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Some Thoughts on the Agenda for Development Economics

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Draft paper prepared for the discussion at the UNRISD meeting on
“The Need to Rethink Development Economics”,
7-8 September 2001,
Cape Town, South Africa.

Introduction

The meeting seems to be about three things: high theory (what should academic development economists write and think about), pedagogy (what should be taught in graduate school) and policy (what should governments do or be advised to do). These are inter-related but separate subjects.

This note is written from the standpoint of an ex-academic economist, who for some years has been working in the ambiguous milieu of advisory work for governments, typically funded by donor agencies, playing a role which may be more part of the problem than the solution. As such, I am not very aware of what now gets taught in graduate school and only occasionally am able to touch base with academic literature. On the other hand, working in both Africa and Asia, I do get to see the impact of economics at the national level in a number of Third World countries. The following reflections respond to that experience.

The Impact of Neo-liberal Economics

The influence of neo-liberal economics on policymaking during the past two decades has extended not only to current orthodoxies regarding foreign exchange, trade and macroeconomic policy regimes, but also to views regarding social policy and social service delivery, and the dismantling of State owned enterprises.

The extent of this influence is, of course, based on the decisive neo-liberal victory in the Anglo-Saxon world during the 1970's and, perhaps even as important, the euthanasia of social democracy in the industrialised world, as it has more or less co-opted the neo-liberal agenda. In Africa, the victory of neo-liberal thinking (the Berg Report and its impact) came as a result of the coincidence of political events in the First World and the deep and pervasive economic crisis in the region – fundamental issues to be faced by African development economics continue to include analyses of the origins of that crisis and of plausible alternatives to the neo-liberal response.

At the professional level, the strength of neo-liberal thinking has been its apparent foundation in rigorous theory and careful econometric analysis.

Its more obvious weaknesses are its ahistorical character (not only in the profound sense of knowledge of the history of institutions and the varying historical paths to capitalist development, but frequently innocence of knowledge of recent history of policies and experiences of the countries in question) and, despite the sophisticated façade, the tendency to jump to conclusions based on doctrine rather than analysis, and in practice the use of evidence which is sloppy (particular in light of claims to authority based on the “hardness” of the underlying analysis).

The lack of historical understanding has consequences not just in relation to grand visions of strategy and the role of the State, but also in quite surprising failures to understand historical reasons for not using the market - why nineteenth capitalist regimes found it sensible to subsidise and promote public ownership and service provision even in an era of laissez-faire ideology (ranging from public water supply in Victorian England, to massive support for free secondary and higher education in nineteenth century U.S., to Bismarckian social security).

The lack of knowledge of policymaking in the most recent past results in the sad repetition of policy failures, as “innovations” re-introduce the failure of earlier generations.

A good example of the sloppy use of evidence, which had powerful influence of public policy, was the conclusion that public resources (particularly donor resources) should be concentrated on primary education – a conclusion built up on the basis of highly questionable econometrics and inadequate analysis of the conclusions to be drawn from those questionable results.

Knowledge Required by the Working Economist

Most working economists have to work within the terms of the prevailing paradigm – the vocabulary of policy debate is that of conventional, established economics. Few reach the level where they can demand the use of an alternative intellectual framework. Moreover, in practice, when used sensibly, conventional economics provides a useful box of tools for many policy tasks.

Few economists have to confront issues of broad strategy, although views about strategy (often unstated, implicit) may have a powerful bearing on specialised and practical issues.

Therefore working economists need to have a solid command over standard economics – this need not involve the more esoteric theories and methods, but surely requires a robust command of basic principles, econometric techniques and conventional views about policy.

Sophistication is required not so much in relation to recent theoretical developments, but in understanding

- the limitations and hidden biases in received doctrine
- comparative historical and contemporary experience
- the national history of policy and economic performance

One issue is how far knowledge useful for economic policy-making lies within the conventional boundaries of economics (in terms of the Lionel Robbins definition), rather than in historical, political and social studies.

On Social and Political Change and the Origins of Institutions

Despite much original and interesting work in main-stream economics in recent years on the role and rationale of economic institutions, economists seem to be poorly equipped to address issues that emerge in periods of profound social change. Neo-classical economics, seeking to colonise knowledge through the extension of its own logical framework, sometimes trivializes.¹

One specific area that remains of crucial significance in many countries are rural power structures and land ownership (and the role of radical change as a prerequisite to successful capitalist development – in the contemporary discussion it is surely naïve to talk of “bottom up” development without recognising that in some societies it is at the local level that the vestiges of feudalism or more modern forms of clientelism are most prevalent and that bottom-up change may imply something close to rural revolution).²

Another lacuna, perhaps most evident in approaches to transition in the post-Soviet states, but also evident in work on Africa, is any understanding of where capitalists come from. The neo-classical economics of transition to capitalism is Hamlet without the Prince.

On the Role of the State

A number of the papers for the meeting touch on one aspect or another of the role of the State. Certainly, a main feature of the retreat from “development economics” in the 1970’s was the decisive shift in established thinking regarding the role of the State. That story is well known and well told in a number of the comments.

However, as Thandika Mkandawire correctly noted in his paper on the developmental State in Africa, the challenge to the “developmental” State in Africa came as much (and initially more) from the left as from the right.

¹ I remember a crack by Henry Rosovsky at a seminar in 1959 – “For Lionel Robbins, the significance of the Reformation was its impact on the price of indulgences.”

² A corollary to this is the extraordinary failure of official Western economists to recognize the positive contribution to the current successes of China and Viet Nam of the earlier revolutionary experience.

Certainly, reviewing my role as an economic advisor in Tanzania in the last sixties I felt more vulnerable to criticisms from Shivji, Leys etc. than from criticisms from the right.³ Indeed, there was some shared logic between the critiques of the left and right (substitute “surplus” for “rent”, or God forbid, add the vocabulary of class to Kreuger).

Development economics of that period was vulnerable because although it allocated a central role to the State it rarely attempted an explicit analysis of State behaviour. Perhaps it was not that development economists were unaware or unsophisticated about such matters, rather it was difficult to combine the roles of government advisor and critical analyst of the political system.⁴

If the restoration of development economics involves, at the policy level, in some sense the restoration of the activist State, the new development economics must incorporate a serious analysis of the prerequisites for the successful State, starting from a realist assessment of existing States. To say that currently in much of Africa the State is weak and of little capacity is, I believe a statement of fact and a necessary starting point – it is not to say, however, that such a condition is inevitable, inherent in the nature of African society nor necessarily a persistent condition. A more effective State capable of playing an activist developmental role is a necessary condition for African development. What is required is a specific analysis of the forces that eroded the capacity of African states and the requirements for change – both in terms of technocracy and political economy.

On Globalisation and National Economic Policy

The theoretical debate on the impact of globalisation should continue, and a useful contribution can be made by reference to earlier debates regarding the impact of capitalist development on the periphery (including A.G. Frank for and against, Warren and disciples etc.), as well as major mainstream development economists (e.g. W. Arthur Lewis) as well as the rich literature on colonial development (including conservatives such as Peter Bauer) and on multi-nationals.

However, at the level of policy the more immediate and difficult set of questions relate to what options national governments have in practice. The cases for alternatives to free trade and to free capital markets are

³ Indeed, earlier Paul Baran in The Political Economy of Growth had been quite trenchant in his skeptical statements about the consequences of the introduction of economic planning in societies in the “twilight between feudalism and capitalism”.

⁴ In the 1970’s I undertook an elaborate study of the political economy of the first three World Employment country reports, written under the direction of Seers, Singer and Jolly, all very much “development economist”. One of the key questions I raised was whether, even if the advice incorporated in those reports was economically viable was it plausible that the governments receiving the advice would be willing to implement. The reports were politically sophisticated, but the politics was implicit – in essence the argument was that there was a Keynesian positive-sum political game on hand, in which the political elites could benefit themselves, economically and politically, while also benefiting the poor. However, as these were ILO reports, the politics was implicit and in the event the implicit political assumptions proved to be over-optimistic.

longstanding and respectable even within the mainstream tradition. The successful, heterodox industrial and trade policies of East Asian are well-known. But it is still unclear what practical options are available now to low income agricultural exporters, who are now facing a further round of severe economic shocks in the current world down-turn.