

## Development Economists in "Emperor's Clothes"?

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"You were ground in the very mill of the  
conventional!"  
— Henry James, *The Art of Fiction*.

". . . and would you realize what Progress  
is, call it Tomorrow."  
— Victor Hugo, *Ib. Cossette*, Book I,  
Chap. 17.

### PROLOGUE

In this paper, I have taken upon myself the onerous task of ensuring that development economists are appropriately clothed, at least intellectually if not otherwise. In discharging this noble task in a 'scientific' fashion I assume that, other things being equal, the shortest route to the development economist's heart is through his or her wardrobe! If anyone, of course a non-economist, is put off by such an esoteric assumption, then he must remember that the economist's propensity to assume is close to one. That being the state of the art, I can with good conscience rest on this cosy assumption my basic, or to use the demographer's sex-laden phraseology, the pregnant question: Do development economists wear the sexy, see-through "Emperor's Clothes", which show everything and hide nothing? Let no one

\*Director, Pakistan Institute of Development Economics, Islamabad (Pakistan). This paper is a modified version of the author's Presidential Address (entitled *Do Development Economists Wear "Emperor's Clothes"?*) delivered at the first Annual General Meeting of the Pakistan Society of Development Economists in March 1984, and includes minor amendments and the addition of footnotes which normally are not given in an Address. The author takes this opportunity to thank Professors Jan Tinbergen, Jagdish Bhagwati, Albert O. Hirschman, John Mellor, Ansley J. Coale, Pan A. Yotopoulos, Mahmood Hasan Khan, Vernon W. Ruttan, Winfried von Urff, Gunnar Fløystad, Suleiman I. Cohen, Henk C. Bos and Peter A. Cornelisse and many others. All these gentlemen took time out of their extremely busy schedule to send their (highly favourable) comments on the Address. However, the views expressed in this paper are wholly the author's.

make light of this question because if, as some outstanding economists including the high priests of development economics assert, the answer to this question is in the affirmative, then we all are in the mortal danger of losing our identity as intellectuals, armed with a cause, a technique and a special message. If, God forbid, that indeed is the case, then, being rational profit-maximizers, we had better cut our losses by returning to the fold of economics proper, even as prodigal sons, instead of letting, like Hamlet, the "native hue of our resolution" remain "sicklied o'er with the pale cast of thought". However, I shall show that there is no warrant for development economists to be immobilized by this melancholy thought. In this Einsteinian world of relativity they have lot more room for manoeuvre than is seen by the naked eye.

### THE ECONOMIST WHO NEVER WAS?

Before proceeding any farther, let me put some more substance into the aforesaid question. No less an authority than Theodore Schultz denies in his celebrated book, *Transforming Traditional Agriculture* [68], not only the existence of but the need for a 'separatist' development economics on the ground that surplus labour is a "false doctrine". Then, again, in his Nobel Lecture, "The Economics of Being Poor" [66], he claims that "standard economic theory is as applicable to the scarcity problems that confront low-income countries as to the corresponding problems of high-income countries" for the simple reason that "poor people are no less concerned about improving their lot and that of their children than rich people are." And, then, "the early economists dealt with conditions [in Western Europe] similar to those prevailing in low-income countries today". The failure to see such a simple point has been, according to Schultz, the 'original sin' that development economists must absolve themselves of. Since history, logic and simple common-sense are against development economics, it would be irrational for perfectly sane economists to trudge with this cross on their shoulders, when they have the option to travel light by throwing it off. Indeed, this is the minimum they must do to stay in business. It is a little bit odd that Schultz gave vent to these sombre thoughts while sharing the Nobel Prize money with Arthur Lewis, who is nothing if not a development economist.<sup>1</sup> I have a suspicion that the Nobel Committee, not really convinced in the first place that development economics deserved a separate homeland, split the Prize money equally between the Unionist and the Separatist so as not to upset the balance of power in the realm of economics. Two cheers for development economics, but no more.

<sup>1</sup>It is interesting to note that Arthur Lewis, in his Nobel Lecture [49], openly worried about the dependence of the growth prospects of the less-developed countries (LDCs) on the actual growth performance of the developed countries (MDCs) and on the threat that a slower growth of international trade posed to the growth potential of the LDCs.

As if shaken by this state of schizophrenic confusion at the highest level in 1979, one of the most colourful exponents of development economics, Albert Hirschman, felt compelled by his troubled conscience to write two years later an obituary of his discipline. After Edward Gibbon, who wrote the *Decline and Fall of the Roman Empire* [25], Albert Hirschman entitled the obituary notice as "The Rise and Decline of Development Economics" [31]. He wrote wistfully that development economics, which once enjoyed its days of glory, had fallen on the thorns of life and was bleeding profusely: "I cannot help feeling that the old liveliness is not there, that new ideas are ever harder to come by and that the field is not adequately reproducing itself." Not only that; Hirschman appears to have given up on the inchoate discipline: "The decline of development economics cannot be fully reversed." Accordingly, he counsels his fellow economists to jump off the sinking ship, bear its loss stoically because "we may have gained in maturity what we have lost in excitement", and hasten back in their lifeboats to economics proper, which is the safe haven for all, whether rich or poor. Not a very safe advice, I believe, for there is many an intellectual storm lurking in that seemingly calm and serene haven that threatens to drown the unwary 'boat people' in a sea of non-comprehension. Fortunately for development economists, this doomsday talk need not be taken very seriously, even though 'caution' must be the watchword as the shades of the night of nagging doubts, however unreal, threaten to descend on *their* world.

### THE DECLINE AND FALL OF THE HIGH PRIESTS

If the two gentlemen whom I have just cited are right, then the development economist indeed "has got nothing on" by way of a discipline to be entitled to a name and an identity. While the temptation is great to give in and knuckle down under the stress of such heavy odds, it must be resisted for the sake of generating useful knowledge. As John Hicks has wisely noted, "there is, there can be, no economic theory which will do for us everything we want at all times" [29], and, if I may add, at all places. In view of the objective reality in developing countries that must be accounted for scientifically, both development economics and development economists, with their schismatical propensities, occupy a rightful, distinctive place under the sun. Notwithstanding its limited problem canvas, especially in *its* Age of Innocence during the decades of the Fifties and the Sixties, development economics does capture within its analytical net the reality in developing countries in a manner that is beyond the capacity of the neo-classical paradigm. That its problem canvas must be made broader will be readily conceded by all reasonable men. However, to throw it out lock, stock and barrel will be both unscientific and unwise.

The fundamental problem with Schultz's argument is that his case against the existence of development economics rests entirely on the demonstration that farmers are rational decision-makers in that they respond positively to monetary and non-monetary incentives. Now, to reject development economics on the basis of a single refutation is bad logic.<sup>2</sup> It is a misapplication of Karl Popper's falsificationist prescription [58] because in the stochastic world of economics the improbability of a hypothesis does *not* imply that it is false; and even the demonstration of the falsity of just one element in a doctrine, which is a collection of hypotheses, does not invalidate the entire doctrine. To put the same point positively, the mere demonstration that just *one* assumption of standard economic theory holds for developing countries does *not* imply that *all* its assumptions must also hold. We should also not forget the legitimate principle of tenacity which has led scientists, including development economists, to defend their discipline against such refutations by adding new auxiliary hypotheses. At any rate, no one has ever seriously claimed that irrational decision-making is the hallmark of economic agents in underdeveloped economies. That there may have been a few faint allusions to this effect made by some economists when development economics was still in an embryonic stage does not mean that such an assumption was ever made the headstone of development economics. On the other hand, the implicit belief in the undisputed superiority of individualistic rationality as a rule of economic behaviour is naive, to say the least. The Prisoner's Dilemma, amply cited in the literature [51], shows convincingly that one can easily construct examples to prove just the opposite: individualistic rational calculation in such a situation leads to collective disaster. It is important to understand the falsity of a train of thought, such as Schultz has set in motion, that begins by pointing out some difficulty, analytical or otherwise, with a doctrine and then proceeds to demolish it altogether on *that* basis alone.

The 'historical part of Schultz's argument is equally fallacious. For the fact that the developed countries of Western Europe, when they were underdeveloped, also experienced the same problems as the underdeveloped countries of the Third World face today does not necessarily invalidate the case for development economics. For in line with Toynbee's flexible challenge-response nexus [84], even if it is assumed that the nature of the economic 'challenge' was the same then as it is now, it does *not* follow that the quality and intensity of the 'response' of the Third World today must be identical with those of the developing countries of the West in the nineteenth century. Nor does it follow that the development economists' prescriptions must be identical with those offered by Adam Smith and Ricardo, even if they

<sup>2</sup>The empirical part of Schultz's thesis — that the surplus labour theory is a "false doctrine" — has also been shown to be erroneous by Sen [73]. It may be recalled that the empirical test performed by Schultz to test the strength of the "surplus labour" hypothesis was based on data relating to Indian agriculture before and after the influenza epidemic of 1918-19.

may bear a faint resemblance to the classical economics of the eighteenth and nineteenth centuries that Adam Smith had fathered. We must remember Aesop's wise remark that "appearances are often deceptive". Thus, while heeding Arthur Lewis's advice, development economists may pay more respect to our father Adam than the disrespectful Western economists do; the 'son' does not have to be his 'father' in *all* respects! Alexander Gerschenkron, in his classic study, *Economic Backwardness in Historical Perspective* [24], jeered at the Rostowian prescription that "the process of industrialization repeated itself from country to country lumbering through his [i.e. Rostow's] pentametric rhythm". Instead, Gerschenkron insisted on the multiplicity of growth paths, depending on the special circumstances, policies and ideologies of different developing countries. For "in a number of historical instances industrialization processes, when launched at length in a backward country, showed considerable differences, as compared with more advanced countries, not only with regard to the speed of development (the rate of industrial growth) but also with regard to the productive and organizational structures of industry which emerged from those processes."

In sharp contrast with the casual dismissal by Schultz of the development economist's claim to a life of his own, Albert Hirschman presented his argument in a more careful fashion. According to him, the edifice of development economics, when it all began in the early Fifties, was essentially raised on the simultaneous rejection, by development economists, of the "mono-economics" claim and the assertion of the "mutual-benefit" claim. The alleged rejection of the mono-economics claim by economists like Ragnar Nurkse [56], Paul Streeten [80], Paul Rosentstein-Rodan [62], Arthur Lewis [48;49], Galenson and Leibenstein [23], Albert Hirschman [32] and many others and their insistence on the need for a 'new' economics was based on the existence of rural underemployment in developing countries and on the fact that these countries, which suffered from the late-comer's syndrome, needed a different kind of treatment in the form of 'big push', 'great spurt', 'minimum critical effort', 'take off', backward and forward linkages, etc.; and if NASA scientists were today consulted, they would probably suggest a 'lift-off' therapy! On the other hand, the acceptance of the "mutual-benefit" claim rested on the *belief* that there existed an essential harmony of interest between the developed and the developing countries. The former sincerely felt themselves to be capable of pulling the latter out of the morass of underdevelopment through financial assistance. According to Hirschman, since these two claims, from which development economics got its name and fame, were no longer acceptable to the high priests and the laity alike, it was necessary to resolve the seeming stalemate between the thesis of the founding fathers and the antithesis of those who succeeded them by a new grand synthesis. However, so he asserts, "no new synthesis appeared". Hence the obituary notice, which in my opinion was published much too soon because development economics as a separate discipline is not going to die, not in the

near future anyway.<sup>3</sup> Indeed, with a fuller understanding of the mystique of the development process, the Great Age of development economics has just begun.

The main problem with Hirschman's argument is that he literally, though reluctantly, sentenced development economics to life imprisonment in a typological cell, where, according to him, the new discipline was born. This is taking too static a view of any discipline, let alone development economics, which could grow only through a long process of interaction between the model and the (changing) reality. To chain the new-born discipline inextricably to the alleged circumstances of its birth would be tantamount to sending it to the gallows even before it committed any sins. I would go so far as to say that Hirschman put the new-born discipline in a wrong cell, without giving it a fair trial. The new discipline had in it some anti-settling-down gene that prevented it, and would continue to prevent it, from settling down in any unchanging mould. This 'prisoner of conscience' — development economics, that is — must therefore be set free on both scientific and ethical grounds. The fact is that with few honourable exceptions like Peter Bauer [5], who is known for his nihilism when it comes to development economics, the mutual-benefit claim was never widely accepted by development economists. Raul Prebisch [59] and Hans Singer [74;75] rejected such a claim. They insisted that the two sets of countries were, instead, engaged in an antagonistic, zero-sum game. Then there was Gunnar Myrdal [53;54] who saw the mechanism of international trade as contributing, through the so-called "backwash effect", to the growing inequality between nations. Arthur Lewis also held the view that without appropriate State intervention the developing countries with surplus labour would lose out to developed countries, where labour's share tends to rise with the growth of national income.<sup>4</sup> Since then the doctrine of "unequal exchange", advocated by Emmanuel [20], Samir Amin [2] and others of the neo-Marxian band, has shown once and for all the falsity of the mutual-benefit claim.

A typical expression of the neo-Marxian sentiment is that "integration into the international economy leads to a disintegration of the national economy." According to this doctrine, which is a bit extremist, the developing countries are seen as caught up by the imperialist spider in the web of international trade and the 'game' can continue only so far as the spider governs the network. In accordance with Hirschman's typological scheme, any concessions to such indelicate insinuations

<sup>3</sup> At the end of his 'obituary' notice Hirschman also cited, although indirectly and faintly, a somewhat sensuous prescription for raising of development economics (and development economists) from the dead: the resurrected development economics must feature not only the "interests" but also the "passions" of the economic agent in underdeveloped countries.

<sup>4</sup> Arthur Lewis also stated the mutual-conflict situation between the underdeveloped and developed countries in his Nobel Lecture [49]. However, it should be noted that in Lewis's presentation, the mutual-conflict situation is set out *not* as an inexorable law of nature but as a result of the slower growth of the world trade relative to the growth during the two decades before 1973.

would condemn development economics to the neo-Marxian cell. However, in my view, there is an undeniable element of truth in the neo-Marxian thinking which should be acceptable to development economists, who may still not like to be labelled as neo-Marxians. For instance, the Kemp-Ohyama model [35] highlights the fundamental asymmetry in the working of the international economic system which disfavours the South and is relatively more lenient to the North.<sup>5</sup> The fact of the matter is that *when market power matters, then those who have more gain most from trade*. Furthermore, the unequal-exchange syndrome poisons the relations not only between the developed and the developing countries, but also between different classes within most of the developing countries, where these classes are pitted against each other in a mortal and final conflict. Even apart from such broad sociological 'facts', there is the obvious conflict of interest in these countries between the agricultural and the urban sectors of the economy, where, as exemplified by the see-saw movements of the 'internal' terms of trade, the farmer loses out to both landlords and urban dwellers in the game of economic growth. Development economists must simulate these 'facts' even if in doing so development economics would turn, through some Kafkaesque metamorphosis, into a neo-Marxian crab! Development economics has, in fact, undergone a metamorphosis, not necessarily Kafkaesque — of course, much to the chagrin of the high priests whose original prescriptions for the existence and growth of the new discipline are in the danger of becoming, as some of them have already become, anachronistic. Happily, out of the dying embers of faith in the litany professed by them, a new body of thought more firmly grounded in the 'realities' of the developing world has emerged, winning over new believers every day.

#### THE SCIENTIFIC RESEARCH PROGRAMME NAMED DEVELOPMENT ECONOMICS

I propose at this point to elaborate, in a positive fashion, the claim that development economics is a genuine new discipline, constituting as it does a watershed in the history of economic thought. This assertion can more fruitfully be explored, in terms of the methodology of the philosophy of science developed and applied of late by Karl Popper [58], Thomas Kuhn [45] and Imre Lakatos [46].<sup>6</sup> In their spirit the question may be asked: Does development economics constitute a new "paradigm" or, more accurately, a new "scientific research programme", consisting of a distinctive set of metaphysical beliefs about how the economic universe hangs together and of a number of refutable hypotheses about the behaviour of economic agents in this universe? Furthermore, if such a scientific research programme does exist, is it

<sup>5</sup> For a fuller discussion of the problem, see [22].

<sup>6</sup> For an excellent discussion of these matters, see Mark Blaug [12].

theoretically and empirically “progressive” in the sense of having a greater “empirical content” than the standard economic theory claims to possess? And, finally, does the new research programme predict “novel facts” about the developing countries? A rigorous answer to these questions will require an explicit description of development economics in terms of a “hard core”, a “positive heuristic” and a “protective belt”. For the time being, I confine myself to only a few illustrations to clarify the nature of these questions and to show why the answer to them must be strongly in the affirmative.

When after the long frosty winter of colonial neglect and unconcern the grass had just started to turn in the developing countries, the longing for a new deal led development economists to make a gestaltic shift or, to use the Kuhnian terminology, a “paradigm shift”, from economic *growth* to economic *development* with a view to comprehending the changing objective reality on the ground.<sup>7</sup> This was because, even though valuable insights could be gleaned from it, the standard growth theory could not be an adequate analytical tool for dealing with the grave problems these countries faced. These insights, which impressed planners in developing countries the most, related basically to the key role in the growth process that the Harrod-Domar model [18;27] assigned to such variables as the propensity to save, the capital/output ratio and the binding labour-supply constraint. However, the growth theory, by and large, kept on sinking deeper in the analysis of esoteric issues, not relevant to public policy in the developed countries – much less in the developing countries. In particular, its almost full-time preoccupation with elegant proofs of the existence and stability of the steady-state growth paths had no empirical content in it. Only one example should suffice to illustrate this point: according to an estimate made by Sato [65], the time taken by an economy which is off the steady-state path to return to the comfortable embrace of the steady-state growth path is about one hundred years! This is literally the Keynesian long run in which we shall all be dead. It is for such reasons that John Hicks remarked that growth theory reflected no more than “the shadows of the real problems” [28]. (Respectable exceptions to this stricture are the empirical studies initiated by R. M. Solow’s path-breaking 1957 paper [78].) Hence, a new, “progressive” scientific research programme was needed to deal with the real problems, not with their shadows. It was amid such great expectations that a new star, development economics, was born.

What are the main elements of the new scientific research programme that development economics represents? Firstly, unlike the ‘convex’ world of growth

<sup>7</sup>The vital difference between growth and development is also clearly stated by Sen [71]. Incidentally, Sen’s paper, which only became available to the present author one month after this Address was delivered, also deals with the broad issue raised in this paper, although in a different vein. His excellent article lends considerable support to the main thesis of this paper.

theory, development economics reflects – and if it does not then it should reflect – a clear realization that the process of economic development *must* entail *structural change* through a suitable rearrangement of the loci of economic power that obfuscate all meaningful social progress. That interest groups exercise a growth-retarding effect by achieving a redistribution of income in their favour even in the Western democracies has been shown by M. Olson [57]. This is even more true in developing countries. Hence, an explicit acceptance of an inevitable clash of interest between the privileged classes and the have-nots as a fact of life in developing countries replaces, in the new mode of thought, the naive belief in the mythical natural harmony of interests that has been propagated in the name of positivism by economists since the days of Adam Smith. It follows that what needs to be radically altered *first* to initiate structural change and facilitate economic growth on a sustained and just basis is the distribution of assets and private property, particularly landed property.<sup>8</sup> For instance, Berry and Cline show in their important study, *Agrarian Structure and Productivity in Developing Countries* [7], that agricultural productivity is negatively related to the large-sized farm holdings that characterize a feudal structure. Then, as early as 1952, Paul Baran [4], emphasized that, to release the forces of socio-economic change, the existing power structure, which represented a symbiosis of the worst features of capitalism and feudalism, must be destroyed because it grows ever more vicious for *fear* of public disapproval. Paul Baran wrote: “This superimposition of business *mores* over ancient oppression by landed gentries resulted in compounded exploitation, more outrageous corruption and more glaring social injustice.” What resulted from this superimposition “was an economic and political amalgam combining the worst features of both the worlds – feudalism and capitalism – and blocking effectively all possibilities of economic growth.” These observations have proved to be an exact description of the conditions prevailing in some of the developing countries, including Pakistan, where the drift of events, unobstructed by any effective government policy to roll them back, has facilitated the emergence of an oppressive and reactionary feudal-capitalistic structure, which is hell-bent on keeping the unjust *status quo*. As shown by Mahmood Hasan Khan [40;41;42;43], the socio-economic set-up in the agricultural sector in Pakistan is macabre and casts a long shadow on the rest of the society as well. It is this moral and social chaos, which sometimes is given the false name of ‘stability’, that made Joan Robinson declare, “It is not easy to see how the Third World can mount the attack [on mass poverty] while preserving private property in the means of production and respecting the rules of the free-market economy” [61].

<sup>8</sup>The need for such a sequential strategy is most clearly illustrated with reference to the problems arising in situations of extreme poverty, characterized by famine and starvation. Such situations have been shown to result from the failure of “endowments” and/or “exchange entitlements” of the poor in the society. For an excellent discussion of this aspect, see Sen [72].

Secondly, the attempts at reconciling economic growth with a socially and politically acceptable distribution of income and eradicating worst forms of poverty feature prominently in the new research programme. However, the need for such a reconciliation has been felt by development economists only gradually, through the process of 'learning by doing'. In his path-breaking book, *The Theory of Economic Growth* [50], published in 1955, Arthur Lewis declared in a pontifical manner: "First, it should be noted that our subject-matter is growth, and not distribution." This statement followed logically from the analysis he had presented in his 1954 paper, "Economic Development with Unlimited Supplies of Labour" [48], in which he showed that there was no need for a reconciliation between growth and equity. According to him, all that mattered for promoting economic development was that the share of profits in total national income must rise to generate the capitalist surplus required to finance capital accumulation. He wrote candidly: "We are interested not in the people in general, but only say in the 10 percent of them with the largest income, who in countries with surplus labour receive up to 40 percent of the national income. Our problem then becomes what are the circumstances in which the share of profits in national income increases." On the other hand, it was a matter of relative unconcern for him if the real wage in the rural sector remained at a subsistence level *because* that would keep the real wage low in the capitalist sector as well and increase the generation of investible surplus. Indeed, in his model, any persistent increase in the subsistence wage in the rural sector would choke off capital accumulation by raising real wages in the capitalist sector and reduce the share of corporate profits. However, Arthur Lewis was careful to note that inequalities of income are socially productive only if they are caused by the rising share of profits.<sup>9</sup>

As the feedback from the reality in developing countries started pouring in, fears began to be expressed by development economists that rapid economic growth, which did take place, might itself impede the process of structural change by worsening the distribution of income and wealth and by impoverishing even further those living below the "poverty line", which, it must be admitted, is drawn both differently and indifferently by different authors. Mostly during the Seventies, the need was felt for a new development strategy. The Dag Hammarskjöld Foundation in 1975 pleaded for "another development" on the conviction that "resources are available to satisfy basic needs without transgressing the 'outer limits'." Later, in 1976, the ILO advocated that "development planning should include as an explicit goal the satisfaction of an absolute level of basic needs." At

<sup>9</sup> However, Arthur Lewis emphasized that the same was not true of rent, which leads to wasteful consumption. In developing countries, like Pakistan, where land rent is a substantial part of the value added in agriculture this condemnation of rents by economists, from the days of physiocrats, Adam Smith and David Ricardo, as an incubus on the society, should spur policy makers to take corrective steps in this direction. Note that this refers not to the economic rents but to "contrived" rents which impose a dead loss on the economy. This distinction has been made in the contributions to the recent theory of "rent-seeking society". For instance, see Bhagwati [9].

about the same time, the many scholars of World Bank research team, under Robert McNamara, vigorously advocated the basic-needs strategy which assigned low priority to economic growth *per se* and focused mainly on the supply of clean water, health and housing facilities for the bottom 40 percent (or 30 percent) of the population as the main indicators of the economic development that really mattered. It is curious to note that the proponents of the basic-needs strategy did not recognize the crucial importance of structural change for economic progress.<sup>10</sup> At any rate, in the light of the evidence which showed that developing countries, including Pakistan, did experience high growth rates, with some insignificant "trickle down" also occurring, the emphasis has of late shifted to new models of distribution and growth which emphasize structural change and attempt to reconcile the trade-off between "equity" and "growth" in a dynamic economy by featuring the provision of basic needs as a constraint rather than the objective function to be maximized. Then, of late, it has been argued convincingly by A. K. Sen [72] that the main problem in developing countries, threatened with starvation and famine, is not so much of there "being" enough of wage goods — food as a special case — but that of people not "having" them. Thus, with the passage of time, the problem canvas that development economists paint on has tended to widen. This is scientific progress in the true sense of the term and is fully reflected in development economics as we recognize it today. The many twists and turns that I have just recounted in the thinking on the issue are more in the nature of a "problem-switch" within the fold of development economics than a signal of its demise as an independent discipline. The "age of chivalry" may have passed into history, but we have grown wiser and ever more cognizant of the mystique of the development process.

It is interesting to recall here that the 'bloody-mindedness' about economic growth and the lack of concern for income (and wealth) distribution displayed by Arthur Lewis [48:50] and some others like Galenson and Leibenstein [23] in the Fifties, and early on by Schumpeter in his classic work, *The Theory of Economic Development* [69], parallel the sentiment shown by Adam Smith in 1776 in which he set out to explore only "the nature and cause of the wealth of nations." He was followed by David Ricardo who was only *secondarily* concerned with distribution. It was left for John Stuart Mill to emphasize the *primary* importance of distribution in the scheme of things that political economy should be concerned about. The

<sup>10</sup> See, for instance, Paul Streeten [80], who somewhat paradoxically poses the choice between "humanism" and "egalitarianism", reserving the title of humanism for the basic-needs philosophy. He, like many others in the 'basic needs' camp, tends to de-emphasize structural change for alleviating the worst forms of poverty — even when he explicitly recognizes structural factors as contributing to poverty. Also, the emphasis is on the *supply* of basic-needs goods rather than on the deficiency of effective *demand* among the poor for such goods. It is only by neglecting the demand 'blade' of the Marshallian 'scissors' that the artificial dichotomy of "humanism" and "egalitarianism" can be maintained.

stage was thus set for Marxian distributive Socialism, which saw capitalist surplus as capitalistic exploitation, a charge to which the proponents of capitalism have not yet given a satisfactory answer. True, the leaders of the "marginalist revolution" and the high priests of the neo-classical paradigm have tried to hush up the capitalist-exploitation scandal by reference to the imaginary episode of each factor of production receiving its just reward, but according to Joan Robinson, this defence, based on a confusion between the sources of income and the factors of production, was by and large ineffectual, generating neither heat nor light.

Seen in retrospect, it is unfortunate that Arthur Lewis, who thought that classical economics, and not Keynesian Economics, was relevant for comprehending the problems of developing countries, did not see this train of thought in the history of economic doctrine and, in his model, once again raised capitalist surplus to a key position that it did not deserve. As if to prove the veracity of Santayana's dictum about those who do not learn from history, development economics was, somewhat light-heartedly, condemned to repeat the mistakes of the past. With the predominant mores of the *rentier* class, which capitalists would imitate, the capitalist surplus, instead of being invested, was, by and large, squandered away on luxury consumption in developing countries. However, it should be noted that Arthur Lewis was by no means sold on private capitalism. For him, it did not matter whether the capitalist surplus originated in the private sector or in the public sector. He is too perceptive an economist to ignore the experience of Socialist countries which has shown that *private capitalism is neither a necessary nor a sufficient condition for the generation of investible surplus required to finance high rates of economic growth*. Indeed, he points out that "the experience of the USSR is that [investible surplus] is increased, and not reduced, by transforming the ownership of capital". So, the advocates of private capitalism have no more than half a friend in Arthur Lewis!

A better strategy of promoting capital accumulation in a socially desirable way would be to keep the rate of capitalist profits, adjusted for the share of wages in net output, at a level that could be realized in the production of wage goods. This level should then set the ceiling for the rate of profits in the rest of the economy. This is the essence of Pierro Sraffa's generalization of Ricardian theory of determination of the rate of profit on investment [79] which is more relevant for developing countries. Indeed, as pointed out by John Mellor [52], an adequate supply of wage goods is essential to mobilize surplus labour, particularly in the rural areas. Here is a rare instance where whatever is good for the growth goose is also good for the gander named social justice.

Be that as it may, the important point to note here is that the theory of economic development deals explicitly with comprehensive social change, which cannot be analysed with the tools of standard economic theory. It is this fact that led Karl Marx to emphasize that social process constituted an "indivisible whole".

Much later, it also compelled Kenneth Boulding in 1966 to declare in his Richard T. Ely Lecture [13] that "We are dealing in this case [of economic development] with a total social process, and the economic abstractions are simply not sufficient to deal with the problem." A deeper philosophical reason, again noted by Boulding, for the inapplicability of the standard economic theory to development problems is that where knowledge is an essential part of the system, the knowledge about the system changes the system itself. This is particularly true of the developing countries where the initial stock of knowledge about the existing economic systems is so small to begin with, and the rate of economic progress is directly related to an increase in knowledge about the dynamics of growth in such countries. As such, development economics must not only simulate the objective reality on the ground but also comprehend the change in this reality. By the same token, it cannot even assume the objective reality to remain unchanged as information inputs are injected into the system. It is for this reason that development economics is best described as the "history of the future".

Thirdly, the new scientific research programme that development economics represents explicitly repudiates, as it should, the assumptions of unchanging tastes and independence of individual's utility functions. The irrelevance of such assumptions, which are routinely made by neo-classical economists, should be transparent when it is remembered that the process of economic development itself represents, in the words of Samuel Johnson, "the wild vicissitudes of tastes" and preferences of the various strata of the society in developing countries. Similarly, as was noted quite early by Veblen [85] and Duesenberry [19], consumption functions are typically interdependent. This is particularly the case in developing countries. An interesting example of such interdependence is provided by Hirschman and Rothschild [33]. They hypothesize that in the early stages of development the growing inequalities of income are tolerated by the have-nots only in the hope that soon their turn will also come for a better and more prosperous life, and that this tolerance for inequality diminishes sharply once they realize that their earlier expectations are not going to be fulfilled.

It should be clear by now that development economics has all the makings of a viable scientific research programme. It remains to be shown that this programme is also "progressive" in that it has "excess empirical content", and that it predicts "novel facts" about developing countries which are not comprehensible with the help of standard economic theory. It may be noted in this context that the most important theoretical and empirical advances in development economics have been made in simulating the changing reality *in* developing countries. For instance, the recognition of surplus labour in rural areas as the key factor in developing countries led to the formulation of the model of "rural under-employment" by Arthur Lewis and elaborated by other economists like Fei and Ranis [21]. Later on, the models of

migration and unemployment developed by Harris and Todaro [26] and much improved and elaborated by Ali Khan [37;38;39] focused instead on urban unemployment, which is caused by rural-urban migration and a politically determined urban wage. Another example of the excess empirical content of development economics is the spate of empirical work that has been generated on the relation between economic growth, income distribution and unemployment. This work has resulted in the generation of new knowledge about the facts of development process. One such pioneering study, inspired *solely* by the actual problems of developing countries, is the contribution by Chenery *et al.* [14]. Yet another example of the theoretical and empirical progress, which has been mainly animated by the reality in the developing countries is the theory of effective rates of protection, developed mainly by Harry Johnson [34], Jagdish Bhagwati [8;9;10], Bela Balassa [3], Max Corden [16] and Anne O. Krueger [44]. This theory has spanned a large body of empirical work, which, with the help of such 'operational' concepts as explicit and implicit effective rates of protection and domestic resource cost, throws new light on the industrialization strategies of developing countries. This work has added to the empirical content of development economics, even though a lot of unnecessary theoretical elaborations are also being done in this area. Furthermore, the Pareto-optimality criterion has cast a long shadow on the policy recommendations coming out of this important work, which sometimes has degenerated into a disguised advocacy of competitive markets and free trade, on the *assumption* that free trade brings unmitigated good to developing countries. Now, such an assumption had some legitimacy in the post-war period that terminated in 1973, when foreign trade rose at a rate of about 8 percent per annum in real terms, but is no longer legitimate now, with the rising protectionist sentiment in the OECD countries. Here we have an odd example of a theory which investigates the problems of industrialization in developing countries with the help of assumptions which do not fit very well in the new scientific research programme. Such inconsistencies must be removed to make the empirical research and policy advice given on the basis of this research more relevant to the 'reality' in the developing countries.

### FROM HERE TO ETERNITY

These are just a few examples of the manner in which development economics, proceeding under its own steam, has predicted novel facts, but many more such examples can be cited.<sup>11</sup> It should be clear, then, that development economists'

<sup>11</sup>Other outstanding examples of the theoretical work directly inspired by the problems of developing economies are the concepts of "immiserizing growth" and the theory of DUP (directly-unproductive profit-seeking) activities, both of which are due to Jagdish Bhagwati [9;10]. Yet another example is that of the large literature that has grown around the theme of protection and economic development. For a survey of the relevant literature, see Naqvi [55].

wardrobe is by no means empty, and that far from wearing the mythical "Emperor's Clothes" they have more presentable clothes to cover themselves with, elegantly and with a new style. Having disposed of their non-existent nakedness problem, I now turn to the question of what development economists, including those in Pakistan, *should* be doing in those distinctive clothes? Without being exhaustive, I shall be content for the present with throwing a few ideas, or, shall we say, a few stones.

The main preoccupation of development economists should be to spell out more explicitly than has been done so far the basic elements of their discipline and to highlight its main message. The centre-piece of the new research programme should remain its primary emphasis on the predictability of its refutable hypotheses and their empirical fruitfulness. There should be a readiness to face facts and to assimilate the feedback from reality, instead of walking away from it on the unreliable crutches of 'stylised facts' — at least, not the ones found in the developed countries. This is because there are not many valid hypotheses, not even at an *a priori* level, about the behaviour of economic agents in developing countries. Such a knowledge can be gained only by a lot of empirical work. Unlike the neo-classical economists, the development economists cannot ignore the Econometric Revolution, engineered by Tinbergen and Klein and sustained by persons like E. Malinvaud. The practitioners of the new discipline should imitate such attributes of the neo-classical research programme as elegance, simplicity and generality, but only in so far as such a scientific activity remains fruitful and relevant. For instance, while there may be a place in the new scientific research programme for a theoretical contribution *like* Samuelson's elegant demonstration of the factor-price equalization theorem by establishing a unique relationship between factor prices and commodity prices in a two-goods-two-factor world [63;64], such a demonstration should be enough to prove why factor prices will *not* be equalized and why *no* normative inferences in favour of free trade can be drawn from it. However, having done that, all subsequent generalizations of such a theorem, whose empirical content is nil even in its simplest form, to an *n*-commodity-*n*-factor world is a 'luxury good' that development economists must 'consume', if at all, with the greatest moderation.

It is with a view to keeping the focus of development economics on relevant problems that development economists must continue to explore, theoretically and empirically, the relationship between economic growth and structural change. The empirically oriented models, like those of Ahluwalia and Chenery [1], should be constructed to make sure that as economic growth proceeds apace, the relative share of the poorest in the GNP does not fall. This latter condition must be met to prevent absolute poverty from getting any worse as a *result* of economic growth. However, it must be noted that such a growth strategy, which concentrates *only* on the redistribution of incremental income, will *not* narrow the differential between the relative shares of the rich and the poor. This is because *even if the income of the*



poor is rising faster than the income of the rich, the absolute gap between the two will not even begin to narrow down until the ratio of their wealth holdings equals the inverse ratio of the growth rates of their relative incomes. A heavy redistribution of initial wealth holdings is essential to establish in developing countries some kind of an "optimum regime" wherein the gap between the rich and the poor is kept at a minimum. Jan Tinbergen, in his classic paper, "The Theory of the Optimum Regime" [83], points out that "as a rule the optimum requires income transfers" because at present the income differences between the rich and the poor are more unequal than is socially acceptable. It follows that what is required to tackle the problem of poverty is structural change and not mere tinkering with marginal increments in incomes. In this connection it is essential that the GNP should be measured, by employing poverty weights and other devices, in a manner that reflects more accurately the welfare-increasing content of economic growth. In this context, development economists should accord explicit recognition to the role of human capital in the process of economic development. This is a field in which Theodore Schultz [67], Ali Khan [39], Ismail Sirageldin [76;77] and S. I. Cohen [15] have made highly original contributions.

In performing his 'historic' role, it is best that the development economist does not pay much attention to Adam Smith's automatic price mechanism run by an Invisible Hand, if such an apparition ever existed. As Wassily Leontief has recently pointed out [47], the efficiency and beneficence of the Invisible Hand, accelerating economic growth and also raising labour's share in national product, never was a fact. It was indeed an illusion, sustained by the powerful waves of technological change that hit Western Europe with increasing intensity and frequency. It is worth while quoting from Leontief: "To an insightful observer, such as Adam Smith was, the entire national economy appears to be guided and protected by an 'Invisible Hand' But neither the classical nor the present-day mathematical economists seem to have realized that the effective operation of the automatic price mechanism depends critically on the nature of the nineteenth-century technology. That technology brought an unprecedented rise in total output, but at the same time it maintained and even strengthened the dominant role of human labour in most kinds of productive processes — thus automatically securing for labour a large and, in many instances, a gradually increasing share of total national income." However, Leontief warns that such a happy confluence of economic growth and income distribution will not hold, even in advanced countries, with the increasing importance of labour-saving computer technology which has permeated all sectors of developed economies. This happy confluence will be even more tenuous in developing countries where high rates of population growth keep real wages down, while the increasing application of the Western computer technology tends to increase both rural underemployment and urban unemployment.

The central point raised in Leontief's assertion should be carefully noted by all development economists with a clout: it is the role of technological change in the process of economic development. Seen in retrospect, it is a bit odd that while the development economists of yore grabbed greedily the Harrod-Domar capital-accumulation crumb, doled out by neo-classical growth theory, little or no attention was paid to Solow's technological progress hand-out [78]. Since then a study of Western capitalistic economies by Cornwall [17] has shown that in the spectacular growth episode of the post-war era which terminated in 1973, not more than half of the growth rates actually achieved can be attributed to labour and capital inputs. The remaining half is explained by technological progress. (Similar results were earlier established by Kendrick [36].) Of late, Binswanger and Ruttan [11] have developed a "theory of induced technical and institutional change" in the context of agricultural development. They show that technical change is endogenous to the development process, that it is the most important factor responsible for explaining (agricultural) productivity differences among countries and time, and that the process of technical change, instead of being guided by the 'invisible hand', has been propelled by public-sector agricultural research institutions. In the light of this evidence, models of economic development should explicitly feature technological progress as an engine of growth. One implication of this is that the focus of models and public policy must shift from an infatuation with import substitution of only goods to a more mature policy of effecting import substitution in technological knowledge.<sup>12</sup> The 'traditional' policy of the import substitution in goods alone has proved to be a monumental failure in inducing efficient industrialization in developing countries; and we have such a state of affairs on our hands that any move away from it will touch off a grave industrial dislocation. As things are, it is hard to see how, in the presence of the gross technological incapacity of the developing countries, a massive shift from import-substitution (of goods) policy to one emphasizing export expansion, induced by suitable changes in the structure of incentives advocated of late by Bhagwati, Krueger and many others, will bear fruit — i.e. produce an efficient export activity. Such a shift may be an option for a lesser evil, which, according to conventional wisdom, is not necessarily a bad move. Whether it will convert the winter of our industrial discontent into a full-blown spring of efficient industrial progress remains to be shown.

While keeping the Invisible Hand at arm's length, the development economists will also have to do some more load-shedding in respect of the various non-operational hypotheses that sustain it. I have already suggested that such assumptions as unchanging tastes and independence of individual's utility functions should

<sup>12</sup>The optimality for subsidizing the learning process directly, instead of providing protection to the domestic industry, is a well-established result in those cases where 'externalities' result from the presence of a learning factor. See Naqvi [55].

not be made light-heartedly by development theorists. Another important assumption in this category is that of Pareto optimality, which is not relevant in the context of developing economies where economic growth *must* lead to increasing social welfare. However, Pareto optimality does not necessarily do such heavy-duty jobs. As A. K. Sen [70] has pointed out, "A society or an economy can be optimal in [the Pareto] sense even when some people are rolling in luxury and others are near starvation, as long as the starvers cannot be made better off without cutting into the pleasures of the rich." To put the point even more dramatically, "if preventing the burning of Rome would have made Emperor Nero feel worse off, then letting him burn Rome would have been Pareto-optimal". Even though such extreme formulations do not render the Pareto-optimality criterion entirely irrelevant for conceptualizing the 'reality' in developing countries, development theorists should feature more prominently a lexicographic ordering of individual preferences such that the needs of the least-privileged in the society are adequately met in all possible states of the economy. This advice, which comes out quite strongly from John Rawls's influential work [60], is highly relevant to the developing countries. A logical consequence of the acceptance of the Rawlsian advice is that considerations of *equity* acquire at least as much significance as the dictates of efficiency. That being the case, the *normative capitalistic principle that what is profitable is right must be discarded as socially undesirable for guiding investment decisions in developing countries*. Furthermore, there should be explicit rules deciding the desirable *form* of investment to ensure an adequate flow of wage goods and investment goods rather than that of luxury goods. This is an issue on which, according to Joan Robinson, the standard economic theory is silent — or, at least, not very vocal. And yet the matter is too important to be left to the market, which in developing countries even more than in the developed countries reflects the preferences of the rich and accords low priority to the needs of the poor.

### EPILOGUE

The concern for the least-privileged in the society should logically lead development economists to enquire systematically into the question of how best to 'inject' moral and ethical considerations into the main corpus of the development theory. This is because, as Kenneth Boulding pointed out, "no science of any kind can be divorced from ethical considerations." The same theme recurs even more persuasively in Hirschman [30]. He argues that *all* economists, and not only development economists, should be concerned with the problem of relating moral values to economics because "the paradigm about self-interest leading to a workable and perhaps even optimal social order without any admixture of 'benevolence' has

now been around for so long that it has become intellectually challenging to rediscover the need for morality." In developing economies such a task is not only intellectually challenging but also morally obligatory for development economists to perform. It will require a lot of soul-searching and intellectual commitment on the part of development economists to do this job satisfactorily because, as Joan Robinson [61] explicitly states, "the moralizing doctrine which still underlines the orthodox Western teaching fails to provide a theory of economic development because of a confusion in its approach." As such, development economics need not be that "rock of positivity" that standard economics, which was born out of an entirely legitimate marriage of philosophy and ethics, has pretended to be without ever succeeding in hiding its birth-mark. The oppressive socio-economic systems prevailing in developing countries like Pakistan make it necessary, even for their survival, *that commitment rather than egoism should be accepted as an ideal form of economic behaviour and the self-serving capitalistic ethic is thrown over-board to make room for a socially acceptable ethic that satisfies the dictates of natural justice*. Jan Tinbergen, in a recent article [82], has unequivocally declared: "Socialist policy, if it wants to shape a future human race living in happiness, needs a *more profound basis* — either religious or humanist . . ." The same also holds for a non-socialist policy, if we remember the wise remark made by Hubert Humphrey that "the concern for the unfortunate is not socialism."

In developing societies, where there is so little worth keeping from the past and where so much is wrong with the existing social and economic institutions and where the success of the development process is inextricably linked to its capacity to illuminate for the poorest their economic horizons, which lie deep in the shadows, the dictates of "ought to be" must shape and change "what is". When the immense task of extricating societies from the quagmire of want, poverty and moral degradation *must* be done, pure positivism in development economics is not even a triviality. It is downright pernicious and hypocritical. Let the history of the future that development economics is to be written with candidness and compassion and with the force that goes with the right words, so that our children are raised in a just social environment rather than in a feudal-capitalistic system to which the common man is bound only by the bonds of sorrow. Even if on the present hangs a gloomy calm, let us live in the vision of the good, not losing hope, not even the illusions, about our capacity to slay the fire-eating dragon of poverty, if possible single-handedly. In the long march through the night, let us forsake selfishness so that all can share the exhilaration of hope that comes with the first rays of the rising sun. For, as George Sand warned, "all that is not true progress will disappear in the future society."

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