

## The Importance of Being Defunct

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"Where entity and quiddity,  
The ghosts of defunct bodies, fly."

Samuel Butler: *Hudibras*, pt. 1 [1663].

### INTRODUCTION

For development economists these are the days of great expectations. Development economics as a discipline, born only three decades ago, has come to stay, notwithstanding the threats to its existence issued openly by such friends as Schultz [63], Bauer [2], Little [44], and Lal [39]. New theoretical constructs have been devised and novel empirical studies done to comprehend better the forces of change in developing countries. While of late there may not have been great festivity in the realm of ideas, the force of circumstances has widened the problem canvas of development economics and has opened up new vistas for economists to explore — much beyond the expectations of its founding fathers. Also notwithstanding the great diversity in the experience of individual countries, development economists may legitimately draw some comfort from the thought that their ideas have changed the developing world for the better.

Despite all the whipping it has received at the hands of 'puritans', a steadily rising per capita GNP in the Third World does indicate lesser poverty now than before: according to the *World Development Report 1982* [73], while some 'sticky' types, presumably for fear of a crash-landing, have travelled on Rostow's back rather than on his flying machine, most of the developing countries have revealed their preferences in a statistically significant way for quicker means of transportation on their way to prosperity. And it will be sheer priggish cynicism to withhold from the

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development economists the laurels that they must receive for giving to the policy-maker reasonably wise advice, and for making economic science progress in terms of its wider 'scope' and greater relevance: instead of watching lazily, in the cold comfort of simulation chambers, endless battles of 'existence' and 'stability', development economics has been forced to face the "madding crowd" of humanity stuck in the quagmire of poverty. In the warm embrace of the gallant development economist the frigid queen of social sciences has at last begun to look human!

And yet it would be premature for the development economists to bathe in the warm glow of self-congratulation on having slain the dragon. The optimal posture would be for them to act as a band of confirmed 'existentialists' not given to spasms of wild exultation. Extensive poverty still stalks the land in developing countries, gross inequalities of income and wealth pollute the social environment, and such indices of welfare improvement as health, literacy and longevity are by and large marking time. And population keeps on growing alarmingly, as if to honour Malthus posthumously. In short, while the rate of economic growth in developing countries has been respectable, the same cannot be said of the rate of economic *development*. Then, great intellectual confusion surrounds our subject. The neo-Marxians, the neo-classicists, the neo-Keynesians, supply-siders, and those holding "rational expectations" keep on carrying out nightly raids on the development economist's territory, while some development economists, following Virgil's advice, appear to have decided to "surrender to love" even the invaders, especially the neo-classicists. Instead of giving a decent, principled fight for which he is fully equipped, many a development economist is busy drawing up terms of reconciliation with the neo-classicists along the lines of the biblical 'prodigal son' episode.

I would do no such thing. Following the theme of my paper [48] in which I firmly deny the fable of development economists who wear "emperor's clothes", I now propose to approach the subject by distinguishing development economists from a phantom called the "defunct economist", who is important mainly because he is defunct and therefore has acquired a halo of sanctity about it. But who is a defunct economist? The question is hard to answer because he keeps on reincarnating himself without giving any advance notice and without any intention of achieving Nirvana in the near future. Yet, notwithstanding the 'identification' problem, let us try to recognize him by reference to what he does. Of special interest is his role in the 'sensitive' relationship between the development economist and the development policy-maker in developing countries. Has this ubiquitous character been a spoiler of this relationship or a useful conciliator? This question is worth investigating if we want to understand the mystique of the making and unmaking of development policies and to get a firm hold on the evolution of ideas in development economics. It is interesting to speculate as to what kind of influence the ideas of the defunct economist, as opposed to those of living development economists, have had on the formulation and conduct of policy-makers.

John Maynard Keynes would have assigned to the defunct economist the primary duty of guiding the activities of the policy-maker — though *not* of the development economist.<sup>1</sup> As a befitting finale to his classic *General Theory* [30], Keynes emphatically states that the world is ruled by little else than the ideas of economists and social philosophers, and that "practical men, . . . are usually the slaves of some defunct economist". Bauer [3], sitting on the other side of the fence, denies the Keynesian optimism about the importance of the ideas of economists: "For instance", he writes, "most economists since Adam Smith, including Keynes, have advocated free trade but this has not brought it about". However, he would agree with Keynes on the importance of the defunct economist — indeed, he would let the policy-maker be ruled by little else than the ideas of the defunct economist! Not only that. He would very much like, as the just-quoted passage shows, the ghost of our father Adam Smith to persist in his nocturnal stroll on the ramparts of economics.

We do not need the services of an Arrow or a Debreu to prove the 'existence' of the defunct economist. He is there for all to see. Or else, how would one explain the return of Hayek from the self-imposed post-World War II exile from economics to lead his forces, chanting the Hayekian battle-cry — namely, "the unintended social consequences of individual actions" — to dissipate once and for all the heretical Keynesian consensus in the realm of economics and economic policy? And to what mysterious forces would one ascribe the rising sentiment against Welfare State in Europe and elsewhere, a growing unconcern for rising unemployment, and the emergence of a supply-side economics, which has the dubious distinction of proving that even capitalism has a "conscience"?<sup>2</sup> As if to turn the tables on Keynes, the leaders of this counter-revolution against Keynesianism are hell-bent on distilling their "frenzy" from the ideas of the 19th century French philosopher-cum-economist, Jean Baptiste Say, a bona fide French-speaking defunct economist! Some counter-revolution this, as we find among its leaders not only the "madmen in authority" but perfectly sane economists as well!

From a tactical standpoint, I would avoid an open ideological confrontation with the counter-revolutionaries. Instead, resorting to the economist's textbook guerilla tactic, I would simply *assume* that the Keynesian formulation is the right one. That done, let me ask the momentous question: What ideas of economists of different vintages and colours have held sway on the minds of the policy-maker

<sup>1</sup> Indeed, if the iconoclast of the *General Theory* were a development economist he would have exorcised the ghost of the defunct economist from its realm, even if that meant setting up a few stuffed shirts to be shot down. No worshipper at the temples of Adam Smith and David Ricardo, Keynes did *not* believe in the magic of the market or in the institution of (unlimited) private property.

<sup>2</sup> This is one of the earth-shaking discoveries that Gilder reports in his book [21].

in the brief economic history of the developing countries that began in the twilight of the post-war era? My main thesis is that when the passion for economic development had just begun to take hold of man's mind, the policy-maker and the development economist did make a valiant attempt to give the impression of a happy marriage. Although thinking themselves immune to the corrupting influence of economists, the policy-makers in these countries, when chalking out development policy, did lean lovingly on such living stalwarts of the time as Rosenstein-Rodan, Harrod, Domar, Lewis, Rostow, Kaldor, Hirschman, Mahalanobis and many others.<sup>3</sup> The rift became clearly noticeable when, with the passage of time, the policy-makers, following in the footsteps of the 'unitarians' among development economists, themselves started to flirt openly with the shady defunct economist.

How do we explain these ebbs and flows in the policy-makers' amours with the defunct economist, at the expense of the 'living' development economists? Let me state at the very outset that to explain is not necessarily to justify what is in fact a highly undesirable state of affairs in the realm of ideas. However, in order to save my neck from the much-dreaded Hume's Guillotine, which treats as illegal the birth of 'is' from 'ought',<sup>4</sup> let me be content with an *explanation* of the twists and turns of the three musketeers — the policy-maker, the development economist and the defunct economist — in their march through the jungle of the real world in developing countries. To avoid the blame for showing any partiality for one or the other member of this trio, I shall present them first separately and then together to see what kind of music they make, singly and jointly.

### THE DEVELOPMENT POLICY-MAKER

Let us then begin with the behaviour over time of the makers of development policy in developing countries. I shall restrict myself mostly to Pakistan and India, if only to respect the moral imperatives that charity begins at home and that one should love one's neighbour the most.

I shall first describe the development strategy followed during the euphoric Fifties and part of the Sixties, when "to be young was very heaven", and then outline the latter-day modifications in it in response to the 'real-world' happenings, both real and imaginary, in the developing countries.

#### The Religion of Growthmanship

The structure of economic policy in India and Pakistan during the decades of the Fifties and the Sixties, with some important differences, broadly consisted of the following elements.

<sup>3</sup> However note that, contrary to Keynesian intentions, some of these stalwarts themselves drew inspiration from defunct economists like Adam Smith and David Ricardo.

<sup>4</sup> However, to spare the innocent Hume's Guillotine should be applied with great care. For, following Popper's advice [57], each time we want to tell it "as it is" we find ourselves telling it "as it should be." On the other hand, definitely illegitimate is any effort to deduce "oughts" from "is's".

Even though in Pakistan no firm commitment was made to the socialistic ideology, which was much emphasized in India, both the countries decided to become the votaries of a somewhat unsocial religion of unashamed growthmanship.<sup>5</sup> True, as Bhagwati [7] informs us, there was some talk in India about growth "not being an objective in itself but a way of making a sustained assault on poverty"; but this talk must have been no more than a mere 'rhapsody of words' because the litany of growthmanship was followed far more relentlessly in India than in Pakistan. A heavy investment in the capital-goods-producing sectors at the initial stages of planning was emphasized in India with a view to maximizing the consumption stream over the planning horizon, which could be defined as finite or infinite. The purpose was to accelerate the growth rate evermore to reach 'there' in the shortest period of time. In Pakistan was exercised the light-industry option to achieve the same policy objective. 'Grow first and distribute later, if at all,' appeared to be the song — indeed, the swan-song — that policy-makers sang with "full-throated ease".

To fortify their commitment to the new religion, policy-makers allowed the fruits of economic progress to grow on the growth poles in the hope that these will become available to all, rich and poor, through some kind of a backward or forward locomotion of the engine of growth. Since industrialization was universally adopted as *the* engine of growth, a thriving agriculture was used as a milch cow to feed the industrial baby which, on attaining adulthood, was supposed to pay its debt back to mother agriculture. Then, driven by an all-pervasive export pessimism and the desire to increase the size of the domestic market, import substitution was adopted as the preferred mode of industrialization, more in India than in Pakistan. In Pakistan, the industrialization process was initiated by import-substituting consumer goods, especially luxury goods, the imports of which had to be curtailed partly for balance-of-payments reasons, and partly because of the ready domestic availability of raw materials (cotton, jute, etc.) and a plentiful domestic supply of cheap labour. By contrast, India, following the Russian example, initiated the import-substitution process with investment in heavy industries. By turning into a policy variable the rate of the investment going into heavy industries, the Indian policy-makers hoped that the growth of consumer goods industries and of total output would eventually be much greater than it would be if the "light industry first" option were exercised, as was done in Pakistan.

A basically capitalistic pattern of economic development was adopted in both the countries, even though the Indian policy-makers kept harping on the socialistic strain. The corporate sector was put in the driver's seat to take the development train and its exuberant passengers, tooting horns and waving flags, to the promised

<sup>5</sup> For a detailed account of the religious zeal of the 'early' votaries of the government-sponsored private capitalism in Pakistan, see Papanek [55], and Lewis [40]. The Indian experience is described in Bhagwati and Srinivasan [9].

state of bliss. That a severe 'winter of discontent' might catch unawares the starry-eyed picnic party, nobody even cared to warn — perhaps for fear of being stigmatized as a doomsday prophet.

Since the economy could not raise itself by its own bootstraps, so to speak, foreign aid was accepted as a supplement to domestic saving, which was supposed to rise over time. We must first learn to walk with the help of others before being able to run unaided on the highway to development and prosperity seemed to be the logic of the producers and consumers of the begging bowl. The "aid to end aid" rhetoric was freely advertised, presumably in all sincerity, in both Pakistan and India. Foreign aid was accepted, rather light-heartedly, to finance economic growth with a view to relieving the domestic resource constraint. True, the goal of self-reliance was explicitly spelled out in successive development plans, but the deeds seldom matched the words, and foreign aid, which first started as a tiny trickle, soon assumed the proportions of a vast torrent. In the valiant attempt to climb the growth ladder quickly, we imported, so to speak, not only the bootstraps but the boots themselves.

There was a consensus among the policy-makers that the task of achieving economic growth, balanced or unbalanced, required direct and indirect State intervention. The planned route to development was accepted in both Pakistan and India, which launched their own Five-Year Plans. Not only was public investment (saving) planned, but private investment (saving) was also regulated by a set of fiscal, monetary, credit and trade policies. With the sword of Damocles of foreign competition withdrawn from their vulnerable, or shall we say venerable, heads these policies had the effect of providing literally a captive market to the domestic (private) producers and of maximizing the investible surplus in the hands of the capitalists with the aim of achieving high rates of private investment and industrial growth.<sup>6</sup>

### The Emergence of a New-Old Religion

Through a curious process of learning and unlearning from recent history, the policy-makers, especially in Pakistan but to some extent also in India, became sufficiently persuaded to agree on a new-old structure of economic policies which, in my view, consisted of the following elements.

Maximize growth, but make a substantially larger allocation than was made in the past for such 'basic needs' as clean water, housing, electricity, and education. That this is growthmanship with a larger provision for social services is another matter; but the main point of this new-old strategy is to deal directly, rather than indirectly through higher economic growth, with the problems faced by those who are condemned to live below the "poverty line".<sup>7</sup>

<sup>6</sup>For a brief history of Pakistan's experience in the Fifties and the mid-Sixties, see Naqvi [49]. A good account of Pakistan's first two five-year plans is given in Haq [24]. Bhagwati and Chakravarty [8] provide a comprehensive analysis of India's first three five-year plans.

<sup>7</sup>Inspired by the Sri Lankan experience, such a line of thought has been advanced by many economists. See, for instance, Sen [66].

Agriculture should be cast, once again, in the role of an engine of progress. The emphasis of economic policy should be on increasing production, especially agricultural production, mainly through mechanizing the agricultural sector. Structural reforms in the agricultural sector that aim at changing the loci of economic power and promise considerable gains in productive efficiency should be deemphasized, if not altogether thrown out.<sup>8</sup>

Export promotion should be actively pursued to balance the earlier preoccupation with import substitution, which was shown to have led to allocative inefficiency and X-inefficiency in the industrial sector. Import-liberalization policy was advocated, and pursued actively, to cure these inefficiencies. Furthermore, the earlier export pessimism was found not to be entirely justified as export-promotion measures did pay off. The extraordinary growth of world trade at about 8 percent per annum for two full decades until 1973 also helped to erode the earlier export pessimism.

Government intervention should be minimized. The economy should be freed from the chains of government controls to give the market forces, i.e. the Invisible Hand, a free rein. We should be content with the grin without the Cheshire cat called public enterprise! The private sector should be helped, with all the incentives that it takes, to be in the driver's seat once again. However, there is an element of opportunism in the 'new' dispensation: while the forces of the market enhance the profits of the private investors, the role of the government is only to save the inefficient (private) concerns from going into bankruptcy.

The goal of independence from foreign aid, indeed foreign loans, should be talked about but not pursued actively, because, as in the past, aid is required to bridge the investment — saving gap. Breaking a time-honoured, though weather-beaten, tradition can be a risky affair, much more now than in the past. At any rate, more aid is needed to service and pay off old debts as well.

### THE DEVELOPMENT ECONOMIST

The question I wish to explore at this point is: To what extent are these twists and turns in policy-making, more in Pakistan than in India, traceable to the evolution in the thinking of the development economists, as opposed to that of the defunct economist, discussed in the next section? In the quest for a respectable intellectual ancestry of the makers of development policy, let us then begin from the beginning.

### The Age of Chivalry

The central advice of the new discipline of development economics, as it all began, was to achieve rapid rates of economic growth. To Harrod [25] and Domar

<sup>8</sup>For an interesting account of the effect of structural reforms and other factors on Pakistan's agriculture, see Khan [31], while some special aspects of Indian agriculture are analysed in Kishor [32].

[19] is due the simplest concept, indeed a magical formulation, that the warranted rate of growth is exclusively a function of the marginal saving rate and the output – capital ratio. Precisely because the concept looked so sleek and slim, it captured the hearts and minds of a whole generation of development economists and policy-makers. An acceleration of physical capital formation, through the inexorable working of what Paul Samuelson has dubbed “Every-body’s Law of a constant capital-output ratio”, was supposed to open the door to a prosperous future. Earlier on, Rosenstein-Rodan [60], writing in 1943 about the developing economies of a bygone age, thought of industrialization as the engine of growth. Then there were the many historical studies of the 1776 England, of the communist Russia after 1914, and of Japan, which emphasized the supporting role of agriculture in the process of economic development, with the industrial sector cast as a star performer.<sup>9</sup>

Very much subscribing to these earlier themes, Lewis [42], who is justifiably considered both the Adam and the Smith of development economics, put (physical) capital formation at the centre of the development process. By assuming that the demand conditions are the right ones and that the industrial sector is essentially self-sufficient in the sense of having no trade with the agricultural sector, he showed in his path-breaking paper [41] that the growth of the corporate sector – the engine of growth – will be accelerated so long as labour was transferred from the agricultural sector at an unchanged real wage. All corporate profits were assumed to be saved and readily invested. In contrast with Harrod’s formulation in which the saving ratio was a constant, Lewis postulated that the key to rapid economic growth was the raising of the saving ratio to a high enough level to finance the required rate of investment through a process of structural transformation.<sup>10</sup> Furthermore, he clearly painted a scenario in which a widening inequality of income between income groups and between the agricultural and industrial sectors was a necessary, and perhaps also a sufficient, condition for rapid economic growth. Subsequent empirical enquiries by Kuznets [37] conferred some empirical respectability on this line of thought by showing that income distribution, following a U-shaped trajectory, first worsens and then improves as economic growth proceeds apace. The implication is that as the engine, or more accurately the aeroplane, of growth begins to take off, the poor majority of the passengers must tighten their seat belts in the hope of a more smooth flight later.

<sup>9</sup>For an excellent study of the Japanese example of agriculture as a sustainer of industrial development and for the relevance of this example for developing countries, see Okhawa, Johnston and Kaneda [53, especially Chapter 3].

<sup>10</sup>As pointed out by Chenery [14], the central feature of this structural transformation is the growth-generating reallocation of labour among sectors in the Lewis model as opposed to the neo-classical growth model in which the sectoral composition of growth is irrelevant.

The foundation was laid of a theory that supported the policy of generating investible surplus in the corporate sector. Kaldor [29] theorized that the wage earner’s marginal propensity to save was nearly zero and that of the capitalist close to one so that growth equilibrium in the Kaldorian sense was determined exclusively by the saving rate of the capitalist. Galenson and Leibenstein in their famous-notorious article [20] advocated the “critical minimum effort” thesis which requires, among other things, that savings be placed in the hands of those who are inclined to save most: the capitalists, that is.

Hirschman’s theory of unbalanced growth emphasized the growth poles from where, through the “trickle down” effect, or Myrdal’s “spread effect” [4], the benefits of growth were assumed to spread throughout the economy. That these growth poles could enfeeble the periphery of its growth potential did not occur to these authors. Economists like Prebisch expounded the export-pessimism thesis [58], which justified an ‘inward-looking’ pattern of development in which import substitution was supposed to take the driver’s seat. This prescription, coupled with the general notion that the main constraining factor in the developing countries came from the resources side and not from any deficiency of effective demand, was used as a justification for the policy bias of *protecting* domestic (infant) industries through import-limiting and capital-cheapening policies.

In India, the celebrated Mahalanobis formulation [45], or more accurately the Mahalanobis-Feldman thesis, within the context of a closed economy and the complete non-shiftability of capital stock from the consumption-goods sector to the investment-goods sector, cleared the way for setting up a solid capital-goods base to achieve high rates of saving, capital formation, and economic growth by imposing suitable constraints on ‘initial’ consumption. Bhagwati and Chakravarty [8] inform us that in India there was also proposed the opposite Brahmanand-Vakil hypothesis [12] that assigned to the production of wage goods, especially food, the key role for promoting economic growth – mainly by mobilizing the disguised unemployed, who were seen as the bearers of substantial (potential) savings. Apparently, this useful hypothesis got overshadowed by the brilliance of the Mahalanobis model, which formed the basis of India’s Second Five-Year Plan.

It was explicitly recognized, especially in the balanced-growth scenario sketched by Rosenstein-Rodan [60] and Nurkse [52], that the course of economic growth must be consciously guided by the State. On the other hand, Hirschman [28] thought that, even without a planned effort, an unbalanced growth strategy will draw into the open the “hidden” entrepreneurial and other resources, which will respond in a Toynbeeian fashion to the challenges posed by economic growth. However, there was a near consensus among development economists that, in view of the widespread ‘failures’ of the market in developing countries, such an important thing as economic growth could not be left to the market. Taking a leaf from Pigou [56], the development economist turned the table on the free traders by showing that in developing

countries market failures are the rule rather than the exception which they were thought to be in the economics textbooks.

This was then the paradigm that the majority of development economists subscribed to during what I have referred to as the age of chivalry. The predominant sentiment among the development economists was one of optimism: of slaying the dragon of poverty by the 'simple' manoeuvre of raising the rate of capital accumulation along a 'balanced' or unbalanced growth path. The industrial sector was the engine of growth, propelled by import-substituting industrialization. As the resource constraint was the only binding constraint, this objective could only be achieved by a combination of a critical minimum domestic saving effort and foreign aid.<sup>11</sup>

### The Age of Enlightenment

That being the case, where do we stand now? Are there signs on the horizon beckoning us to move in a new direction? Is the lull in the activity of creating new ideas in the general area of development economics, as Hirschman [27] would have us believe, the sign of the impending demise of the inchoate discipline? Or, is it that we are holding our breath for the birth of a new star? Opinions clash on what an appropriate answer is to such questions, but it is agreed on all hands that, with a greater awareness of the complexity of the 'development problem', the existing paradigm of development economics needs a thorough shake-up. I shall now give a brief sketch of the new ideas competing for rights of admission to a new paradigm of development economics that is still in the making.

Growth with equity, as I pointed out above, is the central theme on which much energy of development economists is being expended. Chenery and others [15] have attempted to develop growth models that explicitly attach welfare weights to growth indices. They also proffer the doubtful prescription that the redistributive effort had better concentrate on the marginal increments in income.<sup>12</sup> Then there are economists like Haq [23] and Streeten [70] who rightly advocate a direct, amphibious attack on poverty because economic growth *per se* is not very efficient for meeting such basic needs of those living below the poverty line as education,

<sup>11</sup>The question as to whether aid helped or hindered economic growth in the developing countries has spanned a vast literature. For the typical agnostic view, see Griffin and Enos [22], while Papanek [54] has been in the vanguard of the defenders of the faith. He has shown that the agnostic's case — foreign aid tends to supplant domestic saving instead of supplementing it — was (mistakenly) based on the assumption that saving equals investment minus foreign-aid inflows, whence it followed that "as long as the effect of an additional unit of foreign resources on investment is less than one, its effect on savings will appear to be negative."

<sup>12</sup>Naqvi and Qadir [51] have shown that, given the large initial differences in the asset holdings by the rich and the poor in most of the developing countries, the 'incrementalist' remedy is bound to fail as relative poverty will increase explosively *even* if the incomes of the rich and the poor grow at the same rate.

health, electricity, and clean water. Even more fundamental is their assertion, not supported by a formal proof, that additional allocation to such social services is unambiguously growth-promoting. The basic-needs strategy is also professed as an alternative, rather than as a supplement, to structural change. Streeten [71] emphasized this point by contraposing egalitarianism and humanism, the latter being identified with the provision of basic needs, as two mutually exclusive policy objectives. In my view such an either-or position is just a red herring and not at all basic to the main argument. The supply of basic needs — Streeten's humanism — must be matched by an increase in the real income of the poorer sections of the society relative to that of the rich, which is what egalitarianism is all about.

As pointed out by Chakravarty [13], the excommunication from the ruling development paradigm of effective demand as a factor constraining growth may have been a little too hasty and must be undone to repair a growing injury to the body economic. Mellor [46] has shown that the growth-promoting potentialities must be recognized of a deliberate policy of raising the real income of the rural poor by keeping the price of food low for this income group, whose propensity to spend on food is in the 0.5–0.9 range. This could be done through a rationing system, or a taxing of the marketed agricultural surplus, or both. According to Yotopoulos [74], such a policy will also keep within reasonable limits the food-feed competition which tends to lower the availability of food to the urban and rural poor. As long as the wage rates in the industrial sector are higher than those in the agricultural sector and the price of capital services remains positive and high, the demand-propelled forces of growth emanating from the agricultural sector may help to promote a dynamic balance between the industrial and agricultural sectors. Here we have a kind of a balanced-growth scenario in which both the supply scissors and the demand scissors play their Marshallian game of equilibration.

It follows that the concept of *the* engine of growth should be thrown overboard, as it creates only mischief by introducing intersectoral disequilibria. "Given the range of possibilities, the search for 'the' engine of growth must be foredoomed", adjudges Lewis [42]. The development process is best seen as an integrated one and not following an 'unbalanced' trajectory for the simple reason that the market, if left to its own devices, tends to concentrate rather than diffuse the benefits of growth. Agriculture and industry must grow together instead of one selflessly financing the other.<sup>13</sup>

The need for achieving a balance between export promotion and import substitution has been emphasized in the recent empirical work on trade policy, mainly by Bhagwati [6] and Krueger [34]. The underlying theme of such studies is that the earlier export-pessimism thesis, propounded by economists like Raul Prebisch, should not be taken too literally by developing countries, that conscious

<sup>13</sup>Ruttan [61] makes this point explicitly by bringing in appropriate technological change in agriculture as a factor promoting sectoral balance and economic growth.

programmes of export expansion and import liberalization offer real possibilities of efficient growth, and that in so far as export industries tend to be relatively labour-intensive such a policy shift should also help, if only to a limited extent, income distribution.

The rate of growth, as also its composition and quality, is a function not only of physical capital formation but also of human capital formation. According to this line of thought, pioneered in 1962 by Schultz [64] and Becker [4], such diverse activities as education, health, job search, migration, and in-service training are rational acts of *investment* in human capital which link present decisions to calculable future returns. This important theoretical development offers the hope, not so far entirely fulfilled, of stimulating fruitful initiatives in development economics and policy.<sup>14</sup>

Then there is the problem of effecting structural change, and not merely of accelerating the growth of output, as a means of raising the economic well-being of the poor.<sup>15</sup> In this context, the question of an egalitarian redistribution of assets — in particular, of land holdings — holds the key to an orderly growth process which will also contribute to resolving the problem of poverty. The process of structural change is fundamental to the process of economic *development* as opposed to that of economic *growth*. The central importance of a “radical structural change” for achieving “equitable economic growth” has been brought out in sharp relief in the works of Adelman & Morris [1], Naqvi & Qadir [51] and Cohen [16]. Sen [67] sets out a theory of ‘entitlement’ which, according to him, should be the focal point of a new paradigm of development economics in which economic growth should figure as a necessary, though not a sufficient, condition for economic development, which can be seen as a process of expanding entitlements.

What is then this new-old religion that development economists have been propagating of late? It is that economic growth is a necessary but not a sufficient condition for economic development that requires, among other things, an active programme to produce deep structural changes, which is a function not only of physical capital but also of human capital and a redistribution of property rights. To link income growth, employment creation, and income distribution in one chain the process of economic growth must aim at a judicious balance between agricultural and industrial sectors as well as between import substitution and export expansion. The

<sup>14</sup> A related idea, much emphasized in a large number of studies pioneered by Solow [69] and Denison [18], is that historically the most important determinant of growth has been technological progress, which again is a function of the level of educational attainment in a society.

<sup>15</sup> Reynolds [59] has appropriately pinpointed that “the core of the subject [of development economics] is longitudinal analysis of growth and structural change in . . . economies that have entered the phase of growth acceleration.” (p. 12.)

government has an active role to play in changing the loci of economic power and in extending the ‘entitlements’, especially of the poor.

### THE DEFUNCT ECONOMIST

A comparison of the teachings of development economists and the (mal)practices of the policy-makers clearly points to an increasingly deviant behaviour of the latter with the passage of time. Who is responsible for spoiling the couple’s relations which looked so good when it all began in the Fifties? This brings me to that mysterious character, the defunct economist, who, according to Keynes, is a permanent mentor of the “madmen in authority”, and whose appointed role is to upset the applecart of the living idea-givers in broad daylight to amuse policy-makers of all hues and colours. Who is this notorious defunct economist to be stood up and counted, and what explains his pervasive influence on policy-makers, especially in the developing countries? These are important questions to which we should have at least approximate answers.

The problem of identifying a defunct economist, if you see one in the company of development economists and policy-makers, has all the makings of the well-known identification problem in econometrics. For instance, how do you distinguish a defunct economist from a living economist in the midst of the scatter of observations which seem to show both the types simultaneously, so that what we have in practice, may be, a ‘mongrel’ economist of sorts, bearing resemblance to both the defunct and the living economists? A promising approach to the problem of seeing more than is seen by the naked eye is to recognize a defunct economist as one who is the active practitioner of what Imre Lakatos calls a ‘degenerating’ Scientific Research Programme (SRP) [38], as opposed to a ‘progressive’ SRP, whose practitioners are the living economists.

Hicks [26] offers a philosophical-cum-historical explanation of this identification problem which should be especially to the liking of the antediluvian policy-maker. He opines that unlike a natural scientist for whom the “Old ideas are worked out [and] old controversies are dead and buried”, the economists cannot throw overboard the dead weight of the past. That explains why “‘neo-classical’ succeeds neo-mercantilist; Keynes and his contemporaries echo Ricardo and Malthus; Marx and Marshall are still alive.” If that were so, then it will be ungenerous not to include among the living such luminaries of yore as Jevons, Menger, Walras, Say, and Fisher, to name only a few. However, in my opinion Hicks is being a little too generous in raising from the dead the loved ones of the economics profession. In economics, as in other sciences, Time’s arrow does fly only in one direction. Old ideas do get worked out in economics as in the natural sciences; and even those old ideas which recur or are revived within the corpus of a new paradigm of thought acquire a new meaning and import, quite different from what they meant in their original

context.<sup>16</sup> True, some of us sometimes get into the time-machine to shake hands with our forefathers, but we do so only to come back relieved that we do not belong to a bygone age. As Blaug [11] has shown, there have been genuine 'revolutions' in the realm of economics in the sense that a 'progressive' SRP, with excess empirical content, replaces a 'degenerating' SRP, even though not necessarily in Kuhnian sense of a 'discontinuous jump' from one ruling 'paradigm' to another with no conceptual bridge between the two.

Having proved the 'existence' of the defunct economist, I now come to another question: Why do the policy-makers open their hearts to the defunct economist but turn frigid at the sight of a living economist? Do we have here some macabre case of Gresham's Law according to which the defunct drive the living out of circulation? Lewis, in a different context, offers a somewhat off-hand answer to such disturbing questions. He thinks that most problems, in both the developed and the developing economies, seem to be amenable to the time-honoured tools of economics, viz. Supply and Demand and the Quantity Theory of Money — and, if I may add, the Say's Law. That being so, there is all the room in developing countries for the defunct economist to enjoy an exalted status in economic matters. Whether this is a desirable state of affairs is another matter, to which I shall return presently.

Let me now pass on to an important, but disturbing, 'fact': the defunct economist has captured the heart not only of the 'madmen in authority' *à la* Keynes, but also of the living development economists. The fact of the matter is that development economists, and not only the neo-classical economists, have for long distilled *their* frenzy from Adam Smith and Ricardo. Keynes would certainly have rejected such illegitimate extension of his 'theorem', but Lewis openly pleaded that development economists should pay their respects to our own Adam Smith. As expected, his pleas did not go unheeded. A host of development economists made their intellectual offerings to our classical godfathers. This explains the supply-side bias in the thinking of the 'living' development economist, who has all along emphasized the central position occupied by capital accumulation in the growth process — a distinct echo of Adam Smith and Ricardo. Though not advocated explicitly by any development economist of standing, there appears to be an almost religious belief in the mystical propensities of the capitalists to invest their profits, even rents, in what is good for the society. Though no conclusive empirical evidence exists on the score, some development economists still insist on the beneficial social consequence of leaving it

<sup>16</sup> Reynolds [59] also shows excessive reverence to the classical writers and pleads that they be not considered "relics of a bygone era". We may accept his plea and yet disagree, for reasons given in the text, with his judgement that "the classical economists wrestled with problems that confront economists in India, Nigeria, or Brazil." (p. 20.) Be that as it may, it certainly does not follow from Reynold's judgement that development economists should hold exactly the same theories and views as held by the classical economics more than two hundred years ago.

to the private capitalist. "The fault", dear fellow development economists, "is not in our stars, but in ourselves that we are underlings."

Neo-classical economists have gone much further in placating the defunct economist. As if to prove how filial they are, they have finally mummified our father Adam Smith for posterity by proving the 'existence' of the Fundamental Invisible Hand Theorem: "Every competitive equilibrium is a Pareto-optimum; and every Pareto-optimum is a competitive equilibrium." This mathematical homage to a non-mathematical defunct economist by the very much living and kicking economists like Samuelson, Solow, Arrow and their likes has proved, according to some agnostics, to be a swan-song of development economists, who have always carried their 'planned development' birthmark without embarrassment. Although the neo-classical theorem just referred to is empty of any empirical content, even for purposes of falsifying or predicting what goes on in the *developed* countries, it has exercised a proselyting effect on some development economists. To make matters worse, the success stories of developing countries like Singapore, South Korea, Taiwan and Hong King have been interpreted as a proof positive of the reincarnation of Adam Smith, the most defunct of all economists if Keynes is to be believed. However, in my opinion, there is no reason for the development economist to hide his birthmark because, as Sen [68] has shown, the economies of the Far Eastern Four have been very much regulated. This is especially true of South Korea, which has been advertised widely as the paradise of free traders and where Adam Smith has already staged his Second Coming. Unfortunately, there is no evidence of such festivity in South Korea.<sup>17</sup>

Our love for the defunct appears to know no bounds. To find a suitable driver for the engine of growth, the development economist, according to Arthur Lewis, has consulted nearly all his ancestors, old and new: the physiocrats for agriculture; the mercantilists for export surplus; the classicists for free market; the Marxists for capital; the neo-classicists for entrepreneurship; the Fabians for government; the Stalinists for [heavy] industrialization; the Chicago School for schooling; and econometricians like E. F. Denison for a large residual. As if to prove the strength of Pavlovian reflex, the development economist has carried on in a mechanical fashion this game of consultation even though none of these drivers has ever succeeded, all by himself, in driving full-steam the now worn-out engine of growth.

Then the proselyting zeal of some practitioners of those subscribing to neo-classical political economy is adding new converts to the worshippers of the defunct economist. Among the votaries of this new religion, one hears much too often loud breast-beating for the Invisible Hand, which according to these mourners is not

<sup>17</sup> Sen has argued elsewhere: "if this is a free market [in South Korea] then Walras's auctioneer can surely be seen as going around with a government white paper in one hand and a whip in another" [66].

allowed to contribute to the good of the society by the so-called "Invisible Foot".<sup>18</sup> While the work on the rent-seeking phenomenon by Krueger [35], and on directly-unproductive profit-seeking (DUP) activities by Bhagwati and Srinivasan [10] is most valuable in pointing out how State intervention should *not* be conducted, it does not necessarily follow that State intervention should be eliminated altogether and that all things should be entrusted to the insecure hold of the Invisible Hand.<sup>19</sup>

The moral of the story is that at least some of the living development economists may be no more than oracles of some defunct economist. Or else, how do we explain the fact that the hard-nosed, strait-laced development economists, knowing well that the market typically issues signals that tend to be both wrong and inequitable, vie with each other in their unguarded moments to prove that the 'magic' of the market is the 'real thing', or that agriculture, industry or entrepreneurship can again be entrusted, one at a time, with the position of the driver of the engine of growth? Let the fire be shifted when the target moves, but not in the wrong direction. As if struck by some kind of a 'Sisyphus complex', we have condemned ourselves to turning the very same stone the *n*th time! That being so, why should we crucify only the innocent policy-maker for his open love affair with the defunct economist? We should also try to know what we are. "To be or not to be" may be the question; but this is not good enough. Schizophrenia is as bad for development economists as it was for the melancholy Hamlet.

### THE THREE MUSKETEERS MARCH TOGETHER

Now that we have seen each of the three musketeers separately, let us bring them together to examine the ways and means of harmonizing their behaviour in order to maximize social welfare in developing countries. As just noted, there is no way of including the dead in the company of the living. Hence, the 'optimal' strategy for the development economist is to end his schizophrenic attachment to the 'defunct economist', who should be allowed to go in hibernation in the cold storage of history to live there icily ever after. This mortmain must be lifted to make any scientific progress at all. That done, the practitioners of development economics will have to do a lot of cleaning of their Augean Stables in order to make their presence felt in the area of policy-making. As the things are, we are suffering from a deep-seated incongruity in the realm of ideas which must be removed so that development

<sup>18</sup>The "Invisible Foot", or more accurately the footprints of some mythical Snowman, is a symbolism used to denote all the factors that prevent the forces of competition from working for the larger good of the society [17; Ch. 12 by Brock and Magee].

<sup>19</sup>An interesting example of the contention made in the text is provided in a study of wheat markets in Pakistan by Naqvi and Cornelisse [50] which shows that the policy of procurement of wheat by the government, while quite defectively implemented, is still required to prevent the private traders in the wheat market from becoming exploitative. And this despite the fact that the private traders' marketing margins are quite low!

theory can evolve under its momentum to meet new challenges coming from a fast-changing economic 'reality', which is moulded by the undercurrent of political, social and ethical forces in the developing countries. As Koestler [32] points out, a new theoretical concept will survive only if it "can come to terms with its environment."

Blaug [11] has noted that it is only when a theory defines both a 'progressive' scientific research programme (SRP) and a 'progressive' political action programme (PAP) that economic science makes a visible headway. To make development economics both an SRP and a PAP and make it truly 'progressive', its empirical content and relevance for fruitful policy action will have to be enhanced. However, a return to the fold of neo-classical economics, which is sometimes portrayed as an omniscient, hydra-headed creature, is definitely not a move that will make development economics rich in empirical content or help it to come to terms with the environment in developing countries.<sup>20</sup> We must be analytically rigorous, but we must also be relevant. The latter attribute is certainly not the forte of neo-classical economics. And to the extent that neo-classical economics is relevant within the structure of its own assumptions about 'reality', these assumptions are fundamentally different from those on which rests the edifice of development theory.

What the development economists must do to remain relevant is to eschew for good: an undue obsession with high growth rates to the neglect of distributive justice; a hasty retreat to the cold embrace of an unpredictable and a 'heartless' market; the vain search for *the* engine of growth; an implicit belief in the existence and stability of the capitalist's "conscience", along with an insufficient understanding of the structural difficulties in transforming saving into a socially optimal form of investment; a persistent refusal to recognize the importance of technological change and human capital formation, especially of education, in the process of economic growth; and a non-comprehension of the role of structural change in the process of economic development. In particular, the Invisible Hand had better be kept at an arm's length by the development economists. I insist on this in spite of the earth-shaking Invisible Hand Theorem referred to above. The reason is this: what is Pareto-optimal, besides being an empirically empty proposition, may well be utterly unjust and, for that reason, not the best prescription for the developing countries where considerations of equity and social justice strongly compete for our attention. In this connection note that, granting it all the benefit of doubt, it is one thing to recognize the importance of the market, which the Invisible Hand has created in its

<sup>20</sup>Neo-classical economics is most appropriately defined as a grand synthesis of classical micro-economics with Keynes's macro-economics. The resulting resplendent general equilibrium economics, delivered mainly by Arrow, Debreu and Hahn, is a great analytical achievement, but is based on limited, if at all, empirical information about the real world. As such, its relevance for tackling policy issues in both the developed and the developing countries is practically nil.

own image, as an information gatherer, but it is quite another (and a wrong) thing to accept such information to be the final verdict for the conduct of economic policy in developing countries.

It was Adam Smith, the creator of the Invisible Hand, who laid the sociological rule, "People of the same trade seldom meet together, even for amusement and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices." It follows that even the Smithian prescription would be for the State to scotch such a "conspiracy against the people" hatched by the self-seeking individuals — "the butcher, the brewer or the baker" — caring only "for their own interest". The importance of the fact that government's role is pervasive in all developing countries, *including* the Far Eastern Four — South Korea, Hong Kong, Taiwan and Singapore — must be recognized to formulate meaningful rules of the game for development policy.<sup>21</sup> If government has not worked efficiently in some developing countries, this is an argument for strengthening and rationalizing the government as an economic agent. I am aware that Becker [4] has shown that the government, in performing its appointed role of correcting market failure, really favours the politically powerful. In so far as this is true, we have a strong case for changing the power structure in developing societies to produce a "political equilibrium" that is also socially just. This is *not* necessarily an argument for beating a defeatist retreat to the market on the crutches of the 'Invisible Hand'. Some exponents of the neo-classical political economy [17] may, in their weaker moments, euphemise a defeatist retreat as a strategic withdrawal to entrap the rent-seeking individual; but how to distinguish this odd individual from the proper profit-seeking individual and to establish unambiguously the superiority, from the society's point of view, of the latter over the former remains an open issue. In the foggy market-place even the proverbial eye of the beholder may not be able to distinguish between the rent-seeker and the profit-seeker.

Tinbergen [72] has argued that the challenge facing the economist is to turn, through a process of trial and error, government's economic policy into a "coherent entity" in such a manner that economic growth is linked firmly to the process of income distribution. This exercise will require, among other things, that there be as many policy instruments as there are policy objectives, and that there be not only an investment plan but also a plan for controlling the process of income generation. Such a decision, however, will require a kind of intellectual activism that does not follow blindly the *automatic* laws of economics to take care of the affairs of the real

<sup>21</sup> More recently, Lewis has noted that "what development economists cannot leave out of their calculation is the government's behaviour" [42].

world.<sup>22</sup> These laws, instead of providing a ready-made prescription for policy action, indeed policy inaction, should be empirically tested for their relevance to developing countries.<sup>23</sup> For the rest we must wait before they too pass reliable empirical testing. I do not mean to suggest that these 'Laws' should be banished from development economics. Far from that. All that I want to say as a reasonable Darwinian is that we should know more about their 'Lawness' before we use them as guides to policy-making.

Once the development economist has settled his score with the defunct economist, the 'visibility' will improve immeasurably for the development policy-maker. It will then be possible for him to do his main task, namely to create socio-economic and political institutions that facilitate structural change. It will be essential in this context to restructure the rate, composition, and quality of economic growth and to assign a key role to human capital formation. In particular, the real income of the rural poor will have to be increased, both directly and indirectly, to ensure a balanced growth of agriculture and industry and to establish a link between income distribution, economic growth, and employment. Also, the minimization of poverty should be seen as an integral part of the development process, not just as its appendix. Development economics and its practitioners must explain the economic reality born of the confluence of social, political and ethical undercurrents in the developing world.

There is no justice in a system where for the privileged few the society is nothing more than a grants economy, while the majority of the population must "bear the whips and scorns of time, the oppressor's wrong, and the proud man's contumely . . ." In order to ensure that there obtains a 'universal' sense of participation in the developing countries, all members of the society must share equitably both the benefits *and* the costs of economic development in such a manner that the needs of the least-privileged are adequately satisfied at all times. In full knowledge of

<sup>22</sup> The bane that the so-called economic laws are has been very well brought out by the high priest of modern economics, Samuelson [62]. Let me quote him in full: "how treacherous are economic 'laws' in economic life: e.g. Bowley's Law of constant relative wage share; Long's Law of constant population participation in the labour force; Pareto's Law of unchangeable inequality of incomes; Denison's Law of constant private saving ratio; Clark's Law of a 25 per cent ceiling on government expenditure and taxation; Modigliani's Law of constant wealth-income ratio; Marx's Law of the falling rate of real wage and/or the falling rate of profit; Everybody's Law of a constant capital-output ratio. If these be laws, Mother Nature is a criminal by nature." If, to use Eliot's expression, the tyranny of this "army of unalterable laws" must be challenged to save the society from the criminal Mother Nature, then it is the development economist who will have to act the revolutionary to show the light to his 'oppressed' brethren in the economics profession.

<sup>23</sup> In addition to the laws of supply and demand which may be taken as universally true, Chenery [14] reports that only Engel's Law has so far stood the test of empirical verification as true explanation of consumer behaviour in both developed and developing countries.

the difficult task ahead, which requires combining reason with compassion, the policy-maker in developing countries will have to curb his appetite for the bogus revelation sent down by the Invisible Hand, which more often than not employs the motive of virtue as an instrument of its ambition. Instead of accepting the 'reality' of the existing unjust distribution of wealth and power, we will have to take effective policy initiatives to change this reality. This will require a fundamental change in the basic institutions of the society. Nothing less will do to lift the sagging spirits of those whom poverty makes 'outsiders' in their own societies.

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