

DEVELOPMENT ECONOMICS

Development economics is the field of study devoted to understanding the economic experience of less-developed countries. Development economics arose during the period of European decolonization that took place immediately before and after World War II (1939–1945), as national independence movements gave rise to a large number of newly independent countries in Asia, Africa, and Latin America. While highly diverse in terms of their history, culture, climate, population size, and natural resource endowments, these countries shared a common set of economic goals, including the desire to rapidly increase their per capita incomes and reduce often widespread poverty. These desires were often linked to the related goals of rapid urbanization and industrialization that were seen as part of a larger project of modernization, and thought to be integral to national political goals including economic independence and political power on the world stage. Development economics arose as an attempt to address the economic priorities and challenges faced by these countries.

To at least some degree, the advent of development economics was a response to the perceived inadequacies of traditional economic theory as a framework for addressing the challenges posed by economic development. Traditional economics was mostly concerned with the static issue of market efficiency. In contrast, in less-developed countries, the central question was a dynamic one: how to radically transform the economy through the interlocking processes of economic growth, industrialization, and urbanization. Moreover, traditional economic analysis presumed the existence of a system of relatively well-functioning markets that simply did not exist in many developing countries. A new set of theories would be needed to understand the causes of persistent underdevelopment and suggest ways in which government policy could overcome existing market failures to speed and direct the development process.

STRUCTURALISM, DUALISM, AND DEVELOPMENT

To early development economists, the flaws in traditional economics were obvious. Less-developed countries were poorly characterized by the highly flexible national markets that typified traditional economic theory. Markets were often local and fragmentary, and individuals appeared to be more concerned with tradition and family ties than efficiency or profit. A prominent alternative was structuralism, which argued that underdeveloped markets were highly inflexible. Prices were fixed or adjusted slowly, and economic agents responded slowly to changing prices. With markets functioning poorly, the government should

play an active role in directing labor and capital to their best uses.

Developing economies often appear to be “dualistic,” comprised of a modern industrial sector and a more traditional agricultural sector. The most influential model of dualistic development is due to Sir W. Arthur Lewis (1915–1991), who suggested that the traditional sector had a supply of underutilized workers who earned a *subsistence wage*. This *surplus labor* constituted a free resource that could be used for industrialization. Workers could be withdrawn from the traditional sector without reducing the total agricultural output. The main constraint on the rate of development was a country’s ability to accumulate capital to expand the modern industrial sector.

Until it was exhausted, the surplus of labor would hold wages at a subsistence level. The gains from industrialization would go entirely to the owners of capital. Eventually, however, the expanding modern sector would exhaust the supply of surplus labor, and wages would begin to rise. Rising wages would cut into profits, slowing the rate of industrialization but also spreading its benefits to the population at large. At least initially, however, rising inequality might be an unavoidable byproduct of rapid development.

INDUSTRIALIZATION AND MARKET FAILURE

Lewis’s thinking placed industrialization at the heart of economic development. Further analysis suggested that poorly functioning markets could undermine the two processes on which industrialization relied, capital accumulation and the transfer of labor from agriculture to industry. In practice, industrial development often was accompanied by unusually high and persistent urban unemployment. John Harris and Michael Todaro (1970) suggested that this was the result of inflexible labor markets that set the modern-sector wage too high. In its simplest formulation, the Harris-Todaro model suggests that if the modern-sector wage is two times the rural wage, then each new modern-sector job will attract two rural migrants. As a result, job creation programs will actually increase urban unemployment since each new job attracts more than one rural migrant.

Markets may also fail to induce the investments in physical capital—factories, tools, and machinery—at the heart of industrialization. Many investments are profitable only if other projects are undertaken at the same time, but no one investor has the resources to finance all the relevant investments. Unless the actions of many different investors can be coordinated, none of the investments will take place. This may be the case when different investment projects are closely linked—like factories that make car bodies, tires, and glass—but the link between invest-

ments may not be so obvious. If workers at the shoe factory use their wages to purchase bicycles, and vice versa, then the profitability of investing in bicycle and shoe production will be linked.

A second problem is that financial markets and institutions may function poorly. When functioning well, banks collect savings from those with extra income and make loans to households and firms with profitable investment opportunities. In less-developed countries, this may not occur because households are geographically isolated or because it is too costly to make or collect on small loans to the poor, who often have the best investment opportunities. State-run banks may waste scarce investment resources by favoring politically powerful borrowers. Finally, some countries limit the interest rate a bank may charge. If the inflation rate is higher than the allowable interest rate, banks automatically lose money on every loan they make, resulting in financial repression.

In spite of these problems, once industrialization begins it is often self-sustaining, with the profits from initial investments providing the savings to finance additional investment. Instead of experiencing this virtuous cycle, however, many less-developed countries appeared to be caught in a poverty trap with low levels of income, profit, investment, and savings. To get the virtuous cycle started, many development economists advocated a “big push” in which the government coordinated and funded a large number of investment projects. If an underdeveloped banking system resulted in low levels of private savings, the government could finance investment through tax revenues. International aid could be used to close the *financing gap* if a country was too poor to finance the necessary investments on its own.

INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

Skepticism regarding the role of markets in economic development was most pronounced in attitudes toward international trade. During the colonial era, many developing countries had become specialized in the production of food, minerals, and other primary products, relying on international trade for many manufactured goods. Many development economists believed this pattern of trade would make industrialization more difficult. Furthermore, the technological advantages of developed industrial countries would make it impossible for less-developed countries to compete as exporters of manufactured goods.

A highly influential version of this idea was formulated by development economists Raúl Prebisch (1901–1986) and Hans Singer (1910–2006), who argued that the price of primary products tends to fall over time relative to the price of manufactured goods. According to

the Prebisch-Singer hypothesis, a developing country's ability to industrialize would be limited by that fact that, year after year, each ton of sugar or copper or coffee exported would purchase fewer machines. These ideas led to the development of North-South trade models that examined the conditions under which trade between an industrial “North” specialized in manufactured goods and a developing “South” specialized in primary goods could lead to uneven development in which southern income is stagnant or lags northern income indefinitely. More generally, the Prebisch-Singer hypothesis furthered the argument that markets were not up to the task of guiding a country's development.

The idea that guided developing countries' trade policy was import-substitution industrialization. A country would industrialize by gradually replacing manufactured imports with domestically produced counterparts. Led by the infant industry argument, many developing countries adopted import quotas and import tariffs to protect domestic manufacturers until they had matured enough to compete in international markets. In the early 1960s, a few East Asian countries rejected the inward-looking policies of import substitution in favor of export promotion. Successful exporters were rewarded with subsidies, easy credit, and other forms of support.

RADICAL PERSPECTIVES

Market skepticism also gave rise to more radical perspectives. According to André Gunder Frank (1929–2005), the father of dependency theory, the existence of a traditional sector was evidence not of capitalism's absence but of its fundamentally predatory nature. This is seen primarily in the tendency of capital to flow from underdeveloped rural regions to developed urban regions of a country. Center-periphery models addressed this dynamic in the international arena. Unequal exchange in international markets and the repatriation of profits by multinational firms would lead to the permanent concentration of capital in the hands of global economic elites, guaranteeing a persistent state of economic dependence for developing countries. The political domination of colonialism had been replaced by a neocolonial economic domination.

Radical economists believed that standard policy interventions were not enough to foster development. Successful development would require a fundamental restructuring of the international economic order and, often, the overthrow of the local political elite, who were viewed as the local representatives of global capital.

THE CONTINUING DEVELOPMENT OF DEVELOPMENT ECONOMICS

Development economics has continued to evolve since the mid-twentieth century. Development economics has

re-embraced economic theory as it has become more adept at addressing the particularities of the markets of developing countries. More importantly, economists have learned from their accumulated experience with economic development. In practice, the emphasis on industrialization often led to an “urban bias” in development, resulting in tax and trade policies that reduced incomes in rural areas where poverty was already the most severe. Early theories may also have overemphasized the role of developing-country governments, which are themselves developing and limited in their capacity for administration and oversight. Many economists point to the development success of relatively market-oriented East Asian countries and recent work emphasizing the role of corruption in continued underdevelopment. While both governments and markets are prone to fail, in developing countries the perils of government failure may well be more important.

SEE ALSO *Demographic Transition; Economics; Export Promotion; Harris-Todaro Model; Import Substitution; Input-Output Matrix; Kuznets Hypothesis; Labor, Surplus; Marxist and Radical Economics; Lewis, W. Arthur; Structural Transformation*

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DEVELOPMENT IN SOCIOLOGY

Development was a post–World War II concept used to describe and explain economic and social change throughout Africa, Asia, Latin America, and southeastern Europe.

President Harry Truman (1884–1972) launched “the era of development” in 1949 when he committed the United States to making scientific and industrial advances available to underdeveloped areas. Four major theoretical and policy perspectives regarding development have been proposed: modernity (roughly 1940s–1950s), dependency (1960s–1970s), world systems (1980s–2000s), and market reform (1980s–2000s). Institutional, feminist, and capability perspectives also have informed development discourse. In various contexts, development has signified economic growth, income disparity, or class conflict within and between nation-states and regions of the world, and it has incorporated economic, political, and social change as well as enhanced individual freedom.

MODERNITY

Modernity theorists focused on economic growth accompanied by political stability, not on social transformation itself. They assessed economic development primarily by gross domestic product, per capita income, or extent of poverty. Political stability implied preferable but not exclusive emphasis on the development of democratic institutions. Informing the modernity school were classical evolutionary theorists, including Auguste Comte (1798–1857), Émile Durkheim (1859–1917), Herbert Spencer (1820–1903), and Ferdinand Tönnies (1855–1936), and functionalist theorists such as Talcott Parsons (1902–1979) and Edward Shils (1911–1995).

The modernity school included economists, such as Walt W. Rostow, who stressed the importance of speeding up productive investments; political scientists, including Samuel Eisenstadt and Gabriel Almond, who highlighted the need to enhance the capacity of political systems; and sociologists, such as Marion Levy and Neil Smelser, who focused on changes in Parsons’s pattern variables (a way of characterizing interactions between people) and social differentiation. Reflecting evolutionary theory, modernization was viewed as a phased process, exemplified by Rostow in *The Stages of Economic Growth* (1960), and as a lengthy homogenizing process, tending toward irreversible and progressive convergence among societies over long periods of time. Some have argued that modern societies had better capacity to handle national identity, legitimacy, participation, and distribution than those with traditional political systems. Reflecting functionalist theory, modernity was also treated as a systematic and pervasive process.

Early modernization theorists such as James Coleman, Rostow, and Parsons constructed ahistorical abstract typologies, viewed tradition as an obstacle to development, and neglected external factors and conflict as sources of change. In the 1980s modernity theorists such as Siu-Lun Wong, Winston Davis, and Samuel