

The Evolution of Development Thought: An Economist's Overview

(Based on Gerald M. Meier, "The Old Generation of Development Economists and the New,"
in *Frontiers of Development Economics: The Future in Perspective*)

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The Evolution of Development Models/Approaches

After WWII, Bretton Woods System

First Generation Part I (1950 – mid-1960s)

Time Axis →

Development Economics Rediscovered (or Newly Founded)

Grand (Visionary) Models of Development Strategy

- ✓ **Structural Transformation & Development Planning (National Development Plans)**
- ✓ **Pervasive Market Failures → Extensive Government Involvement (Structuralist, Welfare Economists)**
 - Lack of a reliable market price system.
 - Government-led structural transformation to break Nurkse's "vicious circle of poverty", and to accomplish Rostow's "takeoff".
- ✓ **Per Capita Real Income → GDP → Capital Requirement (Capital Fundamentalism)**
 - Harrod(1939)-Domar(1946) model used to estimate capital requirement
- ✓ **Solow Growth Model/Accounting (1957) → Capital + Exogenous Technology Progress**
 - $Y = F(K, L, t)$
- ✓ **Traditional Dualism Models → Two-Sector Model (Lewis, 1954, Fei and Ranis, 1961)**
 - Farmers in developing countries are poor because they are irrational.**
 - wages \neq marginal value product of labor

The Evolution of Development Models/Approaches

WWII First Generation Part II (mid-1960s – mid-1970s)

Time Axis

➤ Grand (Visionary) Models of Development Strategy

- ✓ Farmers do respond to economic incentives (found in field studies). They do react to wages and prices.
Simplistic Dualism Model does not apply (Shultz, 1964).

Farmers in developing countries are rational, but poor due to capital scarcity.

- ✓ Agricultural Modernization, Human Capital Development

Physical Capital in Agriculture → Physical Capital + Human Capital

Development depends on productive human agents.

- ✓ Deficiencies in Industrial Programming, Absolute Poor and Inequality Increased (late 1960s and early 1970s)
neglect of agriculture, inefficient state-owned enterprises,
adverse effects of import substitution strategy, BOP deficits

- ✓ Government Interventions → Price Distortions (wage rates, interest rates, and foreign exchange rates)
“Getting Prices Right”, or at least **“Avoid Getting Prices Wrong”**
→ **Resurgence of Neoclassical Economics**

The Evolution of Development Models/Approaches

**Oil Crises, Collapse of the Bretton Woods System,
Debt Crises, Financial Crises, etc.**

Second Generation (mid 1970s – the Turn of Century) →

Time Axis

- **Resurgence of Neoclassical Economics**
- **From Grand (Visionary) Models of Development Strategy
to Technical Application of Economic Principles (Neoclassical)**
- **From Highly Aggregative Macro Models to Specific Micro Studies**
such as a change in tariffs or agricultural subsidies (Arrow, 1988)
 - Macro adjustments in accordance with micro incentives.
 - The birth of Development Microeconomics.

The Evolution of Development Models/Approaches

Second Generation (mid 1970s – 1990s)

➤ Resurgence of Neoclassical Economics

➤ From **Grand (Visionary) Models of Development Strategy** to **Technical Application of Economic Principles (Neoclassical)**

✓ “Get (All) Policies Right”

Abolish price distortions created by government interventions.

✓ **Structural Adjustment Policies** by IMF and World Bank (from early 1980s on) **A country was not poor because of the vicious circle of poverty but because of poor policies.**

Liberalizations and IMF Conditionalities.

✓ **Governance (Economic Governance) and Promotion of Policy Reforms** (1990s)

For Africa’s failure in structural adjustments and industrialization, and for financial crises (incl. Asian Financial Crisis), the lack of sound economic governance was blamed.

The Evolution of Development Models/Approaches

Second Generation (mid 1970s – 1990s)

➤ From **Highly Aggregative Macro Models** to **Specific Micro Studies**

✓ A closer look at the “**Residuals**” **Total Factor Productivity**

A composite of the effects of many different forces (Harberger, 1983; cf. Meier p. 18).

The power of ideas and innovations. **New Endogenous Growth Theories**. (Romer, 1986-)

✓ **New Market Failures and the Birth of Development Microeconomics**

- From old market failures (lack of competition, public goods, externalities, etc.) to new market failures (risks, imperfect and costly information, incomplete markets, transaction costs, etc.).
- → New or renewed analyses of Agriculture and Finance such as the sharecropping and microfinance. Financial institutions and markets was neglected by the first generation.
- **Farmers in developing countries are rational, but poor because of imperfect information.**

Tasks for the New Generation

Turn of Century

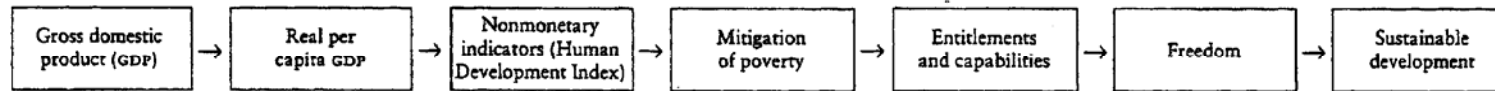


- **Beyond Income Growth: Patterns of Growth (Quality of Growth)**
- **Understanding the Sources of Growth**
(Globalization of Ideas and Human Capital)
- **The Influence of Institutions (“Getting Institutions Right”)**
- **Defining Social Capital**
The internal social and cultural coherence of society, the norms and values that govern interactions among people, and the institutions in which they are embedded. (Collier, 1998; Meier p. 29) “civil social capital” and “government social capital”
- **Evolution of Financial Institutions**
- **The Implications of Globalization**
- **Complementarity of State and Market**
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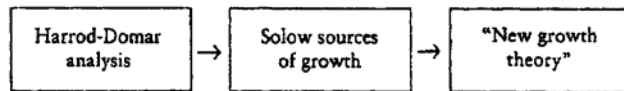
Meier and Stiglitz, *Frontiers of Development Economics* (P. 3)

Figure 1. The Evolution of Development Thought

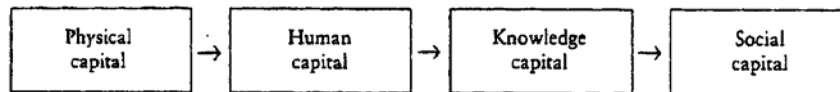
GOALS OF DEVELOPMENT



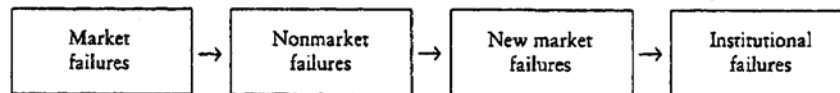
MACROECONOMIC GROWTH THEORY



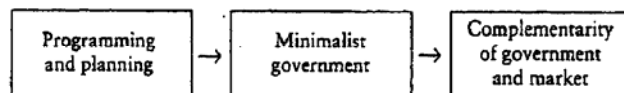
CAPITAL ACCUMULATION



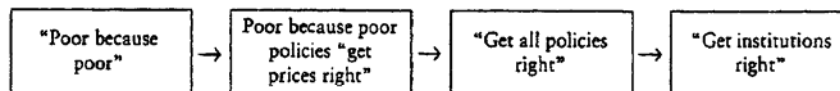
STATE AND MARKET



GOVERNMENT INTERVENTIONS

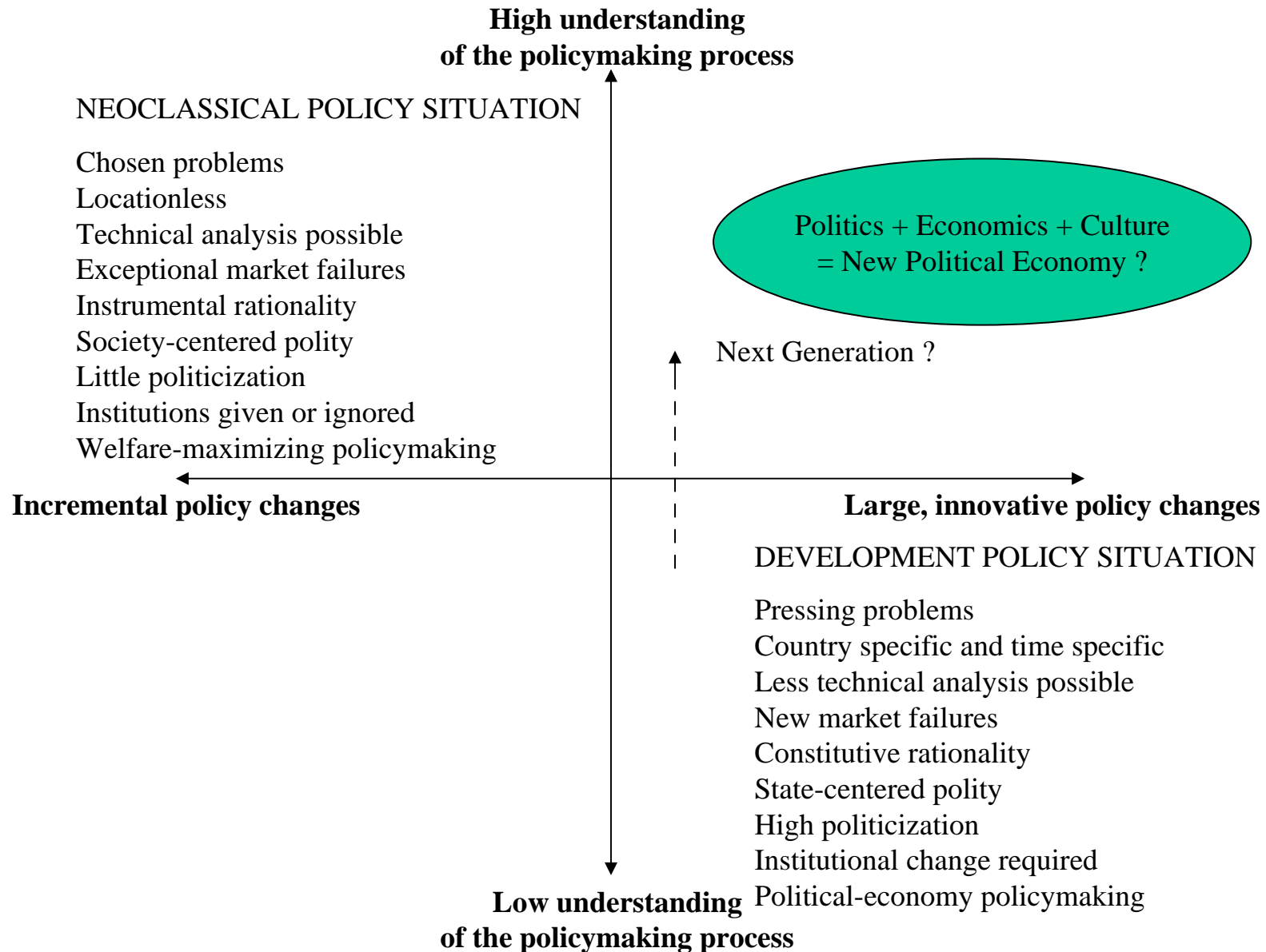


POLICY REFORM



Contrasting Analysis in Different Policy Situations

(from G. M. Meier, "The Old Generation and the New" Fig. 1, p.37)



Revolutions and the Evolution of Economic Systems

(based on Yukio Noguchi, "IT makes small-scale-organization economy advantageous" Nikkei, April 5, 2002)

