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The Birth of Development Economics: Theories and Institutions

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# The birth of development economics: theories and institutions

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*Only in retrospect we do become aware that a birth has taken place.*

Benjamin J. Cohen, 2008

It is difficult to describe the birth of an academic field. When a coherent body of knowledge is organized around a subject of inquiry, we recognize the field easily. Apparently without difficulty, we are able to spot all those characteristics that institutionalize a field, such as acknowledged standards for training specialists, employment opportunities in universities and research centres, scholarly associations and meetings, specialized journals, and a shared set of foundational questions, texts, and analyses around which the debate revolves, and which evolve in time (Cohen 2008). The birthdate itself, however, is difficult to identify, perhaps because the birth of an academic field resembles more the formation of a planet system out of a disorderly nebula of celestial matter than the birth of a living being. It is easy to feel and gauge the growing energy, though it is difficult to see the actual moment of creation.

Not by chance, historians of academic disciplines, even when they show a basic agreement about the main characteristics of a field, are rarely unanimous about its origins. Often, the debate takes the mediated form of a search for antecedents of a certain discourse or concept that may open up new vistas on the actual origins of a disciplinary field. This, in fact, is not a useless exercise. More than on the birth as a discrete event, the focus is often on the sources of a concept, the geographic, political, and intellectual milieu in which they emerged, and how they have evolved. Certainly, this is the case for development historiography, as shown by the controversy over whether development was born with Truman's Point Four in 1949 or a developmentalist agenda was already a feature of the first half of the twentieth century. Depending on the answer to this question, different analytical propositions can be advanced: development as Cold War international politics or as a feature of the

high modernist state; development as neo-colonialism or as a somehow negotiated international political economy. Likewise, different historiographical perspectives may be privileged: development as the history of ideologies, or of institutions and policies, or of theories and practices, or a combination of all these elements.

Addressing the history of development from the point of view of the history of the disciplinary field that was erected on it addresses only a subset of the question briefly mentioned above. And yet, it offers a crucial perspective on the intellectual and institutional scaffolding that historically supported the broader development discourse and policies. In this sense, whatever the answer we give to the question of the antecedents, there is a moment, which need not be a specific point in time but can be a more or less precise period, when the gravitational force of certain ideas and policies gains in intensity, often in correlation with a changing historical phase and political agenda, and the borders of a new disciplinary field become apparent. The focus of this article will be on this transitional period, which I place in the 1940s and early 1950s, when the idea of development became the focus of a new academic field. The idea per se was not new, and, as Eric Helleiner shows in his contribution to this volume, had been already discussed and refined in very modern ways in the first half of the century. And yet, it was in the 1940s and 1950s that, for the first time, it was institutionalized in the new academic field of development economics.

In order to pursue this analysis, one must refer to the conspicuous concept of hegemony.<sup>1</sup> As I will argue, it is not possible to explain the birth of development economics as a distinct academic field without considering the changing hegemonic balance at the global level during the years of World War II and immediately afterwards. Not by chance, historians of development in the US, area recent sub-branch of historians of foreign relations, and they often find job positions under the

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<sup>1</sup> For a recent discussion of the history and different national declensions of the idea of hegemony, see Anderson 2017.

new label of “US in the World”. Development economics was born as part of the international political projection of the United States after the end of World War II.<sup>2</sup> And yet, this US-centric view, fundamental though as it is, is not a sufficient explanation. To understand the emergence of a development discourse after World War II, one needs also to consider the changing hegemonic role of Great Britain at about the same time, in relation, as is obvious, to the demise of the British empire and the birth of a number of new and eager-to-develop countries, but also in relation to the British plans—no less delusional than those of maintaining the overseas territories—to develop a hegemonic role in central and eastern Europe in the immediate aftermath of the war.

### **The prehistory of development economics**

Antecedents to development economics can be found in the distant past. As Pranab Bardhan (1993) put it, all Classical economists were, in a sense, development economists, as they focussed on the process of economic transformation that turned a country from being predominantly agrarian to being predominantly industrial. Their interest was not, as would later become customary in the economics discipline, about the conditions of economic equilibrium, but on the dynamics of economic change and, importantly, on the functional distribution of the fruits of growth among different classes. As Mauro Boianovsky shows in his contribution to this volume, twentieth-century development economists, especially W. Arthur Lewis and Hla Mynt would not forget the lesson of the Classics. At the same time, however, they did not fail to notice that the Classics observed the process of growth of the first industrial nation, and that their theories needed relevant adaptation to remain useful in the post-colonial era.

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<sup>2</sup> A foundational study on how a hegemonic country (or absence thereof) informs international trade, credit, and long-term growth is Kindleberger 1973.

Shifting the focus to more recent times, historians of development and modernization have offered important examples of the birth of the “developmentalist” or “high modernist” state in the first half of the twentieth century (Scott 1998). The Tennessee Valley Authority, whose influence would loom large on post-war development plans all around the world—though often more at a rhetorical than practical level—was established in 1933 by the Roosevelt administration to foster development in a deeply underdeveloped region of the United States through the implementation of multi-purpose, multi-year plans (Ekbladh 2010; Gilman 2003). On the other side of the ideological divide, the Soviet Union was committed to loosening the chains of underdevelopment and low productivity through massive industrialization and capital accumulation via low consumption (Kotkin 1995; Engerman 2003). The list could easily be longer.

Heinz W. Arndt (1987) mentioned Sun Yat-sen’s analysis of the opportunities for the international development of China in the 1920s, in which Sun Yat-sen discussed with impressive lucidity the role of industrialization, its influence on the broader transformation of a society’s habits and culture, the potentially positive role of foreign capitals for such an enterprise, and even the importance of managing these flows of capital through an international agency that would avoid the negative effects of bilateral economic agreements. As Helleiner has noted (2014, and his article in the present volume), Sun Yat-sen’s message arrived directly at the Bretton Woods conference of 1944 via the Chinese delegation, where not one but two (in principle, three) international organizations were established with the aim of governing the post-war economic landscape.<sup>3</sup> Of these organizations, the International Bank for Reconstruction and Development (IBRD), more commonly known as the World Bank, although initially meant to help war-torn European countries reconstruct after the

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<sup>3</sup> For a broader analysis of the pre-World War II origins of the development discourse, see Helleiner 2014.

war, quickly shifted its mission to the broader issue of development, in Europe as well as in other continents.

Sun Yat-sen's argument was particularly modern, insofar as it articulated one of the main rationales for the establishment of an international economic order based on the global spread of development. According to him, development was a major foundation of a lasting future peace. Without uncritically embracing all the manifestations of western capitalism, Sun Yat-sen considered national development based on international cooperation a crucial element for building a web of mutually advantageous economic relations that would make war meaningless. Indeed, Sun Yat-sen was not alone in considering international economic collaboration, as well as the development of backward regions, as a key to the establishment of international peaceful relations. This argument was repeated in endless variations during and after World War II in Europe, at the Bretton Woods conference, and afterwards.

And yet, despite the fact that "development" was not a new concept and that it conveyed a rather uncontentious meaning, what became standard development discourse in the post-war period did not have the same traction in the inter-war years. Moreover, whereas Sun Yat-sen's analysis is rightly presented as a particularly important instance of development *prehistory*, in fact his thought did not influence the birth of the discipline in the post-war years. Why, then, did development economics emerge in the years following World War II and not, for example, in the inter-war years?

### **Development economics and hegemonic states**

Obviously the two periods are historically very different. One element, however, seems particularly important, that is, the existence, in the transition between the war and the post-war period, of two hegemonic powers—one, Great Britain, declining, the other, the United States, rising—that had an active interest in the development issue as a tool of international relations. It should be clear from the outset that I am not arguing that

the presence of a hegemonic power was a sufficient condition. The demise of the colonial empires and the Cold War confrontation were also fundamental ingredients for the widespread emergence of the development discourse in the post-war years. In any case—and despite the fact that development economists have at times shown a certain impatience with the concept of pre-requisites of development—it is safe to say that development economics as a disciplinary field received a crucial impulse from (failed) British attempts at maintaining their pre-war global hegemonic role, and the concomitant rise of the United States as the new hegemon in the post-war period.

The situation was different in the inter-war period. As is well known, after World War I, the United States retreated from Wilsonian positions and refused to take upon itself any explicitly leading role at the international level. The European colonial powers were experiencing increasingly difficult situations in their empires. Moreover, the 1929 crisis hit the entire western world. As for the Soviet Union, having remained untouched by the crisis, it was committed to build “Socialism in one country”.

As we will see below, international relations circles in the United Kingdom were convinced, during World War II, that it was possible for Britain to acquire a hegemonic role in post-war, de-Nazified central and eastern Europe. And though that vision had more than a small grain of delusional thinking, the efforts that Britain put into developing its hegemonic role for guiding the post-war reconstruction and development of eastern European countries had a direct and important influence on the birth of development economics. In other words, if the British political project never actually took off, its intellectual legacy remained important. A hegemonic vision, though not realized in practice, exerted an important influence on development thinking nonetheless.

The lasting intellectual trajectory of development ideas initially conceived by British circles with regard to eastern Europe was possible mainly because many protagonists of the British experience maintained a role in post-war international development



organizations that people like Sun Yat-sen, who died prematurely in 1925, could not have.

This happened irrespective of the fact that the end of World War II marked Britain's loss of primacy on the global stage. In a very practical sense, this happened, at least in part, as a consequence of the demise of their (and the French, and the Dutch) colonial empires, when the increasingly redundant colonial apparatus reconverted to the bureaucracy of international development agencies (see, e.g., Hodge 2007). The post-war end of Europe's global primacy, and the restructuring of the international system around the pivot of the United States, also passed through the shift from the imperial concept of the civilizing mission to the new idea of international development (Cooper and Packard 1997).

The Cold War confrontation made it possible for the new development framework to find a steady and conspicuous flow of resources in bilateral and multilateral aid policies. And yet, the reference to hegemonic states must not obfuscate the importance that networks of scholars and practitioners had in giving shape to that set of theories, experiences, and analyses that filled development economics with contents. Those networks often trespassed the divide between "advanced" and less developed countries, and at times also the West-East ideological divide. Once born, moreover, development economics evolved in a somewhat serendipitous way. It was marginalized and expelled from places where it had initially found a propitious medium—most prominently, as I will discuss below, the World Bank. And it would often prosper in a continuing tension between independent research and highly politicized environments.

### **False start, birth, and early steps**

The shift in power that occurred between Britain and the United States during World War II is an important passage in the story of the birth of development economics. If Britain had lost the momentum for any regional (let alone global) hegemonic role, its

efforts at imagining the post-war reconstruction of central and eastern Europe are important elements for the subsequent history of development, for many ideas first conceived for the eastern European region directly migrated into, and were actually considered fundamental building blocks of, the newly born discipline of development economics in the post-war years. The institutional home for this study in post-war reconstruction and development was the Royal Institute for International Affairs, also known as Chatham House.

Chatham House was born out of the disappointment of a number British foreign officers and government advisors with the position held by the British delegation at the Paris Peace conference, and especially for the reparations clause that burdened Germany with a formidable war debt towards the victorious countries. The people who founded Chatham House considered British foreign policy irrational, uninformed, and dangerous for long-term European stability, and they saw a major problem in the continuing economic conflicts among countries which had barely survived the largest slaughterhouse of recorded history. John Maynard Keynes, arguably the most perceptive representative of the British delegation at the Paris conference, left in outrage and went public with a famous essay, *The Economic Consequences of the Peace* (1920), in which he warned against the dangers that loomed ahead. The deliberate and punitive impoverishment of Central Europe was, according to Keynes, a suicidal policy for the entire continent, and the focus on territorial and political borders distracted the attention from the true bone of contention, whose solution was the only way to bring peace and security to Europe: the economic issue. If war, as von Clausewitz's dictum goes, is the continuation of politics by other means, it was also clear to Chatham House scholars that international economic relations could become the continuation of war by other means, or worse, be just an interlude between wars.

Cassandra's predictions are usually very precise, and those of Keynes's were no exception. The Weimar Republic had a troubled life, Hitler seized power in 1933, the many small countries born out of the dissolution of the Central Empires always

remained fragile entities, international conferences proved completely inconclusive, and by early September 1939 World War II had begun.

That two world wars began on the eastern European front was not the result of chance. Eastern Europe had long been the major target of German expansionism, the only area that could satisfy Germany's claim to a larger *Lebensraum* ("living space"). On this specific issue, the Nazis were merely the last representatives of a nationalist tradition that dated back at least to the mid-nineteenth century, although the building of a Nazi European Empire centred on eastern Europe was a major element of their long-term strategy (see Mazower 2008).

But German European imperialism was only part of the story. In fact, eastern Europe was considered a strategic area also by other powers, Great Britain in particular. As British geographer Halford Mackinder had been arguing since 1904, commanding eastern Europe was the strategic "pivot" to expand one country's hegemony first to the Eurasian continent and then to the entire world (Mackinder 1904). Imperial views, apparently, share a certain family resemblance.

As a consequence of these hegemonic visions, in 1942 Chatham House embarked in a huge research effort aimed at preparing a strategic plan for the development of eastern Europe after the end of World War II. As the thinking went, only a developed eastern Europe would be strong enough to resist the expansionistic goals of other continental powers. Development, however, did not mean full-fledged independence. A Chatham House confidential document made it clear that the reconstruction of eastern Europe not only was desirable for European stability, but its initiative had to be taken by Britain in order to maintain its hold on the entire area.<sup>4</sup> The same hegemonic

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<sup>4</sup> "Proposal for a Private Members' Study Group", July 14th, 1939, p. 2, 9/18a, Chatham House Archives.

attitude towards eastern Europe reappeared in a particularly visible way in negotiations with the other allied powers at the 1943 Teheran conference.<sup>5</sup>

The chairmanship of the Economic Group at Chatham House was entrusted to a very competent yet still rather obscure Polish economist from University College, London, Paul N. Rosenstein-Rodan, who summarized the framework of the Chatham House research in a 1943 article titled “Problems of Industrialisation of Eastern and South-Eastern Europe”.<sup>6</sup> Rosenstein-Rodan’s article reassembled elements of the economic debate of the inter-war period in an original way, de facto defining a number of theoretical and policy issues that would become the core of the new discipline of development economics in the post-war years. Jagdish Bhagwati defined it “the most beautiful piece of creative writing on development” (Bhagwati 2000, p. 38), and its influence was so widespread that many scholars consider it the birth certificate of development economics. Rosenstein-Rodan’s article defined what would become orthodox development economics in the 1950s, and even opponents of his approach defined their position in direct conversation with his analysis (e.g., Hirschman 1981).

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<sup>5</sup> See for example the Tripartite Political Meeting, December 1, 1943, in FRUS 1961, pp. 596-604.

<sup>6</sup> Rosenstein-Rodan later claimed that his 1943 article and the research on which it was based dealt with eastern and south-eastern Europe only because the scholars who were in London during the war were mainly from that area, but that the main interest was, from the very inception of the research, to study problems of underdevelopment in general (see, for example, Paul Rosenstein-Rodan, oral history interview, August 14, 1961, Fonds 01, Columbia University Project; WB IBRD/IDA 44 Oral Histories; World Bank Group Archives). The Chatham House archival documents, however, clearly show that the first reason for the study—which began in 1941-42—was strictly about central and eastern European postwar reconstruction and development. Only later, the study was rebranded as just one case study in underdevelopment.

Rosenstein-Rodan's thesis (1943) is sufficiently known to make it possible to mention here only the most important elements. First, Rosenstein-Rodan emphasized the presence in the region of a huge agrarian overpopulation with zero or close to zero marginal productivity. Second, he discussed the institutional and cultural elements that made it difficult for a backward region to industrialize, such as the lack of training of first generation industrial workers. Third, he underscored the economies and diseconomies of scale and complementarities among different industrial sectors that would make it difficult for single entrepreneurs to establish new factories without coordination with other productive activities. He also noticed the complementarities on the side of the demand, implying how the passage from an agrarian to an industrial economy means a parallel shift from a non-monetary to a monetary economy. Fourth, he stressed the need for a regional planning organization to overcome coordination problems and diseconomies of scale. In sum, unlike a Manchester-style small-scale, low capital, dispersed, bottom-up industrialization, Rosenstein-Rodan and his group deemed it necessary a planned, large scale, capital intensive industrial effort. Nowhere in the article one can find the term "big-push", and yet Rosenstein-Rodan 1943 publication is usually credited with having introduced it in the economics literature (in the same way Simon Kuznets's 1955 article is credited for having introduced the "inverted-U" in economic distribution literature, despite the fact that Kuznets not only does not chart any inverted-U, but does not even mention it).

The influences to Rosenstein-Rodan's article are many and important. Surely, the Keynesian revolution carried an important weight. As Hirschman later wrote, its influence was due perhaps more to having shown that the ice of mono-economics could be broken than to any specific contents (Hirschman 1981). The focus on the demand side and the role of stimulus delegated to governmental agency had, however, a Keynesian flavour. Also of Keynesian origins was the concept, implied in the discussion of agrarian overpopulation, of disguised unemployment. However, the Keynesian version of this concept, famously proposed by Joan Robinson in 1936, dealt with an altogether different concept of disguised unemployment from that referred to by

Rosenstein-Rodan. Robinson observed how, in periods of crisis, workers who lost their jobs were forced to accept jobs with far lower qualifications. The higher productivity of those workers was thus hidden by their new employment, for which they were overqualified. Rosenstein-Rodan, on the contrary, observed a population which was simply too large for the land that fed it. In principle, no overqualification was involved. As Joseph Love has noticed (1996), this analysis of an unskilled excessive agrarian population was typical of economic analyses of central European (and especially Roumanian) economists of the inter-war period. In sum, Rosenstein-Rodan applied a concept of disguised unemployment that was conceptually different from the Keynesian concept. Whereas the Keynesian concept stemmed out of an economics of the crisis, Rosenstein-Rodan's concept stemmed out of an economics of backwardness. Other important influences were, obviously, Allyn Young's analysis of increasing returns, but also the less immediately development-related microeconomic research that Rosenstein-Rodan pursued in late-1920s Vienna, especially his analysis of the process by which equilibrium is reached through series of adjustments, and cases of increasing disequilibrium.

The Soviet takeover of eastern Europe made the British effort useless. The Chatham House group dissolved, but their experience was not wasted. Michael Kalecki, Kurt Mandelbaum, E. F. Schumacher, all prominent development economists in the postwar years, all worked in close relation to Chatham House. Paul Rosenstein-Rodan, in particular, joined the newly established IBRD, which, in 1946-47, was virtually entirely focused on the reconstruction of the European economy.

Interestingly, the Bank initially paid great attention to the balance of payments problems of client countries, and disbursed a small number of loans that had the primary goal of providing European countries with much needed hard currency for imports. It is worth noticing the character of these loans here, because they indirectly point to a number of relevant issues of the early post-war period. First, the Bank was doing a job that in theory was part of the mandate of the International Monetary Fund (IMF). As contemporary observers noted, however, the Bank had a much more

effective start, whereas the IMF found itself harnessed by problems of currencies inconvertibility and multiple exchange rates (Kindleberger 1951).

Second, the Bank had nowhere near the resources to provide a lasting solution to the major problem of those years, that is, the dollar shortage. If in 1947 the Bank loaned to European countries approximately \$400million, the Marshall Plan brought to Europe an average of 3 to 4 billion dollars per year. The Bank was thus soon marginalized as the primary recovery organization in Europe. And yet, this overlap with the Marshall Plan was nonetheless useful. A third point to be noted is that the Bank, while shifting its focus from reconstruction to development goals, incorporated some important elements of the Marshall Plan experience as well as of its early loans. Development plans were in those years calibrated against the exchange reserves of European countries. European countries that focused on labour intensive development plans such as land reclamation, irrigation schemes, and dam constructions, financed them in local currency, whereas the Bank supported the impact that domestic development plans had on the balance of payments. Replicating a crucial element of the structure of the Marshall Plan, the Bank loaned dollars to a country, which opened a counterpart fund in domestic currency and put aside the hard currency to increase its exchange reserves.

This was an effective if unorthodox approach by the Bank. Despite the limitations of its Articles of Agreement, in fact, the Bank was able to provide member countries with much needed financial resources. It is also worth noticing that the next time the Bank shifted its focus away from making loans for specific projects to supporting macroeconomic fundamentals, in the 1980s with the Structural Adjustment Loans, the results were much poorer both in terms of final results for the borrowing country and reputational loss for the Bank.

The connection to the British plans for the development of eastern Europe emerges not only from similar analyses of the causes of economic backwardness (agrarian overpopulation and very low productivity) and similar solutions (industrialization). It

was also the result of early instances of a network of scholars that would be later remembered as “pioneers” of the discipline. Paul Rosenstein-Rodan, by then in the Economic Department at the Bank, became the Bank’s principal negotiator for a series of loans to Italy. The resulting agreement provided for a domestic plan of development very much along the lines of the plans for eastern Europe, only this time the excessive agrarian population was that of the Italian South, described by an external observer as “one of the poorest and most over-populated of the countries of Western Europe” (Duff [1947] 1955, p. 409). In the Cold War scenario that in those years was quickly re-shaping international relations, the poverty of Southern Italy and its possibly explosive social and political conditions became a matter of foreign policy for the Western camp and especially its leading superpower, the United States. As the State Department argued with specific reference to Italy, “the economic well-being of a country is a primary factor in its internal stability and peaceful relations with other states”.<sup>7</sup> In the months approaching the Italian 1947 political elections, another officer at the State Department proposed a “mixture of flattery, moral encouragement and considerable material aid” to “prevent Italy going communist”.<sup>8</sup> A World Bank report of August 1948 echoed these recommendations. Without external aid, it concluded, it would be difficult to carry out “an economic program sufficiently comprehensive to eliminate entirely the threat of political extremism in the predictable future”.<sup>9</sup>

Rosenstein-Rodan is a particularly important example, but one could easily mention other pioneers of development who worked in and studied Italy. Hollis Chenery, for

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<sup>7</sup> “The Treatment of Italy,” CAC document 248, August 31, 1944, cited in Harper 1986, p. 8.

<sup>8</sup> Walter (Red) Dowling to H. Freeman (Doc) Matthews, November 21, 1946, cited in Harper 1986, p. 109.

<sup>9</sup> “Italian Economic Report,” IBRD, Loan Department, August 31, 1948, Report L-48, World Bank Group Archives.



example, worked on Italy for the Marshall Plan administration and wrote extensively on the development of the Italian economy. Alexander Gerschenkron, Richard Eckaus, and Albert Hirschman are other prominent cases in point. In sum, the Italian South became a standard case study for social scientists interested in the structures of social and economic backwardness and in the ways to overcome them, kindling, as was the formula in those times, a process of self-sustained growth. To read the list of scholars who visited Italy in the early 1950s is like reading a *Who's Who* of development studies.<sup>10</sup>

### **The institutional framework: small and big actors**

Obviously, Italy was neither the only nor the first cradle of development studies, though it was an important one, both because of the sub-national character of its underdevelopment problem (the North was economically much more developed, and the central government institutions were culturally sophisticated) that made underdevelopment appear quickly solvable, and because it worked as a necessary link for earlier British plans to be put in practice and to become part of the larger development discourse. We can still agree on the second point. As for the first one, Southern Italy is now a case study of stubbornly *unsolvable* backwardness.

If economists and social scientists visited Italy and other areas in the world to study the problem of underdevelopment, it was also because there were institutions that needed their services, commissioned them reports, and paid for their trips. We have already mentioned the World Bank and the IMF. The United Nations became also a centre of international research, although uneven both in terms of organization of the research effort and results. At the UN Headquarters, the work of Dudley Seers and Michael Kalecki was very important, and obviously one must not forget here the work

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<sup>10</sup> For a more in-depth discussion of the Italian case in the global development discourse, see Alacevich 2018.

of the UN regional commission for Latin America, CEPAL (see Joseph Love, this volume).

The role and participation of these organization in the development discourse, however, was checkered. In particular, the influence of the World Bank on the birth of development economics was remarkably limited to only its early years of activity. Independent development thinking was accepted with increasing difficulty by the Bank's higher officers, who privileged "applied economics", as they put it, against any development theorizing. In retrospect, this was not surprising, given the Wall Street provenance of all the Bank's major officers. And yet the Bank proved more conservative than the US Republican administration. While the Bank insisted on directly productive loans, the Eisenhower administration considered trickle-down economics too slow a mechanism to stop Communism abroad. As a US government publication highlighted, industrialization had to be "accompanied by education, modern public administration, and socioeconomic changes to help assure that a large percentage of the people benefit from the growing wealth of the nation" (Legislative Reference Service 1968 [1959], p. 78; see also Alacevich 2011).

Early development economics, thus prospered best in the space that opened up between government and the academy. A number of academic think-tanks and governmental or regional development agencies mushroomed all around the world. In the US, the Center for International Studies (Cenis) at MIT quickly became an important powerhouse of development theories and policies, and the major propagators of modernization theory (See Gilman's paper in this volume). In the US, Yale, Harvard, and Stanford, just to mention some of the most renowned universities, each had centers for development studies. Abroad, one can mention the Indian Statistical Institute, the Italian Svimez, and the Brazilian Sudene.

## **The development profession**

As Gunnar Myrdal wrote, it was the sphere of politics that cued to the reorientation of economic research toward the problem of underdevelopment (Myrdal 1968). The development question entered academia, attracting funds for the establishment of research centres and the ears of attentive politicians who needed informed opinions on matters of international relations, and a new academic field was born. New publishing outlets appeared that focused on development studies and development economics, career opportunities opened up, research was systematized in a canon, and from the mid-1950s courses began to appear in a number of universities. John K. Galbraith had a seminar in development at Harvard, soon followed by Edward Mason, while at Stanford new courses in development were initiated by Paul Baran and Hollis Chenery (Chenery 1992). Galbraith summarized the growing interest in the development issue in a personal memo of the mid-1950s:

There is a growing interest among graduate students in the problems of poor countries, and we have an expanding course offering in this field . . .

The subject matter of this field distinguishes itself most sharply by its application to comparatively primitive economies. Virtually all of our other course work is concerned with the sophisticated economic society in which markets and factor markets reflect modern forms of organization. The problems of price and wage determination, resource allocation, and perhaps particularly of capital formation, all reflect the existence of highly developed institutions. The undeveloped countries do not have such institutions or they are partial or primitive. As a result, problems take on a distinctive form . . .

Thus it seems fairly clear that there is an important and separate field of study here.<sup>11</sup>

It is important to notice, however, that except for a small number of cases of “autochthonous” development schools in less developed countries, the research and teaching and the production and reproduction of scholarly cohorts propagated mainly from the United States and, to a minor extent, Britain. This happened both for research studies, such as PhDs in development economics, and for training schools for practitioners and bureaucrats, such as the World Bank’s Economic Development Institute, established in 1955 and directed by Sir Alec Cairncross. Initially conceived as a research centre that would be able to build on the unparalleled experience that the World Bank was accumulating in the development field, it soon turned into a training school for high officers from development agencies or ministries of less developed countries who would constitute the interface of World Bank officers when discussing loans to their countries. The Bank, in other words, was forming its counterpart officers at the country level.

Finally, those few institutes that were based in less developed countries were also often directed and populated by officers of newly independent countries who had studied in the metropole, and hosted scholars who had studied in US and British universities and who belonged to the same, rather small, network of people. But brevity here is the enemy of clarity. It is not my intention to convey the message that this was a malicious scheme by hegemonic countries. Rather, clearly, the diffusion of knowledge and of a canon spread from certain centres toward a large periphery.

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<sup>11</sup> John K. Galbraith, “Economic Development as a Proposed Field”, no date but 1955 or 1956, as reported in Alacevich 2016, p. 643.

## **The theoretical core**

One fundamental element of the birth and of the early theorizing of development economics was the practice in the field that many of its “pioneers” experienced. In other words, there was a loop between practices in the field and the search for policy solution, the systematization of broader observations into theories, and the application of theories again in the field. The case of Hirschman, in this sense, is paradigmatic, as he moved to a less developed country (Colombia) as a development expert indicated by the World Bank, in fact—as he noticed—with no experience of development issues.

Hirschman’s development masterpiece was a mainly theoretical work based on his Colombian experience (Hirschman 1958). As Hirschman explained, his book was a theoretical spillover of his policy-making activity in Colombia, when he felt increasingly at variance with theories usually accepted as development orthodoxy, subsumed under the label of balanced-growth approach. From Hirschman’s field experience, thus emerged the highly theoretical diatribe between balanced- and unbalanced-growth, of which Hirschman’s 1958 book was one of the mandatory readings alongside a concomitantly but independently written article by Paul Streeten (1958).<sup>12</sup>

As I argued elsewhere, however, observing those opposed theories applied in the field is highly instructive, as in practice they were much closer than in theory. The dialectic between opposing theories, in other words, depended not in small part on the locus of confrontation—the field or the world of publications, the territory of policy-making or the territory of intellectual diatribe. The geometry of the debate, in a sense, changed as

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<sup>12</sup> For analyses based on a balanced growth approach, see, for example, Rosenstein-Rodan 1943; Nurkse 1952; 1953; Nath 1962; and Dagnino-Pastore 1963. The most important works supporting an unbalanced growth approach are Hirschman 1958; and Streeten 1959. For assessments of the controversy, see Little 1982 and Chenery and Srinivasan 1988.

a consequence of its being grounded in theory or in practice, although its protagonists admitted it only with difficulty (or not at all).

Leaving aside the heated theoretical controversies that animated early development economics, and the discrepancies that one can observe between theory and practice, it is possible to summarize early development economics as being characterized by an emphasis on economies of scale, complementarities, and discontinuities. External economies were not new in economics; they appeared prominently in Alfred Marshall's work, for instance (Marshall 1920 [1890]). Yet, early development economists lamented, explicitly or implicitly, that they had remained separated from mainstream analysis. Ragnar Nurkse, for example, studied the apparently inescapable condition of low-productivity of less developed economies as a result of indivisibilities and complementarities impossible to be overcome without a manifold increase in investments. Rosenstein-Rodan insisted that, on the demand side, industries had a crucial complementary role for mutually establishing a market large enough to make production efficient and convenient (see, for example, Rosenstein-Rodan 1943, 1953, 1984). As Nurkse highlighted, bottlenecks on the demand side could be overcome "in the case of a more or less synchronized application of capital to a wide range of different industries. Here the result is an overall enlargement of the market and hence an escape from the deadlock" (Nurkse 1952, p. 572).

Opponents to the balanced-growth approach of Rosenstein-Rodan's and Nurkse's such as Hirschman and Streeten, though skeptical about the planning abilities of development agencies, did not really question the problem of indivisibilities and complementarities that attracted so much attention by their colleagues. They aimed instead at showing the path through which specific economic decisions could overcome the strictures posed by indivisibilities and complementarities.

## **The crisis of development economics**

The brief sketch presented here cannot do justice to the richness, inventiveness, and passion of early development economists. Its only goal was to offer a few elements to understand how the discipline came to light in the early post-war years. Development economics grew quickly for a number of years, and this account may perhaps find a natural endpoint in the pause that it experienced in the early 1960s, when many pioneers perceived a sense of crisis. Grand theoretical debates such as the balanced vs unbalanced growth diatribe had not provided convincing solutions to the problem of underdevelopment, and which policies had worked and which had not remained unclear. Development organizations, both multilateral and bilateral, did not even have an established evaluation function, and would be unable, if requested, to provide reliable information on the effectiveness of their development projects, except for a very narrow yardstick of financial return. Only in the 1970s would this situation change.

As Hirschman suggested, it was time to leave grand theories behind, and study the development process in detail, in its historical unfolding and in its projects (Hirschman 1963; 1967; 1968). In the 1970s, a new phase opened up, which invited a broader reconsideration of what the goals of development should be—or, as Paul Streeten (1981) aptly titled a book on basic needs, on putting *First Things First*—but also left the still young discipline open to harsh criticisms, according to which the structural approach that the early generation of development economists had privileged had ultimately proven to be a failure (e.g., Little, Scitovsky, and Scott, 1970). Henceforth, development economics would increasingly lose its disciplinary autonomy, and in time it would be reabsorbed by mainstream economics as one of its applied branches.<sup>13</sup>

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<sup>13</sup> For a discussion of this, see Alacevich 2017.

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