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A chronicle of academic thought about development and its significance for Jamaica

I. Introduction

Al Francis and I go back a long way. I knew him first when he was a graduate student at MIT, in the late 1960's and interested in applying quantitative methods to economic development issues. Before coming today, I looked at his folder in the Department records. In it there was a letter of recommendation for his admission to the Department. The letter described him, and I quote, as a person with "most pleasant scholarly and tough minded charm." I think that still catches him accurately.

Now I am going to give a serious talk but not a technical one, so sit back, prepare yourselves and do not expect much joking around.

Development studies were quite different in 1968, when Al received his Ph.D. than they are now and that difference is what I want to talk about. And I shall draw out some recommendations for Jamaican economic policy.

I propose to give you a bird's eye view of the past character of development studies and how the composition of those studies has evolved. In the process I will offer some opinions about the relative significance of different parts of that development thought. And finally I will offer some

suggestions about the relevance of development thinking to Jamaica's current situation.

I have heretofore avoided this subject because I have thought that it might appear to be an antiquarian interest and simply nostalgic reflections by a superannuated academic. But I think that it is interesting beyond an antiquarian interest to trace our thinking patterns. We are always in the middle of some paradigm of thought about development. We become enthusiastic about our latest discovery of the true way and believe that we have at last found the keys to the kingdom of understanding. Or, at least, we believe that our most current paradigm is very important, perhaps the most important set of issues and approach to thinking about development. By taking a retrospective view we might gain some balance to our present hubris when we think we know what we are doing.

I am going to focus on development thinking in academic circles in the Northern Hemisphere. That is related, though often not closely to development thinking in Africa, South America and the Caribbean, and South Asia. It is common, however, for scholars and practitioners in the latter areas to pick up the fashions of the year in Northern Hemisphere academic circles and run their own regressions on the currently fashionable variables.

Before starting, however, I want to emphasize a general lesson of the past. It is that it is important to recognize our continued limitations of our understanding of development processes and, against that, our success in gaining some understanding of some important features. A major problem is distinguishing ignorance from understanding.

No one after the end of World War II could have predicted the paths that have been taken by developing countries in the last 60 years. Who would have predicted in 1950 that Jamaica would have stagnated in the 1980's and 1990's and the first years of the 21st century? No one would have predicted the extraordinary growth of China in the last 25 years.

The chronicle of development is full of surprises, not all of them happy, by any means. I think that economists, in general, have underestimated the difficulties that many countries would have in achieving continuing significant economic growth. The excuse that political turmoil has been responsible for our mistaken projections is only another way of saying that we did not understand how political turmoil would accompany development efforts.

High on the list of surprisingly rapid successes are the so-called, "Asian tigers." They were not obvious winners on the list of prospective developers in the 1950's. The hopes for development in Africa, which

prevailed in the 1950's, led by Ghana and the Ivory Coast, disappeared rather quickly, with Ghana now, perhaps, recovering. Certainly the biggest surprise of the last thirty years has been the explosive growth in China, after almost thirty years of isolation and very uneven economic change and centuries of stagnation before that.

As the landscape of developing countries has changed, so has the thinking about development, but not always in correspondence.

II. The early days

In an important sense, economic development has been both an early and continuing preoccupation of economics. Adam Smith, titling his book, The Wealth of Nations, was concerned with the sources of economic wellbeing. The Reverend Thomas Malthus had a theory about what has come to be called economic development. Important themes in those books were disregarded by most development economists for some time, with some, but not consistent justification. The prevalence of micro and macro market failures makes Adam Smith's partiality toward markets suspect, although Smith, himself, warned against monopolies. The many examples of sluggish population growth seemed to make Malthus irrelevant. Skepticism, in turn, led to general neglect and that has only slowly been rectified.

It was only in the post-World War II period that explicit and concerted attention to the improvement of the economic and social conditions of the really poor countries of the world, which at one time were called the, “backward,” countries began in academia. That attention was, at first, spasmodic, even though it was institutionalized in 1945 in the creation of the World Bank when it was named officially as the International Bank for Reconstruction and Development. In the late 1940’s the concern with development began to infiltrate policy considerations. In 1949, in his inaugural address, President Truman’s last point, Point Four, said, “Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens,” a truly admirable objective.

Academia, however, was slow to pick up on the problem. Out of curiosity I went back to Agarwala and Singh’s collection of essays on development, published in 1958. It was, I think, the first collection of its kind. I looked at the dates of publication of the collected essays. There was nothing from the pre-World War II years. With one exception, they were all from the mid-1950’s, a few as early as 1952. The exception was the essay by Paul Rosenstein-Rodan, dated in 1945, “Problems in the Industrialization of Eastern and South-Eastern Europe.” I remember Paul Rodan telling me

that as World War II drew to an end he was commissioned by the British government to worry about Southeast Europe and his essay was the result.

Clearly there was a burst of academic energy and conceptualization about the essence and problems of development in the 1950's. Some of those ideas have been put aside, but many of them have continued to shape our perceptions and policy preferences. The differences between them are instructive and I will return to their consideration a little later. My own concern for development also originates in the mid-1950's, when Charles Kindleberger brought the area to my attention. I decide then that it would be both an intellectually and morally rewarding specialization.

Truman's Point Four embodied the idea that the central problem of development was technological backwardness. If only modern technology were brought to poor countries they would flourish. The simple idea was quickly modified. It did not take much insight in the 1950's to appreciate that, as compared to the industrialized countries, the developing countries had much, much less capital relative to their other resources. Thus, their growth would require a higher rate of investment and saving, either or both domestic and foreign. The essential truth of this perception remains. There have been refinements, however. First, if there was ever the intention to claim that investment was all that was required for growth, and that is doubtful, no one

would claim so now. Second, it was commonly thought that domestic saving was rather tightly related to domestic income, which was a Keynesian heritage. Poor countries were thought to be caught in the famous vicious circle of low incomes, low savings and, therefore, low investment and low incomes. It is now realized that, while that may sometimes be the case, it is certainly not always the case and low income countries are capable of relatively high rates of saving, for example, the new Asian tigers, China and India.

It is virtually forgotten now that there was a period in which the problem of development was thought to be, if not entirely, at least to a considerable extent, a lack of entrepreneurship. If only the indigenous peoples could be shaken, taught or exemplified out their lethargy and become true entrepreneurs, development would proceed. This so-called entrepreneurial constraint simply faded away as the examples of successful business and technical innovation multiplied as opportunities opened.

In the 1950's and 1960's there was a somewhat extended debate over the relative advantages of balanced versus unbalanced growth among the various economic sectors. The proponents of balanced growth never defined just what that balance should be or how it was to be achieved. On the other hand, the proponents of unbalanced growth never defined just what degree

of imbalance was desirable or how to achieve it. A little thought experiment suggests immediately that there must be a limit to the desirable degree of imbalance.

This last debate had some implicit connections to economic growth theory, which was a preoccupation among economic theorists in the 1960's. But the connections were never made explicit. The closest empirical approaches to the balanced growth idea came in the work of Hollis Chenery, who attempted to find the most effective sectoral patterns of growth by sifting through the empirical record. Eckaus and Parikh in their work constructed disaggregated growth models in which sectoral balance consistent with specific growth patterns was achieved. But neither of these were advertised as resolving the balanced/unbalance growth debate. The debate now stands only as a curioso among development ideas.

There was an early preoccupation with development planning. This predilection was reinforced by the apparent economic success of the Soviet Union and the effectiveness of wartime planning in the Soviet Union and Allied countries during World War II., especially as compared with the reverses of the Great Depression in the leading market economies. The early successes of India in the 1950's were also generally attributed to its

extensive government planning. India became a role model for developing countries and its special circumstances at the time were not appreciated.

Of course the international and the national assistance agencies wanted to be able to tell their constituencies that the foreign aid was being used wisely. So, as noted, they called for plans and actually helped to make the plans that the developing countries were to implement. Simple models were constructed and used to identify whether it was the, “domestic saving constraint,” or the, “foreign exchange constraint,” which was the most binding and an extensive literature flourished.

In fact economic planning was more praised, than practiced. The actual practice of what was called planning really consisted of government economic controls, over investments and other resource allocations, and foreign trade, with only a modest rationale and more ideology. A careful look at what lay behind the controls reveals that they were almost always based on unsophisticated economic analysis.

There was another substantial literature devoted to the estimation of the true, scarcity prices, or shadow prices. This recognized that the expansive government controls, as well as imperfect markets, made actual prices diverge from scarcity prices, There was much less recognition that

projects accepted at shadow prices could not flourish in the world of actual prices and required subsidies in order to persist.

External economies had been recognized explicitly and, perhaps most famously by Young. It was Paul Rosenstein-Rodan who gave it a central place in development thinking. His argument that development should not be a gradual process but rather a large scale effort, a Big Push, was intended to exploit the non-linearities created by externalities.

Rodan's idea was different from that of Walt Rostow that development would be a success only when economic growth became self sustaining. That sounds like a tautology and it is. Rostow never defined with a detectable degree of precision just how the, "take-off," would be achieved, other than that it would require a concerted effort. Nevertheless there was a good deal of attention to the notion with all the paraphernalia of books and conferences.

W. Arthur Lewis, the great native son of the West Indies, thought deeply and perceptively and wrote literately about the development process. His thoughts pervaded the early discussions, as an examination of his reviewers reveals, and he continues to provide the backdrop for much of contemporary deliberation.

One of the central issues which he identified was the ubiquitous unemployment in developing countries, recognizing that it was different in character from the cyclical unemployment that was a preoccupation of the industrialized countries in the mid-twentieth century. Lewis's ideas of structural unemployment and disguised unemployment gave intellectual precision to the notions of labor surplus that though commonplace at the time, were still quite vague.

The idea that market failures were endemic in developing countries was not so definitively articulated but was also pervasive in the early academic thinking about development. The pervasiveness of the market power of exporters in the industrialized countries and the problems of technology transfer were important justifications for the arguments for import substitution, which was a powerful theme in development policy in the 1950's, 1960's and 1970's, particularly in South America. Oddly enough, it seems to be reemerging now in some countries there, proving that bad ideas can have a vampire-like existence. The ideas that markets were both incomplete and controlled were commonplace in the policies of land reform, which were so powerful and widespread in the 1950's and 1960's.

By the 1970's a different set of development ideas emerged and became dominant. Perhaps the most influential of these had to do with the

presumed effectiveness of markets. The lessons of the Great Depression and World War II had faded, the apparent successes of Soviet Union had become tarnished. Most of all, the systems of so-called planning and extensive government regulation were failing to deliver the promised growth. These were the years in which Indian growth stagnated at the two percent per annum, “Hindu growth rate.”

It should not be surprising that the ideas that markets were complete and competitive, which were pushed forward by Chicago economists in the 1960's, found a ready audience. With that belief, development policy became much simpler. It was not necessary to worry about rural labor markets and rural unemployment, about further land reform and irrigation utilization and about rural credit and government programs of assistance. Efficient markets would take care of all of that and more. It has taken some time to move beyond these simplistic beliefs and they still hold sway in the international financial institutions. But there has been progress beyond the simple ideas, to which contemporary development thinking, to which I will come, has contributed importantly.

Independently and with more justification, there were reappraisals of the extensive system of trade and foreign exchange controls that had grown up in many developing countries. These were partly the result of the import

substitution ideology and partly the external manifestations of the commitment to government control of the development processes. In any case, there emerged by the early 1970's a series of criticisms of the effects of trade and exchange controls and examples of development success that were attributed to freer trade and exchange regimes. The new thinking swept the field and became deeply embedded in the ideologies of the major international financial institutions and foreign aid donors. It took some time for it to be noticed that, in several of the countries held up as notable examples of the new thinking, the increased participation in foreign trade was supported by undervalued exchange rates and government nourishment of exporters.

The 1960's were also the period in which grants and loans from the World Bank, foreign aid and various assistance programs took on major proportions. It should not be surprising, as later assessments revealed that the programs were much less successful than had been anticipated. The anticipations were incorrect. Not only did the authorities in the developing countries hardly know what they were doing, that was true also of the development assistance agencies.

Most of all, the development problems are really hard. The objectives were to change the thinking and the practices of millennia. Not an easy

thing to do, even with much more knowledge and insight than were available. Perhaps the optimism was essential in order to sell the assistance programs to generally unsupportive public opinion. But one suspects that the optimism was not just for advertising purposes.

In the latter 1970's and the 1980's new themes became emphasized in the thinking about development, focused on new issues that had emerged and particular features that were identified as bottlenecks or particular ways of facilitating overall growth. One of the most important of these went under the title of, "open economy macroeconomics." This area of analysis emerged from a succession of balance of payments crises. There were the financial crises of the late 1970's and 1980's in which a number of developing countries had difficulties in meeting the required interest and principal payments on the international loans that they had been encouraged to assume by private lenders. There were the crises brought on by the sudden and drastic increase in petroleum prices in the late 1970's and early 1980's, from which Jamaica suffered. That exacerbated the international lending crises. National and international financial institutions were mobilized to meet and defuse these crises and suggestions were requested of academics and offered even when not requested. The issues dominated

development thinking for a number of years and continue to engender special donor assistance and international debt forgiveness programs.

Meanwhile, the exploration in depth of particular aspects or issues of development, many of which had been previously identified, was being carried out. Each of these held the spotlight for a while and engendered special programs in the countries and, sometimes, special funds from international and national assistance agencies. The attention to the particular issues rose, in part, I believe, as a result of growing dissatisfaction or dismay with the progress of development in many countries. The initial optimism and patience was giving way to disappointment and a search for a new set of keys to open the development door.

Education as a key to development had always been an article of faith in development, but had been pushed into the background in the 1950's and 1960's by the apparently more functional programs of investment and international trade. In the search for means of breaking the bonds of stagnation, education again was put out on the center stage for a while. In spite of some skeptical assessments, more intensive programs were devised with increased resources, but too often with well meaning but misdirected practices.

Then health issues, including nutrition, were discovered, not just as humanitarian objectives, but as necessary conditions for development. Health issues became the foci of attention and, again, new programs were devised for their improvement, again, too often with well meaning but ineffective practices.

Finance, particularly large scale finance, had its time in the spotlight and initiatives were pushed for the establishment of security markets in developing countries on the grounds that these would encourage saving and mobilize it in the most efficient manner. Little came of these enthusiasms as most of the world of the developing countries was simply not ready for security markets.

In reaction to government direction and control of development policy, there was increased emphasis on the role of private markets and encouragement of small scale enterprise. Another enthusiasm which has had little practical effect was associated with the, “small is beautiful,” and, “appropriate technology,” slogans. At one point it seemed that every developing country had an appropriate technology center, in which disguised unemployment flourished.

Somewhat more specific was the discovery that effective governance made a difference to development. This in turn became the focus of

attention with accompanying exhortations and conferences and new agencies. Certainly, as with the previous set of ideas, there is more than a grain of truth to the idea that effective governance is important. But the relations of governance to practical politics remained largely, though not entirely, unexplored.

It would be a mistake to think of the successive themes as mere fads, as there is truth in the development significance that is given to them and also in their inherent value. What is a mistake is, first, to believe that there is a golden key to progress. Second, with respect to institutions and governance, the notions are quite suspect, first, that it is possible to identify the right set that will fit every country and, second, that there is something that outsiders can do about the issues. But that does not mean that, in each country, it is not possible to identify institutions that hold the country back.

Not so far in the background behind these separate initiatives are the international cross section regressions that relate economic growth to education, health, etc., etc. These are interpreted as providing the justification for the programs. The spate of these, once begun, seems not to have abated, in spite of skepticism as to whether they have demonstrated causality, whether the econometric techniques used are justified and the

demonstration, in some cases, of the sensitivity of the results to modest changes in specification.

As compared to the early literature and thinking about development, I believe there has in recent years been a shift in the thinking of economists as to what is involved. This is partly as a result of the successive emphases on particular features of developing countries and partly as a consequence of a deeper appreciation of the complexity of the social and economic changes required. The issues that dominated the early thinking about development were what I would call, “economy-wide,” issues. They were not macroeconomic issues in the current sense of the term, dealing with short term fluctuations in the overall economy and the role of international trade and public finance. There is still concern about those issues, as one can determine from looking at the economic development journals. However there is much more concern with what might be called, “details,” although that designation should not diminish their importance. There is much more attention, for example, to how schools operate, even attention to the effects on student learning of providing school lunches and how to get teachers to actually show up to teach their classes. There are sectoral studies that go to basic levels, such as the effects of the availability of local finance and how that might be improved.

The early literature and discussion asked, “Why have some countries remained very poor? And, “What accounts for the widespread unemployment that exists?” And, “Is sharecropping an efficient way to organize agriculture? Some of those big questions have been answered reasonably satisfactorily. The answers to others, including the first, “What is the source of underdevelopment?” remain controversial. In any case, the field has moved on, become more pragmatic and focused on specific issues.

The most recent wave of thinking has only just started to appear in the journals, but I can testify from sitting in on Ph.D. dissertation discussions at MIT that it is currently a major theme. It is the analysis of randomized tests of social programs, government and otherwise, and, as well, various private business practices. Often the randomness comes from the manner in which the programs were implemented, but, increasingly, from carrying out randomized trials.

School programs, health programs, financial programs, microcredit programs, nutritional programs are some of the areas investigated. The studies are finding that often the well-meaning programs have been ineffective or worse. The studies have also turned up practices that careful design should have avoided. For example, the investigation of a program of installation of water pumps that failed to reduce disease found that the

pumped water was fed into pools into which dirt accumulated from hands, feet and dirty pots.

These studies are changing the manner in which programs are designed to rely less on general well meaning and, instead, on careful analysis of the precise way in which the programs operated.

I should mention that, in my department at MIT, there is interaction between the academics using the techniques in development economics and academics investigating programs in the U.S. and other industrialized countries.

Relevance for Jamaica

Now it is time to think about Jamaica. You all know better than I do about the sluggish economic growth in Jamaica. What is the relevance of this overview of development thinking for Jamaica? Are there any clues there that could speed up Jamaica's growth?

Actually Jamaica is a puzzle in development thinking. Someone who looked only at a set of statistics about Jamaica's population characteristics and certain other social data might well think that it is a relatively prosperous country. It has a healthy and well-educated population, sophisticated professionals, a well-articulated judicial system and stable

democratic institutions; it should have a prosperous and vigorous economy.

But it does not! What is holding it back?

Could it be an overriding but impractical economic ideology of the government? That can do it and might have been true at one time, but not so obviously in the last two decades. Has it been a very unfavorable world economic climate which has restricted its trade? That has not been the case. What about high fuel costs? They are high, but have not been gross impediments to many other oil importing countries. What then?

Going back to the development ideas that I have just surveyed, I think some are quite relevant. One of them is that institutions are very important. Institutions are not just organizations and governmental structures, but include social and business practices and patterns. I feel more confident in saying this because it was said most cogently by Peter Henry a year and a half ago and probably by many others as the issues jump out at one.

High on the list of influences holding back Jamaica now is the violence in the country, which unfortunately is an institution in Jamaica. In a list of 58 countries Jamaica ranked third in the rate of intended homicides and ranked second in terms of homicides completed. That testifies to Jamaicans relative efficiency. Criminality was cited as the number one problem in a survey of Jamaican business executives. There is criminality

and violence in every country, but in Jamaica it is not occasional and isolated, it is a daily fact of life almost everywhere. The official statistics almost certainly underestimate its influence. While the body count of the murders may be correct, Jamaican criminals must be smart enough to understand how they can make money from the reports of the body count. The manipulation and extortion that goes along with a high body count is not fully reported.

What can be done about it? Perhaps more constables are needed and that would require a higher crime fighting budget. The more critical element is simply governmental resolve to do something about it. Examples from other countries show that such resolve can reverse the situation. The U.S. Federal Bureau of Investigation, the FBI, made its reputation destroying the gangs in Chicago. The Mafia has not been completely cleared from Italy, but the attacks on it in recent years have very much reduced its scope and influence. Reorganization of police forces in Mexico is being effective.

Governmental resolve is not enough. It must be supported by the Jamaican citizenry, as it would be, I believe.

Another kind of criminality that is endemic in Jamaica is corruption. It is not violent, although it may encourage violence. On the ranking of countries by the perception of corruption, out of 167 countries, there were 75

ranked as less corrupt than Jamaica. Some people have characterized corruption as kind of a private tax. But as a tax, the proceeds go into private hands and it is highly distorting.

Let me emphasize that I do not cite this problem from a desire to criticize Jamaica. This is a country and a people which I respect and of which I am quite fond. Moreover, I recognize that I live in a glass house. My own country, the U.S., is a violent one and has almost 4 times as many people in prison, per capita, than does Jamaica.

Suppose we turn to Asia for some lessons of development experience and look particularly at China and Korea. These are countries in which liberalizing economic reforms are given credit for generating remarkable growth. In particular, the encouragement for exports is often cited as the crucial factor. Yet, although it is not often recognized, behind those reforms were important supportive governmental policies. Korea and China both encouraged their exports, but both have protected their domestic markets from imports. I have followed the Chinese economy rather closely in recent years and noted China's promotion of its exports. It has given tax holidays and rebates to exporters, domestic and foreign, maintained favorable foreign exchange rates, favored treatment to foreign exchange earnings and subsidized domestic investments for exports by favorable treatment in land

and equipment purchases. In an earlier time, this would have been called industrial policy – and it has worked.

It has not required substantial government expenditures, so it has not contributed directly to government deficits. Although there may have been some reduction in government revenues, they have been made up by increased tax receipts from the more prosperous economies.

The policies have created an environment in which businesses have felt they could prosper. In those economies that favorable environment has been crucial. And I recommend such policies to Jamaica.

I should emphasize that this recommendation does not stem from a conservative ideology – I am not known as a conservative. It stems from pragmatism. I have seen it work!

A specific suggestion that I would make is that the financial space for government activity be enlarged by reducing the government debt. That can be done by reversing, gradually, the acquisition of much of the debt from the banking system. Put the debt back in the hands of the banks, which are in relatively good shape now. They could absorb it, if it is done slowly.

Conclusions

For economic policy in Jamaica, I suggest that you not worry about balanced growth or economic planning. Continue to worry about health and education, though you are doing relatively well.

Have an activist government, not primarily in terms of macroeconomic stimulation, but in terms of microeconomic stimulation. Provide infrastructure. Drive down criminality, corruption and cronyism, especially in finance. Simplify tax collection procedures and business regulation. Ensure that credit is available, not just to established large businesses, but to smaller and new businesses. If the banks do not do this, establish government agencies to promote such credit. Provide incentives for entrepreneurs and exporters, domestic and foreign. Watch how those incentives are used and protect workers, but without creating barriers to capital and labor mobility.

Finally, a salute to Al Francis: the distinguishing feature of the economics as practiced in the Economics Department of the University of the West Indies in Jamaica is that it has always been intellectually respectable. That, to a large extent, is due to the leadership of Al Francis, whom we can all thank.

