

Institutional studies of economic development

Besides their pure theorists, most schools of economic thought also have more practical members – economists who may or may not contribute to the development of theory, but who approach real-life economic problems with less confidence in their theoretical models and more attention to the facts of each case. Some economists go further, to build that practical concern into the theory itself. Instead of theory which tries to model universal principles of economic behavior, they rely on bits of the regular theories where they fit, but also on distilled experience, batteries of possibilities to look for in particular circumstances, questions to ask and investigative methods of answering them. They may expect economic behavior to have many regularities – but also to vary from time to time, place to place, industry to industry. Their focus is on economic life: on the economic actors and their actual opportunities, incentives, purposes, choices. The previous chapter introduced mercantilist, classical, Marxist, neoclassical and Keynesian economists. Now meet a fifth school, whose principles have – broadly speaking – shaped this course of study.

INSTITUTIONAL ECONOMISTS

Political, historical and institutional are rough-and-ready labels for a range of economists who have philosophical and practical objections to ‘pure’ economics, i.e. to any economics which studies only the *economic* causes of economic performance, or only causes of the kind that are modelled in one or another general economic theory. ‘Institutional’ is an inadequate collective label for them, but is customary, so we use it. Their differences from ‘pure’ or ‘narrow’ economists can be characterized in various ways:

- To explain economic effects pure theorists try to select causes which are (1) economic, and (2) components of their regular models – i.e. they select both for *discipline* and for *regularity*, as described back in Chapter 3. By contrast, institutional economists relate economic effects to whichever of their economic, social, political or other causes it would be useful to know for the purpose in hand.
- Institutional economists study economic activity as part of a society’s whole social and political life. Pure

economists try to *abstract* economic systems *from* their social surroundings, and imagine how they might work for ‘purely economic’ people.

- Pure economists try to build a ‘hard’ science appropriate to a regular world. Institutionalists try for the different science and skills that cope best with a changing, partly uncertain, often *irregular* world.
- Pure economists say ‘Of course we know that real-life economic systems vary, from each other and from any ideal model. But it is economical to describe their variations by *reference to* and *differentiation from* a pure model. Using a pure competitive market model for the purpose allows (1) quick and clear description of the real-life variations and (2) valuable criticism of their imperfections and inefficiencies.’ Institutionalists respond: ‘Each country’s economy may need some of its own theory, its own models, its own useful simplifications. If you insist on describing all varieties by differentiation from one master-model you inevitably build a bias in favor of that master-model into all your work. A double bias, both technical and political.’
- Some institutionalists add: ‘Your pure competitive market model is not a timeless model of an ideally efficient economic system. On the contrary we think it is a socially reactionary and technically obsolete model. It was shaped by the interests and values of the rich in conditions which prevailed in the richer capitalist countries from about the 1860s to the 1930s. For the values and interests of *other* classes, and the changing conditions the world *now* faces, we think it is socially undesirable and technically misleading to try to understand real economic life by differentiation from *that* old master-model.’
- But institutional economists don’t have a rival master-model. They don’t believe in such things. Particular models for particular purposes, yes. But one model for all purposes, no.

But remember how this chapter opened. There are practical, institutional thinkers in all theoretical schools. One outstanding warning against type-casting economists by their theoretical commitments alone is Arthur Lewis, author of *Theory of Economic Growth* which I hope you

have read by now. In chapter 5 of that book in 1955 he offered a simple model of economic growth as a function of saving and investment – a model acceptable to the purest neoclassical theorists, and since partly discredited, then partly rehabilitated again, by practical experience. But in the same book he also set out the broadest of all accounts of the manifold political, social, cultural, religious and institutional conditions that are likely to affect any strategy of growth. Thus he earned his Nobel prize as a leader in *both* theoretical schools.

Values and interests

The nature of the institutional approach does not tie it to any particular ideology or set of social values. Institutional methods, shaped by appropriate values in each case, could in principle serve the purposes of anyone from far-Right conservative to far-Left revolutionary. But in practice most institutional economists have had three general characteristics.

First, they have been democratic and reformist: neither revolutionary nor conservative, but practical improvers anywhere from the moderate Left to the middle of the road. Appropriate experts for the mixed economies of modern welfare states, or for poorer countries striving for development.

Second, the institutional school has supplied some outstanding economic philosophers and methodologists. Gunnar Myrdal and Paul Streeten have led the world in analysing the irreducible role which values play in social and economic understanding. They are detailed and effective critics of neoclassical ‘value-blindness’. They developed much of the scientific self-knowledge you were offered in Part One of this course. And they have pioneered, in a range of fruitful ways, the conscious and rational inter-relation of values, theory, research, and social and economic policy.

Third, the open-minded characteristics of the institutional approach have obvious technical advantages for studying *strange* or *changing* economic systems. Societies with under-developed economies facing radical challenges are likely to be served best by economists whose philosophy positively encourages them to discard, replace or adapt their theories and methods as often as changing realities and social purposes require.

Through the rest of Part Two we will look first at some strange and then at some changing subjects. In this chapter, some institutional economists’ contributions to problems of economic development outside the rich West, and some lessons for the West which they have learned from those studies. In the next, examples of diverse patterns of development in the past history of the

rich countries. Then some chapters about new problems which those countries face now and in the next few decades: decades when you (young economist) will be looking to practise your craft.

Theory and experience

In sixty years since the second World War economists of all schools have learned a lot about the problems of poor countries trying to develop in the wake of countries which are already rich. In *Development Perspectives* (1981) and *Thinking about Development* (1995) Paul Streeten has summed up six shifts of perception since the 1940s. Further simplified, they are:

1. A shift away from believing that poor countries can necessarily follow rich countries along the same path of growth. In a number of ways the power and competitive strength of the rich may now block that path. But alternative paths may be open to choice, with or without conflict.
2. A shift of aim from simple growth of GNP per head to the things that growth is supposed to achieve, with a corresponding shift of economic analysis from high abstraction and aggregation to concreteness and disaggregation. What does that mean? It means less attention to totals like GNP, national rates of saving and capital formation, etc. It means more attention to particulars such as the incomes of particular groups; the work available in particular regions; provisions for vulnerable groups of women, children, migrants, ethnic minorities, etc.; and the supply of the necessities of life to the poorest people. In Streeten’s words ‘it became clear that measured income and its growth is only a part of basic needs. Adequate nutrition and safe water at hand, continuing employment, secure and adequate livelihoods for the self-employed, more and better schooling for their children, better preventive medical services, adequate shelter, cheap transport ... would figure on the list of urgently felt needs of poor people ...

‘In addition to those specific ‘economic’ objectives, a new emphasis was laid on ‘non-material’ needs ... such as self-determination, self-reliance, political freedom and security, participation in making the decisions that affect workers and citizens, national and cultural identity, and a sense of purpose in life and work – needs which ‘in addition to being valued in their own right may [also] be the conditions for meeting material needs.’ (*Development Perspectives*, p. 110).

3. A shift from problems of national growth towards

global problems common to rich and poor countries alike: population numbers, resource limits, pollution and environmental quality.

4. A shift from believing in harmony of interests (Adam Smith's 'hidden hand' bringing social good from individual competition, and national benefits from international division-of-labor and trade) to recognizing conflicts of interest: conflicts for possession of scarce resources; conflicts over international prices and terms of trade; class conflicts for power and wealth both within and between nations; etc.
5. A shift from treating the Third World as one, i.e. as a group of similar countries with similar problems, to recognizing many and growing differences between country and country, and the problems they face.
6. A shift from optimism to pessimism about poor countries' development prospects, and the help they can expect from rich countries and international agencies. For many poor countries the tasks and problems of development have proved to be tougher than expected. Many of their ruling classes have proved to be nastier than expected. Trade with the rich world has been less helpful than expected. International aid has proved less effective than expected, and for that and other reasons the rich countries have been reducing its volume. And (as the previous chapter emphasized) some of the economic theories which rich countries have exported to poor countries have done them more harm than good.

Many of those shifts were led by institutional economists and they were all in the direction of more open-minded practical approaches to development problems. Three samples follow: a perceptive local observation; a great book and its treatment of a particular development problem; and a great institution created by a researcher in response to what he met, and took the trouble to understand, in the working life of some poor women in a very poor village.

POLLY HILL'S COCOA FARMERS

Polly Hill may have had some helpful genes – her mother was Maynard Keynes' sister and her father was a brilliant natural scientist. Working as an anthropologist in tropical West Africa in the 1950s she studied some cocoa farmers whom economists supposed were local people using traditional techniques. She found that they were migrants. Their methods were new to the district. There were two groups of them, who had come from different origins. The two differed radically from each other, and from the local people of the district, in their family organization and systems of inheritance, but both

cultures were compatible with their similar farming methods, as the local people's were not. Any strategy for agrarian development in that region needed to be based on understanding *those people in that region*, not the universal human robots of the general theoretical models.

From her first book on the cocoa farmers in 1956, Polly Hill battled to persuade development economists to study and understand the family and community and intellectual life, as well as the work, of the people whose economic systems and development prospects concerned them. Many of them did learn a good deal of what she wanted to teach them, some from her writing and others from their own experience. But she never thought they had learned enough. Thirty years after her first book she was still telling them, in *Development Economists on Trial: The Anthropological Case for a Prosecution* (1986), to learn more about the social life of any people whose economic activity they wanted to understand.

GUNNAR MYRDAL'S ASIAN DRAMA

A great many lessons of experience were spelled out by Gunnar Myrdal and associates in *Asian Drama: An Inquiry into the Poverty of Nations* (3 vols., 1968). The book reported a seven-year study of the development problems of South Asia: Pakistan, India, Sri Lanka, Burma, Thailand, Laos, Cambodia, Vietnam, Malaya, Indonesia and the Philippines. It exemplifies the institutional approach to economic problems. It is 'self-aware', exposing and discussing its own values and methods. It treats the diverse economic problems of the area in their diverse social and political contexts. It includes the most extensive and detailed study of the effects of applying Western neoclassical economic theories to societies they don't fit. I don't suggest you read it as you have read Arthur Lewis's *Theory of Economic Growth*, because *Asian Drama* is three volumes and 2284 pages long. But you can try Part One (pp. 37-125) on the values and methods employed, then read the detailed Table of Contents to find some chapters on subjects that interest you. A sample follows. Never mind its being thirty years old. It is a superb example of how an economist should approach a development problem in a particular society, at a particular time, aware that the society and the problem are changing, and ready to replace old theory which does not fit the time and place with new theory which does.

For example: Indian farming

Myrdal and his colleagues found that the links between industrial and agricultural development had often been

neglected, and the importance of agricultural development under-rated. They also found that Western concepts of employment and unemployment did not fit most undeveloped countries' village life. So instead of studying 'employment' and 'unemployment', they studied 'labor utilization': not just who had paid jobs and who did not, but what work was done, by whom, how efficiently, for whose benefit, whether in paid employment or not.

After some post-war improvement Indian agriculture had stagnated while population numbers continued to grow. The limits to output were not technical. The methods in use were primitive and open to many improvements, but those primitive methods themselves were being under-used. The land was under-used because the existing labor was under-used.

Western economic theory and farming technique suggested that producing more would require less labor. For India, that was not true: India had large technical possibilities of producing more by applying more labor. But the obstructions were many. They included:

- Settled habits of short hours of not-very-hard work.
- Caste and cultural and educational values which discouraged many people from manual work as undignified and degrading.
- Local pride combined with Western theory to discourage proper understanding of the under-utilization of labor, and the social conditions and beliefs that cause it. Western theory and research tend to focus on agricultural technique and organization, because European people respond well to new technical opportunities. Indian theory and research needed to focus instead on social and attitudinal problems, because there was already a good deal of under-used technical potentiality, and the hard problems were the human ones.
- Technical knowledge is still needed – but some Western science (like some Western economic theory) can be misused in ways that actually discourage better science. Indians found it easy to import Western agricultural science and education, so they were slow to develop their own. It followed that little was known about Indian climate, soil, crops, livestock, etc. When imported techniques were applied ignorantly – for example when fertilizers were applied on European principles to Indian soils which had not been analysed – the results were often disappointing. *That discredited 'science' and made it even harder to persuade people to get the soils analysed.* (Myrdal was a connoisseur of circular causation.)

- As with science, so with technology. Progressive Indian policy-makers looked to Western practice for technical guidance. But Western farming techniques are intensely labor-saving. They may not help societies which need to occupy and feed as many people as possible in their rural villages. Americans and some Europeans want most grain per acre with *least* labor; in India the same yield with *most* labor may be best for most people.

And there were other hindrances to progress. Many Indian peasants suffered from oppressive moneylenders or landlords. War and independence and communal strife helped to get rid of many of the moneylenders and some of the landlords, but a drastic general land reform was still needed if the people who actually worked the land were to have clear, debt-free ownership of it.

Governments went some little way in land reform. Holdings were bought from some landlords – but usually sold to others. Some limits were placed on the size of the individual holdings. Some regulations were designed to protect laborers and sharecroppers. But many of those changes were evaded or otherwise ineffective. And there was no general confiscation or redistribution of land to make its ownership either much more equal, or much more productive, than before.

The need for some radical redistribution had been widely acknowledged – so why didn't it happen? Rich and poor both helped to prevent it, for different reasons. There was a natural conservative alliance against it. Absentee landlords (including many politicians, public servants and other influential people) and the bigger landowners in the villages combined to oppose reforms. On the other side, the poor generally *failed* to combine. They might agree what land should be *taken* – but to which of them should it then be *given*, in what shares, on what principles? There could be plenty of disagreement about that. So the conservatives tended to be united and the potential radicals divided. There was not very much redistribution, and what there was tended to be from one landlord to another.

There was also an ideological problem. Educated radicals – 'Delhi radicals' – who were ready to cancel moneylenders' rights and confiscate landlords' land were mostly socialists. Their socialism made them aware of the need to redistribute land. It made them willing to do it by confiscation if need be. But the same socialist beliefs made most of them oppose *any* private ownership of the land. They did not want to equalize the ownership of land by distributing it to small individual holdings (which was what most landless peasants wanted). Socialists wanted cooperative farming. Most poor peas-

ants did not understand or did not want cooperative farming. In not wanting it they proved to be right enough, because conservatives made sure that most farm cooperation in India should be cooperation among landlords and capitalists. Like joint share-holders, owners pooled resources to exploit laborers and sharecroppers much as before. Thus socialist ideas were misused, and were rightly unpopular with the poor people they were meant to help.

So much for cooperation in private farming. Could it do better in the public sector – for example in communal public works? As an early lesson of experience, economists of all schools tended to agree in three related beliefs: (1) Indian villages had plenty of spare labor that should be put to work. So (2) saving and capital investment need not require any reduction of the standard of living, because (3) without reducing anyone's consumption, spare labor could be put to work creating productive capital.

How could labor alone, or almost alone, create productive capital? Myrdal summed up 'the type of additional labor input that can be considered "investment" because it promises to raise future yields and hence produce a sustained increase in employment.' It calls for –

the mobilization of labor to build roads, bridges, irrigation canals and drainage ditches, wells, tanks, and soil conservation terraces . . . and to work on afforestation, pasture improvement, and the construction of warehouses for storing crops and farm supplies. These "investment" activities are all highly labor-intensive and require few resources to complement labor beyond those locally available; many of them can be expected to raise yields fairly quickly. But they presuppose collective action, as the scale of effort required surpasses the immediate interests or resources of individual families. Other suggested uses of the villagers' spare time are ... construction of schools, dispensaries, village privies, gutters, and clean wells for drinking water and other household uses, paving of village streets to end dust and mud, improving the houses, manufacturing simple furniture, killing rats, or merely washing the children and keeping flies away from their eyes. It is generally recognized that these undertakings in the service of consumption can also be productive.

– *Asian Drama*, p. 1357

Nevertheless writing in 1965 Myrdal had to report that 'every effort to mobilize and organize under-utilized labor for investment purposes has been a failure or near-failure'. Why? Such labor can be voluntary, or

compulsory, or wage-paid. When villagers are asked to *volunteer* work they don't do much. They think too many of the benefits will go to their betters, who don't do any voluntary work at all. *Compulsory* labor usually fails for a similar reason. Too many people simply refuse to work because they think manual work is beneath them – and if they won't work, others won't work either. If *wages* are offered for communal work, somebody richer than the laborer must be taxed to pay the wages. The taxation is resisted. 'Even when the ultimate benefits of the investments would be reaped mainly by the upper strata of landowners, the initial taxation would have to be redistributional in character', i.e. it would have to take money from those who have it and give it as wages to those who don't. Myrdal concluded:

Such a scheme would be resisted politically the more effectively since at both the village and the state levels the power belongs to those who would have to make the most sacrifices, at least initially. Ultimately the difficulty in mobilizing idle laborers for constructive work is rooted in the inegalitarian structure of the villages and the national community. In an egalitarian rural society it would be much more natural and feasible to insist that all should work in the common interest.

– *Asian Drama*, p. 1362.

For those and other reasons he concluded that twenty years of Indian independence had seen very limited agricultural progress, most of it for the benefit of those in least need. 'Perhaps the most conspicuous result ... has been the strengthening of the upper strata in the villages and a corresponding reduction in the position of sharecroppers and landless laborers in the lower strata of rural society. All the significant policy measures for agricultural uplift adopted by the governments – whether technological or institutional – have tended to shift the power balance of the rural structure in favor of the privileged classes.'

What to do now? Myrdal insisted that the problems belonged to an historical process, not a static system. What happens in one decade affects what is possible in the next. Conditions had changed, so options and possibilities had changed, from what they might have been twenty years earlier:

The political consequences of the postwar trend of events are far-reaching. The evidence suggests that the opportune moment for a radical reshaping of the agrarian structure has passed. Sweeping changes might perhaps have been accomplished in the revolutionary environment of the immediate post-war and post-independence years. But if consent for a funda-

mental change in property and tenancy rights might have been won then, it is not possible now.

– *Asian Drama*, p. 1367

What is possible now? For Myrdal's advice in detail you must read pages 1366-84 of *Asian Drama*. Briefly, he suggested three lines of action:

- However reluctantly, governments should accept the strength of the village capitalists as a fact of life, and try to make capitalist agriculture more productive. They should stop dreaming of socialist agriculture. They should also stop talking about it, so that the existing owners could feel secure, and improve their farms without fear of future confiscations.
- Some existing regulation of land ownership could be strengthened and extended. Individuals should only be allowed to own what they would live on and cultivate. Existing absentee owners could not be dispossessed, but there should be no further purchases by absentees.
- It might be possible to give landless laborers small plots of their own, in private ownership. To be politically possible, the plots would have to be very small, too small to support a laborer or stop him working for others for wages. But even from tiny 'kitchen gardens' Myrdal hoped for three good effects: (1) Private plots would motivate work and output *additional* to whatever the laborers did for their employers, i.e. it would motivate some economic growth. (2) If laborers were seen to work some land of their own as well as employers' land, that might help to dignify manual labor and reduce its stigma. (3) In a country too poor to afford monetary welfare (pensions, doles, etc.) kitchen gardens could provide people with some welfare 'in kind' to fall back on in hard times.

Myrdal did not think it very likely that even those mild policies would be adopted. But if they were, he thought they would increase farm output, and reduce inequalities a little. They might also bring some better feeling to the villages, and soften some class and caste hostilities.

Thirty years later his pessimism appears to have been justified. *Some* reforms have made *some* progress in *some* Indian provinces. But over much of the country, attempts at reform by redistribution have been defeated by mixtures of conservative resistance, administrative failure and popular inertia.

It is time to remind you of the purpose of this sample from *Asian Drama*. It is not to make you an expert in some past problems of Indian agriculture, but just to illustrate some institutional economists' methods.

Myrdal's *values* shaped his purposes. Here his *purpose* was economic: to find ways to increase output and reduce poverty in Indian villages. The *analysis* therefore extends to economic, political, social and cultural conditions, conditions *selected* because they seemed likely to help or hinder desirable kinds of development. Some Western economic theory about what-causes-what is used, where it fits. Some is discarded because it does not fit. Quite a lot is not just discarded but explicitly condemned, because if Indians continue to believe it they will persist with inappropriate or self-defeating policies, including policies which purport to reduce inequalities but actually increase them.

MUHAMMAD YUNUS' ASIAN ENTERPRISE

Muhammad Yunus was an academic. Studying the life of a poor village in 1976, he and one of his students found 42 very poor people who worked independently at various trades but had to borrow small sums at extortionate rates from traders and moneylenders to buy their working materials. He divided £17 between them, then decided that they needed an institution rather than a personal lender. Step by step he founded the Grameen Bank which was formally incorporated in 1982. It accepts savings from poor people, and lends without security to those of them who need working capital with which to earn.

I was not trying to become a moneylender ... all I really wanted was to solve an immediate problem: the problem of poverty which humiliates and denigrates everything that a human being stands for.

We did not know anything about how to run a bank for the poor, so we had to learn from scratch. I wanted to cover all aspects of rural lives such as trading, small manufacturing, retailing and even selling from door to door ... Our clients do not need to show how large their savings are and how much wealth they have, they need to prove how poor they are, how little savings they have.

To my amazement and surprise the repayment of loans by people who borrow without collateral is much better than those whose borrowings are secured by enormous assets. Indeed, more than 98 per cent of our loans are repaid because the poor know this is the only opportunity they have to break out of their poverty. .

Now we have more than 12,000 employees and 1,112 branches in Bangladesh. The staff meet more than 2,300,000 borrowers face to face each week, on their doorstep. Each month we lend out more than

\$35 million in tiny loans. At the same time, almost, a similar amount comes back to us in repayments.

Gradually we focused almost exclusively on lending to women. If the goals of economic development include improved standards of living, removal of poverty, access to dignified employment, and reduction in inequality, then it is quite natural to start with women. They constitute the majority of the poor, the unemployed and the economically and socially disadvantaged. And since they were closer to the children, women were also our key to the future of Bangladesh.

This was not easy. The first and most formidable opposition came from the husbands. Next the mullahs. Then the professional people, and even government officials.

– Muhammad Yunus, in the *Guardian Weekly*,
8 November 1998

In rich as well as poor countries there is a lot of argument about relations between inequality and economic growth. That subject also tends to be better understood, industry by industry and country by country, by open-minded investigators than by strong-minded theorists of either the Left or the Right – as follows.

GROWTH AND INEQUALITY

Economists disagree about relations between economic growth and the distribution of wealth and income. Does the growth affect the distribution, or the distribution affect the growth? Does growth tend to increase or reduce inequalities? If governments want to stimulate growth should they begin by redistributing income upwards, from the poor who won't otherwise save at all to the capitalists who alone will invest the savings? Or downwards, to give poor people the means of investing to make their labor more effective? Or should they redistribute bit by bit as growth proceeds? Or wait till the country is rich and can afford tax-and-welfare transfers from its rich to its poor? Or leave the distribution of wealth and income to look after themselves? There has been theoretical support for each of those strategies.

There has also been practical experience of more than one of them. Radical land reforms helped Japan's and Taiwan's growth and reduced their inequalities after World War Two. But in other conditions opposite relations have prevailed. To make full use of the new crops and techniques known as 'the green revolution', small land holdings have been consolidated into larger holdings in a number of countries. There, rich peasants are richer and some poor peasants are poorer than before and GNP has been increased by means which *increased*

inequalities. Those are a few examples of many – both downward and upward redistributions have at times helped growth, and there have also been 'neutral' cases. You can find examples of all three in Lance Taylor (ed.) *The Rocky Road to Reform* (1993). The links between growth and distribution tend to be different in each case. But they are often open to collective choice *if the people realise that they have a choice*, which may require that they disregard some of their economists. There is nothing necessarily impractical about designing policies to combine growth with greater equality, or (for example in rich but environmentally threatened countries) policies to improve equalities *without* further growth.

DEVELOPMENT AND BASIC NEEDS

In 1976 the International Labor Organization published a basic needs strategy in *Employment, Growth and Basic Needs: A One-World Problem* (ILO, Geneva). The World Bank began studies whose conclusions were reported by Paul Streeten and others in *First Things First: Meeting basic human needs in the developing countries* (1981). That book explained the ends and means of a basic needs strategy. It reviewed arguments for and against it, and related it to economic growth, population growth and other aspects of development.

The theorists start from a mixture of old and new beliefs:

First, poor people don't *only* need money income. They also need to be able to spend it on essentials. They can't buy clean water if there isn't any. They can't buy better health and education if there are no health services or schools. And so on – some of the things they want may be supplied in a market way, but others may not be.

Second, economists' traditional distinctions between consumption and investment don't always fit poor conditions. In rich countries food and drink and housing and many health and education services are seen as consumption goods. But in poor countries those same things can often do what capital goods do in rich countries: they can increase productivity. Clean water, sufficient food and shelter and basic education and health services can turn weak, sick, apathetic, ignorant and unproductive people into strong, healthy, willing, knowledgeable and productive people.

Third, it has been conventional to rely on economic growth to reduce population growth. As people earn more income, they tend to have fewer children. But which *particular* effects of the higher income lead them to limit their families? Could those *particular* conditions be provided sooner, to limit population sooner than

general economic growth can limit it?

Essentially, basic needs theorists argue that some particular elements of economic development are more urgent than others – so we should try to develop those elements immediately and directly, instead of waiting for the general growth of income to produce them. This strategy need not hinder broader development, and can be designed to help it.

The hypothesis of the basic needs approach is that a set of selective policies makes it possible to satisfy the basic human needs of the whole population at levels of income per head substantially below those required by a less discriminating strategy of all-round income growth – and it is therefore possible to satisfy these needs sooner. Attacking the evils of hunger, malnutrition, disease, and illiteracy with precision will eradicate (or at least ameliorate) these evils with fewer resources (or sooner) than would the round-about method of raising incomes.

Reducing poverty is good in itself. Doing it in a selective, accurate way can also economize resources and help more general development.

A combined operation for providing an appropriately selected package of basic needs (water, sewerage, nutrition, and health) economizes on the use of resources and improves the impact because of linkages, complementarities, and interdependencies between different sectors.

– *First Things First*, pp. 37-39.

Linkages Those ‘linkages, complementarities and interdependencies’ are important for a number of reasons.

First, the necessary policies don’t have reliable independent effects. The effects of each depend on the presence of others. Water without drainage can do more harm than good. Clean water and sanitation don’t achieve much unless people are educated in hygiene. Health services don’t achieve much unless clean water and adequate food are available. Good food does more good if gastroenteric diseases are prevented. Schools achieve more if the children are healthy, health services achieve more if the children are educated. And so on – the mix and coordination of the basic provisions are most important. Good coordination can reduce the costs of some of the services, and increase the productivity of all of them.

Besides needing to be supplied *together*, the basic provisions can also reinforce each other *in sequence*, over time. Streeten offers a particular example, then an indication of the general kind of selective causal analysis

that is required:

First, knowledge of hygienic practices improves health. In particular, the education of mothers improves the health of their children. Second, education that raises productivity increases the resources available for meeting basic needs and improving health status. Healthy people, especially children, have a greater capacity for learning, which reinforces the impact of education on health and on productivity ... higher productivity and earning power and better education encourage family planning; family planning improves nutrition; nutrition improves health; and better health improves attitudes towards family planning. The cumulative and reciprocal nature of these processes shows that policy interventions will have multiplier effects.

The general point is that policies have direct and indirect effects; some reinforce the basic needs objective, others frustrate it. Nutrition policies improve nutrition; health policies, health; and education policies, education. But nutrition policies also affect health and education, as well as the earning power of the poor; health policies affect nutrition, education, and earning power; and education policies affect nutrition, health, and earning power. It may also be that these policies, and the improved productivity of the poor, contribute to the incomes of the better-off. Moneylenders, employers, public officials, and foreign companies may benefit from these improvements, either directly or indirectly. Each of these linkages has a time dimension, so that better education of the poor may lead to higher productivity and to increased incomes of employers, which in turn may give rise to more jobs for the poor. A fully articulated basic needs strategy would have to assess these indirect effects and linkages through time and evolve a set of policies in the light of the basic needs objective.

– *First Things First*, pp. 50-1

For economists, thinking in that way can do two useful things. It can *disaggregate* analysis, and *integrate* policy-making.

First, it calls for more detailed and concrete economic analysis. Instead of dealing in ‘abstract aggregations’ like Gross National Product, it looks to the actual material conditions of life of particular people: women, children, old people, sick people, unskilled people, and so on. In doing that it returns economics to its original purpose of improving people’s living conditions. And it builds a value explicitly into the method of analysis: a concern for the poorest people, and a judgment that

goods and services which meet basic needs are more important than goods and services which meet further wants beyond those basic needs.

Second – besides achieving a more concrete and detailed analysis – Streeten claims that a basic needs approach has considerable organizing and integrating power, both politically and intellectually. Conventional approaches tend to deal separately with apparently unconnected problems to do with energy, environmental pollution, scarce raw materials, appropriate technology, healthy and sociable patterns of consumption, urbanization, international trade, international dominance and dependance, and the treatment of transnational corporations. A basic needs approach can link them rather better than a simple concern with growth can do; and it can generate policies which integrate action about them.

FACE TO FACE

The best economists of poor countries' development problems have studied and understood the problems face to face in the lives and work of the people, often including the poorest people. Some of them, like Muhammad Yunus, have grown up in developing countries. Some, like Gunnar Myrdal, have been Western researchers in those countries. Both have done their best to understand what the people want, their actual opportunities and conflicts and frustrations, what they know and what they don't know how to do, and what they might learn to do. That personal fieldwork can have compound good effects. It does not attract economists whose chief interests are in mathematical theory and in writing articles for refereed journals. It exposes a lot of that theory as trivial, irrelevant or positively misleading about real economic life. It tends to attract researchers with some care and liking for the people whose life they study. It leaves them in no doubt about the importance of household resources, unpaid work, children's upbringing and education, women's economic roles, and the value of women's perceptions of economic problems.

Those elements of the researchers' choices and experience have been specially important because most of the researchers have so far been men. The best of them have learned not only how women live and work and how vitally they contribute to development but also – to some extent, where there are real gender differences – how women *think* about economic life.

Some of the best development economists also work at rich countries' problems. When they do, what they have learned from poor women in developing countries serves as a kind of reverse international aid. It can improve economists' approaches to economic systems at

every stage of development from poorest to richest. It is not just for equal opportunity within the profession that the rich democracies need at least half their economists to be women. Simple competence, better principles of selection in causal analysis, a better understanding of many elements of economic experience, better judgment of the uses and misuses of coercion and competition and cooperation in economic life, more attention to the concerns and potentialities of women students, and the impulse and the necessary numbers to contest the misconceived scientific domination of the profession, all demand it.

This argument will be resumed, mostly by women economists, at the conclusion of Chapter 18.

BELIEFS ARE WORKING PARTS, AND ALSO WEAPONS

It is worth noticing, now and then, how warring theories and policy proposals confront one another in practice, not in the course of research but in policy-making and public persuasion.

In debates about international aid and strategies for developing countries there are often complicated conflicts of real and pretended interests. Usually no poor people from either world are present at the debates: neither the poor countries' poor nor the rich countries' workers. Within the research institutes and international agencies and across the negotiating tables, rich politicians and administrators and economists from rich countries face comparatively rich but often much less secure politicians and administrators and economists from poor countries.

Some from both worlds are honest unselfish people trying to help the poor of the poor countries by effective means.

Some from both worlds are honest unselfish people trying to help the poor by technically mistaken and ineffective or counter-effective means.

Some are looking after what they see as general interests of the rich: for example to keep labor weak, to restrict the scope of government, to keep as much economic activity as possible in private capitalist hands.

Some are looking after specific rich interests: markets for particular products, opportunities for particular banks, advantages for particular firms, jobs for selves and friends.

So things like this happen:

Somebody observes that most people in the poor countries are poor and asks what keeps them poor. Are they kept poor chiefly by their own shortcomings, or chiefly by their own rich, or chiefly by the rich of the

rich countries?

The rich of the poor countries are sometimes the most reactionary and least democratic of all the debaters around the table. But some of them profess the more-or-less-Marxist belief that the rich industrial countries *alone* keep the poor countries poor – and are now proposing to make sure of it by tying ‘basic needs’ strings to any international aid they offer. Some Left voices from both worlds agree with that, and join in opposing tied aid. Thus Left and Right are in unnatural alliance, and the poor of the poor countries are likely to suffer from it.

Meanwhile two other groups of Leftish democrats from rich countries adopt different tactics. They recognize that the poor of some poor countries can expect little or no good from the Rightist dictators and ruling groups who govern them. So one group tries to tie international aid to basic needs, and police it so that it actually reaches the poor it is intended for. Rich representatives of those poor countries holler ‘Imperialism’ and protest against such infringements of sovereignty. The other group of Leftish democrats wants to avoid that response, and honestly believes in respecting the developing countries’ independence. So they propose to switch aid from countries which neglect basic needs to others whose governments (voluntarily, independently) try to meet their people’s basic needs. Rich and poor from the countries which would lose aid unite in protest. They are demanding aid which would mostly go to the rich in some of the worst governed societies in the world – but they are telling rich capitalist countries not to ‘tie’ their aid, so they may well get applause and support from some of the Left in both ‘worlds’.

Stop. What is all this confusing babble doing here, in a course of study which is supposed to be making economics *clear* to you? Answer: honest disclosure. To be an effective economist you must learn to see through ideological smokescreens to the interests contending in the smoke. And not only the selfish class and corporate interests. It is just as important to recognize the honest contenders: the humane conservatives, the genuine reformers, the effective administrators of aid programs who can be found among the representatives of both the rich and the poor countries. And while you are sorting out the interests, you also need to be sorting out the intellectual ammunition they are using: the more and less accurate facts and figures; the true beliefs, the mistaken beliefs, the pretended beliefs, and the self-fulfilling or self-defeating beliefs, about what causes what. However hair-raising, that is what a great deal of the most important persuasion and negotiation and policy-making is like. Get used to it, it’s your trade.

And good does come of it, if the good contenders

don’t tire. More basic needs are met. Children are healthier. Women are freer. People are better housed and equipped. They can do more for themselves and one another. They read more, know more about the world, enjoy more arts and recreations.

Even without much economic growth, Sri Lankans live twenty years longer than their grandparents did. In the forty five poorest countries in the world, the (often imperfect) records suggest that between 1960 and 1995 average expectation of life increased by fifteen years. Infant mortality halved. Where fewer than a quarter of the people had access to safe water, more than half have it now. Where a third were literate, half are literate now. GDP per person appears to have doubled.

In the seventeen best-performing poor countries life expectancy rose from 58.5 to 70.5 years between 1960 and 1992. Baby deaths fell from 83 to 30 per 1000 births. Productivity and real income more than doubled, and if you could count all the unaccounted production it probably trebled.

You may decide that those effects are worth working for.

SUMMARY

This is not so much a summary of this chapter as a reminder of its purposes.

1. It introduced institutional economists, their attention to the political and social context of economic activity, and their adaptable, open-minded methods. They include scholars like Myrdal and Streeten who are institutionalists by methodological choice, and others like Arthur Lewis whose different theoretical equipment has not hindered them from dealing in practical, open-minded ways with changing economic realities.
2. The chapter showed how the understanding of economic development can change with accumulating experience – and how it needs to change as economic systems themselves change, and their methods and possibilities of development change, over time.
3. It argued that we need more women economists, to balance the prevailing men’s values and to combat or reform some of them.
4. You have been reminded yet again that these lessons don’t only apply to the study of growth and development. Whatever economic activity you study, never forget that (i) it may be affected in many ways by its historical and institutional context, and (ii) it may be changing as you study it, sometimes *because* you study it.

EXERCISES

First student: This chapter has been a great relief. If open minds, competent accounting, experienced common sense and humane purposes are economists' best equipment, our work promises to be more useful to humankind than if it continues to be shaped by theories of the kind that have recently been shaping most of it.

Second student: This chapter, like most of this course so far, is recommending a general retreat from serious social science and professional skill to uneducated anecdotal assertions and opinions shaped by economists' subjective prejudices. At best, undisciplined journalism. At worst, dangerous rubbish.

Either –

1. Defend the first or the second student's judgment of this book's first ten chapters. If you are also studying law and intending to make your living at it, defend them both (in different briefs).

Or –

2. Chapter 9's sketches of mercantilist, classical, Marxist and neoclassical theories were each followed by an assessment of their advantages and limitations. Do the same, at about the same length, for this chapter's recommendations – as the author (perhaps significantly?) has not done.