The Development of Development Thinking

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The development of capitalism was at the centre of economic thought during the century that followed the publication in 1776 of Adam Smith's *The Wealth of Nations*. It was the fundamental concern of classical political economy. From the last quarter of the nineteenth century until the 1950s, that concern, and political economy itself, were removed from the mainstream of economic thought. Neoclassical economic theory, with its focus on the behaviour of individual producers and consumers in perfect or imperfect markets, and theories that attempted to explain the cyclical instability of capitalism, took over.

The subject of development started to reappear in economic thought only in the 1950s, but now referred to the economic problems of the countries that had *not* become industrialised by that time. The economic development of underdeveloped countries, which is what we really have in mind when we now speak of development thinking, is a very recent subject in the evolution of economic thought. Hardly any book published before 1950 had the word development in its title, universities did not offer courses on the subject, special development institutes did not exist, nor did development experts. Technical assistance as we know it now became a substantial operation only with President Truman's Point IV Programme and the UN Technical Assistance Programme.

The recent first inter-regional meeting of the four Associations that represent hundreds of institutions devoted to development studies in Africa, Asia, Europe and Latin America attests to the importance that the subject has acquired in just over two decades.[1] But the boom that it enjoys is in stark contrast to the crisis of the development process itself. One of the consequences of this disparity is the need for a critical reappraisal. At a moment when new policies, strategies and models are being proposed it is worth looking back upon the interaction between development thinking and development practice over the last two decades, because it may have important lessons for the future.

I propose to examine the evolution of development thinking from three main perspectives: the nature of the political economies that have constituted the object of development thought since the 1950s and of their international context; the nature of economic thought when development became a fundamental issue at this time; and the ways in which development thinking responded to the development process itself.

Before embarking on this difficult exercise—a sort of sociology of knowledge of development thinking—I would like to point out that it is not based on systematic research, but rather on personal experience; that this experience is essentially that of Latin America and therefore of the overwhelming hegemonic presence of the United States; and that it is the experience of an economist.

Let me start by identifying some of the basic structural characteristics of the underdeveloped economies around 1950 as well as some basic changes that were taking place internally and in the international context. Most underdeveloped countries were still colonies at that time, though a few had just become independent, and some—most of the Latin American countries—had been independent for over a century. All were economically, politically and culturally linked to one or other of the industrial countries to which they exported primary products and surplus, and from which they imported manufactures, human resources, investments, technology, institutions, ideas, values, culture.

The size of the sector that consumed these imports—the so-called modern sector—depended on three factors: the size of the total surplus generated in the export sector; the proportion of it that the local ruling groups managed to keep and consume or invest (the more they invested locally the more their productive base expanded); and the degree to which the ruling groups exploited the rest of society, which they achieved partly by preserving the pre-existing local institutions and culture and partly by destroying them in order to generate an abundant supply of cheap labour. As a consequence the national economy, society, polity and culture were highly heterogeneous. Differing socio-economic, political and cultural forms interacted, though all were to a greater or a lesser extent dominated by capitalist relations of trade and/or production.

1 *The Development of Development Thinking*, Report of the First Inter-Regional Meeting on Development Research, Communication and Education, 12-16 September, 1976, organised jointly by the Institute of Development Studies, and the OECD Development Centre.

The Great Depression, World War II, decolonisation and the Cold War changed the power balance within the ruling classes of many countries. The groups linked more closely to the traditional export interests were weakened, and new middle-class sectors (professionals, small entrepreneurs, industrialists where some industry had developed previously and new political leaders and groups to represent them) were strengthened. The basic objective of these new groups was the promotion of industrialisation as a means to generalise the consumption patterns and life styles acquired by importing the life styles of the industrial countries (the demonstration effect, as it was then called). To make this possible, they had to increase their control over the foreign sector in order to capture a larger proportion of the surplus needed to finance increased consumption and investment. The State became in this way the active instrument of a new policy aimed at the local reproduction of the characteristics of mature capitalist countries: industrialisation, agricultural modernisation, infrastructure, increased provision of social services and so forth.

The countries that had all these things were the developed countries, those that lacked them were underdeveloped, and development was the process of transition from one situation to the other.

This way of thinking about development was furthermore intensely promoted from abroad, particularly by the United States, the new capitalist centre, as a foreign policy instrument in the context of the Cold War. The external support of national ruling classes against challenges from the left became an all-important objective in the capitalist camp. (This was the case not only in the underdeveloped world, but even more so in Europe, where the main instruments were NATO, the Marshall Plan and European economic integration.) Correspondingly, the national ruling classes in the underdeveloped countries saw the USA and Western Europe as guardians of their interests and as socio-political and economic models. The development of modern industrial capitalism in these countries therefore became their long-term aim which was held in common with the ruling classes of the major Western powers. This frequently contributed to an acceleration of the disintegration of the European colonial empires and to a further strengthening of the USA as the capitalist superpower.

Let us now look quickly at the economic thought available around 1950 to help policy-makers, experts and advisers formulate the best policies for the development of underdeveloped countries.

There was, of course, political economy, the *locus classicus* of the analysis of the emergence and expansion of industrial capitalism in Great Britain. But the writings of the founding fathers of economics were considered to have been overtaken by the scientific progress of the discipline, and had therefore been relegated to museum pieces. Their great analytical strength, the attempt to relate the growth of the capitalist mode of production and the operation of the economics of the market to the changing nature of social classes and the consequent redistribution of power, within the historical context of the worldwide expansion of industrial capitalism and imperialism, was precisely what had been expurgated and replaced by positive economic theory. The most important body of thought inherited from classical political economy—Marxism—had been suppressed everywhere: in the capitalist world by McCarthyism, in the socialist camp by Stalinism. In the name of scientific progress and the Cold War, the dynamics of capitalism had been exorcised from economics, and we were left with the two main paradigms of pure economics: neo-classical economic theory (including the comparative cost theory of international trade) and Keynesian macroeconomics.

These schools corresponded to the needs and characteristics of mature capitalism: the efficient operation of individual firms and consumers in national and international markets; and the avoidance of cyclical instability with short-term policies of full employment and long-term strategies of growth. But for underdeveloped countries the policies derived from these theories amounted to a drastic programme of economic, political, social and cultural transformation. Few of them satisfied the assumptions underlying neoclassical and Keynesian economics, or, to be more precise, these assumptions corresponded only to a partial segment of reality: that more closely related to the export sector and the main cities. Money was not a universal means of exchange, it was used in urban and to some extent in urban-rural transactions, but less frequently within rural communities. With the exception of some export activities and the urban sector there was hardly a labour market, as most people remained attached to rural communities and institutions of one type or another. The modern capitalist type of enterprise was largely foreign, and was to be found mainly in the export sector and in trade, and only to a small extent in manufacture. Basic social capital—such as roads, energy, communications, railroads, ports—was again available only to the export sector and main cities; these were in fact in better contact with the metropolitan centres than with their own hinterlands. Education was restricted to a small urban elite. Financial institutions—apart from some branches of foreign banks—hardly existed. The State apparatus was limited in geographical and operational scope, and had a weak and highly unstable tax base, mainly in the foreign sector.

If theory did not correspond to reality, so much the worse for reality: it would have to be changed so that it would correspond to the assumptions of neoclassical and macrodynamic theory. Two main lines of thinking and policy emerged. On one hand were the conservatives—intellectual representatives of the old order—who maintained that the traditional specialisation in primary exports constituted the best engine of growth, provided that the industrial countries also achieved full employment and growth. The benefits of specialisation and comparative advantage would then be spread from the export sector to the rest of society and development would eventually be achieved.

This line of thinking, however, went against the interests of the new social groups that were emerging out of the struggle against the old alliance of the local oligarchy and imperialism. Emerging national bourgeoisies were trying to gain control of the State in order to capture a larger share of the surplus generated in the export sector and to use it to promote industrialisation and modernisation generally. Macrodynamic theory provided the rationalisation for an active State role and for a heavy emphasis on capital accumulation as the basis for economic growth, although for different reasons and in different circumstances than those envisaged by Keynes. Growth models—including models of capital accumulation used in Soviet planning—and social accounting and input-output analysis provided practical instruments for planning.

Theories that were critical of the doctrines of free trade and international specialisation and that attributed underdevelopment to the lack of industrial development (such as those of Prebisch, Singer, Lewis, Mandelbaum, Rosenstein-Rodan, Nurkse—none of them, interestingly enough, of Anglo-Saxon origin), provided the rationalisation for protection, for investment in infrastructure and manufacturing and for planning. The contrast between the heterogeneous reality of underdeveloped countries and the assumptions of neoclassical theory provided the rationale for policies of institutional reform and modernisation in agriculture, education, taxation, public administration and finance.

A more radical version of this programme for the development of national capitalism, strongly influenced by an undercurrent of Marxist thinking about internal and international exploitation, surfaced here and there, when political conditions allowed. Heavy emphasis was placed on nationalisation of foreign investment in the primary export sector and public utilities, state ownership of basic industries, trade with socialist countries and much more drastic agrarian reform and state planning.

In Latin America these various lines of thinking crystallised during the 1950s around the work of Raul Prebisch and a group of young economists at the UN Economic Commission for Latin America. This institution became the intellectual and technical base for the support of progressive nationalist and reformist movements and governments throughout the region, and the object of bitter attack by conservative groups in Latin America, as well as by the US government, academic and business interests.

It is easy now with hindsight to point to the weaknesses and limitations of the new development policies pursued since the 1950s. But at a time when the socio-political and economic interests related to the primary export sectors were still very strong, and when threats to them were automatically labelled a communist plot and harshly suppressed, it is convenient to recall that these programmes of nationalist and social democratic reform were regarded as a revolutionary challenge to the existing internal and international order.

All this changed dramatically at the end of the 1950s with the Cuban Revolution and the fall of the dictatorships of Perez Jimenez in Venezuela, Odria in Peru and Rojas Pinilla in Colombia, as well as the change from the Eisenhower to the Kennedy administration in the USA. These political events reflected the crisis of the old order, which could no longer be supported because it had been substantially eroded inside Latin America and, as we shall suggest later, internationally also. The alternatives appeared clear: either a socialist revolution, or full support for the new emerging social forces behind industrialisation and modernisation policies.

It was thought that the latter, including the expansion of education, rural modernisation, and urbanisation, would promote social mobility and diversify the social structure, widening the middle and entrepreneurial classes which are the indispensable social base of modern capitalist society. The creation of modern bourgeois societies of this kind would in turn facilitate the development of political democracy, as practised in Western Europe and the USA.

Economic, sociological and political theories which gave an idealised version of the contemporary nature of countries that had reached the stage of mature industrial capitalism were transformed into a programme of capitalist development in the periphery, into an ideology of development, of which Rostow's *The Stages of Economic Growth: a non Communist Manifesto* is probably the most extreme and explicit version. The Alliance for Progress, the response of the new ruling coalitions of the USA and Latin America to the Cuban Revolution which had established a socialist State in the Americas was the practical expression of a full fledged capitalist modernisation programme.

Thus the Cold War and the Cuban Revolution together with the changing internal power structure in Latin America were critical factors in the promotion of development and modernisation programmes in Latin America. These were one aspect of historical trends of a more economic and global nature. In particular the emergence of the USA as the superpower in the capitalist camp, with its vast endowment of natural resources and its dynamic and expanding industrial system, was beginning to change the nature of the international economic order built up by Britain and Western Europe in the nineteenth century. After World War II, the massive expansion of US overseas investment was concentrated in manufacturing and related marketing and financial services rather than in primary products, apart from oil. Looked at in institutional terms this is the period of the phenomenal expansion of the transnational corporation. The Alliance for Progress represented therefore a coalition of the new transnational industrial elites of the centre and the modernising elites of the peripheral countries. For some years, in the early 1960s, national and international development efforts seemed well on the way towards accelerating industrialisation, modernisation, urbanisation, social mobility, decolonisation and political democracy in the countries that used to be called 'underdeveloped'. Marx's dictum: "the country that is more developed only shows to the less developed the image of its own future", seemed about to be proved correct.

But the development record of the 1960s and early 1970s eventually turned out to be ambivalent. Although accelerated economic growth was supposed to increase employment opportunities, it soon became apparent that unemployment and underemployment, particularly in the urban areas, was rising dramatically and creating staggering problems of urban poverty. At the same time skills, income and wealth were concentrated in the hands of a small entrepreneurial and professional elite and income inequality was accentuated. Although industrial expansion and diversification had gone quite far in many countries, the benefits associated with this process in the developed countries did not materialise. Rather than the export structure being diversified, primary product exports continued to predominate. Instead of the local entrepreneurial class being strengthened, the subsidiaries of transnational corporations took over the more dynamic industrial activities and larger scale enterprises. With foreign control of industry, capital-intensive innovations were continuously introduced, intensifying conspicuous consumption and the waste of existing capital stock, and increasing imports and other foreign exchange requirements.

In the absence of structural reforms in the rural areas, which proved to be politically unviable, agricultural modernisation increased yields and productivity per man in the larger estates, generated additional rents for the landowning class, and contributed to the disruption and stagnation of rural communities and smallholders, thereby accelerating rural emigration. The same phenomena of the 'subsidiarisation' and expansion of the larger enterprises, and the consequent displacement and stagnation of the smaller national firms, can be seen to a greater or lesser extent in every branch of economic activity: trade, construction, finance, transport, mass media, sometimes even bringing in the State itself through its association with foreign subsidiaries.

Urban unemployment and social polarisation led to a stronger emphasis on 'social' policies: new attempts at introducing progressive taxation, increased government expenditure on education, housing and health services, special programmes in support of the urban poor, regional policies for backward areas. Given the underlying structural situation and processes which these policies attempted to redress, their effects were at best negligible, and at worst a contribution to the negative trends enumerated above.

The situation became even more dramatic in the early 1970s. Governments had been expanding their activities and expenditures heavily, while their revenues continued to be derived essentially from a relatively stagnant and unstable foreign sector. Similarly, foreign payments on current and capital account rose rapidly with the increase in investment, consumption, foreign ownership and private and public foreign debt, while the export structure remained essentially unchanged. Urban income and population growth frequently outran the increase in marketable rural production. These and other disequilibria fuelled internal inflation and balance-of-payments crises, accentuating foreign indebtedness. The need to control inflation, to limit imports and expand exports, to control the urban poor and repress rural uprisings led several countries to introduce severe deflation policies implemented by authoritarian regimes. Rather than easing tensions and facilitating political democracy, development has aggravated economic class, cultural and political polarisation and conflict.

Faced with this situation, development thinking took two different directions. One argued that this was the inevitable consequence of the transition to capitalist development, the price to be paid in order to achieve development. The other elaborated a radical critique, suggesting that capitalist development in the periphery would not reproduce the historical capitalist development path, that the current crisis would not be overcome with more of the same kind of development policies. The first approach is still followed by the majority of development practitioners. But although much development thinking in academic circles, particularly in the developed countries, continues to be based on the modernisation paradigm because of the internal dynamics—or rather, statics—of the academic establishment, development thinking among social scientists involved in development planning in the developing countries began to change radically in the mid-1960s, particularly in Latin America.

To begin with, it became increasingly clear that there had been a reification of economics in development thinking almost to the exclusion of other social sciences. It was also apparent that the solution was not to put the other disciplines side by side with economics, to engage in the kind of interdisciplinary approach by aggregation which had begun to surface in some writing on development. The problem went much deeper; it had to do with the static functionalist paradigm of all the modern social sciences—the study of the economic, social and political operation of a national society, given the structural-historical conditions of modern urban-industrial capitalism. The problem of development, on the contrary, was increasingly seen to be the study of the changes brought about by the expansion of the capitalist mode of production into semi and/or pre-capitalist social formations. Furthermore, it also became clear that modern capitalism itself was not static, that it was undergoing significant change under the influence of the new central role played by the transnational business sector in symbiosis with the State, upon the processes of capital accumulation, technological innovation and demand manipulation on a global scale. Development thought had therefore to start addressing itself to understanding the contemporary dynamics of capitalism, in terms both of its core and of its peripheries, the relationship between them and—last but not least—of their relations with socialism.

In other words, it became evident that the unit of analysis of development can no longer be the nation-state alone. Even if one must still begin from the particular country one is interested in, its specific historical development process must be put into the context of the evolution of capitalism globally and of its local, internal manifestations. These have typically been the determining factors that have triggered off profound processes of structural transformation. The establishment of colonies, the struggle against the colonisers, decolonisation, the development of primary product exports, foreign investment in local manufacturing, the effects of world wars and crises, transfers of foreign institutions and culture generally—these all play a central role in the historical evolution of every underdeveloped country.

Although they have occurred at different times and take different forms, such phenomena constitute the common historical legacy of dependence. But the way in which they work themselves out in specific national and local societies depends essentially on the antecedent nature of these societies and their historical reaction to external stimulae. Therefore there are both common elements and great differences among the underdeveloped countries. A eurocentric or global perspective tends to stress homogeneity; a national perspective, on the contrary, stresses heterogeneity and singularity. Both perspectives are biased, and must complement each other.

The growing body of literature in Latin America, Africa and Asia on the historical evolution of countries and regions, in the context of the development of global capitalism, is throwing new light on the real nature of the development process. Economic and social history has received a great stimulus in the last decade from the questions raised by the crisis of development, and comparative history has been a particularly useful exercise for a better understanding of how contemporary situations have come about. The reincorporation of the historical dimension into development thinking has had other positive effects. For economics itself, it has had the healthy consequence of forcing the analytical apparatus of the discipline to adapt to actual historical reality, rather than the reverse. Traditional micro and macro theory is being reformulated in an effort to determine the *relevant* variables and relationships, and a corresponding effort is under way to develop operational categories in terms of *appropriate* statistical frameworks. The recovery of the historical dimension has also made it clear that the disciplinary specialisation of the social sciences under the functionalist paradigm has made them inherently incapable of grasping the nature of the development process, despite their usefulness for the analysis of concrete partial situations.

Even if not wholly satisfactory, the analytical frameworks of classical political economy and particularly of Marxism do at least go in the directions required to analyse development: globalism and wholism. But to be useful they require historical specificity, in terms of the analysis of the structural characteristics of particular societies at given times and places. Even if we assume that the basic laws of capitalist development are unchanged, the mode of operation of capitalist economies varies under different institutional arrangements and cultural traditions. Capitalist development is not, as macrodynamic growth models would have us believe, a cumulative process of mechanical dynamics where everything is determined by an unchanged set of initial conditions.

On the contrary, as anyone that has actually been involved in development policy knows, capitalist development takes place in interaction with precapitalist and/or earlier capitalist formations. Its expansion requires a thorough reorganisation of society, with new social forces gathering the power and strength to challenge the existing dominant groups and to take over the institutions that regulate the generation, appropriation and utilisation of economic surplus. Economic growth implies changes in social structure, a redistribution of political power, institutional and cultural transformation, and this is a dialectical process, full of conflict.

Not only must there be structural change, but this change takes place through confrontation. The State, the main legitimate instrument of power and force, is usually the crucial battle ground between the different social groups. It is a central factor in the process of development, playing a fundamental role in allocating the surplus generated by the foreign sector to new social groups. The poverty of the social sciences, and particularly of economics, including classical political economy, in terms of their treatment of the role of the State has undoubtedly been one of the greatest weaknesses of development thinking.

The failure to perceive development as capitalist development, the ignorance of its history and lack of recognition of its peculiar contemporary characteristics are some of the reasons why development specialists have been so surprised at the results of development: economic growth with increased unemployment, growing inequality and polarisation, new forms of dependence, and authoritarian regimes. The ideological blinkers of the modernisation paradigm put all the emphasis on the positive and ex-post aspects of capitalist development, treating its end products—high living standards, relative reductions in social inequality, urban-industrial life styles, political democracy—as the means of development. The real history of capitalist development is made to stand on its head.

Capitalist development, as Schumpeter so aptly put it a long time ago, is a process of creative destruction. It might perhaps be worth recalling that when Western Europe was becoming industrialised during the nineteenth century, a substantial proportion of its population not only had to leave the countryside, but had to emigrate overseas. Around 60 million people left Europe between 1840 and 1920, compared with a total population in 1900 of around 300 million. Under present day conditions of the world-wide expansion of a highly innovative and capital intensive oligopoly capitalism, the destructive effects of development are still more severe in the peripheral countries than they were in the central capitalist countries.

In the industrial countries themselves two decades of unprecedented growth in the capitalist economy during the 1950s and 1960s also had unanticipated effects: alienation, consumerism, waste, excessive concentration of power, destruction of the environment, bureaucratisation, the loss of jobs due to industries moving abroad and so forth. The recent depression, coupled with inflation, the international monetary crisis, uncertain prospects for economic growth, the inefficacy of Keynesian policies, the decline in the industrial countries' control over the world's natural resources and increasing concern about their availability, the threat of socialism both in Europe and in the developing countries, indicate profound development problems in the so-called developed countries: problems which are not only national but global, not only economic but also social, cultural and political. As a consequence, social scientists in these countries are also beginning to focus again on the central concern of classical political economy in the nineteenth century and of development thinking in recent years: the development of capitalism.