From the Political Economy of Development to Development Economics: Implications for Africa*

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I begin my expressing the pleasure, privilege and honour at being offered the chance to deliver this talk. It did, though, present me with some difficulties in preparation, and I started over three or four times. This was because of the tensions across my goals, and not just because of necessarily being selective across the enormous scope of material contained within the title. I feel the need to balance between saying what I want to without offending my audience and hosts; how to gain credibility given unconventional views without being immodest; and how to engage my audience with my message without unduly compromising that message or theme. It will come at the end. I cannot hope to have succeeded in balancing these tensions but the time has come to stand and deliver.

My starting point is that economics is a remarkable discipline with astonishing accomplishments. Let me list these, hopefully uncontroversial, if not necessarily well-known and well-worn, other than in how they are expressed and how warmly they are received. First, there is a near monopoly of the discipline by the mainstream, neoclassical orthodoxy, with alternatives increasingly confined to other disciplines. No other discipline is like this.

Second, orthodoxy is dismissive, even ignorant, of alternatives and no longer debates with them. This extends to alternative schools of thought, methodologies and even this history of economic thought, so confident is orthodoxy in its (continuing) evolutionary triumph.

Third, the supremacy is based on an extremely narrow set of methods and principles, complemented by an increasingly powerful and pervasive econometric application to evidence as data. These are taken as the markers of being scientific and rigorous.

Fourth, despite this narrowing to a few deductive principles around optimisation, efficiency and equilibrium, the scope of application both within economics and to the traditional subject matter of other disciplines (what I have called economics imperialism) has been astonishing.

Fifth, this imperialism applies in particular both to development economics and development studies more generally. Not only has mainstream economics taken over development economics, it has also taken over almost every aspect of economic and social development, if not without resistance, from violence and conflict to governance and institutions. Here economics competed with alternative approaches to development from the other social sciences whose disciplines are traditionally hostile to the particular claims to rigour of the dismal science.

Sixth, the appropriation of development (studies) is particularly associated with the increasingly central role played by the World Bank in scholarship, research and education and training (the knowledge bank). It not only pushes the exclusive presence of mainstream economics but also sets the agenda of debate on its terms both
conceptually and in motivation – with economic and social engineering promoted at the expense of critical understanding.

Welcome or not, how did this situation come about. Significantly, this is not a history that is written by the victors but by the marginalised rebel armies of the vanquished who wish to restore and build upon earlier traditions within political economy and the study of development and even allow for it be remembered at all. The outcome clearly gathered momentum from the emergence of the Washington Consensus in the 1980s, itself the developmental counterpart to the broader emergence of neoliberalism. I wish I had time to unpick the nature of neoliberalism but, in the realm of (the new) development economics, it is well-expressed by Anne Krueger, Chief Economist at the World Bank from the early 1980s and intellectual leader for the Washington Consensus. For Krueger (1986, p. 62):

> Once it is recognised that individuals respond to incentives, and that ‘market failure’ is the result of inappropriate incentives rather than non-responsiveness, the separateness of development economics as a field largely disappears.

Interestingly, the timing of the Washington Consensus, and new development economics attached to it, lagged a decade behind the end of the post-war boom. I was at the London School of Economics in the early 1970s, a PhD student under supervision of Amartya Sen, and the neoliberal development economists there, Basil Yamey and Peter Bauer, as well as Alan Walters who became Mrs. Thatcher’s economic advisor of choice, were perceived to be, shall we say, eccentric and technically challenged. The prosperity of the new development economics depended upon its appropriation by proper theorists.

Rather than dwell on the Washington Consensus, I jump forward at least in the realm of scholarship, to its displacement, and purer forms of neoliberalism, by the post Washington Consensus. This has been based on market imperfection economics. But the influence and impact of the new development economics in its original form has remained profound. Let me quote from the introduction to Dani Rodrik’s (2007, p. 3) book, One Economics, Many Recipes, in which he outlines his world view which could not be more explicit:

> At the core of neoclassical economics lies the following methodological predisposition: social phenomena can best be understood by considering them to be an aggregation of purposeful behavior by individuals—in their roles as consumer, producer, investor, politician, and so on—interacting with each other and acting under the constraints that their environment imposes. This I find to be not just a powerful discipline for organizing our thoughts on economic affairs, but the only sensible way of thinking about them.

I could produce many such similar quotes, not least from Joe Stiglitz,⁵ and also, significantly, from those very few economists who have questioned their principles in the wake of the current global crisis and, yet, who have concluded their principle are OK – they just need to be a bit more realistic and possibly more rounded in behavioural assumptions.
But let me place the nature of development economics (and economics) in a broader context in two ways. The first is historical – how did it get to be the way it is, right or wrong? I will answer this by identifying some stages in its evolution. The first is the passage from the marginalist revolution of the 1870s to the formalist revolution of the 1950s. The marginalist revolution set up the bare bones of what I term the technical apparatus of the orthodoxy as we know it today – utility and production functions – but also a technical architecture organised around a focus on equilibrium and efficiency. The formalist revolution, a term popularised by Mark Blaug, set in place both the Americanisation and mathematisation of the discipline. But what is crucial is that in the passage from marginalist to formalist revolution is that it marked the determination to squeeze out the maximum consequences from the deductive implications of the technical apparatus and architecture. And to do this, anything that stood in the way was to be sacrificed in terms of method, conceptualisation (of utility, production, the nature of economics, individuals and goods) and even technical assumptions around convexity, externalities and the like.

This meant what I will term an implosion onto the narrowest and most unrealistic of assumptions to achieve the pinnacle of outcomes that have continued to lie at the core of microeconomics. These are the Hicks-Slutsky-Samuelson conditions attached to individual optimisation and the Arrow-Debreu conditions for the existence (if not uniqueness and stability) of general equilibrium. These results symbolised the deductive outcome of the marginalist revolution and the bedrock for the formalist revolution. On a personal note in terms of its meaning the mathematisation of economics, I was recruited in 1969 from the mathematics department after a first degree there with a scholarship to study postgraduate economics, following a fishing trip in search of mathematicians by Jim Mirrlees, later Nobel prizewinner for economics. A degree in mathematics was deemed more appropriate for studying graduate economics than a degree in economics itself!

Equally important, though, is that this technical exercise in implosion as it took place was seen to constitute only one small part of economics, even only a small part of individual economic behaviour itself, and it was complemented by the emergence of (Keynesian) macroeconomics and continuing traditions in applied economics to which the old or classic development economics is a striking illustration. In short, such imploding microeconomics was perceived to be totally inadequate for systemic analysis and certainly not beyond the confines of supply and demand within the market.

Our next stage, though, is the passage from the formalist revolution to the new classical economics of the 1970s. During this period, both macro economics and various and diverse strands of applied (including old development) economics predominated over microeconomics which was, nonetheless, accepted as a core set of techniques even if of limited application. There was some significant extension of these principles in their application, to public choice theory and the new economic history or cliometrics, for example. But these remain relatively limited.

The collapse of the post-war boom and the stagflation of the 1970s changed all of this, as Keynesianism was discredited and there was an increasing marginalisation of applied economics (which had always served as some sort of reality check on mathematical modelling for its own sake). Instead, the new classical economics,
taking Friedman’s monetarist counterpart as its starting point pursued the subordination and reduction of macroeconomics to microeconomics, and the reduction of microeconomics itself to an extreme form of representative individuals, rational expectations, unquestioned presumption of perfectly working markets, state ineffectiveness, inferiority of all other approaches, total disregard for realism, and all necessary assumptions for conclusion (or starting point) of underlying existence of stable, efficient and unique general equilibrium, even over (real) business cycles. As Lucas (1987, pp. 107-8) put it as leading Nobel prizewinner of the new classical economics, our emphasis underlined:³

The most interesting recent developments in macroeconomic theory seem to me describable as the reincorporation of aggregative problems such as inflation and the business cycle within the general framework of “microeconomic” theory. If these developments succeed, the term ‘macroeconomic’ will simply disappear from use and the modifier “micro” will become superfluous. We will simply speak, as did Smith, Ricardo, Marshall and Walras of economic theory.

In short, microeconomics exploded across the discipline but, as a third stage, also increasingly exploded across the other social sciences as well. It did so most successfully, and ironically, as a reaction against the extreme postures of the new classical economics. Market information economics, most closely associated with, and promoted by, Joe Stiglitz, was crucial in this but it is entirely complicit with both technical apparatus and architecture, whilst suggesting imperfect workings of markets and institutions in light of asymmetric information across agents.⁴ Ultimately, for development economics, this was closely associated with the launch of the post Washington Consensus as a new “paradigm”.

Intended or not, this has resonances with Kuhn’s approach to scientific revolution for which 21 different notions of paradigm have been identified, Fine (2002) for a discussion. These, however, boil down to three. One is an examplar, a leading piece of theory which serves as the model for emulation and extension. Here there can be no doubt that Akerlof’s market for lemons is the most appropriate candidate. Another is the world vision for which economy and society as a sack of market and institutional imperfections, to which piecemeal corrections might be made, seems to fit. And third, and preferred if forced to choose by Kuhn himself, is a community of scientists.

In this case, I would refer back to the Americanisation of the discipline and how it has been dominated by Chicago in particular to which subsequent developments have been at most a mild reaction if understandably exaggerated by their proponents (markets do not work perfectly but is this a sufficient basis for understanding economy let alone society). On consulting the website of the University of Chicago in 2010, there is the claim of connections to 25 laureates in economics out of a total of 64 - compared, for example, with three in literature and sixteen in chemistry but with the latter two over a period of 108 rather than 40 years, http://www.uchicago.edu/about/accolades/nobel/. For peace, there is just one connection, to Barack Obama! As we are on criteria, it is widely acknowledged that Elinor Ostrom is the first woman to receive the award (although a political science not economist).⁵ Otherwise 60% of the economists have been of US origin, and only four laureates by birth or naturalisation have come from outside the USA or Western
Europe (Arthur Lewis, Leonid Kantorovich, Amartya Sen and Robert Mundell), with corresponding implications for racial composition, see Wikipedia. And, obviously, not a single laureate in economics from Africa.

But we are now in the latest stage of economics’ evolution, one that precedes the current global crisis and is independent of it although most revealing of much that has gone before. For Lucas, for example, by the time, he became President of American Economic Association in 2003, he could claim:

My thesis in this lecture is that macroeconomics in this original sense has succeeded: Its central problem of depression-prevention has been solved, for all practical purposes, and has in fact been solved for many decades.

Such views remain in Chicago even after the crisis the response to which has been along the lines that if there is a gap between the theory and the real world, the problem must be with the real world. For, consider Eugene Fama, leading and continuing proponent of the efficient market hypothesis, with over one-quarter of a million downloads of his academic papers. He continues to deny that bubbles exist or even to know what they are but is modest enough to confess, “We don’t know what causes recessions. Now I’m not a macroeconomist so I don’t feel bad about that”, Fama (2010). This has, however, to be set against the previous view of Lucas from the same school that macroeconomics is superfluous.

This has all led leading econometrician Angus Deaton to suggest.¹⁶

Economics has become like evolution, where what people think is well predicted by their political ideology; it is not fanciful to imagine school boards in Texas legislating against the teaching of Keynesian economics.

In Chicago they do not need legislation. But, of course, as already suggested, realism of such economics has long been criticised. As Nobel Prize winner Bob Solow (2010) has put it in front of a US House Committee in terms of the macroeconomic thinking and policy over the neoliberal period, “An interesting question remains as to why the macroeconomics profession led itself down this particular garden path.” Indeed, as an old style neoclassical Keynesian, Solow has put it more amusingly in response to the dominance of neoliberal economics and policymaking and its extraordinary esoteric development of mathematical and statistical technique at the expense of realism:

Suppose someone sits down where you are sitting right now and announces to me that he is Napoleon Bonaparte. The last thing I want to do with him is to get involved in a technical discussion on cavalry tactics at the Battle of Austerlitz. If I do that, I’m getting tacitly drawn into the game that he is Napoleon Bonaparte.

Even Milton Friedman lost patience with the developments in economics that he had done so much to spawn, bemoaning the discipline had become “an arcane branch of mathematics”.

Despite these criticisms and differences within neoclassical economics around market perfection or not, the core microeconomic technical apparatus and architecture (and
associated methods) have been strengthened in the most recent period. This is so much so that the latest stage is one in which they have been more or less indiscriminately attached to any other factor, theory or subject that takes the discipline’s fancy. This is truly “freakonomics”, my favourite example being the newly founded field of neuroeconomics, heavily in fashion, and, to parody, wedded to the notion that the key to economics can be found by study inside the representative individual’s head! I do not have the time to expose this mental activity to you but would observe that the willy-nilly application of microeconomic principles gives rise to a paradox. Economics can as a result change very quickly but without essentially changing at all. Further, whilst in the passage from marginalist to formalist revolution there was some sensitivity to what was being discarded in the implosion involved, with the current explosion of economics imperialism across the social sciences, there is no second thought at all.

I have, then, just sought in a whirlwind account to place economics (with development economics as it is now by way of corollary) in historical, intellectual perspective. A second take on such developments is through emphasising a shifting relationship between scholarship, ideology (or rhetoric or advocacy) and policy in practice. There are big differences between these and, whilst mutually supportive and connected to a greater or lesser extent, they are involved in a contradictory and shifting relationship to one another across time, place and topic. In case of scholarship and advocacy, for example, let me refer to the shift from Washington to post Washington Consensus, which witnessed a big change in scholarship if not in policy in practice – as symbolised by the sacking of Joe Stiglitz as Chief Economist once he pursued scholarship into the policy arena (in the year before receiving Nobel prize for economics).

Also for scholarship and rhetoric, consider the report on World Bank research from 1998 to 2005, commissioned by the World Bank and chaired by Angus Deaton. It places some emphasis on the extent of poor scholarship but also the use of such scholarship for purposes of “advocacy” and worse. Thus, “the panel has substantial criticisms of the way that this research was used to proselytize on behalf of Bank policy, often without expressing appropriate scepticism. Internal research that was favorable to Bank positions was given greater prominence, and unfavorable research ignored … balance was lost in favor of advocacy … there was a serious failure of the checks and balances that should separate advocacy and research”, p. 6.

These themes around advocacy, proselytising and balance recur. For, “putting too much weight on preliminary or flawed work could [why not “does”?] expose the Bank to charges that its research is tailored or selected to support its predetermined positions, and the panel believes that, in some cases, the Bank proselytized selected new work in major policy speeches and publications, without appropriate caveats on its reliability … this happened with some of the Bank’s work on aid effectiveness”, p. 38.

More generally, “One criticism that was made repeatedly [by assessors] is that research tended to jump to policy conclusions that were not well-supported by the evidence”, p. 40. And, of course, “it is very difficult to be fully objective about the results of your pet project … There is much selection of evidence, with obscure, sometimes unpublished, studies with the ‘right’ message given prominence over
better and better-known studies that come to the ‘wrong’ conclusion”, p. 84. Indeed, this is all so bad that, “The panel is particularly concerned with finding a way to fund Bank research that protects its independence, and guarantees that Bank research does not degenerate into pure advocacy of the type that has become all too prevalent in the global poverty debate”, p. 149. In summary, “Managers of research at the Bank need to maintain checks and balances that preserve the credibility of its research. In particular, it needs to resist the temptation to make strong claims about preliminary and controversial research that appears to support policies that the Bank has historically supported”, p. 161. In view of this, we are ultimately offered what might be thought to be the epitome of understatement, “Nevertheless, over the review period, we are concerned that the independence of Bank research may have frayed at the edges”, emphasis added and something of an understatement given what has gone before. Criticism was particularly harsh for the aid/growth nexus research of considerable significance for African economies.

And how has the World Bank responded to the crisis in the arena of research. Significantly, Justin Lin as current Chief Economist has put forward a new paradigm for development research. This has also been warmly welcomed and debated by erstwhile critics of the Bank, such as Wade, Change and Amsden, from their generally diluted stances, possibly in deference to the Lin’s position that there is a role for the state in industrial policy. He argues that intervention should promote what he terms latent comparative advantage, drawing upon historical evidence, and for this to be associated with structural change. Far from being considered an advance in the Bank’s thinking, it can be seen as a backward movement of twenty years. For then, in its East Asian Miracle Report of 2003, the success of the East Asian NICs was interpreted as the state doing what the market would have done had the market been working perfectly.

The problem is that this is a tautology, if prejudiced towards believing in the workings of the market. But Lin’s notion of latent comparative advantage is equally a tautology since, after the event, developmental success will inevitably have revealed latent comparative advantage (and failure, failed to do so). In addition, Lin’s thrust is to constrain, not to promote, the role of the state as his idea is to bring about structural change by reforming institutions in line with what the private sector needs to realise its latent powers. In this respect, and others, it is notable that Lin has no definition of development itself - other than structural change just as the same is true of Washington Consensus (through reliance on market) and post Washington Consensus (correct market imperfections). This is to give a means without an end. And, significantly, Lin has no mention of public ownership, no mention of developmental state, no mention of the global crisis, no mention of finance …But, most revealingly, there is no mention of World Bank policy in practice. You will excuse me, for example, for observing the intention of the World Bank that 50% of growth in health expenditure in Africa should come through participation of the private sector and, more generally, it seeks to shift resources from public to private sector support, using the state and its potential capacities to promote the private sector where previously it sought privatisation in purer forms.

I am now acutely aware that my time is drawing to a close and I have yet to address African economies. Of course, development economics as it is now emphasises that they are unfit for purpose. I do not doubt this is a correct conclusion but the means by
which it is reached is not acceptable. Indeed, I would turn the argument around and, on the basis of the general arguments that I have offered, conclude with my promised message, that it is economics that is unfit for purpose for African economies. I have attempted to persuade you of this through charting how economics has increasingly become unfit for purpose for development economics; how such an economics has been imposed, despite a narrow and questionable set of principles, on an ever-widening scope of application; how it has been intolerant and ignorant of alternatives; and, if implicitly, how it has ignored the traditional variables of other social sciences such as class, conflict, power, and the specificities and nature of economic and social transformation in a global context.

And I am not optimistic of prospects for change within the discipline precisely because of its lack of critical self-examination and openness to alternatives. Let me illustrate this element of being unfit for purpose through a simple exercise I undertook last year in light of the opprobrium attached to economists for their failure to predict a crisis, even to allow for its possibility. I undertook a google scholar search for crisis in economics or the like. I came up with 115 entries, most referring back to a dispute of eighty years ago around Schumpeter. By contrast, the similar search for sociology for purposes of comparison came up with 7230 entries. Yet, no one is blaming the sociologists for the crisis!

Yet, should hope spring eternal and anticipate a potential renewal of African economies matched by a renewal of African economics by African economists? Let me conclude by taking you back 168 years to 1833. In that year, Britain passed legislation to abolish slavery in the Empire; it passed a factory act to protect children workers; Charles Darwin was sailing in the coastal waters of Latin America two years before visiting the Galapagos Islands; and Chicago was first founded as a village of 200 inhabitants. The end of slavery, the protection of children, the theory of evolution, and Chicago are all now taken for granted. In that year of 1833, a newspaper was also founded in the UK, the News of the World, and was until last week both taken for granted and the most popular newspaper in the UK. It printed its last edition on Sunday – it was deemed unfit for purpose at least for the Murdoch media empire of News International because of phone hacking and corruption of police through bribery. But, by comparison to those of economics, its crimes are surely minor.

For, significantly by way of example, consider the latest Nobel prizes for economics. Discreetly avoiding the recently favoured if now tainted terrain of finance, they were awarded to three mainstream economists who study unemployment as a mismatch in search or trust between those who want to give jobs and those who want to take them. As Yannis Varoufakis (2010) puts it:

Imagine a world ravaged by a plague, and suppose that the year's Nobel Prize for Medicine is awarded to researchers whose whole career is based on the assumption that plagues are impossible. The world would have been outraged. That is precisely how we should feel about yesterday's announcement of the recipients of the 2010 Nobel Prize … Interestingly, these three fine mathematical economists have one thing in common, other than their work on labor markets: in their voluminous theoretical output on unemployment and the like, there is not a smidgeon of a hint, of a mention, of an economic crisis
which may boost unemployment in every sector and for all types of workers. Not one!

And, lest you think I exaggerate, consider the mea culpa of the IMF in its response to the crisis. It has confessed that it overlooked fiscal policy, that it reduced monetary to interest rate policy, and that it failed to take account of the possibility of bank failure as a macroeconomic issue. This hardly begins to get to grips with the extent of theoretical and methodological failures let alone why such elementary errors should have become conventional wisdom.

Of course, the News of the World loved and prospered on a good sex scandal. I would myself never stoop so low. But as Dominique Strauss-Kahn declared of Tunisia and Egypt and the Arab Spring, days before his abrupt removal from office, the macroeconomic figures were quite good but distribution of income and (youth) unemployment had been overlooked. I have tried to explain why – not as an accident but as the tip of an iceberg of an economics that is as much in need of transformation as the News of the World and African economies themselves.

Footnotes


1 The talk does draw upon Milonakis and Fine (2009) and Fine and Milonakis (2009), which won the Gunnar Myrdal Prize and Deutscher Prize, respectively.
2 For Stiglitz (2000, p. 23), “Economics is the study of scarcity, how resources are allocated among competing uses”. And, following the crisis, his alternatives are constrained in the following terms:

   The left now understands markets and the role markets should and can play in the economy… the new left is trying to make markets work.

But this is exactly where thirty years of neo-liberalism have got us!
3 Of course, at least Smith, Ricardo and Walras spoke of political economy!
4 Krugman pioneered an alternative market information economics based on increasing returns.
5 For some discussion of Ostrom, see Fine (2010), part of a special issue discussing her work on the “commons”. Note that the only female economist to receive a Nobel Prize, for peace, is Emily Greene Balch, see Dimand (2011).
7 For an account of Deaton Report and fuller and more up to date critique of World Bank research and offer of alternatives, see Bayliss et al (eds) (2011).

References


