The Rise and Advance of Neo-liberalism in Development Thinking

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Abstract

The career of development economics as a branch of economics discipline has been remarkably chequered and indeed persistently vulnerable to a crisis of identity. It is argued in this paper that this crisis can be attributed, in large part, to the growing domination of the neo-liberal thinking and perspectives in the course of the latter’s victorious trajectory along the lines of the Cold War. It could possibly be a sheer historical coincidence that development economics as a distinct sub-branch of economics was being born at a time when the Cold War was blossoming too. But the question as to what has subsequently happened to the fate of the sub-field along the trajectory of the Cold War between the capitalist and socialist blocks has hardly been accounted for in adequate detail in the development economics discourse. This paper makes a systematic visit to this specific question of the history of economic thought from a political economy perspective, and it shows that the evolution of development economics has been heavily mediated by the domineering international politics geared to gaining increasing ground for neo-liberal economic perspective and its more lately evolved variants or ‘incarnations’. A major upshot of all this, it is further argued, is that development economics, as it exists today, entails a great delusion in relation to its original purpose, promise, and priorities.
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I

Birth and Birthmarks of Development Economics: a brief recapitulation

It is neither difficult nor uncommon to trace the genesis of a broad notion of ‘development thinking’ to the major writings and key concerns of the early classical economists (e.g. Bardhan and Udry 1999:1; Meier 1984:3). However, this classical development thinking and concerns of the classical economists hardly ever went beyond the economies of western colonising and industrialising countries. The present paper is, however, not concerned with this classical thought on the long-term development dynamics which formed a major – perhaps indeed a central - component of the classical school of economics. We will focus rather on the development thinking which had evolved under its more formal name, ‘development economics’ (DE hereafter), a sub-branch of economics devoted to the complex development issues, concerns, and strategies of the colonies or ex-colonies since the Second World War.

The economic realities of the colonies in the past hardly found place in the mainstream economic discourse until the end of the Second World War – a fact which Gunnar Myrdal described as the ‘pre-war unawareness’ (Myrdal 1993:65-67). As Meier (1984b:209) remarked: ‘Out of intellectual tradition, academic economics excluded the problems of underdeveloped countries until after World War II’ (italics added). However, DE began to emerge as a separate sub-discipline and indeed as a triumphant event in economics discipline since the end of formal imperial/colonial era around the 1940s (Galbraith 1994:172-182). The body of DE literature grown by the end of the 1960s – nicknamed as formative period development economics (FPDE hereafter) - strived on ‘creative rediscoveries and adaptations of earlier historical writings’, and set out with a commitment to planning and with a strong conviction that ‘for understanding of the problems of development – even if qualified as economic development – one need to look beyond the boundaries of contemporary economics’ (Martin 1991:50).

Indeed, with a clear-headed recognition of the irrelevance of much of the neo-classical premises and tools, FPDE had engaged itself with broader issues of poverty, misery, unemployment, and fulfilment of basic human needs (e.g. Myrdal 1968). Albert Hirschman
wrote about the formative period development economists thus: ‘[they] had taken up the cultivation of development economics in the wake of World War not as narrow specialists, but impelled by the vision of a better world’. This vision entailed essentially a move from, to use Paul Rosenstein-Rodan’s words, ‘the national welfare to the international welfare state’ (both quoted in Yergin and Stanislaw 1998:75-79).

Unsurprisingly, the FPDE could not help feeling more directly the heat and hazards of ideological warfare unleashed by the Cold War. An early edition of the textbook in DE by Meier and Baldwin (1957:11-12) made plain enough the stakes of developed western countries in the subject:

‘[e]ncouragement of development is a prominent feature of American and British foreign policy in order to confine the spread of communism, to expand trade between industrial nations of the free world and the poor countries, and to lead the new expressions of nationalism into democratic pro-Western forms.’

As already noted, a strong affinity between classical economists’ queries and key concerns of FPDE is somewhat readily discernable (e.g. Bardhan and Udry 1999:1; Meier 1984:3). However, the latter has still been distinct by its task of evolving strategies for rapid economic development in a vastly different post-colonial setting of Asian, African, and Latin American countries. Since ‘development theory has from the start been closely related to development strategy’ (Hettne 1990:3), the recognition of key role of the state and public policies—concordant as they were with the lasting Keynesian resonances spanning up to the 1960s (e.g. Toye 1987, chapter 2; Hettne 1990, chapter 2; also Hosseini 2003) – served almost as a binding force of the FPDE. This however did not preclude highly illuminating and concerned debates within FPDE (Hirschman 1998; and Alacevich 2007:18). Indeed there had been fairly fast growth of the latter over the post-war quarter century largely by way of addressing development strategies amidst structural rigidities and market imperfections (see e.g. Meier 1984b, chapter 6 for a summary). This period was one of rising prominence of ‘a variety of interventionist theories’, culminating into what is sometimes called a ‘Golden Age Economics’ (Chang 2002:540). Although initially the concept of development was narrow with its exclusive concentration on GDP per head and its growth, powerful criticisms both from within (e.g. Stewart and Streeten 1976; Streeten 1981) and outside (e.g. World Bank 1977, ILO 1976) against this bias led, by mid-1970s, to a broadened notion of development seen as a means (not just goal) to the fulfilment of basic human needs (e.g. poverty elimination, minimum provisions of education, nutrition, health, employment, sanitation etc) (see Morawetz 1977, chapter 3; Streeten et al. 1981). Yet a stark antipathy against independent foothold for DE since the time of raging cold war of the 1960s and 1970s continued its presence not fully felt as yet (e.g. Bauer 1959,
1972 and others). For example, Bauer opined openly that no notion of Third World could emerge on earth if the ‘West’ did not begin to commit itself to providing aid. By the late 1970s, the shock inflicted by the oil crisis of 1973 precipitated in developing world an economic downturn and debt crisis, which got compounded greatly by a stalling industrial growth in developed countries and hence latter’s growing scepticism about aid, its rationale, and efficacy. All this had set in almost unwarranted choking effect on the fountains of FPDE.

By as early as 1981 Albert Hirschman, one staunch pioneer of FPDE, could not resist himself from lamenting about the puzzling signs of its retreat:

‘[i]t is something of a puzzle why development economics flourished so briefly’, even though ‘considerable advances have taken place in many erstwhile “underdeveloped” countries [and] encouraging inroads on the problem [of world poverty] have been and are being made’ (quoted in Kanth 1997:192).

The clue to the ‘puzzle’, according to many, lied in ‘unlikely’ or ‘abnormal’ historical times. As Leys (1996:25) notes, ‘the 1950s and 1960s were not ‘normal’ times but, on the contrary, a special interlude in the history of the worldwide expansion of capitalism in which ‘development theory’ could be born’. In a similar vein, Hirschman (1981) ascribes this ‘extraordinarily productive’ FPDE to ‘an a priori unlikely conjunction of distinct ideological currents’, which carried seeds of problems in the future (quoted from Kanth 1997:192; italics added). The uneasy question as to how FPDE, which had been relatively pro-state and planning, with sometimes even Marxian overtones (see Bardhan 1986), could gain increasing ground amidst Cold War decades of 1950s and 1960s, is often pushed off into irrelevance by hardliner neo-liberal analysts in their subsequent heydays (see e.g. Krueger 1990:9).

Of course, the birth of DE embodied a destiny of its own extinction i.e. when ‘poor’ countries become ‘developed’. Indeed FPDE had focused on its mission to obliterate the gulf between rich and poor nations, in August Heckscher’s eloquent words, ‘without hope of seeing [our] efforts crowned with rapid success or ourselves blessed with appreciation and gratitude’ (Myrdal 1968, vol.1, p.vi; see also Hettne 1990:2). However, the profound heterogeneity of developing countries has always been a source of tough potential challenge towards holding DE as a coherent branch of economics. As Todaro (1994:9) remarked, ‘there can [also] be no single development economics’. Indeed, this challenge of dealing with the heterogeneous gave in to neoclassical / neo-liberal attacks (more on this shortly). In turn, DE became ‘a field on the crest of a breaking wave’, but textbooks kept on pointing to its yet-to-be fulfilled ultimate purpose ‘to

\[1\] For a succinct discussion on such perspectives, see Toye 1987: especially Chapter 1, among others.
help improve the material lives of three-quarters of the global population (e.g. Todaro 1994:9) – a dilemma to which we turn now.

II

Stage-Work for the Coronation of Neo-Liberal Development Thinking since the 1980s

The prominent organizing role ascribed to the state by FPDE towards rapid industrialisation and self-reliant growth in developing countries turned increasingly at variance with the ideology of capitalist bloc in the Cold War (Engerman 2004:31). To use Meghnad Desai’s eloquence:

‘[t]he free-market radicals were working hard in the 1950s and 1960s, thinking not the ‘unthinkable’ but the ‘unthought of’. .. They were ruthless in their self-criticism, as well as in examining their rivals’ arguments. The battles were fought in learned journals, conference volumes, books. No blood was split, but a most profound change in economists’ thinking – a veritable revolution was brought about (Desai 2002:251-252).

That the Cold War had predicated a close networking between the US Department of Defence, corporate giants and academia over about a quarter century following the war, with its adverse ramifications for academic ‘independence’ and ‘self-image’ is well-documented in political science literature (e.g. Leslie 1993; Chomsky et al. 1997).

With the efforts to bring academia closer to terms with Cold War agenda came by the 1960s a stern rethinking about aid to developing countries through the Breton Woods institutions. Jacob Viner, influential American neo-liberal economist, made it plain:

‘The only factor which could persuade us [US] to undertake a really large program of economic aid to the underdeveloped countries would be the decision that the friendship and alliance of those countries are strategically, politically, and psychologically valuable to us in the cold war’ (quoted in Mason 1964:16).

In the early 1960s a good deal of academic energy was harnessed towards gauging the ‘value’ of developing countries to the US in the Cold War context. The US’s concern is best echoed in the then US Secretary’s saying:

‘If you don’t pay attention to the periphery, the periphery changes, and the first thing you know, the periphery is the center’ (quoted in Wolf 1963:634).

In this vein, a more close influence of the US on India’s economic policies has strongly been recommended by some American scholars in the 1960s:

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2 For discussions on the major perceptions and ideological predilections of FPDE, see e.g. Meir and Seers 1984, especially papers by G. M. Meir, and A.W. Lewis, and Meier 1984b, chapter 6, among others.
3 Strikingly, the collection of papers in Chomsky et al (1997) contains no chapter dealing specifically with economics discipline (let alone DE).
‘[I]n spite of the high quality of India’s economists and officials, the United States must play a more active role than heretofore in influencing Indian plans and implementation policies on development. It [the US] must try to use its instruments of aid and trade to stimulate those policies it thinks desirable’. (Rosen 1966:272; italics added)

By the late 1960s, the Area Studies Programme had sponsored a series of evaluations of economic performance of individual developing countries by using neo-liberal yardsticks. For example, the forward written by the President of the Brookings Institute to a Ford Foundation-funded book, *Quiet Crisis in India* authored by J. P. Lewis, reads thus: ‘[t]he United States is far more than an interested observer in India’s concerted effort to speed her economic expansion. ….Americans have a vital stake in India’s attempt to achieve radical economic transformation by constitutional procedure’ (Lewis 1962:vii; italics added).

In the Nehruvian era of the 1960s dominated by the vision of a ‘socialistic pattern of society’, Lewis (1962) discovered, inter alia, a ‘quiet crisis’ brewing in what he describes as ‘the first and, in many ways, the most significant non-Communist economic experiment in Asia’ (ibid:vii). Multilateral agencies like World Bank and corporate foundations in the US had begun financing ‘modelling exercises’ at universities, with a view to making ‘political use of model results to modify policies of the developing country that was modelled’ (Srinivasan 1998:125). For instance, an attempt – albeit turned abortive – was made by some at the Centre for International Affairs at Massachusetts Institute of Technology to modify India’s Third Five-Year Plan model even through influencing the then Ambassador in Washington, thereby bypassing the experts of Indian Planning Commission and those from outside (Srinivasan 1998:125).

Research programmes were initiated in the 1960s to establish ‘infallibility’ and ‘universality’ of the neoclassical laws of rationality – even in the economies of the poorest of the world (see e.g. Schultz 1980 for arguments and evidence). As Ian Little writes (1982:137), ‘[r]searchers were hard at work in the late 1960s, under the umbrellas of either the OECD [Organisation for Economic Cooperation and Development] or the World Bank project or both’ to challenge what they called ‘myths’ of FPDE, namely, protectionist policies, infant industry argument, ISI, worsening terms of trade). Indeed this was largely because of such ‘hard work’ in the 1960s and 1970s that nearly the whole world had witnessed by the 1980s ‘a harsh reversal of economic policies followed hitherto and a move toward neo-liberal and neo-classical policies that emphasized privatization and liberalization’ (Emmerij 2006:1). Chang (2002:540) has recently explained the latter in terms of an “unholy alliance” between neoclassical economics, which provided most of the analytical tools, and what we may call the Austrian-libertarian tradition, which provided the political and moral philosophy’().
The advanced countries at the OECD’s Convention held in Paris on 14 December 1960 resolved to ‘contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations’. Accordingly it became imperative for the new paradigm and its articulation which could convince developing world about impeccable potential benefits of opening up of foreign trade, and particularly augmenting exports to pay for increasing imports. For example, in 1954, the Foreign Operations Administration established an Institute on Economic Development at Vanderbilt University to apprise the ‘returning foreign trainees’ across developing countries about ‘development problems from a more general perspective’, which was, understandably enough, the US’s official one (Worley 1988:S1). In fact, three years later, the International Cooperation Administration commissioned the Vanderbilt University to inaugurate ‘a comprehensive, year-round program designed to meet the training needs of officials in developing nations who were charged with creating and/or implementing development plans’. This programme was subsequently supported for many years by USAID, Ford Foundation, and Rockefeller Foundation (Worley 1988:S1-S2).

Similarly instructive are Bela Balassa’s (1988:S275) remarks, reflecting the US concerns and efforts toward making developing countries adopt ‘liberal trade’ policies: ‘In late 1959, people in Washington were searching for a country that would adopt outward-oriented policies in exchange for initial help by the United States, a bargain to be announced in President Eisenhower’s January 1960 State of the Union message’.

Accordingly, Taiwan turned to be a good ‘choice’ of the Agency for International Development (USAID) for such ‘experimental’ aid ‘in exchange’ for a country’s commitment to the ‘manufacturing for exports’, culminating into what is perhaps loudly echoed in Bela Balassa’s somewhat historic remark: ‘[t]he rest is history’ (Balassa 1988:S275). In the same vein, South Korea’s readiness to adopt a policy of ‘export-led industrialisation’ in the 1960s could fetch her massive economic assistance and ‘extensive technical support’ provided by USAID, apart from sumptuous US military aid and foreign assistance received for improvements in health, education, and agriculture. Almost overflowing US aid since the 1960s with watchful eyes on its intended effects (e.g. boost to export-led industrialisation) affected much of the south-east Asia, 

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4 See OECD website. The OECD, which was set up in 1961 in the wake of decolonization, with the opening up of new field in Africa, southern Asia, the Pacific and Caribbean, was an outgrowth of the Organization for European Economic Cooperation founded in 1948 to organize the distribution of Marshall Plan Aid chiefly amongst the member European countries.

5 That the foreign aid during 1950s-1970s was used to a large extent as an instrument of both the camps in the cold war for acquiring control over the political regimes in the recipient countries is often noted and well documented (e.g. Griffin 1996). But the role and ramifications of foreign aid as an instrument for maneuvering of economic policy of recipient developing countries towards establishing neo-liberal ideology as economic regime are relatively less researched.
particularly those, which were soon to be portrayed as ‘tigers’ in the developing world and thereafter as ‘poster boys’ of market-based outward-looking development strategy (see e.g. Stubbs 1999:344-346, and references cited therein).

In the mid-1960s, the OECD Development Centre had launched a massively funded, centrally designed and monitored, multi-country research project on patterns of both industrialisation and foreign trade in select developing countries. The specific country studies were assigned to ‘individuals with close first-hand knowledge of the countries concerned in collaboration with some research institute in each’. Its authors, who all were made consultants of the OECD Development Centre in Paris, had to undergo two major workshops – one, in involvement with World Bank’s two closely related projects, to set a uniform design prior to the start; and the second, only after completion of the first drafts (Little et al 1970:xiii). Little wonder, the project arrived at the recommendations co-terminus with the OECD mission and its ideological predilections: withering away of IS strategy followed so far, opening up foreign trade with a boost to exports in particular; liberalisation of industrial policies and administrative controls to create larger free space for private market and capital (Little et al. 1970: especially chapter 1).

In the mid-1970s the National Bureau of Economic Research (NBER) sponsored a series of ten country studies with a view to demonstrating the merits of export-orientation and outward-looking policies (vis-à-vis ISI) from the standpoint of efficient use of scarce domestic resources (see Meier 1984b:176-179, and references cited therein; Little 1982). Not surprisingly, the major empirical studies commissioned by the OECD and NBER could find ‘the enormous waste that attended the IS strategy’ (Bhagwati 1984c:201). As Little (1982:118) writes, ‘it has taken years of patient work to undermine the myths’ [of FPDE] (e.g. the IS strategy, export pessimism, market failures). Mainstream economics profession, with its long-preached neutrality from political and ideological overtones, could rather quickly yield itself to accepting and trumpeting the hollowness of FPDE (e.g. Karunaratne 1982; Healey 1972). However, the foregoing leaves one sceptical as to whether ‘the patient work’ of the former did anything more than mere replacement of what it saw as ‘hypotheses [of FPDE] accepted as facts’ with the neo-liberal dogmas craftily posed and presented as facts (see e.g. Banuri 1991, 9-11).

For instance, one World Bank-sponsored comparative study on trade and protectionism is found to have ‘extracted very strong pro-liberalization conclusions from limited and imperfect information’ by relying on subjective indicators of trade orientation (Edwards 1997:44). Indeed, studies sponsored by the World Bank and other multinational agencies often face criticisms particularly from outside and sometimes even from within (e.g. Wade 1996; Stiglitz 2002;
Waeyenberge 2006; Dreher et al. 2009). As Wade (2001:127) writes: ‘The World Bank has been especially useful instrument for projecting American influence in developing countries, and one over which the US maintains discreet but firm institutional control’. Not surprisingly, these issues often remain subtly suspended in the mainstream DE curricula and textbooks.

On the contrary, increasingly adverse economic impact since the oil shock of the 1970s on the heavily-indebted developing countries having faced rising world rates of interest along with international climate shifting towards ‘monetarism’, a direct offshoot of neo-classical resurgence, began soon to be interpreted as a sign of failure of FPDE (Martin 1991:53). This, in turn, was often used as an opportune backdrop for projecting and trumpeting an euphoria of rapid growth of four south-east Asian countries in the 1970s and 1980s as an ‘acid-test’ of the superiority of neo-liberal development paradigm. As Datta (1987:602) writes, ‘An endlessly repeated theme of this literature [on ‘East-Asian Miracle’] is that it was the magic of the unhindered free-market mechanism with its concomitant of unrestrained export-orientation which did the trick of these countries’. Notwithstanding clear evidence of the exacerbation of poverty and inequality in these so-called ‘tiger’ countries, ‘ideological propaganda leads from generalised special cases to panaceas’ (Karunarante 1982:268). By the mid-1980s ‘even the dividing line between developing and developed countries’ began to be questioned, with the developing world seen merely as ‘a great political achievement’ in form of a pressure group at the United Nations and other international bodies (Haberler 1987:62-63). In 1986 Anne Krueger amplified what remained subdued in the preceding decades, namely, the vainness of DE as a separate branch:

> Once it is recognised that individuals respond to incentives, and that ‘market failure’ is the result of inappropriate incentives rather than non-responsiveness, the separateness of development economics as a field largely disappears. Instead, it becomes an applied field, in which the tools and insights of labor economics, agricultural economics, international economics, public finance and other fields are addressed to the special questions and policy issues that arise in the context of development’ (Krueger 1986:62-63).

To some, the rise of South Korea, Taiwan and others marked even the end of the Third World (Harris 1986).

Also, a lethargic reluctant mood of the North toward the North-South dialogue since the 1960s (e.g. Haq 1976, chapter 8) culminated into a ‘stalemate’ by the early 1980s over the issues of international resource allocation and distribution (Ruggie 1984), leaving ‘a frustrated Southern monologue ever since’ (Bhagwati 1984:1). The 1980s had not only witnessed declines in flow of

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6 There are some universities – particularly in parts of Europe – where these issues are made part of some specialized taught programmes in development or development studies.
concessional funds, but there had indeed been increases in reverse flows of resources (i.e. from developing to developed economies). As Chishti writes (1989:244):

‘Not that the developed market economies are completely oblivious of their interests being linked with those of the developing countries. They have identified those developing countries which are of strategic importance to them either as markets or as sources of raw materials. But they focus their attention on them in accordance with case-by-case approach’.

By the mid-1980s, the world at large began to witness the replacement of ‘the full-blooded Ministry of Planning ..by the mild-mannered Central Office of Project Evaluation’ along with domineering new view of development as opening up of trade (Bell 1987:825). There was feeble resistance even from the DE pioneers to such neo-liberal intrusions into the development discourse. Louis Emmerij’s eloquence on this academic indifference is worth quoting here:

‘[w]here had all the Nobel laureates gone who had been so instrumental in the early years to shape development thinking both in the UN and in the world at large?…[N]o consistent counteroffensive was mounted in the early 1980s. …[S]o the purse won [over ideas] mainly because the existing ideas of the 1970s were not defended and adapted strongly and carefully enough and no alternative ideas were brought forward in a sufficiently authoritative fashion’ (Emmerij 2006:2).

Although this passivity in defending FPDE against the onslaught is thought to be precipitated by the so-called ‘government failures’ (e.g. corruption, and vested interests, rent-seeking motives) across developing world (see e.g. Krueger 1990), it is far from clear, and can still be debated, as to how far the development experience up to the 1970s is justly branded as a failure of FPDE per se (e.g. Lewis 1988; Chakravarty 1988; Naqvi 2002). Indeed FPDE has been neither blind to, nor dismissive of, the evidence and practical/potential difficulties associated with typical character and weaknesses of state in the developing world (see e.g. Myrdal 1968, among many others). Many pioneers of FPDE were themselves much worried about the extent to which the suggestions and insights based on their painstaking research could be actually implemented by the governments of developing countries (e.g. Streeten 1995:195-200). Meanwhile, there was a growing voice and research towards focusing directly on immediate needs for improvements in human development rather than in aggregate growth rate (e.g. Sen 1983), with the culmination into the first Human Development Report in 1990.

Indeed, the entire exercise of discrediting FPDE took off amid pretty encouraging performance of the developing world as a whole: ‘[i]n average per capita income the developing countries grew more rapidly between 1950 and 1975 – 3.4 percent a year – than either they or the developed countries had done in any comparable period in the past’ (Morawetz 1977:67; italics added; Griffin 1999:6; Nayyar 2009:10-12; Chang 2003:46; and also Yusuf 2009:10-12).
However, a recent World Bank-commissioned book almost summarily brands in retrospect FPDE’s contribution to this unprecedented income growth even during its ‘heady times’, 1950-1975, ‘arguably trivial’ (Yusuf 2009:12). Indeed, despite well-argued cases and optimisms for FPDE (Sen 1981; Chakravaty 1987, 1988; Singh 1992; Stiglitz 1996; Naqvi 1999; Stewart 1997; among others), the neo-liberal claims to the supremacy through inter alias carefully exaggerated (and convenient) interpretations of the East-Asian miracle swayed over the development thinking and policy.

Despite considerable legitimacy gained by the human development perspective over the years, it could never take on the domineering neo-liberal arguments and programmes. Indeed the former, by not challenging the latter’s basic premises, could never free itself from the deep contradiction ‘that makes it possible to denounce what one urges, and to practice what one regards as unacceptable’ (Rist 2008:209-210). Although the East-Asian crisis of the late 1990s did occasion a (temporal) ‘showdown’ of the neo-liberal ideological ‘imperialism’ (e.g. Stiglitz 2002, Chapter 4; see also Wade 2001), its tendency to dismiss own predictive failures or to explain them away in circular fashion has bred ‘a new form of scholasticism where facts are made to fit the theory rather than vice versa’ (Portes 1997:254). We turn now to a closer look of the role played by the Bretton Woods institutions in shaping the evolution of DE along the trails of the Cold War.

III

Bretton Woods Institutions and Development Economics

In a backdrop of growing triumph of neo-liberal ideas over FPDE since the 1980s and of a concomitant retreat of the Keynesian lending principles of earlier decades, the World Bank could not help changing its ‘identity’ (Carlos and Pereira 1995). In fact, it increasingly took over the task of promoting neo-liberal ideological agendas in the wake of what is popularly known as the Washington Consensus. To quote from a recent book on the World Bank and IMF: ‘[w]here the World Bank was used, its work became inextricably linked to the geopolitical imperatives of the Cold War’ (Woods 2006:33; also Wade 1996). In the same vein, Kofi B. Hadjor, Editor and Publisher of Third World Communications remarked in 1988:

‘It is now customary for Western powers and international agencies like the IMF to work out the economic policies that the nations of the South should pursue. Even the UN has joined in the act.’ (Hadjor 1988:49).
Indeed, World Bank’s predilection for free-market neo-liberal paradigms was apparent even back as the 1950s:

‘The single most important component of the Bank’s development ‘philosophy’ which emerged at the outset, was its firm and pronounced bias in favour of the advantages, not to say virtues, of a market economy and a system of private ownership and enterprise’ (Adler 1972:34)

Although the role of the Bank as a source of development theory was neither anticipated by its founders, nor a part of its original charter, it has always had – by dint of ‘its financial clout’ - ‘tremendous powers to spread and popularize ideas that it latches on to’ (Gavin and Rodrik 1995). By the 1970s, the Bank had launched several innovative initiatives toward establishing academic leadership in DE. First, the World Bank had inaugurated in 1978 what its ‘insiders’ retrospectively describe as the birth of a ‘star’, namely, the World Development Report (Yusuf 2009:1). Second, the Bank’s centrally administered Research Support Budget (RSB) is one of the major avenues through which ‘non-Bank researchers become involved in the Bank research’ (Fischer and de Tray 1990:8). One basic requirement for a project under RSB is that it must be rooted within the Bank, ‘specifically that it be sponsored by a Bank unit, which will administer it and take responsibility for its successful completion’ (ibid:8-9).

By the mid-1980s, the Bank had also commissioned a major research project covering 21 developing countries, with a view to carrying forward its intellectual/ideological agendas through centrally monitoring, managing, and funding the entire project. For example, the monograph representing the synthesis of the findings of the diverse country studies under this project writes as follows:

‘The comparative studies method, which is largely based on the classical method, can also be looked upon as a form of story-telling. Moreover, as a story-teller tries to tell a story which is both interesting and persuasive, so the method is attuned to the multifaceted aspects of persuasion. These concern the selection of “facts”, the crafting of the story, and choosing from amongst a number of competing stories the one which fits the “facts” better than another’ (Lal and Myint 1996:5).

Indeed, its concluding chapter ends with just an excerpt from Peter Bauer (1984), in which the ideal role of government is delimited strictly to four arenas, namely, external affairs including defence and public security; the administration of monetary and fiscal system; the promotion of institutional framework conducive to market operations; and ‘the provision of basic health and education services and of basic communications’ (quoted from Lal and Myint 1996:406). The authors added only slight modification – albeit of stronger neo-liberal stance– by substituting the term “provision” in the fourth area above by the words “possible finance” (ibid:406). And,
Bauer’s above excerpt is then hailed as ‘enough to be getting on with to promote poverty-
 alleviating growth in much of the Third World’ (ibid:406).

Meanwhile, the World Bank had launched in 1984 a series of conference with the ‘first
 generation development economists’ (Meier and Seers 1984; Meier 1987), with the purported aim
 of instating newly domineering neo-liberal/neo-classical stance through creating an
 informed/reasoned consensus about the failings of FPDE. It should not have been easy initially
to get the DE pioneers patronising the new neo-liberal/neo-classical approaches, which were not
 grounded on the notion of developing countries as a separate group. In its sequel, an
 ‘intergenerational’ symposium involving both the first and second generations development
 economists was organised in 1999 by the World Bank, with the view to bolstering more recent
 neo-liberal/neo-classical thrusts among the ‘next generation’ development economists (Meier
 and Stiglitz 2001).

In 1989 the World Bank had embarked on an annual series of Work Bank Conference in
 Development Economics, with the major aim of bringing ‘researchers from the Bank’s member
 countries together with Bank staff to stimulate interaction and exchange of ideas and
 information’ (Fischer and de Tray 1990:1). This soon culminated into the ‘single largest
gathering of the development economics community in the world’ (Kaji 1996: 8; italics added). While all
 this could fetch the Bankits recognition as ‘intellectual actor’ (Stern 1993), its role as ‘intellectual
 leader’ in DE remains more subtle. For example, it is nearly impossible to ascertain, as writes
 Adler (1972:49), ‘as to how much of the Bank’s development “philosophy” was original and how
 much of it was the result of conscious or osmotic acceptance of new ideas generated “outside” –
thanks both to multi-channelled professional-intellectual intercourses between the Bank and
 other institutions, and to the propensity of innovative ideas to change shape between conception
 and ultimate application.

Instances emerged of newer DE textbooks being written at the behest of ‘stimulating
 environment provided’ by powerful multinational agencies such as IMF (e.g. Agénor and Montiel
 1996). That this could contribute to intellectual and ideological capture of DE by the latter gets
 reinforced by inadequate academic freedom and freemarket of the latter’s research staff – a fact that has
 been revealed by a recent report of a panel of experts’ evaluation of World Bank research
 (Banerjee et al 2006:161). Thus, almost exponential expansion of readings under the Handbook in
 Development Economics series can hardly be beyond the ideational shadows of the Bretton Woods
 institutions. It cannot but be hugely ironic if DE, which used to be seen by the post-war neo-
 liberal camp of the Cold War, as a ‘pressure group’ in the UN and other multilateral off-shoots,
is transformed into the latter’s ‘flagship’ itself.
Merging DE within the Mainstream: Recasting the Neo-classical Theory

The link between much of post-war research programmes in economics (e.g. Keynesian militarism, rational choice, game theory, advanced general equilibrium analysis, US monetarist school) and the Cold War imperative of forging ‘the ideas of fundamentalist capitalism’ is pretty well-known. For example, as Fusfeld(1998:5) writes:

‘In summary, during the cold war a high theory came to dominate economics that explained the suitability and superiority of a particular set of social institutions whose defense and extension was the goal of the cold war. It also became the high theory of fundamentalist capitalism, helping to forge a conservative political reaction against activist government’.

As noted already, the need for effacing the distinctiveness of DE has long been on the agenda of the neo-liberal camp in the Cold War. In the aftermath of the Keynesian revolution, this seemed almost impossible without distinct conceptual renovation of the neo-classical/neo-liberal approach. The latter task was urgent, as the ‘neo-classical counter-revolution’ failed to make a convincing case for ‘the re-absorption of development economics into general economics’ (Martin 1991:56). The overhaul of neo-classical mode of argumentation is required to have been such that ‘the main changes of perspective that have affected development economics are the same as those that have affected economics as a whole’ (Toye 2003:36).

First, while economics over preceding centuries virtually never treated human beings as embodiment of ‘capital goods’, this was done effectively for the first time through introduction of the notion of ‘human capital’ in the early 1960s (Blaug 1976). Strikingly, research on the role of historical contingency in the origin of this momentous swing in economic thought is nearly absent relative to the attention devoted to its wide theoretical and practical ramifications. A wide potential of human capital notion, particularly toward merging DE within the fold of neoclassical mainstream, was possibly well augured by Theodore W. Schultz’s famous remark in his Nobel Lecture:

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7 This was also possibly complimented by the Soviet bloc’s ‘discernible shift in emphasis away from ideology towards a growing understanding of the importance of underpinning aspirations with economic deeds’ (Machowski and Schultz 1987:244).

8 As Mark Blaug (1976:849) wrote, ‘[a] research program…can only be adequately appraised in relation to its rivals of roughly equal scope. The human-capital research program, however, has no genuine rival of equal breadth and rigor’.
Most of the people in low-income countries are poor, so if we know the economics of being poor we would know much of the economics that really matters (Schultz 1980:639).

The notion of human capital inspired endogenous growth (EG) models which, in turn, could offer simultaneous resolutions to two outstanding dilemmas of the neo-classical school: one, reconciling the logically inevitable precept of convergence of national incomes per capita in the long run with the contrary actuality obtained; second, bringing DE to the mainstream economics/theory (Romer 1986; Lucas 1988).9 For example, treating development of developing countries within a general dynamics of EG bypasses deep historical, institutional and organisational issues, ‘which are less amenable to neat formalisation’ (Bardhan 1998:107). The EG theory reinstates the long-despised bias for income growth per head as the essential measure of development (see Sen 1983 for latter’s critique). By the time EG theory took off, many ripples had already been made in the new horizons of development thinking, namely, human development and capabilities (Sen 1981, 1984, 1985); but the latter finds no reference in the former. Apart from doubts about net ‘newness’ of the EG theory over the earlier neo-classical models, the former’s potential for ideological backing to the dominant global power is clear enough: ‘as far as the revolution in economics is concerned, endogenous growth theory might not be in the vanguard, but it is certainly liable to be one of the new wave of following colonisers’ (Fine 2000:263).

Putting developed and developing countries into a single theory of growth arguably provides an intellectual blueprint of the new scheme of globalisation in the post-colonial era. This however calls for recasting of the Anglo-America-centric history of economic thought.[Note that this longstanding course in economics curriculum had begun since the 1980s to be scrapped in many a university department globally]. This task of reinterpreting economic history in the lines of the neo-liberal worldview is partly addressed by the ‘new/neoclassical institutional economics’, which seeks to explain cross-country economic differences essentially in terms of the efficacy of promoting ‘economic institutions’ conducive to market capitalism (for a survey, see e.g. Lin and Nugent 1995). This induced a subtle – but firm - move away from the earlier relatively humane and practical questions as to how developing countries could be made free of poverty, to the question of why some countries have remained poor, while others have not:

There is one central, simple, question in the study of economic development: why are some countries developed, and others less so? (Mookherjee and Ray 2001:1).

9 The idea of distinguishing between growth and development has not been recognised for long by many of the neoclassical persuasion, mainly on the ground that both mean essentially increases in per capita incomes (e.g. Dorfman 1991:573fn1; see also Hosseini 2003).
This question admittedly circumscribes the inquiry into why ‘institutions’, which historically had evolved in advanced countries, did not (and/or do not) similarly emerge in developing countries. As Douglas North (1990: 134), one of the chief architects of the new institutional economics, writes:

To attempt to account for the diverse historical experience of economies or the current differential performance of advanced, centrally planned economies and less-developed economies without making the incentive structure derived from institutions as an essential ingredient appears to me to be a sterile exercise.

Rhetorically speaking, only about half a dozen comparatively slim (but widely regarded as seminal) books and/or articles could re-interpret — in terms of neoclassical optimising behavioural universalism — entire global economic history spanning more than half of the preceding millennium ((North 1981, 1990; North and Thomas 1973; Williamson 1985; Olson 1965, 1982; Grief 1992, 1997; Grief et al 1994, Coase 1960; among others). Strikingly, many of the articles on reinterpreting the economic history in terms of such notions as transaction cost, incentive structure, economic institutions appear, not in the leading specialist journals of economic history, but in the journals of mainstream economic theory.¹⁰ In fact, doubts are often cast as to whether reinterpreting history in the new institutional economics perspective is a historical exercise at all (Woolcock et al. 2008).

In one variant of this new neoclassical perspective, the role of geography and geophysical features in the patterns of economic development through complex interactions with institutions, politics, and culture is also highlighted (e.g. Krugman 1995; Hasan 2007). In any case, ‘in the economics of institutions theory is now outstripping empirical research to an excessive extent’ (Matthews 1986, quoted in Lin and Nugent 1995:2362). The contribution of new institutional economics to the institutional reforms in a country is often considered as an area where development economists ‘can do well while doing good’ (Tullock 1984, quoted in Lin and Nugent 1995:2363; also Chang 2003d).

Joseph Stiglitz’s oft-quoted remark in 1989 for placing DE at the centre stage of economics is worth noting here:

A study of LDC’s is to economics what the study of pathology is to medicine; by understanding what happens when things do not work well, we gain insight into how they work when they do function as

¹⁰ For instance, Lucas’ seminal paper on economic development appeared in the Journal of Monetary Economics in 1988. Similarly striking is the recent appearance in this Journal of a paper that deals statistically with the effects of tropical germs and crops through ‘institutions’ on the long run incomes of various countries (Easterly and Levine 2003).
designed. The difference is that in economics, pathology is the rule: less than a quarter of mankind lives in the developed countries. (quoted in Bardhan 2000:3).

Notably, the same year, the World Bank’s annual series of DE conference was launched with its new notion of DE seen quintessentially as a ‘commons’ accessible to most major branches and specialities of economics:
Although often seen as a subdiscipline of economics akin to labour economics or international trade, in fact it [development economics] embodies all economic subdisciplines, distinguishing itself by applying these subdisciplines to a particular set [of] countries. Because development economics is not a separate discipline, experts in virtually any of the traditional economic and other social science disciplines can contribute to “development” research if they direct their expertise to the specific circumstances – the institutional and social character – of developing countries’ (Fischer and de Tray 1990:9, italics added).

In its sequel, there emerged a new breed of DE textbooks in clearer facades of mainstream economics and hence with far more mathematical abundance than ever before, keeping away from deeper ‘quintessential problems’ and/or ‘questions impossible to answer’ attributable to FPDE, toward the questions answerable elegantly by virtue of the ‘results in pure economic theory’ (Basu 1984:viii). The North-Holland publishing house launched by the late 1980s Handbook in Economics series of bulky readings in DE – all commissioned, centrally edited, and richly updated survey papers on diverse issues written by respective international authorities. By the 1990s, the DE profession was further endowed with such impressive (albeit somewhat stunting to the older generations) titles as Development Microeconomics and Development Macroeconomics – in lines with the newer dominant view of DE as a common ground for display and application of expertises of major sub-disciplines of economics. In the following section, we conclude by exemplifying the major contours and more recent directions of DE in the post-cold war era.

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Concluding Remarks

There is an increasing air of uncertainty as to what presently constitutes DE. It is often considered so ‘very frustrating’ subject that ‘two scholars can with equal justification write two completely different textbooks’ (Meier and Rauch 2000: xvii). As it strives in reductionist fashion on ‘more widely cast and methodologically opposed methods’, Ben Fine has named it ‘zombieconomics’ (Fine 2009:885). There is currently a thickening air of
scepticism about the original 'proposition that “development economics” is actually little more than 'the economics of developing countries' (Tribe and Sumner 2006:957; italics added)."

Faltering on the notion of development and hence about ideal yardsticks for assessing achieved development is still germane as ever (see e.g. Krugman 1996; Shin 2005). Neo-classical perspectives founded on market-based growth, capital accumulation, productivity and technical progress exist alongside broader multi-disciplinary perspectives on quality of wellbeing, functioning, freedom, rights, governance, and ethics of development (e.g. Clark 2006 for a summary; see also Loxley 2004; and Harriss 2002). This co-existence reflects not mutual regard, but rather indifference. For example, out of 62 chapters published so far in 13 parts of Handbook of Development Economics series there are hardly chapters on human development, capabilities, and freedom perspectives. On the other hand, a fairly vigorous growth of initiatives such as setting up of Human Development and Capability Association, multiplying the number of journals and research centres on human development studies is simultaneously a reality.

DE is now alleged to have grown to a point of ‘the embarrassment of riches’ in terms of the variety of ‘models’ (Mookherjee 2005). The latter’s value admittedly lies in testifying to researchers’ high levels of mathematical skill, intuitive ingenuity, productivity in producing elegant algebraic ‘mechanics’ between impersonalised economic categories such as incentives, resources, prices, and compensation, pay-off (e.g. Ray 2007). This growing academic output seems particularly useful in announcing further development of DE. Ironically, there would surely not be many who can dare deny that DE, while remaining open to newer ideas and methods evolved both in its own area and in the subject of economics in general, must ‘keep alive the foundational motivation’ of its own.11

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11This sentence, of course, draws on (or rather paraphrases) AmartyaSen’s earlier remark: ‘Development economics, it can be argued, has to be concerned not only with protecting its “own” territory, but also with keeping alive the foundational motivation of the subject of economics in general’ (Sen 1988:11).


