

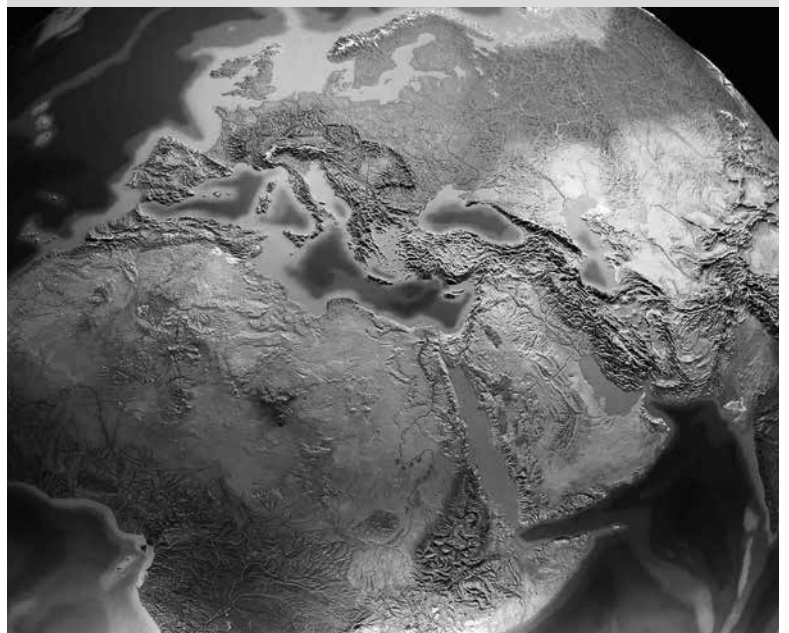
IDS Bulletin

Transforming Development Knowledge

Volume 48 | Number 1A | October 2017

HAS UNIVERSAL DEVELOPMENT COME OF AGE?

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Keynes, Seers and Economic Development

H. W. Singer

Seers and Keynes: Some Personal Analogies

There is no need to repeat here what was said at the time of Dudley Seers' death about the great loss of a friend and source of inspiration. Now the time has come to take a little distance and try to appraise his contribution to thinking about development. Perhaps the best way I can think of trying to do this is by relating his work and thinking to that of John Maynard Keynes. To begin with, there are a number of personal analogies and similarities between Dudley Seers and Keynes, starting with the coincidental fact that both of them died at almost exactly the same age, almost to the day, both much too early, at the age of 62. Moreover, both of them died more or less on the job, having had ample warning that their life was in danger and knowing that they could probably have prolonged it by withdrawing from strenuous work. For both of them their sense of commitment and fulfilment in what they had set themselves to do was so great that they made their choice without much hesitation; the consideration of extending their life counted for very little in the scale against the contribution to human progress they felt it in them to make.

Both of them were at their best against the background of the institutions with which they were associated. They were both what you might call great collegial men. Keynes was the heart and soul of his college: when he was away one always knew it; when he was there everything revolved around him. At some periods in the IDS one had the same feeling about Dudley Seers. Dudley was the soul and spirit of the IDS, and much of his best work and best thinking was done in the collegiate framework of teamwork within the IDS. I am thinking here particularly of the ILO Employment Missions, with which his name is associated. I think also both men shared the experience, for both of them a sad experience, of having to challenge established views and to quarrel with their natural allies and teachers. In the case of Keynes, I am thinking here of the Keynes of the 1930s, the author of the *General Theory of Employment, Interest and Money*. The *General Theory* for Keynes was a break with his venerated teachers, with the classics, with Marshall, with Pigou. He had to challenge orthodoxies. The allies with which he had to

rank himself were often not very congenial to him — the so-called economic underworld of Hobson, Gesell, Major Douglas *et al.*, against his natural world, the academic mainstream economists. In the same way Dudley Seers, towards the end of his life, argued against the Brandt Report, against the principle of aid, against charity in international relations. In one of his last articles he proposed a new aid target of 0.1 per cent of donors' GNP to which aid should be reduced; that, of course, brought him acclaim from some very unaccustomed and uncongenial allies from both right and left about which he felt very unhappy. But he kept saying this is what I believe in and I must say it.

Shared Perceptions of Nationalism

Perhaps a more substantive similarity lies in their leaning towards a nationally-oriented policy of de-linking or partial de-linking from the world economy. Dudley's last book (which appeared posthumously) was called *The Political Economy of Nationalism*; an element of 'nationalism' is also a key characteristic of Keynes' *General Theory*. This was the product of the 1930s, an era of heavy unemployment when international relations had broken down in a wild scramble of each-for-himself and beggar-my-neighbour deflation. The World Economic Conference in London in 1933, the last attempt to try to right the Depression by means of international cooperation, had collapsed. Keynes in his famous article in *The New Statesman* in 1933, immediately following the collapse of the London Conference, said that the time had come when Great Britain as a nation must try to act on her own to restore full employment at home, if necessary by means of national self-sufficiency:

I sympathise, therefore, with those who would minimise, rather than with those who would maximise, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel — these are things which should of their nature be international. But let goods be home-spun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national. Yet, at the same time, those who seek to disembarass a country of its entanglements should be very slow and wary. It should not be a matter of tearing up roots, but of slowly training a plant to grow in a different direction.

This is also the key theme of Dudley's last book. Like the *General Theory*, it was 'a struggle of escape from habitual modes of thought and expression'. Both of them were accused of being unduly nationalist. In the case of Keynes, during the Keynes centenary year (1983), (this by the way is another link between the two — that Dudley died in Keynes' centenary year) in the contributions which *The Economist* published on that occasion, Hayek was predictably very critical of Keynes for being a nationalist. The other commentators, Hicks, Samuelson, etc., also commented on this fact, some approvingly and some critically. Keynes of course, had the opportunity of transcending his nationalist phase of the 1930s. At Bretton Woods, the Keynes of the 1940s had the chance to help to build an international system which, if it had been implemented in the way Keynes visualised it, would have been of great benefit to world development. It would probably have given us more than the 25 golden years which we enjoyed under the Keynesian consensus, even under the imperfect Bretton Woods system which was finally created.

But both Dudley Seers and John Maynard Keynes knew, or felt, that nationalism is not enough; both felt the need for what Dudley called in his book 'extended nationalism'. In the case of Keynes, there was not much need to emphasise this: let us remind ourselves that when Keynes said in the 1930s that 'England can go it alone', and restore full employment at home by changing our policies, by changing our view of the way the economy works and by acting according to this new view — the 'England' that he was speaking of was an economic superpower — it had half the world still associated with it, including the whole Indian sub-continent. Keynes took this for granted, and hence did not worry too much about the balance of payments effect which expansionist policies in the UK would have; he took it for granted that he was really speaking of half the world expanding together. Therefore, when we call Keynes a nationalist, or when Keynes thought he was acting and talking as a nationalist, in the current meaning of the term, that is a statement that one must considerably qualify. Similarly, Dudley Seers felt the need, particularly in his last book, to say that the UK *cannot* go it alone. We must de-link from the world economy to some extent; above all, we must not be paternalistic, we must not believe that we have the secret of telling other countries how to develop. We can only look after ourselves but we must not do this alone; we must do this as part of Europe. Hence Dudley's last book presented a picture of the possibility of a European regional bloc looking after its own depressed areas. Just as Keynes wanted us to look after the depressed areas of England in the 1930s, so Dudley Seers had the vision of a Europe that was looking after its own periphery, and would then deal as a regional bloc with countries outside Europe.

I am struck by another analogy between Dudley Seers and Keynes. Keynes says repeatedly in the *General Theory* that he was looking for what he called a middle way between capitalism and socialism. The macro-economic management by the government of an essentially capitalist economy, with full employment as the top priority, was to him the essence of the middle way. Such a 'guiding influence' of the state could combine the advantages, or virtues, of capitalism and socialism. This phrase, the middle way, was then picked up by Keynes' good friend and publisher, and future Prime Minister, Harold Macmillan, in his book entitled *The Middle Way*, a popular exposition of the Keynesian view that through enlightened macroeconomic management and expansionist policies you could gain the benefits of socialism even in a capitalist economy. I remember vividly when Keynes in the mid-1930s visited Russia and Sweden and startled all of us on his return by saying that during his visit he had found the country of true socialism — Sweden. Sweden to him represented at that time a good approximation of the middle way that he was advocating. It is interesting to note that Dudley Seers, in his last book, kept using the phrase 'the third way': they both struggled to escape from sterile debates and look for a promising synthesis.

Shared Interest in Quantification

Let me now turn to another shared interest of the two: both were particularly concerned with what we may call the quantification possibilities and data requirements for economic policies — the need for national accounting systems of some kind, a framework that would lend itself to quantification. In the case of Keynes, of course, this led in the first place to his collaboration with Colin Clark, who took the Keynesian concepts and incorporated them in his national accounting framework, a work then carried on by Richard Stone.

Dudley Seers, as we know, was very active in extending Richard Stone's analysis further in directions in which he felt the Keynesian analysis, or the conventional Keynesian analysis was deficient. The Keynesian analysis led Harrod and Domar, as well as Colin Clark, to put great emphasis in their accounting system on physical capital accumulation, which was subsequently transferred as policy models and policy advice to developing countries. Like others, Dudley Seers became very doubtful whether such an identification of development with GNP growth and of GNP growth with physical capital accumulation was the most relevant or the most important thing about economic development. Therefore, towards the end of his life, he extended Richard Stone's framework of national accounting through his publications on the life cycle, relating it more directly to poverty, to standards of living, to what we now call human

capital, to the human condition. It is quite in the spirit of this major contribution that towards the end of his life, he helped to lay the foundations for UNICEF to move to a more humane — and at the same time more productive — approach to the new adjustment problems of the 1980s.

Here we have an unbroken intellectual chain which leads from Keynes to Colin Clark, Richard Stone and Dudley Seers. But at the same time, in his last book Dudley Seers emphasises his differences from, rather than his links with, Keynes. He stresses that the conventional national accounting framework — and by that he means Keynes, Harrod, Domar and Colin Clark (but not Stone) — which now dominates the statistical and planning systems of so many developing countries, as well as industrial countries, is a case of the politicians and statesmen of today being the unknowing victims of some defunct economist. This is a way of turning the tables on Keynes — it refers to Keynes' famous statement made in the concluding sentences of the *General Theory* in trying to explain why the idea of the laissez-faire market automatically providing full employment was still so widely accepted in the minds of statesmen and the general public when he started writing the book. In that famous passage Keynes also spoke of 'madmen in authority', who believe they hear voices in the air but are really only repeating the ideas and writings of a defunct academic scribbler. Without mentioning him by name, Dudley Seers hoists Keynes on his own petard by saying that when thinking about national accounting we are still the victims of a defunct economist, i.e. Keynes.

Keynes' Ideas and Developing Countries

In a number of ways Dudley Seers complemented Keynes' work. Keynes himself was not particularly interested in the application of his *General Theory* to developing countries, about which he was not greatly concerned. As far as I know he never visited a developing country: indeed, even though his early career before the war was in the India Office, he never visited India. He was rather contemptuous about Third World participation at Bretton Woods, and there is no great evidence, apart from the problems of colonial finance, that he took any interest in what we now call development problems or developing countries. Keynes himself is therefore innocent of any attempt to apply his framework, directly or in adjusted form, to developing countries. That was a matter for his followers, particularly Harrod and Domar in their successful attempt to extend Keynesianism beyond short-term statics, and to convert it into a long-term and dynamic view, to show what happens to an economy after it has achieved full employment in the process of its subsequent growth. So it was those who followed Keynes, particularly in the 1950s, who tried to apply Keynesianism as such to conditions of

developing countries.

The moment this was done, immediate doubts arose whether this was a proper approach. Dudley Seers was among those who argued from the very beginning that this was not a proper approach — that the England of 1936 was 'a special case', different from that of the developing countries. He tried to develop a better model, which would suit the conditions of developing countries, by treating them as part of an international periphery — the centre/periphery view. Rather interestingly Dudley Seers then went a step further. In several quotations from his last book it is clear that his mind was moving in the direction of thinking that the insights that he or others had gained, in different ways, about the problems of developing countries, could be transferred back to the industrial countries, and would be very helpful in dealing with our own development problems. Such reverse transfers would include ideas of appropriate technology, the informal sector, the role of transnational corporations, dealing with depressed areas and economic inequalities, etc. Indeed, if Dudley had lived longer, I think he would have expanded this line of thought, applying the insights gained by studying development problems to the problems of industrial countries.

Let me now come back to something I said before about Keynes, i.e. that he was not interested in developing countries. It is true that his ideas as he put them forward in 1936 taken *superficially* were not relevant for developing countries. For instance, V. K. R. V. Rao, his favourite Indian student in Cambridge, on his return to India published a famous article in the *Indian Economic Review* in which he gave us all the reasons why, in spite of being a great admirer and loyal student of Keynes, he thought Keynes' views were not applicable to India. Rao gave four main reasons which are still important today, although they have since been added to, and in some cases questioned and amended. These four reasons were as follows:

First, the type of unemployment that is found in developing countries is so different from that in industrial countries that the problem is not job creation. Of course, it should be remembered that Rao wrote this in 1950, with India in mind, when India was still largely an agricultural country, and most developing countries were strongly identified with agriculture. So naturally he said that the prevailing type of employment is self-employment, either in agriculture or in what we now call the urban informal sector; hence the idea of job creation governing the approach to improved employment or full employment which Keynes put before us in 1936, is not applicable.

Secondly, Rao maintained that the problem in developing countries is not, as Keynes described it, a problem of effective demand, of demand deficiency. It is essentially a problem of supply inelasticity. The

problems are on the supply side. If you just try to inject additional demand you immediately come up against what we would call vertical supply curves, reflecting structural rigidities in supply, particularly in food production, the most important wage good. This makes it impossible to carry out Keynesian policies, which, Rao thought, would in India only lead to wild inflation without resulting in much increase in production.

The third (and clearly related) reason which Rao gave was that Keynes had argued his case in the midst of the world recession for an economy like England which had not only unemployed labour, but also ample underutilised capital and underutilised capacity in all industries. Therefore, the job of bringing unemployed labour and unused capacity together was much easier than the quite different task presented in developing countries. To put it in terms of the criticism subsequently made by Kalecki and Joan Robinson, Keynes thought he could solve the problems by purely financial tricks: 'turning stones into bread'. In developing countries, however, there may also be latent capacity underutilisation. Rao would probably be criticised today for denying the existence of such latent capacity. At the same time as Rao was writing in India, Ragnar Nurkse, in America, was showing perhaps more insight on this point. While he agreed with Rao that there may be no *open* unutilised capacity or unused capital of the type found in an industrial economy in recession (at least under normal conditions and in the absence of balance of payments constraint), there is nevertheless a lot of latent capacity, e.g. agricultural surplus population, which can be mobilised by the right policies, albeit not necessarily simply by a financial trick. Schumpeter thought that the development of entrepreneurship could do it. Other people thought improved technological capacity in developing countries could do it. Nurkse thought (Rosenstein-Rodan having blazed the trail here) that the big push or balanced growth could do it, perhaps by mobilising the latent power of reciprocal demand and external economics.

But at any rate, Rao, Rosenstein-Rodan, Nurkse and all the others who followed them would all agree that the situation is *different* in developing countries; what is needed is a more complex and difficult policy than the largely monetary and financial policies which Keynes suggested. Budget deficits, cheap money — these things would not by themselves do the trick in developing countries, as they might well do in industrial countries with unemployment.

Finally, the fourth point which Rao made very strongly, a point subsequently also modified in the development discussion, was that Keynes assumed that there was an ample supply of working capital to support an increase in production; this again was not the case in developing countries.

So at this *superficial* level (using the word not in a derogatory sense), one might say that Keynes was not very relevant to developing countries and that the critics, including Dudley Seers, of a transfer of simple Keynesianism to developing countries, were absolutely justified. But having said that, one or two important qualifications have to be made.

The Relevance of Keynes

The first qualification is that so far we have been talking only of the Keynes of 1936, the Keynes of the *General Theory*. When I said Keynes was not directly concerned with the problems of developing countries, there was one major exception to this. He was, since the 1930s, an ardent supporter of commodity price stabilisation, through intervention in international commodity markets. He followed up the *General Theory* with a 1938 article in the *Economic Journal*, advocating a policy of government storage of raw materials. In the middle of the war in 1942 when the war situation was very grim, he found the time to write a memorandum for the War Cabinet in which he said that the most important measure for the post-war world was the creation of an international commodity stabilisation agency. Then at Bretton Woods, he proposed the International Trade Organisation (ITO), as the third pillar of the Bretton Woods system, in addition to the World Bank and IMF. He had set his heart on this. Unfortunately the ITO was never ratified.

Keynes went a lot further: he wanted an IMF which would put pressure not on balance of payments deficit countries but on balance of payments surplus countries. This fitted in perfectly with his views developed for the domestic economy in the *General Theory*. He wanted a world currency that would be based on 30 primary commodities rather than on gold alone (gold would have been one of the 30) — not on sterling, not on the dollar, not on SDRs, but on 30 primary commodities, so that commodity stabilisation would be built into the world monetary system. In his vision of the world the balance of payments limitation for economic development, for economic expansion in developing countries, would be either eliminated or very much reduced, opening the way for his preferred inward-looking domestic expansion. So if you define Keynesianism by adding to the 1936 *General Theory* the 1938 article on commodity stabilisation and particularly Bretton Woods, then its relevance and applicability to economic development immediately becomes a lot more plausible.

But let me add that at an even more important methodological level, in spite of apparent or superficial reasons why Keynes was not particularly relevant or directly suitable for developing countries, the way of thinking which Keynes introduced into

economic analysis was also the foundation of development economics. Albert Hirschman, in his article 'The rise and decline of development economics', wisely credits Keynes with taking the decisive methodological step towards development economics by replacing classical mono-economics by duo-economics. Keynes was the creator of duo-economics. His duo-economic model was based on the proposition that when you have unemployment in an industrial economic system, the economic interactions and economic relations are fundamentally different from those of an economy in full employment. Hence the economic policies that are applicable to reduce unemployment and restore full employment are fundamentally different from those of running an economy at full employment level. All subsequent schools of development economics, even though they may not have accepted the precise Keynesian model and found (usually valid) reasons why it should not be directly applicable to developing countries derive from this decisive departure by Keynes that economics is not a doctrine of universal validity, as the classical economists more or less assume, but that there are different economic laws or principles leading to different economic policies for countries in different conditions. The present neo-classical counter-revolution is in essence a counter-revolution not against planning, protectionism etc., but against the principle of duo-economics and of a separate discipline of development economics — although it is, of course, perfectly possible for a genuine development economist to be in favour of liberalisation, against centralised planning etc.

A good example of this principle of duo-economics is Keynes' advocacy, already discussed, of stabilisation of primary commodity prices. For implicit in this view, fervently held by Keynes, is the idea that countries which depend on the production and export of primary commodities are subject to different laws and different trends and therefore require different treatment and different policies from countries which rely on the production and export of manufactured goods. As we know, this idea was readily taken up by Prebisch and others. Dudley Seers was, of course, one of 'the others', and during his work with Prebisch at ECLA the idea of duo-economics, in its sharp form of centre/periphery analysis, became firmly embedded in his thinking. His last writings, in fact, extended the duo-economic centre/periphery model to the industrial world and even to domestic problems within industrial countries, providing a link between development economics and the old concern about 'depressed areas'. Rather ironically, though, his thinking led him back to some new form of synthesis of mono-economics and duo-economics, with the industrial countries constituting a 'special case'.

Thus, although unemployment in developing countries is of a different kind, and requires different

approaches from Keynesian policies as prescribed in the *General Theory*, the idea of latent or disguised unemployment, not only of labour but of other resources, including capital, became a common element in early thinking about development problems and is still widespread today. Rather interestingly, both the adherents of the school of balanced economic growth and those of unbalanced growth can claim descent from Keynes. The policy of balanced growth is based on the idea that you cannot rely on the market because it does not take account of externalities, reciprocal demand and interaction between sectors. What is not possible on an individual enterprise or even sectoral basis becomes possible on an economy-wide or even better, global basis, through macroeconomic synchronisation. This provided the foundation for the tremendous popularity of development planning in the 1950s, derived directly from Keynes' *General Theory*. In this sense, he has been incredibly influential in developing countries.

With the benefit of hindsight, many of us are now more sceptical of the unqualified belief in planning, and more specifically of the centralised planning which the ideas of big push and balanced development imply. But the more general idea that development to an important extent is a matter of good macroeconomic management, and that specifically the government of a developing country has a great deal to contribute by adopting the right policies, by taking account of factors which individuals or individual enterprises cannot take account of, still commands mainstream support.

Similarly, and perhaps surprisingly, the opposite theory of unbalanced growth, which was also very influential in the formative period of development economics, can also claim links with Keynes. Keynes also tried to identify for the Britain of 1936 the key points where public policy could, through multipliers and interactions, have a maximum impact in pulling the whole economic system along with it. This idea of finding a leading element or leading sector, or bottleneck sector, releasing some latent resources which would otherwise lie idle has become a common endeavour of many development practitioners and economists. Some of the biggest success stories in economic development may be due to the correct identification of leading sectors, and effective action based on such identification. On the other hand, obsession with certain lead sectors, e.g. heavy industry, to the neglect of others, e.g. agriculture, is also held responsible for some of the failure. But our point here is that this also is a direct part of the Keynesian inheritance.

Seers' Criticisms of Keynes

There is one sense in which Dudley Seers took the

Keynesian analysis a good deal further. He was not alone in this, but he played a leading part. Let me come back to a criticism, of Keynes' work, which was already made in the 1930s, and even more so after the war when ideas of the Welfare State and income redistribution had become widespread, not only in the industrial countries, but also in the developing countries. That criticism alleges that Keynes was not particularly interested in human welfare, that he wanted economic growth mainly through the revival of physical investment; that he did not care enough what kind of investment ('digging holes and filling them up again'); or who would benefit from the investment; what would be the effect on income distribution; what would be the impact on poverty, on human welfare. There is some substance in such criticism; in the *General Theory* we do not find much explicit discussion of this. Against this, however, it can be argued that the very fact that Keynes picked out unemployment, which after all was the main cause of poverty in the 1930s, as the chief objective to be eliminated or reduced, shows a concern with poverty; and also that full employment in itself will contribute to more equal income distribution. But it is certainly true that other elements of Keynesian policy might increase inequalities of income distribution. He was quite ready to accept, or even advocate, a reduction in real wages of those in work as a necessary precondition for the reduction of unemployment. Certainly under his recipe for restoration of full employment the share of profits in national income would increase (as it does in related development strategies based on the absorption of 'surplus labour'). So, to the extent that Keynes was not directly concerned with welfare and income redistribution, Dudley Seers' emphasis on life cycles and social indicators represents an essential further development and correction of the Keynesian approach. In a way that was typical of him, Dudley developed his views not theoretically, but as a result of field experience in developing countries, particularly in the ILO

Employment Missions. This choice of moving from policy and reality to theory rather than the other way is, I think, also shared with Keynes, who, in spite of appearances to the contrary in the *General Theory*, essentially did not believe in the primacy of theory. His starting point was that the conventional classical view clearly conflicted with reality. He looked at reality, saw that it conflicted with theory, and then set about revising theory. Dudley Seers, in his move from concentration on growth and then employment in the era of the ILO Employment Missions, to basic needs, to poverty, to income distribution, was also influenced not so much by theoretical thinking but by his life experience, by what he observed. He then turned to revise the models with which he worked.

In this article I have certainly not exhausted Keynes' contribution to development thinking, nor Dudley's role, even in relation to Keynes, but I hope that at least some things which it contains will help to bring home to us again the loss we have suffered in his death.

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