UNRISD United Nations Research Institute for Social Development

CONFERENCE NEWS

The Need to Rethink Development Economics

Report of the UNRISD Conference
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Contents

This conference, a joint undertaking of UNRISD and the Ford Foundation, brought together 29 social scientists, mainly economists and activists, from developing and industrialized countries to exchange ideas on an alternative to the neoliberal approach to development issues. Participants shared views on how economics can serve to empower the South and on how to revive development economics—not as a deviant branch of mainstream economics, but as a discipline whose role is to address the vital problems that developing countries typically face. UNRISD has embarked on a research project on Social Policy in a Development Context and is thus keenly interested in what is happening in the various fields of development studies.

Conference participants prepared short papers on the following themes, which structured their discussions during the meeting:

- the decline of development economics;
- current intellectual trends;
- new challenges;
- regional perspectives; and
- strategies and future activities.

This report is based on both oral presentations and written contributions. The conference papers and participants are listed at the end of this report.

Theme One
The Decline of Development Economics

In their exchanges during the first session, conference participants analysed the reasons for the demise of development economics during the late 1970s and the 1980s. This provided the background for their subsequent discussions of why its revival is currently being urged or contemplated.

The crisis of Keynesianism

Up until the 1970s, problems of welfare and unemployment in developed countries, and those of poverty and underdevelopment in developing ones, were interpreted through the lenses of Keynesian economics and "development economics", respectively. The presentations by Jayati Ghosh, Thandika Mkandawire, C.P. Chandrasekhar and Erinç Yeldan served to remind participants of the central tenets and preoccupations of development economics. In his background paper, Mkandawire argued that although there were few analytical commonalities between the Keynesian doctrine and that of development economics, the two approaches shared both critical views of neoclassical economic theory and acceptance of state intervention. They also had in common the assertion that the economy described by neoclassical economists was a "special case", and there were many other economies

that could be "stylized" by entirely different models because they were characterized by different structural features. Furthermore, they shared the view that the state could play an important role in addressing these structural features, which often resulted in "market failures". Both were motivated by the need to solve policy problems through theoretical modelling that was based on the real experiences of economies trapped in a particular equilibrium (unemployment or underdevelopment) from which they had to be extricated.

Development was understood as self-sustaining growth accompanied and driven by structural change in patterns of production and consumption, and technological upgrading. It involved social, political and institutional modernization leading to widespread improvement in the human condition. Both Keynesian economics and development economics proposed that markets were by no means benign, and that state intervention and public action were prerequisites for full employment and development. The task of development economics included helping to define both the role of the state and the nature of public action in the pursuit of particular goals in specific contexts. This led the discipline to define a terrain of its own, separate from economics. Development economics, argued Chandrasekhar, was concerned with understanding specific structures, global and national, generated by the process of integration of economies with varying initial conditions into the world capitalist system. It was interested in analysing the mechanisms by which those structures constrained the process of development, and with deriving from that analysis the policy options available to address the adverse consequence of integration. Several participants highlighted the wide range of strategies devised and pursued in different countries. And in retrospect, they claimed, the policies produced what was a "Golden Age" of capitalism in quite a large number of developing countries, at least when compared with the anaemic growth rates of the 1980s and 1990s.

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The oil crisis, "stagflation" and subsequent indebtedness of developing countries severely tested the models and theories that had underpinned welfare and development policies. This led to a resurgence of neoliberalism, which called for reining in the state and greater reliance on the market. Given the perceived affinity of development economics with Keynesian economics, it is perhaps not surprising that the neoclassical counterrevolution and the ascendancy of monetarism in advanced industrial countries led also to the rejection of development economics in the South.

From the perspective of neoliberal economists, development economics falsely denied the universality of rational economic behaviour and, by focusing on market failure, opened the door to dirigisme. For some, the whole enterprise of development economics was a futile one, and the dirigisme associated with it was squarely blamed for poor economic performance. For example, the failure of import substitution industrialization in a number of countries (often as a result of failures to move toward more competitive structures, and to respond to external pressures) was blamed on the interventionism associated with development economics.

Roy Culpeper suggested that the decline of central planning in Eastern Europe and the former Soviet Union also served to further strengthen the case against development planning and interventionism in general. In contrast, Vladimir Popov suggested that the opposite might actually be true. By the time central planning collapsed, development economics was already in decline. Moreover, the experience of the East Asian Tigers could have been used to bolster the case for development economics, if it had been presented as evidence of success of the policies associated with that paradigm. The reason why neoliberal economics became so popular during transition in the former Soviet Union and Eastern Europe, he asserted, was precisely because development economics was in decline. Had development economics offered enlightening approaches to policy and development issues at the beginning of transition, the process would probably have looked different. Ninety per cent of all the policies implemented during transition were neoliberal "shock therapy". The current interest in development economics in the former Soviet Union and Eastern Europe thus stems, in part, from the fact that the neoliberal doctrine, as applied and tested in transition

economies, has yielded poor results. This is a complete failure not of development economics but of conventional economics.

Aside from the attribution of the causes of the crisis of the 1970s and 1980s to policy errors and the ideological ascendance of neoliberalism in the leading countries and financial institutions of the Organisation for Economic Co-operation and Development, the demise of development economics also had a lot to do with a widely accepted interpretation of the development experience of the postwar period. Up until 1997, the spectacular economic performance of the East Asian Tigers stood in stark contrast to the poor performance of most countries in Latin America, Asia and Africa, and the transition economies. As with all successes, their admirable performance elicited many claims of paternity. The neoclassical counter-revolution claimed that their success was evidence of the wisdom of relying on market forces. In contrast, the "lost decades" of much of Africa and Latin America were attributed to "development planning", which distorted prices and led to slower growth. Indeed, through what participants termed a rather tendentious reading of the countries' historical record and economic policies, the successes of the quintessential developmental states were cited as evidence against development economics.

Globalization

A number of participants pointed to globalization as a major force against some of the central tenets of development economics. One interesting feature of Keynes's thought was its contribution to "embedded liberalism", which involved open international financial and trade structures and unilateral intervention in pursuit of national-level goals such as full employment and social stability. This international order not only created space for the welfare states, but also permitted the emergence of "developmental states" through a wide range of policy instruments—the protection of domestic markets via the control of capital flows and credit rationing, for example. A salient feature of globalization has been the ascendance of finance capital. This has had enormous implications for states' capacities to pursue their domestic agendas, as well as for economic theorizing itself.

Yeldan attributed the demise of development economics to financial market liberalization and the growing dominance of finance over industry. Kamal Malhotra noted that finance had transformed the very nature of foreign direct investment into acquisitions in developing countries, whereas in the North, it largely reflects mergers. This manifestation of finance is not productive. In terms of policy, Machiko Nissanke pointed out that, generally, the International Monetary Fund (IMF) and the World Bank have forced nation-states to manage their economies within the particular parameters that have resulted from the way globalization has evolved. In many cases, this has meant that certain policy instruments successfully used in the past are now either off-limits or ineffective. Kari Polanyi Levitt remarked that the high mobility of finance capital was reminiscent of the nineteenth century gold standard, which had made it impossible for countries to pursue independent monetary and fiscal policies. Then as now, this order was ultimately deflationary in its thrust, and thus contrary to the expansionary imperatives of development.

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The process of globalization and the collapse of the Bretton Woods financial architecture have increased economic volatility. This exposed a fundamental weakness of development economics: its inattention to the short-term problems of stabilization. As a result, the field of macroeconomics has been dominated by precisely such preoccupations—but this has often been at the cost of concern with long-term economic growth and development. Thus the mainstream understanding of "sound" macroeconomic policy entails contractionary monetary policy, fiscal austerity and deflation. Significantly, these policies are "sound" *within the particular global financial order that they contributed to creating.*

During this discussion, K.S. Jomo introduced the idea that the way in which words and meanings are appropriated by different discourses may be dangerous. Some

substitute the word "globalization" for the word "imperialism", for example, and this can be disempowering and deceptive. First, "globalization" usurps "internationalism" by allowing the latter word to be captured by neoliberals. Second, it prevents criticism of imperialism and incorporation of liberal perspectives in the critique. In making this argument, Jomo reminded participants that a century ago, the first comprehensive critique of imperialism was actually made by the English liberal John Hobson, who signalized that the dynamism of capitalism was pushing it in the direction of concentration (monopoly) and, eventually, imperialism. Such an approach today would challenge the claims of neoliberals about globalization and liberalization because much of what is being done in their name is actually anti-liberal, in that nineteenth-century sense.

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The political context and academic currents

The political and ideological context in which theoretical positions thrive or fail is significant. Jeff Faux pointed out that the triumph of neoliberalism is part of a wider conservative political agenda. As noted earlier, the 1970s saw important ideological shifts in the industrialized countries that challenged the welfare state and the Keynesian thinking that had been a counterpart of development economics. So, Diane Elson asked, why had the demise of Keynesianism elicited so little political response in developed countries? Part of the response might emerge if macroeconomic analysis were united with class analysis in a more complex way, to look at the interests promoting market opening. This linked to social policies, as the redesign of many such policies had led to the emergence of a new rentier class (through private pensions and private health insurance, for example). The prospect of many workers profiting from the financial markets through privatization may have been one reason for the success of Thatcherism and privatization in the United Kingdom.

Following up on Elson's remarks, Jomo underscored the importance of understanding the popular bases for Reaganism and Thatcherism, and also for globalization and liberalization. Political shifts in which neoliberal-conservative forces assumed power in the United States, Germany and the United Kingdom had immediate effects on how the Bretton Woods institutions (BWIs) operated. He also recalled that in the 1970s there were some tentative North-South coalitions—best reflected, perhaps, in the Brandt Commission and in debates on a new international economic order. In his paper, Faux also emphasized the need for global politics to accompany the global economy. And Brian van Arkadie referred in his paper to the "euthanasia" of social democracy, which ceded a lot of intellectual ground to the new doctrines. Both participants suggested that anti-statism among the political left in the United States—a result of protests against the Viet Nam War—might also have played a part in discrediting an active role for the state. They asserted that some of the most trenchant criticism of state activism came from the political left. These discussions emphasized the political underpinnings, left and right, for policy shifts and academic debates.

Other participants suggested that the top-down nature of policy making in both welfare and developmental states was another reason for their decline. Adebayo Olukoshi argued that the authoritarianism of the top-down approach became increasingly problematic for many people, as did its neglect of the connection between states and citizens. In other words, statist development strategies were deemed guilty by association with authoritarian governance structures in some contexts, making them unattractive to the many emerging social movements associated with the trend toward democratization.

Franklin Serrano did not fully share the view that this top-down nature was a major reason for decline. The welfare state in the North and developmentalism in

the South, he contended, were mainly sanctioned by strategic Cold War fears and were the conquest of the working classes and other social movements. The end of the Cold War undercut the political basis of these policy regimes.

Ghosh suggested that one of the main weaknesses of development economics was that, at a fundamental level, it was not "political economy"—in the sense of politics of the evolutionary interaction between states and markets. Politics determines both government actions and the outcomes of markets, and those processes in turn alter politics. Development economics missed this symbiotic relationship between politics and economics, and the fact that economics is about politics.

Elson asked participants to again consider the autonomous intellectual practices that commanded such public interest in and support of neoclassical economics. This paradigm combined two persuasive kinds of rhetoric. One was scientific, as seen in its self-definition as scientific and, therefore, rigorous theory. The other was about choice and efficiency. While one can question whether the theoretical framework was truly scientific, and how efficiency is defined in its models, such characteristics are highly valued by the public. In rethinking development economics, therefore, it will be necessary to take on board questions of analytical rigour and public concerns about the efficient use of resources.

The seduction of the natural sciences and the use of quantitative methods in economics suggested that development economics, with its more descriptive formulation, lacked rigour. Or, as Jomo noted, development economics was not seen as positive but rather as normative economics, and hence not scientific. Joseph Lim suggested that interdisciplinarity rendered development economics indistinguishable from sociology, psychology and other "soft" social sciences, tarnishing its image and segregating it from true, scientific, analytical (neoclassical) economics. In this sense, then, development economics may have contributed to its own demise by eschewing techniques of analytical rigour. The more realistic characterization of developing economies by the pioneers of development economics was not simply neoclassical models devoid of all empirical realism. What was required was rigorous theory firmly based on realistic characterization of developing economies.

Other reasons for the demise of development economics also emerged from the discussions: postmodernist disdain of "history as a reality"; identification of the development discourse with the "modernist" enlightenment project; allegations that developmentalism was manipulative discourse deployed by developed countries and local elites; and its failure to fully integrate the real concerns represented by new social movements (such as the women's and environment movements).

Theme Two
Current Intellectual Trends: Why the New Interest in Development Economics?

In the 1990s, there was a revival of interest in development economics—or at least in its paradigmatic preoccupations—as illustrated, for example, by the publication of a number of new textbooks on the subject. Conference participants identified and discussed several reasons for the resurgence of interest in development economics.

The collapse of the Washington Consensus

The most immediate reason for the renewed interest in development economics today, participants agreed, was the failure of the Washington Consensus that underpinned the structural adjustment programmes of

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the BWIs. Growth rates in the era of liberalization were almost everywhere lower than in the era of developmentalism. In addition, the persistence of poverty—even in countries that were hailed as success stories by the BWIs—clearly suggested that the framework was not able to address this crucial aspect of structural change. Indeed, given their focus on stabilization and

static allocative efficiency, and their deflationary bias, adjustment programmes have failed to induce the kinds of structural changes associated with development. In addition, the Asian financial crisis of 1997 and the standard prescriptions of the BWIs raised questions about the appropriateness of the Washington Consensus to address problems of stabilization. The Asian crisis also underscored the importance of external factors to developing countries, including those whose fiscal policies were not characterized by profligacy and whose trade balances were sound. Earlier, the debacles of "instant capitalism" in the countries of the former Soviet Union and Eastern Europe had exposed the essentially dogmatic nature of neoliberalism's one-size-fits-all prescriptions.

The rehabilitation of the state

In a number of developing countries, authoritarian political regimes lent credence to the focus of the Washington Consensus on policy reforms that reduced the role of government. By the mid-1990s, however, the tarnished image of the state had begun to take on a new lustre. Transitions from authoritarian rule toward democracy served to improve the status of governments as national institutions. Many actors, including civil society and donors, were increasingly willing to engage with these democratically elected governments. In addition, the success of the "developmental state" in East Asia and the emergence of new democracies combined in new thinking about "democratic, developmental states". Furthermore, there was a growing realization—even among those of neoliberal predisposition—that market liberalization required a capable state to secure property and to provide regulation that would ensure competition. Calls from within the BWIs themselves for going "beyond the Washington Consensus" toward "second generation reforms", and for "reinvigorating the state's capability" all pointed up the need to return to the concern for development for which a wide range of scholars and institutions had been arguing. The World Bank also began calling for "comprehensive development frameworks", the components of which were reminiscent of the "development planning" previously associated with development economics.

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Intellectual and theoretical changes

As participants had noted in their earlier discussions, development economics had been founded on the recognition of the pervasiveness in developing countries of "market failures" due to imperfect information, increasing returns to scale, structural rigidity, and so forth. The models informing adjustment policies perfunctorily acknowledged these failures, but then proceeded to make policy recommendations as if all market distortions were caused by state intervention. Yet major theoretical advances in the discipline of economics have proposed that failures were not peculiar only to developing countries, but rather features of any real economy. As a result, the key assumptions of development economics—about markets, and about the need for collective action to address some of the co-ordination problems engendered by market imperfections—were increasingly acknowledged by theoreticians as being entirely appropriate. And yet this acknowledgement had few concrete implications for policy making.

Indeed, in his contribution to the conference, Joseph Stiglitz raised the following anomaly: whereas much cutting-edge theoretical work in developed countries centred on problems of imperfect information, new industrial organization and the effects of imperfect competition—and many insights drawn from observing developing countries were part of this corpus of knowledge (for example, agency theory, screening models and efficiency wage theory)—in the same period the master in development economics was the Washington Consensus, which ignored these considerations despite their even greater importance to developing countries. By something tantamount to legerdemain, neoclassical economists did away with these problems by simply assuming diminishing returns and perfect information.

Renee Prendergast intervened, suggesting a number of possible explanations for this anomaly. One is that the market failure literature suggests "multiple equilibria", which undermines simple rule-based in-

tervention by suggesting that effective analysis is specific to institutional and cultural factors at a specific place and time. This immediately rules out the one-size-fits-all prescriptions favoured by international organizations. Another, more fundamental, explanation is that market failure implies room for selective state intervention, which goes against the ideological and intellectual predisposition of most economists, some of whom have been persuaded that "government failure" is always worse than market failure.

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Alexandre Rands Barros claimed that "new growth theories"—which point to increasing returns and externalities as potential engines of growth and development—have also contributed to the revitalized interest in development economics. Some proponents of these theories stress the role of investment in public infrastructure, and in strengthened institutions, as important determinants and potential sources of externalities. Other theorists are, however, sceptical of public investment, given the complex issues raised by these models—including the prospects of rent-seeking and "capture" of policies by interest groups. The latter group is wary of public ownership and planning, and instead proposes institutional arrangements that mimic the market.

Prendergast pursued the discussion of increasing returns. They provided the theoretical underpinnings for the kinds of selective industrial policies pursued by countries such as the Republic of Korea, she suggested. If one accepts the hypothesis that comparative advantage flows from specialization, it follows that through careful selection and targeting of investment, a country can build comparative advantage in particular domains. But the timing of intervention is quite important, and it is very difficult to be prescriptive in advance. In order to make proper judgements about the kinds of support that are likely to be effective, policy makers must have in-depth knowledge of all economic sectors. Yet when an economy is trapped in low-level equilibrium, or when new economic activities are undertaken, substantial policy interventions are often required.

She cautioned, however, that intervention was becoming increasingly difficult—in terms of timing, selectivity and the cost of failure. While the literature on increasing returns opens up spaces where intervention can be valuable, *appropriate* intervention places significant demands on the capacity of policy makers. Information requirements are extremely high, especially given the nature of the international climate for industrialization. The Republic of Korea became internationally competitive in industry by simultaneously protecting its home markets and encouraging firms to meet export targets. The current global trade regime, overseen by the World Trade Organization (WTO), would make it very difficult for other developing countries to adopt such selective policies. Opportunities for developing countries to learn by doing are being squeezed by the nature and requirements of such international institutions.

Theme Three
New Challenges for Development Economics

If the revival of development economics is to be meaningful, the new circumstances in which it might take place must be carefully considered. This new context poses both new and old questions. In her remarks, Gita Sen reminded participants that rethinking development economics was not the same thing as resuscitating it. There were many fundamental weaknesses in earlier versions that should not be glossed over in simple criticism of neoliberalism, and there are new phenomena and understandings to be taken into account. A major weakness of development economics in the past was its inability to integrate the rich insights of development studies writ large. More recent debates on development economics have paid insufficient attention to changes in forms of accumulation over the last three decades. Specifically, thinkers have yet to come to grips with the implications of the information and biological technology revolutions for accumulation and the labour process. And they have not yet addressed the transforma-

tion or erosion of certain social pacts—between workers and employers, states and citizens, countries of the North and of the South—that underpinned economic development following the Second World War. Understanding these processes and relations is essential if new policy frameworks are to be built on stable foundations.

Democracy and the role of the state

According to Lim, development economics is not only about policies, but also about the institutions, governance structures, patterns of class formation and power structures needed for the design and implementation of those policies. This implies that there is a need for different types of political and structural analysis at the national and international levels. Several participants noted that one of the criticisms of development economics was its failure to specify institutions and governance structures. One feature of current normative and political discourse on the role of the state insists on democracy and human rights. Many developmental states in the past were authoritarian. They had been sanctioned by development economics, which tended to argue that, because of the sacrifices it imposed on the population at large (in terms of postponed consumption or greater inequality), development required authoritarian regimes that would make hard decisions unencumbered by politics.

Malhotra argued that reviving and rethinking the developmental activist state did not mean going back to old notions of the role of the state. It did mean, however, trying to see how one could support an activist state that created space for a plurality of organizations from civil society to the market. Along the same lines, Olukoshi contended (in extending the discussion of the democratization of economic policy), the links between economics and politics had to be restored, as did local control of policy making. In Africa, there had been a systematic destruction of states as agents of development over the last two decades. The question on the agenda today is thus the reconstruction of the state—a priority now recognized by the institutions behind the destruction, which are calling for institution *and* capacity building.

In this new developmental dispensation, the economic managers are to be subordinated to the elected structures of government. Development economics cannot run away from questions of power and its configuration. Indeed, according to Pieter le Roux, intellectual fears about interventionism—ranging from the fear of authoritarianism to that of wrong macroeconomic policies—now need to be squarely addressed. For South Africa, where a nationalist interventionist project was pursued by a racist regime, state interventionism has become virtually taboo, he explained. Ritu Sharma questioned whether developmental states were everywhere politically feasible. How can one be sure that those who are on the government side in developing countries, the investor class, will be responsible developmental activists?

Macroeconomic analysis should contribute to a democratic process of policy deliberation. However, as Elson noted, the possibility of determining macroeconomic policy through an open social dialogue—in which different interests can exercise voice and in which entitlement failure can be explicitly brought into view—is often foreclosed not by the technical requirements of macroeconomic policy, but by fear of preemptive exercise of the "exit" option by financial capital and institutions. Their ability to exit rather than join in a policy dialogue is a result of the openness of financial markets. Fears that the wrong signals will unsettle volatile investor sentiments will mute debates. It is difficult to conduct a policy dialogue when some of the key players have no stake in the outcome beyond the next few hours. For Mark Weisbrot this asymmetry emphasized the need to help re-establish the power of nation-states by reducing the power of global institutions such as the IMF, the World Bank and the WTO, and finance capital.

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Development in globalized economies

Globalization has set up new parameters for development, as discussions under Theme One illustrated. It not only affects the range of instruments available to national governments, but also the processes by which a choice is made among them. Clearly, any rethinking of development economics will have to come

to grips with globalization. Chandrasekhar argued that new thinking will need to take into account the emergence of highly mobile finance capital and financial liberalization. What kind of space can be created, then, for a developmental role for the state? In his contribution, Yeldan noted that globalization, led by unfettered financial flows, constrains the ability of developmental states to attain strategic industrialization and development targets. All of this signifies reduced political and economic autonomy in the developing world, in exchange for increased market access for the industrialized North. Polanyi Levitt proposed that the macroeconomic policies imposed by the international financial institutions strip states of the monetary, fiscal and administrative policy instruments that are essential to the formulation and implementation of proactive strategies of economic and social development. In addition, private capital flows have displaced overseas development assistance as the major source of external finance in the majority of developing countries. The market criterion of profitability (cost recovery) has prevailed over egalitarian social criteria (the provision of public goods that improve people's well-being).

Yeldan suggested that financial deregulation and capital account liberalization appeared to be the best predictors of crises in developing countries, and the best way to attain sustained development was the regulation of short-term international flows. This confirmed Keynes's now classic dictum: "Above all, let finance be primarily national". In the same vein, Polanyi Levitt argued, finance must be subordinated to the productive economy, globally and nationally, because finance has now come to be a parasite on the productive economy.

There were some lessons to be drawn from Keynes's understanding that the economic theories he propounded, which provided the theoretical underpinnings of the welfare state, were premised on a financial and trade architecture that gave the nation-state considerable room for manoeuvre. Thus any rethinking of development economics must necessarily take into account the need for evolving a global economy that is supportive of national development efforts. Culpeper suggested that under these new conditions development economists must engage on two fronts: first at the national level, by working to democratize economic policy so that it promotes international rules and institutions; and second at the international level, by working to democratize the international rules and institutions themselves. This would require, Lim added, analysis of the strategies and ideologies of

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the international financial institutions, multilateral and bilateral agencies, and the international financial architecture to determine how they affect developing countries' room for manoeuvre. Normative and prescriptive analyses that would pave the way for a new economic order and a new global financial architecture would also be necessary.

Equity and poverty issues

In all its variants, traditional development economics focused on the eradication of poverty, even when there were differences in prescriptions. Trickle-down theories initially dominated the understanding of poverty and growth; by the mid-1970s there was a shift toward growth with equity and basic needs strategies. These approaches questioned the view that there was necessarily a trade-off between growth and equity, suggesting that growth could be deliberately pro-poor. However, by the end of the 1970s these strategies had been replaced by the emphasis on stabilization, to the neglect of poverty and equity issues. Poverty is back on the development agenda once again, but it is uneasily wedded to neoliberal policies through Poverty Reduction Strategy Papers (PRSPs) and Highly Indebted Poor Country (HIPC) initiatives, for example. The understanding is that "market friendly" policies will address the poverty issue.

However, although many current policy reforms evolve around the market and the "unleashing" of its forces, rarely is the link between poverty and the market explicit. Le Roux stressed that distribution, poverty, inequality and accumulation are related to each other and have to be seen as simultaneously mediated

by the market. Poverty should not be seen as something that exists outside of the market—as suggested by the current vision that posits the poor as isolated from the market and the solution to poverty as integration into the market. This is closely linked to the character of accumulation, patterns of distribution and the nature of inequality in the economy at large. More specifically, Marc Wuyts described how debates on poverty are detached from those on labour market conditions. Arthur Lewis's model of transition was from the traditional economy to a wage economy; employment in the formal sector was the mark of progress. The situation today, Wuyts suggested, seems less clear. In the peasant sector there is deagrarianization, with people in rural areas increasingly relying on rural non-farm incomes, while in urban areas there is growing informalization and the demise of formal wage labour. Such processes reverse the stylization of capitalist accumulation that informed earlier development economics, and their implications for poverty need to be better understood.

Pursuing the question of labour markets and poverty, Guy Mhone recalled one of the observations that had emerged from the neo-Marxist critique of development economics. When capitalism was "imported" into "pre-capitalist formations", it could produce modes of production in which the "traditional" was articulated with the capitalist system in such a manner that the growth of the latter undermined accumulation in the former. This was in sharp contrast to the classical view in which capitalism emerged endogenously and accumulation led to convergence of the different sectors, à la Arthur Lewis. In the Southern African region, the result of such processes has been the production of an "enclave" economy on one hand, and a regional labour reserve economy, on the other. One consequence of this has been the extremely low response of poverty to progress in the "modern sector." Furthermore, labour market segmentation has implications for the choice of appropriate policies to address poverty.

Olukoshi took up Mhone's point on how globalization was expanding boundaries of informalization in many African countries and producing new dualisms. While some are integrated into global systems, others are compelled to fend for their lives in the informal sector. Because the livelihoods of growing numbers of people are constructed around survival strategies based on the informal sector, interdisciplinary research must examine how informalization impacts development, and identify its implications for policy.

Nissanke focused on the relationship between globalization, accumulation and poverty, particularly as they relate to the approaches now promoted by the World Bank and the IMF. In her opinion, these institutions' PRSPs[1] try to address poverty reduction only through increasing government expenditure on education and health. This is important, she conceded, but it is not enough. Countries are deemed eligible for assistance under the HIPC initiative on the basis of their track record with macroeconomic stabilization and structural adjustment policies. Yet Nissanke emphasized that these approaches do not fundamentally question this set of policies, their relationship to current levels of poverty, or their appropriateness as development strategies.

Gender issues were barely addressed in earlier development economics which, like its mainstream counterpart, integrated a whole range of biases, for example that of the male breadwinner. Such biases did not allow these paradigms to improve understanding of labour markets and limited the perspective of recommended employment policies. As Elson reminded participants, a gender approach to economic analysis requires rethinking all economics so as to deal with the issue of unpaid work, which has enormous implications for the functioning of the paid economy. It also points to the need for reconceptualization of

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[1] In September 1999, the World Bank and the IMF agreed that "nationally owned participatory poverty reduction strategies" should provide the basis for all concessional lending and for debt relief under the enhanced HIPC initiative. This approach was to build on the principles of the Comprehensive Development Framework and to be reflected in the development of PRSPs by country authorities.

what an economy is, how economic and social policy interact, how policy success should be evaluated, and how policy-making processes should be organized. Feminist economists have stressed the importance of

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showing how gender-sensitive variables, which capture reproduction as well as production, and power as well as choice, can be incorporated into the analysis of growth and structural change. Elson thus called for a "socioeconomics", which would to some degree lessen the dichotomy between economic analysis and social analysis.

The political context

To the extent that the demise of development economics also reflected political processes, a significant battle to reinstate its concerns will have to be waged on political grounds. Le Roux stated that intellectual pursuits alone would never induce change; political mobilization would be necessary. Weisbrot concurred, suggesting that it might be necessary to win the debate in practice, in Washington, before progressing to the economics departments and more theoretical concerns. He too reminded participants that the adoption of particular economic models by policy makers was essentially a political choice. Various neoliberal-conservative administrations in developed countries —those of US presidents Reagan and Bush, for example—had been compelled, against their stated ideological predispositions, to adopt Keynesian and protectionist policies. He suggested that from the experience of the United States, it would not be inaccurate to believe that what goes on in economics departments follows rather than leads political change. And in any case, development economics, at its peak, was largely embedded in US foreign policy and the creation of the United States Agency for International Development. In developing countries, Weisbrot continued, development economics had been sustained by nationalist developmental and nation-building projects. Those advocating a new alternative would have to concentrate on weakening the power of the BWIs and convincing the non-economists, including journalists and policy makers of all kinds, that the theory implemented over the past 20 years had been a failure. In other words, a practical, concrete approach would be required to revive development economics.

Sharma, while recognizing the importance of the practical concerns raised by Weisbrot, stressed the need for analytical work. Many social movements challenging BWIs do not have sophisticated alternatives to propose—and she pleaded with economists to provide them. "Even if they are not perfect", she said as an activist, "we can help you get into the media; that is what we do; but the time is now".

Malhotra urged that any new development economics entail democratic forms of economic policy making. Opportunities for the revival of development economics were present around the world as a result of the growing dissatisfaction with current patterns and processes of globalization. Engagement with protest movements right from the start would be crucial to the success of a new development economics.

Mkandawire observed that new democracies are now pursuing largely neoliberal policies for all kinds of reasons that need to be well understood. These include the ideological predispositions of the leaders of democratic movements, the sense that there is no alternative, and the objective constraints imposed by conditionalities.

Ben Turok underscored this point when he noted that in South Africa, the African National Congress had campaigned for government on a development and reconstruction platform, but in power the party has

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focused primarily on stabilization issues. This may indeed be due to the belief that there is no alternative to orthodoxy. Yet he told participants that there is an interest in development economics not only

among academics, but also among politicians and those involved in advocacy work. For politicians like him, the sources of alternative thinking are limited: the United Nations Conference on Trade and Development or the United Nations Development Programme. He reminded the participants that their work is not only for the protest movements: it is also for government and "people like myself who are desperately in need of access to good thinking about development". Le Roux pointed out that in the case of South Africa—but certainly in other countries as well—there was a need to address fears within the Ministry of Finance that unorthodox policies would undermine the economy. He called for intellectual work to counteract such fears and map out credible alternatives.

Sharma noted that a growing number of non-governmental organizations' (NGOs') and activists' proposals are being taken on by the BWIs. Yet she expressed concern that such "Band-Aid reforms" would end up legitimizing the neoliberal order by giving it a "human face". If one did not push for true reforms, she wondered, would one not be doing a disservice to the poor who are involuntarily trapped in the neoliberal order? While such co-optation was always a real danger, Weisbrot noted that "harm reduction" strategies are being pursued. These entail initially focusing on some of the worst policies recommended by the World Bank and IMF—privatization of basic resources, for example—and then slowly scaling up to conditionalities, structural adjustment programmes, and the wider issue of the overall power of these institutions.

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Drawing on the experiences gained in shifting the paradigm for the study of population issues—from the top-down, "population-boom-population-control" approach, to one based on starting from the ground up and involving people's rights and gender equality—Sen argued that the most important thing is to make sure that one's opponent is fighting on one's own ground. She suggested a number of things that make a successful paradigm shift: first, express ideas in a simple, clear narrative that can accommodate the specificities of different regions and places; second, build coalitions and alliances to get people on board that narrative; and third, fight on a day-to-day basis.

Theme Four
Regional Perspectives

This session was devoted to highlighting issues that may have particular significance in different regions.

Brazil

Barros and Serrano engaged in a lively exchange about the Brazilian economy. Barros argued that countries that run high deficits are likely to end up under the tutelage of the IMF. It was therefore incumbent upon each country to pursue fiscally responsible policies if it was to avoid externally imposed conditionalities. He also contended that Brazil, which had been a major practitioner of industrial policy, had learned that such policies do not work and that they merely generate huge rents that are captured by only a few. The last decade had been useful for stabilization of the Brazilian economy. The next phase should be used to build human capital through social policies that can raise the educational levels of the population.

Serrano insisted on the importance of historical context. He noted that up to 1980 Brazil's performance was comparable to that of the Asian Tigers. In Brazil, as in those economies, the state played an important developmental role. Three characteristics differentiated them, however. First, Brazil could finance its capital goods and technology imports through the export of raw materials, and was therefore under less pressure to export its industrial production. Second, for geopolitical reasons, Brazil did not enjoy privileged access to the US market, as did the East Asian economies. And third, following the Mexican crisis of 1981 Brazil was virtually frozen out of international financial markets, whereas countries such as the Republic of Korea continued to have

access to foreign finance even though their indebtedness was higher than that of Brazil. In the early 1990s, following the initiative of United States Treasury Secretary Nicholas Brady, Latin American countries began receiving foreign capital again—but the capital inflow was associated with consumption booms, speculation and investment in non-tradable sectors such as real estate; it also undermined exports by leading to overvaluation of national currencies, the case of Argentina being emblematic.

Kerala, Canada and Africa: Examples of decentralization

One major criticism of the developmental state was its centralizing tendencies. As Chandrasekhar pointed out, implicit in the old development economics was the notion that countries needed a certain degree of centralized investment co-ordination. However, history has shown that centralized states create a range of problems, and this has led to widespread calls for decentralization. Yet a number of co-ordination problems that propelled centralization persist. The issue was not simply one of centralization versus decentralization, but rather decentralization that takes into account local priorities and local needs and maintains the benefits of centralized investment co-ordination. Experiences and experiments in some parts of the world suggest that the two can be combined.

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The Kerala case attracted particular attention. In the standard decentralization process, the sequencing follows a process of subsidiarity: first build the capacity of local people, and then give them resources. Kerala followed a different sequencing in which the government devolved resources first. Capacities were built through this process of devolution, and the planning of resource allocation was a participatory process. The building of capacity to make decisions about resource allocation was crucial. The main advantage of this approach was that it was democratic right from the beginning.

Decentralization is premised on the existence of a central authority with tasks and resources than can be decentralized. But over the past two decades, most states in Africa have been destroyed as agents of development. The question to pose, therefore, is how can the states in Africa be reconstructed even as one considers their decentralization.

Another interesting case was that of CHO!CES – A Coalition for Social Justice (an NGO based in Manitoba, Canada), which has been active in addressing fiscal and budgetary matters at all levels of government. What began as a provincial movement to challenge budgetary allocations has been scaled up to the national level. CHO!CES conducted nationwide grassroots consultation and planning processes that led to the preparation of an alternative federal budget. This proposed to meet Canada's revenue and expenditure targets without drastic cutbacks to social programmes and public services, and without the imposition of additional taxes on low- and moderate-income taxpayers. The proposed budget stimulated public discussion across Canada, and improved understanding of the fiscal and taxation issues facing the country. The interesting thing about this budget, participants agreed, was the process of engagement with people throughout Canada. It could provide a model of how to make economic policy making more democratic in other countries.

Decentralization is premised on the existence of a central authority with tasks and resources than can be decentralized. Olukoshi reminded participants that over the past two decades, most states in Africa had been destroyed as agents of development. The question to pose, therefore, is how can the states in Africa be reconstructed even as one considers their decentralization. Mhone also cited the limited capacity of the state as one of the reasons for participatory policy-making initiatives. Yet there were currently

no viable forums or institutions in which such participation would be meaningful and in which the critical voices of African scholars would be heard.

Transition economies

Popov's riveting exposition of the transition from central planning to market economics in the countries of the former Soviet Union generated great interest among conference participants. The lessons from the transition economies showed, he posited, that what matters most is not the speed of reform, but the resilience of the institutions essential to transition. Democratization where the rule of law is weak could easily lead to further fragilization of institutional capacity that, subsequently, would have a negative impact on output, income distribution and democracy itself. He made the distinction between political liberalism (rule of law) and democracy. The Asian communist countries had chosen to pursue economic liberalization and political liberalism first, and democratization later. On the contrary, rapid democratization in Russia had led to the collapse of extant institutions before new capacity had been created. The best performer in the region has been Uzbekistan, with an authoritarian regime and very slow reform. The second best performer, Belarus, is basically a one-party state. For Popov, the dilemma seemed to be that a quick installation of democracy tended not only to weaken institutional capacity, but also to incite macroeconomic populism, which limited policy choices in the area of economic reforms.

The North American Free Trade Agreement

One response to globalization has been attempts to form special regional arrangements. Regionalism is thus another new factor conditioning development, and its implications must be taken into account. In his contribution on the North American Free Trade Agreement (NAFTA), implemented in 1994 between Mexico, the United States and Canada, Faux raised the problems of integration among countries with vastly different rates of economic growth and underlying economic models. NAFTA was premised on neoliberal theories of market expansion and free trade, yet after seven years of implementation this neoliberal approach has not yielded the expected results in terms of integration. Thus, while Mexico needs 7 per cent growth each year in order to keep its unemployment from rising, it has only fulfilled this goal once since NAFTA was implemented. Almost all the growth has been in the informal sector, and structures of worker protection have been eroded. Interestingly enough, immigration, which supposedly was targeted by this agreement, has not been reduced because only certain cross-border classes have benefited from the treaty's provisions.

Theme Five
Toward a New Paradigm? The Intellectual Challenge

Despite calls for "bringing development back in" and for rethinking development, there is currently no programmatic intellectual effort in that direction. Thus participants considered future directions. Many asserted that a more integrated approach be taken to economics. The first task would be the characterization or stylization of economies based on more realistic and historically informed assumptions about the determinants of accumulation (such as those identified by the economist Joan Robinson—competitive conditions, financial conditions, income distribution, thriftiness conditions, investment functions and technology). The second would be to begin answering a whole range of questions. What has happened under different political regimes in terms of wage bargaining and income distribution under trade liberalization and globalization? How do incentives function in essentially deflationary contexts? How is technology accessed in a world of monopolies?

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This problem of properly stylizing developing economies was taken up by several participants in their written and oral contributions. In his paper, Stiglitz argued that a new development agenda must be centred on (i) identifying and explaining key characteristics of developing countries, especially those that differen-

tiate them from more developed countries, and exploring the macroeconomic implications thereof; and (ii) describing how institutions and economic structures are altered in the process of development. It would also be necessary to challenge both the assumptions and conclusions of the standard paradigm, as well as the appropriateness and effectiveness of policy doctrines. "By exposing more explicitly the incidence of the policies (who benefits, who bears the risk), and by analysing more explicitly the political economy (who makes the decisions, whose interest they serve)", Stiglitz wrote, "the legitimacy and credibility of the policies will be undermined, and thereby the support for them".

As pointed out earlier by a number of participants, one criticism of development economics was its lack of rigour—even when its assumptions were right. However, the contributions of both Stiglitz and Lance Taylor illustrated how many of the concerns of development economics had now been formalized. Indeed, Taylor noted a number of "victories": the recognition that developing countries face specific macroeconomic problems; the admission that industrial policy had played an important role in the economic performance of the Asian Tigers; and the de-emphasis of "financial repression" following the financial crisis of the 1990s. He also highlighted a wide range of theoretical insights that might be brought to bear on our understanding of the experiences of developing countries: new trade theory, based on increasing returns to scale, which opened up the possibility for strategic actions by individual nations states; and non-Walras-Tobin macro models of money and finance.

Considerable time was spent discussing whether a new development economics would have to be built on entirely new theoretical foundations, or whether it could incorporate certain aspects of neoclassical economics. Weisbrot claimed that the neoclassical paradigm did not provide useful solutions to the real problems faced by developing countries, and he reiterated his earlier point that the academic front could not provide an alternative, at least not for the moment. In the meantime, he suggested, the current orthodoxy, put in place by the international financial institutions, should be fought with strong theoretical counterarguments and evidence of the negative impacts of their policies. Such battles may be easier won than expected, because the policy advice proffered by these institutions has a weak theoretical basis, and the legitimacy of the institutions themselves is a lot thinner than it looks.

For his part, Culpeper thought that energies would be better invested in practical endeavours than in the construction of a grand theory. Much in neoclassical theory could be of use in the pursuit of equitable and sustainable development. There was a more urgent need to engage with PRSPs and the democratization of policy making, for example, at both national and international levels. Contrary to Culpeper, Faux argued the need for a new theory of development economics. In his view, it was not possible to go back to the assumptions of the 1960s, equating the state with democracy and the people's voice. He stressed the importance of addressing the economic theory of government and democracy. Lim felt that the "market failure" literature provided an opening for dialogue between development economics and mainstream economics. However, he said, this literature is still strongly wedded to methodological individualism, and ignores the fact that economic actors are grounded in social relations and economic institutions. While externalities and market imperfections are acknowledged, a new development economics must aim to incorporate them in more tractable models, thereby reducing their complexity. Attempts thus far to incorporate history had been unsatisfactory, tending to reduce it to "social norms" as a variable, or analyse the effects of the "status quo" in creating inertia with respect to policy changes. Improvement is thus clearly necessary if a

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new development economics is to gain ground. Elson pointed out that one of the challenges for the future would entail going beyond the idea of market failure, in order to break out of the straitjacket of welfare economics as a way of thinking about policy. For van Arkadie, if the restoration of development economics is to involve, at the policy level, the restoration of the activist state, then the paradigm must necessarily incorporate a realistic assessment of existing state structures and practices, and on that basis proceed to enumerate the prerequisites for successful state activism.

In his written contribution, van Arkadie argued that "the working economist" must possess a solid command over "standard economics"—not necessarily the more esoteric theories and methods, but surely the basic principles, econometric techniques and conventional views about policy. Sophistication was required not so much in relation to recent theoretical developments, but in understanding the limitations and hidden biases of received doctrine; comparing historical and contemporary experiences; and analysing the country-level histories of policy and economic performance.

In his paper, Gerry Helleiner also expressed his feeling that it might not be productive to try to resurrect the "grand theorizing" of the early "greats" (Lewis, Nurkse, Rosenstein-Rodan, Hirschman and others) in development economics; he added that attempts to build on the new growth literature might also prove ineffective because the material was far too general to have much policy influence. He suggested instead that teaching should try to build greater respect for and competence in applied economics—in a variety of fields but with particular reference to developing economies, in all their institutional, cultural, political and historical variety. "'Good' development economics, in practice, is good applied economics in a variety of specializations and contexts. And recognition of and allowance for the variety of contexts is what distinguishes the strong development economist from the weak one", Helleiner wrote. For his part, Lim contended that some of the tools of conventional economics could be used, in a sincere effort to get at the essence of development in specific historical and institutional settings. Conventional tools could be deployed in conjunction with more historical and institutionalist approaches.

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> ***There is a need for coherent strategies to revive the reputation of development economics as a serious and influential academic profession in the centres of policy advice, and to strengthen the development economics research and training capacity of Southern academies and policy research institutions.***

What initiatives should be taken to give new development economics a solid institutional anchoring? Stiglitz suggested greater networking among like-minded economists. This could be facilitated by "capturing" graduate students before they are "bought into" the neoliberal paradigm. Summer institutes and special dissertation fellowships might be used to achieve this. High-quality refereed journals promoting the new perspectives could also help to ensure the attainment of tenure at leading educational institutions.

Susan Joekes and Malhotra stressed the importance of stronger links between research and policy. Joekes pointed out that policy makers do not possess the intellectual resources that would allow them to take a strong stand against the prevailing orthodoxy. Practising economists in developing countries lack credibility and moral authority for a whole range of reasons, including the irrelevance of their training and their association, through consultancy contracts, with foreign funding institutions. For Malhotra, this pointed up the need for coherent strategies to revive the reputation of development economics as a serious and influential academic profession in the centres of policy advice, and to strengthen the de-

velopment economics research and training capacity of Southern academies and policy research institutions. Reinforcing the relationship between activist thinkers in civil society and academic activists is also critical, as is improving the traditionally adversarial relationships between committed civil society activists and governments.

There was agreement that economists from developing countries must lead the revival of development economics. Mkandawire noted that many of the "pioneers" of development economics were from Central Europe (Rosenstein-Rodan, Scitovsky, Kaldor, Singer, Hirschman, Balassa) or from developing countries (Mynt, Lewis, Prebisch). And probably the explanation for their contribution was the sense of urgency they felt about the problems that they had to address. After all, he said, "nothing concentrates the mind as effectively as the hangman's noose". So, why were economists in the Third World not at the forefront of new debates on development economics? Were they not sensitive to the immense problems of their countries? One possible answer was that a disproportionately large share of resources had been invested in training young economists to be conversant in the neoclassical paradigm, particularly adjustment and stabilization, to the detriment of many other aspects of economics relevant to development and change. This was particularly the case in Africa, where donors had sought to build analytical capacity along the lines sanctioned by the Washington Consensus. Delphin Rwegasira suggested that in Africa, the Council for the Development of Social Science Research in Africa, which worked in the political economy tradition, and the African Economic Research Consortium, which was an economists' network, could combine forces to contribute to the current rethinking of development economics. The current paradigmatic state of disarray could be exploited to steer training toward a new development economics.

Reinforcing the relationship between activist thinkers in civil society and academic activists is also critical, as is improving the traditionally adversarial relationships between committed civil society activists and governments. There was agreement that economists from developing countries must lead the revival of development economics.

During their discussion of future strategies and activities, many participants lamented the low visibility of the development research taking place in developing countries. There was wide agreement that the current and future generations of development economists would have to combine professional competence with critical perspectives. One concrete outcome of the conference was the establishment by some of the participants of International Development Economics Associates (IDEAs). An international research undertaking independent of UNRISD, IDEAs will aim to build a pluralist network of heterodox economists engaged in the teaching, research and application of critical analyses of economic development. More information about this initiative is available at www.networkideas.org.

Papers

A Brief Note on the Decline and Rise of Development Economics, *Jayati Ghosh*

An Agenda for the New Development Economics, *Joseph E. Stiglitz*

Beyond Macroeconomic Concerns to Development Issues, *Delphin G. Rwegasira*

Challenges of Economic Development, *Alexandre Rands Barros*

Development Economics: A Call to Action, *Roy Culpeper*

Development Economics: Coping with New Challenges, Especially Globalization, *K.S. Jomo*

Development Studies or Development Economics: Moving Forward from TINA, *Gita Sen*

The Developmental Agenda in the Age of Neoliberal Globalization, *Erinç Yeldan*

Economic Development and the Revival of the Classical Surplus Approach, *Franklin Serrano and Carlos Medeiros*

Enclavity and Constrained Labour Absorptive Capacity in Southern African Economies, *Guy C.Z. Mhone*

For an Emancipatory Socioeconomics, *Diane Elson*

Inequality and Poverty as the Condition of Labour, *Marc Wuyts*

International Economic Policy, *Manuel Montes*

Lessons from Transition Economies: Strong Institutions are More Important than the Speed of Reforms, *Vladimir Popov*

The Need to Rethink Development Economics, *Thandika Mkandawire*

The Neoliberal Doctrine and the African Crisis, *Machiko Nissanke*

Notes on Development Economics, *Lance Taylor*

On Rethinking Development Economics, *C.P. Chandrasekhar*

Opening Space for Development, *Stephany Griffith-Jones*

Producing a New Generation of Practising Development Economists, *Susan Joekes*

Reclaiming the Right to Development, *Kari Polanyi Levitt*

Reflections on the Restoration of Development Economics, *Jeff Faux*

Reviving Development Economics: Eight Challenges and Dilemmas, *Kamal Malhotra*

Some Issues in Development Economics, *Gerry Helleiner*

Some Thoughts on the Agenda for Development Economics, *Brian van Arkadie*

Some Thoughts on the Implications of Increasing Returns for Economic Development, *Renee Prendergast*

Thoughts and Proposals on Reviving Development Economics, *Joseph Y. Lim*

Toward Developmental Democracy: A Note, *Adebayo Olukoshi*

The "Washington Consensus" and Development Economics, *Mark Weisbrot*

Women, Politics, and a Development Economics Renaissance, *Ritu R. Sharma*

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