

**Sixty years of development economics:
What have we learned for economic development?¹**

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If development economics is a body of thought aimed at helping countries catch up with others ahead of them especially in per capita income, then it has to be one of the oldest disciplines in economics. As soon as England succeeded in industrializing ahead of its neighbors, development economics was born. It stimulated the design of accelerated industrialization strategies in France after the end of the Napoleonic wars, in Germany under Bismarck, in Russia after the abolition of serfdom, in the United States following the Civil War, and in Japan with the Meiji restoration. As a discipline, development economics was born in the mid-40s and early 1950s, some 60 years ago, with recessions in the industrialized economies and the breakdown of colonial empires. This anniversary gives us an opportunity to look back at what has been achieved, derive lessons for the future, and simply celebrate a successful 60 years of development economics and economic development.

Over this period, development economists have shown that economic development can indeed succeed, sometimes in countries considered as basket cases for a takeoff in economic growth, and that development economics had in most cases a role to play in securing success. In this exercise, the field itself has been transformed. Today, development economics is far more comprehensive and analytical than at the time of the “pioneers” (Meier, 1985). The profession has been mainstreamed in economics, with areas of specialization in development economics in most major universities. It has attracted large numbers of outstanding talents, passing the “recruitment test” proposed by Hirschman as a criterion for success. It has received large inflows of resources from international organizations, bilateral development agencies, and donors. And it has helped achieve success in development by enlarging the convergence club to a membership in excess of four billion, reducing the global extreme poverty rate by 50% over the last 25 years (Chen and Ravallion, 2008), and witnessing the emergence of a bulging world middle class. Contributions of development economics to this process have been through ideas derived from research, policy advice, and teaching. Much of this influence has been hidden, imbedded in the human capital of returning students becoming pillars of development in their own countries. This was the case with for example Yale Growth Center collaborators in Taiwan and Pakistan, the Berkeley mafia in Indonesia, the Chicago Boys in Chile, training under D. Gale Johnson of Chinese scholars at the Center for Economic Research, USAID Title XII engagement of land grant colleges with agricultural universities across the world, and training of hundreds of development economists under the AERC in Sub-Saharan Africa. Much can be learned from this 60 years period, something all the more necessary that huge challenges are still with us, and need to be more effectively addressed if we are to succeed with them. This is what we discuss in this note.

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The main lesson that this retrospective exercise teaches us is that, to succeed in the remaining tasks, we need to pursue a number of principles learned from the past: a strong normative purpose with priorities guided by development diagnostics, the ability to think big even while strategically acting small, a mind frame toward discovery, striving for rigor and extending rigor toward relevance for policy advice, and using the state for what it only can do in relation to business and civil society, while re-legitimizing its existence and functions. How development economics helped make better use of agriculture for development provides a useful illustration of these principles. Looking forward, the task to be assumed is huge and cases to be resolved increasingly difficult. Success requires more than business as usual, but a careful reassessment of how to use development economics for economic development. Toward this end, we propose five lessons derived from 60 years of development economics.

Lesson 1. The genesis, branding, and excitement of Development Economics has been its normative purpose. It needs to be carefully preserved.

At its origins, development economics was strongly mission oriented. It emerged in the late 1940s and early 1950s in response to governments' demands for policy advice on how to accelerate growth and industrialization in the context of the collapse of the prior liberal order of the 1880-1930 period, the great depression in the 1930s, and the breakup of colonial empires during and after WWII (India, Pakistan, the Philippines, Indonesia, Syria, Lebanon). Later, in the early 1960s, similar demands originated in the newly independent countries of Sub-Saharan Africa.

Delivering policy advice was thus an important purpose for development economics. It was asked to help solve the "development problem" as seen at the time, to pursue what Hirschman called an "agenda for a better world". Concern with policy implementation was also part of the motivation for development economists. Hence the need for a comprehensive understanding of policy cutting across sub-disciplines in economics, concerns with the political economy of policy, and the practice of inter-disciplinarity necessary for success.

No surprise then that the pioneers of development in the 1940s-1950s were active in policy-making, working closely with governments. This was the case with Hirschman, Lewis, Prebisch, Myrdal, Rosenstein-Rodan, and Tinbergen. But this also made development economics somewhat of a maverick in economics. By being so broad and development oriented, new ideas were plentiful (Bardhan, 1993) but rigor was often missing. Development economics was more integrative and inter-disciplinary than specialized in a set of rigorous analytical techniques, as was the case with other fields of economics.

The lesson here is that the normative purpose of development economics has been key to its importance, and that it should be carefully preserved. Mainstreaming of the field in the economics profession in the last 10-15 years must then be made compatible with continued policy engagement. This creates obvious tensions for academics, and the

need for creative compromises to satisfy two masters: academic demands, as in other fields of economics, and policy relevance for the practice of development. Many successful development economists have been incredibly ingenious about deriving top academic papers from deep engagement in policy and program advice. This difficult road to success in development economics needs to be carefully studied. It requires seeing the generic in the particular, the potential for normative in the positive, and the political feasibility in policy recommendations. It requires taking advantage of field engagement to learn about fundamental issues of behavior, institutional design, and policy making. Success in the field is indeed an art of bewildering difficulty to practice.

Lesson 2. The objectives of economic development have become increasingly multidimensional, implying the need to prioritize and focus on issues of first-order of importance for development

The goals of development have changed over time. From (1) growth and industrialization in the 1940s and 1950s, to (2) poverty reduction and improved basic needs (health and education) in the 1960s and 1970s, (3) stabilization and adjustment for growth recovery in the 1980s and 1990s, (4) pursuit of the Millennium Development Goals including reducing extreme poverty and hunger, meeting basic needs, and achieving environmental sustainability in the 2000s, and (5) country perceptions of multidimensional well-being in the current period. Past objectives may no longer hold, and current objectives must be based on a country's own vision of its future and the corresponding development model. Setting development priorities must thus be based on comprehensive development diagnostics (not just growth diagnostics, Rodrik, 2007) that clearly identify the trade-offs among development objectives. This is an important function that development economists have to play not only for the country at stake, but also for themselves in setting research priorities.

Country vision and priorities may be different from academic purposes and priorities. The former will favor the big game of what will help the country achieve development; the latter will often favor the small game of intellectually interesting and manageable research questions. As a consequence, in recent years, we have seen more progress with the small than with the big game, with micro than with macro level analyses, and the link between the two has often been lost instead of pursuing the small game as an instrument to achieve the big game (Foster and Rosenzweig, 2010). This includes analyzing the informal as opposed to the formal sector, cottage and small versus medium and large enterprises, self-employment versus wage labor, microfinance versus commercial bank loans, self- and mutual insurance versus commercial insurance products, behavioral determinants of adoption versus profitability and incentives, and conditional or unconditional transfers versus assistance to the generation of autonomous incomes. This does not mean that the two have to be incompatible. Small game can be a strategic pathway to the big game. Subsistence farming, social safety nets, microenterprise startups, and learning to compete in the informal sector can be roads to the big game. However, for this to occur, vision, tradeoffs, diagnostics, and priorities need to be identified and used in that perspective. This link is too often missing. The small game becomes an intellectual satisfaction or a populist end in itself.

The lesson here is that the broadened and idiosyncratic nature of national development agendas requires careful focusing of academic research on issues of first order of importance for development. Unless we do this, the normative purpose of development economics will be poorly served by academic mainstreaming.

Lesson 3. There are multiple idiosyncratic pathways to development, most of which are yet uncharted. Innovation, experimentation, and learning are thus the essence of development economics.

Lindauer and Pritchett (2002) proposed that big ideas in development economics that prevailed in the 1960s and 1980s have not given way to new big idea for the 2000s. In the 1960s, big ideas were the central role of the state, the primacy of capital accumulation, the process whereby growth is achieved and the management of sectoral imbalances, limited roles for trade and FDI, and reliance on foreign aid for investment funds. In the 1980s, big ideas were the central role of the market and private investment, suspicion toward the state, key roles for trade and FDI, and foreign aid to support macro-fundamentals and private investment. In the 2000s, with an expanding multidimensionality of development and recognition of heterogeneity of conditions across countries, universal principles about development instruments are not tenable. This is in fact a fortunate event. Key are instead country diagnostics and the corresponding strategies to achieve coordination and coherence. This is not the end of big ideas, only their definition at another level. They should now be rediscovered at the level of methods and epistemology, not of presumptive instruments.

Current big ideas are the need to understand behavior (micro foundations), establish causalities for policy recommendations (identification, impact analysis, experimentation), use the state to guide the private sector and civil society toward a shared vision of the future, engage in comprehensive data-based and participatory development diagnostics, and use governance for policy coherence and implementation. Pathways to development, the implementation of big ideas, are idiosyncratic. Hence the need to innovate, experiment, and learn as the essence of development economics (Banerjee and Duflo, 2011; Karlan and Appel, 2011).

Big progress has been made on how to do this at the level of the small game. The next revolution in development economics is to learn how to do this at the level of the big game, reconnecting in particular micro and macro levels of analysis, as under the pioneers. Sustained implementation of experimental results requires innovations for policy advice (an IPA#2) and institutional design.

The lesson here is that innovation, experimentation, and learning are needed to address remaining development issues, rather than reliance on big instrumental ideas and implementing best practice. Big ideas are not dead, only shifted from the level of instruments to that of principles and epistemology. Desirable convergence is in levels of income, not in ways of achieving development. Heterogeneity of development strategies is a source of efficiency. Discovering and implementing these strategies is at the heart of

today's development challenge. With creativity as the norm, this is what makes the field of development economics both so challenging and exciting.

Lesson 4. At a methodological level, policy recommendations can be misleading without rigorous identification of causalities between instruments and outcomes

Policy inference cannot be based on partial correlations, on “proximate” determinants. This, simply for the reason that the presumed causal relation between instruments and outcomes based on partial correlations is conditional on a set of unidentified spurious correlates or on other uncontrolled endogenous outcomes. Yet, policy recommendations without identification remain pervasive.

We witness today a two-track profession and a two-track collection of professional journals, where identification is required in some and ignored in others. Segmentation of agents between these two groups of journals allows high impact factors with or without identification. Big issues are often without identification while small ones are, but this does not have to be the case. A requisite to place yourself in the profession is thus to reveal your type (to identify or not to identify), with the same true for journals (identification-based policy recommendations eventually at the cost of loss of impact factor).

The lesson here is that rigor on small issues and lack of identification on larger ones are often dilemmas of policy advice. The urgent mandate for development economics is to extend the domain of rigor to the domain of relevance for policy advice, which is more than striving to extend the external validity for small issues.

Lesson 5. The state has been at the core of development economics since the pioneers, and its role remains as essential as ever. Redefining its role relative to the market and civil society and implementing this role remain the weakest link in achieving economic development. It requires linking policy to political economy to make politically feasible the normative role of the state.

Development economics under the pioneers recognized that many markets fail, and that market outcomes may not match national objectives (since even first-best separability never had the pretense of delivering equity), implying the need for civil society or state intervention. If the problem at hand is beyond civil society capacity, or if it in turn fails, state intervention is a sine qua non. The Washington Consensus was useful in correcting entrenched state excesses after protracted ISI (extended protection to selected sectors) and EOI (“non-smart” firm-level subsidies to state-picked winners) interventions, but this cannot be achieved through dismantling of the state apparatus (Krueger, 1974). Main lesson from the pioneers is that a functioning state is essential to complement market and civil society roles. Yet, relative roles are idiosyncratic, and not the same as they were in pioneering times. Clearly, the market and the private sector have larger roles to play now than then, with the state acting in a partnership, facilitating, and regulating function. Yet, today, in a (yet) failed Keynesian recovery period, we face a

massive loss of state legitimacy that undermines the economic development role of development economics.

In the perspective of lessons from 60 years of development economics, the state has key “big game” functions to play in: Catalyzing a national vision, engaging in comprehensive diagnostics, setting priorities, compensating for market and community failures, monitoring the implementation of policy reforms, and rebalancing development outcomes to correspond to the national vision of itself. This function has to be achieved through coordination with market and civil society roles.

As proposed by Acemoglu and Robinson (2010), a market failure equilibrium is a political equilibrium. Calling on the state to overcome a market failure thus implies shifting to another political equilibrium. The political feasibility of this new equilibrium needs to be established if it is to be attained. Restoring the effectiveness of the state in development thus requires bringing political economy into the analysis so that any normative purpose of development economics has a corresponding political reality. Indeed, there cannot be a policy recommendation that requires a state role without a corresponding political economy recommendation.

The lesson here is that re-inventing development economics beyond the Washington Consensus requires redefining the role of the state in development. Redefinition includes unburdening the state of un-warranted functions, coordinating its role with business and civil society initiatives, and restoring confidence in the state as an instrument for development. This is today’s biggest challenge to translating development economics ideas into economic development achievements. Overcoming this hurdle requires taking policy recommendations to the level of political analysis and establishing the feasibility of the new political equilibrium to be achieved.

Illustration. How development economics contributed in helping make better use of agriculture for development is a good case in point

We can use the experience of the World Development Report 2008 on Agriculture for Development (World Bank, 2007) to illustrate how the lessons derived from 60 years of experience apply to the use of development economics for this purpose. The reader should beware of a possible participant bias and tendency to idealize the past. Given this warning, here is how lessons apply:

- **Lesson 1. Purpose: Strong normative purpose and academic mainstreaming**
Academic research provides ample evidence on the beneficial impact of investing in agriculture for development in agrarian economies, contributing to GDP growth and poverty reduction. Capitalizing on this information, and confronting a 20 year period of neglect of agriculture with sharply falling investments, the Report argued for greater priority given to public expenditure in agriculture for the sake of attracting private investment. Strong policy advocacy, in the context of the 2008 food crisis, has led to an upturn of billions of public and ODA dollars invested annually in agriculture, enticing in turn huge private investments.

- **Lesson 2. Priorities: Formulation of comprehensive strategies and priority setting**

A common thread for increased expenditures in agriculture has been the requirement that countries develop comprehensive national strategies for agriculture and food security. With agriculture a private sector, and a strong role for producer organizations in assisting smallholder competitiveness, the strategies proposes coordinated approaches based on the relative roles of state, market/private sector, and civil society. Data based country-level agriculture-for-development strategy papers are thus to be the guides for investment priorities by governments and donors.

- **Lesson 2. Priorities (more): Small game-big game strategy**

Agriculture is a good example of small game (smallholder farming, self-employment, production for home consumption in addition to an eventual marketed surplus, self- and mutual insurance) potentially feeding into big game perspectives (integrated value chains, high value crops, contracts with agroindustry and supermarkets, structural transformation of the economy away from agriculture based on successful agricultural growth). The particular difficulty of small-big game management in agriculture is the slow pace of labor absorption in the rest of the economy, while efficiency gains would result from land concentration in the hands of the better farmers to achieve economies of scale and improve incomes. Progress from small to big game is held back by the social functions that agriculture must play in reducing aggregate poverty and providing a farm-financed social safety net. The necessary management of efficiency-equity trade-offs thus dictates how to use agriculture for development.

- **Lesson 3. Discovery: Experimentation with new approaches and evaluation while combating fads or neglect**

We have learned that approaches must be idiosyncratic and that past approaches cannot be directly transposed. A Green Revolution for Sub-Saharan Africa will be quite different from what worked in India: it has to apply to a multiplicity of crops in a multiplicity of farming systems under highly risky rainfed conditions, precisely the conditions under which the Green Revolution failed for large areas of India. The WDR purposefully did not propose solutions for specific country contexts, leaving it to the country to innovate with idiosyncratic approaches. For this, new approaches are needed, adapting to specific contexts what we know of such generic approaches as CCT (conditional cash transfers), CDD (community-driven development), productive safety nets, non-collateralized lending, index-based insurance schemes, and collective action to help smallholder farming achieve scale and market power. Remarkable progress has been made with these innovations. Yet, a Green Revolution for Sub-Saharan Africa is still barely in the making.

- **Lesson 4. Rigor and relevance: Improved causal identification for policy advice**

There are probably few fields where rigorous causal analyses coexist with non-identified “determinant” studies as in development economics applied to agriculture, and in particular the studies of technology adoption (Udry, 2010). Impact evaluations and structural modeling have progressed, but we still live in a two-track world of empirical

results, policy recommendations, and academic journals. Clearly, a great effort is still to be made in extending the field of application of rigor to relevant studies for policy advice. This wide gap between rigor and relevance for policy advice was likely one of the most difficult hurdles to overcome in preparing a World Development Report on agriculture.

- **Lesson 5. Governance: Institutional design for more effective governance**

An overwhelming conclusion of studies of agriculture for development is that many markets fail in developing country agriculture, and that state weaknesses are a major obstacle in using policy to overcome market failures. Ministries of agriculture are too often dis-functional for the comprehensive approaches that need to be implemented. Deficits in governance for agriculture are not only at the national level, but also at the local and global levels. Interesting progress has been made since the food crisis in rethinking the role of the state, and attempting to organize coordination in world governance through the World Committee on Food Security and the G20, but governance for agriculture is still the main bottleneck to using agriculture for development in Africa and avoiding the repeat of world food crises. A new political economy equilibrium where agriculture has more value has been facilitated by recognition of a new paradigm where agriculture has a role to play for development (the importance of ideas) and the corresponding political economy equilibrium as urged on constituents by the threat of repeated food crises (the importance of material determinants).

Lesson here is that much has been done in restoring the flow of public and ODA resources to agriculture, after 20 years of mis-guided policies. However, much is still left to be done to extend successes at the level of the small game into big game results to overcome the recurrence of food crises, the permanence of hunger, the low adoption of innovations, and the successful transformation of economies away from agriculture as a symptom of success.

Conclusion: Looking forward from 60 years of development economics for economic development from a vantage point of strength, with caution

Development economics comes out of sixty years of experience in a position of strength, derived from its contributions to successful development experiences. This gives it a tremendous advantage in assuming ambitious positions for the future, mobilizing the best and the brightest in economics, and accessing resources for experimentation and learning. But ambitions may not be met with success. With huge bottom billion (Collier, 2007) and convergence club disparity challenges lying ahead, the following lessons can be derived for development economics in looking forward to addressing these issues:

1. **Purpose:** Maintain the pioneers' purpose of policy relevance, and seek to accommodate tensions between policy relevance and academic mainstreaming.
2. **Priorities:** Help construct broad comprehensive visions and the corresponding development diagnostics for priority setting.

3. **Strategize small-big game:** Elevate the development economics agenda toward the big game while strategizing small game instruments as pathways toward big game outcomes.
4. **Discovery:** Given country heterogeneity and idiosyncracies, pathways to development need to be innovated, experimented with, and learned about. Excellent progress in this domain has to be extended to the bigger game, with institutional design the instrument for sustained implementation.
5. **Extended rigor:** Extend the domain of rigor in identification of causalities between instruments and outcomes to encompass not only expanded external validity of small game results but mainly relevance for policy advice.
6. **State roles and capacity:** Delineate specific state-market-civil society roles, and consolidate the capacity and credibility of the state as an agent for development to complement the roles of market/business sector and civil society. This requires making politically feasible the political economy equilibrium associated with a policy recommendation.
7. **Consolidate support institutions:** Recognize and reproduce the key role of support institutions like the Yale Economic Growth Center that help mediate the relation between academia and development. This includes facilitating participation to policy debates (TN Srinivasan), proposing new approaches to growth, poverty reduction, and human development (Gus Ranis, T. Paul Schultz), and promoting the delivery of international public goods for agricultural productivity growth (Bob Evenson).

Development economics can look at the future with some confidence from the vantage point of strength based on significant past achievements. In the intervening 60 years of existence, it has become a booming field of mainstream economics, with hugely important challenges to be addressed, successful recruitment, large inflows of resources, and a world clientele. It can succeed, but the list of conditions for this requires careful attention by all of us, remembering the initial purpose and sense of mission of the pioneers in development.

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