

The Theory and Practice  
of Economic Development

by

Amon Nikoi

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In the troubled thirties, the great Columbia sociologist Robert Lynd published a volume entitled Knowledge for What?: the place of social science in American Culture. This book was based on the Stafford Little Lectures which he had earlier delivered, in the spring of 1938, - almost fifty years ago, at Princeton University. Much of what he had to say in that book is very pertinent today; - the book is by no means dated and I commend it to those of you who have not read it to do so.

The eighties look equally troubled, at least as viewed from much of the Third World, particularly Africa. There is hunger on a massive scale, ecological and environmental deterioration, massive unemployment stagnant growth rates, depressed commodity prices, balance of payments crises and massive external debt. Many in the developing world to quote Lynd (in his foreward) think "this is not a time in which urbanity trial and error, and the unseen hand of progress can be relied upon to make all things work together for the good".

This is the global context in which we study the theories of economic development and attempt to apply them.

People indeed itch to "do something" about their plight, though they may not be sure quite what! They look to economists - particularly development economists - to help provide the answers to some of these complex - but basically very human problems. As an introduction to Chap. IV of his book entitled: the Social Sciences as Tools - Lynd quotes a timely reminder by Albert Einstein that: "Concern for man himself and his fate must always form the chief interest of all technical endeavors ... never forget this in the midst of your diagrams and equations".

I hope all students in development economics keep in mind admonition as well as Lynd's highly pertinent question - knowledge for what? For by keeping these two quotations in mind we can begin to answer some of the questions related to the sort of training we ought to be giving to development economists. The subject of economics - particularly development economics is not a "pure" one but basically an applied science. So we need always to bear in mind why we study it. For my part, because I come from a developing country, I have no hesitation in affirming that we master the tools of development economics in order to enable us to bring some improvement in the human condition.

How then shall we go about training development economists?

I am of the view that initially at least, that is before specialisation in this branch of economics there should be no difference between the training we give to development economists

and what we give to other economists who presumably will be working primarily on problems of developed economics.

As Arthur Lewis pointed out in his Presidential Address to the American Economics Association in December 1983 -

"We are not going to find an unbridgeable gap between development economics and the economics of the developed any more than a pediatrician would claim that geriatrics was an unrelated body of knowledge. The over-lap between the developing and the developed is bound to be great. The more so in economics because the two basic tools supply and demand and the quantity theory of money will take you a very long way if you want to understand what is going on ... given the power of these elementary tools, one could study either the economics of the developed as a preparation for studying the developing, or the economics of the developing as a preparation for studying the developed".<sup>1</sup>

There is the need therefore to ensure that, students acquire a core knowledge of their subject which will help them to develop powers of reasoning and analysis. This core curriculum of course should aim also at providing guidance to students particularly at the undergraduate level, in the selection of appropriate courses aimed at producing literate and numerate economists - thoroughly familiar with the basic scope and method of the subject.

What then shall this preparation consist of?:

As Schumpeter pointed out in History of Economic Analysis, what distinguishes the "scientific" economist from all other people who think, talk and write about economic topics is a Command of Techniques: classified under economic history, statistics and theory - and what he called Economic Sociology.

Of these, Schumpeter thought economic history the most fundamental. In fact, he went as far as to say if he were starting work in economics afresh and was told he could study only one of these topics but could have his choice it would be economic history that he would choose. His reasoning I find incontrovertible "Economics is essentially a unique process in historic time. Nobody can hope to understand the economic phenomenon of any, including the present epoch, who has not an adequate command of historical facts and adequate amount of historical sense or what may be described as historical

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<sup>1</sup> \*W. Arthur Lewis: The State of Development theory. Presidential address delivered at the ninety-sixth meeting of the American Economic Association Dec. 29th 1983, San Francisco. All subsequent quotations from Lewis are from this paper.

experience".<sup>2</sup> Schumpeter added that in his view history must be understood to include fields that have acquired different names as a consequence of specialization, such as prehistoric reports ethnology and anthropology.

It is interesting to note the similarity of views between Arthur Lewis and Schumpeter on these issues. Arthur Lewis, in the Presidential Address already referred to, stated that "Development Economics which relies more on history, statistics and anthropology, may -- be a little more realistic than other economics". On economic history Lewis noted and deplored the recent "widening gap between economics and economic history in development economics" a tendency he noted which has brought about "a generation of economists with no historical background - in marked contrast, as we saw it "with the development economists of the 1950s, practically all of whom had had some historical training and who guided by Gerchenkron and Rostow, looked to history for enlightenment on the processes of development".

The need to acquire an adequate command of and quantitative methods hardly needs emphasis for as Schumpeter noted a command of such methods is a necessary (but not a sufficient) condition for preventing the modern economist from producing nonsense?

The third fundamental technique which the economist must master according to Schumpeter, is theory. He includes under this category, what he classifies as 'all the concepts (such as marginal rate of substitution, marginal productivity, multiplier, accelerator) relations between concepts and methods of handling these relations... And it is the sum total of such gadgets - inclusive of strategically useful assumptions - which constitute economic theory'<sup>3</sup> Economic theory, Schumpeter quotes John Robinson "is a box of tools".

The study of economic history, of statistics and theory should ideally, according to Schumpeter, "produce habits of mind - methods or techniques and a command of facts unearthed by these techniques which are beyond the range of the mental habits and the factual knowledge of every day life"<sup>4</sup>

What role do value premises and judgements, ideology, political preferences and philosophies play in the training of development economists and in their day to day work as economists? We cannot avoid raising this question - nor can we avoid attempting to answer it.

In real life, economists as policy advisers dabble in

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<sup>2</sup>J. Schumpeter: History of Economic Analysis, p.5.

<sup>3</sup>Schumpeter *ibid* p 15.

<sup>4</sup>Schumpeter *ibid* p 15.

politics and in public administration; they peddle, under the guise of technical economic advice what are essentially political recipes; moreover, they often do these things without stating explicitly their value judgements or premises - what the great American jurist Oliver Wendell Holmes once called the "inarticulate major premise".

Here again, I think Schumpeter provides a useful clue to a possible answer: He maintains that the "analytic effort is of necessity preceded by a preanalytic cognitive act that supplies the raw material for the analytic effort ... this preanalytic cognitive act will be called Vision"<sup>5</sup>

I agree with Schumpeter that it is through this "pre analytic cognitive act, this vision" that ideological elements enter our thinking. It is healthy to recognise this and since I do not think it is possible or desirable to eliminate it entirely we can at least always be on our guard against the possibility of letting ideology triumph over empirical data.

Some writers on development economics notably Gunnar Myrdal, have been quite explicit in stating their "vision".

"The value premises, writes Myrdal in his preface to Economic Theory and Underdeveloped Regions which determine my viewpoint are the desirability of political democracy and equality of opportunity".<sup>6</sup>

As a citizen from a developing country, I find this statement most admirable and wish that other writers on development economics, particularly from North America, could be equally explicit!

#### The Working Development Economist

So much then for the formal training of the development economist. What does he or she do after university? This is a question worth raising for good reasons: first to help determine what he or she is to be taught in preparation for his job and secondly to ensure that as much as possible he or she is given some idea of the world out there before he or she leaves university. Though I should add in passing, he or she ought to be aware that an equally important part of his or her education begins after graduation: Learning of the Job!

For the development economist from the developed world the chances are that he or she may make his or her career in the "aid community", broadly defined as AID Agencies like CIDA or

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<sup>5</sup>Schumpeter *ibid* p.41

<sup>6</sup>Gunnar Myrdal: Economic Theory and Underdeveloped Regions, UP. Methuen & Co., London 1957

multilateral agencies like the World Bank, the UNDP or the Regional Development Banks or the Development Assistance Committee (DAC) of the OECD. Increasingly, some private international banks and multi national corporations with special interests in the developing world are employing graduates with background in development economics.

For those students from the developing world, the field may be somewhat broader: the majority of them go to work for their home governments in government ministries - particularly finance and planning, para-statal corporations, central banks, etc.

It is legitimate to raise the question 'What do these people do?' because some knowledge of what they do when they return home in part answers the question as to the sort of training we ought to be giving them particularly at the graduate level and how relevant such training ought to be to their peculiar circumstances.

First, let us take the Ministry of Finance in a developing country, with which I am particularly familiar. A graduate economist's work will consist largely, though by no means exclusively, of issues dealing with public finance, taxation, the budget, problems of domestic resource mobilisation and allocation. In addition, he or she will work on foreign trade and balance of payments problems since in most developing countries the foreign trade sector usually provides the bulk of government tax revenues. He will work on problems of para-statal corporations since the government invariably owns outright or has majority shares in these public sector corporations - and this investment portfolio like any other will have to be managed.

In addition he may have to take on regulatory functions in respect of some of these corporations, particularly those in insurance, banking and development finance. There are issues relating to prices and incomes policies - involving negotiations with trade unions, manufacturers associations, since most developing countries have in place such policies involving at times comprehensive price and wage controls.

In short the young economist entering the Ministry of Finance in a developing country must be trained to do a lot of everything since the Finance Ministry is above all a crisis management ministry and manpower constraints make narrow specialisation virtually impossible. Most developing countries reel from one budget or balance of payments crisis to another! I should add in passing that it is such periodic and frequent crises which make much economic planning in developing countries often so futile and unrelevant.

The planning ministry, whether as a separate ministry or a part of the Ministry of Finance, will call for special skills in project analysis and preparation, cost-benefit analysis, project appraisal, etc. In addition to the normal statistical and

quantitative methods and techniques which such officers will be expected to command, some knowledge of accounting and familiarity with balance sheets might help.

The Central Bank in a developing country apart from its normal statutory functions which call for special skills in Balance of Payments (BOP), monetary analysis, will require economists with special skills in development finance, rural credit and traditional financial markets, agricultural economics, agricultural development related problems.

Even the foreign office in a developing country requires economists with broad backgrounds in economics. Much of the work in GATT UNDP, the Second Committee of the UN General Assembly,<sup>7</sup> ECOWAS, the Law of the Sea Conference, etc. centers on development issues particularly the current debate on a New International Economic Order and other North-South issues.

On a more technical level, officials from all these ministries agencies - finance planning, central bank, foreign office in one form or other will be involved on the multilateral scene with issues relating to their countries specific international obligations under GATT, the IMF Articles particularly those dealing with multilateral surveillance of exchange rates, etc. World Bank policy dialogue commitments etc.

Finally, there are relations with various donor and aid consortia or consultative groups; all these require officials conversant with the issues and modalities of operation of these bodies, officials with (for want of a better word) political sense and diplomatic skills.

#### The Qualities Needed

I could go on and on but I think I have said enough to indicate to you the variety and complexity of tasks which the economist in the developing world is called upon to perform when

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<sup>7</sup>For a fascinating account of the role of the UN, particularly the 2nd Committee (Main Economic Committee) and ECOWAS in influencing the climate of international opinion on development issues see H.W. Singer *The Terms of Trade Controversy and the Evolution of Soft Financing: Early Years in the UN in Pioneers in Development*, edited by Gerald M. Weir and Dudley Seers, a World Bank publication, Oxford University Press 1984. I agree with Singer's contention that the "wild men" in the UN with their SUNFED prepared the way for IDA. I had served at the UN 1957-60 as a member of the Permanent Mission of Ghana to the United Nations with special responsibility for economic matters and can attest to the relief with which most donors turned to IDA - and the regional development banks which were beginning to be set up during this period - 'as a welcome escape from less welcome schemes' (Singer)

he or she returns home after study abroad.

Sometimes immediately upon return home he or she is thrust into a position of responsibility fdr higher than his or her experience may warrant, solely on account of the fact that he or she had been abroad to study and has come back with a diploma. This means that their professors should be extra careful with them since wrong judgements may cost a developing country dearly - whereas in a developed country a recent graduate with similar qualifications may not have the same opportunity to do any great harm!

Judgement is not something that can be necessarily taught in the classroom but certain habits of thought can be cultivated which will provide sound judgement - primary among these is the ability to think clearly, to argue a case cogently to adduce adequate reasons to support preferred options or recommendations.

These qualities are all the more necessary in a developing country situation where often the data base is weak, statistical services rudimentary and often late in producing figures and surveys. It is not much help to refuse to give advice when called upon to do so because the data is imperfect.

Even in the developed world as Alec Cairncross once pointed out: The right facts are hard to come since they are commonly "obscure, disputed, seen through different eyes against a different experience of life and stretching far beyond the limited economic context within which economists seek to analyze them.

In short ideally the economists training should producing the type of economist with what Keynes himself described as 'a rare combination of gifts'

"He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher - in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must be entirely outside his regard. He must be purposeful and interested in a simultaneous mood: as aloof and incorruptible as an artist yet sometimes as near the earth as a politician"<sup>8</sup>.

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<sup>8</sup>John Maynard Keynes: Essays in Biography, Macmillan, London 1945.

Few work-a-day economists can reach such heights but it is an ideal worthy of aspiration!

Closing Remarks

Let me end as I began: the end of all our endeavor as development economists particularly those working in the developing world, is to bring some improvement in the human condition. Ideally, we should be motivated by the conviction that we can use our technical skills together with appropriate administrative abilities to do some good. Without this conviction I think we learn and labour in vain.

