*, Princeton Essays in International Finance no. 14 (Princeton University, May 1952), p. 3.

13. Gunnar Myrdal, "Need for Reforms in Underdeveloped Countries," in S. Grassman and E. Lundberg, eds., *The World Economic Order: Past and Prospects* (London: Macmillan, 1981), pp. 502–06.

sure, lack of resources, or too rigid and irrational institutions and values that made the people unresponsive to opportunities for improving their incomes and living standards. The postwar wave of decolonization created an entirely new situation.

Moreover, from the viewpoint of the governments of the major capitalist countries, there was grave danger that former colonies might, if there was little social progress, fall under communist domination: investment opportunities and access to markets and sources of raw materials would then be diminished. In addition, egalitarian and humanitarian tendencies had been reinforced by wartime propaganda. A political basis thus emerged in the early 1950s for large-scale financial and technical aid from the richer countries. Many economists in Europe and North America began to fashion tools for analyzing the problems of "underdevelopment." So the pedigree of Development Economics reads "by Colonial Economics out of Political Expediency."[14]

Postwar International Organization

During the war President Roosevelt had proclaimed the "four freedoms," including "freedom from want . . . everywhere in the world," as

14. Dudley Seers, "The Birth, Life and Death of Development Economics," *Development and Change*, vol. 10 (1979), p. 708.

At Oxford, S. Herbert Frankel was appointed the University's Professor of Colonial Economic Affairs in 1946; Hla Myint introduced a seminar on Economics of Underdeveloped Countries in 1949–50; and other lectures in development were presented in the early 1950s at Oxford by Peter Ady and Ursula Hicks. W. Arthur Lewis was appointed Reader in Colonial Economics in the University of London (London School of Economics) in 1947, and in 1948 went to Manchester where he began lecturing systematically on development economics from about 1950. At Yale, Henry Wallich introduced a development course in 1952–53, and the following year Henry Bruton also taught a graduate development course. In 1953–54, John Kenneth Galbraith began a seminar at Harvard on economic and political development. Others who started teaching in the development field during the 1950s at Harvard were Alexander Eckstein, A. J. Meyer, Robert Baldwin, David Bell, E. S. Mason, and Gustav Papanek. A seminar on theories of economic development, with a special effort to integrate economic and psychological theories, was offered by G. M. Meier and David McClelland at Wesleyan University in 1955. McClelland was to draw upon this seminar for his *The Achieving Society* (Princeton, N.J.: Van Nostrand, 1961). Meier was at the same time writing with R. E. Baldwin, *Economic Development: Theory, History, Policy* (New York: Wiley, 1957).

Throughout the 1950s there was also an expansion in the number of journals devoted to economic development. The *Ceylon Economist* began publication in 1950; *Economic Development and Cultural Change*, in 1952; *Pakistan Economic and Social Review*, 1952; *Indian Economic Review*, 1952; *Indian Economic Journal*, 1953; *Social and Economic Studies* (University of West Indies), 1953; *East African Economic Review*, 1954; *Middle East Economic Papers*, 1954; *Malayan Economic Review*, 1956; *Nigerian Journal of Economic and Social Studies*, 1959. The number of articles in development theory and development policy as reported in the *Index of Economic Articles* tripled in the decade between 1950–54 and 1960–64.

postwar objectives of the Western allies. The United Nations charter also included among its objectives the promotion of "higher standards of living, full employment, and conditions of economic and social progress and development." The Bretton Woods conference, however, remained largely immune from these aspirations—even though the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, or the World Bank) were later to assume ever increasing importance in the international development effort.

It seems clear from the membership that the Bretton Woods conference was called primarily to establish the IMF, and that the World Bank was a distinctly secondary issue. Most of the developing countries were still colonies, and only a relatively few, mainly independent nations of Latin America, were invited. The political power lay with the United States and Britain, and from the outset it was apparent that issues of development were not to be on the Bretton Woods agenda.

Of the countries invited to Bretton Woods, Lord Keynes could write in a dispatch to the British Treasury: "Twenty-one countries have been invited which clearly have nothing to contribute and will merely encumber the ground, namely, Colombia, Costa Rica, Dominica, Ecuador, Salvador, Guatemala, Haiti, Honduras, Liberia, Nicaragua, Panama, Paraguay, Philippines, Venezuela, Peru, Uruguay, Ethiopia, Iceland, Iran, Iraq, Luxemburg. The most monstrous monkey-house assembled for years. To these might perhaps be added: Egypt, Chile and (in present circumstances) Yugo-Slavia."[15]

At Bretton Woods, the developing countries tended to view themselves more as new, raw-material-producing nations and less as countries with general development problems. Comprehensive strategies of development and policies to accelerate national development were yet to be identified. The Brazilian delegation introduced a draft proposal for an international conference to promote stability in the prices of primary international commodities, claiming that "fluctuations in the prices of primary products during the interwar period were as much of a curse as recurring large scale unemployment." For the successful attainment of the objectives pursued by the IMF and the World Bank, it was thought necessary to promote stability in prices of raw materials and agricultural prices. Cuba endorsed a conference to promote the "orderly marketing of staple commodities." The delegation from Colombia urged that future agreements on commercial policy should consider the "need for enlarging the consuming markets for foodstuffs and raw materials, the prices of which before the war were notoriously far out of proportion to the prices of manufactured articles" that primary producing countries "were obliged to buy from the great industrial nations." Bolivia was concerned about "cooperation in the organization and implementation of international commodity agreements

15. Donald Moggridge, ed., *The Collected Writings of John Maynard Keynes* (London: Macmillan and Cambridge University Press, 1980), vol. 26, p. 42.

designed to maintain fair and stable prices, and provision for the orderly distribution of raw materials throughout the world." But these proposals came to naught, as did a consolidated resolution for "orderly marketing of staple commodities at prices fair to the producer and consumer alike" proposed by Peru, Brazil, Chile, Bolivia, and Cuba.[16]

In 1947, representatives of fifty-three nations also met in Havana to discuss the formation of an International Trade Organization (ITO) to complement the IMF and the World Bank. As proposed in the Havana charter, the ITO was not only to govern trade barriers, but was also to deal with private foreign investment, infant industries, international commodity agreements, state trading, cartels, and restrictive business practices. The General Agreement on Tariffs and Trade (GATT) was originally designed to serve merely as a temporary expedient until ratification of the Havana charter. But the ITO met opposition in the U.S. Congress,[17] and only GATT survived as the narrower substitute, becoming permanent in 1955.

In its initial provisions, GATT did relieve less developed countries of some obligations. The Agreement referred specifically to the type of country "the economy of which can only support low standards of living and is in the early stages of development." Such a country was offered the privileges of withdrawing a tariff concession, increasing tariff rates to permit protection of an infant industry, and invoking quota restrictions on imports "in order to safeguard its external financial position and to insure a level of reserves adequate for the implementation of its program of economic development."[18] Under the latter provision, the developing countries were able to follow import substitution programs and to protect their domestic industries through quotas imposed under the guise of balance of payments support.

GATT did not allow, however, as much special treatment for developing countries as they had sought through the Havana charter. The controversial issue of allowing different trade rules for countries according to their different stages of development has persisted. The request for special and differential treatment for less developed countries remains prominent in the call for a New International Economic Order.

16. U.S. State Department, *Proceedings and Documents of the United Nations Monetary and Financial Conference* (Washington, D.C.: U.S. Government Printing Office, 1948), vol. 1, pp. 332–36, 429–30, 482–85.

17. See William Diebold, Jr., *The End of the ITO*, Princeton Essays in International Finance no. 16 (Princeton University, October 1952).

18. See GATT, Articles XII, XIV, XVII. GATT Working Party reports and other studies addressed the problems of development during the 1950s. Especially notable was the report by a panel of experts, with Gottfried Haberler as chairman, which examined the importance and prospects of maintaining and expanding the export earnings of the developing countries; GATT (Haberler Report), *Trends in International Trade* (Geneva, 1958).

Early U.N. Reports

Together, the IMF, the World Bank, and GATT formed the outlines of an international public sector. Purposive action was to be taken to attain the multiple objectives of full employment, freer and expanding world trade, and stable exchange rates. But of what direct benefit were these postwar institutions to be for the newly developing countries? Had the institutions been created simply to deal with the previous economic crisis—the Great Depression of the 1930s? The economics of every period and place reflects not only contemporary political demands but crucial professional interpretations of the actual developments of the recent past. British and American economists continued to dominate the economics profession, and their main topic of professional discussion in 1945–50 was not the war of 1939–45, which did not lend itself easily to analysis with tools of the profession or fit squarely into ideological debates. The overriding preoccupation remained with the Great Depression of the 1930s, a period about which the profession retained some feeling of guilt. Economists had been slow to realize the magnitude of the depression and to analyze its causes, or to point the way to economic recovery. By the late 1940s, however, the Keynesian revolution was sweeping all before it, and the "new economics" was established to prevent a recurrence of the 1930s. Domestic full-employment programs were to be instituted, and internationally, the Bretton Woods order was to provide additional institutional underpinning.

Regional commissions of the United Nations also assumed an active role in examining development problems. Most prominent was the Economic Commission for Latin America (ECLA), organized in 1948 and based in Santiago, Chile. In 1950, Raúl Prebisch was appointed executive secretary of ECLA. In the previous year, Prebisch had written *The Economic Development of Latin America and Its Principal Problems*.[19] On the basis of this study and subsequent studies, ECLA became the recognized spokesman for Latin America's economic development. During its first five years, ECLA was elaborating the development doctrines reviewed by Prebisch in the volume just cited. ECLA then turned to intensive studies of Latin American economies with the aim of "programming their future development."[20] Since about 1958, ECLA has concentrated on Latin American economic integration and cooperation.

19. New York: United Nations, 1950.

20. See ECLA, *An Introduction to the Technique of Programming*, first presented at an ECLA session in 1953 and printed in 1955. Also, Fernando Henrique Cardoso, "The Originality of the Copy: The Economic Commission for Latin America and the Idea of Development," in a Rothko Chapel Colloquium, *Toward a New Strategy for Development* (New York: Pergamon, 1979).

The promotion of programming was particularly significant for its attempt to provide quantitative guidance in the establishment of aggregate and sectoral projections on the basis of empirical knowledge. Techniques were examined to allow the projection of domestic demand in accordance with consumer budget studies, the projection of the capacity to import on the basis of foreign exchange earnings, estimates of savings ratios and capital-output ratios, and the application of various investment criteria and input-output analysis. Given the target of an increase in per capita income, these techniques were then to allow the programming of the path of development to achieve the target.

Another notable part of ECLA's work was the promulgation of "structuralism."[21] In brief, this was an argument that the causes of Latin American inflation were to be found not in excess demand but in particular structural bottlenecks that emerged during the process of development—especially in the supply shortfalls of the agricultural and export sectors.[22] The inflation was believed to be inevitable, and orthodox monetarist measures could suppress it only by stopping the very process of economic development. But it was thought that the structural inflation could be cured by well-devised economic development programs. To overcome agricultural bottlenecks and foreign exchange shortages, Latin American countries were advised to change their structure of production and of imports and exports. Industrialization via import substitution became the advocated strategy. Implementing this analysis, ECLA's policies emphasized the need for "programmed" industrialization via import substitution based on protectionist policies.

During the period 1949–51, three important reports were issued by groups of experts under United Nations auspices. The first—*National and International Measures for Full Employment* (1949)—stemmed mainly from the desire to prevent a recurrence of the 1930s. Nonetheless, it was also a force for economic development since it advocated international investment for development purposes and urged an extension of activities of the IMF and the World Bank.

The second report—*Measures for the Economic Development of Under-Developed Countries* (1951)—addressed squarely the special problems of the developing world and considered what obstacles had to be

21. Structuralism later evolved into "dependency" theory. See the discussion in Paul Streeten's essay, "Development Dichotomies," below.

22. Structuralist explanations of inflation in Latin America were opposed to monetarist explanations such as were advanced by the IMF. See Roberto de Oliviera Campos, "Two Views on Inflation in Latin America," in A. O. Hirschman, ed., *Latin American Issues* (New York: Twentieth Century Fund, 1961); Dudley Seers, "A Theory of Inflation and Growth in Underdeveloped Economies Based on the Experiences of Latin America," *Oxford Economic Papers* (June 1963); David Felix, "Structural Imbalances, Social Conflict, and Inflation," *Economic Development and Cultural Change* (January 1960); and Leopoldo Solís, "Mexican Economic Policy in the Post-War Period: The Views of Mexican Economists," *American Economic Review*, Supplement (June 1971), pp. 34–43.

overcome and what "missing components" had to be supplied in order to promote development.[23] The report emphasized the accumulation of physical capital, stating:

> It is a commonplace that economic progress is a function, among other things, of the rate of new capital formation. In most countries where rapid economic progress is occurring, net capital formation at home is at least 10% of the national income, and in some it is substantially higher. By contrast, in most underdeveloped countries, net capital formation is not as high as 5% of the national income, even when foreign investment is included. In many of these countries, the savings have been sufficient only to keep up with population growth, so that only a negligible amount of new capital, if any, has actually become available for increasing the average standard of living. How to increase the rate of capital formation is therefore a question of great urgency.[24]

Considering various domestic measures for mobilizing resources for capital formation, the report recognized the existence of surplus labor. "In many underdeveloped areas, the population on the land is so great that large numbers could be withdrawn from agriculture without any fall in agricultural output and with very little change of capital techniques. If this labor were employed on public works, capital would be created without any fall in other output, or in total consumption."[25]

The third report—*Measures for International Economic Stability* (1951)—called attention to "the special difficulties of the poorer underdeveloped countries" (p. 13). It advocated international action to reduce the vulnerability of underdeveloped economies to fluctuations in the volume of trade, to promote a larger flow of international capital, to maintain steady development programs, and to reduce fluctuations in the prices of primary products.[26]

Formative Influences

As countries became independent and as the new international institutions were formed, there arose a need for policy advice on development

23. The first group of experts was composed of John Maurice Clark, Nicholas Kaldor, Arthur Smithies, Pierre Uri, and E. Ronald Walker. The group who wrote the second report included Alberto Baltra Cortez (Chile), D. R. Gadgil (India), George Hakim (Lebanon), W. Arthur Lewis (England), and T. W. Schultz (United States).

24. United Nations Department of Economic Affairs, *Measures for the Economic Development of Under-Developed Countries* (New York, 1951), p. 35.

25. Ibid., p. 41. Criticisms of this report were expressed by S. Herbert Frankel, "United Nations Primer for Development," *Quarterly Journal of Economics* (August 1952); and P. T. Bauer, "The United Nations Report on the Economic Development of Under-Developed Countries," *Economic Journal* (March 1953).

26. This third group of experts was composed of James W. Angell, G. D. A. McDougall, Hla Myint, Trevor W. Swan, and Javier Marquez.

problems. Economists were called upon for such advice. But from whence were they to derive their policy proposals? In seeking to formulate their analyses of the process of development and to draw policy inferences, the pioneers were subject to a number of background influences: experience with Soviet planning, national economic management during the Great Depression, wartime mobilization of resources, and the postwar Marshall Plan for the recovery of Western Europe. These experiences carried some implications for development policy. But there was no distinct discipline of development economics that could be readily applied to the problems confronting the less developed countries.[27]

The possibilities of central planning had been demonstrated by the experience of the U.S.S.R. Prior to the war the U.S.S.R. had adopted a strategy of deliberate industrialization, formulated in a series of five-year plans.

The period of depression in the 1930s had also aroused particular attention to the plight of the primary producing countries that suffered deterioration in their commodity terms of trade and a loss of foreign exchange. Pessimistic views with respect to primary product exports followed from the depression experience. The decline in export prices, the low price elasticities and income elasticities of demand for primary products, and unstable foreign exchange receipts—all these adverse characteristics led to export pessimism. Instead of relying on primary product exports, many countries—especially in Latin America—had turned to import substitution during the depression, and the import substitution strategy had been pursued even more vigorously during the war.

The Great Depression also gave rise to Keynesian analysis. Although the type of unemployment that pervaded the poorer countries was believed to differ from the Keynesian type of mass unemployment that results from a deficiency of aggregate demand during depressions in advanced industrial countries, Keynesian analysis nonetheless exerted a strong influence on development economics.[28] By contradicting orthodox economics, Keynes had prepared the way for an alternative approach to economic problems. By assigning a larger role to the public sector, he had also prepared a case for discretionary national economic management. And public policy formation became a much more active force in national economies. Full

27. Lauchlin Currie directed the first World Bank country study mission to Colombia in 1949. He recalls that "there were no precedents for a mission of this sort and indeed nothing called development economics. I just assumed that it was a case of applying various branches of economics to the problems of a specific country, and accordingly I recruited a group of specialists in public finance, foreign exchange, transport, agriculture and so on." Lauchlin Currie, *Obstacles to Development* (East Lansing: Michigan State University Press, 1967), pp. 30–31.

28. For a provocative interpretation of the influence of Keynes and his followers on development thought, see Elizabeth S. Johnson and Harry G. Johnson, *The Shadow of Keynes* (Oxford: Blackwell, 1978), chap. 17.

employment, social security, the political and social responsibility of government—all these attributes of the welfare state carried over to newly independent governments.

A spirit of policy-optimism characterized the early views of these development economists. The optimism derived from the wartime demonstration of what could be achieved by the mobilization of resources once a nation was given an overriding national objective and a sense of priorities. In addition, the successful effort at postwar reconstruction in Western Europe through the help of foreign aid and some economic planning and cooperation generated optimism for the task of economic development in Latin America, Asia, and Africa.

Experience with wartime planning influenced the war on poverty. Planning was viewed as a mechanism to overcome deficiencies of the market price system and as a means of enlisting public support to achieve national objectives. In Britain, the White Paper on Employment Policy (1944), the Beveridge report on *Full Employment in a Free Society* (1945), and the Oxford Institute of Statistics' *Economics of Full Employment* (1945) emphasized the need for national employment policies to achieve full employment in peacetime as had been done in wartime. For some economists, such as Hans Singer, who had been concerned with the depressed areas within Britain, there were now similar problems in the less developed areas. Paul Rosenstein-Rodan referred to "the common characteristics of underdevelopment" in the "five vast international depressed areas," the Far East, colonial Africa, the Caribbean, the Middle East, and Eastern and Southeastern Europe.[29] For some, the domestic welfare state was to be elevated into the welfare world.

Furthermore, during the war, colonial governments in British Africa and the British Caribbean had to do some planning to qualify for British aid. After the war, the British Colonial Development and Welfare Act (1945) also required planning. Planning had also been undertaken by the French, Portuguese, and Belgians for their colonies.

The postwar debate on the role of planning thus became significant for strategies of industrialization, import substitution, and the mobilization of resources in the interest of national development. Although not directly related to the less developed countries, there were implications for development planning in the influential works by Oliver Franks, *Central Planning and Control in War and Peace* (1947), James E. Meade, *Planning and the Price Mechanism* (1948), and W. Arthur Lewis, *Principles of Economic Planning* (1949).

Although the Keynesian type of unemployment was denied, other major themes of the 1950s—the emphasis on capital accumulation, industrialization, and planning—might be traced to a Keynesian background.

29. Paul N. Rosenstein-Rodan, "The International Development of Economically Backward Areas," *International Affairs* (April 1944).

The extension of Keynesian short-run employment theory into long-run growth theory in the form of the Harrod-Domar equation ($g = s/k$, where g is the growth rate, s the savings ratio, and k the capital-output ratio) implied that the growth rate could be maximized by maximizing the marginal saving from output growth and by minimizing the incremental capital-output ratio (ICOR).[30]

Some of the authors in this volume recall the emphasis on capital accumulation. So, too, did Ragnar Nurkse look to "balanced growth"—the synchronized application of capital to a wide range of industries—to break the

> vicious circle of poverty . . . Economic progress is not a spontaneous or automatic affair. On the contrary, it is evident that there are automatic forces within the system trying to keep it moored to a given level . . . An increase in production over a wide range of consumables, so proportioned as to correspond with the pattern of consumers' preferences does create its own demand . . . A frontal attack—a wave of capital investments in a number of different industries—can economically succeed while any substantial application of capital by an individual entrepreneur in any particular industry may be blocked or discouraged by the limitations of the preexisting market . . . [T]hrough the application of capital over a wide range of activities, the general level of economic activity is raised and the size of the market enlarged . . . [Balanced growth] is a means of getting out of the rut, a means of stepping up the rate of growth when the external forces of advance through trade expansion and foreign capital are sluggish or inoperative.[31]

Maurice Dobb also concluded that "The largest single factor governing productivity in a country is its richness or poorness in capital instruments of production. And I think that we shall not go far wrong if we treat capital accumulation, in the sense of a growth in the stock of capital instruments—a growth that is simultaneously qualitative and quantitative—as the crux of the process of economic development."[32] Both Nurkse and

30. R. F. Harrod, "An Essay in Dynamic Theory," *Economic Journal* (March 1939); Harrod, *Toward a Dynamic Economics* (London: Macmillan, 1948); Evsey Domar, "Capital Expansion, Rate of Growth and Employment," *Econometrica* (1946).

31. *Problems of Capital Formation in Underdeveloped Countries* (Oxford: Blackwell, 1953), pp. 10, 13–15; and "The Conflict between 'Balanced Growth' and International Specialization," *Lectures on Economic Development* (Istanbul: Faculty of Economics, Istanbul University, and Faculty of Political Sciences, Ankara University, 1958), pp. 171–72.

32. *Some Aspects of Economic Development* (Delhi: Delhi School of Economics, 1951), p. 7; see also Dobb, *An Essay on Economic Growth and Planning* (New York: Monthly Review Press, 1960).

But compare the statement by Alec Cairncross at an International Economic Association's Round Table on Economic Progress in 1953 that "there is greater danger that the importance of capital in relation to economic progress will be exaggerated than that it

Dobb argued that surplus labor could be used to create capital.[33]

Some pioneers also recall the emphasis on industrialization. During the 1950s India was of special concern, and the "Mahalanobis model" that underlay the Indian second five-year plan gained considerable attention. This model considered the choice between investing in machines to make consumption goods and in machines to make machines to make consumption goods. It concluded that a shift toward the latter composition of heavy industry as against light industry would, after a time, result in a higher level and faster growth rate of consumption than would an investment program placing more emphasis on the production of consumption goods.[34]

At the same time as pessimistic conclusions were being reached about the capacity to export primary products and to pursue export-led development, optimistic views were being expressed on the capacity to accelerate development through the extension of the public sector and the institution of wide-ranging governmental policies within a development plan. The combination of external pessimism and internal optimism is reflected in the writings of some of the pioneers. Although some advocated a lighter type of planning through the market system,[35] there was initially greater

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will be underrated . . . [T]he most powerful influence governing development . . . is not the rate of interest or the abundance of capital; and the most powerful influence governing capital accumulation, even now, is not technical progress." "The Place of Capital in Economic Progress," in Leon H. Dupriez, ed., *Economic Progress* (Louvain: Institut de Recherches Economiques et Sociales, 1955), p. 248.

33. Also of interest was the "critical minimum effort" thesis presented by Harvey Leibenstein, *Economic Backwardness and Economic Growth* (New York: Wiley, 1957), chap. 8; and Leibenstein, "Theory of Underemployment in Backward Economies," *Journal of Political Economy* (April 1957).

34. For an elaboration, see "Development Dichotomies" below. Also, Jagdish N. Bhagwati and Sukhamoy Chakravarty, "Contributions to Indian Economic Analysis: A Survey," *American Economic Review* (September 1969), pp. 5–8; M. Bronfenbrenner, "A Simplified Mahalanobis Development Model," *Economic Development and Cultural Change* (October 1960). For other contemporary discussions of planned economic development in India, see B. Datta, *The Economics of Industrialization* (Calcutta: World Press Private, 1952); B. R. Shenoy, *Problems of Indian Economic Development* (London: Asia Publishing House, 1958); and Shenoy, *Indian Planning and Economic Development* (London: Asia Publishing House, 1963).

The strategy of industrialization was also discussed by T. Balogh, "Note on the Deliberate Industrialisation for Higher Incomes," *Economic Journal* (June 1947); H. Belshaw, "Observations on Industrialisation for Higher Incomes," *Economic Journal* (September 1947); W. S. Buchanan, "Deliberate Industrialisation for Higher Incomes," *Economic Journal* (December 1946); and H. Frankel, "Industrialisation of Agricultural Countries and the Possibilities of a New International Division of Labour," *Economic Journal* (June-September 1943).

35. A strong case for the market mechanism as against detailed planning, as the preferable instrument of economic development, was made by Harry G. Johnson, "Planning and the Market in Economic Development," *Pakistan Economic Journal* (June 1958).

enthusiasm for centralized planning that relied on comprehensive controls.

The United Nations group of experts recommended as early as 1951 that the "government of an underdeveloped country should establish a central economic unit with the functions of surveying the economy, making development programs, advising on the measures necessary for carrying out such programs, and reporting on them periodically. The development programs should contain a capital budget showing the requirements of capital and how much of this is expected from domestic and from foreign sources."[36]

Development programs, national planning boards, and industrial development corporations soon proliferated. Moreover, the economist's tool kit began to provide some modern techniques that could support the formulation of a development plan—especially input-output analysis, dynamic programming, and simulation of growth models. These techniques provided tests for the consistency, balance, and feasibility of plans. Visiting missions and foreign advisers began to cooperate with local planning agencies in producing analyses and policy recommendations underlying development plans. A development plan commonly aimed at a forced take-off and high-speed development, with a large amount of public investment and deliberate industrialization at its core, and supplanted the market mechanism with physical planning that involved the government in numerous decisions of a direct, specific character.[37] At a lower level of planning, increasing attention was given to the allocation of investment techniques, and different views of investment criteria were promulgated.[38]

From the emphasis on capital accumulation, industrialization, and planning, there emerged a case for foreign aid. The resource gap between

36. United Nations Department of Economic Affairs, *Measures for the Economic Development of Underdeveloped Countries.*

37. The "Soviet way of industrialization" had some influence in stimulating planning. See the writing by Maurice Dobb, *Some Aspects of Economic Development*; Paul Baran, "On The Political Economy of Backwardness," *Manchester School of Economic and Social Studies* (January 1952); and Baran, *The Political Economy of Backwardness* (New York: Monthly Review Press, 1957).

38. W. Galenson and H. Leibenstein, "Investment Criteria, Productivity, and Economic Development," *Quarterly Journal of Economics* (August 1955); A. K. Sen, "Some Notes on the Choice of Capital Intensity in Development Planning," *Quarterly Journal of Economics* (November 1957); Sen, *Choice of Techniques* (Oxford: Blackwell, 1960); H. B. Chenery, "The Application of Investment Criteria," *Quarterly Journal of Economics* (February 1953); Alfred E. Kahn, "Investment Criteria in Development Programs," *Quarterly Journal of Economics* (February 1951); O. Eckstein, "Investment Criteria for Economic Development and the Theory of Intertemporal Welfare Economics," *Quarterly Journal of Economics* (February 1957); H. B. Chenery and Kenneth S. Kretschmer, "Resource Allocation for Economic Development," *Econometrica* (October 1956); and H. Leibenstein, "Why Do We Disagree on Investment Policies for Development?" *Indian Economic Journal* (April 1958).

the domestic investment required to fulfill the development plan's target growth rate and the possible amount of domestic savings would be filled by foreign aid.

In the U.N. report by the group of experts in 1951, estimates were made of the total capital required by all developing countries to support an annual rate of growth in per capita national incomes of 2 percent over the 1950–60 period. Of the total annual requirements of $19 billion, it was estimated that only $5 billion could be met by domestic savings, leaving about $14 billion a year to be covered by foreign capital. It was argued that much of this foreign capital must come from foreign governments and multinational agencies in the form of grants and other concessional aid.

In his inaugural address in 1949, President Truman had also announced his Point Four Program for technical assistance. Economists believed that, along with foreign capital, it was desirable to borrow new technology and acquire know-how from abroad in order to absorb the additional capital more rapidly. To utilize the inflow of capital productively, the developing country had to acquire the missing components of technology, skills, and management, but it was thought that these could be imported.

Leading Issues

To determine the sources of growth and delineate strategies of development, the pioneers had to conceptualize, deduce principles, build models, and establish empirical relationships. In this undertaking, the field of economic history was to be revitalized from the perspective of development.[39] The theory of development policy, however, posed more of a challenge and required fresh thinking. Rather oddly, in retrospect, most of those who began theorizing about underdeveloped countries were citizens of the developed countries. But though the Anglo-American tradition of economics dominated, many of the early development economists began to question the relevance of neoclassical doctrines and of Keynesian analysis for the new problems of development.

Gunnar Myrdal, for instance, called upon the underdeveloped countries to produce a new generation of economists who might create a body of thought more realistic and relevant for the problems of their countries:

39. Besides Walt Rostow's *The Stages of Economic Growth* (as discussed in his chapter, "Development: The Political Economy of the Marshallian Long Period," below), the development lessons of economic history are emphasized by H. J. Habakkuk and Alexander Gerschenkron. See Habakkuk, "The Historical Experience on the Basic Conditions of Economic Progress," in Leon H. Dupriez, ed., *Economic Progress* (Louvain: Institut de Recherches Economiques et Sociales, 1955), pp. 149–70; Gerschenkron, "Social Attitudes, Entrepreneurship, and Economic Development," *Explorations in Entrepreneurial History* (October 1953), pp. 1–19; and Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass.: Harvard University Press, 1962).

> In this epoch of the Great Awakening, it would be pathetic if the young economists in the underdeveloped countries got caught in the predilections of the economic thinking in the advanced countries, which are hampering the scholars there in their efforts to be rational but would be almost deadening to the intellectual strivings of those in the underdeveloped countries.
>
> I would, instead, wish them to have the courage to throw away large structures of meaningless, irrelevant, and sometimes blatantly inadequate doctrines and theoretical approaches and to start their thinking afresh from a study of their own needs and problems.[40]

Unlike the neoclassical economists who assumed a smoothly working market price system, some of the early development economists adopted a more structuralist approach to development problems. Structuralist analysis attempted to identify specific rigidities, lags, shortages and surpluses, low elasticities of supply and demand, and other characteristics of the structure of developing countries that affect economic adjustments and the choice of development policy.[41] Some of the authors in this volume—Lewis, Myrdal, Prebisch, Singer, and Rosenstein-Rodan—departed from the flexibility and substitutability of neoclassical economics and introduced elements of structural analysis.

Also prominent was Ragnar Nurkse's argument that the developing countries could no longer rely on economic growth being induced from the outside through an expansion of world demand for their export of primary commodities, and that the less developed countries must pursue balanced growth conforming to the income elasticities of internal demand.[42]

Although many others did not take as extreme a position as did Myrdal or the structuralists, there was still wide questioning of how traditional analysis might be amended and extended to be more applicable to development problems. The market price system could not be simply assumed, but first had to be instituted in the emergent nations. The invisible hand was difficult to see.

At the same time, however, as many of the early development economists rejected the teachings of neoclassical economics, there were some who warned that the analysis of development problems should not be "price-less," that the functions of prices should not be ignored, that the economic responses to individual incentives should not be overlooked,

40. Gunnar Myrdal, *Rich Lands and Poor* (New York: Harper, 1957), pp. 103–04.

41. H. B. Chenery, "The Structuralist Approach to Economic Development," *American Economic Review* (May 1965).

42. Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, chap. 1; *Patterns of Trade and Development*, Wicksell Lectures (Stockholm: Almqvist and Wiksell, 1959); and "The Conflict Between 'Balanced Growth' and International Specialization."

and that the government should not intervene in the market price system. Such a view dominated the work by P. T. Bauer and B. S. Yamey, *The Economics of Under-developed Countries*.[43]

On issues of trade policy, there were notable critics of import substitution and protectionist policies. Jacob Viner rejected the Prebisch-Singer doctrine of secular deterioration of the terms of trade of developing countries and argued against import-substituting industrialization.[44] Viner also pointed out that

> while it is true that the ratio of nonagricultural to total population tends to be highly correlated positively with per capita income, the degree of industrialization may be and often is a consequence rather than a cause of the level of prosperity, and that where agriculture is prosperous, not only do tertiary or service industries tend spontaneously to grow but there is a widespread tendency to use disposable surplus income derived from agricultural prosperity to subsidize uneconomic urban industry, with the consequence that the overall level of per capita income, while still comparatively high, is lower than it would be if urban industry were not artificially stimulated.[45]

After surveying the dynamic benefits of international trade, Gottfried Haberler also concluded that trade "has made a tremendous contribution to the development of less developed countries in the 19th and 20th centuries and can be expected to make an equally big contribution in the future, if it is allowed to proceed freely." Haberler argued that

> Development policy should be such as to work through and with the help of the powerful forces of the price mechanism instead of opposing and counteracting the market forces. This holds for measures in the area of international trade as well as in the domestic field. I should like to repeat my conviction that the latter—action in the field of education, health, public overhead investment—are more important than the negative policy of import restriction. The latter is, of course, much easier than the former. For that reason, it is likely to be overdone, while the former is apt to be neglected.[46]

43. Chicago: University of Chicago Press, 1957.

44. Jacob Viner, *International Trade and Economic Development* (Oxford: Clarendon Press, 1953). Charles Kindelberger also questioned the empirical basis of the alleged deterioration in the terms of trade: *The Terms of Trade: A European Case Study* (New York: MIT Press and Wiley, 1958); and "Terms of Trade and Economic Development," *Review of Economics and Statistics*, Supplement 40 (February 1958). See also T. Morgan, "The Long-Run Terms of Trade between Agriculture and Manufacturing," *Economic Development and Cultural Change* (October 1959).

45. *International Trade and Economic Development*, p. 97. See also Viner, "Stability and Progress: The Poorer Countries' Problem," in Douglas Hague, ed., *Stability and Progress in the World Economy* (London: Macmillan, 1958), pp. 41–101.

46. *International Trade and Economic Development* (Cairo: National Bank of Egypt, 1959), p. 6.

J. R. Hicks also emphasized the dynamic benefits of trade, related increasing returns and the productivity of investment to the volume of trade, warned against a heavily protected home market for consumption goods, and foresaw the possibility that underdeveloped countries could become exporters of manufactured goods. Also significant were articles on international trade by Hla Myint.[47]

Some may choose to summarize the mainstream development economics of the 1950s as being structural, shaped by trade pessimism, emphasizing planned investment in new physical capital, utilizing reserves of surplus labor, adopting import substitution industrialization policies, embracing central planning of change, and relying on foreign aid.[48] But there were crosscurrents, and the period was characterized by vigorous debate over some leading issues.[49] Especially notable were controversies over balanced growth versus unbalanced growth, industrialization versus agriculture, import substitution versus export promotion, planning versus reliance on the market price system. The debates on some of these issues are still unresolved.

In the following pages, the pioneers again speak for themselves. They are invited to recapitulate the main themes of their early work, to indicate what theoretical position and policies they were trying to rebut or support, and to consider how their position may have changed in light of the development experience of the past quarter century.

In considering their papers, the reader may now ask: Did the pioneers establish economic development as a special branch of economics? Of their contributions, which remain insightful and valid? What questions remain unsettled? And where does the subject of economic development go from here?

47. J. R. Hicks, *Essays in World Economics* (Oxford: Clarendon Press, 1959), pp. 161–95. Hla Myint, "Gains from International Trade and Backward Countries," *Review of Economic Studies*, vol. 22, no. 58 (1954–55); and "The 'Classical Theory' of International Trade and the Underdeveloped Countries," *Economic Journal* (June 1958).

48. Ian M. D. Little believes these "were the main features of the dominant school, and they are only slightly caricatured." *Economic Development* (New York: Basic Books, 1982), p. 119.

49. An editorial in *Economic Development and Cultural Change* (March 1952), p. 3, stated: "Even a casual glance at the existing literature reveals not only the absence of a satisfactory theory but also the absence of agreement as to which of the many problems apparent to the observer are important for study. The research worker seeking pathways to adequate theory finds no blazed trails, but instead a veritable jungle of vicious circles, obstacles to change, and necessary (but never sufficient) preconditions for economic growth."