Introduction

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There is a startling difference between the life of men in the most civilised province of Europe, and in the wildest and most barbarous districts of New India. This difference comes not from the soil, not from climate, not from race, but *from the arts*.
(Francis Bacon, *Novum Organum*, 1620)

As history has shown, some countries will do much better than others. The primary reason is that comparative advantage is not the same for all, and that some activities are more lucrative and productive than others. They require and yield greater gains in knowledge and know-how, within and without.
(David Landes, *The Wealth and Poverty of Nations*, 1998)

As will be evident from the Contents, the editors of this *Handbook of Alternative Theories of Economic Development* attempt to cover a huge canvas, in both time and geography, in order to illustrate the phenomenon of economic development from many different angles. Authors of the different chapters hail from all continents, and we believe that in order to merit the title *Alternative Theories of Economic Development* this volume, in the spirit of Nietzsche, should aim at the kind of objectivity that is best achieved by observing a phenomenon from as many angles as possible.¹ If the reader asks ‘Alternative to what?’, the reply is that this book has collected alternatives to the neoclassical economic tradition that started with David Ricardo (1817) and his theory of comparative advantage.

For centuries economics was at its very core an art, a practice and a science devoted to ‘economic development’, albeit under a variety of labels: from an idealistic promotion of ‘public happiness’ to the nationalistic creation of wealth and greatness of nations and rulers, and the winning of wars. In some sense, until about 100 years ago, most economists were ‘development economists’. In this volume we try to reflect a variety of these approaches also from the history of economic thought.

EXPLAINING AND COUNTERING BIASES

In putting together the volume we have attempted to correct for what we see as existing biases in present-day theoretical understanding of economic development. Apart from the obvious Eurocentric bias, which this volume tries to correct somewhat, the orthodox historical record that is handed down to today’s scholars has a strong bias towards an English-based understanding of economic theory, and a strong German-based understanding of the role of religion.

¹ ‘There is only a perspective seeing, only a perspective “knowing”; and the more affects we allow to speak about one thing, the more eyes, different eyes, we can use to observe one thing, the more complete will our “concept” of this thing, our “objectivity”, be’ (Nietzsche 1999 [1887]).

A massive two-volume work on economic development edited by two World Bank economists, the 1988 *Handbook of Development Economics*, devotes a chapter to the history of ideas of economic development. With the exception of Irish-born Richard Cantillon, who wrote in French, the chapter in question – written by the celebrated development economist W. Arthur Lewis (1988) – only contains references to works originally written in English by people living in the United Kingdom. It is written as if only authors who originally wrote in English, and were from England, have anything valuable to say about economic development.

When it comes to the role of religious belief and economic development, Max Weber with his thesis on Protestant ethics has acquired a similar dominance. Given that capitalist development clearly started at least 300 years before Protestantism, the dominance of the Weber thesis is peculiar. As with so many other phenomena, the context surrounding Weber's thesis helps us to a better understanding. The articles by Max Weber (1864–1920) on Protestantism (1904–1905) appear as part of an academic feud with his friend, colleague and academic rival Werner Sombart (1863–1941), who in his monumental work on capitalism two years earlier (Sombart 1902) had emphasized the role of Catholics and Jews in the development of capitalism. Of what was once a flourishing academic debate between Max Weber and Werner Sombart on the role of religion in economic development, one side of the argument – Weber's – stands as the sole survivor.

Charting the history of the ideas of economic development with Adam Smith's 1776 work and continuing solely with works originally written in English produces a very strong bias. Adam Smith writes some 500 years into the life of capitalism, when what already could be called a second industrial revolution² was in full swing. If the historiography of the European literary canon had been allowed to develop along the same linguistic lines as the historiography of the standard canon of economics, today's students of literature would have been left with a cult of Shakespeare alone, while Dante, Cervantes, Voltaire, Goethe, Dostoyevsky and Ibsen would have been left in complete oblivion. Ongoing research by Kenneth Carpenter and Erik Reinert shows that of the 62 economics books which reached more than ten editions before 1850, only 18 were written by people from the United Kingdom, three by Americans, and the balance of 41 were first published in languages other than English. In other words, only 29 per cent of the best-selling economics books – those receiving 100 per cent of the attention in the World Bank version of the history of economic thought on development – were economists from the United Kingdom writing in English. This shows how utterly unbalanced the World Bank story, and the generally accepted wisdom of development economics, actually is. Among the first ten bestselling books on economics (Box 0.1), English scores a bit higher, with four out of ten books, then follow two books each in Italian and German, and one each in Dutch and French.

A fundamental problem in today's economic theory is the historically unfounded idea that the profession owes its origins to Francois Quesnay and the eighteenth-century French Physiocrats. The fact is that the Physiocrats lost all battles in history, except the one in the economics textbooks. The total failure of Physiocratic economic policy was

² It may be argued that a first industrial revolution took place in Europe, starting in the Italian city-states around 1200 and reaching England in the late 1400s, based on the production of woollen textiles. In terms of Kondratiev long waves, this would be 'Kondratiev 0'.

BOX 0.1 THE TEN EARLIEST BESTSELLING ECONOMICS BOOKS (BOOKS ACHIEVING MORE THAN TEN EDITIONS BEFORE 1850)

- 1588. Giovanni Botero, *Cause della Grandezza delle Città* (On the Greatnesse of Cities). Rome. Translations into Spanish, French, Latin (in Germany), English and German.
- 1621. Thomas Culpepper, *A Tract against Usury*. London. Translations into French, Swedish and Russian.
- 1638. Bernardo Davanzati, *Scisma d'Inghilterra con altre operette del sig. Bernardo Davanzati*. Florence. Part translation into English as *A Discourse upon Coins*.
- 1656. Veit von Seckendorff, *Teutscher Fürstenstaat* (The German Princely State). Frankfurt. German only, but stayed in print for 100 years.
- 1662. Pieter de la Court, *Interest van Holland*. Amsterdam. Translated into German, English and French.
- 1664. Thomas Mun, *England's treasure by forraign trade*. London. Translated into French, Swedish and Italian.
- 1668. Josiah Child, *Brief observations concerning trade, and interest of money*. London. Translations into French and Swedish (part translation).
- 1673. William Temple, *Observations upon the United Provinces of the Netherlands*. London. Translations into Dutch, French, German and Italian.
- 1684. Philipp Wilhelm von Hörnigk, *Österreich über alles wann es nur will* (Austria Supreme, If It So Wishes). No place, but Nürnberg. German only, but stayed in print for 100 years.
- 1695. Pierre de Boisguilbert, *Le detail de la France* (A Report of France). Rouen. No translations, but a plethora of editions in French over the next 20 years, also published in French in Holland, Belgium and Germany.

Notes:

Translation languages are listed in order of publication.

In spite of some of the titles, these books all broadly relate to economic development. Culpepper sees an explanation of the economic success of Holland in the low interest rates. Davanzati's essays are varied, not only on coinage, which is the part translated into English.

Worth noting is the short-lived success of some authors, such as Boisguilbert; and the exceptionally long shelf-lives of Botero, Seckendorff, Mun and Hörnigk, whose books all stayed continuously in print for a century or more.

Source: Carpenter, Kenneth (1975), *Economics Bestsellers before 1850* + later additions by Reinert and Carpenter.

a main cause of the shortage of bread in Paris, and thus also of the French Revolution (Kaplan 2015 [1976]). The arrogance, insularity and fanaticism of the Physiocrats created a strong reaction from other economists who, in the end, clearly won the intellectual battle. The most influential German economist at the time wrote a book with the telling title *Der Antiphiysiokrat* (Pfeiffer 1780). To another of their great critics, Ferdinando Galiani, Quesnay was no less than 'the Antichrist' (Galiani 1818). Galiani – as opposed to Quesnay – did produce an economic bestseller (Galiani 1770). The standard history of economic thought, tending to start with the Physiocrats as the Adam and Eve of the situation, produces a totally distorted picture and creates an unstable and unhealthy foundation for the whole science.

One of the goals of this volume is to attempt to correct these existing imbalances: the Eurocentric imbalance geographically, the Anglocentric one in development, the Protestant-centred one in religion, and the Physiocracy-based family tree of economics.

ECONOMICS: CONTINUITY IN CYCLICALITY

Apparently there is continuity in economic thought. Historian Raymond de Roover has emphasized this continuity: ‘Despite many currents and cross-currents, continuity is perhaps the most impressive phenomenon in the history of economic doctrines’ (de Roover 1955, 161–190). However, this continuity does not manifest itself in smooth and cumulative accumulation of knowledge, as in a Whig conception of history (Butterfield 1931), where every old idea in economics can be classified as being either heresy or a sound precursor of neoclassical economics, but rather in the recurrence of similar ideas in similar contexts. So there are no paradigm shifts in the Kuhnian sense, but rather parallel streams, often at different levels of abstraction, which over the long term give the mainstream a cyclical aspect as if science were ruled by fashion.³ As Kenneth Arrow says about the phenomenon of increasing returns to scale: ‘this tradition acts like an underground river, springing to the surface only every few decades’.⁴

In economics we can observe how new elements come into focus, but then disappear into the intellectual periphery – sometimes because the problems have been solved – only to be brought back again, often under a new heading, when similar contexts reoccur. Today, with the publication of Thomas Piketty’s (2014) *Capital in the 21st Century*, we find the problem which was once intensely debated under the heading ‘social justice’ resurfacing again under the heading of ‘inequality’, since income distribution in many countries today is similar to the pattern in capitalist countries before the 1929 crisis, but – tellingly for the changing nature of economics – the present discussion is no longer mainly framed in the context of an analysis of society (social justice)⁵ but as a comparison between individuals (inequality).

A main variable in the cyclical pattern of economics is the level of abstraction. When things go well in the core economies of the world, where economic theory is generally produced, economics tends to become very abstract and, essentially as a direct result of this high level of abstraction, the role of policy is minimized. After England for hundreds of years had protected its national industries, free trade was clearly in the country’s interest. Only once did Smith use the term ‘invisible hand’ in the *Wealth of Nations*: when it sustained the key import substitution goal of mercantilist policies, when the consumer preferred domestic industry to foreign industry (Smith 1976 [1776], 477). This is when ‘the market’ had taken over the role previously played by protective measures.

³ A very valuable history of economic thought which treats one such long cycle is the three volumes of Edwin Seligman’s *Main Currents in Modern Economics* (1971 [1962]). Starting with the reaction against English classical economists, the first volume is entitled *The Revolt against Formalism*, (starting with ‘Protests from the Historicists’), the second *The Reaffirmation of Tradition* (starting with ‘From Marginalism to Libertarianism’), and the third is entitled *The Thrust towards Technique*. It is difficult not to agree with John Kenneth Galbraith’s (1971, vii) Preface calling Seligman’s volume ‘the most overlooked book of the last ten or twenty or fifty years’. We are convinced that a new such cycle of economic fashion – of revolt against formalism – is starting again, and that Seligman’s volume is invaluable to anyone wishing to fully apprehend this development in its historical context.

⁴ Foreword to Arthur (1994, ix). For a similar treatment of the ‘cyclicity’ of the appearance of increasing returns, see Buchanan and Yoon (1994).

⁵ In a standard series of United States (US) history, *A History of American Life*, mainstream publisher Macmillan issued as its Volume XI, *The Quest for Social Justice: 1898–1914*, by Harold Underwood Faulkner (1931). These are the parts of US history which tend to disappear in an ideological reinterpretation of history.

David Ricardo (1817) produced a theory at a very high level of abstraction: he modelled international trade as the barter of qualitatively identical labour hours. Anyone accepting this high level of abstraction – that all labour hours are qualitatively alike – buys into the theory of comparative advantage. History shows, however, that none of the nations following England's path to industrialization bought into Ricardo's theory until they themselves had become industrialized. As an example of the swings of fashion, having lost its industrial supremacy (around 1900), England itself recanted on Ricardian trade theory (Dangerfield 1961 [1935]). At present it is interesting to observe a similar transition as that of England around 1900, from free trade to more protection, in the internal politics of the United States (US). Here, in an unexpected coalition, Democrats to the left ('liberals') worried about falling US wages may find otherwise unlikely allies in nationalist Republicans to the far right worried about national power.

One economist who worried about the swings of fashion in economics was Friedrich von Hayek (1899–1992). In his speech after receiving the National Bank of Sweden's 1974 Nobel Prize in economics – shared with development economist Gunnar Myrdal – Hayek said: 'if I had been consulted whether to establish a Nobel Prize in economics, I should have decidedly advised against it. One reason was that I feared that such a prize . . . would tend to accentuate the swings of scientific fashion.'⁶ Hayek's point about the swings in economic fashion is emphasized by the fact that he commented on the Nobel committee 'awarding the prize to one whose views are as unfashionable as mine are'. Today Hayek's theories of course have become extremely fashionable. Nowhere has the swing in economic fashion been as tangible as when comparing John Maynard Keynes' role of 'saviour' of the world economy after the Great Depression with his position in the policies applied by the European Union at the time of publication of this volume: Keynes' emphasis on the importance of keeping up demand has been substituted by an austerity policy decreasing demand.⁷

Chicago economist Jacob Viner (1892–1970), who inspired Hayek, was also worried about the fashions of economics, dedicating an article, "'Fashion" in Economic Thought', to the issue.⁸ Viner also wrote a most interesting book on the problem of economic man as a passive being in the hands of Providence; of the invisible hand being a metaphor for Providence, thus bringing laissez-faire and 'passivity as strategy' close to a primitive belief in faith and providence (Viner 1972). This warning, echoing the concerns of Thorstein Veblen, is surprising from someone who is considered a Chicago economist, and shows – as we shall return to below – that the early proponents of very abstract theories also warned against the irrelevance of such abstract theories.

During the process of formalization of economics into neoclassical economics in the post-World War II (WWII) period, development economics slowly disappeared from the economic mainstream. 'Where are their models?' was one famous battle cry. Jacob Viner made a key contribution to the demise of development economics by removing a

⁶ Friedrich August von Hayek's speech at the Nobel Banquet in Stockholm, 10 December 1974.

⁷ 'Keynes never existed. The General Theory of Employment, Interest and Money was never written. Economic history ended on the day Franklin Roosevelt replaced Herbert Hoover as president of the United States', Larry Elliot, *Guardian*, 13 July 2015. Available at http://www.theguardian.com/world/2015/jul/13/europe-greece-pushed-into-further-peril?CMP=share_btn_fb (accessed 1 October 2015).

⁸ Reproduced in Viner (1991, 189–197).

fundamental force of uneven development – increasing returns – from international trade theory, on the account that it was not compatible with equilibrium (Viner 1937, 475–482). What would have been more logical would have been to remove equilibrium from economic theory because it is not compatible with an analysis of the real world. Economists' choice of tools came to trump their interest in reality. Equilibrium became virtually the only game in town.

Thus economics developed into what we could call a tool-driven profession: the kind of information the tools could handle came to determine the development of the profession. Paul Krugman conveyed the dilemma that this causes very well in an interview with the *New Yorker*: 'I think there's a pretty good case to be made that the stuff that I stressed in the models is a less important story than the things that I left out because I couldn't model them'.⁹

We are facing a very serious situation here. Modern economists, like Krugman, are aware of the dilemma caused by the restrictive assumptions and high level of abstraction imposed by the prescribed models. But the tools of the profession do not allow them to move into more relevant theories, and this obviously has very serious consequences. One of the aims of this work is to resurrect a methodology of economics which is not bound by the restrictive tools chosen by today's profession, a tradition we have called the 'Other Canon' of economics (Reinert and Daastøl 2004).

Also, the fathers of mainstream methodology and its accompanying ideology, neoclassical economics – which led to the marginalization and virtual disappearance of classical development economics – people like Hayek and Viner, were already aware of and even warned against this tendency. Economists who sacrificed the real world in order to keep the 'purity' of the model sometimes also warned against what they themselves were doing and inspired others to do. The same Viner who threw out increasing returns from economic theory, years later complains that 'economists have succeeded in being as ahistorical as an educated man can perhaps possibly be' (Viner 1991). In 1957 Viner already criticizes the irrelevance of economics by telling a story from a zoo, where a lady, fascinated by the hippopotamus, asked the zookeeper if the animal in question was a male or a female. She receives the following reply: 'Lady, I should think that that would be a question that would be of interest only to another hippopotamus.' Says Viner: 'The same question, I fear, speaking from inside the profession, can be said of a good deal of modern economic theorizing.'¹⁰ Or, as Paul Samuelson (1962) once approvingly put it, 'In the long run the economic scholar works for the only coin worth having – our own applause'. A profession with such attitudes – particularly after a few decades of economic progress after WWII (which their theories did not produce) – became a rather incestuous sect. What we ask in this volume is also, '*Cui bono?*': in whose interest was it that key aspects of real-world economics, such as increasing and diminishing returns, have never reached the economic policy level over the last decades? It was definitely not in the interest of developing countries.

We would like to point to the dualism that was so typical of economists both of the Austrian (Hayek) and neoclassical (Viner) schools before World War II: the real world

⁹ *New Yorker*, 1 March 2010. Available at <http://www.newyorker.com/magazine/2010/03/01/the-deflationist> (accessed 1 October 2015).

¹⁰ Reproduced in Viner (1991, 193).

was kept as a frame of reference that was to be continuously confronted, in the spirit of Karl Menger, with the theoretical map of ‘the forces at work’. With time, the role of reality as a frame of reference lost ground, and, paradoxically, some of the economists who gave us today’s mainstream economics issued clear warnings against the theories they themselves were promoting, warnings that were increasingly not heard. As Paul Krugman succinctly put it: economics came to ‘follow the line of least mathematical resistance’ (Krugman 1991, 6).

ECONOMIC THEORY AND ASSUMPTION-BASED RENT-SEEKING

In economics, particularly in the public choice school, rent-seeking is a detested activity. Rent-seeking involves seeking to increase one’s share of existing wealth without creating new wealth. Such rent-seeking is supposed to result in reduced economic efficiency, reduced wealth creation, lost government revenue and increased income inequality (see, e.g., Krueger 1974). Some of the approaches in this volume lead to seeing rent-seeking from a completely new angle. If the history of economic development shows us that high levels of development, without exception, have been the result of an agglomeration of increasing-returns activities (manufacturing); if, in other words, development is not at all a result of perfect competition, but rather a result of dynamic imperfect competition; the term ‘Ricardian rent’ acquires a totally new meaning. ‘Ricardian manufacturing rent’ becomes the rent – in terms of higher profits and higher wages and higher levels of development – collected by wealthy countries that have managed to enforce Ricardo’s law of comparative advantage on poor countries by preventing them from industrializing. Colonialism – the economic essence of which was to prohibit manufacturing activities in the colonies – becomes an extremely successful case of ‘Ricardian manufacturing rent-seeking’ used by colonial powers. Poverty and underdevelopment are the other side of this Ricardian rent-seeking coin. It is worth noticing that former World Bank Chief Economist, Justin Yifu Lin, also supports the view that manufacturing is essential for economic development: ‘Except for a few oil-exporting countries, no countries have ever gotten rich without industrialization first’ (Lin 2012, 350).

These assumption-based rents that accrue to advanced economies result from the structure of modern economics. Neoclassical economics is based on a set of assumptions that were needed in order to use mathematical tools chosen by the profession: perfect competition, perfect information, full divisibility of resources, and so on. But even more fundamental is that this set of assumptions – applied equally across the enormous variety of economic activities – implies that economic activities are qualitatively alike.¹¹ This is what Nobel laureate James Buchanan referred to as the ‘equality assumption’: ‘Any generalized prediction in social science implies at its basis a theoretical model that embodies elements of an equality assumption’ (Buchanan 1979, 231). In reality the shoe-shine business of a 12-year-old in a Lima slum differs significantly from that of Bill Gates in terms of producing economic development. By not being able to factor in these qualitative

¹¹ For a discussion of this, see Reinert (2009).

differences – which David Ricardo also failed to do when he modelled international trade as bartering qualitatively equal labour hours – neoclassical economic theory fails to understand why economic development is so uneven. Models to the contrary are produced, but they systematically fail to reach the international policy level.

Another assumption that enables the collection of huge rents – in this case financial rents – originates in the failure of modern economics to distinguish, as clearly as was once done, the real economy from the financial economy. In the 1930s, across the political spectrum, it was understood that the financial sector had to be tightly controlled; from communism via Roosevelt's New Deal to fascism. The fact that neoclassical economics, as another inheritance from David Ricardo, fails to distinguish between the productive sector and the financial sector has, on the one hand, allowed an enormous degree of unproductive financial investment to crowd out investments in the real sector; and on the other hand, has produced a sequence of financial crises.¹² Highly abstract theories ignore qualitative differences that, in real life, are crucial in understanding economic growth and its absence.

In a world of diversity and heterogeneity, understanding economic development forces choices upon researchers. Between a position where all human beings are alike as economic agents ('perfect information') and dealing with 6 billion unique individuals, finding an appropriate level of abstraction for analysis is not obvious. As we see it, the only way to solve this problem is to follow the suggestions of the young Joseph Schumpeter in a book commenting on the *Methodenstreit* of German economics (Schumpeter 1908). Economic theory exists on various levels, from very abstract to very concrete and detailed, and one should first ask a question and then enter into the theoretical edifice at a level of abstraction where one is likely to find an answer. If we want to know why Microsoft's profits are higher than those of businesses shining shoes, the answer lies in industrial economics and its understanding of barriers to entry, technological change, and oligopoly power resulting from dynamic imperfect competition. It is our assertion that the same applies to development economics: Ricardo's trade theory and neoclassical economics operate at a level of abstraction which is too high to grasp the relevant variables. The policy conclusions of Ricardo's trade theory and of standard neoclassical economics are, in both cases, built into the assumptions. The inability to understand differences in outcomes is a direct result of the lack of differences in the models: 'equality and harmony' built into the models produce 'equality and harmony' in results through the same mechanisms that produce 'garbage in, garbage out'. The difference is that the irrelevant policy conclusions that emerge are actually in somebody's interest: considerable economic rents may be collected based on irrelevant assumptions that keep poor countries poor.

One factor that may explain the success of irrelevant models is their apparent short-term success in the West. An insight from a 1952 book by Hayek explains this mechanism: 'Never will man penetrate deeper into error than when he is continuing on a road which has led him to great success'. In other words, when being 'right' and successful, mankind will 'overshoot' into error. The financial crisis and the persistent problems of poverty both testify to this 'overshooting' in levels of abstraction.

¹² A discussion and a bibliography of the relationship between the production economy and the financial economy are found in Reinert and Daastøl (2011 [1998]).

The economics profession – and development economics in particular – is faced with a trade-off between relevance and accuracy. As Schumpeter once put it in his foreword to a book on monopolies: ‘The general reader will have to make up his mind, whether he wants *simple* answers to his questions or *useful* ones – in this as in other economic matters he cannot have both’ (Zeuthen 1930, x).

Other economists have contributed to our understanding of the importance of being aware of the different levels of abstraction found in economic theory. Norwegian-American economist Thorstein Veblen (1857–1929) suggests that knowledge exists on two different levels. Highly abstract and esoteric knowledge, like that of high priests, carries much prestige, but in practice is often fairly useless. On the other hand there is exoteric knowledge – useful knowledge – based on facts and experience, which carries little prestige. Veblen was worried that neoclassical economics would contaminate the commonsense instincts of economics. Using Veblen’s terminology, we can argue that Hayek’s overshooting of scientific fashion corresponds to Veblen’s idea that irrelevant education may contaminate healthy instincts of useful and exoteric knowledge (Veblen 1914).

Canadian economist Harold Innis (1894–1952) suggests that scientific fashions of what Veblen called esoteric and exoteric knowledge follow a pattern, and in his scheme it becomes clear that scientific fashions may be driven by what Veblen dubbed ‘vested interests’. We shall argue that sectors of the economies may actually be collecting rents from irrelevant economic theories. Without reference to Veblen, Innis sees that abstract science, communicated in Latin, gets more and more abstract, monopolizes knowledge and enters into alliances with the political elites (with Veblen’s vested interests) (Innis 1951). Today’s Latin would be mathematics, and today a *de facto* alliance exists between mainstream (neoclassical) economics and the financial sector. One aim of this volume is, in the spirit of Innis, to break the present alliance between extremely abstract – and largely irrelevant – economic theories and the political elites. These theories are largely irrelevant as reflections of the real world, but useful for assumption-based rent-seeking by the presently industrialized countries and for the financial sector.

A fascinating aspect of Innis’ vision of the cyclicity of science is that he sees Western Civilization again and again being saved by knowledge that for a time only survives in the periphery, by near-defunct theoretical paradigms. To take an example from today’s financial crisis: US economist Hyman Minsky (1919–1996) was for a long time a lonely voice when he claimed that ‘it’ – a severe financial crisis – could happen again. However, at a recent Minsky conference held in New York, economists Joseph Stiglitz and Paul Krugman and the main regulators from both the United States and Europe were present, attempting to learn from Minsky’s insights. As Innis would have predicted, Minsky’s economics had survived only in the academic periphery: at the University of Missouri–Kansas City, and at the Levy Institute at Bard College in New York State.

CHOOSING ONE’S PREFERRED FORM OF IGNORANCE

One way of looking at the history of economics as it relates to economic development, then, is to see it as sequences of theories pitched at different levels of abstraction. One overwhelming example of this is David Ricardo, who in his 1817 *Principles of Political*

Economy constructed a theory of international trade based on the bartering of qualitatively identical units of labour hours. Ignoring the qualitative differences in the economic world – imposing Buchanan’s ‘equality assumption’ – leads to ignorance of the results of these differences.

But ignorance may take different forms. The most constructive form of ignorance is what German philosopher Nicolas of Cusa (1401–1464) called ‘*docta ignorantia*’, the learned ignorance which implies an attempt to define what you do not understand; that is, knowing what you do not know and, implicitly, searching for a better understanding. In a 1993 article, Stanford economist Moses Abramovitz invoked a different and more insidious type of ignorance expressed by Mark Twain: ‘It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so’ (Abramovitz 1993; Twain 1884). This was Abramovitz’s very wise conclusion after two late 1950s studies attempting to explain economic growth by measuring inputs of labour and capital. Abramovitz was first out with a paper in 1956. The year after, in 1957, Robert Solow published a paper called ‘Technological Change and the Aggregate Production Function’, comparing a model based on the standard aggregate production function to the actual figures in the US economy. His surprising result was that only 12.5 per cent of economic growth in the period studied can be attributed to the increase of labour and capital. A ‘residual’ of 87.5 per cent of overall growth has to be explained by some other factor. This is what made Abramovitz conclude – with Mark Twain – that:

the old primitive Residual is really an understatement, a lower-bound measure of our ignorance about the sources of growth. . . . Perhaps some of you are thinking ‘If we are already ignorant of 90 per cent of the sources of per capita growth, how much worse can it be? Can it be worse than 100 per cent?’ In a sense, it can . . . ‘It ain’t what we don’t know that bothers me so much; it’s all the things we do know that ain’t so.’ That is really the nub of the matter. (Abramovitz 1993)

In his 1957 article, Solow attempted to solve the problem by adding ‘technical change’ as a third factor. But this category did not solve much. Since technical change is so unevenly distributed between economic activities, in a system with imperfect competition countries with many advanced-technology activities would be able to keep a lot of the resulting rent to themselves. A key difference between mainstream Ricardian economics and most of the alternative traditions mentioned here is that the non-Ricardian traditions, from Giovanni Botero in the 1590s to Latin American structuralism in the 1970s – the alternative Other Canon traditions – see economic development as activity-specific, that there is much more ‘residual’ in some economic activities than in others. Abramovitz agreed to the activity-specific nature of the residual, and pointed to this almost being a pre-WWII US mainstream position. In a 1996 letter to Reinert, Abramovitz wrote: ‘I agree in particular that the “residual” and growth in general are industry-specific. That has seemed clear to me since I was a graduate student in the Thirties and read the Kuznets and Burns¹³ books’ (pers. comm., 16 August 1996).

The 1620 quote from Francis Bacon and the 1998 quote from David Landes at the

¹³ Simon Kuznets (1901–1985), Harvard economist and recipient of the 1971 Nobel Memorial Prize in Economics; Arthur F. Burns (1904–1987), Chairman of the Federal Reserve 1970–1978, under Presidents Nixon, Ford and Carter.

head of this chapter are statements to the same effect from two different angles: societies are shaped by their choice of economic activities. Pastoral activities, be they in the high Andes or reindeer herding in Northern Fennoscandia, show surprisingly similar social organizations; as do modern industrial societies, be they in Singapore or Amsterdam. Similar activities make societies become isomorphic across geography and culture. We would argue that the same phenomenon applies to religion: sharing the same type of economic activities creates much more harmonious relationships between Muslims and Western culture than what we find between Muslims in pre-industrial societies and the same Western culture. It is tempting to quote Italian economist Ferdinando Galiani (1728–1787): ‘From manufacturing you may expect the two greatest ills of humanity, superstition and slavery, to be healed’ (Galiani 1770, 121).

At the moment the West seems to be seeing a dramatic example of the relationship between economic structure and society in general. If the middle class, as is generally assumed, created the broad base needed for democracy,¹⁴ it was industrialization that created the middle class. To what extent the loss of manufacturing, and of the labour unions associated with manufacturing, is leading to the loss of the middle class, as seems to be evident in the United States, will be further discussed in the Epilogue to this book (Chapter 40).

The gradual loss of economic history and a widely based history of economic thought is that the Mark Twain type of ignorance – ‘knowing’ what is not true – is a growing problem for our understanding of wealth and poverty. We have the deepest respect for *Financial Times* commentator Martin Wolf as probably the best economics journalist anywhere, but even he falls into the Mark Twain ignorance trap. Within an otherwise brilliant essay, Wolf lays bare an ignorance of the worst kind: ‘The first world war also destroyed the foundations of the 19th century economy: free trade and the gold standard’ (Wolf 2014). It may be commonly believed, but if there is something the nineteenth-century world – with exception of England – was not, it was committed to free trade.¹⁵ In fact, all countries that followed England into industrialization followed England’s own formula over centuries: emulation and protection before free trade. The same general misunderstanding applies to our understanding of *laissez-faire*. As a perceptive American business historian concluded after studying the nineteenth-century US economy: ‘King Laissez Faire was not only dead; the hallowed report of his reign had all been a mistake.’¹⁶

A main goal of this book is to eradicate, as far as possible, the destructive ignorance as defined by Mark Twain – ‘knowing’ what is actually not true – and to replace it by true scientific intellectual curiosity, expressed by Cusanus as *docta ignorantia*. Or, to put it with Danish poet and scientist Piet Hein (1905–1996), ‘Knowing what Thou knowest not, is in a sense Omniscience’. It seems to us that formal models too often lead to the former kind of ignorance, while delving into actual economic historical context leads to the latter kind. If one asks why Europe, from Cusa’s time to about 1700, experienced a phenomenal cultural and economic development that enabled the continent to overtake Asia and China as the economic centre of the world, it was precisely because of the

¹⁴ India may perhaps be listed as an exception here.

¹⁵ Trade increased, but that did not mean it was ‘free’, unless one uses the now defunct definition that free trade means the absence of trade prohibition rather than the absence of tariffs.

¹⁶ Quoted in McCraw (1997, 316).

attitude of Cusa and his contemporaries of civic humanism flourishing in a diversity of European political and social contexts.¹⁷

PROBLEM: LACK OF DIVERSITY WITH THEORETICAL AND GEOGRAPHICAL BIASES

We have previously referred to the ongoing research by Carpenter and Reinert showing that the perceived bias of English language historical dominance in economics is problematic. Different schools of economics inhabited and dominated diverse economic areas, reflecting the differences or similarity in contexts. Emulation between nations in similar situations was the name of the game.¹⁸ Nineteenth-century US economists understood that the United States, extremely protectionist at the time, in the end would declare free trade:

when the United States has a hundred million people¹⁹ and the seas are covered with her ships; when American industry attains the greatest perfection, and New York is the greatest commercial emporium and Philadelphia the greatest manufacturing city in the world; and when no earthly power can longer resist the American Stars, then our children's children will proclaim freedom of trade throughout the world, by land and sea. (Dorfman 1947, 581)

That diversified and independent schools of economic thought, as here exemplified by the United States, could target policy recommendations to the specific situation of a nation was crucial for all the nations following the United Kingdom in industrialization. However, if we look at today's top economists in the global economic discourse, we find a worrying lack of diversity in geography and language. The linguistic dominance which Anglo-Saxon economists wrongly attribute to the past is very real today.

Google Scholar offers an easy way to check the top ten most-cited economists, albeit with some caveats. First, Google Scholar ranks only scholars with a Google profile (which is very easy to create, but not everybody does so; also some economists who are not alive have Google Scholar profiles created for them); secondly, not all economists have 'economics' or derivatives listed in either their job title or keywords. Thus, for example Richard Nelson, one of the authors in this volume, would not appear when we search for 'economics' in Google Scholar, although by his citations he would easily make top ten and it is impossible to claim that he is not an economist. On the other hand, Google Scholar does not discriminate between languages: bestsellers in any language will show up. With these caveats in mind, Google Scholar top ten economists according to citations²⁰ are:

- Andrei Shleifer, 182 602 citations, Harvard.
- Oliver Williamson, 165 496 citations, Berkeley.
- Paul Krugman, 142 803 citations, Princeton.

¹⁷ For the role of lack of diversity in economic decline, see Reinert and Xu (2013).

¹⁸ For a discussion of this, see S. Reinert (2011).

¹⁹ This happened around 1915.

²⁰ As of January 2015.

- Kenneth Arrow, 134 863 citations, Stanford.
- Robert Barro, 110 387 citations, Harvard.
- James Heckman, 109 054 citations, Chicago.
- Lawrence Summers, 87 601 citations, Harvard.
- Douglass North, 84 961 citations, Washington.
- Jean Tirole, 81 605 citations, Toulouse.
- William Greene, 71 771 citations, New York.

With the exception of Jean Tirole, a Frenchman, the top ten economists by citations are affiliated with a handful of US schools. This confirms the national and linguistic bias previously referred to, but the Google list indicates that under globalization things seem to have got worse: literature based on the contexts of specific countries seems to have been crowded out by global leaders, most of them writing in the mainstream tradition and based at US universities. This tradition essentially represents just one way of looking at economics and economic development, and its origin in the economics of David Ricardo is a common denominator. The United States followed the strategy of which Friedrich List (1789–1846) accused the English: after having achieved wealth by protecting their own industries, they would in effect prohibit other nations from following their same strategy (List 1841, 501).

What is worrying is that the triumphalism that followed the 1989 fall of the Berlin Wall and the end of the Cold War in fact seems to have narrowed even more the horizon of mainstream economics, at least as it applies to economic policy. Arthur F. Burns, head of the US Federal Reserve from 1970 to 1978, had the courage to appeal to Karl Marx and Thorstein Veblen when he sought to explain uneven economic development: ‘The warnings of a Marx, a Veblen, or a Mitchell that economists were neglecting changes in the world gathering around them, that preoccupations with states of equilibrium led to tragic neglect of principles of cumulative change, went unheeded’ (Burns 1954, 46).

This book sets out to revive and explore the alternatives: theories and approaches that over a long period of time have existed as alternative courses of policies and actions to those emanating from today’s mainstream and neoclassical theories, theories much older and better tested than those based on the economics of David Ricardo and on the idea of equilibrium. Our selection is problem-driven rather than driven by the available tools, it is based on what Richard Nelson and Sidney Winter call ‘appreciative economics’,²¹ and also based on a variety of methods.

FROM DEVELOPMENT ECONOMICS TO POVERTY ALLEVIATION

After World War II, the economic success of the Marshall Plan and the policy options of the 1948 Havana Charter (formally The Final Act of the United Nations Conference on Trade and Employment) opened up a perspective where all nations could industrialize and become wealthy. However the Havana Charter was watered down to GATT, and

²¹ Nelson and Winter (1982); see page 46 for a discussion of ‘formal’ versus ‘appreciative’ theories.

Source: Google.

Figure 0.1 Ngram for 'development economics' and 'poverty alleviation', 1950–2000

initially very positive developments in the world periphery slowly gave way to often premature free trade, and to UN 'development decades' which in Latin America gradually came to be perceived as 'lost decades'.

The year 1989 did not only bring the fall of the Berlin Wall, it also brought the birth of the Washington Consensus, recanting on the principles that had been established in the immediate post-WWII period. Now, at a distance of more than 25 years, it is reasonably clear that the two events – the fall of The Berlin Wall and the Washington Consensus – are ideologically closely connected. It should also be noted that the Maastricht Criteria of the European Union and the ideology surrounding the euro – which at the time of writing in 2016 are creating havoc in the European Union periphery – are also a brain-child of the period 1989 to 1991.

The perceived failure of the last development decades prompted the United Nations to a strategic shift, with the Millennium Development Goals focus shifted from economic development to 'poverty alleviation', that is, from eradication of poverty by increasing the personal income of individuals to alleviating the symptoms of poverty. The worrying aspect of today's globalization strategy is that it does not rest on any of the successful strategies of the past. It promises free trade and palliative measures against the poverty that results from premature free trade, measures that are both an insult to the dignity of the world's poor and, in the long run, an expensive system of welfare colonialism.²² The Google ngram in Figure 0.1 illustrates the shift in emphasis away from development towards poverty alleviation.

This shift in emphasis, and the associated decline of development economics, reflected the perception which had become increasingly widespread within the mainstream economics profession: that all answers to basic economic queries for all types of countries –

²² For a discussion of welfare colonialism, see Reinert (2006b) and Ocampo et al. (2007, 192–221). For the origin of the term 'welfare colonialism', see Paine (1977).

developed, developing and underdeveloped – could come from the same neoclassical analytical framework which privileged the market mechanism. The associated focus on poverty alleviation involves a much sharper focus on the micro, on the miniature as a supposedly useful and relevant representation of the larger reality. It is very much a product of the intellectual ethos prevailing in the academic centres of the North; almost all of the practitioners, whatever their country of origin, actually live and work in these places. Therefore it is a reflection of a deep internalization of the basic axioms of mainstream North Atlantic economic thinking, especially in terms of the dominance of the neoliberal marketist paradigm.

Some underlying principles of this approach are worth noting, all the more because they are rarely explicitly stated. This approach remains firmly entrenched in the methodological individualism that characterizes all mainstream economics today. The models tend to be based on the notion that prices and quantities are simultaneously determined through the market mechanism, with relative prices being the crucial factors determining resource allocation as well as the level and composition of output. This holds whether the focus of attention is the pattern of shareholding tenancy or semi-formal rural credit markets or a developing economy engaging in international trade.

This literature also posits a basic symmetry not only between supply and demand, but also between ‘factors of production’. Thus, the returns to ‘factors’ – land, labour, capital – are seen as determined along the same lines as the prices of commodities, through simple interaction of demand and supply. Where institutional determinants are acknowledged, they are seen as unwelcome messing about with market functioning, and ‘government failures’ tend to be given wide publicity. An implicit underlying assumption in much of the literature remains that of full employment, or at the very most underemployment rather than open unemployment. Further, while externalities are recognized, they are sought to be incorporated into more tractable models, thereby reducing the complexity of their effects. Similarly, while market failures are admitted, the policy interventions proposed or discussed are typically partial equilibrium attempts to insert incentives or disincentives into the market mechanism, with the objective of promoting ‘efficiency’. And even the basic fact of uneven development tends to be translated into models of ‘dualism’, which in turn also implies less attention to the differentiation internal to sectors, and the patterns of interaction of different groups or classes within and across sectors. Even when there is acceptance that ‘history matters’, this is typically reduced to certain simple and modellable statements. Thus, a standard way in the literature of dealing with the effects of history is in the form of complementarities, along the lines made famous by the example of the QWERTY typing keyboard. Other common ways of incorporating history are through inserting ‘social norms’ as a variable, or analysing the effects of the ‘status quo’ in creating inertia with respect to policy changes.

As a result, particular micro features of developing economies tend to be seen as ‘exotica’ in terms of prevalent economic institutions in developing countries, and are then sought to be explained along the lines of methodological individualism, albeit with some cultural nuances. This can be described as a ‘*National Geographic*’ view of the broader process of development, whereby snapshots of particular institutions or economic activities are taken, the difference from the ‘norm’ of developed capitalism is highlighted and then these are sought to be explained using the same basic analytical tools developed for the norm. The means whereby these economies or institutions can then become

less different, or more like the developed-market ideal (which of course does not exist in reality either), then becomes the focus of the policy proposals emanating from such analyses.

As a result, those who in earlier periods would have been studying development as structural transformation now focus on poverty alleviation. This idea reached its apotheosis in the Millennium Development Goals, and their newly anointed successor, the Sustainable Development Goals, which effectively are directed towards ameliorating the conditions of those defined as poor, rather than transforming the economies in which they live. Even here, the focus is on specific interventions – micro solutions that are seen to work in particular cases – and considering how they can be modified and scaled up. So the global development industry has kept searching for those magic silver bullets for poverty alleviation. Over the past decades these have included successively: freeing markets and getting rid of government controls; recognizing the property rights to informal settlements of slum dwellers; microfinance; and most recently, cash transfers.

It is interesting that this focus on poverty alleviation still takes a very limited view of what poverty is or how it is generated. Essentially, this is an approach that somehow abstracts from all the basic economic processes and systemic features that determine poverty. So class tends to be absent from the discussion, or included only in the form of ‘social discrimination’, with the economic content effectively wiped out. The poor are not defined by their lack of assets – which would then necessarily draw attention to the concentration of assets somewhere else in the same society – but by lack of income or various other dimensions (such as poor nutrition, bad housing and inferior access to utilities and basic social services, and so on) that are actually symptomatic of their lack of assets but not expressed as such. Similarly they are not defined by their economic position or occupation, such as being workers engaged in low-paying occupations or unable to find paid jobs or having to find some livelihood in fragile ecologies where survival is fraught with difficulty.

Macroeconomic processes are entirely ignored, such as: patterns of trade and economic activity that determine levels of employment and its distribution and the viability of particular activities; or fiscal policies that determine the extent to which essential public services like sanitation, health and education will be provided; or investment policies that determine the kind of physical infrastructure available and therefore the backwardness of a particular region; or financial policies that create boom-and-bust volatility in various markets. No link is even hinted at between the enrichment of some and the impoverishment of others, as if the rich and the poor somehow inhabit different social worlds with no economic interdependence at all, and the rich do not rely upon the labour of the poor. This shuttered vision is particularly evident in the neglect of the international dimension in such analyses, and particularly of the way in which global economic processes and rules impinge on the ability of states in less-developed countries to even attempt economic diversification and fulfillment of the social and economic rights of their citizens.

These silences enable a rather two-dimensional view of the poor. They are given the dignity of being treated as subjects with independent decision-making power, but their poverty is more a result of their own particular circumstance and their own often flawed judgements, which can be tweaked through interventions that would somehow make them more economically successful. They apparently inhabit a world in which their poverty is

unrelated to wider social, political and economic contexts, or to historical processes. Since these larger issues are not addressed at all, the only dilemma posed for policy practitioners is which particular poverty alleviation scheme to choose and how to implement it.

In turn, for making such policy decisions, the newest research instrument of choice is that of the randomized control trial (RCT), especially as developed by the Massachusetts Institute of Technology (MIT) Jameel Poverty Action Lab and similar institutions. Once again, the mainstream discipline has wandered off in a diversionary excursus that prevents a much-needed focus on the real issues of development. Yet the problems with the widespread use of RCTs in this manner extend beyond the important fact that they completely ignore the broader macro processes: quite apart from the problems of identification and measurement that generate the statistical problems associated with RCTs as predictors of behaviour or outcomes, there is the simplistic and mechanical belief that what has ‘worked’ in one context can be easily defined and can work in another quite different context. The particularization and miniaturization of a complex development experience into an examination of the conditions and responses of individual poor persons or poor households then lead, without any sense of irony, to a universal set of homilies about strategies for their betterment.

Rescuing development economics from the miasma created by the discourse on poverty alleviation would require recognizing that the process of development is an evolutionary one in which there is a continuous interplay of various forces; that economic outcomes reflect social and historical factors, the level and nature of institutional development, relative class and power configurations; and that the processes of production and distribution inevitably involve the clash of class interests along with the interaction of social, historical and institutional factors.

THIS VOLUME: AN OVERVIEW

This volume is divided into three parts. Part I is on historical processes of development, where we have attempted to avoid the usual Eurocentrism by including chapters on Chinese, Indian, Muslim, Ottoman and African perspectives on development. Part II covers modern theoretical approaches to development, and here we have also included chapters on three twentieth-century economists with original and valuable perceptions of development, in alphabetical order: Christopher Freeman (1921–2010), Albert O. Hirschman (1915–2012), and Michal Kalecki (1899–1970). Part III focuses on more specific issues and debates in the field of economic development.

In spite of our attempt to cover the field as broadly as possible within the space available, there are still fields that are not covered. We would therefore like to mention some of them briefly here. We have not covered anthropology. Particularly relevant would have been to explore Karl Polanyi (1886–1964) and his three fictitious commodities defining capitalism: (1) land as private property; (2) labour as a commodity; and (3) money. We can just recommend any serious student of economic development to explore, through Polanyi, how the economy functioned during the first 99 per cent of human history (see Polanyi 1944).

Entrepreneurship is another important field which has not been covered. In an attempt partly to compensate for this, the editors would like to draw the readers’ attention

to an original work on entrepreneurship – individual and collective – and economic development by Everett Einar Hagen (1906–1993): his 1962 work *On the Theory of Social Change: How Economic Growth Begins*. Hagen uses psychology, sociology and anthropology in order to explain the transition from traditional to ‘modern’ societies, approaches which are under-represented in this volume. Hagen asserts the role of non-conformists – marginal groups – as providing entrepreneurs, be they Quakers or Jews in Europe, Old Believers in nineteenth-century Russia, or Indians in East Africa. To Hagen, ‘relative status withdrawal’, for both individuals and groups, is a key factor in explaining entrepreneurship. The work of Massachusetts Institute of Technology (MIT) professor Everett Hagen was strongly disliked by his Harvard colleague Alexander Gerschenkron (1904–1978), an author who could very well have been added as the fourth person deserving his own chapter in this volume.²³ So, in a somewhat strange way our two omissions – entrepreneurship and Gerschenkron – cancel out.

Unfortunately we have not been able to secure a chapter on Nicholas Kaldor (1908–1986), whose theories, emphasizing increasing returns and ‘economics without equilibrium’, fit very well with the general approach of this volume.²⁴ Neither do we have a separate chapter on the important role played by the state in promoting economic development. This subject, however, has been covered elsewhere (Reinert 1999).

Thorstein Veblen (1857–1929) and his school are not represented, but for a recent evaluation of his work, also as it relates to economic development, see the volume *Thorstein Veblen: Economics for an Age of Crises*.²⁵

There is no chapter dealing specifically with the issue of demography and population. As touched on in Chapter 1, population density – the carrying capacity of cities and areas in terms of human beings – was a major underlying factor to be explained in the early development economics of Giovanni Botero (1544–1617). Why did some limited areas on the European map – such as Florence, Venice or Amsterdam – display both generalized wealth and a very high population density? To Botero the answer was to be found in the economic structure of cities: a large diversity and differentiation of manufacturing industries – what Adam Smith much later would refer to as ‘the division of labor’ – provided the explanation of both the wealth and the population density. Some years later, Antonio Serra (fl. 1613) provided the theoretical underpinning of Botero’s theory: at the centre of the virtuous circles of development of cities were the increasing returns, the falling unit costs – found in manufacturing but not in agriculture – that formed the basis of the virtuous circles of economic development (Serra 2011 [1613]). The work of Jane Jacobs (1916–2006) on the role of cities contains a logic similar to Botero’s (Jacobs 1984). Also important for Jane Jacobs, development was a product of differentiation. More recently Richard Florida (2005) has again focused on the role of cities.

The general perception of the link between population density – human agglomeration – and wealth that came to dominate the 1600s and 1700s led to a pro-population policy across Europe. Nowhere was the lack of people, *a falta de gente*, seen as acutely as in

²³ This is reflected not only in Gerschenkron’s own writings, but also in the biography written by his grandson, Nicholas Dawidoff (2003).

²⁴ For an overview of theories of cumulative causation, see Toner (1999).

²⁵ Reinert and Viano (2012). On institutions and development see also Reinert (2006a). An abbreviated version is found in Reinert (2007).

Portugal with its geographically expansionist policies (Almodovar and Cardoso 1998, 28). But also William Petty (1623–1687), who might be called the first English economist, recommended the movement of people from the periphery closer to London. No doubt Petty's understanding of the positive link between population density and economic wealth came from his study of Holland, at his time the wealthiest country in Europe. At the centre of the economic circles of another early economic geographer, Johann Heinrich von Thünen (1783–1850), a manufacturing city was also at the centre of his concentric circles.

It was only with Reverend Thomas Malthus (1766–1834) and his *An Essay on the Principle of Population* (1798) that an increase in population turned from being positive to being a threat to wealth. Botero too understood that population could be too large, although the first early alarmist on population was another clergyman, the Venetian monk Giammaria Ortes (1713–1790). But implicitly or explicitly (as with Antonio Serra in 1613) what we here broadly label as development economics was, for centuries, based on cultivating the increasing-returns activities found in cities. This brought with it a pro-population view: the size of the market was important. It was only in 1898 with Malthus that the perils of diminishing returns, and consequently the dangers of overpopulation, came into focus. Only then was economics reborn as 'the dismal science'.²⁶

The West – Europe and North America – is experiencing mass immigration while experiencing serious challenges within its own borders. The periphery of the European Union, particularly the countries kept in the straightjacket of the euro single currency, is experiencing serious economic problems; and in the United States the middle class, which came with industrialization, appears to be shrinking with the manufacturing industry that once created it. In the Middle East, and partly also Africa, civil society is being torn apart in political and religious strife. In the war-torn parts of the Middle East the standard measurement for economic welfare, gross domestic product (GDP) per capita, has been plummeting for decades.

At the time of writing in 2016, more than 25 years after the fall of the Berlin Wall, the world is experiencing an exhaustion of the triumphalism that followed that event. We could even say that the political world, especially in the West, is bewilderedly recovering from a hangover from an ideological overdose of one type of economic theory. The 1989 fall of the Berlin Wall has proved neither to represent *The End of History*, as in Frances Fukuyama's 1989 article and 1992 book, nor *The End of the Nation-State*, as in Kenichi Ohmae's 1995 book. Instead we seem to see emerging patterns of crises – political and religious – and decline which are well known from both recent and past history. The old axes are still with us: the cosmopolitical theories, Manchester liberalism (nineteenth century), Communism and neoliberalism, still face opposition from ideologies which insist that geography, ethnicity, religion and the nation-state have to play a role. On the other hand, as Carlota Perez has observed, it is crucial that we understand the isomorphism – the underlying equalities – of the two parties that fought the Cold War from the end of the 1940s to the end of the 1980s: both Communism and Western capitalism were based on the cult of the manufacturing sector.

We shall attempt to show the continuity between the earliest development economists

²⁶ For a still valuable study of this, see Stangeland (1966 [1904]).

of the late 1500s and the most spectacularly successful period of growth ever seen, from the late 1940s to the 1980s. The contexts differ, but the main mechanisms behind economic development are very similar over time.

In analysing the history of economic development we argue that that several axes must be kept in mind. Looking at grand cosmopolitical schemes versus context-specific adaptation of different economic theories adds a useful dimension to a tired perspective that places ideas on a left–right axis. On the other hand we must also keep in mind that the grand schemes on the right–left axis – what was originally Marshall-help type Western capitalism and Soviet industrialism – both rested on the cult of manufacturing industries based on dynamic imperfect competition under increasing returns. Also, China and India, where the majority of the poor who have been lifted out of poverty live, have since the late 1940s both depended on development strategies built on manufacturing, albeit with varying degrees of success.

Part I of the *Handbook* deals with a blend of economic history, history of economic policy and the history of economic thought. In Chapter 1, Erik Reinert introduces works of Giovanni Botero (1588) and Antonio Serra (2011 [1613]) as the founders of the theory of economic development, theories that also implicitly explain poverty. In Chapter 2, Sophus Reinert argues that the history of European economic policy has been dominated by emulation – attempting to copy the economic structure of the wealthiest countries – and only later was the principle of comparative advantage adopted. In Chapter 3 Erik Reinert and Philipp Rössner discuss the German economic tradition, which – compared to the Anglo-Saxon tradition – has focused on production rather than on trade and barter. In Chapter 4, Arno Daastøl discusses the work of German economist Friedrich List, who more than anyone else contributed to the industrialization of continental Europe and to some extent also of the United States. The editors would also like to point to a recent paper outlining the continuity of Friedrich List's policies, and even bureaucracy, between the Tsarist and Bolshevik regimes in Russia (Panchenko forthcoming). In Chapter 5, Wolfgang Drechsler gives an overview of key debates in the hugely influential German Historical School.

Chapters 6 and 7 look at economic development from a Chinese angle. In Chapter 6, Ting Xu contrasts European and Chinese production of science and knowledge. In Chapter 7, Xuan Zhao depicts China's imperial political cycles as failing to escape out of a fundamentally agricultural society. Both chapters refer to the lack of diversity as a reason for China falling behind Europe. Chapter 8 contains a fascinating historical account of the interaction of the Islamic world and capitalism by Ali Kadri, which also critiques the misleading interpretation of Max Weber. In Chapter 9, Eyüp Özveren, Mehmet Salih Erkek and Hüseyin Safa Ünal describe how Turkish thinkers such as Ziya Gökalp and Ethem Nejat adapted List's approach to what became the Ottoman School of economics. Goddanti Omkarnath provides a synoptic overview of Indian development thinking in Chapter 10, moving from the framework outlined in the *Arthashastra of Kautilya* in the second century AD all the way to post-Independence approaches to development up to the late twentieth century.

Chapter 11 by Mario Cimoli and José Porcile reviews some of the main contributions of Latin American structuralism to the theory of economic development. Two chapters are concerned with African approaches to development. In Chapter 12, Issa Shivji revisits the debate on national autonomous development in Africa; while in

Chapter 13, Yash Tandon considers the fate of the idea of national development as liberation.

Chapters 14–16 consider how the problem of development was formulated in international terms over the twentieth century until the backlash created by the Washington Consensus: Carolyn Biltoft (Chapter 14) on the League of Nations; Jean-Christophe Graz (Chapter 15) on the Havana Charter just after World War II and Ricardo Bielshowsky and Antonio Carlos Macedo e Silva (Chapter 16) on the United Nations Conference on Trade and Development (UNCTAD) system of political economy as it developed over the second half of the twentieth century.

Part II of the volume considers different analytical approaches to development, as expressed both in particular schools of thought and in the work of a few selected scholars. Prabhat Patnaik in Chapter 17 focuses on how Marxist thinkers have analysed the genesis of underdevelopment, the post-decolonization trajectories of development in the underdeveloped economies, and the impact of neoliberalism on these economies. Chapter 18 contains an assessment by Richard Nelson of Schumpeterian and evolutionary approaches to development. In Chapter 19, Rainer Kattel, Jan Kregel and Erik Reinert summarize key arguments by the so-called development pioneers working in the aftermath of World War II (such as Paul Rosenstein-Rodan, Hans Singer, Arthur Lewis, Albert Hirschman, Gunnar Myrdal and Ragnar Nurkse). Robert Boyer dissects the relationship of *régulation* theory to development in Chapter 20. In Chapter 21, José Gabriel Palma takes a closer look at one of the key development theories from Latin America, the ‘dependency school’ and its aftermath. Feminist approaches to development have hugely gained in importance over the last decades and they are discussed by Maria Sagrario Floro in Chapter 22.

Three major scholars who contributed significantly to the understanding of the process of development as well its uneven trajectories are considered individually. Rodrigo Arocena and Judith Sutz assess the contributions of Christopher Freeman (Chapter 23); Michele Alecovich discusses the insights provided by Albert Hirschman (Chapter 24) and Jayati Ghosh considers how Michal Kalecki saw less-developed countries as fundamentally different from developed capitalist economies (Chapter 25).

Part III of the book includes specific discussions of varied issues in development thinking, starting with the discussion by Sam Moyo, Praveen Jha and Paris Yeros of the agrarian question. In Chapter 26 they trace the evolution of the agrarian question, in particular by taking issue with the dominant wisdom which has remained largely trapped in industrialization discourse. Jan Kregel provides an overview of approaches to the financing of development at both national and international levels in Chapter 27. In Chapter 28, C.P. Chandrasekhar takes a closer look at development planning, which gained ascendancy in the period immediately after World War II when decolonization led to the emergence of a number of newly independent underdeveloped countries. Scandinavian countries have come to epitomize development success stories, so in Chapter 29, Lars Mjøset charts in detail the route these countries took over the course of the past two centuries. Competitiveness is one of the ubiquitous terms that is laden with normative assumptions; in Chapter 30, Mehdi Shafaeddin delivers a discussion of competitiveness and development from a Schumpeterian perspective. This is followed by bringing innovations systems theory, one of the more potent outgrowths of Schumpeterian theory, into the context of development, by Bengt-Åke

Lundvall in Chapter 31. The following two chapters are closely related: in Chapter 32, John Mathews contextualizes China's rise within the discussion of latecomer development proposed by Alexander Gerschenkron and Alice Amsden; and in Chapter 33, Elizabeth Thurbon and Linda Weiss track the evolution of the concept of the developmental state from its historical origins to its potential in today's development discussions.

The next four chapters take closer, detailed looks at specific facets of development and alternative advances in our understanding of these issues. Edward Barbier and Jacob P. Hochard in Chapter 34 challenge the widespread perception of poverty–environment relationships in developing economies which holds that because many of the poor people in developing regions are located in fragile environments, they must be responsible for the majority of the world's ecosystem degradation and loss – even though their livelihoods are directly affected by such environmental destruction. In Chapter 35, Ajit Singh explores the connections between competition, competition policy, competitiveness, globalization and development. Leonardo Burlamaqui maps the fundamental changes that have taken place in the field of intellectual property rights and regulations over the last three decades, and offers in Chapter 36 an alternative paradigm of how to conceptualize intellectual property rights and their governance in the twenty-first century. Chapter 37 by Jürgen Backhaus shows the key importance of legal structures in development.

The last three chapters have a relatively sombre undertones as they discuss some of the more negative experiences of development. Fiona Tregenna offers a critical review of some central issues emerging from the literature on de-industrialisation in Chapter 38. This is followed by a discussion of one of the more drastic cases of industrial extinction, namely that of some of the post-Soviet states; Georgi Derluguian charts some of the consequences of these processes in Chapter 39. The final chapter of the book, Chapter 40 by Sylvi Endresen, Ioan Ianos, Erik Reinert and Andrea Saltelli, looks at utopias and dystopias facing us over the coming years.

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