The Big Push: Early Development Economics (1945-1975)

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Abstract:

This article attempts to analyse the strategies, strengths and weaknesses of early development economics, commonly known as the Big Push era. The article starts with the historical analysis on what could influence the thinking of structuralist approach to development. The next section highlights the common strategies proposed by the development pioneers. This is followed by the assessment of industrialisation strategies based on their strengths and weaknesses of the strategies proposed. Finally, the conclusive comments focus on the appreciation of development economics in general.

Introduction

The post-World War II period, characterised by the persistence of extreme poverty in underdeveloped regions, gave a rise to a new stream of economic practices, 'Development Economics'. While the Developmentalist tradition is considered as an old concept in the stream of economic thought, the 'modern' development economics put its great emphasis in modernising the developing world to 'catch up' with more advanced nations.

Unlike Classical or Keynesian economics, there is no formal single-model of development economics. Nonetheless, the debate among its thinkers had lingered around the different ideas and practices of industrialisation strategies to be adopted by the post-colonial states in Asia, Africa and Latin America in order to generate more employment in these regions. This paper therefore attempts to analyse the rationales behind the industrialisation strategies proposed by the 'structuralist' development economists in two decades (1945-75). It also tries to evaluate the strengths and weaknesses of the development economics in general, and industrialisation strategies in particular.

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The Rationales of Development Economics and Industrialisation Strategies

To understand clearly the basis of 'modern' development economics, it is crucial to evaluate historical events from the early 20thcentury preceding the emergence of this new economic 'school'. The period of early 1900s was described as the flourishing state of neo-classical economics. Free-market economy was advocated as the central idea of this school, which subsequently 'forced' the state to put its hand off the economy. Market is self-equilibriating, therefore it will always go back to a point of equilibrium, they argued. Unfortunate to this school, not long after enjoying their popularity, the U.S. stock market crash in the October 1929 created the prevalent disbelief of neoclassical economics. While many theories attempted to rescue the economy, Keynes' idea was considered as the most influential; his greatest work in the 1936, 'The General Theory of Employment, Interest, and Money, provided a strong justification for the state intervention to solve the problem of unemployment during the Great Depression. Three years later, the World War II destroyed the world economy once again (1939-45).

Following the end of WWII, many underdeveloped countries in Asia, Latin America, and Africa started to gain their national independence from their former colonial masters. The persistence of chronic poverty in these regions raised the need of special economic strategies. In response to this, three early works on development were published; Staley's World Economic Development, Mandelbaum's Industrialisation of Backward Areas, and Rosenstein-Rodan's article on "Problem of Industrialisation of Eastern and South-Eastern Europe (Meier 1984). These early development works approached the problems by providing the solution in the form of industrialisation strategies. Industrialisation refers to the government plan and action to create and/or develop industries which deemed best for the national development. Rosenstein's first remark on his article clarified the need of industrialisation, "It is generally agreed that industrialisation of international depressed areas … is in the general interest not only of those countries, but of the world as a whole" (Rosenstein-Rodan 1943).

Then, how these historical events connect with the thinking of development economists? Polanyi-Levitt argued that the development pioneers were deeply influenced by 'dramatic market failures of the inter-war years and the prevailing belief in economic planning', In other words, they were indirectly inspired by the Keynesian idea of state intervention rather than neoclassical economics of laissez-faire policies. If only the Great Depression had not happened, these pioneers might perhaps advocate free-market strategies to the underdeveloped regions.

However, this is not the end of story. Not only the external economic shocks provided the basis of industrialisation strategies, the rationales behind these strategies also came from the 'insiders' of development economics. Kuznets, for instance, began to quantify development in the form of per capita GDP, which raised the need of structural changes in the economy. As developing world was dominated by agricultural sector, the only way forward was to jump into the industrial sector. This was further intensified by Lewis two-sector model, which was concerned with massive rural unemployment in the traditional sector. The solution lies in surplus labour absorption in the industrial sector. Hircshman, on the other hand, championed the idea of industrialisation in the capital intensive industry and import-substitution policies (replace the imports by producing them domestically) for the developing countries so as to solve the problem of unequal terms of trade due to colonialism.

Common Strategies in the Development Economics

While the development pioneers differ in their specific emphasis, Sen (1983) argued that there are four common strategies proposed by these thinkers, (1)mobilisation of underemployed manpower, (2)industrialisation, (3)planning and economically active state, (4)rapid capital accumulation.

The first common development theme is labour mobilisation in the economy. The development economists commonly argued that there exists the problem of mass rural unemployment (Rosenstein-Rodan 1943, Mandelbaum 1947, Lewis 1954). In his article, Rosenstein claimed that there were two options to solve this problem, either by emigration or industrialisation. Nonetheless, emigration was not possible in such large-scale; he concluded that the regions must industrialise to absorb these labourers into the economy. The most powerful idea of labour mobilisation came from Lewis two-sector model. Lewis maintained that the overpopulated agriculture sector is characterised by zero marginal labour productivity. It follows that the agricultural surplus labour could be mobilised to modern sector without any loss in agriculture output and reduced in agricultural wage rate.

The second common theme in development economics is industrialisation. Rosenstein's idea of Big Push is often marked as the beginning of development economics (Polanyi-Levitt m.s.). He put his emphasis on the complementarity nature of industries to justify his proposal on balanced growth strategy. This strategy focused on investing in infrastructure and all economically productive sectors since the 'complementarity of industries is so great that simultaneous inducement rather than hope of autonomous coincidence of investment is called for' (Polanyi-Levitt m.s.). Hirschman, came later, questioned the feasibility of balanced growth strategy and instead advocated the 'unbalanced growth' to achieve industrialisation. This strategy called for the task of identifying leading sectors and developing these sectors in the hope of establishing forward and backward production linkages. Their differences in the strategies however, were rather complementary to one another. Take an example of Hirschman's leading sectors, which include basic infrastructure and key productive activities (Polanyi–Levitt m.s.). This concept was basically similar to Rosenstein's Big Push idea. Regardless of their emphasis, the point is that they shared similar concern of industrialisation strategies for developing world.

Moving on to the third strategy, majority of the development pioneers shared the same idea of crucial role of state in the economy (Rosenstein-Rodan 1943, Hirschman 1958, Lewis 1954, Tinbergen 1964). Tinbergen argued that the term central planning is not necessarily linked to the U.S.S.R; instead all industrialised countries used some form of central planning (Polanyi-Levitt m.s.). The importance of state in industrialisation process was also put forward by Rosenstein. He argued that the first task of the state in industrialisation process is to train and skill the labour. His argument was that it is not profitable for the private companies to train their workers as there is a possibility that these workers may contract with other firms.

The last but not least is the importance of capital accumulation to foster the industrialisation. Industrialisation in large-scale is impossible without sufficient amount of capital or investment. Rosenstein postulated the need of international capital as it is difficult to seek for domestic private investors who are willing to lend monies in sufficiently large amount, therefore the government need to seek for creditor countries. Both creditor and debtor countries will then act as 'business partners' in the industrialisation progress. Myrdal approached the need of capital in rather different perspective, arguing that the rich countries should be responsible to help poor countries on the basis of egalitarian principles (Polanyi-Levitt m.s.).

Strengths and Weaknesses of Development Economics

The first merit of development economics is that it focuses on rural underemployment. It drew on the concept of unemployment from Keynesian school and modified it to fit into a reality in underdeveloped countries. Surprisingly, Hirschman (1981) criticised that development economics had been more inclined to present the idea of 'typical underdeveloped country' which was unrealistic as each country is different in their development trajectories.

The second merit, perhaps the most striking evidence in development theories, seems to support the importance of capital accumulation to economic growth. Sen (1983) asserted that between 1960 and 1980, countries with high GNP per capita growth were attributed with high gross domestic investment (i.e. measure of capital accumulation). Romania, for instance, had 8.6% GNP per capita growth in these decades and 34% gross domestic investment (as % of GDP). In contrast, Uganda had -0.7% GNP per capita growth; this was linked to a mere 3% in domestic investment. At the surface, we can reach a quick conclusion of the relationship between capital accumulation and economic growth. It is important to note however, this finding did not establish causal-relationship from capital to growth, there had to be factors muddling around in between.

The above finding, nonetheless, only attempted to justify the importance of capital accumulation in the economy. Development economics had failed to capture non-economic development issues. Its heavy emphasis on economic growth had left behind the most single important element, individual. Sen (1983) believed that development should focus on 'entitlements' of people and the 'capabilities' these entitlements generate. While Sen's writing is often regarded as the early 'human development' works, Viner (1953) had attacked development economics at its glorious period by stating that the number of people living under poverty, illiterate, diseased, undernourished, may have grown steadily consistently with the rise of per capita income.

Turning back to the capital accumulation, Bauer (1969) invoked that putting heavy emphasis on capital accumulation forced countries to resort to foreign aid. Oddly, foreign aid is neither necessary nor sufficient for economic growth. He claimed that after the flow of foreign aid to India as a part of Five Year Plans, India experienced the most 'acute' food and foreign exchange crises in 1966-67. Furthermore, it has been dependent on aid to the point of taking it for granted. Hence, the problem of underdevelopment lies not in capital but elsewhere. Sen (1983) implied that the enterprises are the real bottleneck; concentrate on capital accumulation 'was to climb on the wrong tree'.

The 'radical' idea of state planning in the economy also came under scrutiny. According to Bauer, economic planning is a difficult thing for advanced countries and it is much more difficult for developing countries with weak political, administrative, and economic institutions. This argument is justified in the sense that without political stability, the state is unable to transfer the capital into productive investment. Burton (1983) ,taking a stance in extreme position, also disagreed with the state-led industrialisation by arguing that the state is not a doctor who can identify and transform the underdeveloped sectors to become developed sectors because there is no science in predicting company behaviour. Nonetheless, these arguments do not eliminate the role of state in economy. It is a matter of to what extent state intervention is allowed and how the state is going to carry out the plan. As Benjamin Franklin puts it, 'if you fail to plan, you plan to fail'.

Concluding Remarks

While this paper appears to present many defaults of development economics, it does have a role in contributing to the current developmental ideas. Without the early development economics, we might have not known the importance of deliberating economic growth and industrialisation while still having to dig our own or landlords' farms. We cannot reject totally development economics because of their weaknesses; instead, we should focus on improving those weaknesses and reformulate the strategies, if necessary.

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