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UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: (41 22) 9173020
Fax: (41 22) 9170650
E-mail: info@unrisd.org
Web: http://www.unrisd.org

Notes on Development Economics

Lance TAYLOR

Draft paper prepared for the discussion at the UNRISD meeting on
"The Need to Rethink Development Economics",
7-8 September 2001,
Cape Town, South Africa.

Introduction

I'll try quickly to set down where I think economic analysis of development stands - more or less following the headings under which I organize my courses. Then some suggestions about areas of intellectual debate that now are quite lively and in which there is room to develop progressive lines of thought. I close with some suggestions about how to get the message out.

Applied Macroeconomics

It has been accepted, even by the mainstream, that macroeconomics in "developing" and "transition" economies needs its own special treatment - witness the recent publication of new, fat textbooks by Agenor/Montiel and Jha (and for all I know, possibly others). In the mainstream fashion, they try to homogenize critical ideas into rational actor goo, but the fact that the books were written and sell indicates that a long effort on the part of people doing macro in non-industrialized countries to point out that they *do* have special features has in part paid off. I'll try to sketch below how this intellectual beachhead might be extended.

Industrial/Institutional Economics

The point (based on non-formalized historical/institutional reasoning by people like Amsden, Wade, and Chang) that hands-on interventionist policies have played an essential role in supporting industrialization and growth in both now-rich and poor countries has also sunk in. This is not to say that analyses of industrial policy and sensible protectionism dominate mainstream discourse - of course they do not - but that conventional wisdom has been on the defensive at least since the Bank's *East Asian Miracle* report. Again, there is a beachhead to be expanded.

Trade and Development

One could have had high hopes for new trade theory, but its critical component never caught on (or, better, was consciously suppressed by the mainstream). There has been a lot of applied computable general equilibrium (CGE) model work lately, mostly sponsored by the BWIs. But there are also a few critical models - this is an area of analysis that could be extended in connection with the re-invention of industrial policy. The Dosi/Fargerberg/Reinert "Schumpeterian" twist on trade models could also conceivably be relevant to developing countries.

Capital Markets and Finance

Nobody talks about "financial repression" anymore, which is a victory of sorts. The round of capital market crises in the 1990s was a major empirical shock to mainstream thought, and there have been some reasonably good progressive responses. Some work has been done on non-Walras-Tobin macro models of money and finance, and it could readily be extended in a development context. There are many good empirical studies but very little (as far as I can tell) non-Stiglitzian micro theory. An alternative approach is begging to be born.

Agriculture

Along with studies of "human resources," this has been *the* focus of the mainstream over the last couple of decades. The new Bardhan-Udry, Basu, and Ray texts are chock full of rational actor landlords, money-lenders, and peasants, all optimizing away under informational asymmetries, incomplete signaling, and all the rest. In a way, this is in sharp contrast to now ancient work by Sen and (especially) Bhaduri on rural exploitation, but in another it is not. What the ancients did was to try to ground models on observed social relations in the village and then spin out analytical stories. The moderns just start with postulated asymmetries in behavior and information, and solve the resulting principal/agent or game theory machines. The question is whether we can get back to the social relations and use them for post-Bhadurian analytics. If not, then let's make a strong push for reinvigorated peasant studies along Byers lines, or perceptive journalism like Sainath's *Everybody Loves a Good Drought*.

Growth

The mainstream went to the new/endogenous growth theory well, and it came up dry. For example, see Parente and Prescott in their new *Barriers to Riches*. They just go back to the good old supply side, augmented by "intangible capital" (the invisibly productive antithesis to Anne Krueger's efficiency-sapping fantasy "rents" of a few decades back). We ought to be able to get beyond this nonsense, if only on the basis of a re-think of "old" development economics. Jaime Ros has been doing good, recent work along these lines.

Issues

No shortage here:

1. External financial crises

2. Internal financial crises

3. The failure of external liberalization (both trade and capital account) to stimulate growth or reduce inequality in virtually all countries in which it has been tried over the past 10-15 years.

4. Agricultural stagnation in many countries, despite the most intensive market-friendly therapies.

5. Deindustrialization in the wake of "reform."

6. The widening "gap" between rich and poor countries.

With these and other problems staring us in the face, it seems to me that the challenge is wide-open to forge new analytical tools and empirical generalizations to address them. For example, the intersection of macro, finance, and trade around points 1-3 is going to be at the forefront of policy discussion for a long time. Historical/institutional, moedling, and econometric work all have to be done. Rethinking agricultural and industrial policies under current conditions is also a priority area, as the failures of orthodox policies become increasingly clear. And building distribution back into economic analysis is a never-ending task.

So there is plenty of work to do. But how to get it out? Just three points:

1. It makes sense to work on all methodological fronts, but one should not underestimate the impact of simple, heuristic "neat" models on our benighted profession. If one comes along, run with it.

2. A good progressive text (or maybe micro and macro texts) aimed at upper level undergraduates would help. I'm sure there is a market, and publishers may well provide pretty good terms.

3. The policy debate - especially around the OECD neck of the woods - is not open to all comers. We all know that. But good websites (there are already a few around) and continued hammering at the door are essential. Now in fact is a key time to hammer if - as many people around the US and elsewhere believe - the world economy is on the verge of a big downswing. If it happens, we should be prepared to generate appropriate, analytically founded policy proposals *fast.*