Development Theory and Policy in the Third World

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ECONOMIC DEVELOPMENT in the Third World has been elusive for a great many reasons. Primary among those reasons, however, has been the failure of development theory, and the consequent policy thrusts arising from such theory, to capture the real long-term issues, associated with the economic environment at the time, that ultimately determine the prospects for development. For example, perhaps the two most crucial elements in the quest for development, namely leadership and the development management machinery, have invariably not been included in the theoretical formulations nor in the policy considerations and subsequent policy implementation.

One of the lessons learned from the formulation of post-war development theory and policy and their failure in the Third World is that "New ideas win a public and professional hearing, not on their scientific merits, but on whether or not they promise a solution to important problems that the established orthodoxy has proved itself incapable of solving" *(2). Much of the work on development theory and policy has intellectual merit that makes it appropriate for insertion in professional publications to be read by professional economists. However, the formulation and implementation of development policy must also entail appropriateness. If development policy has intellectual merit but lacks relevance it is likely to be ineffective; the process of development will elude the Third World, *ad infinitum*.

1. Post-war Perceptions of Development

The concept of economic development has become very commonplace in this century and there is a growing body of literature on its historical development. Moreover, economists have gone to great lengths to differentiate

between the terms *economic development* and *economic growth*. It is now recognized that they are two different, but related, processes that are both counterparts and competitors, depending on the time span involved, and that the distinction is important from both theoretical and policy-making standpoints (Flammang, 1979).

In the commonly used meanings of the two terms, they are clearly complementary processes, each having the potential to contribute to the success of the other. But this does not negate their competitive nature. Unusually favourable growing conditions may easily result in impressive growth in the traditional outputs of a country or in increased leisure for its population, without much, if any, structural change, as was found to be the case in e.g. Liberia (Glower *et al,* 1966). Similarly, development is possible without growth. One sector may grow at the expense of another. Industrial expansion may be matched by a decline in the agricultural sector, for example, as was found to be the case in the Caribbean (Hope, 1986).

The development-growth distinction is essential in economic thinking. Growth and development are different processes that are considered to be complementary in the long-run but competitive in the short-run. Economic growth is regarded as a process of simple increase, implying more of the same, while economic development is a process of structural change, implying something different if not something more (Flammang, 1979).

In the post-war period, there have been several contrasting perceptions of development*(3). In the 1940s, the less affluent countries, located in Africa, Asia, and Latin America, were usually described as backward. By the 1950s, the term *backward,* with its pejorative connotations, had been generally discarded in favour of the term *underdeveloped,* which implied the existence of a potential that could be realized and did not suggest directly, at least, an attitude of superiority on the part of the industrialized nations. In the 1960s, these countries began to be referred to as *less developed,* which was an even more acceptable term, since the countries in question were somehow to be regarded as developed but only less so than some others. At the same time, the expression *Third world* became prominent and was used to distinguish these nations from the Western industrialized countries (First World), on the one hand, and the Eastern socialist nations (Second World), on the other. In the 1970s, several new terms came to be commonly used. One was the expression *developing nations,* which seemed to have removed all implications of inferiority. A distinction was also made between the oil *producing* and *non-oil-producing* nations. In the 1980s, the term *newly industrializing* countries emerged, referring primarily to four Asian nations - Hong Kong, Korea, Singapore and

Taiwan - that were experiencing sustained industrial growth and economic development. At the present time, the appellations *less developed nations, developing countries,* and *Third World countries* are the most widely used and are usually employed interchangeably.

All through the inter-war years the term *economic development,* used outside the Marxist literature, continued to denote the development or exploitation of natural resources. In the immediate post-war years, economic development became virtually

synonymous with growth in per capita income in developing nations (Arndt, 1981). Development meant a rising gross national product, increasing investment and consumption, and a rising standard of living. A theory was elaborated on the basis of Western experience during the nineteenth century. Accordingly, a developing economy was moving to a developed status when it became strong and complex enough to take off toward the industrial heights scaled by many countries in the Northern Hemisphere*(4). The tools of this type of development also were, quite clearly, anything that could help get the engines of investment, production, and consumption moving including the inflow of capital goods from the rich nations. At the same time, priority was given to import-substitution policies. Import-substitution industries were to become the key to development. This theory worked extremely well in some countries. In South Korea and Taiwan, for example, production of goods and services leaped upwards - assisted, of course, by United States aid and defence outlays - until the coun-tries effectively began to leave poverty behind (Hunter, 1971).
However, some flaws appeared in the theory. For one thing, many Third World nations challenged the notion that development could be measured purely in terms of growth in GNP. That challenge resulted in a search for a new meaning and approach to development. "The task was therefore one of finding a new measure of development to replace the growth of national income measure, or, more precisely, to enable the national income to be given its true, somewhat limited, significance as a measure of development potential" (Seers, 1909). Development was seen as being brought about not through reliance on external assistance but through national effort. In the early 1960s, import-substitution policies were discarded and rapid industrialization for export expansion became the task.
In the mid-1960s it began to be realized that rapid industrialization was an illusion. Agricultural growth came to take its place. Until that time the importance of the agricultural sector in development had been neglected - a sector that loomed large in the Third World in terms of employment

for the bulk of the labour force. There also was to be found the majority of poor people, and many of the urban poor had migrated from the agricultural sector. It was generally the foreign-exchange earnings from the agricultural sector that tended to permit or constrain the expansion of industrial output and employment.
Unfortunately, the debate over development strategy then, as now, often swirled around the relative importance of agriculture versus industry. This dichotomy is frequently overstated. The notion that rapid industrialization entails a total neglect of agriculture is erroneous; it underestimates the importance of the mutually beneficial links between agricultural and industrial development. In fact, in most Third World nations, successful industrialization has been supported by agricultural growth.
During this mid-1960s another theory - more sociological and political - was initiated and became known as `dependency theory'. Theorists from Latin America provided the initial impetus for this view, but the ideas were quickly taken up in Africa and Asia. Dependency theory raised the question of why peripheral industrialization did not have its logical effects on the course of development. It identified the problem of dependence with the assumed hegemony of the stronger over the weaker countries, a relationship that was seen as unilateral and, invariably, negative, which was held responsible for all the ills of the periphery (Prebisch, 1988). The dependency perspective assumed that the development of a national or regional unit can only be understood in terms of its historical inclusion in the international political-economic system following on the wave of European colonization. Development and underdevelopment were considered to be interlinked characteristics of the global system. This resulted in the division of the world between industrial or `centre' countries and developing or `periphery' countries. The centre was viewed as capable of spontaneous development, with the periphery having a reflex type of development constrained by its incorporation into the global system. (Valenzuela and Valenzuela, 1981).
Dependency theory tended to overstate the role of external influences and minimized the internal factors affecting economic development. A reduction of dependence on the industrialized nations would have required better management of local resources and significant social and economic changes within the Third World (see below). Suffice to say here, though, that the policy framework to be considered and adapted by the Third World should, of necessity, have been more introspective. The exclusive focus on `dependency' to explain underdevelopment encouraged the evolution of a paralyzing and self-defeating mythology.

in the latter part of the 1960s, Third World nations began to give priority to population control policies. Direct methods of birth control, such as contraception, became the focus of the early family planning programmes. However, some of the problems to which this gave rise, have also resulted in attempts to initiate policies designed to change population distribution between urban and rural areas. Population policies, while they may have been modestly effective in very few Third World countries, did not help solve the problems of development.
In the 1970s, the general thinking was that the poor masses had not gained much from development. This led to the adoption of policies in favour of distribution and the provision of basic needs for the poor. At the same time, the Third World nations began to clamour for joint action to improve their bargaining position and to protect their economic interests. This resulted in a United

Nations resolution, on May 1, 1974, for a "Declaration and Program of Action on the establishment of a New International Economic Order" (NIEO). The concept of the NIEO was intended to embody institutional arrangements that promoted the economic and social progress of the Third world nations in the context of an expanding world economy. It was supposed to be a framework of rules and institutions, regulating the relations among sovereign nations. The primary elements of the NIEO were three-fold (Hope, 1982). First, measures were to be sought to reduce, and eventually eliminate, the economic dependence of Third World nations on enterprises in industrialized countries, allowing developing countries to exercise full control over their natural resources. A second element was the promotion of accelerated development of Third World economies on the basis of the dependence on their own efforts. Thirdly, appropriate institutional changes were to be sought to introduce some measure of global management of resources in the long-term interests of humanity.

The NIEO was intended to stand for a new way of ordering the international economic system so as to bring about, first, improved terms of trade between the present-day centre and periphery countries; secondly, more control by the periphery over the world economic cycles that pass through them; thirdly, increased and improved trade among the periphery countries themselves.

The NIEO concept emerged because of what was perceived as defects of the existing international economic order which, it was argued, had resulted in an economic crisis perpetuating poverty and inequality, both between and within countries. The NIEO was intended to launch a direct at-tack on the central issue of widespread poverty.

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With respect to the basic needs approach, the primary objectives were to provide opportunities for the full physical, mental and social development of the individual (Streeten, 1979a). This approach focused on mobilizing particular resources for particular groups, identified as deficient in those resources, and concentrated on the nature of what was to be provided rather than on income. The basic needs approach did not rely solely on income generation or transfers; it placed primary emphasis on the production and delivery to the intended groups of the basic needs basket through supply management and a delivery system (Srinivasan, 1977).

The basic needs approach differed from other poverty-oriented development strategies. Recognition was given to the fact that countries would have different requirements as a result of their different economic, political, social, cultural, and technological characteristics. As a result, there were no objective criteria for defining the contents of a basic needs bundle. It was determined that while certain minimum physiological conditions were necessary to sustain life, basic needs would vary between geographical areas, cultures, and time periods. There was to be no single level of basic needs but instead a hierarchy in which societies could define their own basket of basic goods and services which would, out of necessity, differ according to their different objectives (Streeten and Burki, 1978):

The basic needs approach to development generated a great deal of literature and became the cornerstone of policy for international development agencies. It called for a system of priorities. First, meet the basic needs of those most in need before satisfying any other needs. The basic theoretical and empirical question in connection with the basic needs approach had to do with the ordering of those pursuits in terms of time. The assumption was that the pursuit of less urgent objectives would stand in the way of meeting basic needs (Hope, 1983).

From the 1980s, the focus shifted to development initiated in the private sector. It was an important policy shift for many Third World nations. After decades of growing State involvement, many Third World nations found themselves in the throes of serious fiscal crises which necessitated a shift from the public to the private provision of goods and services. In essence, it was an admission by Third World nations that excessive State involvement was not providing the hoped for results of growth and development. On the contrary, it had led to economic misery. Griffin (1988) has identified three distinct phases in the evolution of development thought since the end of World War II. Phase One was "The Brave New World of High Theory" where the priority for development was economic growth to stimulate the stagnant economies and traditional societies of the underdeveloped

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countries as they were referred to then. Phase Two was "The Golden Age of Global Expansion" where the emphasis of thinking on development shifted quite markedly from growth as the priority for development to redistribution with growth. The issues of concern became employment, policies for the direct alleviation of poverty, improving the distribution of income, and the satisfaction of basic human needs. In this era, central planning ceased to be fashionable. In its place came greater reliance on the market mechanism which came to be regarded as superior to and more efficient than central planning. Phase Three was "The Rude Awakening" where the emphasis shifted to economic restructuring and major economic reforms brought on by declining living standards and economic decay in the Third World. Disenchantment with the State as a vehicle for promoting development led to the exploring of possibilities for greater government decentralization and local mobilization for development.

Colin Simmons (1987) has identified only two periods in development thought since the end of the Second World War. The first covers the years 1945-1975, the era of "Faith, Hope and Charity". Keynesian economics triumphed which, among other things, legitimized a degree of purposeful State intervention consistent with the stated intentions of many Third World governments. This brought about a `Development Orthodoxy' which was essentially Liberal in outlook. The second period covers the years 1975-1985, the "Decade of Doubt, Dissent, Pessimism and Retreat". Whereas the first period was one of great expansion, widespread consensus, and a reasonably optimistic prognostication for Third World economies, the second was one of gloom, decline, disagreement, and disparagement. Development theory in this era was drastically wanting and in need of urgent surgery. The critiques, subsequent reappraisal and reformulation centred on the key elements of the development orthodoxy which included dualism, structuralist-inspired import-substituting industrialization strategies, over-valued currencies, planning and so on (Simmons, 1987).

Ozzie Simmons (1988), however, claimed that "most classic and neo-classic economic thought . . . from Adam Smith through John Maynard Keynes, has proved to have little relevance for development economics". Economic development, more than most other areas of human effort, has been subject to many fashions during the past three decades, mainly because of the persistence of the major problems of development. Development economics was seen as being unable to build a stock of cumulative wisdom from the hard lessons of reality. It was concluded that

"the rapidity with which different prescriptions for development came into vogue attests to this lack of cumulativeness" (Simmons, 1988). Although this is true, Simmons takes a narrow view of development which is essentially limited to equity-oriented development. For example, he does not analyse the contemporary issue of the role of the State in the development process, market-oriented versus non-market-oriented policies, and so on.

Ranis and Fei (1988) view the development debate in the broader terms of the political economy of policy change. They agree with those who believe that reports of the demise of development economics have been exaggerated and they see the post-war era of development policy as representing a unique period of attempted transition from colonial agrarianism towards the epoch of modern economic growth, emulating the long-run historical experience of the now developed countries.. The transition is seen as representing an extremely growth-conscious period during which macro-economic policy instruments were used to promote growth. In the process the imperfect Third World markets, which had been furthering colonial objectives, began to feel the effects of the political forces of nationalism. The common denominator of Third World development policy is the recognition that organizational and policy choices are basic to the question of developmental success or failure. The authors claim that, "for example, it is now more widely accepted, though by no means universally, that increased openness and reduced government intervention are generally associated with improved development performance. The role of the pursuit of rents has opened up an important related area of inquiry. But what still has eluded observers and constitutes an important field for investigation is just how to endogenize policy change over time". Ranis and Fei emphasize the need to study policy convergence, that is, how societies organize themselves as they move into modern growth. They see organizational and policy changes as just as important as the statisically observed changes in economic structure and performance. They conclude that "the political process through which policy either accommodates or obstructs the evolution of an economic system toward modern growth lies at the heart of the issue - as do the roles of natural resources and foreign capital".

2. Development Planning

The concept *development planning* includes a wide range of activities, from central management of the economy in communist nations to government-sponsored forecasts by private groups in countries such as Sweden.

Most writers, however, interpret *planning as* the formulation and execution of a consistent set of interrelated measures designed to achieve certain specific economic and social goals. Or, as former Prime Minister Jawaharlal Nehru (1961) of India defined it: "Planning is the exercise of intelligence to deal with facts and situations as they are and find a way to solve problems". Waterston (1965), on the other hand, saw it as the conscious and continuing attempts by governments to increase rates of economic and social progress and to alter those institutional arrangements considered to be obstacles to the achievement of that aim.

Planning essentially only requires prudence in the use of scarce resources. Consequently, development planning is not limited to a particular kind of economy or society. It is applicable to a variety of political systems, but it has certain common attributes. These include making choices and, where possible, ensuring that future actions towards certain objectives follow fixed paths; or, where this is impossible, setting limits to the consequences which may arise from such action (Waterston, 1965). The arguments for planning rest on the misplaced notion that the planning calculus is superior to the calculus of the market place. The so-called "public interest", as expressed in a development plan, requires that the market judgement and the decisions reached by individuals and interest groups be subordinated to plan enforcement. Planning, therefore, represents the mechanism through which the State exercise control over an economy.

The theoretical construct underlying development planning is embodied in the proposition that the State should initiate activity if (1) initial costs are high and the cumulative investment large at low rates of return, but (2) the long-term effects are significant. This explains and justifies large-scale public investment in power generation, roads, water systems, transportation networks, etc.
Planning is a post-war phenomenon that was intended to lead to capital formation. Planning models proliferated and they were originally based on the theoretical work of Jan Tinbergen or on adaptations of Harrod-Domar growth models. Since the early 1960s, development planning became an accepted practice in most Third World nations based on what came to be called the `conventional approach' to planning. It involved the establishment of a State planning agency; the formulation and implementation of global plans into sectoral components; and the introduction of a geographical dimension by assigning responsibilities for projects to regional authorities (Sagasti, 1988).
Development planning in the Third world is based on the belief that development can be achieved or enhanced through State intervention. Planning agencies and their officials have steadfastly argued that complete

reliance on market forces could *not* be expected to bring about the desired level of economic development and, consequently, that elected governments would have to play a more interventionist role in the development process. Planning is regarded as more of a technocratic concept for the fulfilment of specific development goals. Arguments in favour of *planning are* thus based on two sets of propositions. Proposition I is that free enterprise resource allocation is either ineffective or less effective than planned allocation. Proposition II is that there is a lack of congruence between private interests, expressed in the market system, and public interests and that in the absence of planning, there would be no economic development.
Planning practice in the Third World has been associated with three distinct approaches (Aggarwala, 1983), viz. (1) *comprehensive,* usually practised by the centrally planned economies of Eastern Europe and some Third World countries; (2) *indicative,* practised by several South Asian and Francophone African nations and (3) *ritual,* as practised by several Sub-Saharan Africa and Caribbean countries. Recently, these distinctions have become blurred because the degree of State intervention has varied as a number of countries began switching, in varying degrees, to markets and prices while some others, due to manpower and budgetary constraints, have not been able to produce and publish plans.

3. Public Enterprises

In concert with development planning, public enterprises became a popular mode of production in the Third World beginning in the 1960s. The rapid expansion of public enterprises occurred for the same reasons that development planning became a vigorous activity in those countries. The establishment of public enterprises was regarded as a necessary ingredient in the State arsenal for implementing development policy. Although its proliferation had its origins in the process of nationalization, the public enterprise sector in the Third World has grown through the creation of new entities, the establishment of joint ventures with the private sector or other public enterprises (or both) and through acquisition by purchase. The share of the public enterprise output in gross domestic product ranges from 1 per cent (Nepal) to 14 per cent (Taiwan) in Asia; 7 per cent (Liberia) to 38 per cent (Zambia) in Africa; and 1 per cent (Guatemala) to 75 per cent (Guyana) in Latin America and the Caribbean (Hemming and Mansoor, 1988; Hope, 1988).
The growth and expansion of the public enterprise sector has been fuelled by many factors and multiple considerations. Third World leaders

have often attempted to justify the public enterprises on the need to (1) ensure that their citizens, as opposed to foreigners, made the strategic decisions relating to the development of their individual nation-States (2) create industries that are deemed to be important for future growth (3) stimulate a particular sector of the economy (4) reduce areas of dependency and insulate their economies from external pressures (5) contribute to stability and employment (6) establish the notion that the market was incapable of contributing to social policy goals and (7) control the commanding heights.
The growth of public enterprise in the Third World is reflected in a wide range of public sector activities. These enterprises are no longer restricted to the traditional areas of the infrastructure and public utilities but have moved into virtually every segment of economic activity. It is this range and diversity of public enterprises, and the critical role which they have been asked to play in the process of development, which has brought them under closer scrutiny in recent times and resulted in the current debate on their appropriate role in the process of development. Moreover, critical analyses of public enterprises are now essential to a determination of their viability within the context of restructured economies.
Public enterprises in the Third World have special problems that are not faced by their counterparts in the industrialized nations. Such problems arise from the social, economic, and political environment in which the public enterprises function and from the enterprises themselves. Cultural values and limited work experience affect attitudes toward work, organizational discipline, an

understanding of technical limitations and the requirements of machines, management style, and so on (Powell, 1987). The desire to maintain or achieve political control appears to be the primary factor in understanding the use of public enterprises by Third World governments as a means of controlling economic activity in their countries. Such control has little to do with the promotion of growth and efficiency (Mills, 1980).

The use of public enterprises, in the Third World, like development planning, represented another means through which the role of the State was entrenched. Moreover, public enterprises were used, and continue to be used, as instruments of political power and will. This tended to be based on generally socialist orientations and has led to political interference in the administration of the public enterprises, ranging from ill-informed or misguided interventions to outright abuse of the system and the resources and assets of the enterprises. This, in turn has affected their financial performance and efficiency and limited their ability to generate

surpluses and contribute to the development effort. It is in this regard that there emerged the view of the State as an economic predator exploiting national resources through parasitic public enterprises and policies.

Where the public enterprise mode of production is dominant, there is a tendency for predatory practices to be entrenched. The availability and control of vast State-owned assets, along with the desire to maximize political and economic power, have created the impetus to use public enterprise for personal and ruling party interests. Most patronage appointments, for example, are made in public enterprises where they are not subject to the rules pertaining to usual civil service appointments. Although patronage appointments are not necessarily bad, in Third World public enterprises these appointments are usually made for political ends or to guarantee the continued flow of economic benefits from those enterprises to specific individuals or groups.

4. Development Management

Development management applies to the activities of governments to facilitate programmes of social and economic progress through the system of public administration. It mobilizes bureaucratic skills to assist in the development process (Hope, 1984). Development management requires efficient organization and management in a process of guiding institutions toward the achievement of given economic objectives and socio-economic development.

Lewis (1966) noted that the secret of successful development planning lies not only in sensible politics but in good development management. Kapp (190) argued that a quantitatively inadequate or qualitatively defective system of development management will not merely retard the development process but may defeat the entire development effort in an even more decisive manner than any temporary shortage of capital or an unfavourable monsoon.

It was not until the 1970s that the international development agencies began to give serious consideration to development management. Before that time much of the thinking on development management was influenced by optimism in regard to availability of material, human and scientific resources. Currently, questions are being asked about the capacity of public administration to bring about the necessary re-adjustments and increases in productivity to enhance development (Muhammad, 1988). The management of development in the Third World is now receiving just as much scrunity as the current debate on development theory and policy,

and for good reason. Development management has a major role to play. It must supply the facts, apply the methods and evaluate the record. It represents the instrument of implementation and accomplishment. It is fundamental to the economic success of Third World nations (Wheeler, 1989).

5. A Critical Assessment

The mere fact that there have been so many theories in the post-war period is testament to the fact that applied development theory and development policy have failed to improve living standards and the quality of life in the Third World. Irrespective of how it is measured, there has been little satisfactory development in the great majority of Third World nations. The *World Development Report* 1990 estimated that approximately one-third of the total population of the developing world was poor in 1985. An upper poverty line of US$370 was employed. Of that total, approximately 630 million (18 per cent of the total population of the developing world) were extremely poor, i.e., below the lower poverty line of US$275. Close to half of the poor in the developing world, and close to half of those in extreme poverty, live in South Asia. Sub-Saharan Africa has about one-third as many poor, although in relation to the total population of the region its poverty is roughly as high. The nations in Africa, particularly those south of the Sahara, suffer the greatest human deprivation. Africa has the lowest life expectancy of all the developing regions, the highest infant mortality rates, and the lowest literacy rates. Its average per capita income fell by a quarter in the 1980s. Africa contains 28 of the 42 least developed countries.

Economic development in the Third World has been unsatisfactory for two reasons. The first is the legacy of development planning, an approach to economic development that concentrated investment decisions in the hands of the State and negated the role of the market mechanism. The second is that development policies, particularly in Africa and the Caribbean, were based on socialist ideology which was regarded as the automatic alternative to colonialist policies after independence. Many Third World governments somehow regarded socialism and nationalism as being iden-tical. This largely resulted in the virtual bankruptcy of the Third World nations and economic deprivation of their citizens.

Toye (1987) has suggested that to be critical of development theory and practice before the 1970s casts one as an anti-Keynesian counterrevolutionary or, more precisely, as a development counter-revolutionary. He attributes the development counter-revolution to economists such as Johnson, Bauer, Lal, Little and Bela Balassa whom he describes as "united

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in opposition to Keynes and neo-Keynesianism, `structuralist' theories of development and the use of planning for development purposes. Can the positive side, they are united by the belief that the problems of economic development can only be solved by an economic system with freely operating markets and a government that undertakes a minimum of functions". However, it is not necessary to wear ideological armour to be critical of any aspect of economic theory and policy. Development theory and development policy have failed dismally in bringing about economic progress in the Third World. The evidence and current analyses suggest that this is directly attributable to excessive State intervention in those economies and to other policies which were not an expression of the general good (Lal, 1983; Killick, 1986).

Killick (1989) argues that while current thinking on development theory and policy offers valuable insights into Third World economic performance and the nature and role of the State, it offers no panaceas or grounds for dogmatism and, in fact, has gone too far. Medium-term development planning had in most Third World nations almost entirely failed to deliver the advantages expected of it. He suggests that the manner in which the public sector goes about its tasks is more important than its ab-solute size and, consequently, the role of the State should be the incidental outcome of the relative efficiencies of each sector and will vary greatly from country to country. To the extent that policy interventions are necessary, it is better that they should work with, or through, the market mechanism since it is more than likely that failure will result from policies which seek to swim against market incentives. Killick (1989) notes that we should "recognize the limitations of narrowly market-orientated programmes; and the potentially wide range of `market failures' which would justify government intervention, if there is reasonable cause to believe that this will result in a net improvement in welfare." Killick argues that there is always a temptation to exaggerate the appropriateness of policy solutions derived from mainstream theory. Simplistic and single-solution responses to complex problems in the Third World should be avoided.

Hettne (1988) postulates that the crisis in development theory did not result from poor theory but rather from the failure to answer the question of whose development was at issue. From the beginning, development theorists were addressing governments on the assumption that national development was to be given the highest political priority. However, planning has now become outmoded and the market for development economists has shrunk drastically, particularly since very few governments in the Third World are concerned with development as a priority. To non-economists,

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and perhaps even to some professional economists, these statements may appear to be exaggerations. They are not. Rather, they are accurate observations on the current state of development economics and a reflection on some of the contributory factors to the development crisis.

The climate of opinion on development theory and policy has changed dramatically in the last decade or so, and for good reason. The State has come to be seen less and less as the instrument for national development. It was relatively easy for Third World governments to use State institutions to pursue purposes other than those they were mandated to pursue. For political reasons, public enterprises were forced to set prices below that required to recover production costs. The results were cumulative deficits that became a burden on the public treasury. Instead of contributing to national savings, public enterprises became a budgetary burden and a net drain on savings. The state sector became identified with economic inefficiency and tolerated waste. Whether by choice or by force of circumstances, many Third World governments are now scampering around to attempt to shrink their public sectors. A private sector boost will expose once-sheltered parts of Third World economies to market forces and thereby promote greater choice, competition, and efficiency.

The focus on and assessment of macro-economic variables tends to beg the question as to why and when public enterprises should be of development significance. Generally, those that are profitable, efficient, and operate in conformity with commonly accepted commercial standards, should not result in a drain on financial resources. Their impact should not vary much from private sector operations that undertake similar functions (Hope, 1988). The record of public enterprise performance suggests, however, that many are simply not viable and should be disposed of unless a very strong case, based on social or other non-commercial objectives, can be made for retaining them in the public sector (Hemming and Mansoor, 1988) .

Third World governments must bear in mind that there is overwhelming evidence that increased reliance on markets, combined with other efforts to ensure efficiency, has led to improvements in economic growth and development performance and, over the long-term, to reductions in inequality and poverty. Such pragmatic approaches offer much more hope for furthering progress and development than do utopian planning models and production through public enterprise (Linn, 1989).

Development planning has been a gigantic disaster for promoting development in the Third World for two reasons: current planning has had to eschew the market mechanism; and planning represents what can be

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termed 'crystal ball economics', i.e. it presupposes precise economic forecasting. However, economic performance in the Third World has never been able to achieve or even come close to the forecasts. Planning is anticipatory decision making. It is an attempt to bring about predetermined outcomes in an atmosphere of uncertainty and with no ability to control all future events and variables that can influence the planning outcomes. It may not be possible to predict changes in e.g. export performance which can be severely affected by a natural disaster or internal mismanagement.

In spite of its shortcomings, planning became a growth industry in the Third World during the post-war period. There continues to be an over-whelming desire to plan in those countries although the reasons for doing so have not changed significantly since the inception of development planning. If some recognition is given to the fact that in the Third World, resources are scarce and invisibilities and externalities are present, then some means of ensuring consistency and co-ordination of allocative decisions must be undertaken. A case may then be made for planning in the Third World that is short-term in nature, flexible, and market-orientated, i.e., flexible market-orientated planning (FMOP) able to adjust to changes in economic environment and in levels of uncertainty. It is a case of "minimalist planning", or enlightened State intervention.

Enlightened State intervention provides guidance in the allocation of scarce resources. Past conventional planning was difficult where State intervention promoted the interests of special groups such as military, landowners, the urban as against the rural population, and so on (Killick, 1989). The emphasis here is on the benefits of markets. The record of development and the increasing store of empirical research have heightened recognition of the importance of markets and incentives and of the limits of government intervention and central planning (World Bank, 1985). FMOP represents relevant planning to the extent that some kind of planning has to be undertaken in the Third World. The conventional approach to planning, with its rigid time frames, its breakdown of planning tasks in sectors and regions, and its centralized and technocratic perspective on plan formulation and implementation did not work during the 1960s and 1970s and is unlikely to be effective in this time of economic crisis (Sagasti, 1988). FMOP entails a short-term policy framework (one to two years) that emphasizes the role of the private sector and delineates private sector initiatives along with the required interconnections with public sector activities, that are necessary, and the budget.

During the past three decades or so it became clear that development management had a great part to play in the development effort. More recently

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development policy has undergone critical assessment that has led to the conclusion that development is not the result simply of applying theories, models, or strategies but is an integral part of the growth of society. Managing development has a direct impact on the nature and structure of the change effected through the development process. Development management in the Third World has been inept despite the fact that management constraints are as serious a barrier to development as e.g. a shortage of development finance.

Management in the Third World is hampered by a great many factors which require a major administrative reform. It is hampered primarily by the transformation of the civil service into a bureaucratic organization where the sovereignty of politics, rather than the supremacy of administration, is emphasized. Politics has become the most important activity and politicians have come to occupy a position of unquestionable supremacy in matters of decision-making. Development management authority is now centralized in the political apparatus and administrative corruption has reached epidemic proportions.

The result is a lack of co-ordination of policies among government departments, a lack of information dissemination for effective decision-making, and a complete breakdown in the mechanisms through which the development process is managed.

Consequently, development management is now at the crossroads in the Third World. Its traditional role is being challenged as development policy continues to be scrutinized. Some very fundamental questions are now being posed with respect to the proper role and efficiency of development management. The debate centers around the need to improve the performance of the management machinery in national affairs. While the process of change takes place, new problems and needs will arise. However, the role of development management will always be a critical one. The issue is one of promoting the national economic interest, on the one hand, and the building of management capability for changing needs, on the other.

6 Concluding Remarks

Development economics has undergone a thorough evaluation during the past decade, and evaluation necessitated by the failure of development theory and policy to facilitate the achievement of economic progress. Much of the concern has been centred on the reformulation of development thinking and theoretical constructs with much finger-pointing to the prevailing orthodoxy that exists in many of the textbooks and numerous

journal articles. What has been severely lacking, however, is criticism of the Third World nations themselves for implementing development policies that have been proven failures and which did nothing more than enable the politicians to maintain political power while their nations went bankrupt. Moreover, development theory has absolutely nothing to do with the fact that a poor Third World nation would, for example, spend enormous sums on such things as helicopters and luxury cars for use by government officials and the ruling party brass while basic goods are not available to the citizenry. Such examples are abundant. If a particular school of thought is willing to take credit for its good economic results then it must also accept responsibility for its bad results. The bad results of development policy in the post-war era can be attributed to the Liberal-Orthodox framework that dominated development economics from the post-war era to about a decade ago. Indeed, what Toye (1987) regards as a counter-revolution in development theory is a logical, and now increasingly accepted, intellectual respons to what the late Sir W. Arthur Lewis (184) had acknowledged to be the doldrums of development economics, and to the lack of utility of the Liberal-Orthodox analyses.*(5) The standard left view is a static one which assumes that current policies are sustainable indefinitely (Toye, 1987).

For many Third World nations, in the post-war period, the tremendous "expansion of the government bureaucracy, of the public sector, and of controls on industry, prices, and foreign trade have created a new system of subinfeudation, in which politically created property rights to rents for various groups are financed by implicit or explicit taxation of the general populace" (Lal, 1987). This created a crisis as it became obvious that the existing means of funding those entitlements were not viable. Third World governments have been increasing their fiscal burden in order to subsidize what can be regarded as mistaken development efforts (Simmons, 187). This followed from what Lal (1983) refers to as dirigiste economic policy, a primary feature of which has been the supplanting of the price mechanism through State intervention.

The challenge now facing the Third World is that of moving forward to policy reform for sustainable development. Sustainable development can be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. In other words, it is the management of present activities to ensure that future generations have the natural and other resources necessary to sustain growth and development.

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Endnotes

1

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2

Johnson (1971) argued that theoretical development in economics took place in response to social needs and not as a result of scientific progress in the discipline. More recently it has been argued that there are limitations imposed by the preoccupation with mathematical methods, much to the neglect of historical, institutional and other qualitative considerations (Rashid, 1988). As, Galbraith (1987) has said, "there are no useful propositions in economics that cannot be stated accurately in clear, unembellished, and generally agreeable English".

3

For a more extensive exposition of these contrasting perceptions see Streeten (1979b) and Oman and Wignaraja (1991).

4

Among the many expositions of this theory see Rostow (1959) and Leibenstein (1957).

5

Elkan (1984) regards the intellectual response to the Liberal-Orthodox theory as a `major contribution to the literature on the problems facing Third World countries' and `a brilliant display of theory'.