

envisaged a process of enlightenment, of becoming more modern and less traditional, and saw a group of enlightened Western scientists 'guiding' the paths to progress of distant others. Arturo Escobar (1995: 2–4) has even argued that the post-1945 development project is 'the last and failed attempt to complete the Enlightenment in Asia, Africa and Latin America'. 'Development' represents more than a singular post-war historical experience, however, and has complex roots in the emergence of 'the Enlightenment' at the dawn of European industrial capitalism, and in the rise and formation(s) of European modernity. It is also important to remember that European and Western identities have been formed by contrasting modernity with the tradition and backwardness of the 'Third World' as 'other'.

Even today, the work of enlightenment thinkers like Adam Smith (with his free-market economics) remains very relevant to 'international development' for some observers. Examples of this can be found in some of the key global development institutions, such as the World Bank, which see their (neoclassical) knowledges as potentially enlightening. Consider the following quotation from a speech given by the World Bank President James Wolfensohn in 1996: 'Knowledge is like light. Weightless and intangible, it can easily travel the world, enlightening the lives of people everywhere. Yet billions of people still live in the darkness of poverty – unnecessarily' (quoted in Patel 2001: 2). Thus the knowledge and expertise of contemporary development practitioners is seen as something almost universal that easily traverses borders, extinguishing the darkness of poverty wherever it shines. For some theorists and practitioners of development today, people and places can become 'developed' simply through acquiring scientific and technical knowledges about the 'normal' or correct series of developmental stages. If only it were that simple.

#### GUIDE TO FURTHER READING

- For an excellent introduction and overview to early development discourses and ideas, see Rist, T. (1997) *History of Development*, London: Routledge.
- Cowen, M.P. and Shenton, R.W. (1996) *Doctrines of Development*, London: Routledge. Provides an accessible discussion of enlightenment ideas, exploring their bearing on the construction of particular development approaches and doctrines.
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- Hall, S. and Gieben, B. (1992) *Formations of Modernity*, Cambridge: Open University/Polity. Focuses on the making of modernity in the non-Western world.
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### 2.3 Smith, Ricardo and the world marketplace, 1776–2007: Back to the future?

David Sapsford

#### Introduction

Why do countries trade with one another? What determines the terms on which trade between countries is conducted in the world marketplace? These two questions are perhaps the most fundamental to be considered in any analysis of international trade, be it trade *between* developed and developing countries or trade *among* countries in either the developing or the developed world. These questions are of special importance in the context of economic development, since if there are 'gains from trade' to be had, the distribution of such gains between trading partners carries important implications for living standards and economic welfare within the participating countries.

The classical economists, most notably Adam Smith (1723–90) and David Ricardo (1772–1823) considered these two questions, and their analyses are outlined in the following section. Subsequent sections consider the available evidence regarding the changes that have occurred over the long run in the terms on which trade between developed and developing nations has been conducted, exploring the implications of this for economic development in the developing world.

#### Absolute and comparative advantage

The foundations of the economic theory of international trade were laid by Adam Smith in *The Wealth of Nations* (1776). Smith's analysis of the division of labour is well known, and to a large extent he saw the phenomenon of international trade as a logical extension of this process, with particular regions or countries (rather than particular individuals) specializing in the production of particular commodities. Smith's view is clearly demonstrated by the following quotation:

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than buy... What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy of them with some part of the produce of our own industry, employed in a way in which we have some advantage (Smith 1776: 424).

Thus, according to Smith, countries engage in trade with one another in order to acquire goods more cheaply than they could produce them domestically, paying for them with some proportion of the output that they produce domestically by specializing according to their own 'advantage'. Central to this view is the notion that relative prices determine trade patterns, with countries buying abroad when foreign prices are below domestic ones. In addition, Smith argued that by expanding the size of the market, international trade permits greater specialization and division of labour than would otherwise have been possible. This is perhaps one of the earliest arguments in favour of globalization as a process by which the size of the world marketplace is increased.

Economics textbooks abound with simple two-country/two-good examples that illustrate Smith's argument. Suppose that the world consists of only two countries (say, the UK and the USA) and only two goods (say, food and clothing). Within this (over)simplified framework, let us assume that the USA is more efficient than the UK at producing food (in the sense that fewer resources are needed to produce a unit of food in the USA than in the UK) and (in the same least resource-cost sense) that the UK is more efficient than the USA at producing clothing. In economists' terminology, this example represents the case where the UK possesses *absolute advantage* in the production of clothing, while the USA possesses absolute advantage in the production of food. To further simplify, let us assume that labour is the only factor of production and that within each country it is mobile between the two industries. Assume also that wages are the same in both countries and that transport costs are zero. On the basis of this battery of assumptions, the USA will be the cheaper source of food and the UK of clothing. It is a matter of simple arithmetic to show that if both countries are initially producing some of each good, it is always possible to increase output of both goods if each country specializes in the production of that good for which it possesses absolute advantage. It also follows that by trading, each country can consume the bundle of clothing and food that it consumed in the absence of trade (that is, under *autarky*), while still leaving some of each product over! Each country thus has the potential to increase its consumption of both goods and, assuming that more of each good is preferable to less, in principle, trade can allow both trading partners to increase their *economic welfare*. As already noted, the distribution of this surplus (that is, the distribution of the *gains from trade*) between the two countries is an important matter, especially in the context of economic development. We return to this issue in the following section.

The case analysed by Adam Smith considered, quite naturally at the time he was writing, the situation where one country possesses absolute advantage in the production of one good, while the other country possesses it in the production of the other good. Writing four decades later, David Ricardo considered the rather more tricky analytical case in which one of the two countries (say, the UK) is more efficient at producing *both* goods. According to Adam Smith's absolute advantage argument, both goods should be produced by the UK. However, this situation can clearly not represent a feasible state of affairs in the long run since although the USA will seek to purchase both goods from the UK, the UK will not wish to buy anything from the USA in return. Ricardo (1817) was the first economist to provide a formal analysis of this case, and by so doing he derived his famous *Law of Comparative Advantage*.

According to Ricardo's Law of Comparative Advantage, which encompasses Adam Smith's analysis of absolute advantage as a special case, world output, and therefore (on the basis of the assumption discussed above) world economic welfare, will be increased if each country specializes in the production of that good for which it possesses *comparative* advantage. The concept of comparative advantage is basically concerned with comparative efficiency, and Ricardo's law follows from recognizing the fact that differences in the relative prices of the two goods as between the two countries opens up the possibility of mutually beneficial trade. To take a concrete example, suppose that the labour required to produce 1 unit of each good in each country is as set out in Table 1. Notice that the UK requires less labour than the USA in both industries.

On the basis of these figures (and assuming that labour productivity in each industry does not alter with the level of output) we can see that in the absence of trade, each unit of food within the UK trades for 2.5 units of clothing, since each is equivalent to the output of five people. Likewise, in the USA, 1 unit of food trades for 0.5 unit of clothing, each being the output of six people. It is the difference between these two relative prices (or internal terms of trade) that opens up the possibility for mutually beneficial trade. For example, if US prices prevail in the world outside the UK, a UK citizen in possession of 1 unit of food can exchange this within the UK for 2.5 units of clothing, which could then be sold in the USA for 5 units of food; thereby providing a gain equal to 4 units of food. Likewise, if UK relative prices prevail, a US producer employing 12 people to make 1 unit of clothing could switch to the food industry and thereby produce 2 units of food, which could then be sold in the UK for 5 units of clothing, thus realizing a gain of 4 units of clothing. At intermediate relative prices (or terms of trade), both countries can gain from trade, although not to the extent shown in the respective examples given above.

In a nutshell, according to Ricardo's analysis, each country shifts its production mix towards the good for which it possesses comparative advantage. In our example, the UK has comparative advantage in the production of clothing, whereas the USA's comparative advantage is in food, where it is *less inefficient*. Reading across the rows in Table 1, we see that this follows because the UK requires five-sixths of US unit inputs in food, but only one-sixth in clothing.

Table 1 Labour requirements matrix

	Labour per unit of output	
	UK	USA
Food	5	6
Clothing	2	12

### Who gains from trade?

While the elegance of Ricardo's analysis and its correctness within the confines of its own assumptions cannot be faulted, it does beg a question that is vitally important in the context of trade that takes place between countries of the developed/industrialized world and countries of the developing world. While the analysis demonstrates quite clearly the *potential* benefits to trading partners from engaging in international trade in the world marketplace, it has nothing whatsoever to say about the division of these potential gains between them. As we saw in the preceding example, if relative prices in the world marketplace were equal to US relative prices, the UK would effectively appropriate all the gains from trade for herself, whereas, at the opposite end of the spectrum, the USA would scoop all the gains if UK relative prices prevailed.

In order to focus our ideas, let us consider trade between the countries of the developed/industrialized world and those of the developing world, and, for simplicity, assume that the former produce manufactured goods while the latter produce primary commodities. The fact that Ricardo's analysis did not shed any light on the issue of how the potential gains from trade are shared out in practice did not seem to constitute a problem in the minds of classical economists, since in a related context, Ricardo, like Smith before him, had argued that as an inevitable consequence of the twin forces of diminishing returns in the production of primary commodities from a fixed stock of land (including mineral resources) as population increased, and the downward pressures on production costs in manufacturing generated by the moderating influences of surplus population and urbanization on wages, the price of primary products would rise over the long run in relation to the price of manufactured goods, thereby giving rise to an upward drift in the net barter terms of trade between primary commodities and manufactured

goods.<sup>1</sup> On the above assumptions, this movement will translate into an improvement in the terms of trade of developing countries vis-à-vis the developed countries. On the basis of this argument, there was little, if any, reason to be concerned about the plight of developing countries in the context of their trading relations with the industrialized world, since it predicted that over the long run, the terms of trade would shift steadily in their favour, with the result that they would enjoy an increasing proportion of the potential gains from trade.

However, in the early 1950s, the classical prediction of a secular improvement was challenged by both Prebisch (1950) and Singer (1950). Both argued forcefully that in direct contravention of the then still prevailing classical prediction, the terms of trade had actually, as a matter of statistical fact, been historically subject to (and could be expected to continue to be subject to) a declining trend. Both analyses therefore implied that, contrary to the classical view, developing countries were actually obtaining a falling proportion of the potential gains from their trade with the countries of the developed world.

A number of theoretical explanations have been put forward in the literature to account for the observed downward trend in the terms of trade of developing countries, relative to developed countries, and these can be conveniently summarized under the following four headings:

- 1 *differing elasticities of demand for primary commodities and manufactured goods* (with the inelastic nature of the former resulting in a tendency for increases in the conditions of commodity supply to be felt more strongly in price decreases than in quantity increases);
- 2 *differing rates of growth in the demands for primary commodities and manufactured goods* (with the demand for primaries expanding less rapidly than the demand for manufactures due to their lower income elasticity of demand – especially so in the case of agricultural commodities due to the operation of Engel's Law – plus the development of synthetic substitutes and the occurrence in manufacturing of technical progress of the raw materials-saving sort);
- 3 *technological superiority* (the argument being that the prices of manufactured goods rise relative to those of primaries because they embody both a so-called Schumpeterian rent element for innovation, plus an element of monopolistic profit arising from the monopoly power of multinational producers);
- 4 *asymmetries in market structure* (the argument here is that differences in market structure – with primary commodities typically being produced and sold under competitive conditions, while manufacturing in industrialized countries is often characterized by a high degree of monopoly by organized labour and monopoly producers – mean that while technical progress in the production of primary commodities results in lower prices, technical progress in manufacturing leads to increased factor incomes as opposed to lower prices).

### Policy implications

Although space constraints do not allow the discussion in any detail of the policy implications of the observed worsening trend in the terms on which trade is conducted in the world marketplace between primary commodity-producing countries and manufacturing countries, it is important to note that the Prebisch–Singer hypothesis is sometimes advanced as one argument in favour of development policies of the import-substituting industrialization as opposed to export promotion variety (Sapsford and Balasubramanyam 1994). However, the policy issues here are not clear-cut, and the fact that all four of the above explanations relate as much, if not

<sup>1</sup> For brevity, I refer hereafter to the net barter terms of trade between primary commodities and manufactured goods (i.e. the ratio of the price of primary commodities to the price of manufactured goods) as simply their terms of trade.

more, to the characteristics of different types of countries as to the characteristics of different types of traded goods, highlights the need to devise and implement policies that address differences and imbalances of the former as opposed to the latter sort.

It is now the case that at least some of the international agencies involved in the world trading system have come to accept that primary commodity producers in developing countries do face real and significant uncertainties and risks regarding the prices that they will actually receive for their products when they come to the world market. At the time of writing, a task force set up under the auspices of the World Bank is investigating a range of possible 'market-based' approaches for dealing with the price risks faced by primary commodity producers in developing countries. As pointed out by Morgan (2001), these approaches appear to represent an attempt to confront price risk by modifying the financial environment within which primary producers in less developed countries operate. However, it remains to be seen whether such approaches will prove any more, or less, successful than the various policies which have preceded them.

### 1776–2007: Back to the future?

Some 231 years have elapsed since Adam Smith laid the initial foundations of trade theory as we know it today. It is testament to the logical correctness of his analysis, especially as extended by Ricardo, that this theoretical framework is still pivotal to twenty-first-century thinking in both trade theory and policy formulation. As we have seen, the central prediction of this approach is that provided the world terms of trade lie within the limits imposed by domestic opportunity cost ratios, international specialization and exchange via trade provides an opportunity for both trading partners to benefit from increased output (and therefore economic welfare) with given resource/factor endowments. However, we have also seen that there is a school of thought surrounding the Prebisch–Singer hypothesis suggesting that, in practice, the actual terms of trade have drifted, within the range delineated by the Ricardian analysis, in favour of the industrialized (manufacturing) nations to such an extent that these nations have appropriated for themselves the lion's share of the gains from trade, leaving only small pickings for the (primary-commodity-dependent) poorer countries of the developing world.

What does current experience tell us in relation to the fundamental question of who has gained what from participating in international trade? The basic structure of international institutions that currently oversee/govern the day-to-day conduct of international trade and commerce were laid down in 1944 at the famous Bretton-Woods Conference. Prominent among these institutions is what is now known as the World Trade Organization<sup>2</sup> (WTO) whose mission, in a nutshell, is to provide an arena and set of processes and rules designed to achieve multilateral reductions in trade barriers. The underlying philosophy here, squarely in the spirits of both Smith and Ricardo, is to maximize the potential global gains from trade by minimizing (if not completely eliminating) impediments to free trade, such as import tariffs, quotas, and so on.

We have now accumulated more than 60 years of experience of the operation of this process of tariff reduction via multilateral trade negotiations under the auspices of the WTO and its predecessors. Although advocates of free trade see the WTO as having achieved considerable success in its mission to reduce average tariff levels, experience since the mid-1990s might be interpreted as suggesting an altogether less rosy picture when one comes to ask the important question as to who has actually harvested the global gains generated by this move closer to free trade in the sense understood by Smith and Ricardo. Although a detailed discussion of the operation of the WTO is

<sup>2</sup> Previously known as the General Agreement on Tariffs and Trade (GATT), although originally named (by Keynes as the principal architect of the Bretton-Woods system) the International Trade Organization (ITO). See Chen and Sapsford (2005).

beyond the scope of the current chapter, it should be noted that it seeks to achieve multilateral reductions in tariff (and other non-tariff) barriers via a series of negotiating rounds. In 1994, the trade deal that came out of the so called Uruguay Round of negotiations was signed, although the negotiations had appeared to be on the verge of collapse as late as 1990. One major factor that surfaced during the Uruguay Round was the view of poor, primary-commodity-dependent countries that the proposed package would bestow substantial benefits on the industrialized countries, while offering them very little. In 1999, pressure to offer a better deal to poor countries led to a summit meeting in Seattle, which ended in failure (accompanied by public disorder). In 2001, in an attempt to reinvigorate the process of multilateral tariff reductions, WTO members agreed to launch fresh talks, known as the Doha Development Round. Despite this initiative, however, the 2003 ministerial summit in Cancun, Mexico, collapsed in acrimony over the developed countries' intransigency over the issue of removal of subsidies paid to their farmers. In response to this, the 2004 deadline for agreement was pushed back in an attempt to inject new life into the Doha Round. In 2005, the latest ministerial summit in Hong Kong just about managed to keep the process alive. However, in June 2006, the WTO director general, Pascal Lamy, publicly declared the whole process of multilateral negotiations in crisis, while at the subsequent G8 summit, representatives of these major industrial nations called on countries to return to the negotiating table. In July 2006, representatives of six key member countries met at the WTO's offices in Geneva for what was envisaged as the first of a series of meetings designed to get the process back on the road. However, talks finally broke down after 14 hours, with no (obvious) common ground having been established.

What is to be made of this tale? At the time of writing (December 2006) the picture is clearly one where the very continued existence of the process of tariff reductions via multilateral negotiations is hanging by little more than a thread. The current stumbling block from the perspective of the poor countries is the refusal of the major developed countries (including the EU and USA) to remove the trade barrier imposed by the still substantial subsidies paid to their farmers. However, there is a wider view, according to which this particular issue is but a symptom of a more fundamental problem: namely, that after participating in the process of multilateral tariff reduction for at least half a century, the poor countries of the world have continually seen the gains from the trade being appropriated by their richer trading partners. Indeed, some commentators are predicting that such is their degree of dissatisfaction with a process which has delivered so little to them relative to their richer trading partners, that group(s) of poor countries are on the verge of withdrawing altogether from the process, in favour of going it alone.

Whether the thread eventually breaks remains to be seen. I wonder what Adam Smith and David Ricardo would make of this twenty-first-century situation!

#### GUIDE TO FURTHER READING

- Detailed discussion of both the theoretical arguments and statistical evidence underlying the declining trend in terms of trade hypothesis can be found in the following texts.
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- Comprehensive discussion of a wide range of issues relating to the relationship between economic development and international trade may be found in the following text.
- Greenaway, D. (ed.) (1988) *Economic Development and International Trade*, London: Macmillan.

Highly accessible discussion of the main issues involved in the globalization debate, seen from either side of the fence, can be found in the following two references.

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## 2.4 Dualistic and unilinear concepts of development

Tony Binns

### The development imperative

After the Second World War, Europe embarked on a massive programme of reconstruction, instrumental to which was the Marshall Plan, launched by the US Government on 5 June 1947. While the Marshall Plan was heralded as US financial help to the devastated economies and infrastructures of Western Europe, this 'goodwill gesture' was also designed to stimulate markets for America's burgeoning manufacturing sector. The Marshall Plan, which injected US\$17 billion mainly into the UK, France, West Germany and Italy between 1948 and 1952, generated much confidence in the role of overseas economic aid (Hunt 1989; Rapley 1996). Another landmark in the recognition of the need for richer countries to play an active role in the development of poorer countries came less than two years later, on 20 January 1949, when US President Truman, in 'Point Four' of his Inaugural Address, proclaimed:

we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas. For the first time in history, humanity possesses the knowledge and skill to relieve the suffering of these people... I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life (Public Papers of the Presidents of the United States 1964: 114-15).

'Point Four' probably inaugurated the 'development age', and 'represents a minor masterpiece...in that it puts forward a new way of conceiving international relations' (Rist 1997: 71–2).

### The neoclassical paradigm

The so-called neoclassical paradigm dominated much thinking about development in the two or three decades after the Second World War. Adam Smith, the founding father of the classical school, writing in his *Wealth of Nations* (1776) in the early years of the Industrial Revolution, saw manufacturing as capable of achieving greater increases in productivity than agriculture. He emphasized the expansion of markets as an inducement for greater productivity, which he believed would lead to greater labour specialization and productivity. More than a century later, in 1890, Alfred Marshall, in his influential book, *Principles of Economics*, spelt out the neoclassical perspective, emphasizing the desirability of maximizing aggregate economic welfare, while recognizing that this was dependent on maximizing the value of production and raising labour productivity. Technological change was recognized as being vital to raising productivity and meeting the demands for food and raw materials from a growing population. There was also a strong belief that free trade and the unimpeded operation of the market were necessary for maximizing efficiency and economic welfare (Hunt 1989).

### Dualism

Another theme that emerged in the post-war period was that underdeveloped economies were characterized by a 'dichotomous' or 'dualistic' nature, where advanced and modern sectors of the economy coexisted alongside traditional and backward sectors. A strong proponent of the dualistic structure of underdeveloped economies was the West Indian economist Arthur Lewis, whose seminal paper 'Economic development with unlimited supplies of labour' was published in 1954. Like others who followed him, Lewis did not differentiate between economic growth and development. The paper, which, significantly, opens with the statement, 'This essay is written in the classical tradition', envisages a division of the economic system into two distinct sectors – capitalist and subsistence. The subsistence sector, according to Lewis, consists predominantly of small-scale family agriculture, and has a much lower per-capita output than the capitalist sector, where manufacturing industry and estate agriculture, either private or state-owned, are important elements. The process of development, Lewis suggested, involves an increase in the capitalists' share of the national income due to growth of the capitalist sector at the expense of the subsistence sector, with the ultimate goal of absorption of the latter by the former. Since most labour for the capitalist sector would come from underemployed labour in subsistence agriculture, changes within the latter sector were seen as essential for the process of overall economic development.

The Lewis model had a significant influence on development thinking in the 1950s and 1960s, but it has been criticized for failing to appreciate the positive role of small-scale agriculture in the development process. With such agronomic successes as the Green Revolution, it was realized that raising the productivity of the rural subsistence sector could actually be an important objective rather than a constraint in development policy.

The concept of dualism is also apparent in some early spatial development models, focusing on the different qualities and potential of contrasting regions, rather than economic sectors as in the Lewis model. While some would argue that the development of certain areas at the expense of others is likely to inhibit the growth of the economy as a whole, others regarded initial regional inequality as a prerequisite for eventual overall development. Both Gunnar Myrdal and Albert Hirschman, for example, advocated strategies of 'unbalanced growth'. Myrdal's (1957) 'cumulative causation' principle suggested that once particular regions have, by virtue of some initial advantage, moved ahead of others, new increments of activity and growth will tend to be concentrated in already

expanding regions because of their derived advantages, rather than in other areas of the country. Thus, labour, capital and commodities move to growing regions, setting up so-called 'backwash effects' in the remaining regions, which may lose their skilled and enterprising workers and much of their locally generated capital. However, Myrdal recognized that such less dynamic areas may benefit from centrifugal 'spread effects', in that by stimulating demand in other, particularly neighbouring regions, expansion in the growing areas may initiate economic growth elsewhere.

Hirschman (1958), working independently of Myrdal, followed similar thinking, proposing a strategy of 'unbalanced growth', and suggesting that the development of one or more regional centres of economic strength is essential for an economy to lift itself to higher income levels. He envisaged spatial interaction between growing 'Northern' and lagging 'Southern' regions in the shape of 'trickle-down' and 'polarization' effects, similar to Myrdal's spread and backwash effects. Keeble (1967) argued that Hirschman's model,

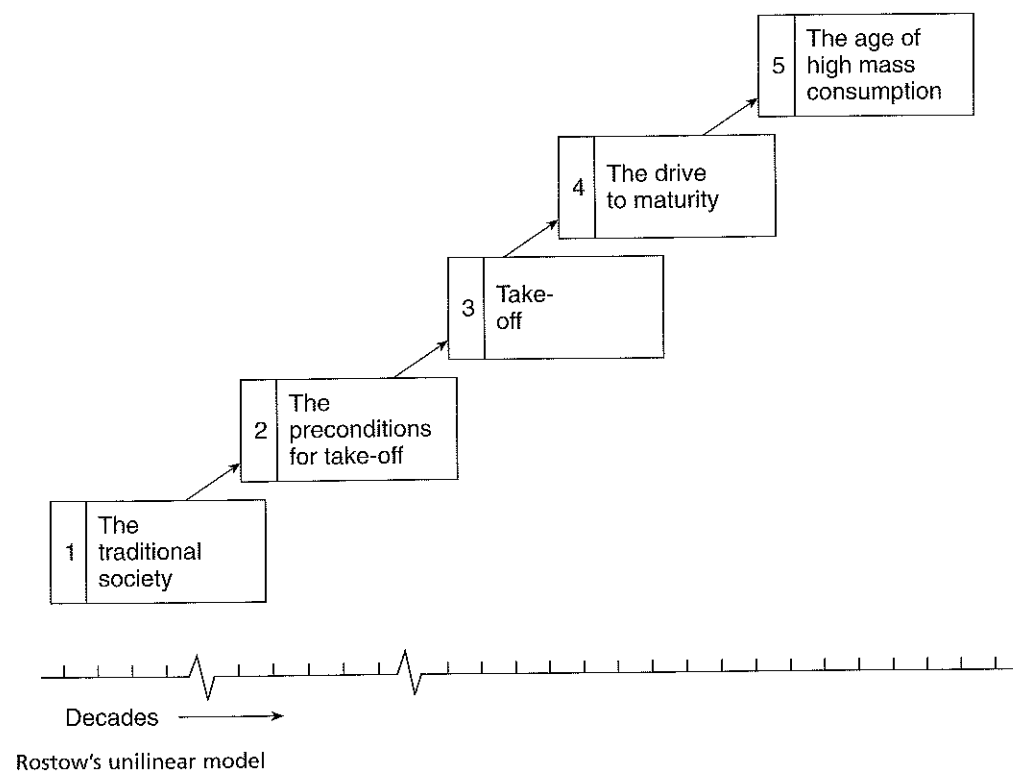
far from assuming a cumulative causation mechanism, implies that if an imbalance between regions resulting from the dominance of polarization effects develops during earlier stages of growth, counter-balancing forces will in time come into operation to restore the situation to an equilibrium position. Such forces, chief of which is government economic policy, are not to be thought of as intensified trickling-down effects, but as a new element in the model, arising only at a late stage in development. Their inclusion, together with the exclusion of any cumulative mechanism, represents the model's chief structural differences from that of Myrdal (Keeble 1967: 260).

A significant policy implication of Hirschman's unbalanced growth model is that governments should not necessarily intervene to reduce inequalities, since the inevitable search for greater profits will lead to 'a spontaneous spin-off of growth-inducing industries to backward regions' (Potter et al. 2004: 84).

The spatial models of Myrdal and Hirschman have strong parallels with the work of François Perroux and other French economists in the 1940s and 1950s, who pointed out that growth did not appear everywhere simultaneously, but instead is frequently located in a 'growth centre or pole' (*pôle de croissance*). In essence, the growth centre model depicts the transmission of economic prosperity from a centre, most commonly an urban-industrial area, as a result of the interplay of spread and backwash effects. The model singles out crucial variables in the development of spatial variation in economic prosperity within a region and specifies how they operate. A particular 'growth industry', such as motor manufacturing, is likely to attract other linked industries, such as those which supply it with inputs and/or derive their inputs from it. Other agglomeration economies may encourage further growth, while technological change is encouraged through close proximity and interaction between the various industrial enterprises.

### Unilinear models

Much post-war development thinking was strongly 'Eurocentric' in that, often inappropriately, 'theories and models [were] rooted in Western economic history and consequently structured by that unique, although historically important, experience' (Hettne 1995: 21). Walt Rostow's (1960) 'unilinear' model (see figure) is probably the best-known attempt to show how a country's economy and society progress through a series of stages, and is firmly based on the Euro-American experience. It was undoubtedly the most influential modernization theory to emerge in the early 1960s. It is interesting to note that Rostow entitled his book *The Stages of Economic Growth: A Non-communist Manifesto*, and, '[his] perception of the purpose of the United States' promotion of economic development in the Third World was governed by a strongly anti-communist stance' (Hunt 1989: 96). Indeed, early in his book, Rostow asserts that he is aiming to provide 'an alternative to



Karl Marx's theory of modern history' (Rostow 1960: 2). The key element in Rostow's thinking was the process of capital formation, represented by five stages through which all countries pass in the process of economic growth.

- *Stage 1 – Traditional society:* Characterized by primitive technology, hierarchical social structures, production and trade based on custom and barter, as in pre-seventeenth-century Britain.
- *Stage 2 – Preconditions for take-off:* With improved technology and transport, and increased trade and investment, economically based elites and more centralized national states gradually emerged. Economic progress was assisted by education, entrepreneurship and institutions capable of mobilizing capital. Often traditional society persisted side by side with modern economic activities, as in seventeenth- and eighteenth-century Britain, when the so-called 'agricultural revolution' and world exploration (leading to increased trade) were gaining momentum. While the preconditions for take-off were actually endogenous in Britain, elsewhere they were probably the result of 'external intrusion by more advanced societies' (Rostow 1960: 6).
- *Stage 3 – Take-off:* The most important stage, covering a few decades, when the last obstacles to economic growth are removed. 'Take-off' is characterized by rapid economic growth, more sophisticated technology and considerable investment, particularly in manufacturing industry. The share of net investment and saving in national income rise from 5 per cent to 10 per cent or more, resulting in a process of industrialization, as in early nineteenth-century Britain. Agriculture becomes increasingly commercialized and more productive with increasing demand from growing urban centres.
- *Stage 4 – Drive to maturity:* A period of self-sustaining growth, with increasing investment of between 10 and 20 per cent of national income. Technology becomes more sophisticated,

there is greater diversification in the industrial and agricultural sectors and falling imports, as in late nineteenth- and early twentieth-century Britain.

- *Stage 5 – Age of high mass consumption:* The final stage, characterized by the increasing importance of consumer goods and services, and the rise of the welfare state. In Britain and Western Europe, this stage was not reached until after the Second World War (post-1945), but in the USA, mass production and consumption of consumer goods, such as cars, fridges and washing machines, came earlier, during the 1920s and 1930s.

Despite its considerable influence on development planning at the time, Rostow's model has been strongly criticized for a number of reasons. First, it is a 'unilinear' model, implying that 'things get better' over time, which is by no means always true, as, for example, the experience of many sub-Saharan countries indicates. Increases in per-capita income have scarcely kept pace with world trends and the AIDS pandemic has had a devastating effect on mortality and life expectancy rates. Most sub-Saharan countries are relatively worse off in the early twenty-first century than in the 1960s, when many gained their independence. Second, it is a 'Eurocentric' model, suggesting that all countries will imitate the experience of Europe and America. It is quite inappropriate to apply such a model to countries which have been subjected to colonial rule and whose economies (and societies) have been manipulated to serve the demand for agricultural and mineral resources from the growing manufacturing sectors in the metropolitan countries. Third, the model suggests that all countries progress through these stages in the same sequence as happened in Europe and North America. But in some developing countries the sequence of events has not been so straightforward, with rapid change in the agricultural, industrial and service sectors, for example, happening at the same time, rather than sequentially. While modern consumer goods, schools and hospitals may be present in towns and cities, in remote rural areas these facilities are frequently absent, and poor farmers still use simple technology to produce food for their families. Finally, it is often wrongly seen as a 'development' model, whereas it is actually an 'economic growth' model. Rostow was concerned more with economic progress and increasing industrial investment, rather than human welfare and other non-economic indicators of development. Some countries have experienced periods of rapid economic growth, yet much of the population has felt little benefit from this – what might be called 'growth without development' (Binns 1994). The real significance of the Rostow model was that it seemed to offer every country an equal chance to develop.

### From dualism to basic needs

The lack of distinction and explanation drawn by Rostow and others between the processes of 'growth' and 'development' led some writers to try to clarify the situation. There was also growing concern that economic growth, which had been the main preoccupation of Lewis, Hirschman, Myrdal and Rostow, did not necessarily eliminate poverty, and that the so-called 'trickle-down' effects of growth generally failed to benefit the poor in both spatial and social terms. Dudley Seers provided much-needed clarification on the meaning of development, suggesting that poverty, unemployment and inequality should be key foci in the development debate, and that there should be greater concern for the fulfilment of basic needs (notably food, health and education) through the development process (Seers 1969, 1972). The basic needs approach gained momentum in the mid-1970s. The International Labour Organization's 1976 conference on World Employment adopted the Declaration of Principles and Programme of Action for a Basic Needs Strategy of Development, highlighting poverty alleviation as a key objective for all countries in the period up to the year 2000. Possibly the main weakness of the basic needs strategy was its top-down approach, 'which made it vulnerable to changing fashions in the international aid bureaucracy' (Hettne 1995: 180). In spite of such limitations, the debates surrounding the meaning and process of development and the question of basic needs did much to move development thinking and policy away from the dualistic, unilinear and essentially Eurocentric approaches of the 1950s and 1960s.

**GUIDE TO FURTHER READING**

For detailed consideration of development theory, see Hettne (1995) and Hunt (1989). Keeble's (1967) chapter in Chorley and Haggett's *Socio-economic Models in Geography*, though written nearly half a century ago, is still helpful. A more recently written overview is provided in Chapter 3 of Potter et al.'s *Geographies of Development* (2004). Hirschman (1958), Lewis (1954), Rostow (1960) and Smith (1776) are justifiably regarded as 'classic' texts, while Alfred Marshall's (1890) *Principles of Economics* was a key undergraduate textbook for more than 50 years.

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## 2.5 Neoliberalism, structural adjustment and poverty reduction strategies

David Simon

### The rise of neoliberalism

The dramatic oil price increases of 1973 and 1979 triggered a slowdown and then a severe recession in the North and the world economy as a whole, and precipitated the so-called 'debt crisis' in the South in 1981–82.

Profound disillusionment in the North with the record of state involvement in economic and social life led to a simplistic and rather naive belief in 'the magic of the market' as the most efficient economic regulator. Keynesian-style state involvement in the economy was held to be

inefficient, bureaucratic and an unnecessary drain on public coffers. Hence, by selling off loss-making and inefficient public enterprises and parastatal corporations, and restricting the role of the state to regulation and economic facilitation, taxes could be cut substantially.

This is the essence of neoliberalism, an economic creed that seeks to deregulate markets as much as possible to promote 'free' trade. It harks back to the ideas of Adam Smith and David Ricardo, in other words, to the very historical roots of neoclassical economics – hence neo(new)liberalism. This ideology rapidly became the economic orthodoxy in the North and was exported to the global South via aid policies and the measures formulated to address the debt crisis.

### Structural adjustment and economic recovery programmes

#### Initial responses to the debt crisis

In late 1981, Brazil and Mexico – soon followed by Poland – announced that they could no longer service their official debts, triggering panic among Northern creditor governments and the transnational banks that had advanced enormous commercial loans to the debtor countries. They feared that if rapid countermeasures were not taken and strict penalties imposed, there could be a domino effect among debt-ridden countries that would drive individual banks into bankruptcy and undermine the entire international financial system.

The International Monetary Fund (IMF) assumed the lead role in addressing the debt crisis. Its analysis – which was echoed by the multilateral banks and leading creditor governments – hinged on Northern self-interest and a determination to protect the international financial system. The problem of default was diagnosed as entirely the fault of the debtor countries, on account of their governments being corrupt, interventionist, bloated by bureaucracy and weighed down by inefficient, often loss-making state enterprises; they had also pursued inappropriate policies. The dramatic interest rate increase was noted, but was not regarded as sufficient explanation; nor was the fact that the loans in question had been willingly contracted by both parties. The banks, which had actively sought to lend out their surplus petrodollars, were not in any sense held liable for their own misfortune or lack of foresight. They were even able to write off their losses of up to £1 billion annually against tax.

Moreover, the IMF's policy response was geared to maximizing the prospects for, and amounts of repayment by, debtor countries. For many years there was, accordingly, an almost total unwillingness to consider writing off the debts of even the most impoverished and debt-ridden countries for fear of evoking a chorus of 'can't pay, won't pay'.

#### The anatomy of structural adjustment programmes

These new policies, known as structural adjustment programmes (SAPs), were designed to cut government expenditure, reduce the extent of state intervention in the economy, and promote liberalization and international trade. SAPs were explicit about the necessity of export promotion based on the Ricardian notion of comparative advantage. Accordingly, each country should specialize in and export those commodities that it can produce more cheaply in real terms than its competitors. However, international trade is often unbalanced and inequitable in its impacts; this depends on many factors, not least market share and power, and the terms of trade.

SAPs comprised four main elements:

- 1 the mobilization of domestic resources;
- 2 policy reforms to increase economic efficiency;
- 3 the generation of foreign exchange revenue from non-traditional sources through diversification, as well as through increased exports of traditional commodities;
- 4 reducing the active economic role of the state and ensuring that this is non-inflationary.