

SWINGS OF THE PENDULUM: A REVIEW OF THEORY AND PRACTICE IN DEVELOPMENT ECONOMICS

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Abstract

The first purpose of this paper is to reveal some insights offered by our experiences in theorizing about development economics and in doing so to shed some light on the current state of economic development. The second purpose of this paper is to review some practices of economic development planning. These practices have initially followed swings in antithetical positions. Yet, it will be argued that eventually development practices have followed a synthetic or evolutionary process. Some of the findings of the paper include that theories and policies have a time and place; that development planning strategies must recognize both the economic and non economic characteristics of less developed countries; that development planning strategies should be country specific.

1. Introduction

Development economists generally agree that our knowledge about the causes of economic development contains a residual factor of ignorance. This realization has induced experimentation and change in theories and policies over the years. Some of these changes will be discussed below. The first purpose of this paper is to reveal some insights offered by our experiences in theorizing about development economics and in doing so to shed some light on the current state of economic development.

The second purpose of the paper is to review some practices of economic development planning. These practices have initially followed swings in antithetical positions. For example, in anticipating some of our analysis, when development economics moved away from competitive markets and pricing towards central planning, or away from agricultural development towards industrial development, or away from emphasis on capital formation to human resource development were antithetical rather than complementary. Yet, it will be argued that eventually development practices have followed a synthetic or evolutionary process.

2. Theories of Economic Development

Several theories offering to explain the process of economic development have been advanced over the years. These include the classical and neoclassical systems, which have stressed the importance of natural, capital, human resources, technology and Schumpeter's main contribution which is the entrepreneurial function. In addition, in the post World War II period, Rostow's "stages," Boeke's social "dualism," McClelland's "achievement motivation," Nurkse's "balanced growth" and Hirschman's "unbalanced growth," to mention a few, have broadened our understanding of development economics.

The multiplicity of available theories concerning the phenomenon of economic development suggests that the problem is complex and that there is no single cause of development. A related issue is that Western economic theories have been found to lack universal validity because not only the system of values but also the institutional framework is different in the LDCs, as Myrdal (1968, p. 26) reminds us "... the problem of development in the LDCs is one calling for induced changes in the social and institutional structure as it hinders economic development and as it does not change spontaneously." Myrdal (1968, pp. 16-17) further argues that the use of Western theories, models and concepts in the study of economic problems in the less developed

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countries is the cause of bias seriously distorting the study.

Moreover, in the LDCs in which economic development means long-term change, institutions, technology, and entrepreneurial activity are not givens but variables which must be explained. Thus, it has become increasingly apparent that Western economic theories must be amended and broadened to deal with development problems of the LDCs. The value premises of these theories must be changed to make them correspond to different institutional frameworks and economic analysis must be expanded to include inputs from non-economic disciplines.

Our brief presentation above does not clearly show how the different hypotheses relate scientifically to one another. But it suggests that the causes of development must include resources, technology and the institutional framework. To obtain some further insights provided by our experiences in practicing development economics, we now turn to a few examples of policy swings of the pendulum.

3. Economic Planning and Economic Development

The implementation of given economic development policies often implies a choice between planning and the price system. Proponents of one or the other approach have argued the advantages and disadvantages of each. For a variety of reasons, economic planning was viewed by many as a panacea to the development problems facing the LDCs immediately following the end of World War II.

Prior to World War II economic planning was considered as a strategy only embarked upon by socialist countries. Socialist countries regarded comprehensive economic planning as a way of managing the economic life of society and that such planning was essential for the accurate establishment of priorities in the allocation of resources.

After World War II, development literature was replete with concerns of economic dualism, fluctuating prices, unstable markets and low levels of employment. Economic development scholars such as Jan Tinbergen and Arthur Lewis advanced economic planning as the only institutional strategy for overcoming major obstacles to economic development and for assuring sustained economic growth. Consequently, comprehensive economic plans were

adopted in many Eastern European and Latin American countries in response to broad macro economic problems of underdevelopment.

Comprehensive plans were initiated to oversee and manage a broad range of sectors that have a significant impact on the economic and social goals of a country. The Japanese economic transformation is a perfect example of the success of such plans (Urrutia and Yukawa, 1988, p. 22).

An integral part of economic planning is the centralization versus decentralization debate. Rather than developing a synergy between the two approaches, proponents of each approach have often viewed the two as adversarial in nature. Due to their colonial history, many LDCs were highly centralized after World War II. Decentralization was regarded as an essential component of project planning in order to facilitate local participation in development projects, and to increase the efficiency and flexibility of various development initiatives needed to promote national unity and political stability (Maro, 1990, p. 673). In addition, the ineffectiveness of econometric modeling techniques for LDCs contributed to a shift, in economic planning literature from comprehensive plans to project planning. Project planning through decentralized decision making was thought to offer a pragmatic and flexible approach to development and one that seemed to be increasingly favored by non-doctrinaire LDCs as has been argued by Baum and Tolbert (1985, p. 6). This approach forced countries to concentrate on the provision of necessary public infrastructure which was essential for sustained economic development.

However, the oil crisis in the 1970s and the ensuing political problems ultimately led to another shift from decentralization to centralization in an attempt to manage and allocate resources. It also became clear to policy scholars that in order to influence economic variables in a way that more directly impacts development, there had to be a paradigm shift in economic planning. The shift was back to comprehensive plans and consequently, many LDCs reverted to comprehensive economic planning. The reversion back to comprehensive plans was also precipitated by the fact that many LDCs are still faced with market failure, low productivity/output, unbalanced growth and predominantly one-sector economies typically, agriculture. There are also problems of failed institutions such as the legal systems, social institutions, and of course,

chronic political instability. However, it was discovered that centralization has been associated with significant problems such as using centralization objectives to deliberately create regional imbalances in development patterns, manipulating economic resources in order to advance the agenda of certain ethnic groups and also creating an unnecessary bureaucracy. Many African countries encountered these and other symptoms of a failed centralization model.

Thus, in recent years, the decentralization initiative has again gained some momentum. It appears that the success of decentralization will ultimately be based on how it is defined and implemented. In the last several decades the pendulum has swung back and forth between decentralization and centralization.

4. Capital Formation and Economic Development

Immediately after World War II, presumably because of the preeminent role assigned to capital formation by the classical and neoclassical theories, academics and policymakers alike viewed physical capital formation as a necessary and sufficient condition for development. It was not clearly understood then that machines without a literate population or skillful labor force and a favorable institutional framework produce little development. There is no doubt that through trial and error, development experts have come to realize that "... the key to development is man, and that his abilities, values and attitudes must be changed in order to accelerate the process of development," (Meier, 1976, p.483).

The theories by Boeke (1953), McClelland (1962) and Hagen (1962) along with the contribution of Schultz (1962) and Lewis (1962) have influenced our thinking to the point that it is now widely recognized that the effective use of physical capital depends on human capital. Since these factors are complementary in the process of economic development, it implies that an increase in the stock of physical capital therefore, necessitates the improvement in the quality of human capital in order for the rate of absorptive capacity to keep pace with the rate of technological advancement.

Intrinsic to the formation and maintenance of human capital is education. Education enables

countries to benefit from technological innovation; a highly educated labor force is a prerequisite to economic development and the attainment of full human development. To this end, scholars such as Schultz (1961), Bowman (1966), Lewis (1962) and Mincer (1958) to mention a few have all discussed the priority that must be placed in the investment of human capital in order to have systematic and sustained increases in economic growth. The investment in human capital is especially crucial because in many LDCs countries in Latin America and sub-Saharan Africa the rate of absorptive capacity is very low. A critical question to be addressed within the context of human capital investment is how to appropriately use education to improve the quality of stock of human capital.

Many economists have espoused the idea that emphasis on investment in education at the primary level is a panacea for economic growth as compared to secondary and university education. In a World Bank study (1993: Table 1.9, pp. 52-3) of high performing Asian Economies, they found that enrollments in primary education in 1960 predicted the following shares of growth over the period 1960-1985:

	% of Total Predicted Growth
Hong Kong	86
Indonesia	79
Japan	58
South Korea	67
Malaysia	73
Taiwan	69
Singapore	75
Thailand	87

Due to these high values, these economies were able to adapt to the expanding pool of technical knowledge since the quality of the labor force and hence productivity was able to grow rapidly which led to an expansion of their respective transformation frontiers and high rates of total factor productivity (TFP). The total factor productivity is estimated by subtracting from the total of a nation's output the share of growth due to: (1) increases in the quantity of physical capital and (2) increases in the labor force, each weighted by their input share to total production. Any positive remainder can be interpreted as the increase in total factor productivity (Cypher and Dietz, 1997, p. 398). The World

Bank estimates indicate that the rate of East Asia's TFP was double that of any other less developed region over the period 1960–1985, 28% of East Asia's output growth was due to increases in TFP. Essentially, the growth in output was due to increases only in the usage of physical and human capital and not to the improvements in the efficient utilization of inputs due to improvements in human capital (Cypher and Dietz, 1997, p. 386).

This therefore implies that development planning should also encompass the provision for investment in the quality of human capital especially at the primary education level. For instance, the provision of universal primary education and the reduction of the gender gap in LDCs will ensure a sustained increase in the rate of absorptive capacity. This is a critical issue and concerns most LDCs since there has been a historical bias in favor of males in accessibility to education. Further, improving the quality of human capital via investment in primary education will help to close the rural urban gap as regards to the standard of living and hence decrease the rural-urban migration and the overpopulation of urban centers. Finally, the improvements in the quality of human capital will ultimately lead to an increase in the income per capita, which will generate increased economic growth.

Closely related to human capital is the role of technological advancement necessary for economic development. The acquisition of technological sophistication is essential to the development of physical capital that is so vital to the development process. The more rapid the rate of human capital development, the more necessary it is to acquire technology. The Salter effect is a term applied to the speed at which new technological knowledge, embodied in new physical capital, is likely to be appropriated with economic growth. The faster the rate of economic expansion, the more rapid can be the rate of technological acquisition and hence future growth. The slower the pace of growth and investment, the slower will be the pace of technological learning and future economic growth (Salter, 1969). There still exists a significant amount of technological gap in many LDCs as compared to developed countries which signifies a room for the expansion of technological capacity. This is not surprising as most of the research and development in the world takes place in developed countries. As Schumpeter (1951) adduced, in his theory of economic development, he incorporated

technology to the neoclassical production function by stating that technology is a function of entrepreneurial activity. Entrepreneurs are in turn motivated by profit, which in turn is dictated by the character and nature of the sociopolitical environment.

As outlined above, there was an initial shift in emphasis from investment in human capital to physical capital formation as a precursor to economic development after World War II. Over the last two decades, a more eclectic approach has been developed which emphasizes the dual role of physical capital formation and human capital investment in economic development. The consensus between these two approaches identifies the significant linkages that exist between these two paradigms of economic development.

5. Agriculture, Industry and Economic Development

A policy issue that continues to attract a significant amount of attention concerns the role of agriculture in the development process. It used to be thought that primary product orientation was synonymous with underdevelopment and that industrial development meant economic development.

The theory of the "big push" and "balanced growth" by Rosenstein Rodan and Ragnar Nurkse respectively influenced post World War II development strategy. Economic development literature advanced the position that industrialization was key to development. Both theories favored the promotion of industrialization over agriculture as a development strategy because of the perceived lack of linkage effects in agriculture. In addition, most of the agricultural output produced in developing countries was destined for domestic consumption. Consequently, agricultural development was seen as an inferior method of development as compared to industry on the grounds of comparative productivity. In recent years, it has become evident that any successful development program cannot emphasize development at the expense of agricultural development. The experiences of Japan and Taiwan clearly illustrate how a strategy of high productivity agriculture can be used as an effective approach to industrialization. These experiences also underscore how two natural-resource poor countries were able to use land-saving, labor-intensive and scale-neutral innovations to raise agricul-

tural productivity in the typically small-scale farms of the two countries (Kondonassis, 1987, pp. 130–133).

A number of development economists, including Myrdal and Prebisch, have stressed the strong spread effects of industrialization and that the adverse terms of trade are attributable to primary product orientation of the LDCs. However, practicing development economics during the last four decades has helped raise the status of agriculture among development strategists. It has been found that an agricultural sector of rising productivity can be of strategic importance to the overall development effort and to industrial development.

It is generally agreed that industrial development helps break up the traditional character of the LDCs and usually has strong spread effects on their economy (i.e., backward and forward linkages). Industrial development, however, is costly. Industrial projects are capital absorbing and if not planned carefully may prove to be uneconomic ventures. This realization has led to a reappraisal of the role of industrialization. The issue is not whether to concentrate resources on industry or agriculture as alternatives. Rather, it has become increasingly evident that agriculture and industry are complementary variables in economic development. Therefore, the question now is how to design an economic development plan that will simultaneously advance both agriculture and industrial development.

A related issue to the agriculture versus industry swing is the urban/rural dichotomy. In most LDCs location of industries has predominantly been in the urban areas while agricultural production has dominated the rural areas. This bias was partly attributable to the erroneous thought that agriculture, unlike industry is a low productivity venture. Embedded in this view was the anti-rural sentiment. However, because the industrialization-first doctrine failed to correct significant development issues, such as, raising the low standards of living, a pro-rural strategy has been advocated as part of a broad reexamination of the development problem (Meier, 1995). Again, a synthesis has emerged and current analysis of economic development focuses on the interactions between agriculture and industry.

6. An Evaluation and Conclusions

1. Theories and policies have a time and place; hence, economists must be willing to depart from and/or amend the orthodox approaches in light of differences in institutional and value premises. In this regard, eclectically pragmatic rather than dogmatic approaches need to be developed. Strictly speaking, an interdisciplinary perspective will be more useful.
2. There is strong evidence that new themes in economic development initially take an antithetical position to the old themes before an eventual synthesis materializes. Some roots of this phenomenon may be traced to the overall history of economic ideas, while others spring from the newness and complexity of the development phenomenon. Whatever the reason, development economists should attempt to transcend this contradictory status of their discipline by utilizing more pragmatic methodology. Empiricism, reality and synthesis must replace rhetoric, ideology and antithetical notions.
3. Contemporary development planning strategies must recognize the *economic* and *non-economic* dimensions that are significant characteristics of less developed countries. These two dimensions must be integrated for successful implementation of development plans.
4. As much as possible, development planning strategies should be country specific. This will take into account institutional idiosyncrasies that are unique to individual countries rather than applying or adopting strategies that may be comprehensive, but not necessarily applicable to a specific country.

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