SOCIETY, STATE & MARKET

A GUIDE TO COMPETING THEORIES OF DEVELOPMENT

JOHN MARTINUSSEN

About the Author

Since the first printing of this book the author has died. The Publishers wish to express their deepest regret at the entirely unexpected and untimely death of Professor John Degnbol-Martinussen who passed away at a time when he was at the height of his powers. He led a distinguished career in development studies, was study director for International Development Studies at Roskilde University in Denmark, and chairman of the Danish Social Science Research Council and a president of the Danish Association for International Cooperation (Mellemfolkeligt Samvirke). At the time of his death he was chairman of the Council for the International Development Cooperation in Denmark.

Over the years he acted as a consultant to various international organisations, including the UNDP. South and South East Asia were his primary geographical regions of specialisation and his research interests revolved around, *inter alia*, a reappraisal of the role of the state in development, as well as appropriate methodological approaches and the growth of theory in development studies.

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The Theoretical Heritage from Marx and Weber in Development Studies (edited), Roskilde: International Development Studies, 1994.

New International Economics and their Applicability in a Third World Context (edited), Roskilde: International Development Studies, 1993.

Transnational Corporations in a Developing Country: The Indian Experience, New Delhi: Sage Publications, 1988.

Society, State and Market

A guide to competing theories of development

JOHN MARTINUSSEN

Zed Books Ltd
LONDON & NEW YORK

Fernwood Publishing
HALIFAX, NOVA SCOTIA

HSRC
SOUTH AFRICA

University Press Ltd
DHAKA

Mellemfolkeligt Samvirke
Danish Association for International Co-operation
COPENHAGEN

Society, State and Market: A guide to competing theories of development was first published in English by Zed Books Ltd, 7 Cynthia Street, London N1 9JF, UK, and Room 400, 175 Fifth Avenue, New York, NY 10010, USA, in 1997.

Distributed in the USA exclusively by St Martin's Press, Inc., 175 Fifth Avenue, New York, NY10010, USA.

Published in Denmark by Mellemfolkeligt Samvirke - Danish Association for International Co-operation, Borgergade 14, DK 1300, Kobenhavn K, Denmark.

Published in Canada by Fernwood Books Ltd, PO Box 9409, Station A, Halifax, Nova Scotia, Canada, B3K 5S3.

Published in South Africa by Human Sciences Research Council, PO Box 5556, Pretoria 0001.

Published in Bangladesh by The University Press Ltd, Red Crescent Building, 114 Motijheel C/A, PO Box 2611, Dhaka 1000.

Originally published in Danish under the title *Samfund, stat og marked: En kritisk gennemgang af teorier om udvikling i den 3. verden* by Mellemfolkeligt Samvirke, Borgergade 14, DK 1300 Kobenhavn K, Denmark, in 1995.

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Cover designed by Andrew Corbett
Set in Monotype Garamond by Ewan Smith
Printed and bound in Malaysia

Fifth impression, 2005

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A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data
Martinussen, John.
[Samfund, stat og marked, English]
State, society, and market: a guide to competing theories of development / John Martinussen.
p. cm.
Includes bibliographical references and index.
ISBN 1-85649-441-1 (hb). - ISBN 1-85649-442-X (pb)
1. Developing countries–Economic policy. 2. Development economics–Developing countries. 3. Developing countries–Dependency on foreign countries. 1. Title.
HC59.7.M326 1997
338.9'009172'4–dc20 96-24005
CIP

Canadian Cataloguing in Publication Data
Martinussen, John.
Society, state and market
Includes bibliographical references and index.
ISBN 1-895686-72-5
1. Economic development. 1. Title.
HD75.M37 1997 338.9

ISBN 1 85649 441 1 hb ISBN 1 85649 442 X pb
Denmark ISBN 87 7028 966 2 pb
South Africa ISBN 07969 1795 7 pb

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CHAPTER 5

Theories of Growth and Modernisation

In the literature, economic growth theories are not often referred to as modernisation theories. When this is done here, it is to stress their similarity to the classical sociological modernisation theories, and thus to demonstrate the very fundamental common conception of the development process as a modernisation process which is embodied in both these – otherwise different – mainstreams of theory formation.

Central to classical modernisation theories is a contrasting of tradition and modernity. This applies to relations between countries, where these theories regard the Western industrial countries as modern and the developing countries as overwhelmingly traditional. It also applies within the individual developing countries, where certain sectors, institutions, practices, values and ways of life are considered as modern, others as traditional. The modernisation theories are concerned primarily with how traditional values, attitudes, practices and social structures break down and are replaced with more modern ones. What conditions promote and impede such a transformation and modernisation process?

With these chosen starting points, it is not surprising that modernisation theories imply a positive assessment of the historical impact of imperialism and colonialism. Through economic dominance and political control, the industrial countries have actively tried to graft their own 'modern' and development-promoting cultures on to the backward societies. The problem in this context has been the backward countries' development-obstructing traditions, institutions, values, and other internal conditions. In line with this retrospective evaluation of the role of imperialism, it is a characteristic of the economic growth and modernisation theories that they claim a favourable net impact for the poor countries in their trade with the industrial countries, as well as for their interrelations with the industrialised world in other respects. It is from this positive relationship with the industrialised North West that the impulses for economic change and progress in the undeveloped societies must come.

The classical development economists – the pioneers in the field who wrote from the late 1940s and up to the beginning of the 1960s – were not agreed on what the most important sources of growth were, or how the

process was best set in motion. In what follows we shall look at some of the different views that have characterised the debate up to the present day.

Capital accumulation and balanced growth: Rosenstein-Rodan and Nurkse

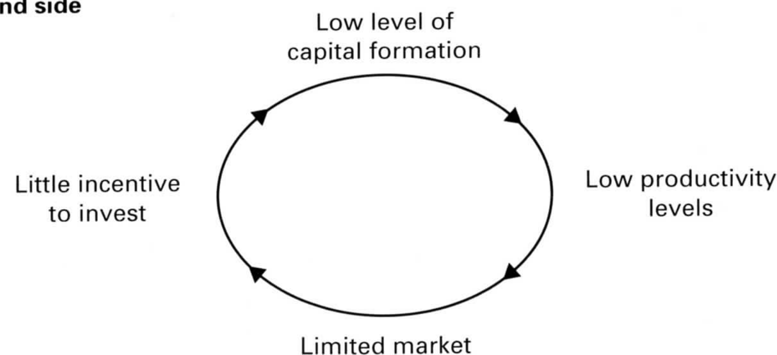
One of the earliest contributions to the theory of the nature of backwardness and the conditions for growth came from the Polish-born economist *Paul Rosenstein-Rodan* as early as 1943, in the form of an article on the problems of industrialisation in Eastern and Southern Europe (Rosenstein-Rodan, 1943). In this article and through later works, Rosenstein-Rodan became a prominent spokesman for massive industrial development as the way to growth and progress for the backward areas, both on the European fringe and in the rest of the world. Rosenstein-Rodan expressly distanced himself from neo-classical economics and its static equilibrium analyses, and proposed instead that the growth process must be understood as a series of dissimilar disequilibria.

In a paper from 1957, he expanded this argument further into a theory of the 'big push' as a precondition for growth. The backward areas were characterised by low incomes and, therefore, little buying power. Furthermore, they were characterised by high unemployment and underemployment in agriculture. To break out of this mould, it was necessary to industrialise. However, private companies could not do this on their own, partly because they lacked incentives to invest as long as the markets for their products remained small. The influence of Adam Smith's reasoning was apparent here (cf. Chapter 2), but Rosenstein-Rodan went further with an identification of other growth-impeding conditions, including the companies' difficulties with internalising costs and consequently not being paid for all the goods they produced – for example, the cost of training workers who may then transfer their new skills to other companies.

Rosenstein-Rodan claimed that the barriers to growth could be overcome, but this required active state involvement in education of the workforce and in the planning and organising of large-scale investment programmes. And they had to be large-scale in order to set a self-perpetuating growth process in motion. Rosenstein-Rodan compared the 'big push' with an aeroplane's take-off from the runway. There is a critical ground speed which must be passed before a craft can become airborne. A similar condition applied to the growth process: launching a country into self-sustaining growth required a critical mass of simultaneous investments and other initiatives (cf. also Rosenstein-Rodan, 1984).

Ragnar Nurkse took over and further developed many of Rosenstein-Rodan's major points (Nurkse, 1953). Nurkse asserted that the economically backward countries were caught in two interconnected vicious poverty circles, which can be illustrated as in Figure 5.1.

Demand side



Supply side

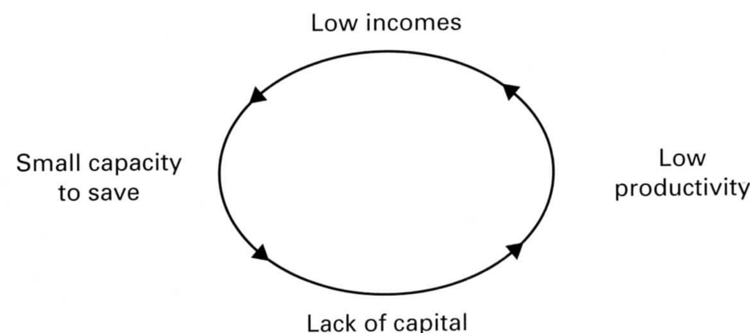


Figure 5.1 The vicious circles of self-replicating poverty

The reasoning behind the circles is that demand in backward countries is low as a consequence of the very low incomes. When demand is low and the market limited, there will not be much incentive to make private investments. Therefore, capital formation and accumulation remain at a very low level. As a consequence, no real productivity improvements occur and incomes, therefore, remain low. On the supply side, the low incomes result in a small capacity to save which, in turn, is reflected in lack of capital and low productivity. The final outcome is reproduction of mass poverty. Nurkse added to this that the whole problem with attaining the necessary savings and capital investments was compounded by rich people's tendency to copy, in their own consumption, the consumption standards and patterns of the industrially advanced countries. This so-called Duesenberry effect implied an increase in the propensity to consume and thus led to a reduction in the actual rate of saving.

The preconditions for breaking out of these poverty circles were, according to Nurkse, the creation of strong incentives to invest along with increased

mobilisation of investible funds. This required a significant expansion of the market through simultaneous massive and balanced capital investments in a number of industrial sectors. This depended further on an actively intervening state, which could both plan investment programmes and ensure internal mobilisation of resources. The state was important also to bring about optimal utilisation of foreign aid, which Nurkse brought in as a critical strategy for initiating accumulation of capital on a grand scale.

It is important to note that behind both Rosenstein-Rodan's and Nurkse's modes of reasoning there lay a fundamental assumption that an increased supply of goods – as a consequence of capital accumulation – would create its own increased demand. Both theorists imagined that the market would expand as a consequence of the increased capital investments which, in turn, would continue to grow in response to market incentives.

Unbalanced growth and income distribution: Hirschman and Kuznets

The idea that the growth process could be initiated with balanced capital investments in several sectors at the same time was strongly criticised by, among others, *Albert Hirschman* (Hirschman, 1958). He claimed that, on the contrary, there was a need to maintain and accentuate imbalances and disequilibria in backward economies, because there were other barriers to growth than the limited market and the lack of capital investments. Hirschman emphasised, with inspiration from Schumpeter, that the developing countries' greatest problem was rather the lack of entrepreneurship and management capacity. Hirschman stressed his point by saying that 'if a country were ready to apply the doctrine of balanced growth, then it would not be underdeveloped in the first place' (Hirschman, 1958: p. 54).

Rather than strive for a balanced approach where the resources would be thinly spread over several sectors and managed badly, the developing countries should, according to Hirschman, aim at selected key sectors which had many links backwards and forwards in the economy, and therefore could pull other parts of the economy along with it.

The debate between the followers of the two above-mentioned models of growth continued up through the 1950s and 1960s. Today, however, the focus of attention has shifted from the original dichotomy to considerations concerning the circumstances in which one or the other approach appears to be the more appropriate.

Evaluated retrospectively, it is interesting to note that both models of growth operated with imbalances with regard to income distribution. It was well known as early as the 1950s that the income distribution in the developing countries was generally extremely unequal, but this was not a subject that preoccupied this period's growth theorists. Nurkse was worried that the rich would use their savings mainly on imported luxury goods, but it did not lead

him to recommend – as in the case of Myrdal – a redistribution in favour of the poor, because Nurkse did not believe that the poor had the necessary ability or opportunity to save. In this regard he was in line with the predominant conception of this early period that increased savings had to come from the rich in the backward countries. In terms of strategy, therefore, it was deemed legitimate to concentrate on income growth for the rich, who would then increase their savings and thereby create continued growth. After a while this growth, it was implicitly claimed, would trickle down to the poor in such a way that in the end everybody would be better off.

Simon Kuznets was one of the few who stated in more explicit terms his opinion on this subject (Kuznets, 1955). He claimed that economic growth under average circumstances would lead to increased inequality in the beginning, but that this tendency would flatten out and to some extent turn to steadily increasing equality in income distribution. More specifically, Kuznets came to the conclusion that the incomes of the poorest 40 per cent of the population would normally grow more slowly than the average until income per person reached a range of US$700 to US$900. Beyond this range, the incomes of poorer groups would tend to grow faster than the average (cf. Meier, 1989: p. 21).

Several development researchers have tried, since Kuznets stated his provocative hypotheses, either to substantiate it with further data or to reject it. The Indian economists V. M. Dandekar and N. Rath have undertaken particularly thorough studies of the problem (Dandekar and Rath, 1971). They concluded, based on evidence from India, that a higher rate of growth was better than a lower rate of growth for all social groups, rich as well as poor – with the exception of the poorest ten per cent, who did not get any benefit at all from the economic growth in the various states of India. They added to this observation that, seen from the point of view of the poor, a fair distribution of the growth results was of greater importance than a generally higher growth rate, because the poor got considerably less out of a general increase. Dandekar and Rath, therefore, deemed it justifiable to ask how rich the rich should become before the needs of the poor were taken into consideration through political intervention and special initiatives. This question provided one of starting points for the argument that later led to the elaboration of the basic needs strategy (cf. Chapter 21).

Growth poles: Perroux

A third, but less known model of growth was worked out in the 1950s by the Frenchman, *François Perroux* (Oman and Wignaraja, 1991: pp. 23ff.). Perroux divided industry as a whole into two types of subsectors: the dynamic sub-sectors, so-called 'propellant' industries; and the non-dynamic, 'impelled' industrial sectors, which had to be driven forward by the dynamic sectors. This division also had a spatial aspect in that there was a tendency to

concentrate the dynamic subsectors in small geographical enclaves, while the others were spread out in backward regions, whose growth and development totally depended on their linkages with the growth poles.

With this emphasis on both the sector-wise and the spatial concentration of growth, Perroux came to act as a kind of forerunner for the many empirical analyses that have since been undertaken of such tendencies. It is today a conventional and widespread conception that the countries in the Third World – with a few exceptions such as Singapore, Hong Kong, South Korea and Taiwan – are all characterised by concentrations of growth in certain sectors and certain geographical enclaves.

In contrast to Perroux's – and Hirschman's – recommendations, the concentration has rarely been optimal as seen from the perspective of the theories of unbalanced growth. The concentrations observed in the Third World do not, generally, reflect strategic imbalances in Hirschman's conception, or development-promoting growth poles in Perroux's terminology. Rather, they represent isolated growth spots which may be interlinked and integrated into global networks but which, at the same time, have not induced growth in non-dynamic sectors or the surrounding backward areas (cf. Chapter 9).

Modernisation and stages of growth: Lewis and Rostow

Each of the above-mentioned theories came to influence subsequent theory formation and the international debates on development problems, but not to the same extent, or with the same intensity, as two additional contributions from the early period: those of *W. Arthur Lewis*, born in the British West Indies, and the American, *W. W. Rostow*. These two economists, in their more elaborate and detailed analyses, differed with respect to conceptual framework and method and they also reached different conclusions. Yet they had so much in common that they came to function as mutually supplementary theoretical frames of reference, particularly in the Western world's development debate from the 1960s onwards. Even in the 1990s, they continue to influence some of the basic notions of economic development.

Lewis and Rostow both focused on rising per capita income as the central measure of growth; they conceived of economic development as a modernisation process; they used as their starting point a model of developing countries with an abundant supply of labour in the traditional sector; they regarded the savings rate as the central determinant for the investment rate and further for the overall growth rate; and finally they viewed the capitalist or entrepreneurial class as an important driving force behind economic growth, essential, in particular, for initiating the process (Hunt, 1989: pp. 62ff.).

More specifically, Lewis took as his starting point a two-sector model of

a closed backward economy with an unlimited supply of labour at a subsistence wage (Lewis, 1954, 1955); one sector was the capitalist, the other he characterised as the subsistence sector. The capitalist sector employed wage earners, used reproducible capital and paid capitalists for the use of capital. The subsistence sector was characterised by being based primarily on family labour, by not using reproducible capital and by low labour productivity. It was in the subsistence sector that the abundant labour reserves were found, not necessarily in the shape of many unemployed, but rather in the shape of many underemployed. These underemployed workers could be transferred to the capitalist sector without bringing about a decline in the subsistence sector's total production, and at a wage which was determined by the average in the subsistence sector – not by their productivity in the capitalist sector.

Lewis's argument in extension of this was that the most important barrier to economic growth was the lack of accumulation of productive capital – caused, in turn, by the low rate of savings. The central problem in the theory of economic development was therefore to investigate under what circumstances it would be possible to increase the rate of savings and investments in a backward and stagnant economy, where these rates would typically be as low as four to five per cent of national income, up to a level of between 12 and 15 per cent or higher.

Lewis's answer to this central problem was that the poor in the subsistence sector and the workers in the capitalist sector could not produce such increased savings, because they were simply too poor to save a significant proportion of their income. The rich in the subsistence sector could not either, because they were mostly landowners, who used their rents and other income unproductively to buy existing assets rather than to create new ones. Therefore, the capitalists, the other component of the rich in the basic model, had to produce the necessary increase in the savings rate. According to Lewis, they were capable of doing so. On this point, he followed the classical political economics' assumption that the capitalists' profits would be both saved and invested.

Consequently, the central problem was transformed into a question about how the profits could be increased as a proportion of national income. This could be achieved by the capitalist sector's inherent dynamics. Lewis asserted that as soon as a core capitalist sector was established under conditions of unlimited supply of cheap labour, the capitalists would reinvest at least a part of their profits and in this way increase the total amount of capital available. This would attract more workers from the subsistence sector into the capitalist sector, where their productivity would be higher than reflected in their low wages (determined primarily by the subsistence sector). As a result, a relative increase of the profits in relation to total national income would occur and thus bring about an increase in the rates of saving and investment. The final outcome would be sustained economic growth, driven forward by the capitalists. Lewis emphasised that the capitalists did not

necessarily have to be private capital owners; the state could play this role, too.

In the presentation of the argument so far we have assumed a closed economy without trade or other transactions with other economies. However, Lewis further extended his model to cover an open economy. This part of his model will not be presented in detail, but it should be noted that one of Lewis's main conclusions was that trade between developing countries and industrialised countries did not promote growth and economic progress in the former. This was explained chiefly with reference to the fact that wages in the poor countries, according to the model, were determined by the supply (subsistence) price of labour, as described above. The increased productivity of labour as a result of transferring to the capitalist sector would therefore be passed on to the consumers in the industrialised countries in the shape of lower product prices. Lewis, with this reasoning, anticipated central elements in Arghiri Emmanuel's theory of unequal exchange (cf. Chapter 7).

Summing up, one can say that Lewis's model gave reasons for optimism regarding the possibilities for sustained growth in the capitalist sector. Lewis regarded this as identical with economic development, but he stressed, at the same time, that the working population in the developing countries – the vast majority – could not count on improvements in their standard of living in the short or medium term if the capitalist growth rate was to be maximised.

Lewis's economic model and his associated theories have been subjected to wide-ranging criticism. However, this should not obscure the fact that his original contribution to economic development theory was both interesting and innovative. Some of the basic elements have since been taken over and amended by some of the more structuralist-oriented development economists who will be presented below (see Chapter 5). Moreover, Lewis's model formed one of the important starting points for Rostow's theory of stages of economic growth and modernisation.

W. W. Rostow formed his basic theory during the 1950s and presented it in its totality in 1960 in the book, *The Stages of Economic Growth* (Rostow, 1960). Variations and extensions have since been published (Rostow, 1978, 1980). Rostow, like Lewis, distinguished between the traditional sector and the modern capitalist sector. Further, he agreed with Lewis that a crucial precondition for lifting an economy out of low income stagnation and into sustained growth was a significant increase in the share of savings and investment in national income. But Rostow was more interested in describing the whole process through which a society develops in different stages. The aim was to identify strategic or critical variables that may be presumed to constitute the necessary and sufficient conditions for change and transition to a qualitatively new stage. Rostow's stage theory was essentially unilinear and universal, and assumed irreversibility.

Rostow divided the development process into the following five stages:

- the traditional society
- the establishment of the preconditions for take off
- the take-off stage
- the drive to maturity
- the époque of high mass consumption.

Each of the stages was thoroughly described in his 1960 book and illustrated with examples from the historical development of selected countries.

One of Rostow's central points was that all societies, sooner or later, will pass through the same sequence of five economic stages. Whether this will happen sooner or later is determined primarily by natural and economic circumstances, but Rostow also assigned some importance to political and cultural conditions.

The conceptualisation of the five stages is not characterised by the same precision in its formulation, or the same internal consistency of reasoning as found in Lewis's theoretical model. Rather, what we find in Rostow are somewhat loosely substantiated generalisations based mainly on experience from a few industrialised countries. This, however, did not prevent Rostow's theory from becoming one of the most popular among decision makers, consultants, and government officials involved in economic planning in the Third World. This applies, in particular, to his propositions concerning take-off into self-sustained growth.

It should be added that Rostow himself, unlike many economic planners and consultants, was quite careful about specifying a long list of preconditions for the take-off. In fact, it is in the discussion of the preconditions for take-off that Rostow has probably delivered his most crucial contribution and on this point even influenced theorists who have not accepted his notion that all economies will pass through an identical series of stages. Therefore, a little more should be said about these preconditions.

Rostow described how, prior to their take-off, the industrialised societies – some of them for an entire century – went through several changes which were all preconditions for breaking out of the traditional structure. To this he added three specific conditions which should all be in place immediately before the take-off. The first was a marked increase in the investment rate; the second was the emergence of particular growth sectors that could function as engines of aggregate economic growth; and the third was the establishment of political, social and institutional frameworks making it possible to utilise the potential in the modern sector and, thereby, pave the way for self-sustaining growth.

Rostow imagined, as noted, that the developing countries would follow the same development pattern as the industrialised countries, despite their being surrounded by a quite different international economic system than were the advanced countries at the time when they took the big leap forward. In this sense, Rostow adhered to a mono-economic approach and thus placed

himself, in this respect, outside the mainstream of development economics (cf. Chapter 4). However, in other respects he set the course for this mainstream, not so much in the sense that others adopted his theories – only a few did that – but more by inspiring critical revisions and amendments to the theory's central assumptions and hypotheses.

One of these hypotheses claimed that a markedly increased savings rate would lead to a correspondingly increased investment rate, which further would cause significant industrial growth. A second, related thesis asserted that capital accumulation was the central source of growth in the developing countries. Both these claims were rejected or heavily modified in later theory formation as we shall see in the next section. But prior to that it may be of interest to compare Rostow's basic development thinking – the concept of modernisation through an irreversible process divided into stages – with corresponding conceptions in more mechanistic Marxism including, especially, some of the Soviet Marxist theories.

Rostow launched his theory in 1960 as 'An anti-communist manifesto' (the book's subtitle) – as an alternative to Karl Marx's theory of modern history – and that is what it was in many respects. Among other things, Rostow refuted the Marxist theories of exploitation and suppression of the backward and undeveloped areas. He proposed a number of other interpretations and explanations in opposition to Marxist assertions, and warned against forcing development or turning it in another direction with assistance from the communist countries. That, Rostow declared, could only lead to worse results.

At the same time, however, it is interesting to note that Rostow and many development theorists with a mechanistic interpretation of Marxism have in common the idea that all societies, with almost compelling necessity, must pass sequentially through an identical series of stages or modes of production. The Marxist stage theories emphasise other characteristics, and are often more comprehensive and complex than Rostow's theory. Yet one cannot avoid noticing the striking similarities, especially with regard to the early, more dogmatic Soviet Marxist stage theories (Solodovnikov and Bogoslovsky, 1975). They suggested – in opposition to Rostow – that the underdeveloped countries could escape or completely avoid the capitalist stage by following a special non-capitalist road to development. However, in principle they simply swapped Rostow's model of a capitalist industrial country with the Soviet version of a 'socialist' industrial country. Thus, the Soviet Marxist theory became a special form of modernisation theory. This applied also in the sense that they proposed a positive evaluation of imperialism – only here it was of Soviet imperialism and not the Western industrial countries' imperialism. One of the points to note in this context is that the non-capitalist road to development was only possible with support from the USSR and Eastern Europe.

It has to be added that these remarks on Soviet Marxist theory apply only

to the earlier prevailing conceptions. The theoretical debate in the Soviet Union was already, long before the dismantling of the Eastern Bloc, much richer and more nuanced. Many researchers even raised questions about the relevance to Third World countries of the Soviet and East European development model. Furthermore, there was an emerging consensus that the backward countries were too different to follow an identical path of change.

Patterns of development and obstacles to growth: Chenery, Syrquin and Laursen

Among the economists who further developed the theoretical inheritance from Lewis, Rostow, and others, but in the context of more structuralist approaches, *Hollis Chenery* and *Moshe Syrquin* require special attention (Chenery et al., 1986; Syrquin, 1988). In addition, two Danish economists may be mentioned: *Karsten Laursen* and *Martin Paldam* (Laursen, 1987, 1990). We shall look a little closer at selected aspects of their analyses to introduce the contemporary debate on the basic structure of the development process and on the most important sources of – and obstacles to – growth within development economics. In the present section, the focus is on the internal conditions in developing countries. This is followed by a discussion of international perspectives on the growth process in the next section.

In a conventional Keynesian approach, the most important source of economic growth is an increase of aggregate demand for consumer goods and investment goods. From this will follow a corresponding growth in supply and, hence, a new balance (or equilibrium point) at a higher level will be achieved. Growth in aggregate demand can be increased through public investments, but will otherwise come from increased incomes.

Other approaches within development economics emphasise, as was noted in earlier sections, the addition of more factors of production – particularly capital – and technological innovation as the critical sources of growth. Better education of the workforce may, in this context, function as a special source of growth. These approaches essentially assume that increased demand will result from expanded supply. The more structuralist approaches accept these sources of growth, but add reallocation of labour and resources from sectors with low productivity to high-productivity sectors. They also emphasise the interrelations between the different sources of growth, instead of treating each one in isolation. Furthermore, they distinguish between industrialised countries and developing countries regarding the typical composition of growth sources. They view the adding of more factors of production in the economy as a whole – capital, technology, and educated labour – as the most important source in the highly industrialised countries, while in the developing countries a significant proportion of the growth depends on the previously mentioned transfer of labour and resources to high-productivity sectors. Laursen has characterised this transfer as a *process of diffusion* (Laursen, 1987).

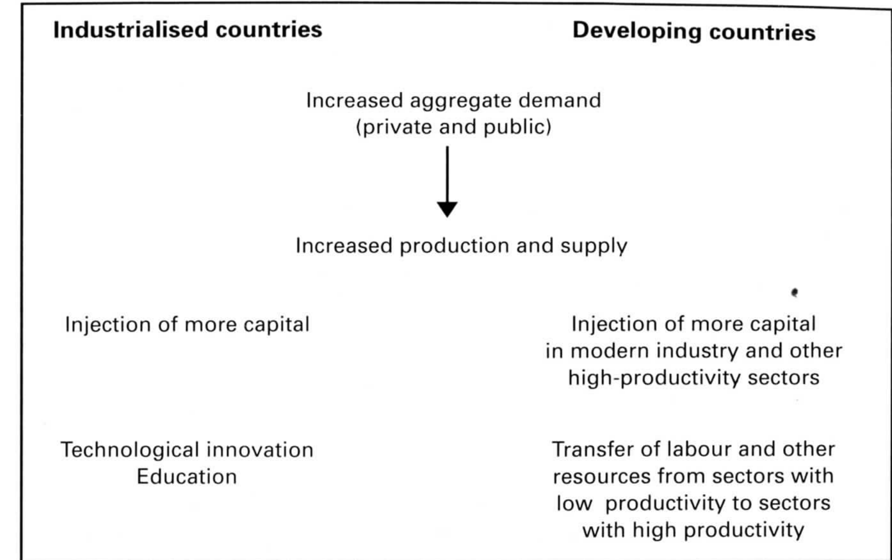


Figure 5.2 Sources of economic growth

Figure 5.2 summarises the various propositions regarding sources of growth.

The basis for the reasoning concerning the diffusion process is a two-sector model similar to Lewis's, with a large rural subsistence sector with disguised unemployment and underemployment. Hence, labour can be transferred to the urban industrial sector without any, or with a very limited, decline in agricultural production. In any case, the utilisation of more labour in industry, due to higher productivity in this sector, will lead to net growth in total production.

In a more elaborate version of the model, the assumption about only two separate and homogeneous sectors is replaced by assumptions about a multitude of sectors with diverse characteristics and different levels of productivity. Urban industry, in particular, is divided into relatively modern, large-scale industry and traditional, small-scale manufacturing and crafts. In the latter sectors, as in agriculture, the existence of disguised unemployment and underemployment along with low labour productivity allows for a replication of the diffusion argument here.

Laursen has observed that there is a tendency for the expansion of the modern large-scale sector to break down the traditional sector too fast, which further implies that industry's job-creating ability is less than the growth in unemployment following from the breakdown. Neither this nor other complicating factors, however, weaken the basic point that it is modern large-scale industry which is the main engine of growth and economic transformation.

A pertinent question then is: what are the factors limiting the haulage capacity of this engine? Here, the more recent theoretical debates do not only emphasise low savings rates and lack of capital for investment, but add to these the lack of foreign exchange. The classical development economists were, like their successors, aware of the need for foreign exchange to finance the necessary imports, but they did not regard this limitation as particularly important, while contemporary development economics tend to give it very high priority as an obstacle to growth, especially in low-income, oil-importing countries. Two further barriers to industrial growth have been identified, namely low growth in agriculture and limited human resources, chiefly with respect to highly qualified labour, business managers and political decision makers, but also regarding human development in a wider sense (Meier, 1989: pp. 64ff.). We will come back to these growth-impeding conditions later and continue here with other aspects of the theories proposed by Chenery, Syrquin and Laursen.

Prompted by an interest in achieving an overview of basic changes in the developing countries' economic structures over a longer period, Chenery and Syrquin, in the early 1970s, abandoned the construction of models. Instead, as some of the pioneers in this respect, they started to carry out a very comprehensive empirical survey of the changing economic structures (Chenery and Syrquin, 1975; Syrquin, 1988: pp. 228ff.). Laursen later carried out a similar investigation, adding new data (cf. Laursen, 1990).

The result of these surveys and investigations was a documentation of tendencies as foreseen in the diffusion model. A clear correlation could be observed between, on the one hand, rising per capita income, and on the other, increasing migration from agriculture and other primary economic sectors into the modern industrial sector. It was also noteworthy that the changes in the pattern of employment were not as marked as the changes in the distribution of investments and in the various sectors' contribution to gross domestic product. The relative growth of modern industry was much more pronounced in these latter respects than when measured in terms of employment. The problems of absorbing the fast-growing workforce in modern industry were reflected in this (cf. Chapter 22). Parallel to the changes mentioned, a further shift towards services, the tertiary sector, could be observed.

It was not the documentation of these patterns that was the most interesting result emerging from the surveys; these patterns were well known from earlier studies. The new and really interesting insight coming from the surveys was that the patterns in most of the developing countries were closely correlated with rising per capita income. The higher the income, the greater the shift away from the primary sector and towards the secondary and tertiary sectors. There were deviating cases, and the statistical significance was not in all cases particularly high, but overall there was a clear correlation. A second interesting result was that distinct stages in the changes of the

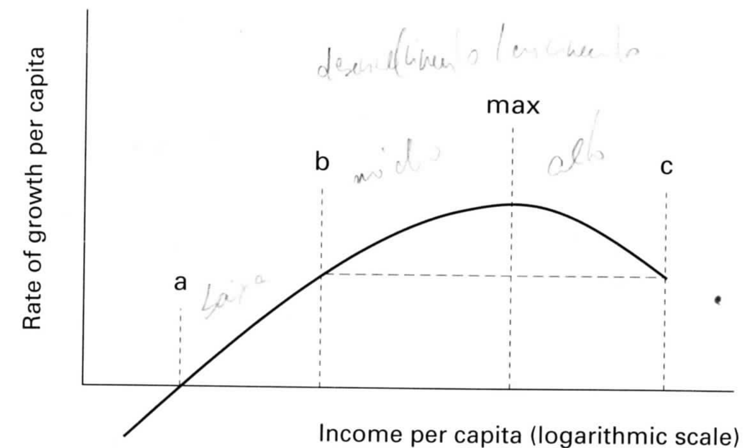


Figure 5.3 Per capita income and growth rates
Source: Laursen, 1987: p. 49

economic structures could not be identified. Rather, the picture revealed was one of gradual changes without leaps.

Another study by Laursen and Paldam from the beginning of the 1980s attempted, with inspiration from Rostow, to demonstrate a causal relationship between income and growth rates (cf. Laursen, 1987: pp. 49ff.). Here also it was difficult to identify distinct stages, but the two development economists arrived at the regression line shown in Figure 5.3. Based on this, Laursen subsequently proposed a division of countries into the following categories:

1. the countries to the right of the curve's maximum, which essentially corresponded to the World Bank's group of high-income, industrialised economies;
2. the countries to the left of the curve's maximum and on to point b, corresponding roughly to the middle-income countries in the World Bank's classification; and
3. the countries to the left of point b, the low-income countries, with those to the right of point a being the poorest with negative growth rates.

Interpreted as a statistical model, Figure 5.3 indicates that middle-income countries with high growth rates are in the process of catching up with the industrialised countries with lower growth rates. At the same time the middle-income countries are in the process of distancing themselves from the low-income countries, particularly from the poorest with negative growth rates.

Viewed as a dynamic model, the figure proposes, among other things, that low-income countries between points a and b, with time, will move into the area of middle-income countries and thereby reach correspondingly higher

growth rates. Middle-income countries will similarly move up among industrial countries and thereby experience falling growth rates.

The graph is captivatingly simple, and probably too simple to express any causal relationship between per capita incomes and growth rates. The dynamic interpretation, in particular, appears doubtful because one cannot a priori conjecture that all – or even most – low-income countries will, in due course, move up to the curve's maximum. Neither does the model give an answer to what the independent variable is. Laursen himself has stated that the regression line covers a considerable spread, and that there are countries which lie very far from the theoretical curve. However, it has to be acknowledged that there are many countries which are situated relatively close to the parabolic curve, which may therefore be accepted as a reflection – directly or as an indication of other underlying factors – of pertinent patterns in the process of growth experienced so far by a large number of the world's countries.

Global interdependence

This chapter will now conclude with a brief review of a special economic theory that is not really part of the growth and modernisation theories, but which may be interpreted as a supplement to them. It concerns some more recent considerations on the interdependence between developing countries and industrial countries – considerations which to a large degree came to play a role in the Brandt Commission's recommendations (Brandt Commission, 1980, 1983).

The *theory of interdependence* has its roots in conventional economic theory. It began to play a role in the development debate during the 1970s, when it became evident how closely the world's economies are interconnected and, in their performance, increasingly dependent upon each other. It provided an occasion for a refining of three forms of interdependence between the developing countries and the industrial countries (Laursen, 1984, 1987: Part IV).

The first form is described as demand dependence. The point here is that demand for a country's production stems partly from domestic consumers and partly from foreign buyers. In the context of interrelations between countries, the point is that the industrial countries have an interest in growth in the developing countries, because such a growth will increase demand for the industrial countries' goods. This, in turn, will promote growth in the industrial countries. The reverse is also postulated to apply, that is the developing countries can sell more of their products in the industrial countries when the economies in these countries grow. In other words, highly developed and less developed countries will function mutually as each other's 'engines of growth' in boom times – and conversely, impede each other's progress in times of recession and economic crisis.

The relationship of interdependence, however, is not a symmetrical one. Using the figures for merchandise trade as a simple indicator clearly reveals that the 23 high-income economies, according to World Bank classifications, are much more important, overall, for world market demand than are the 109 low- and middle-income economies. The former group of countries, in 1992, accounted for more than 78 per cent of the world totals for both exports and imports (World Bank, 1994: pp. 186ff.).

Another way of assessing the extent to which the interdependence is asymmetrical is to look at production figures and data for the average propensity to import and then, based on these figures, calculate the impact of an increase of production in one group of countries upon another group. Calculations like these indicate that a one per cent increase of production in high-income economies will lead to a much higher increase in demand for developing countries' exports than the increase in demand for industrial countries' exports that would follow from a one per cent increase in low-income countries' production (Laursen, 1987).

The second form of interdependence is connected to the supply of goods. The main point here is that the industrial countries are in many areas dependent on products from the developing countries. There are many things which, quite simply, cannot be produced in the industrial countries unless they have access to certain raw materials and other goods from the developing countries. A corresponding dependence on the industrial countries applies to the developing countries.

The third form of interdependence is a little more difficult to describe in a few words. It could be termed welfare dependence. Basically, it has to do with the fact that different countries have different comparative advantages to produce individual products. Tropical fruits can best be grown in countries with a tropical climate, to take one of the more indisputable examples. The important point is, according to the theory, that each country's unique resources must be exploited in the best possible way in deference to other countries' comparative advantages. This way the highest level of welfare will be achieved on a global scale. The assertion need not be tied up with such extreme positions as those contained in the classical theory on comparative advantages, but the mode of reasoning is somewhat similar (cf. Chapter 2).

The strategy emerging from the theory of interdependence is often termed 'global Keynesianism', because it is reminiscent of the measures Keynes suggested at the national level (cf. Chapter 2). The strategy stipulates, among other things, that the industrial countries and the international organisations should transfer vast amounts of resources to the developing countries to initiate economic growth. As a result, demand for the industrial countries' products will increase, thus also leading to growth and progress in that part of the world.

There are a number of problems with this strategy. Based on the theory of asymmetrical interdependence, briefly referred to above, questions have

been raised regarding the economic rationality of transferring resources to the developing countries for the purpose of increasing global growth. Transfer of resources may be perfectly rational from other viewpoints, but would not transfers between industrial countries result in greater growth on a global scale? Would it not be better for the industrial countries to aim for growth in Eastern Europe and the former Soviet Union, if the primary objective is to promote global growth?

There is no doubt that the theory of global interdependence, particularly the version stressing the asymmetrical aspects, has focused attention on something central in the relationship between industrial and developing countries. As seen from the poorest countries' perspective, notably in Africa, the theory further raises considerable concern because it can be used to justify the ongoing shifts in global resource flows away from these countries and towards the better-off countries in Eastern Europe, Latin America and Asia.

CHAPTER 6

Structuralist Theories and Industrial Development

The structuralist theories of economic development and underdevelopment were originally launched in parallel in Latin America and Western Europe (cf. Chapter 4). Since then they have been expanded into various more specific versions which cannot entirely be classed with the original approach and propositions. This applies especially to Gunnar Myrdal's influential theory which reaches considerably further and draws in more non-economic phenomena than the structuralists' original approach. Additionally, many of the early structuralist economists have adjusted their theories in the light of both acquired development experiences and significant changes in the global economic system, so that today one can identify various neo-structuralist approaches. Osvaldo Sunkel, one of the early Latin American structuralists, characterises his own recent contributions to theory construction as neo-structuralist (Sunkel, 1993).

Structuralist theories, in addition to representing an alternative body of theory to neo-classical economics, also provided a substantial part of the macro-economic foundation for the theory fragments that appeared during the 1970s concerning the informal sector and basic needs (cf. Chapters 21 and 22). Furthermore, the early structuralists, especially Raúl Prebisch, in certain critical respects can be considered as forerunners to the Neo-Marxist dependency theorists.

This chapter is introduced with an account of the early, notably the Latin American, structuralist theories. After this follows a brief discussion of the special contribution to theory formation made by the neo-structuralists. A third section looks at selected parts of Gunnar Myrdal's theories. Finally, the fourth section contains a brief survey of various strategies for industrial development, including strategies that had their origins in structuralism as well as alternative strategies with roots in competing theoretical frameworks.

Latin American structuralists and Hans Singer

Classical economic structuralism was in many ways affected by Keynes's perspective and method. Among other things, it shared with Keynes a great interest in unemployment. However, in contrast to Keynes's focusing on