

Development Theories

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Abstract

Development theories are about understanding how the processes of change in societies take place. Scholars from historically less developed parts of Europe, and from the colonial world, contributed to the construction of modern theories of development in the 1940s, stressing the role of the state. In contrast, critique from left-wing and liberal perspectives gave priority to the role of the market by the 1980s. Yet the apparent success of Newly Industrialized Countries supported neither for these two orthodoxies. Instead the East Asian story, together with reflection upon the failures of the Washington Consensus, inspired a renewal of development theory, recognizing the need for institutional diversity. The history of development theories suggests that specialists should resist pressures to embrace consensus, as no theory is immune to changes in social values or current policy problems.

Keywords: capability approach; structuralism; modernization; neo-liberalism; dependency theories; East Asian NICs; Washington Consensus; institutions.

Introduction: What development theories are about

The word “development” in the English language connotes such ideas as “unfolding,” “growth,” “the fuller working out of the details of anything,” and bringing out the potential that is latent in something (as in the case of an image that is latent within the chemicals coating a piece of old-fashioned film that must be “developed” in order to be revealed). All these ideas are relevant to the concept of development that has informed so much public policy over the last half-century and more, both in the “core” of industrialized countries and in the “periphery” of the erstwhile colonies that came to be described as the “less developed countries” (LDCs) of the “Third World.”¹ This concept, too, embraces ideas of “change” but also of “progress”—an idea which, in European thought, goes back to the philosophers of the Enlightenment, who found in it a rational basis for ethical judgment. “Right action” may be understood as action that is conducive to the “progress” of people and society. The idea of “development,” then, in relation to societies, implies a process of change to what is, in some sense, a more “advanced” state. Development theories, therefore, are about understanding how this process takes place.

Of course the idea of a process of change to a more advanced (or “progressed”) state raises the question of what we understand by “advance” or “progress.” The simplest way of understanding

these ideas, and the one that has informed so much of what has been done in the interests of “international development” since about 1945, is in terms of “increasing wealth” or economic growth, which is measured in terms of changes in gross domestic product (GDP). Over the past half century, growth of GDP has become ever more of an obsession of nation states. A whole new branch of economics—development economics—was set up to explain how economic growth comes about,² and there is a great deal of both theoretical modeling and empirical analysis upon the subject (see Kenny and Williams 2001). Some economists, however, argue that there is no need for a distinct body of theory about “developing economies,” since the general principles of economics apply universally—and one of them, Deepak Lal, wrote an influential pamphlet entitled *The Poverty of Development Economics* (1983), to which we will have occasion to refer again.

The notion that “development” is synonymous with “economic growth” has, however, been subjected to severe criticism. By far the most significant is that of Amartya Sen, who has argued that “commodities”—the production of which is a major part of economic growth—are only of value to us in terms of what they allow us actually to do. Sen advocates that we should think about development rather in terms of people’s capability to achieve those things that they have reason to value: “The focus here is on the freedom that a person actually has to *do* this or *be*

that—things that he or she may value doing or being” (Sen 2009: 231, emphasis added). It is inherent in this approach that freedoms, both the “negative” freedoms—being free from unjustified coercion, and freedoms of speech and expression, of association, and of movement—and the “positive” freedoms, which have to do with what makes it possible for people actually to enjoy their freedom (including the material [commodity] means for this), are of fundamental importance. According to this view, therefore, development “can be seen as a process of expanding the real freedoms that people enjoy” (Sen 1999: 3).

Going back to the idea of development in the sense of “to realize the potential that is latent in something,” we may understand international development as meaning the creation of conditions that make it possible for people to realize their potential as human beings, or to live full human lives that they value. This is very close to what the first prime minister of independent India, Jawaharlal Nehru, said early in 1947. Referring to the tasks that lay ahead for the new country, Nehru spoke of the need “to give every Indian the fullest opportunity to develop himself according to his capacity.”³ And while individuals may differ widely concerning the capabilities they value, it seems reasonable to suppose that most of us value life itself, good health, and at least basic education (and these surely are essential if “every person is to be given the fullest opportunity to develop herself according to her capacity”⁴). Though these values are of course

not entirely independent of wealth (and of economic growth), neither are they reducible to it. They are sought through in measures of “human development,” considered further below.

Whether conceived of in terms of economic growth or of capabilities, however, the idea of development in human societies postulates a process whereby “traditional,” primarily agrarian societies shift from pre-modern institutions (such as feudalism, patrimonialism, and patriarchy), in which freedoms are constrained in various ways, to “modern” ones that are intended to supply those freedoms. There remains much debate about just what constitutes the optimal set of institutions, and this is at the heart of development theorizing. Development theories, which are about a complex process of becoming amongst human beings, are inherently normative and inescapably teleological.

In the remainder of this chapter I will explain the development of development theories historically, emphasizing what I see—following Edwin Brett (2009)—as the big cleavage between a range of “structuralist” theories, which in one way or another stress the role of the state, and liberal and recently neo-liberal theories that give priority to the role of the market. Latterly there are indications of the resolution of the long-standing tensions between these great

meta-theories, in the form of pluralist institutional theories that pay more attention to context, and that at least promise to advance the objective of “development as freedom.”

The roots of development theories

The message of the preceding section of this paper is that development is not just a matter of economic growth: the way the economy is organized and the productivity of economic activity are also unquestionably of central importance in any consideration of development. Development theories have to be concerned with economic development, even if not with economic development alone.

Theorizing about development did not begin in the middle of the twentieth century, and we may look for the roots of contemporary development theories in the work of classical economists such as Adam Smith, in that of Marx and Engels, or in that of Friedrich List, who, writing in the 1840s, was critical of Smith and advocated state intervention to ensure national prosperity.⁵

Another earlier theory that influenced some more recent development thinking was that of the economic nationalists in India (notably Dadabhai Naoroji and R. C. Dutt) who argued that India

was being systematically impoverished—or actively “*underdeveloped*”—by colonial rule. Their ideas influenced the later formulation of “dependency theory,” largely through the more direct influence of Paul Baran’s *The Political Economy of Growth* (1957), in which they are referred to. Born in present-day Ukraine, Baran was one of a number of remarkable scholars—born in Russia or in Eastern Europe or as German Jews—who emigrated to the West in the 1930s and 1940s, and whose work constitutes much of the foundation of modern development theory. They include, as well as the Marxist Baran, such scholars as Alexander Gerschenkron (born in Odessa), Albert Hirschman (born in Berlin), Paul Rosenstein-Rodan (born in Krakow), Ragnar Nurkse (born in Estonia), Hans Singer (a German Jew), and Karl Polanyi and Friedrich Hayek (both born in Vienna, in the Austro-Hungarian Empire). We may speculate that for some of them, at least, it was their observation and experience of economic backwardness, especially when compared with what they came to know in the West, that prompted their interest in economic development, or their experience of the mid-twentieth century world crisis that led to their desire to contribute to the post-war construction of a more secure world. Other important figures are from countries that experienced colonial rule, such as Arthur Lewis (later Sir Arthur Lewis), an economist from Saint Lucia in the Caribbean, and Raul Prebisch, an Argentine economist who headed the United Nations’ Economic Commission for Latin America (ECLA) in the 1950s.

The scholars whose names I have listed, and others, all made significant contributions to thinking about the great problems of economic and social reconstruction in the aftermath of the Great Depression and the ensuing world war. This took place in the context of the emerging contest between the two great superpowers of the end of the Second World War, the United States and the Soviet Union. The two powers offered their competing visions of progress: what the historian Arne Westad has called “the empire of liberty” of the United States, which championed liberal values, and “the empire of justice” of the Soviet Union, which stood for equality (Westad 2005). Both were led by their ideologies to seek to bring about the end of colonialism, and then to foster the remaking of the former colonies of the European powers in their own images. This led, in turn, to the many disasters of Cold War interventions in Africa, Asia, and parts of Latin America, in which international development policies often played a part (as Robert Bates has crisply explained, 2001).

The many, somewhat different arguments about development of the mid-twentieth century do not map at all perfectly onto the political differences of the Cold War. It was only after 1978–79, after the development efforts of the period from the late 1940s to the 1970s had reached an impasse, that economic liberalism reasserted itself (Harvey 2005). Now, with the advantage of

hindsight, we can discern an era in which “structuralist” theories, emphasizing the role of the state and of planning, were pre-eminent, followed by the ascendancy of liberalism—coinciding in part with the demise of the Soviet Union.

The sharply opposing views of two men who were both active in Vienna in the 1920s before finding refuge in Britain, Friedrich Hayek and Karl Polanyi, represent the fundamental cleavage in development theory. Both men published great works towards the end of the Second World War, in 1944. Hayek’s book *The Road to Serfdom* argues that all forms of collectivism—whether those of the Soviet Union or of Nazi Germany—lead inevitably to tyranny, because of the faulty logic of central planning. The book has come to be regarded by some as a foundational statement of the case for economic liberalism, though this accolade should rather be awarded to Hayek’s later work, *The Constitution of Liberty* (1960). Polanyi’s *The Great Transformation: The Political and Economic Origins of Our Times*, on the other hand, is a powerful critique of economic liberalism. Polanyi argues that the idea of the self-regulating market—“the market” of mainstream economic theory—is utopian, because it requires that labor, land and money all be treated as commodities, which they are not. “Labor” is nothing other than the activity that is essential to our humanity; “land” refers to the natural environment; and “money” is a medium of exchange. The first attempts (in nineteenth-century Britain) to implement the principles of

economic liberalism and to make a reality of the self-regulating market provoked a counter-movement as some people resisted the commodification of their labor, others resisted the commodification of nature and struggled for the protection of agriculture, and in the end states were led to intervene to protect businesses against the effects of treating money as a commodity, as it was under the gold standard. *The Great Transformation* shows how the tensions and contradictions driven by these moves and counter-moves over the self-regulating market economy (what Polanyi calls “the double movement”) finally saw the rise of fascism and communism in Europe, and of Roosevelt’s New Deal in the United States, and how they account for the world crisis of the early to mid-twentieth century.

The year 1944 also saw the holding of the Bretton Woods conference at which the Western nations, headed by the United States, that were by that time gradually winning the world war sought to establish the principles according to which the international economy would be managed after the war. Like Polanyi, the principal architects, Harry Dexter White of the U.S. and Maynard Keynes of Britain, were in no doubt that governments would have to assume much more direct responsibility for domestic social security and for economic stability than had been the case before (*contra* the strict principles of economic liberalism). There were, says John Ruggie, “differences amongst the industrialized countries concerning the forms and depth

of state intervention . . . not the legitimacy of the objective” (1982: 394). Bretton Woods saw the foundation of what Ruggie calls “embedded liberalism”—and the beginning of an era of unprecedented economic growth internationally.

Polanyi, writing before the Bretton Woods agreements, argued (partly anticipating Sen) that “the passing of market-economy [the would-be self-regulating market] can become the beginning of an era of unprecedented freedom. Juridical and actual freedom can be made wider and more general than ever before; regulation and control can achieve freedom not only for the few but for all.” He feared, however, that “the path [is] blocked by a moral obstacle. Planning and control are being attacked as denial of freedom [as they were by Hayek]. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free” (Polanyi 1944/2001: 265). But the Bretton Woods agreements proved his pessimism unfounded, and for many years the arguments of economic liberalism only lurked “in the wings of public policy” (Harvey 2005: 19). They were fostered, however, by the members of the Mont Pelerin Society who gathered around Hayek after 1947, and neo-liberal thinking became increasingly influential academically, especially at the University of Chicago. Hayek won recognition as the recipient of the Nobel Prize for Economics in 1974; and neo-

liberalism finally emerged from the wings of public policy at the end of the 1970s, as we shall discuss (and see Harvey 2005).

State first: structuralist theories dominant

In the 1950s and '60s, however, the centrality of the role of the state and the need for the regulation of markets was hardly questioned. It was generally understood that economic development must involve industrialization, following the path beaten first by Great Britain and then by other Western European countries, Russia, and the United States.

Alexander Gerschenkron's reflections on this process in his essay "Economic Backwardness in Historical Perspective" (1962, original essay written 1951), in which he analyzed especially the experiences of France, Germany, and Russia in the wake of Britain, suggested, however, that the development of a backward economy might differ considerably from that of the now "advanced" economies. There could even be advantages for late industrializers because they might be able to leapfrog into more technologically advanced sectors, by learning from and imitating the pioneers. Gerschenkron, like other pioneers of development economics, emphasized the centrality of capital as the necessary means of overcoming the technological gap confronting the

“backward” nations, and argued that state intervention compensated for inadequate supplies of capital, skilled labor, or entrepreneurship in the later developers. Indeed, in later elaborations of his thinking Gerschenkron argued that “the greater the degree of backwardness, the more intervention is required in the market economy to channel capital and entrepreneurial leadership to nascent industries” (Fishlow 2003)—and he thought, too, that this would probably involve higher levels of coercion.

In this period, therefore, as Colin Leys has argued, “the goal of development was growth: the agent of development was the state and the means of development were [national economic planning in the context of the macroeconomic policy instruments established at Bretton Woods]. These were the taken-for-granted presumptions of ‘development theory’ as it evolved from the 1950s onwards” (Leys 1995: 7). The growth models adopted by development economists assumed a central role for capital accumulation. This was the case, for example, in the model of “economic development with unlimited supplies of labor” developed by Arthur Lewis (1954), which also assumed that the opportunity cost of the shift of labor out of agriculture would be zero; in Ragnar Nurkse’s balanced growth theory; in the Harrod—Domar model, which posited a linear relationship between investment levels and growth rates; and in Walt Rostow’s theory of the stages of economic growth (1960), which was, for a time, probably the most influential single

theory of development. In the context of the Cold War, it was significant that Rostow's book was sub-titled "an anti-communist manifesto:" his was emphatically a right-wing version of structuralist theory.

It was generally thought, too, in this period, as it was in the Economic Commission for Latin America, headed by Raul Prebisch, that development had to be based on what came to be known as "import substitution industrialization" (ISI). Towards the end of the 1940s, Prebisch and Hans Singer advanced similar theories that were critical of the economic orthodoxy of the time. What later became known as the Prebisch–Singer thesis holds that there is a tendency over the long-run for the terms of trade for primary commodities to fall. In other words, left to themselves, market forces would lead to ever greater inequity between the manufacturing economies of what Prebisch began to call the "core," and the primary commodity producers of the "periphery" within the international economy. The further implication was that developing countries would be advised to diversify their economies by developing their domestic markets, and through industrialization, by requiring that their states take on an activist role. Their infant industries had to be guided through licensing, promoted through subsidies and other industrial policy measures, and protected from important competition through tariff barriers and quantitative restrictions (quotas). Such import substitution policies were generally pursued in

Latin America and in India, in particular, though the emphasis in the latter case—particularly in the period of the Second Five Year Plan (1956–61), also known as the “Mahalanobis Plan,” from the name of the great statistician who was its principal architect—was somewhat different because of a focus on the development of heavy industry and the manufacture of machinery rather than on the production of consumer goods. However, in India and in other countries that pursued ISI, agricultural development was generally neglected. It was widely thought that in Asia and Latin America agricultural productivity would be enhanced by redistributive land reform, that is, by taking land away from relatively inefficient landlords and giving it to more efficient small family farmers (Lipton 2009). But such reforms proved to be politically infeasible except in China, after the revolution there, and in South Korea and Taiwan, with support from the United States. Elsewhere, however, as in Guatemala in 1954, the United States opposed governments that promised land reform because they seemed to be left-leaning and too sympathetic to communism.

The arguments of the development economists came to be linked with social and political theories about the process of “modernization,” which the Comparative Politics Committee of the American Social Sciences Research Council adopted as a strategic term—reflecting opposition to communism—in the context of the Cold War.. In essence, modernization theory held (as did

Rostow in his model of the stages of economic growth) that societies must pass through similar stages to reach an end state not unlike the mid-twentieth century United States. This was a society of “high mass consumption” (in Rostow’s terminology) that was politically liberal and economically efficient because it relied on principles of meritocracy, that is, on allowing people to achieve according to their abilities rather than compelling them to conform to “traditional” roles ascribed to them by virtue of their position in their family, tribe, or other kinship group. These ideas were perhaps as much ideological as theoretical. Insofar as modernization theory postulated a causal mechanism that would drive the movement of societies through the various stages, it was the idea that it would come about through changing values—for example, from “ascription” to “achievement,” or values of entrepreneurship.

Criticism from the left and the faltering of structuralism

Modernization theory came to be subjected to withering criticism, especially from scholars who, influenced in part by the work of Prebisch’s Economic Commission for Latin America, argued that the relationships in the international economy between the centre and the periphery led to the systematic underdevelopment of the latter. The book that most strongly influenced studies of

development in the late 1960s, and established “dependency theory,” was Andre Gunder Frank’s *Capitalism and Underdevelopment in Latin America* (1967), an excoriating critique of modernization theory. The whole flimsy edifice rested, Frank argued, on ignorance of history and of how capitalism works on a world scale. The assumption that the past and present of the so-called “underdeveloped countries” are like earlier stages in the history of the now-developed countries is fundamentally wrong, and the latter never were *underdeveloped*, even if they might once have been *undeveloped*. “Contemporary underdevelopment is in large part the historical product of past and continuing economic relations between the underdeveloped (*dependent*) satellite and the now developed metropolitan countries” (Frank 1967). And in the context of his understanding of international capitalism, Frank appeared pessimistic about the prospects for the poor countries. It seemed that the only hope for them would be to disengage from the international system and pursue a socialist path under conditions of autarky.

Even as Frank’s ideas were sweeping through universities elsewhere in the world,⁶ however, they were being subjected to criticism within Latin America, as Gabriel Palma explained in what remains the best review of dependency theories (1978). Palma saw Frank’s conception of capitalism as unhistorical, and his theory mechanical. In the same year that Frank’s *Capitalism and Underdevelopment* was published, there appeared a book by the Brazilian sociologist

Fernando Henrique Cardoso and the Chilean historian Enzo Faletto, *Dependencia y Desarrollo en America Latina* (1967), which was finally published in English (in 1979) as *Dependency and Development in Latin America*. Cardoso and Faletto, who drew more directly than Frank on the work of Prebisch's ECLA, argued that there is “no single or inevitable specific form of dependency” and that there is “space for agency within the global political economy.” Their emphasis “was on the variability of the forms of integration into the world market and on the existing alternatives for the countries’ economic growth even when in situations of dependency” (quotations from Cardoso 2009: 298). Countries in the global periphery were not necessarily condemned to underdevelopment, as Cardoso helped to demonstrate, years later, as President of Brazil from 1995 to 2003.⁷

As this criticism of the orthodox development theory of the 1950s and 1960s gathered momentum, the experience of the developing countries, too, began to reveal the limitations of that orthodoxy. The many countries that had tried to plan industrial development behind protective trade barriers had begun to experience great difficulties in continuing to finance their investments (as was the case in India), and the industries that had been set up were generally run very inefficiently. Raul Prebisch, by this time, criticized Latin American countries for excessive protectionism. At the same time it was recognized—notably in the report on international

development commissioned in 1968–69 by the World Bank and chaired by former Canadian prime minister Lester Pearson—that successful economic growth had done very little to reduce poverty.

Consequently, in the 1970s the focus of development theory shifted to the problem of tackling poverty. The approach taken was that of *Redistribution with Growth*, as in the title of a study undertaken by economists from the World Bank and the Institute of Development Studies (Chenery et al. 1974). This work argued the importance of targeting development efforts on both smallholder agriculture and activities in what had by now, thanks to the work of an anthropologist, Keith Hart, come to be referred to as the “informal sector” (Hart 1973): the many small businesses and enterprises that fall outside most of the regulations of the state and in which, in most “developing” countries, the great majority of the labor force is employed (or, very often, self-employed). Development policies began to be focused as they had not been before on agriculture and rural development (the subject of an influential sector paper published by the World Bank in 1975), and some economists began advocating an “agriculture and food first strategy for economic development” (for a review, see Mellor and Johnston 1984). By this time the adoption from the later 1960s of modern varieties of the major cereals⁸—wheat, rice and maize—in what came to be called the “green revolution” (because it seemed to have the potential

to head off the possibility of “red revolution”) had begun to have a positive impact on the productivity of agriculture, at least in Asia and Latin America, if not in Africa, and Mellor and Johnston sought to show how the forward and backward economic linkages from this more productive agriculture had the potential to drive growth through the economy as a whole.

However, by the time these various ideas for reforming the structuralist orthodoxy had begun to be discussed, a major economic policy shift was taking place, influenced by neo-liberal thought. The great shift in development thinking can be seen, in retrospect, reflected in particular in the World Bank’s report on *Accelerated Development in Sub-Saharan Africa* (commonly known as the *Berg Report* from the name of its author; World Bank 1981) which attributed the failures of development in Africa to “inappropriate state dominated policies” that had led governments to take on more than they could handle, distorted economic incentives, and created all manner of possibilities for unproductive rent-seeking. The pendulum in development theory now swung emphatically away from the ideas that emphasized the necessity for state intervention to those that argued for minimizing the role of the state so as to allow market forces to do their work of driving greater economic efficiency.

Even as the pendulum swung, however, it was being more widely noted that some “developing countries” in East Asia, the two states of South Korea and Taiwan, and the city states of Hong Kong and Singapore had been growing very fast indeed. They came to be known as the “Asian Tigers” or “East Asian NICs” (newly industrializing countries), and by 1986 their success had led Nigel Harris, in a book with this title, to announce *The End of the Third World*. Scholars began to turn their attention to explaining the developmental success of South Korea and of Taiwan in particular, and an answer was found in the idea of “the developmental state,” articulated by Gordon White (1988). White and others drew their inspiration from the work of Chalmers Johnson (1982) on the role of the government, particularly through the Ministry of International Trade and Industry (MITI), in the Japanese “economic miracle” of the post-war period—an argument that was altogether opposed to the new neo-liberal orthodoxy. We will return to the critique of neo-liberalism that is inherent in the story of the NICs and of the “developmental state.”

Market first: neo-liberalism ascendant

“Events, dear boy,” was how British prime minister Harold Macmillan once described the progress of history. In the history of international development, two events of great importance took place in the 1970s: first, the decision by the Organization of Petroleum Countries (OPEC) to raise oil prices after the Arab–Israel war of 1973; second, the so-called “Volcker shock” of October 1979.

The first greatly increased the revenues of the petroleum-producing countries, and the recycling of their dollars made for a period of easy credit for developing countries. But then Paul Volcker, as Chairman of the U.S. Federal Reserve, brought about a major change in U.S. monetary policy by raising interest rates in an effort to tackle the long-running problems of the U.S. economy (Harvey 2005:1). This decision threatened to push some countries into default, and a major debt crisis was announced in Mexico’s default on its debts in 1982–84. In this context, in order to secure assistance with rescheduling their debts, countries were required by the international finance institutions to implement major reforms of economic policy, involving cuts in public expenditure, liberalization, and privatization. The International Monetary Fund and the World Bank embarked on a new approach to economic development with the introduction of programs for economic stabilization and structural adjustment, intended to reduce the role of the state and ensure the implementation of liberal policy.

But ideas matter, too, and this was the moment of Lal's *The Poverty of Development Economics* (1983), which was greeted by *The Times*, then still London's most respected newspaper, as marking an intellectual counter-revolution (Toye 1985). Lal asserted the universality of the rational economic behavior of the standard economics textbook against the idea of the need for some special branch of economics for developing country contexts, and launched an attack on what he labeled as the "dirigiste dogma" that originated with Keynes. "Dirigism" holds, Lal argued, that the price mechanism must be replaced by extensive government controls; that such controls are essential if poverty is to be reduced; and that arguments for free trade are not valid for developing countries. All this, he held, is demonstrably wrong. The best advice economists can possibly give to the governments of developing countries is "get the prices right," and this was indeed the advice the World Bank gave in the 1980s.

It is a matter of later history that the World Bank's own research demonstrated, by the end of the 1980s, that structural adjustment programs were having mainly negative effects. Much of sub-Saharan Africa experienced a "lost decade" as a result (Mkandawire 2004). So the "new orthodoxy" of development theory was coming undone even as it was influentially described as "the Washington Consensus," on the desirability of fiscal discipline, competitive exchange rates,

trade liberalization, deregulation, privatization, and the restriction of public expenditure to a narrowly defined set of public goods (Williamson 1990). It was, as Joseph Stiglitz has said, “the modern day version of liberal orthodoxy”—and in his view, as a sometime Chief Economist of the World Bank and winner of the Nobel Prize for Economics, it has had similar negative outcomes (Stiglitz 2002).

It was at this time, in the early 1990s, that an important debate took place over the “developmental states” of East Asia. The policies pursued by South Korea had been compared very favorably by Deepak Lal to those of India. South Korea, Lal argued, was characterized by free trade and the absence of government controls. A different story emerged from Alice Amsden’s more detailed work (1989) on the Korean experience, and from that of Robert Wade (1990) on industrial policy in Taiwan. These writers showed that the governments of these East Asian states had intervened extensively, often to “get the prices wrong,” so as to promote particular industries. They had made selective use of trade restrictions, as well as encouraging export competitiveness. But both governments imposed strict performance standards on the industries and the companies that they aided. Their developmental success appeared to be based politically on regimes that were distinctly authoritarian (rather as Gerschenkron had anticipated), with competent economic ministries (comparable with Japan’s MITI) that were

embedded in networks with private industry, but insulated by politicians from selective lobbying by the private sector. They were regimes that combined carrots and sticks with regard to labor, ensuring labor discipline but also that labor benefited from economic growth. They were what Atul Kohli calls “cohesive capitalist states” (Kohli 2004; and see also Evans 1995).⁹ Yet the notion that the success of the East Asian states was to be explained essentially as being the result of “export-oriented industrialization” in the context of liberal economic policies died hard. The World Bank set up a study in the 1990s that was supposed to demonstrate this case. In the end, however, partly because of objections from the Government of Japan (which provided funding for the study but did not recognize its own experience in this story), the book that resulted was much more in line with what Amsden and Wade had argued (on this story, see Wade 1996). In other words, the story of the East Asian NICs provides support neither for the development orthodoxy of the 1950s nor for the new orthodoxy of the Washington Consensus. But it does show that there may be a very good case for state intervention in the context of late development.

The role of the state was also recognized in the work carried out under the aegis of the United Nations Development Program (UNDP) in calculating an index of “human development,” starting in 1990 with the first of what is now a long series of *Human Development Reports*. The index, which takes account of life expectancy and basic education as well as income per head, is

a crude but robust reflection of Sen's capabilities approach, and it was devised explicitly as a counter to GDP as a measure of development (Sen 2006). It was also part of a counter-move to the Washington Consensus by a group of economists who sought, at least, to give adjustment "a human face" (Cornia, Jolly, and Stewart 1989). Their influence may have been reflected in the shift away from adjustment programs by the World Bank to a renewed focus on poverty reduction and then to the introduction of the instrument of poverty reduction strategy papers (PRSPs) by the end of the 1990s.

From crisis in development theory to a new synthesis?

Edwin Brett (2009) argues that by the 1990s development theory was in crisis, given the practical failures of both structuralism and of liberalism, and the fact that many developing countries, particularly in Africa, were experiencing violence and civil war (for reasons which are considered by Bates 2001, 2008). Both the evidence of state failure in some parts of the world and the experience of the failure of structural adjustment brought renewed attention to the role of the state. The World Bank published a significant paper on good government in 1992, highlighting the importance of transparency and accountability, as well as sound macro-

economic and public sector management. This was followed by an issue of the annual *World Development Report* devoted to “The State in a Changing World” (World Bank 1997). These publications reflected the recognition that the state could be “rolled back”—as the neo-liberals had wished—only so far. As the Bank said, “Development without an effective state is impossible . . . an effective state—not a minimal one” (1997: 18), though it went on to say that the role of the state should be facilitative rather than directive, and that it should complement markets rather than trying to replace them. This is what came to be called the “post-Washington Consensus” on the need for a balance between the market and the state, recognizing that there are market failures as well as state failures, and assigning a significant role in governance to civil society. It is a consensus that is predicated on the view of the indispensability of liberal capitalism (Fine et al. 2003). It has also become rather muddled up with the policy idea that it is possible for outsiders to “build democracy” in other parts of the world, which has generally had poor and sometimes disastrous results (Fukuyama 2004); and in its advocacy of the roles in civil society of voluntary association and social capital, it has been found by some scholars to have the effect of depoliticizing development by suggesting that there are technocratic solutions to what are fundamentally political problems (Harriss 2001). For Brett, however, it points the way towards what he sees as a renewal of development theory that draws on the recognition of the need for institutional diversity, in a new paradigm: “liberal institutional pluralism” (2009: 7).

Brett's conception of a new synthesis that has renewed development theory rests on the turn in economics and across the social sciences to the analysis of institutions (Harriss, Lewis, and Hunter 1995; Hall and Taylor 1996), which embraces both macro- and micro-levels of analysis. "Institutions," in this extensive literature, are understood as the rules, norms, and conventions that must exist for social life to be possible, and which both constrain and provide incentives for human action. The "macro" level of research includes that on the institutional conditions for successful economic growth by such scholars as Douglass North (1990; and North et al. 2009), and Daron Acemoglu, Simon Johnson, and James Robinson, who find that "economic institutions encouraging economic growth emerge when political institutions allocate power to groups with interests in broad-based property rights enforcement, when they create effective constraints on power-holders, and when there are relatively few rents to be captured by power-holders" (2005, abstract). One of the problems that has been pointed to in some of this work is that different institutions may have similar outcomes while the same institutions give rise to different outcomes in different contexts (Rodrik 2008, especially chapter 6). There are some serious questions, therefore, about how far the recent mantra in development thinking that "institutions matter" is helpful in development policy making.

The “micro” level of institutional analysis is about what makes organizations function effectively, and this may in the end be more fruitful (as indeed Brett’s analysis suggests). One valuable empirical study is by Judith Tandler (1997), who draws on recent research on industrial work and performance in analyses of how the quality of government and the delivery of public services were improved in one of Brazil’s more backward states (Ceara, in the northeast). The case provides some material for the general argument advanced by Lant Pritchett and Michael Woolcock (2004) for thinking through the possible institutional solutions to the delivery of different sorts of public services, depending on the number and intensity of the transactions they involve and the extent to which their provision calls upon the judgment and discretion of the providers. This kind of analysis is a long way, perhaps, from grand theories about development, but such “middle-range” theory may be much more useful in helping to improve the way both states and markets work towards improving human well-being.

Conclusion

There is much, of course, that I have been unable to cover in this short review. In particular, I have not discussed various “alternative” theories of development, nor the work of the

influential thinker Robert Chambers (on whose work see Cornwall and Scoones 2011), or the vein of “anti-” or “post-development” thinking, perhaps most strongly reflected in the work of Arturo Escobar (1995), which holds that an alternative is to be found in support for social movements that reject the concept of development altogether as a Western project. It is not at all clear, however, that the members of such movements do reject the concept—if it connotes the expansion of human freedoms, as Sen suggests it should.

Finally, the trajectory of development theories as I have analyzed it here seems to reach one important conclusion: namely, that we must recognize the limits of theory. The economists Kenny and Williams, for example, conclude their review of economic growth theory and of the empirical analysis of growth (drawing on quantitative modeling based on large-*n* cross-country studies) by arguing that there is really no substitute for the specific historical analysis of different cases that takes account of circular and cumulative causation (2001). Such analysis reveals that the same factors have different implications in different contexts. The importance of contextual knowledge is also emphasized by Fukuyama (2004). We should heed the words of an eminent economic historian, the late Phyllis Deane, speaking before the Royal Economic Society in 1982 (and cited by Toye 1985: 4):

The lesson that we should draw from the history of economic thought [*and, I would add, of development theories – J.H.*] is that economists [*and others, of course – J.H.*] should resist the pressure to embrace a one-sided or restrictive consensus. There is no one kind of economic truth which holds the key to fruitful analysis of all economic problems, no pure economic theory that is immune to changes in social values or current policy problems.

¹ The idea of the “Third World” held connotations of the French *tiers état*, or “third estate,” referring to the mass of the people, and implied the idea of “the people” on a world scale—those who had been oppressed by colonial rule.

² There are many texts on development economics. A classic is Gerald M. Meier’s *Leading Issues in Development Economics* (7th Edition [with James E. Rauch], New York: Oxford University Press, 2000).

³ Jawaharlal Nehru, in a speech before the Constituent Assembly of India, January 22, 1947.

⁴ The obverse of development in this sense in globalizing India is powerfully reflected in Katherine Boo’s poignant study of a Mumbai slum in *Behind the Beautiful Forevers: Life, Death, and Hope in a Mumbai Undercity* (New York: Random House, 2012).

⁵ Friedrich List, *The National System of Political Economy*, 1841.

⁶ Dependency theory was extended, too, from the analysis of Latin American experience to that of other parts of the world. See, for example, Walter Rodney, *How Europe Underdeveloped Africa* (London: Bogle l’Ouverture Publications, 1972).

⁷ The work of Cardoso and Faletto is considered in the context of globalization in a special issue of *Studies in Comparative International Development*, Vol. 44, No. 4 (2009).

⁸ The introduction of the modern or high-yielding varieties provided an answer to what the economist Theodore Schultz had argued for in an influential book, *Transforming Traditional Agriculture* (New Haven: Yale University Press, 1964).

⁹ The best explanation for the rise of the development states of East Asia, and for the limits of their followers in Southeast Asia, is provided by Richard Doner, Bryan Mitchie, and Dan Slater in “Systemic Vulnerability and the Origins of Developmental States,” *International Organization*, 52(2) (2005): 327–61.

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