

Development of Development Thinking

SUKHAMOY CHAKRAVARTY

KALE MEMORIAL LECTURE, 1988

GOKHALE INSTITUTE OF POLITICS AND ECONOMICS,
Pune 411 004

Prof. Chakravarty acquired his early training in Economics and Mathematics at Calcutta and at Netherland Economics Institute, Rotterdam with Prof. Jan Tinbergen and then at MIT. His first book entitled, *The Logic of Investment Planning* critically examined a number of growth and planning models from the view point of logical issues which are involved in the problem of investment planning. Prof. Sukhamoy Chakravarty's early work was in the areas of optimal programmes of capital accumulation.

He has also written extensively on the question of economic development and planning. Some of his recent writings in these areas include *Aspects of India's Development Strategy for the 1980's* and *Development Planning - The Indian Experience*. He delivered the R.C. Dutt Memorial Lecture of 1980.

Prof. Chakravarty has held many important academic and professional positions throughout his illustrious career. He started his career as Assistant Professor at MIT. However, soon he returned to India. He has been a Professor of Economics at Delhi School of Economics since then. He has held visiting positions at Harvard, Johns Hopkins and University of Cambridge at various times. He is Fellow of the Econometric Society and was a member of the Council of the Econometric Society during 1965 to 1971. Currently, he is Vice-President of the International Economic Association and President of the Indian Econometric Society. He was a member of the Planning Commission from 1971 to 1977. He was the Chairman of the RBI Committee to review the working of the Indian Monetary System. He has been Chairman of Economic Advisory Council to the Prime Minister since 1983.

His more important publications are : *Logic of Investment Planning* (1959); *Optimal Growth Paths for Finite Planning Horizons* (1967); *Capital and Development Planning* (1969); *Mathematical Framework for the Third Five-Year Plan* (1969); *Alternative Approaches to a Theory of Economic Growth : Marx, Marshall and Schumpeter* (1982) and *Aspects of India's Development Strategies for 1980's* (1984).

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Development of Development Thinking

Sukhamoy Chakravarty

I

I have chosen the topic 'Development of Development Thinking' as the theme of my lecture on this occasion. I have chosen this subject for various reasons. This is because, there has been a great deal of debate in recent years on the subdiscipline called 'development economics' creating a great deal of confusion.

Debates have ranged over very broad areas. At one end, the very meaning of development has been subjected to a close scrutiny. Professor A.K. Sen has devoted a great deal of his recent work in directing our attention away from a 'commodity-centered' approach to an approach based on 'capabilities' and entitlements. The use of gross national product per capita as an index of development had already been much earlier criticized with great cogency by Dudley Seers, among others. Sen's work carries this line of criticism further. At the other end, debates have also surfaced as to the suitability of development centered analysis as a suitable subject for policy analysis. It has been held that development by its nature has an unpredictable and novel element about it. It cannot be reduced to a unidimensional analysis, with numerically specified coordinates as classical writers had assumed to be the case. If a more comprehensive basis of the development process is adopted, then policy decisions cannot be taken on merely economic considerations. We have to go beyond the scope of economic analysis and theory. This instrumental approach is not suitable. Only an approach based on 'intuition' is possible.

These two fundamentalist lines of criticism apart, there have been several criticisms with a more limited focus. Amongst these 'intermediate range' criticism, there are two which deserve special mention. First, there has been criticism (and to a certain extent legitimate criticism) that much development economics, even within its own defined scope, does not usefully isolate the more important causal forces which are in action. They work with model sequences which are either extrapolations from

certain well investigated cases which are basically limited in their historical scope or much worse, purely arbitrary constructions. The so called 'take off' analysis of Rostow has been held up as an example of the first kind of reasoning whereas the so called Harrod-Domar model which emerged as a consequence of dynamizing Keynesian macro equilibrium conditions has been frequently cited as an illustration of the latter type.

Amongst these intermediate range criticisms, one may well include the relative role of the 'market versus the state' in promoting development. Of course, there have already been ideologies on the right as well as on the left. But development economics was essentially a reformist enterprise at least in the versions which became very popular in the fifties and sixties. It would now appear that there are some who question the logic of the reformist enterprise as a whole and would seek to replace it by latter day version of 'Smithianism us'. Meanwhile, the present problem of the welfare state in the North-West parts of Europe as well as reform-mindedness in Eastern Europe and China have put plan-oriented development economists on the defensive.

I have given a summary view of the current state of the debate. I cannot answer all the questions raised in the debate on this occasion even if it were possible for me to do so. Instead what I propose to do is to provide here an analytical synopsis of the birth, development and the present stage of development economics as a subdiscipline. Towards the end, some suggestions will be offered regarding the future development of the discipline.

II

The years following the Second World War saw the birth of the particular subdiscipline known as "development economics". This does not, however, imply that the problem of economic development had not attracted the attention of economists in the earlier period. In fact, there was an extensive literature during the pre-World War II period on the problem of "economic backwardness". The main contributors to this literature were not economists, but social anthropologists and colonial administrators with an intellectual bent of mind, and, of course, nationalist thinkers such as in India. An outstanding exception was, of course, Freidrick List, sometimes held up as an ardent precursor of German nationalism. However, a close reading of List suggests that he was no mere 'nationalist' in a chauvinist sense (List, 1966). He discovered the concept of 'nation' as an economic category. Moreover, his distinction between "production" and "productive forces" was analytically important. Some economists do consider List as a forerunner of the concept of 'balanced growth'. Whether that is the case or not, and there are good arguments in favour, it must be recognised that List was the first to emphasise the importance of so-called social overhead capital, especially in the

means of transportation, as a necessary pre-condition for economic development in the context of Germany in the 19th Century. While List believed that developing countries could not afford to follow the wisdom of Adam Smith in their initial stages of development, John H. Boeke at Leiden went to the extreme of suggesting that economic calculations of the Western type did not at all apply to the Eastern countries (Boeke, 1965). Marshall typically took an intermediate position. While admitting some of List's points, he said that economic development was only possible in hitherto backward areas if attitudes towards work and thrift were fundamentally altered through continued exposure to the influence extended by the advanced countries, especially through trade. Colonial administrators and social anthropologists noted with care the peculiarities of the institutional set-up in detail such as the prevalence of 'status' as against 'contract' but they were not development oriented as we would like it. Economic thinkers such as Ranade in India, who were great scholars, turned to Friedrich List for their inspiration. They argued for state coordination and the need of "protection from foreign competition" to foster industrialization. Ranade believed that development was a matter of pursuing appropriate state policy which a colonial administration could not discharge (Ranade, 1906).

In the late nineteen forties, especially after the Indian sub-continent gained independence, there was a distinct change in the perception of the problem of economic development. It was perceived that economic development (or the lack of it) in the "economically backward" countries were amenable to treatment with the tools at the disposal of the economists. The first U.N. Report (1951) dealing with the problems of development of the under-developed countries could be considered as a major landmark in this respect. It is also a matter of pride for us in India that one of our eminent economists, the late D.R. Gadgil, was associated with the preparation of the above report¹. While it is rather unfortunate that this report is now more or less forgotten, it cannot be denied that it proved to be the precursor for many subsequent debates on development problems and still deserves careful reading. Since then, over the last nearly four decades, a large number of theories of development have been put forward by various economists. To deal with these theories individually and to assess their validity might prove to be not only time-consuming, but would also take my discussion to various issues which are extraneous to the present theme. Instead, I intend to present a synthetic view of the different strands of thought contained in the various theories. In the process, I shall also comment on the essential points raised by the critics of the discipline which would be more in the nature of appraisals rather than a critique of the critiques. Finally, I shall present a new agenda for the discipline not merely with a view to enable it to retain its present status, but more because of my belief that the problems of development today cannot be any more

dissociated from international economic environment. In other words, in my opinion, the disabilities from which developing countries suffer at the present juncture can be overcome only through concerted efforts to create a new international economic order apart from formulating appropriate policies at the national level.

III

The growth of any social science discipline as a whole or in part can be viewed from three points of view. These are: (a) intellectual or cognitive, (b) pragmatic, and (c) ideological. One can trace the interplay of these three distinct sets of influence in the development of the sub-discipline "development economics". I may, however, add that I have mentioned these three aspects only to provide some clarity in our analysis and it is quite possible that these aspects could easily overlap in one or more theories.

As I pointed out earlier, the first U.N. Report (1951) prepared by D.R. Gadgil et al can be considered as a watershed in the initial formation of the subdiscipline of "development economics". This report gave the hope for the first time that the living standards of the people in economically backward countries could be raised through deliberate policies of state action. One might wonder as to how this change in the climate of opinion was brought about in contrast with the earlier neoclassical theorising which looked towards the market as the major guide towards economic decision making. Here, I think that the influence of Keynes was important as Keynes had thrown doubts, and some would even say, had demystified the idea of self-adjusting markets even for advanced capital economies. But equally important were the writings of a few other economists during the period preceding the Second World War. Among them, Kalecki's contribution to the rise of development economics is perhaps less known than his work on the macro-economic functioning of the capitalist economies. While writing a review of a book by the well-known Rumanian economist Manoilescu a major heterodox thinker of the inter-war period, Kalecki emphasised two very important themes which have played major roles in the subsequent discussion on development economics that took place in the 1950s and 1960s. Kalecki pointed out that the exclusive reliance favoured by Manoilescu on protectionist industrialisation as the principal solution to the problems of economic backwardness of countries such as Rumania (or for that matter India, which Kalecki did not discuss then) could not be sustained. He referred in this context not only to the need for land reforms to overcome the institutional barriers posed by the traditional agrarian structure, but also to the role of disguised unemployment and the surplus that was embodied in it (Kalecki, 1938). Those who are familiar with the work of Rodan, Nurkse and others would find that these two themes dominated the

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discussion in development economics during the subsequent two decades.

There was a general recognition at this time that theorising on development involved acceptance of very important differences in defining structural specifications. Since neoclassical theories did not provide much help in this respect, some economists turned to the classical school. Among them, Lewis was prominent. Lewis managed to produce a hybrid model consisting of classical and neoclassical features, which restored a modified neoclassical mode of reasoning to a position of primacy (Lewis, 1954). The seminal contribution of Lewis led to the subsequent development of a wide variety of "dual economy" models. The Lewis model high-lighted the importance of transfer of surplus labour from the subsistence sector to the industrial sector. Jorgenson, on the other hand, constructed a dual economy model which was thoroughly neoclassical in spirit and criticized Lewis for leaving the production relationships in the subsistence sector unspecified (Jorgenson, 1967). However, Jorgenson did not seem to realise that the subsistence sector need not be identified with the agricultural sector with a production function of its own. The Lewis model envisaged a scheme wherein the subsistence sector more or less played the same role as the "reserve army labour" in Marx's theory excepting that the Marxian analysis did not always maintain consistent distinction between the cyclical and secular aspects.

Ranis and Fei, in their dual economy model, drew attention to the role of the agricultural sector in providing exportable surplus in terms of commodities and not merely in the form of labour (Ranis and others, 1964).

Thus, there was enough consensus at this stage on two central issues, viz., the existence of an abundant supply of labour and low elasticities of demand and supply in crucial areas, including foreign trade which involved mainly primary commodities. This led the economists to turn their attention towards "planning" as a method for achieving economic development.

At this stage, the debate on the issue of "market failure" which was originally discussed by Pigou in his "The Economics of Welfare" (Pigou, 1932) assumed importance through the influential writings of Rosenstein-Rodan (1943) and Scitovsky (1954). They were greatly critical of the market mechanism and provided a reinterpretation of the concept of "externalities". Scitovsky's argument can be considered to be a variant of the modern version of "missing markets", especially in regard to the future markets, which is central to the neoclassical theory based on the notion of optimality of competitive equilibrium. If markets did not exist in sufficient numbers, or tended to be monopolistic or oligopolistic, a different approach was called for.

An interesting aspect about Kalecki's contribution to development economics is his unwillingness to accept the market failure paradigm as the central theoretical underpinning of his approach. It is now clear that the market failure paradigm, even if plausible at the theoretical level, cannot by itself provide us with a set of remedial policies unless one makes additional assumptions. The various kinds of liberalisation measures that are being carried out in recent years in centrally planned economies such as Russia, China and other East European countries as well as in mixed economies like India seem to suggest an increasing preference for an imperfectly functioning market system over an imperfectly functioning planning system. The principal focus of new criterion today has been to suggest that on the basis of information theoretic considerations, market economies are likely to perform better, even if one were to disagree with the arguments of the classical school based on incentives and perfect competition. I will have more to say on the question of market failure later in this paper, especially in regard to East Asian economies.

The relevance of the famous Harrod-Domar model to the problems of developing countries has also been an issue of considerable debate. Harrod's formulation of his famous "growth equation" was, as he himself wrote in the late fifties, was the result of his efforts to reduce the doctrines of his book on "Trade Cycle" into better order (Harrod, 1939). Harrod's main achievements were to show that a certain precise relationship existed between elements in a steadily growing economy and also to demonstrate that such a path of growth was also unstable. In addition, he also stressed the role to be taken by the government.

Interest in Harrod's work was revived during the early post-war period partly because of the work done by Domar. Despite the significant difference between the Harrod's work and Domar's work, it is important to note that both were essentially Keynesian in character. However, Keynes himself was not basically concerned with the problems of developing countries since his primary concern was with policies for maintaining full employment in mature capitalist countries. Domar provided a solution to this problem through his equation which estimated the rate of growth in investment that is needed to reach full employment after allowing for productivity changes along with their demand-creating effect which Keynes had earlier emphasised.

But the nature of the unemployment problem in developing countries was altogether different from what obtained in industrialised nations. The question naturally arises as to how such a model of growth becomes relevant or useful in the context of developing countries. The answer lies in the fact that the relationships established by the Harrod-Domar model pertained not merely to the absolute levels of the variables, but also to their rates of growth. Hence on a certain level of abstraction their model remains

valid no matter whether one is talking about advanced or early stages of development. Moreover, the model produced certain useful tools such as the capital-output ratio which tried to take into account the "time structure of production" which could be disaggregated by sector thereby facilitating the task of investment planning. Despite the limitations of the concept of capital-output ratio, its role as an analytical device cannot be questioned. The policy prescriptions that emanated from the Harrod-Domar model, viz. that a high rate of savings as well as a lower capital-output ratio would be helpful for the development process, seemed to be justified in the context of capital-scarce and labour-abundant developing countries. Despite the limitations of the Harrod-Domar model, which are well-known, it serves as what Hicks calls one dynamic method of analysis which can be applied to development problems, among others (Hicks, 1965).

Development economists have, over time, appropriated many concepts from growth theories which emerged during the fifties, input-output analysis and theories of mathematical programming. Based on the perception of rigidities in interindustrial structure, these gave rise to theoretical models of varying degrees of complexity. But, before dealing with these developments, I would like to mention about some early works on the role of industrialisation in the development of backward countries which were written in the early 1940s when the subject of development economics as it is currently understood was still in its pre-natal stage. Rosenstein-Rodan and Kurt Martin (Mandelbaum) were prominent among them. While Rodan's article dealt with the problems of industrialisation of the Eastern and South Eastern European countries, Martin's book² provided an incisive analysis of the basic problems of industrialisation in a primarily agrarian economy. Martin worked out quantitatively the implications of labour transfer from an overpopulated agricultural sector to industrial employment. His highly imaginative attempt at presenting a numerical version of what can be called a "proto-input-output" model of labour transfer was the first numerically articulated blue print for structural transformation of backward countries outside the Soviet Union, but the interesting fact is that he worked independently of the contemporaneous analytical work of Leontief. While some might question the usefulness of putting the objective of development in that way, Martin's analysis of the barriers to growth and the methods of overcoming them cannot be ignored by development economists even today. Among the principal barriers to reaching higher levels of productive employment, Martin mentioned two general categories, viz., lack of demand and lack of capital.

In the subsequent literature, while a great deal of attention has been devoted to the question of how best to make good the lack of capital, the role of demand factor has been relatively neglected. Martin's major policy conclusion that what was basically needed to speed the pace of development was a step-up in public expenditure based

on a policy of redistributive measures along with a regime of a State-enforced savings, is valid in my opinion, but I believe that he underestimated the complexity of the process in the context of a mixed economy in its earlier stages of development. Martin's judgement in this respect reflects perhaps the underlying Keynesian philosophy which he had fully imbibed by the time he wrote his book. But the truth is that experience gained over the last four decades or so, shows clearly that we lack a proper theory of government expenditure which combines short-term impact analysis along with an analysis of long-term consequences in terms of income distribution and appropriate directional changes of capital stock. Martin thought that redistributive measures can take care of potential deficiency of demand while a regime of State enforced savings could take care of the problem of shortage of capital. In other words, in the language of economic policy introduced by Tinbergen, Martin was suggesting two principal classes of instrument to match two broad classes of objectives.

The problems of industrialisation in backward economies had also figured much earlier in the famous debate between Bukharin and Preobrazhensky in the context of Soviet economic development³. In the Soviet Union, after the period of War communism, the economy's need for stabilisation had dictated the necessity of a New Economic Policy which in its turn created a situation involving a new set of contractionary pressures. A relatively buoyant private agriculture was faced with a stagnant or even disintegrating socialist industry. The virtually self-sufficient agricultural sector could not be induced to part with gains and fibres, wage goods par excellence in a backward economy. No doubt, there was some limited demand for industrial products, including infrastructural products, including infrastructural services, predominantly rail transportation, which was forthcoming from the agricultural sector. Under these circumstances, Preobrazhensky felt that the only way out for the socialist sector was to resort to a system of non-equivalent exchange or, to put it in contemporary language, to manipulate the terms of trade against agriculture. However, as the market forces themselves favoured a shift in terms of trade in favour of agriculture, this would have inevitably led to a relative contraction in the size of the agricultural sector. This is where the analogy with capitalist primitive accumulation came in.

Bukharin's argument, which has been generally presented at best as an attempt to shy away from the harsh realities of industrialisation in backward economies, was however based on a different theoretical perception of the requirements of industrialisation. His argument implied that the preference and "production" functions which characterized Russian agriculture should be changed so as to achieve a structural transformation and a closer integration with the socialist industry. Bukharin's disagreement with Preobrazhensky's policy was based on two reasons. First, he felt

that the policy would lead to a rupture of the "Smytchka", the alliance between workers and peasantry. Second and more important reason was that the policy may lead to increased dissociation between industry and agriculture, since in relatively primitive conditions, agriculture has an option to move out of the orbit of exchange which would have meant perpetuation of economic backwardness in the Soviet Union.

I have discussed here in some detail about the early debates on the role of industrialisation in the development process only to highlight the issues and complexities involved in the process. There are many economists today who would like to stress the role of production and consumption linkages between agriculture and industry in the development process. But such linkages cannot be strengthened unless one evolves an efficient mechanism for intersectoral transfer of resources in a manner that would sustain the growth impulses.

I had earlier mentioned that development economics has appropriated many concepts from growth theories. The pertinent question that one might ask is whether growth models have served any useful purpose from the point of view of development planning, especially because many of the existing models suffer from numerous deficiencies. Growth models can be viewed in three distinct ways. Firstly, they can be viewed as "analytical filling" devices. Secondly, they can be viewed as causal schemes of explanation. Thirdly, they can be regarded as an example of what Adolph Lowe called "instrumental inference". Among these, the first and third view points play an useful role in the process of development planning. While I do not want to discuss in detail about the merits or otherwise of the various types of growth models in the received literature, I believe that growth models generally help us in "characterising" the class of paths that can be regarded as optimal in regard to the different types of preference function related to the levels of output, consumption and investment. The usefulness of growth models lies not in suggesting blueprints for immediate adoption but in providing certain scenarios for purposes of carrying out dialogues between the planners and policy makers .

I shall try to illustrate this point with the example of the well-known two-sector model of Mahalanobis involving non-shiftable capital stock⁴. This model was discussed a great deal in the Soviet Union during 1920s by Fel'dman (1928). But, Mahalanobis was unaware of this work and his derivation is formally much clearer than Fel'dman's. Both these models had certain key assumptions, which I do not want to discuss in detail. The basic message conveyed by the Mahalanobis model was that a higher allocation of investment today to the capital-goods sector will lead to a relatively favourable consumption level in the future. While Mahalanobis determined the allocation ratio exogenously he clearly suggested that the capital-goods sector

deserved higher priority in the initial stages of planning. Although, this model can be shown to possess a gradualist time path of growth, it also reflected an unbalanced growth path in view of the initial conditions and non-shiftable capital stock. This model highlighted at the same time the important role played by domestic savings rate in the context of a closed economy.

This argument has been later modified into a "two-gap" model in the context of an open economy where foreign aid was seen to play a dual role of supplementing resources and of converting a potentially higher savings rate into an effectively higher level of physical capital formation. The idea was that while "ex-post" savings equal investment, "ex-ante" there could be two gaps, the trade gap and the saving-investment gap (Chenery and Bruno, 1962). This model largely reflected the concern of planners to achieve a desired growth rate in the presence of foreign exchange resource constraints. Thus, growth models generally provide us with some insights into the nature of growth paths that result from the adoption of alternative policy options.

IV

There is a vast literature in development economics relating to the role played by trade and industrialisation in promoting economic development. The arguments given in this literature cover a wide area ranging from trade theoretical grounds to aspects relating to the pattern of industrialisation based on factor endowments as well as the role of market forces. The contribution of Hans Singer in this respect has been of great importance, especially because of the fact that what he said more than three decades ago are still relevant for the development process in many countries (Singer, 1955). Singer stressed the relationship between agricultural development and industrialisation in the process of structural change and economic development. At the same time, he cautioned the underdeveloped countries not to imitate blindly the modern technologies of the industrialised countries which have been based on altogether different sets of factor endowments. Singer argued that the industrialised countries had a monopoly of industrial and scientific research as well as the productive experience with modern technologies which enable them to cope up with rapid technological obsolescence and that this would make the underdeveloped countries lag behind perpetually with an inferior technology even after borrowing the technology from the industrialised countries. In other words, Singer mainly emphasised that if developing countries adopt or evolve technologies suited to their factor endowments, it would make their economic development much easier.

Mahalanobis, on the other hand, believed that accelerated industrialisation with an emphasis on the so-called "heavy industry" was the principal means to Indian economic

development. He believed that this was the only way by which the inherited unequal international division of labour could be overcome. A comparison with R. Prebisch is very instructive at this point. Unlike Mahalanobis, he argued on trade theoretical grounds. Making a break with the orthodox theory, he rejected the Ricardian notions of comparative advantage and international specialisation. He believed that these ideas have restricted the role of Latin American countries in world trade to their being exporters of only primary products, apart from causing secular deterioration in their terms of trade. He, therefore, advocated industrialisation based on protective tariff barriers, analogous to what M. Manoilescu had done earlier in the Rumanian context which I had earlier mentioned in this paper. The early Prebisch position on trade viewed along with the logic of expanded reproduction elegantly demonstrated by Mahalanobis would seem to suggest that the sharp emphasis on basic industries was the only viable solution in the long run for removing economic backwardness for large countries such as India. However, in the short run, Mahalanobis highlighted the role that could be played by small scale industries, while Prebisch postulated stabilisation and improvement in the terms of trade of commodity producers.

Our experience with economic development in India as well as in many Latin American countries shows, however, that the development process is much more complicated than what was visualised by these early planners. However, their insights into the problems of economic development have been very important in as much as they provided the needed corrections to the doctrinally dominant positions held by the then established schools of thought. The major shortcoming in the development thinking of these early planners was that they left out certain critically important features of the relevant situations.

One such neglected aspect was agriculture. It is quite surprising that Mahalanobis gave a rather cursory treatment to agriculture in his model while at the same time he made fairly elaborate observations on the role of small scale industries and their potential for creating new opportunities for employment and also sustaining employment. How does one explain this position? I believe that of several possible explanations, the simplest is the best. Mahalanobis wrote his draft plan proposals at a time when agricultural production, particularly foodgrains production, was showing an upward trend after remaining stagnant for several decades. Mahalanobis presumably thought that only if sufficient demand is generated and maintained along with efforts directed towards expansion of extension practices and education, agricultural output will continue to increase given the very large labour resources available in the agricultural sector. Years later, while writing his review of Myrdal's "Asian Drama", Mahalanobis reverted to this theme. Here, quite interestingly he spoke of the "Industri-

alisation" of agriculture, as a process that will take forty to fifty years to achieve full completion. This would seem to suggest that the crucial question for him was not the growth of agricultural surplus, which he admitted to be necessary, but a much deeper structural orientation of agriculture which will require that agriculture itself turns into industry. Although, Mahalanobis was by no means a Marxist, here he reveals a fond belief cherished by some Marxists.

At this stage, I would like to briefly survey certain other theories of development based on trade and industrialisation.

A major contribution in this area was made by dependency theorists in Latin America and the Caribbean⁵. I do not want to give a very detailed evaluation of this body of thought and their arguments for want of time. Put briefly, the main thrust of the dependency theorists is to suggest that the framework of the international economy today is such that it negates the possibility of autonomous development in what they describe as periphery, an expression used broadly to include the less developed countries. By autonomous development, they generally mean development which has an inner dynamic of its own and does not merely reflect the external growth and diversification impulses. Autonomous development includes much more than industrialisation, the focus of much early discussion in Latin America originated by Prebisch. Export-oriented industrialisation as well as certain forms of import-substitution are considered to be definitely promoting dependent development. Dependency theorists attach considerable importance to issues of structural heterogeneity, which, they, think, results from contact with development countries through trade and investment⁶.

Their principal contribution so far has been to suggest a strong interlocking of interests between elites of local origin and foreign agents who are engaged in mutually advantageous transactions that exclude large masses of people from the circuit of growth. The holistic framework which underlines much of their thinking is well presented by Dos Santos (1970). However, the rapid growth experienced by the newly industrialising countries (NICs) such as the Republic of Korea and Taiwan has led many to dismiss the dependency theory as almost dead. Such a conclusion, in my opinion, is not warranted for two reasons. First of all, it is not clear whether the experience of the NICs clearly negates all the central propositions of the dependency theory. There is clearly scope for much serious differences of opinion on this issue and I have more to say on this aspect later in this paper. Secondly, while dependency theorists have not succeeded in pinpointing the source of asymmetric relationships between rich and poor societies in space, it is not possible to maintain that asymmetries do not matter. If the principal source of asymmetry lies in the area of

knowledge and technology which makes monopolistic exploitation of factor and product markets an inevitable feature of the world economic system, then some of the propositions of dependency theory can be seen to survive while other may require reconsideration or rejection.

That trade plays an important catalytic role in the growth process has repeatedly been emphasised by various development theories. Despite its being a recurrent theme in development literature, the stances of argument, and especially those linking trade and industrialisation, have varied from time to time. I have already drawn attention to the argument of Prabisch made in the context of Latin American countries which emphasized a strategy of industrialisation based on import-substitution in order to overcome the handicaps of deteriorating terms of trade of developing countries whose role was confined to being exporters of only primary products. Nurkse also argued on similar lines in his book "Patterns of Trade and Development". Nurkse (1959) contended that the process of economic growth achieved during the 19th Century was mainly due to the expansion of trade. This thesis was subsequently criticised by Irving Kravis (1970). He maintained that trade had played only a supporting role in the growth process. The argument of Kravis was based on the finding that some periphery countries were not able to achieve economic growth of the same order as some other countries although both the groups of countries recorded export expansion of almost the same magnitude. Kravis felt, therefore, that it would be more appropriate to describe the role of trade "as a handmaiden of successful growth rather than as an autonomous engine of growth". Arthur Lewis came back to the same theme when he entitled his Nobel Lecture in 1979 as "The slowing down of the engine of growth" (Lewis, 1980). Lewis argued that the secular decline in the rate of growth of "more developed countries" (MDCs) has been responsible for the slowing down of economic growth in developing countries (LDCs). He suggested, therefore, that the future growth prospects of developing countries lies in increasing trade among themselves in order to take up the slack left by the MDCs as MDCs slow down. James Riedel has criticised the Lewis approach (Riedel, 1984). Riedel has argued that theory of trade as an engine of growth in developing countries is based on an highly mechanistic approach. Riedel agrees with the view that economic prospects in one region of the world affect those in other regions, but he argues that econometric analyses relating exports of developing countries and the incomes of industrialised countries have not established any stable relationship between the two variables. Apart from being not amenable to reasonable interpretation, Riedel argues that such analyses mostly ignored relative price changes and shift in supply and, hence, they cannot form an adequate basis for explaining the impact of economic slow-down in developed countries on the exports of developing countries, much less on their growth.

In this context, I feel that the nexus between export expansion and economic growth can be meaningfully analysed only if one takes into account the composition of exports, i.e., whether the composition has been changing increasingly in favour of manufactured products as compared to primary products. Such compositional changes can result mainly from the pattern of industrialisation that is adopted as well as the technological base for industrialisation. If this analysis can be regarded as an important component of explanation of the trade theory that links developed and developing countries, then several important consequences would seem to follow, both for further analysis and for policy.

It is often postulated that developing countries which are generally characterized by surplus labour and shortage of capital can promote growth by pursuing a policy of export-oriented industrialisation. In other words, labour-abundant countries should be able to export commodities which involve intensive use of labour, thereby providing simultaneous solutions to various problems such as output maximization, productive employment of surplus labour as well as increasing foreign exchange earnings. Theoretically this proposition would seem to derive strong support from the Hackshler-Ohlin model of international trade. In its refined Samuelson version, free trade can equalise factor returns even in the absence of mobility of factors across countries if certain additional assumptions are made such as zero transport costs, incomplete specialisation, etc.

Given the basic difficulties pertaining to conceptual measurement of both 'capital' and 'labour', let alone question relating to statistical tractability, it is difficult to be precise as to the meaning of factor intensity in terms of relative factor endowments as between countries. The logical basis of the theorem becomes doubtful in the presence of heterogeneity of capital along with differences in the skill composition of the labour force. Hicks raised an additional point that since capitalisation and scale economies usually go together, there are reasons to doubt whether the assumption of 'constant returns to scale' is a plausible one in the context of trade theory (Hicks, 1963).

Thus, while the deductive framework associated with the theory is quite an impressive one, and some of the fundamental theorems such as the factor price equalisation theorem are connected with the properties of general competitive equilibrium, empirical plausibility of this line of trade theory is open to question. Yet it would be incorrect to deny that in certain branches of industrial production, certain economies may be relatively more efficient because they possess large amount of labour and also because capital equipments are standardized and economies of scale get exhausted at fairly low level of output.

Do our reservations suggest that the export-led industrialization does not provide a viable development strategy for the 'less developed countries', (LDCs)? While answering this question, we have to distinguish between two sets of problems, a 'global' one involving all LDCs and also a 'specific' one in the context of a particular developing country. Regarding the former, much greater volume of work is needed and also work in much greater depth involving studies of industrial processes before one can suggest a reasonable order of magnitude. As regards the latter, much will depend on the size of the country and also on its internal system of linkages. It is also necessary to bear in mind the fact that the size argument and the linkage argument may be somewhat mutually offsetting.

Making allowance for these two factors, we are then left with only a subset of developing countries for which trade may possibly constitute an efficient and feasible strategy for development. The implication of the above analysis should, however, be clearly understood. It is quite likely that employment, trade and growth could be promoted if location of industries relating to certain product lines were to shift towards to the labour-rich countries. A study by Lydall in the seventies, since repeated by others, provides interesting information that lends strong support for the ideas of such relocation (Lydall, 1975). What is, however, doubtful is whether the magnitude of the change is likely to be substantial enough, in the absence of additional incidental advantages, such as close proximity to a large and growing market. Furthermore, there are also other aspects related to this problem even when one accepts in principle the soundness of the argument, given the different types of tariff and non-tariff barriers as well as the levels of effective rates of protection, especially in regard to processed and manufactured goods. In other words, it is the Hecksher-Ohlin commodities which are most discriminated against, e.g., textiles.

Sometimes, one also hears the argument that economic prosperity in industrialised countries would promote exports of developing countries, but this argument, in my opinion, cannot be applied to the exports of manufactured goods unless one is prepared to argue that a shift would occur favouring the manufactured exports of developing countries. In fact, Lewis himself ruled out this proposition in his Nobel Lecture wherein he stated that the main link between MDC and LDC economies has been the MDC demand for LDC primary commodities and secondly that protectionism would halt LDC manufactures export growth if MDCs go into recession. In other words, it is more a question of attitudes of the industrialised countries rather than their levels of income or growth which determine the scope for the expansion of export of manufactures from LDCs to the industrialised countries.

Another aspect of the export-led industrialisation strategy is that the ability to diversify from exports of primary commodities to exports of manufactured goods also requires prior development of an industrial base. That is, it is not enough if there is a shift towards outward-looking trade policies alone or if there is a correct pricing of capital, labour and foreign exchange as often suggested by neo-classical advocates. How exactly the required industrial base is developed becomes then the crucial question. While some would prefer to follow a domestic import-substituting planning strategy, some others might prefer to take the help of multi-national corporations. This choice has been much discussed in recent literature. The former strategy involves problems of transfer of technology as well as foreign exchange constraints, while the latter strategy would appear to provide an apparently easy solution not only to overcome the problems related to the import-substitution strategy, but also might help the developing countries to gain entry into the markets of developed countries because of the 'worldwide sourcing' activities of the multinational corporations. If the latter strategy seems to improve the prospects of development, then developing countries will have to ensure that they are not faced with a new version of 'enclave' pattern of development that was widely experienced in the late nineteenth and early twentieth centuries.

Are we to conclude from the above discussion that an industrialization strategy oriented towards exports is not suitable from the point of view of developing countries? That would indeed be a hasty inference. First of all, trade may perform some very valuable functions in relation to the growth process, perhaps much more for small size economies as against larger ones. The arguments here are well known and need not be repeated. While there is some literature that runs contrary to the traditional approach based on 'gains from trade' in terms of what may be called "substitution trade", this is not the place to enter into a debate. It is quite possible that with suitable policy interventions at the international level, these gains can be positive for the developing world as a whole. But these interventions require removal of protectionist barriers in developed countries and suitable transfer of technology. I would like to emphasise that it would be wrong to assume that pursuit of outward-looking trade policies or dismantling of tariff and non-tariff barriers would be *sufficient* conditions to permit the developing countries to reap fully the comparative advantages. What is perhaps more important is transfer of technology and this is a controversial point that requires separate discussion.

In the existing literature, one can broadly discern two views on the question of technology transfer, both possibly advanced more on a *priori* reasoning than a very close analysis of the relevant factors. Those who advocate outward-looking trade policies or the liberal trade theorists believe that the more open the economy, the greater the

likelihood is of technology transfer. Their reasoning is that knowledge, like all other goods, flows best when left free of hindrances. But considering the specific features of knowledge as a *commodity*, which have been clearly analyzed by Arrow and others, this need not necessarily be the case. Typically, effective knowledge in an open economy has come as a part of a complete package, as a part of direct foreign investment, and, as Felipe Pazos observed quite some time ago, "The main weakness of direct investment as a development agent is a consequence of the complete character of its contribution. This, as Hirschman strongly emphasized, has in many cases led to a very negative effect on the *quality of local factors of production*. Generally, it has meant that the intended objective of technology transfer, viz. efficient use of labour and capital, has generally been achieved or felt only within a narrow sphere, even when it has led to rapid growth in export earnings, as happened during the period 1890-1914 and more recently during the 1960s and early 1970s.

On the contrary, we have the inward-looking industrialisation strategy pursued notably by China until recently and also to a certain extent in India which has not always yielded and desired results. The policy followed by Japan, of allowing import of technology without permitting foreign equity participation has apparently proved to be a successful development strategy. There are various other aspects of the problem of technological development and I do not want to discuss in detail these aspects. But the important point that emerges from a study of technological development over the last two hundred years is that innovations of processes and products and generation of new technologies have always been dictated by the compulsions of the industrialised countries and hence these are in the nature of labour-saving or material-saving devices. On the other hand, technology that is needed for developing countries has to be more in consonance with their basic requirements. In other words, the argument that is often made that the main advantage of late-comers is that so much is already known and can be easily copied may produce more adverse effects for the developing countries rather than being a help. To be more precise, the large pool of existing knowledge tends more often to inhibit than to solve the problems of late-comers.

How can one explain this phenomenon? In my opinion, it can be partly explained in terms of international demonstration effect which includes *products* as well as processes. An equally important part of the explanation is that in most developing countries, production of capital goods is quite limited and as such, when entrepreneurs use imported technology or machinery, they have to necessarily use labour-saving machinery even if they have the desire to use labour-intensive methods. Even replacement of machine tends to reduce employment as the more recent vintages are often more mechanised and efficient in terms of productivity.

Furthermore, the assumption that 'factor endowments' translate themselves into a system of corresponding factor prices which would exert pressure to innovate in the direction that will eliminate surplus labour is hardly warranted in the contemporary context because markets for labour are differently organised from markets for capital. In this situation, technology can be adapted to suit factor endowments only if the signalling mechanism is performed by non-market forces.

At this point, it is also important to look into the role of multinational corporations, which today own a large share of the stock of technical knowledge.⁷ While it is known that, in some cases, they are willing to transfer technology on a licensing basis, there are many situations where such a transfer can take place only on the basis of substantial equity participation. This would imply that technology may not be made available to the nationals of the host country, even though a considerable relocation of production may take place. Much has been written about the functioning of multinational corporations in the Latin American countries and their negative effect on the internal growth processes of those countries. I do not want to enter into that debate here.

If, on the other hand, relatively free import of technology is to flow through the multinational corporations, it would then mean a major departure from the policies hitherto followed. Even then, it has to be seriously considered whether such a process would in fact result in a significant accretion of technical knowledge appropriate to the needs of developing countries.

It becomes necessary at this point to take a close look at the character of the innovations generated by multinational corporations largely located in developing countries. It has generally been observed that most such innovations tend to be capital and energy-intensive in character, while a fair number are also in the nature of synthetic substitutes for raw materials such as cotton, jute and rubber which are largely grown in Asian countries. Instances of entry of multi-national corporations in the field of basic industries or capital goods industries are rare, while numerous cases can be cited of their entry into consumer durable goods industries such as automobiles as well as in industries such as chemicals and pharmaceuticals. The extent to which such transfers of technology have helped the growth process is a controversial and debatable point.

While technological primitivism cannot constitute an answer for developing countries, the problems of adaptation of technology in directions more appropriate to the factor endowments of developing countries deserve very close consideration. It would be most inappropriate to leave questions of adaptation to technocrats alone. In many cases, the overall macro-economic framework must also be made

conducive to the process of adaptation. In fact, much of the economic growth achieved by the so-called 'Gang of Four', viz. Hongkong, Singapore, South Korea and Taiwan could be attributed more to their macro-economic policies than to their "outward-looking" trade policies. I have presented a fairly detailed analysis of the growth experience of the four Asian countries, known as 'four baby dragons' in a recent paper, which I do not want to repeat here.⁸ But what can we conclude from the East Asian experience?

Firstly, it cannot be claimed that the East Asian experience provides an example of successful development strategy based purely on a neo-classical framework. In fact, there has been a strong combination of several factors, partly conjunctural and partly cultural. Secondly, the East Asian experience cannot also be considered to have served a blow to the capitalist development theory as enunciated by Marx. On the contrary, I believe that it provides a concrete proof that validates the most important aspect of Marx's perception of 'capital' as a mode of extracting 'labour' out of 'labour power', which forms the ultimate basis of accumulation. I think that the evidence available from the East Asian experience regarding this aspect alone would be sufficient to invalidate the arguments of Linder and others, who have this unique historical experience as a refutation of Marxian development theory.

I would also like to comment on another line of development thinking that was put forward by Myint in the context of outward-looking development strategy pursued by the Southeast Asian countries that are now known as the ASEAN group. In a report prepared in 1970 for the Asian Development Bank, Myint has argued that countries pursuing a development strategy in the post-World War II period which closely resembled the pre-war mechanism of economic expansion have been quite successful in their economic performance. Myint described the pre-war pattern in terms of four characteristic features. These were: free international trade, free-entry to private foreign investment, free play of market forces in the domestic economy and a free exchange rate system (Myint, 1972).

Myint's analysis of Southeast Asian experience seems to attach greater importance to two aspects, viz., a free market system with a minimum of regulation and free entry of private foreign investment. His analysis, however, overlooks many other factors which were favourable to the fast growth of the ASEAN economies during the 1960s and 1970s. Important among them were: a favourable world trade environment, strong commodity prices and increasing from industrialised countries which were experiencing high growth rates. Further, the ASEAN economies have also been specialising in different groups of primary commodities and there was, therefore, not much competition among themselves in their export markets. This specialisation is the result of their district resource endowments. Moreover,

countries such as Malaysia, Thailand and the Philippines had undertaken large scale public investment in expanding irrigation facilities which enabled them to increase their agricultural production and thereby their export earnings. Among the ASEAN economies, only Malaysia and Thailand have been able to increase their exports of manufactured goods and services during the last decade.

Notwithstanding this, the recent performance of the ASEAN economies clearly brings out the extent to which these economies are influenced by the broader forces shaping the world economy. Their low growth rates in the early 1980s reflect their inherent structural weaknesses. Their major structural problems are: a high vulnerability to commodity price fluctuations in international markets, continuing deficits in their balance of payments, increasing burden of debt-service obligations, delayed industrialisation and a narrow base for manufactured exports.

Given the above analysis of the development strategies of the ASEAN countries, it would be quite evident that Myint's thesis cannot lend them much support for their future growth.

The main conclusion that one can draw from the development experience of NICs and that of the ASEAN economies is that, while an outward-looking development strategy may seem to be quite appropriate in respect of small economies which suffer from constraints of natural resources, especially land, as well as high population densities, that strategy displays both some strength and certain weaknesses. Their main handicap is that their growth performances are shaped more by international economics than by domestic policies. More importantly, the examples of these countries have very little relevance for formulating development strategies for big countries like China and India.

The contribution of Gunnar Myrdal to development thinking can be considered to form a separate and important category by itself. Myrdal's (1957) ideas on problems of development facing the developing countries were possibly most succinctly set forth in his book, "Economic Theory and Underdeveloped Regions" (1957). This book was highly influential in both analytical and practical terms. Analytically, Myrdal showed that the limitations of 'equilibrium analysis' as applied to development problems. In practical terms, he showed how a process of growth could generate both 'spread' effects and 'backwash' effects, leading to increased polarization between regions and countries, unless conscious policies were adopted to counteract the 'backwash' effects. Myrdal applied his analytical tools to the explanation of growing inequalities in the world economy. He was highly critical of the traditional theories of trade and investment which described economic life as a 'system of harmonies'.

Myrdal's major work was the three-volume "An Asian Drama" (1968), which was an enquiry directed to the question of poverty of nations. The problematique, to which the book addressed itself, was how the countries of South and Southeast Asia could escape from the traps of low level equilibrium. The book dealt at length with problems of India. On the basis of his detailed analysis, Myrdal came to the conclusion that Western economic analysis was often misplaced and gave rise to misleading policy conclusions when transposed mechanically to the vastly different institutional conditions of South Asia. He cited particular concepts such as capital accumulation which, in their traditional Western connotation, had only a very limited significance. He was also of the view that mere accumulation of capital in the physical sense was not enough when it came to eradicating poverty. He strongly emphasised the importance of investment in health and education. He further questioned the antithesis between growth and equity. He concluded that the state in South Asia was a 'soft state'. This term which has often been misunderstood as suggesting a plea for authoritarian solutions was the central message of his book. What Myrdal meant by the term 'soft state' was that the political system in the newly liberated countries of Asia did not evoke a sufficient degree of social discipline and integrity of purpose which alone could lead them to realise the objectives that they professed.

Looking back at Myrdal's contribution to development thinking, one cannot help being profoundly impressed by his analytical insights and, more importantly, the interdisciplinary approach to development problems. His strong advocacy of the need for radical reforms which alone will help alleviate poverty still remains valid. Similarly, many economists are now arguing for a new international economic order. But in his own days, Myrdal was a most forthright critic of the 'international power' structure which he believed to be blocking the roads to progress in the world as a whole.

So far, I have dealt with the different strands of thought on development economics based on either traditional or neoclassical framework. I would like to present now briefly the recent "appraisals" of the discipline of development economics.

Bhagwati's (1984) argument is the simplest one in structure and also the most pointed in policy direction. He is saying basically that the "market failure" argument was obviously a misplaced one in terms of emphasis. Empirically he argues that elasticity pessimism has been shown to be an unwarranted generalisation from the inter-war discussion. He still sees some role for development economics, but this is basically for pragmatic reasons, as he believes the issues of poverty are also of importance. They need to be tackled partly through the market but also possibly in terms of very highly selective interventions vis-a-vis specific target groups.

Hirschman, on the other hand, does not see much future for development economics, which in his opinion was based on the assumptions of monocausality and mutual benefit (Hirschman, 1981). He feels that both these assumptions have been severely questioned for their plausibility. He seems to imply that criticisms raised by neoclassical economists and neo-Marxists have shown that what emerged as "development economics" was no more than a "make shift" arrangement in reorganising the conceptual frames of those who came to enquire into the causes of arrested growth of underdeveloped countries. While I do not want to go into the details of Hirschman's argument here, I do not believe that the discipline has exhausted its potential for theoretical elaboration.

Arthus Lewis, however, envisages a basis for steady progress in development economics (Lewis, 1984). Lewis believes that development economics should be defined as a study of economics with per capita incomes below US \$ 2000. These economies, he believes, will require special attention because of their different structural characteristics.

Sen, in his recent review of development economics (1983), has come to the conclusion that traditional development economics has much life left in the field of the analysis of growth. But he goes on to argue that it has been much less successful in characterizing economic development, which he defines as "expansion of people's capabilities". Sen then goes on to argue that if the development issue in his sense were to be usefully discussed, we would need to bring into focus what he calls the "entitlement" approach. Sen's emphasis on the entitlement approach is well-known from his work on famines and poverty. As Sen's definition of entitlement is not tied exclusively to market type arrangements, he argues that we need to go beyond purely economic arrangements.

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What can we conclude from this analytical history of development thinking? It would not be without justification to stress the fact that our study shows that the growth of this particular sub-discipline, like most major developments in economic theory were bound up with a historically specific conjuncture of social and political forces. While social consciousness of deprivation had been growing in the so-called 'backward' parts of the world over the first half of the twentieth century, and the Great Depression of the 1930s had greatly heightened it, it was only with the success of colonial liberation movement, first on the Indian sub-continent and, then, in many other parts of the world, that development was put on the agenda of State action. The first U.N. Report of 1951 which we have described as a major 'land mark' in our story constituted a very clear recognition that henceforth economists would have to deal

with a new problematique, the widening gap between developed and developing countries. From his Latin American headquarters at Santiago, Raul Prebisch had come out with the same conclusion, which touched the same chord of revolt against the intellectually dominant mainstream theorizing. Nations could from now no longer afford to regard the development process as the product of spontaneous processes at work. Intervention to change the direction of forces was clearly called for. Great classical scholars such as Jacob Viner deeply deplored this interventionist trend just as he had earlier questioned M. Manoilescu's diagnosis of biased gains from trade for labour surplus countries.

Our analysis has shown that the central perspective to the literature of the fifties is provided by the notion of market failure as a pervasive feature in relation to the world economy as well as for the so-called backward economies. Market failure was obvious to early writers on the subject in regard to the capital market, the product markets and most importantly with regard to the labour market. Those who approached the subject with an earlier mainstream orientation generalized the Sidgwick-Marshall-Pigou notion of externalities in production and consumption to a commanding position in their analysis of underdevelopment whereas people with a Marxist orientation like M. Kalecki stressed more the institutional malfunctioning of backward countries and the way they affected generation and distribution of economic surplus.

Both sides agreed on the necessity for a step up of productive accumulation as a proportion of the gross national product. Both attached relatively small importance to world trade as serving once again as an engine of growth in the world order brought into existence after the Second World War. State action was deemed to be important by both in regard to *capacity creation* as well as for *demand stimulation*. While some like Lewis stressed more the supply-side of the State, Nurkse was as much concerned with demand-side.

We have seen that this initial diagnosis was questioned by the neoclassical resurgence in the late sixties when the buoyancy of world trade based on unprecedented growth of advanced countries seemed to have made the earlier critique of Haberler and Viner look very pertinent, even though they were earlier dismissed in the fifties as rearguard action by conservative thinkers. Many recruits were obtained to this revived neoclassicism and not necessarily from the North-West. Meanwhile, the earlier policy regime based on State action did not always deliver what it promised. Disenchantment with recent past and a glorified version of what had been achieved by a handful of countries in East Asia seemed to suggest to some that a change in development paradigm was called for. Trade was once again elevated to a supreme role as the engine of growth. Our brief analysis of the East Asian phenomenon has suggested that truth may be far more complex than what some theorists have projected it to be.

An issue that has come up in the context of recent discussions of development economics is the role of the State. Earlier development economists had mostly taken the view that the State represented "the Agent" most suitable for being entrusted with the task of carrying out social and structural transformation that was in the best interests of the political community. It is well-known that originally it was a point of view which had been put forward by Hegel. Lassalle, who represented a large section of the German working class, supported this position in contrast with Marx who could not envisage the bourgeois state carrying out any such function. In England, the Hegelian position was strongly represented by T.H. Green and his school and it was from these Oxford philosophers that reformist economists drew their inspiration. Marshall was influenced by them and so was Pigou in an indirect manner *via* Marshall and the Webbs.

Elites in nation-States which wrested political power from their metropolitan masters tended to view the State in the same tradition. Development was placed on the agenda of the State on similar philosophical presuppositions. Representative democracy was supposed to ensure the class neutrality of the State. Marxist and neo-Marxist critiques have had little difficulty in showing that class neutrality was an *assumption*, rather than a *fact*. From this they have deduced that development economic theory was basically flawed even though they agreed with the inequalizing role played by the market forces. M. Kalecki realized that this was a hasty conclusion. He developed a theory of 'intermediate regimes' which was class based and yet represented a progressive configuration of political forces in so far as it was on the side of common people vis-a-vis foreign oppressors and domestic comprador interests (Kalecki, 1972, pp. 162-169).

Kalecki's analysis was developed with the example of Egypt in mind. K.N. Raj subsequently extended it to India in the Kale Memorial Lecture that he gave here at Pune (Raj, 1973). Meanwhile, from the neoclassical angle, a conservative political economy of development has emerged primarily from the work of James Buchanan and his colleagues who have argued for applying the same logic of self-interested behaviour in respect of State as in the case of individuals or special interest groups. They assign a negative role to the developmental side of state functioning, while upholding the paramount need to maintain law and order, observance of private property rights.

I have no time for dealing with these contending positions within the scope of the present lecture. But I believe that it is desirable for development theorists, especially those who are interested in political economy dimensions, to give serious thought to these issues.

Meanwhile a major issue on the agenda of economic analysis that requires serious consideration is the scope for generating and diffusing technological changes within the framework of development economics.

I have already noted the emergence of multinational corporations as a major factor dominating trade and capital movements. During the eighties, major financial innovations have also taken place negating the usefulness of traditional instruments of adjustments such as exchange rate movements in correcting structural disequilibria. Furthermore, these corporations seem to obey a logic of their own which are not always in consonance with decisions of sovereign governments. Can nation-States be treated any longer as *major* actors as was postulated in early development economics? In this, as also in other respects, it is necessary to get a clear picture as to the directional changes which are proceeding very fast in certain sectors while leaving others untouched. Thus, while capital markets are getting much more unified, equalizing labour movements have come more or less to an end. An intellectual labour market on the international scene has emerged which, on balance, tends to impoverish the less developed world. Modest proposals such as tax on 'brain drain' have made little headway.

Development economists have not yet fully woken up to the realities presented by the new global dynamic. As and when they do, they will find that residual national sovereignty of the developing world should be maximally deployed in bringing about a structural transformation within their own economies through generating suitable institutional and technological responses, on the one hand and by maintaining a reasonable distance from the high technology oriented consumption of the developed world. It was high time that the problem of development was once again approached as a multidimensional problem, involving central sociological and economic dimensions in the vastly changed configuration of power that the world economy presents for the coming decade.

In carrying out that exercise, it is unlikely that the insights of the pioneers of development thinking will require wholesale replacement. I believe that there was enough substantive content in their diagnosis. Trade may receive a greater role than what was accorded by Nurkse and others. But technological dimensions of trade flows and exchange relationships along with extension of the unit of analysis from 'nation States' to regional groupings will deserve greater attention. For large size countries like India, China and Brazil, institutional reforms will require greater attention which aim at reducing internal dualism whereas for small economies, regional plans for cooperation and development must move from a paper-pencil world to a world of action.

Foot-notes

1. See United Nations (1951). "Measures for the Economic Development of Under-developed Countries", New York. This report was prepared by a group of experts consisting of the D.R. Gadgil from India, W.A. Lewis, then at Manchester and T. Schultz from Chicago among others.
2. Mandelbaum, K. (1945). "The Industrialisation of the Backward Areas", Oxford, Basil Blackwell; I have discussed the various aspects of Kurt Martin's contribution to development thinking in my review of "Plus ca change ... Essays in Honour of Kurt Martin" in *Development and change* Vol. 10, No. 4 (October 1979). The review article appeared in "*Development and Change*", Vol. 12 (1981), pp. 165-176.
3. I have discussed the various aspects of this debate in my R.C. Dutt Lectures on Political Economy (1980), entitled "Alternative approaches to a theory of economic growth : Marx, Marshall and Schumpeter", Calcutta, Orient Longman, 1982.
4. Mahalanobis, P.C. (1953). "Some Observations on the Process of Growth of National Income", *Sankhya*, Vol. 12, Part 4, pp. 307-312; I have provided my analysis and critique of the Mahalanobis model on different occasions. See, for example, my article, "Relevance of Growth Models to Development Planning", *The Pakistan Development Review*, Vol. XIX, No. 2, (Summer 1980), pp. 101-112.
5. I have discussed at great length the important aspects relating trade and development in my article, "Trade and Development : Some Basic Issues", *International Social Science Journal*, (UNESCO), Vol. XXXV, No. 3, 1983, pp. 425-440. This article also provides my analysis of the dependency theory along with an exhaustive reference to the literature on the subject.
6. One distinction that some dependency theorists have drawn, relates to the structural dependency, as opposed to functional dependency. Structural dependency is the result of a whole complex of unavoidable factors, while functional dependency arises because of certain policies that are pursued and which can be altered.
7. The literature on multinational (or transnational) corporations is vast. An early imaginative treatment which has considerable bearing on the problem of under-development was given by S. Hymer (1979) "The Multinational Corporation : A Radical Approach", Cambridge, Cambridge University Press. For a survey, see C.F. Diaz-Alejaniso, "The Less Developed Countries and Transnational Enterprises", in S. Crassman and E. Lundberg (eds.), "The World Economic Order : Past and Prospects", London, MacMillan, 1981.
8. For a detailed analysis of the East Asian experience, see my article, "Marxist economics and contemporary developing economies", *Cambridge Journal of Economics*, 1987, Vol. 11, pp. 3-22.

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