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DEVELOPMENT THEORY AT THREE QUARTERS CENTURY

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I

The reader will immediately recognize that attempting to take on the task of surveying as diversified a field of human inquiry as development over the past formative two and a half decades is somewhat presumptuous--and I thus hasten to assure the reader that the views presented here will necessarily constitute only a personal and partial statement, i.e., no effort will be made to try to cover the waterfront and touch every piece of a very complicated mosaic. The ruminations which follow should, rather, be viewed as one observer-participant's assessment of what we may have learned in recent decades.

Our focus will be on changes in the state of the arts. But, as in other areas of social science, development theory frequently lags behind--and is responsive to--changes in the actual or perceived nature of the social problem. Consequently, our reflections will necessarily represent something of a weave between changes in actual LDC performance and achievement, in the weight of changes

in societal goals--both at the real and the rhetorical level--and changes in the analytical framework. Performance and objectives will be treated briefly in Section II, with Section III focussing on related progress in conceptualization in a number of important dimensions. Finally, in Section IV, we intend to, again briefly, reflect on the policy implications, for rich and poor, of this new and hopefully higher level of theoretical awareness--at least as far as one's necessarily myopic view permits.

II

It is now commonplace to note that the overall performance of the developing world during the 50's and 60's, in terms of aggregate growth rates, exceeded both official goals and private expectations. It is equally well understood, however, that this acceptable performance of annual growth in excess of the 5% U.N. target, and of exports growing at 10% on average, obscured an increasing divergence among LDC's, and within LDC's. Among LDC's we have seen the emergence of a so-called Third World, on the one hand, and a Fourth World, on the other. The Third World is itself composed of two rather different sub-types, one, the natural-resources-rich group--in the extreme, the oil countries--the other, those relatively few developing countries which have managed to combine an abundant unskilled labor supply with entrepreneurial capacity for the massive expansion of labor-intensive output and exports, i.e., the Taiwan and Korea prototype. These two sub-groups have grown at

rates of more than 10%, with exports often in excess of 20% or 30% annually. The Fourth World, on the other hand, comprising such large, heavily populated developing countries as India and Bangladesh--as well as those just emerging from agrarianism into dualistic growth, e.g., some Central African countries and a few in Asia and Latin America--comprises more than half of the population of the developing world--and has experienced virtual stagnation at levels of per capita income below $100 a year. The recent triple blow of oil, fertilizer and food crises merely served to accentuate and highlight this growing divergence among LDC's.

Moreover, and perhaps more significant, is the fact that the easy assumption as to what was happening to distribution within both Third and Fourth World countries has been undergoing substantial reappraisal. The notion has grown overwhelmingly that developing societies have generally attended too much to the needs of current in-groups and future generations and too little to those of the poorer members of the current generation, whose lot has generally deteriorated, relatively, and in some cases even absolutely. This notion, in turn, has translated itself into more attention paid to the problems of technology choice, employment, unemployment, and participation in international trade as they affect the distribution of income across families and across regions, as well as the existence of absolute poverty and the ability to satisfy some ill-defined set of "basic" human needs.

This increased level of questioning of the old-fashioned "grow first--distribute later" notions of the 50's and 60's has, of course,

been accompanied by an increasing volume of real world evidence to the effect that higher growth rates do not necessarily guarantee diminishing rates of unemployment or an improvement in the relative distribution of income, or even the alleviation of low-end poverty. In fact, the tendency is just as often reversed, i.e., we have witnessed country after country reporting 6% or more overall growth, side by side with increasing unemployment and polarization, e.g., as in Brazil and Mexico. We have seen the much-heralded Green Revolution of the late 60's effect major change in the countryside but also bring in its wake increased maldistribution of income related, in turn, to the maldistribution of land and such critical current inputs as water, credit and fertilizer. We have seen previously well suppressed regional distribution issues entering center stage in the wake of the actual disintegration of countries like Pakistan and the recognition of substantial tensions within others, e.g., in the Philippines and Brazil. There can be absolutely no doubt that these issues are now dominant on the agenda of any political or expert group concerned with development. The rhetoric has, of course, substantially outdistanced action. But before we chastise policy makers too much, we should remind ourselves that the current "new orthodoxy" of concern with the downtrodden--echoed in McNamara speeches and U.S. aid legislation, as well as LDC pronouncements--is indeed of very recent vintage. As little as five years ago, few academic economists could have seriously placed these items high on their agenda of concern without running the risk of intellectual ostracism; and policy makers, in rich and poor

countries, would have risked even more. The awareness gap has been radically reduced; but now a new gap threatens both theorist and policy maker, namely that between our new awareness of the broader dimensions of development and our ability to trace the behavioral interrelationships as a necessary condition for doing something meaningful about it.

III

It is our purpose in this section to trace some of the main advances in our understanding of the development process during the past couple of decades and to relate them, where appropriate, to more recent changes in the objective function articulated by most developing country spokesmen and aid officials.

Perhaps the most important dimension of conceptual progress, in our opinion, is the growing awareness that the analysis of growth, employment and distribution must be viewed as integrally of one cloth, with the focus on the existence and size of trade-offs among these objectives. The notion that employment and distributional issues are best treated "after the fact," i.e., after all the production/allocation dust has settled, has died hard. There is still a substantial body of theoretical literature which claims that "trickle down" is likely to work, and a related body of more policy tinged expert opinion to the effect that employment and income distribution objectives should be met via "secondary strategies," e.g., public works programs and fiscal redistribution.

Trickle down is still sufficiently respectable to have been the basis of the so-called Prebish Report, 1970's vintage, calling for higher growth rates in Latin America in order to pull in the unemployed; and the preponderance of work on income distribution and poverty still emphasizes the potential redistributive effects of tax and expenditure policies, nationalization and public works programs.[1]

The empirical evidence that has been accumulating, on the other hand, indicates that even if fiscal redistribution, after the fact, were politically and administratively feasible, it would have to assume completely unrealistic proportions to make a real difference. And, turning the problem on its head, it would take an unreasonably large exogenous shift in income distribution to achieve anything meaningful in the way of a more employment-intensive output mix.[2] Moreover, the advice that an increase in overall growth targets from 5% to 8% would solve the unemployment problem is weak on two grounds--it is highly impractical to locate the additional fuel to make the old Model T move that much faster and, perhaps more importantly, even if sufficient natural resources and/or foreign capital could be harnessed, the accompanying income distribution outcomes are not necessarily acceptable. Finally, intrinsic administrative and organizational difficulties, at least in the mixed economy LDC context, make a solution via major reliance on a massive public works program highly impractical.

It is for these reasons that we count the gradually growing consensus that these new dimensions of development must be analyzed

and solved as an integral part of the old as the most important single step forward. Simply put, we are not in a position to "dethrone the GNP," as has been variously suggested, but rather we must try to place it on an analytically sturdier throne. This means analyzing much more carefully than we have in the past what the meaning of alternative growth paths--or alternative ways of achieving a particular growth rate--might be in terms of the other things we care about.

This, of course, may lead us to the conclusion that a change in the nature of the growth path itself--i.e., the way in which output is generated--can give us not only better employment and distribution outcomes but more growth in the bargain. On the other hand, there may be trade-offs among these objectives; and the nature of these trade-offs, i.e., the extent to which they are man-made rather than inherent in the basic structure of development, is of great theoretical and policy interest. It is my belief that much of our current and prospective progress rests on this ability to integrate neo-classical or classical growth theory with a rigorous statement of employment and equity considerations.

Among the more important ingredients in our theoretical capacity to deal with this new and broadened view of development is our increased willingness to sector the typical developing economy into meaningful components for purposes of general equilibrium analysis. The literature on economic, social and technological dualism has a long and distinguished history. But the revival of classical economics after Arthur Lewis' pathbreaking work,[3] and its application

to contemporary problems of development, has represented a major analytical advance--permitting us to trace the interactions over time among sectors not homogeneous in structure and/or behavior. More recently, it has been recognized that so-called two-sector models need to be modified by extension to three or four sectors, e.g., along the lines of more than one traditional and more than one commercialized sector, with possibly two urban and two rural components emerging. While controversy on this point persists, there are more and more adherents now to the notion that meaningful analysis in development requires breaking the economy down into a few, sometimes heterogeneous, sectors in the dualistic tradition, rather than the conventional treatment of many homogeneous sectors in the input/output tradition.

A second and related advance permitting the more meaningful simultaneous analysis of growth, employment and equity has been in the area of recognizing the importance of typological differences among developing societies. In the immediate postwar period there seemed to be two major prevailing views--one, that every LDC is sui generis and that only country-intensive studies were likely to advance our understanding; the other, that a general theory of underdevelopment applicable to all countries was within reach and that, in the meantime, we could behave as if Afghanistan and Argentina had more in common with each other than with any so-called mature economy. In more recent years, we may note a marked convergence between these positions via the acceptance of the notion of half-way houses or sub-families of LDC's differentiated by such features as

size, resource endowment and other structural as well as, possibly, behavioral characteristics. This trend is exemplified, on the one hand, by the evolving work of Chenery and his associates,[4] which has moved away from homogeneous 50-country samples and towards the attempt to differentiate empirically among different country types; on the other, expositors of development typologies, e.g., of the land surplus and labor surplus school, have begun to open these models to trade and to more empirical treatment.[5] While this work remains very much in flux, we seem to have growing agreement that it is worthwhile to differentiate countries by size--thus underlining the relative importance of trade--by the extent of dualism or labor surplus--thus assessing the relevance of classical vs. neo-classical conditions in agriculture--and by the strength of their natural resources base--thus determining the quantity of land-based fuel available for the transition effort.

It would be most appropriate here to note that one of the early "prophets" in this area was Professor Hoselitz, who, as long ago as 1955, differentiated the small or open economy, which he called "non-dominant," and the natural-resources-rich which he called "expansionist."[6] One might say that the profession has now moved towards his view that we can usefully deal with development, at this stage of our understanding, only through the development of theoretical models which deal with conceptual half-way houses or sub-families; few would deny that there is transferability of knowledge from one country case to another; but fewer still would venture beyond the fond hope that our still evolving typologically

differentiated models may some day turn out to be "special cases" of a "grand-daddy" general theory of development.

Closely related to this growing acceptance of the usefulness of a typological approach has been the recognition that a fuller explanation of the historical laboratory would have a substantial pay-off for advances in development theory. In the 40's and 50's, the profession understandably was forced to concentrate on cross-sectional analysis of the less developed world as well as on the history of the now advanced societies, including Western Europe, Japan and, to a lesser extent, Australia, North America and other "empty" continents. By now, however, a quarter century later, sufficient data have accumulated to permit us to look at developing societies in an historical context and to try to isolate meaningful sub-phases of development. There is no reason to permit the unfortunate "stages of growth" controversy linked to the name of W. W. Rostow[7] to inhibit us in this respect any longer. While no historical inevitability connotation is intended, developing societies do seem to move in certain transitional states between the long epoc of open agrarianism and another long epoc of modern growth.[8] One of the more common transitional states is one of dualism, whether of the Lewis/Fei-Ranis or the Jorgensen/Kelley-Williamson type.[9]

Moreover, there are some of us who believe that the dualism sub-phase may itself be typically characterizable--to analytical advantage--by distinct sub-phases, including a domestic market oriented or primary import substitution sub-phase, followed by

either an outer-oriented or export substitution sub-phase or the prolongation of domestic market orientation via a secondary import substitution sub-phase. The identification of such sub-phases--based on changes in the underlying resource endowment as well as in accommodating changes in the official policy package combining to fundamentally affect domestic as well as trade relations--constitutes, we believe, an essential ingredient in advancing our understanding of development. For example, the extent to which growth, employment and income distribution objectives of a society are mutually reinforcing or competitive depends very much on the sub-phase in which a society finds itself--as well as, of course, on the LDC sub-family to which it belongs.

By way of such illustration only, for the labor surplus economy which moves from primary import to export substitution, e.g., Taiwan, we can clearly identify turning points between sub-phases and note substantial contrasts in the "before and after" performance. During primary import substitution, focussed on infant industrial or entrepreneurial protection and fuelled by land-intensive exports and foreign capital, we would expect trade-offs to be more pronounced; during export substitution, focussed on penetrating international markets by combining maturing entrepreneurial capacity with "unlimited" supplies of labor, we would expect such trade-offs to be substantially reduced, if not altogether eliminated.[10] On the other hand, countries which persevere in secondary import substitution--often combined with some export promotion (i.e., subsidized exportation)--in consumer durable, capital, and intermediate

goods will find such trade-offs becoming increasingly severe.[11]

What makes such typology and time-oriented analysis more analytically feasible today than a quarter century ago is a number of specific advances in our understanding of alternative growth paths. One such advance clearly is a revised view of technology choice and technology change. It has not been all that long that the Eckaus view[12] of essentially fixed proportions, and consequent technological unemployment, was dominant in the LDC literature, with little flexibility in either output or technology mixes. Added to that was the notion making a virtue of capital intensity even in a labor surplus context, namely, the need for large profit and low wage shares to ensure high saving and low population growth rates.[13]

Substantial differences in the industry-specific technology actually found to be most profitable in developing countries over time, as well as the existence of substantial cross-sectional differences within developing countries for the same industry as one moves across scales, have cast serious doubt on the first proposition. The new conventional wisdom with respect to technology choice is more nearly that, while some industries, especially continuous process industries, are clearly intrinsically not as flexible as others--no matter what the environment--in most industries substantial efficient choice does exist across countries and across scales within countries. This flexibility is most pronounced in the core processes of discrete or batch production, in machine-peripheral activities, as well as with respect to plant-saving possibilities. While "small is not always beautiful"--since it may

be inefficient--the conventional wisdom has now swung to the recognition that under less distorted relative price environments, growth and employment at least can be rendered much more compatible--via appropriate technology choices--and that, using the foreign trade mechanism, appropriate technology choices will also permit a wider range of output mix variability.

The overwhelming burden of the evidence is consistent with the basic notion that, in a developing country which is open and not too large in size, less relative factor and commodity price distortions, along with the reduction of institutional barriers to information, procurement choice, etc., may be expected to produce a substantial increase in employment--in spite of a pronounced dependence on imported machinery in the first instance. There exists, in other words, substantial potential flexibility in both the initial choice of technology from abroad and in the domestic adaptation potential "on top of" such imported technology. Adaptation possibilities may, in fact, be quantitatively more important than the range of shelf technology choice which is often more heavily constrained and only partially illuminated. Nevertheless, the two acts are closely interrelated in theory and practice, i.e., economies which try to borrow ahead of their skill levels will find it more difficult to assimilate what they borrow, quite aside from incurring the higher expense of the initial choice.

It may be well for us to note that the adaptive technology argument in industry may be more closely related to the situation in agriculture than the profession has yet been willing to acknowledge.

For instance, agricultural economists are now coming around to the idea that, while the contribution of international research on new hybrids, etc., has been substantial--and rightly ballyhooed--it has probably been overstated relative to the need for adaptive national research to protect new varieties against disease and ensure the continuity of such "Green Revolutions."[14] Agricultural technology is more of a public than a private good and thus more easily appropriated and diffused. With respect to industrial technology, therefore, we might do well to distinguish between technology proper, where the analogies to the better understood agricultural sector may hold fairly well--in spite of the lower level of competition and higher level of appropriability--and the product and taste differentiation type of "technology" which is a horse of a different color and not really treated here.[15] These analogies may be especially relevant in light capital goods,[16] cement, brick and other relatively homogeneous product industries and at the medium and small-scale end of the spectrum.

The second aforementioned proposition has proven equally doubtful, i.e., there is no clear evidence that the admittedly higher saving rates out of a larger profit share are sufficient to overcome the lower absolute levels of output, and profits, resulting from substantial static inefficiency.[17] The posited relationship of technology choice to population growth has never been established. Small wonder that the explanation as to why, in spite of large endowment differentials, technology choices are not, in fact, as dissimilar as we might expect has been shifting elsewhere. If countries

do not, in fact, always take full advantage of the potential that exists in terms of known technology shelf choices, this may have more to do with imperfect information channels or the ability of entrepreneurs, due to the existence of monopoly profits, to indulge their engineering preferences--quite aside from the most common explanation, i.e., the effect of severely distorted relative factor and commodity prices.

The choice of the direction of technology change, a closely related issue, is still something more of a mystery because, as in advanced economy growth theory, we have no analytically sound innovation inducement mechanism on which to base our reflections. Yet most of us do recognize that the Hayami-Ruttan type of inducement mechanism[18] as loosely applied to agriculture is likely to be at work, i.e., that labor surplus economies with expectations of a continuing relative shortage of capital and abundance of labor are more likely to seek labor-using or capital-stretching innovations--just as societies in which capital can be expected to grow secularly faster than labor have shown evidence of increasing the pool of labor-saving innovations. What is admittedly less clear, and a subject of considerable theoretical and practical interest, is whether or not the pool of labor-using innovations, mainly in the form of plant floor rearrangements, the speeding up of machines, etc., is likely to be as easily replenished as the pool of labor-saving innovations in Western European and U.S. experience. More likely, additional adaptations of a labor-saving type will require the impetus of additional acts of shelf technology borrowing. In

agriculture, we have gradually swung to the realization, moreover, that as important as international research inputs may have been, e.g., in the case of the Green Revolution, it is national adaptive research responses which are going to be crucial in establishing the nature of the employment/output generation nexus immediately and, perhaps more importantly, in determining how self-sustained technology change will ultimately be.[19] In industry, imported technology change is more nearly a privately appropriable commodity in most instances and we are still less able to disentangle the respective rolesof public and private sector R & D and information access in the borrowing and adaptation processes. However, the overall importance, for growth and labor absorption, of the size of the innovational effort apparently increases over time, relative to the quality or bias of the innovation.[20]

In summary, there is substantial consensus today that technology change, both in terms of its strength and in terms of its bias, represents perhaps the single most important element in effecting the reduction and possibly the elimination of any trade-off between employment and growth objectives. Actual country experience indicates that there exists a "deviant" minority of labor surplus developing economies which have, in fact, created an environment conducive to appropriate technology choice and technology change--during their export substitution sub-phase--and have apparently been able to entirely eliminate the conflict between employment and growth. In Taiwan, for example, growth rates accelerated during the 1960's and unskilled labor shortage replaced labor

surpluses by the end of the decade.

While growth and employment are now increasingly viewed as, at least potentially, compatible, there is still a good deal of controversy surrounding the question of growth vs. income distribution. In fact, the majority view here clearly holds that, especially as growth first gets under way, "things must get worse before they can get better." The results of Kuznets, and later, Oshima, using cross-sectional data,[21] and those of Adelman and Morris, employing more sophisticated techniques on a broader set of cross-sectional socio-economic data, point in the same direction.[22] Most observers seem to have found this evidence persuasive for purposes of prognostication for individual developing countries over time. Kuznets, for example, sees this outcome as a necessary concomitant of increasing levels of profit and rent-fed accumulation, as growth gets under way, plus the effect of shifts in the center of gravity from "more equal" to "less equal" sectors (agriculture to non-agriculture). A. Lewis notes that, while the unlimited supply of labor phase persists and wage rates are held down, the profit share must necessarily rise--tending to a worsening of the distribution of income.

These arguments have been further buttressed by the actual historical experience of a substantial number of contemporary LDC's.[23] Whether we pick the Gini coefficient or McNamara's favorite index which relates the proportion of total income accruing to the lowest and highest quartiles, the distribution of income in Mexico, in Brazil, in the Philippines, in fact, in most LDC's, has been worsening over the past decade. Nevertheless, though expert opinion

is generally as pessimistic as the historical evidence, we need to reassure ourselves as to whether this record is inevitable in the nature of things--or, once again, man-made and thus just possibly avoidable. Kuznets and Adelman-Morris data, after all, are heavily policy-distorted, with most LDC's examined remaining under essentially import substitution types of policy settings.

What should give us pause is that the old chestnut of an unequal distribution of income required to generate high saving rates is no longer generally accepted. We certainly have examples of countries--outside of the socialist orbit--which, like Japan and Korea, have simultaneously experienced high saving rates and a fairly equal distribution of income. Most significant surely is the actual record of one such economy, e.g., Taiwan, which yields not only remarkably low levels of the Gini coefficient (near .3 rather than .5 as for most LDC's) but the avoidance of any but the slightest tendency to rise during the period of fastest growth and employment generation, i.e., the 1960's. It is worth noting that even Adelman concedes that South Korea and Taiwan may constitute exceptions to the rule--even though she does not go into the reasons.[24] Our own detailed examination of Taiwan[25] leads us to the conclusion that the inverse U-shaped or Kuznets pattern can be substantially softened and possibly even eliminated, so that even before the commercialization point, when labor surplus disappears, the trade-off between growth and distribution may disappear. Our analysis is based on the effort to decompose the overall Gini into factor Ginis, then linking changes in these Ginis to such growth-relevant phenomena as

reallocation under dualism, capital intensity and innovational bias. While this is not the place to dwell upon our findings in detail, our analysis permits us to conclude that a combination of early concentration on agricultural productivity increase, along with rural industrialization in the dual economy context, can produce this result. This follows basically from the fact that, even as real wages do not rise very much, additional employment opportunities are provided for members of the poorest landless agricultural families.

The profession is clearly still groping towards a consensus on how to analyze distribution and poverty in relation to growth in a largely rural dualistic setting. But this should not deter us from recognizing that a substantial conceptual shift in emphasis has already taken place in a number of important dimensions. Some of these try to incorporate important institutional or non-economic variables into our analytical framework; others focus heavily on structural and other typological differences among families of LDC's; still others are trying to use large-scale general equilibrium models and sensitivity analysis to help us focus our attention on the important behavioral relations. But what most of these approaches have in common is a continuing deemphasis on the brute forces of capital accumulation and rigid Harrod-Domar type output relations and an increasing emphasis on the importance of human resources, technology change, and other sources of flexibility in the system.

IV

The above gradual shift of the conventional wisdom in development theory has, of course, had its reflection in the policy arena, both within the LDC's and among members of the international community generally. In the immediate post-war period, we began, necessarily, with a good deal of "shooting from the hips," based on a number of useful but somewhat miscellaneous and unrelated partial equilibrium concepts.[26] In the 50's and early 60's development planning became heavily identified with extensions of Harrod-Domar models embedded in five-year or 20-year perspective plans as required for aid recipient respectability. With time, the efforts became more and more sophisticated, leading, on the one hand, to dynamic programming exercises[27] and, on the other, to the family of two-gap models associated with the name of Chenery.[28]

What most of these models have in common was emphasis on an aggregative resources calculation to determine how the most development can be squeezed out of one's endowment, technology and friends abroad. This normally requires the acceptance of some level of national income aggregation at which to operate and, given some target rate of overall or per capita income growth, the focussing on a set of strategic variables, e.g., saving, investment, consumption, imports, exports, plus the behavioral relations among them, to determine whether or not the targets are feasible. If foreign capital is not available residually in "unlimited amounts," fiscal plan magnitudes, or the method of elimination of the "gap between

the gaps," must be adjusted iteratively. There is heavy emphasis on the role of financial resources (and their physical counterpart), on the gap-filling contributions of the public sector fisc, private saving and foreign capital, plus on the tyranny of existing production function relations. More recent vintages of such development planning models have, moreover, moved imaginatively with the times, e.g., by incorporating employment as a social objective and/or by differentially weighting income gains accruing to different income strata.[29] At the same time, however, one observes a growing disenchantment with the heavy concentration on formal five-year plans--which usually became irrelevant albatrosses almost before they could be published--as well as on the academic pastime of fashioning ever more sophisticated models of the future. If human resources are scarce, the question is being asked, would it not be wiser for planners to spend their scarce energies on policy changes which might improve the functioning of the system--public and private--rather than to compute what it is capable of achieving by continuing to move essentially on its present rails. Basic to this notion is the recognition that what really matters--and what determines the prospects for the future--at least for the mixed economy--is not the quantity but the quality of what is going on. Putting more wine in leaky old bottles just won't do; there usually just isn't enough wine to go around. And even if there were, this wouldn't necessarily address some of the important new dimensions of development performance.

If parameter change is the major task to which LDC planning

or policy making should be addressed, this requires a new kind of flexibility in attempting to mobilize latent innovative human resources in both the public and private sectors. In the public sector, this is perhaps best accomplished by setting general "rules of the game," but accompanied by a willingness to decentralize the important tax cum expenditure decisions and resources to a truly local level. In the private sector, this means setting monetary-fiscal and exchange rate policies such that the burdens of allocative decisions falling on civil servants and bank tellers is minimized, and the creative talents of new, medium, and small-scale entrepreneurs, both agricultural and non-agricultural, are harnessed to the development effort. This, it should be clearly understood, does not constitute advice for laissez-faire; rather, a policy of judicious self-restraint and a selection by central government authorities of those levers and instruments which are most significant in affecting the total performance of the economy.

The real issue in any society is how to institutionally organize itself to get the "best" out of the resources, physical and human, available over time. In the mixed economy, this means substantial reliance on the market to achieve whatever goals the society considers appropriate. Even the socialist countries of Eastern Europe have increasingly realized this. The alternative, using political cadres and non-material incentives, is open to only very few societies and then, very likely, only for limited periods of time. For most developing countries not willing or able to take the Chinese path, Peter Timmer's apt comment remains valid: "getting

relative prices right is not the end of development; but getting them wrong often is."[30]

If we are, in fact, convinced that the conflicts among the various social objectives which are now generally considered part of the texture of development can be substantially softened as a consequence of the things we do, strategies which change the nature of the growth path should also give us better employment and distributional outcomes. Getting economically disenfranchised groups into the act is likely to be beneficial not only from a welfare point of view and not only for the individuals immediately affected.

It is perhaps necessary in this context to emphasize that the distinction often made between "radical" and "conventional" solutions to the problems of unemployment and the maldistribution of income is likely to be overdrawn. Land reform and even capital levies may, of course, be helpful; but they differ only in degree from the decentralization of public sector fiscal powers, and interest rate or tariff reform. The latter are just as likely to be resisted by the vested interests, the landlords as well as large-scale industrialists, who stand to benefit from the typical narrow growth import substitution policy syndrome. Our theory is not as yet sufficiently advanced to tell us how much of the observed conflict between growth and distribution in most of the developing world is due to the initial inequality of physical and educational asset ownership and how much due to the cumulative effects of market imperfections, entrenched monopoly positions, etc. Some combination of institutional change and market improvement may be required to release the energies

of the economically disenfranchised and thus ensure the kind of restructuring of the growth path associated with a softening or even avoidance of the Kuznets inverse U-shaped pattern.

A related question which comes to mind is whether an economy which is not "up against it," either because of an ample endowment of natural resources (or ample foreign capital inflow), is as likely to effect the policy changes referred to. The most "successful" examples are, once again, mostly countries which had little choice but to mobilize their major resource--a highly literate unskilled labor force--to penetrate international markets for labor-intensive goods. Many others, on the other hand, faced with the choice of moving to export substitution vs. continuing along a secondary import substitution path, can continue to count on traditional land-based fuel to provide adequate growth and are thus tempted to postpone the difficult decisions required for restructuring. In those cases, perhaps even a higher degree of statesmanship is required to convince the various parties to the social contract that the employment and income distribution outcomes of continuing on the present narrow growth path will ultimately be politically and socially unacceptable--quite aside from the fact that even growth itself will ultimately have to receive a new, probably outer-oriented, lease on life.

Policies in the rest of the world have experienced a not unrelated set of changes. U.S. foreign aid legislation, for example, now stipulates that resources be used to affect only poverty groups, mainly in the rural areas of the poorest countries, i.e., the

Fourth World, whether or not such "targeting" is really feasible is another matter. Other bilateral donors have likewise picked their "targets" in line with current concerns, e.g., Sweden concentrates on planned parenthood, and even the stately World Bank family is trying to put at least some of its money where McNamara's annual speeches have been for some years. With respect to the more advanced of the developing countries, the so-called Third World, trade and, to a lesser extent, private capital movements undoubtedly assume greater importance than concessional aid. Here, accordingly, there has been a growing appreciation that access to mature economy markets, coupled with a really effective domestic adjustment assistance program, may constitute the most effective form of a mutually beneficial interdependence.

But, perhaps most important among the not so subtle changes in LDC policy attitudes is the growing recognition of what increased participation in the world economy, via trade, capital and technology imports, can and what it cannot do. Such participation can, of course, give a substantial assist to any development effort; it provides the system with additional options, resources and flexibility; but the basic issue of whether or not a society's development goals will be attained is likely to be decided at home. If an effort is being made to alter the domestic parameters, foreign capital can, of course, be helpful in effecting the often painful transition; it can also--analogous to an ample natural resources base--help enable the system to persevere on the old tracks a bit longer. Either way, the impact is marginal; there are strict limits on what

the rest of the world can do to affect the performance of the typical developing economy. After years of overselling the impact of foreign aid and foreign capital, everyone now has a healthier, more realistic, view of the problems, and the limitations. The real danger at present may well be that we overshoot the mark and, while proclaiming a 'hew international economic order," pave the way for autarky, on one hand, with not-so-benign neglect, on the other. This would be especially unfortunate at a time when our understanding of the development process itself, and of the potential role of various international "handmaidens," is better understood than at any other time in history.

Footnotes

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[1]See, for example, Charles R. Frank, Jr. and Richard Webb, eds., Income Distribution and Growth in Less Developed Countries: Some Reflections on Theory and Policy (Washington, D.C.: Brookings Institution, forthcoming 1976).

[2]See Richard Weisskoff, "Income Distribution and Economic Growth in Puerto Rico, Argentina, and Mexico," Review of Income and Wealth (December 1970) and Ronald Soligo, "Factor Intensity of Consumption Patterns, Income Distribution and Employment Growth in Pakistan," Program of Development Studies, Paper No. 44 (Houston: Rice University, 1970).

[3]W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labor," The Manchester School 22 (May 1954): 139-191.

[4]e.g., H. B. Chenery and L. Taylor, "Development Patterns Among Countries and Over Time," Review of Economics and Statistics 50 (November 1968): 391-416.

[5]e.g., John C.H. Fei and Gustav Ranis, "A Model of Growth and Employment in the Open Dualistic Economy: The Cases of Korea and Taiwan," Journal of Development Studies (January 1976); D. Paauw and John C.H. Fei, Development of Open Dualistic Economies: Experience in South-East Asia (New Haven: Yale University Press, 1973). See also Gerald Helleiner, "Typology in Development Theory: The Land Surplus Economy (Nigeria)," Food Research Institute Studies VI, 2 (1966): 181-194.

[6]Bert F. Hoselitz, "Patterns of Economic Growth," Canadian Journal of Economics and Political Science 21 (November 1955): 416-431.

[7]W. W. Rostow, The Stages of Economic Growth (Cambridge: Cambridge University Press, 1960).

[8]See also Simon Kuznets, Modern Economic Growth: Rate, Structure and Spread (New Haven: Yale University Press, 1966).

[9]W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labor," The Manchester School 22 (May 1954): 139-191; John C.H. Fei and Gustav Ranis, Development of the Labor-Surplus Economy: Theory and Policy (Homewood, Ill.: Richard D. Irwin, 1964); Allen C. Kelley and Jeffrey G. Williamson, Lessons from Japanese Development: An Analytical Economic History (Chicago: University of Chicago Press, 1974); D. Jorgenson, "Development of the Dual Economy," Economic Journal LXXI (June, 1961): 309-334.

[10]See John C. H. Fei and Gustav Ranis, "A Model of Growth and Employment in the Open Dualistic Economy: The Cases of Korea and Taiwan," Journal of Development Studies (January 1976), for an elaboration. The same sort of phasing and analysis are useful in examining historical Japan.

[11]This more typical developing economy case is illustrated by the experience of Mexico and the Philippines (see Gustav Ranis, "Is the Mexican Miracle Turning Sour?," Demografía y Economía VIII, No. 1 (El Colegio de Mexico, 1974), 22-33; see also Sharing in Development: A Programme for Employment, Equity and Growth for the Philippines (Geneva: International Labour Office, 1974).

[12]Richard S. Eckaus, "The Factor Proportions Problem in Underdeveloped Areas," American Economic Review XLV (September 1955): 539-565.

[13]See especially W. Galenson and H. Leibenstein, "Investment Criteria, Productivity and Economic Development," Quarterly Journal of Economics LXIX (August, 1955): 343-370.

[14]See, for example, Robert E. Evenson and Yoav Kislev, Agricultural Research and Productivity (New Haven: Yale University Press, 1975).

[15]See, however, Frances Stewart, "Choice of Technique in Developing Countries," Journal of Development Studies 9 (October 1972) and Gerald Helleiner, "The Role of Multinational Corporations in the Less Developed Countries' Trade in Technology," in Technology Transfer in Pacific Economic Development, eds. K. Kojima and M. S. Wionczek (Tokyo: Japanese Economic Research Center, January 1975).

[16]See Howard Pack and Michael Todaro, "Technological Transfer, Labor Absorption and Economic Development," Oxford Economic Papers 21 No. 3 (1969): 395-403.

[17]For an empirical negation of the Galenson/Leibenstein thesis, see the author's "Investment Criteria, Productivity and Economic Development: An Empirical Comment," Quarterly Journal of Economics LXXVI (May, 1962): 298-302.

[18]Y. Hayami and V. W. Ruttan, Agricultural Development: An International Perspective (Baltimore: The Johns Hopkins Press, 1971).

[19]Robert E. Evenson and Yoav Kislev, Agricultural Research and

Productivity (New Haven: Yale University Press, 1975).

[20]Gustav Ranis (with John C. H. Fei), "Technological Transfer, Employment and Development," in Economic Development and Planning, ed. W. Sellekaerts (London: The MacMillan Press, Ltd., 1974); also, Gustav Ranis (with John C. H. Fei), "LDC Innovation Analysis and the Technology Gap," in The Gap Between the Rich and Poor Nations, ed. G. Ranis (London: MacMillan, St. Martin's Press, 1972).

[21]Simon Kuznets, "Economic Growth and Income Inequality," American Economic Review XLV (March, 1955): 1-28; H. Oshima, "The International Comparison of Size Distribution of Family Incomes with Special Reference to Asia," Review of Economics and Statistics (November 1962): 439-445.

[22]I. Adelman and C. Morris, Economic Growth and Social Equity in Developing Countries (Stanford: Stanford University Press, 1973).

[23]For an up-to-date overall summary, see F. Paukert, "Income Distribution at Different Levels of Development: A Survey of Evidence," International Labour Review 108 (1973): 97-125.

[24]I. Adelman, "Development Economics: A Reassessment of Goals," American Economic Review LXV (May, 1975): 302-309. See also, I. Adelman and S. Robinson, "A Non-Linear Dynamic, Micro-Economic Model of Korea: Factors Affecting the Distribution of Income in the Short Run," Woodrow Wilson School Discussion Paper No. 36 (July, 1973).

[25]John C. H. Fei, Gustav Ranis, and Shirley Kuo, "Growth and

the Family Distribution of Income by Factor Components," Mimeo (December, 1975, revised).

[26]e.g., balanced and unbalanced growth, critical minimum effort, take off.

[27]For an extreme case, see the sophisticated model presented as part of Korea's Second Five Year Plan.

[28]See, for example, H. Chenery and A. Strout, "Foreign Assistance and Economic Development," American Economic Review LVI, No. 4, Part 1 (September 1966): 679-733.

[29]As in the Chenery-Ahluwalia model in H. Chenery, M. S. Ahluwalia, C.L.G. Bell, J. H. Duloy and R. Jolly, Redistribution with Growth (Oxford: Oxford University Press, 1974).

[30]C. Peter Timmer, "Choice of Technique in Rice Milling on Java," Bulletin of Indonesian Economic Studies IX, No. 2 (July 1973): 57-76.