

EARLY DEVELOPMENT ECONOMICS DEBATES REVISITED

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Development economics in its early years created the image of a fierce fight between advocates of contrasting theories or approaches—"balanced growth" vs. "unbalanced growth," or "program loans" vs. "project loans." This view has the merit of highlighting such conflicts in great detail; yet, it fails to take into account the reality of development economics as it was practiced in the field. This paper reassesses these old conflicts by complementing the traditional focus on theoretical debates with an emphasis on the practice of development economics.

A particularly interesting example is the debate between Albert Hirschman, one of the fathers of the "unbalanced growth" approach, and Lauchlin Currie, among the advocates of "balanced growth," on how to foster iron and steel production in Colombia in the 1950s. An analysis of the positions held by these two economists shows that they were, in fact, much less antithetical than is usually held, and, indeed, were in some fundamental aspects surprisingly similar.

Debates among development economists during the 1950s thus must be explained—at least partially—as the natural dynamics of an emerging discipline that took shape when different groups tried to achieve supremacy—or at least legitimacy—through the creation of mutually delegitimizing systemic theories.

Harvard University, the Minda de Gunzburg Center for European Studies. I would like to thank Pier Francesco Asso, Jean-Jacques Dethier, Valentina Kalk, Paolo Ramazzotti, Paul Streeten, Paola Villa, and two anonymous referees for their useful comments and insights on a previous version of this paper, and the staff of the World Bank Group Archives and of the Rare Book, Manuscript, and Special Collections Library of Duke University, Durham, NC, for their invaluable assistance. The usual disclaimer applies. This paper is part of a larger research on "The Evolution of Development Economics and the Role of the World Bank: Archival Inquiries 1948–1968," supported by the Research Committee and the Archives of the World Bank. For contacts alacevich@fas.harvard.edu and michele.alacevich@gmail.com.

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We are forced to think that humanity can only proceed through polemics, and that changing proportions and measures is necessary for humans who fight to affirm their ideals.

Chabod [1961]1989, p. 65

I. INTRODUCTION

The study of economic development followed a path from the center to the periphery of economics—as Bardhan noted. This marginalization was partially masked by the fact that this discipline was being progressively recognized as being entitled to a specific identity. In other words, it was progressively institutionalized and marginalized. “The classical economists of the 17th, 18th and early 19th century were, of course, all development economists,” (Bardhan 1993, p. 130) but it was only after 1940 that development economics acquired a well-defined connotation as a discipline dedicated to the study of the causes and solutions for economic backwardness. The outbreak of the Cold War; the birth of many new and poor autonomous states; and the action of intellectual elites, within those new states, that imported the ideals of modernization and industrialization from metropolitan countries were among the principal causes of the new relevance that the subject of development economics had suddenly acquired (Myrdal 1968; Rostow [1960] 1990).

This paper focuses on the process that led to the shaping of this new discipline through the use of archival material witnessing the activities of two outstanding and pioneering development economists. It deals with the identity of this discipline such as it emerged from debates among its “pioneers.” It deals neither with the relation between development economics and the broader field of economics, nor with the elements that allow the identification of development economics as an inherently consistent field of study.

Usual analyses tell the story of a fierce confrontation between completely antithetical theories or approaches, impossible to compromise. A perfect example is the “balanced growth” versus “unbalanced growth” theoretical controversy, with its practical equivalent of “program loans” versus “project loans.” “This controversy,” as Ian M.D. Little wrote, “was the most prominent of all in the development literature of the 1950s” (Little 1982, p. 44). In syntheses, readers, and encyclopedias on development economics, this controversy is referred to as a milestone in the foundational years of the discipline.¹ Of comparable importance was probably only W. Arthur Lewis’ elaboration of a dual-sector model in 1954. Paul Krugman (1994, p. 40; see also Krugman 1993) referred to those pioneering debates as “the glory days of high development theory.” It is very telling that, in Krugman’s reconstruction, these glory days span from the 1943 article by Paul Rosenstein-Rodan, which inaugurated the literature on balanced growth, to 1958, the date of publication of Albert Hirschman’s book, which attacked it.

On various occasions, Hirschman offered some hints on the circumstances that generated his theories. In the preface to his *The Strategy of Economic Development*,

¹Recent examples are Meier (2005) and Clark (2006). See, for example, the entry on Albert O. Hirschman by Osvaldo Feinstein.

published in 1958, Hirschman stated that the main goal of his book was “to elucidate my own immediate experience in one of the so-called underdeveloped countries,” that is “to reflect on my Colombian experience” (Hirschman [1958] 1963, pp. v, vi). His observations during his stay in Colombia—as he again explained in an article written in the 1980s—“remained key elements of the conceptual structure that I erected three years or so later in *Strategy*” (Hirschman 1984, p. 94).

Albert Hirschman spent four years in Colombia, from 1952 through 1956, first as a World Bank’s economic advisor to the Colombian government, and then, after he left the World Bank, as an individual economic consultant for municipal agencies and the private sector. In his advisory role to the government, Hirschman was to replace the previous World Bank’s appointee, Lauchlin Currie, who had been in Colombia for three years already, initially as the head of the World Bank’s general survey mission to Colombia. However, they in fact overlapped and were members of the same advisory bodies, because meanwhile, and unexpectedly for the World Bank, Currie had been appointed by the Colombian government as its own economic advisor. As it happened, it was not long before the two economists reached the point of mutual intolerance. In a 1994 interview, Hirschman remembered this situation: “I felt a bit frustrated. In addition, I had conflicts with other American consultants . . . especially with one, Lauchlin Currie, a Canadian who had been part of Roosevelt’s ‘brain trust’ and was a man of considerable intelligence” (Hirschman 1998, p. 81).² The two economists experienced this conflict as a clash between opposing visions: on one side, Currie advocated for broad and balanced policies of intervention, which encompassed a variety of sectors and required the development of planning skills by government bodies. On the other side, Hirschman favored specific investments that would trigger a cascade of further investments that, in turn, through a fundamentally unbalanced process of advancement, would enable the economy of the country to grow. Colombia was one of the first countries where the principles of development economics were put into practice; that practice, in turn, helped shape the principles of the discipline and define its contents. Currie became an influential expert in the country. His approach was influenced by the continuous back-and-forth between the practice of economic advising and theoretical reflections. Currie found himself in the unique situation of advising the same country for over forty years. While he ended up not having an extensive direct experience in other countries, the positive aspect of this long “relationship” is that it gave him a very solid and consistent ground on which to test, develop, and evolve his thought. Hirschman, instead, came back to the United States from Colombia and his conflicts with Currie in 1956 with a body of observations that formed the basis for his 1958 book. The Colombian experience and the clash with Currie’s strategy of balanced growth were fundamental in the shaping of Hirschman’s ideas.

Thus, the Currie-Hirschman debates allow us to observe the evolution of the key elements of Hirschman’s strategy, and compare them with the policies proposed

²Today, Lauchlin Currie is known mostly to specialists in the history of development economics or to students of the Great Depression and the New Deal because of his previous experience in the Roosevelt administration, while Albert Hirschman’s fame has trespassed the boundaries of economics and reached broad audiences in the fields of sociology and political sciences. But it should be kept in mind that Lauchlin Currie had been one of the most influential economists in Washington during the 1930s and the 1940s, and for this reason the World Bank had chosen him to head its mission to Colombia, the Bank’s first general mission to a developing country.

and implemented by Currie. I will do this using archival material on their reflections about a typical issue in the industrialization process: the heavy industry, specifically the iron and steel production.

The nature and the real extent of those conflicts are the main subject of this article. My aim is to reassess them and show how they have usually been overemphasized. As a matter of fact, the actual positions of these two scholars were closer than one would think, and their respective approaches of balanced and unbalanced growth, when observed in their practical applications, much less antithetical. This is not to say that the common reconstructions of those early debates are wrong. On the contrary, they accurately report the different positions and the clash that developed between them. Still, they fail to sufficiently take into consideration the reality of development economics as it was practiced by those very scholars whose books and articles are the basis for today's reconstructions of the early years of their sub-discipline. If the practice of development economics were taken in more serious consideration by scholars of the discipline, theoretical conflicts would need to be reassessed. In other words, we should take into account that there was a gap between the debates in the *journals* and their origins in the *field*. Often, economists agreed much more in practice than they did in theory.³

To show this discrepancy between journal debates and field practice, I will first describe the early debates that shaped development economics and emphasize how the various factions perceived each other in mutual opposition. Since the World Bank is an important actor in this process, I will also describe how those debates reverberated inside it. Then, I will narrow the focus on one particularly important disagreement between Lauchlin Currie and Albert Hirschman, regarding the iron and steel industry in Colombia. My aim is to show that even if they fiercely opposed each other from a theoretical point of view, in their practical advisory activity they shared a common ground. I will then offer a new interpretation of those early debates, framing them within the mechanisms, typical of a new-born scientific community, of theory building, mutual delegitimation between opposing factions, and competition for leadership within the discipline.

II. DEVELOPMENT APPROACHES: BALANCED VS. UNBALANCED GROWTH

The debate between opposing approaches of balanced and unbalanced growth originated in 1943 with the seminal article by Paul Rosenstein-Rodan on the problems of industrial development in eastern and southeastern Europe.

Rosenstein-Rodan's starting point was the recognition of an "agrarian excess population"; in other words, a condition of "disguised unemployment" in the agricultural sector that made productivity of the population in excess equal—or close to—zero (Rosenstein-Rodan 1943, p. 202). The solution proposed by the author was

³This paper does not intend to demonstrate that those early debates were useless or meaningless. Some commentators have noted that those debates, far from being useless, were essential in the process of growth of the discipline. This paper is consistent with this view, and it pays homage to that method of fruitful partisan discussion.

to transfer this excess population to an industrial sector that was to be built *ex novo*. This sector would have to be treated “like one huge firm or trust” (1943, p. 204).

Even though Rosenstein-Rodan did not explicitly mention a policy of “balanced growth,” this is what he was *de facto* proposing when he suggested considering the industrial sector as an indivisible and unified enterprise. As an example, he used a shoe factory: if taken individually, it would have been strangled by insufficient demand.

If, instead, one million unemployed workers were taken from the land and put, not into one industry, but into a whole series of industries which produce the bulk of the goods on which the workers would spend their wages, what was not true in the case of one shoe factory would become true in the case of a whole system of industries: it would create its own additional market (Rosenstein-Rodan 1943, p. 206).

Moreover, the article stressed the need for an initial phase of extremely focused effort to reach a stage of self-sustained growth. This was the concept of the “big push.”

The analyses at the basis of the balanced-growth approach were welcomed by the majority of scholars. In one of the most influential articles of the time in the field of development economics, W. Arthur Lewis built his model of a dual-sector economy on the same premises of Rosenstein-Rodan’s article; namely, the existence of excess population in a stagnating sector (mainly agriculture, but also urban casual jobs, petty retail trading, and domestic services). Like Rosenstein-Rodan, Lewis emphasized the need for fostering economic development through a transfer of excess population from the “subsistence sector,” characterized by low productivity, to the “capitalist sector,” which uses reproducible capital and is characterized by high productivity (Lewis 1954, pp. 140–142; 146–147). Equally fundamental, in Lewis’ view, was the acceleration of the accumulation process. In a widely quoted sentence he stated: “The central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 per cent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 per cent of national income or more” (1954, p. 155). This shift from a low to a high rate of savings and investments was the main feature of the economic “take off” of a less-developed country.⁴ Another important scholar, Ragnar Nurkse, elaborated on the concept of complementarities first put forth by Rosenstein-Rodan:

The difficulty caused by the small size of the market relates to individual investment incentives in any single line of production taken by itself. At least in principle, the difficulty vanishes in the case of a more or less synchronized application of capital to a wide range of different industries. Here is an escape of the deadlock; here the result is an over-all enlargement of the market. People working with more and better tools in a number of complementary projects become each others’ customer (Nurkse [1953] 1962, p. 11).

Nurkse concluded that “a frontal attack ... —a wave of capital investments in a number of different industries” could be profitable where individual investments would not have survived the limitation of the market (Nurkse [1953] 1962, p. 13).

⁴The scholar who most contributed to the divulgation of the “take off” metaphor is probably Walt W. Rostow ([1960] 1990).

These reflections, therefore, “while being themselves novel and heterodox, were rapidly shaping up in the 1950s as a new orthodoxy” (Hirschman 1984, p. 87). In an explicit reaction to this orthodoxy, however, some researchers viewed the process of economic development as substantially *unbalanced*—the two main supporters being Albert O. Hirschman and Paul P. Streeten.

Hirschman questioned the very fundamentals and the usefulness of the theory of balanced growth.

My principal point is that the theory [of balanced growth] fails as a theory of *development*. Development presumably means the process of *change* of one type of economy *into* some other more advanced type. But such a process is given up as hopeless by the balanced growth theory which finds it difficult to visualize how the “underdevelopment equilibrium” can be broken into at any point. . . . The balanced growth theory reaches the conclusion that an entirely new, self-contained modern industrial economy must be superimposed on the stagnant and equally self-contained traditional sector (Hirschman [1958] 1963, pp. 51–52, emphasis in the original).

Hirschman was convinced that posing the problem in terms of a missing element—primarily capital—was misleading. He considered the resources and the elements necessary for development as latent, hidden, perhaps unavailable but nonetheless existent. In a famous passage, he stated: “development depends not so much on finding optimal combinations for given resources and factors of production as on calling forth and listing for development purposes resources and abilities that are hidden, scattered, or badly utilized” (Hirschman [1958] 1963, p. 5).⁵

What mattered was not a missing element. Rather, it was the process of combination of factors. As Streeten put it, “One aspect of the case for unbalance is that it highlights the spots where action is needed most urgently, and thus economises in a resource often in short supply, viz. the power to take decisions” (Streeten 1959, pp. 182–183).

Secondly, but just as important, according to these scholars it was no longer necessary to concentrate the efforts needed to industrialize the country in a short period of time.

If one wants to move [straight] from one equilibrium position to the next—Hirschman wrote to André Gunder Frank in 1959—then, because of the discontinuities and invisibilities *that I take for granted*, the “big push” or “minimum critical effort” is indispensable. But if we assume that intermediate positions of development-stimulating disequilibrium are sustainable at least for limited time periods, then we can manage to break down the big push into a series of smaller steps (Hirschman 1984, p. 105, emphasis in the original).

It was, therefore, a search of “hidden rationalities” (Hirschman 1984, p. 91) that, through seemingly perverse or defective processes, could stimulate effective sequences of investment—a concept Hirschman fully explored through the idea of “backward” and “forward linkages” (Hirschman [1958] 1963).

⁵This concept was not completely new. It is worth noting that it was also present in the writings of the scholars whom Hirschman criticized. The attention given by Rosenstein-Rodan and Nurkse to “disguised unemployment” in agriculture was clearly an attempt to bring to light hidden or badly utilized resources.

The “linkages” led to the dismissal of synchronic solutions to the problem of industrialization, and replaced them with sequential solutions that were more appropriate to developing countries.⁶

III. DEVELOPMENT APPROACHES: PROGRAM LOANS VS. PROJECT LOANS

During the same years in which the discussions about balanced and unbalanced theories of growth were taking place, another dichotomy ignited a debate among development economists, this time between supporters of loans linked to overall programs of intervention and supporters of loans for single, specific projects.

Program Loans

Balanced development, as is intuitive, was conceived or promoted through planning policies. We have already seen that Rosenstein-Rodan recommended considering the entire industrial sector “like one huge firm or trust.” Lewis’ and other scholars’ theoretical emphasis on capital accumulation led to the application of planning policies. Even if Lewis refused “detailed central planning,” considering it “undemocratic, bureaucratic, inflexible, and subject to great error and confusion,” he was a strong supporter of what he labeled “piece-meal planning.” This, however, implied the need to influence significant variables such as “the level of exports, or of capital formation, or of industrial production, or of food production” (Lewis 1955, p. 384). Moreover, Lewis envisioned a major role for state intervention in the economy: “The little man can improve his own house, or his small farm [but] the biggest lump of investment has to be in public works and public utilities, and . . . there is need for vast expenditures by public and public utility agencies on roads, railways, harbours, electric power” (Lewis 1955, pp. 264–265).

It should be noted that from the 1930s through the 1960s, and especially in the 1950s, the question of planning as a means to resolve economic and social issues was thoroughly examined and debated. Already in 1936, Karl Mannheim wrote: “Society is almost ready to pass into a new stage [characterized by] boundless opportunities which a co-ordination of social techniques would put into our hands” (Mannheim 1936, p. 265). The post-war interest in planning had several causes. Partly, economic planning had become necessary for countries whose economies had been worn out by the war effort. Britain, whose government’s interventions in the economy were becoming permanent even against the government’s original intentions, is a notable example (Clay 1950). Partly, planning was deemed to be a particularly useful approach for regional development; the case of the Tennessee Valley Authority is the most renowned, and was studied and imitated in many

⁶Hirschman was inspired by Alexander Gerschenkron, who had applied the concept of “substitute factors” to the study of the industrialization processes of the so-called “latecomer” countries (Gerschenkron 1962, but his most important essays are from 1952 and 1957). Hirschman tried to reproduce this scheme in his analysis of developing countries, thus inventing “sequences . . . that seemed questionable or *al revés* (the wrong way around) from the commonsense point of view” (Hirschman 1984, p. 94).

countries, such as Colombia, Italy, and Peru. Furthermore, planning was considered to be an answer to tackle the problems of fast and chaotic urban growth.⁷ As regards advanced economies, several scholars emphasized the increasing role of large and highly bureaucratic economic organizations, characterized by separation of ownership and control and by monopolistic behaviors, and the need for a stronger state intervention in the economic sphere (from Berle and Means 1932 to Galbraith 1967). The problem of the relation between planning, democracy, welfare, and the market was debated extensively (see, for example, Clay 1950, already cited with regards to the British case, for a critical position on planning, and Lindhal 1950, discussing the Swedish case, for a positive one). The Soviet Union provided an example of apparently highly efficient planned economy, and several less-developed countries took inspiration from it. In sum, planning was a hot topic.

For development economists, the crucial point was to reach a level of investments that would allow not only maintaining high employment rates but also sustained growth in labor productivity (Dasgupta 1965, p. 54). On the contrary, a growth in consumption that reduced investments was considered highly dangerous. In 1949, facing the hypothesis of growth of salaries and possible inflationary pressures, the Indian economist A.K. Dasgupta proposed “a system of controls very much on the lines of war-time controls” (reprinted in Dasgupta 1965, p. 37). It was undoubtedly a radical position that can be better understood in light of the considerations offered several years later by John K. Galbraith:

For India and the Indian Government, economic development is a political imperative. Perhaps—just perhaps—if development were left to markets incentives, it would proceed as rapidly as under public auspices, or more rapidly. But suppose it did not. Suppose the private vision and entrepreneurship were lacking. Or the capital. Who can be sure? . . . [T]hen to count on free enterprise now would be a dreadful risk (Galbraith 1958, p. 591).

Those were the years of India’s second five-year plan, centered on the development of heavy industry, which the Nehru government considered a priority in the economic development of the country. At that time, this plan was praised—or criticized—as an autochthonous version of a socialist economy. But in reality, Nehru and Galbraith, both Keynesian, saw it as the only realistic path towards economic development.⁸

Based on the planning approach, therefore, injecting capital in a backward economy was necessary, but by no means sufficient. Due to the distortions and the weaknesses of the markets and the productive sector of less developed countries, a planning authority should take care of the allocation of resources and of strategic decisions on the future path of growth of a country’s economy. As Shyam Kamath

⁷The literature on city planning after World War II is very vast, and involved all the most important urbanists and architects of those years, from Le Corbusier to Josep Lluís Sert to Frank Lloyd Wright. For a classic critique of city planning, see Jacobs (1961).

⁸Nehru, educated from a young age by private tutors who were primarily British, left for England at the age of fifteen. He studied at Harrow for two years before joining Trinity College in Cambridge in 1907, where he got his degree in 1910. That same year, he moved to London to join a PhD program in law at Inner Temple. Certified as a lawyer in 1912, he returned to India after seven years of education in the most exclusive schools of the United Kingdom. See Brecher (1959).

explained while discussing India, “the planning and control framework adopted in India grew out of a conviction of the Indian elite in the years preceding independence that economic growth was not possible through the reliance of unfettered market forces because of the ‘objective’ conditions of underdevelopment” (Kamath 1994, p. 90). Planning, in the words of Paul Rosenstein-Rodan, meant “[to] provide guidelines or principles for determining the amount, the composition and the timing of public investments,” and “[to] indicate specifically the system of incentives and disincentives needed to orient the private sector’s amount and composition of investment.” He concluded: “A specific vision [of] which sectors should grow at what rate is needed. General principles of ‘sound’ economic policy alone are ungrammatical prose” (Rosenstein-Rodan 1963, p. 1).

Project Loans

These planning policies were severely criticized. This is not a surprise if we consider the striking similarity between them and what was de facto proposed by the theoreticians of balanced growth. In an article written at the end of the 1960s, Albert Hirschman summarized the numerous criticisms directed against the “program approach” during those years (Hirschman 1968a).

First, an aid program, if not linked to an individual project but, instead, to a complex program of economic intervention, would have to take into consideration issues such as the relationship between investment and consumption, the dimension of the public and private sectors, exchange rates, and the system of prices. By changing these variables, it was certain that some groups within a receiving country would positively benefit from the reforms, while other groups, at least in the short term, may be harmed. As a consequence, an overall program would probably stimulate internal opposition, while a single project, albeit important, would not.

Second, aid programs often risk becoming either redundant or useless. A government that receives an aid package under the promise to pursue some macroeconomic targets may already be committed to pursue these targets irrespective of the aid. Aid, in this case, neither creates an environment for new economic activities nor favors new entrepreneurial initiatives; it simply finances programs that the recipient government had already included in its agenda and budget. In Hirschman’s words, therefore, aid seems useful only to “remunerate the virtue . . . where the virtue spontaneously appears” (Hirschman 1968a, p. 277). It must be noted, however, that this reasoning can be equally applied to a project approach, when a project that would anyway be carried out by the recipient with its own funds is financed by a foreign lender; in this case, as it will be discussed below, the lender’s funds become fungible and may eventually be redirected to finance an altogether different project (Singer 1965).

Alternatively, financial aid may be treated as a way to push a government toward pursuing new macroeconomic policies that would otherwise not be included in the government’s agenda. In this case, the task becomes more difficult—“introducing virtue into the world” (Hirschman 1968a, p. 278)—and likely doomed to fail. As Arnold Habegger observed about the United States foreign aid agency (then AID), “friction is a natural concomitant of program and sector loans. . . . The more deeply AID becomes involved in what the recipient countries consider to be their internal

affairs, the greater this friction is likely to be” (Haberger [1969] 1972, p. 637). Usually, to avoid an open breach of the relations between donor and recipient, the result is “continued reluctant accommodation” and an exhausting series of postponements of the termination of program aid (Haberger [1969] 1972, p. 637).

The political delicacy of foreign aid in the relations between donor and recipient was, of course, widely discussed and recognized also by advocates of massive monetary transfers in support of development programs. John K. Galbraith, probably thanks to his experience as a United States ambassador to India, was overall approving of the Indian planning policies.⁹ Yet, he agreed that political tensions could undermine aid programs. As he put it, “the Aid-receiving government . . . is always suspected by its internal antagonists for selling out its policies for sterling, or for dollars, or roubles, or these other iniquitous currencies. And therefore it will have on occasion to prove its independence. It will have on occasion to say: we are being a little bit disagreeable” (Galbraith and Shonfield 1965, p. 21). The donors or lenders, according to the advocates of a program approach, should foresee these frictions, treat them as unavoidable by-products of aid policies, and be prepared to mitigate them, applying, in the words of Galbraith, “a certain measure of . . . majestic tolerance” (Galbraith and Shonfield 1965, p. 21).

Instead, critics of the program approach considered the political frictions deriving from program-related aid as too disruptive both of a government’s work and of foreign aid itself, and therefore not worth compromising on them. On the internal tensions in a country receiving program aid, Hirschman observed:

It is a gross oversimplification to treat a government entering the program type bargain on foreign aid like a consumer buying himself a bag of apples. Since aid, in this case, has as its counterpart a shift in national objectives and in the short-term fortunes of different social groups, the bargain will be considered a bad one by the circles that value highly the objectives that have been sacrificed and by those groups whose interests have been hurt. Hence, the very bargain that gives rise to program aid can and will be attacked directly by these circles and groups as being damaging to the national interest as they define it (Hirschman 1968a, p. 203).

On the tensions between donor and recipient, Hirschman continued,

[program aid] policies will . . . often be adopted by aid-hungry governments in spite of continuing doubts. . . . Naturally, doubts and reservations are not voiced at the moment of the aid compact; hence the delusion on the part of the donor that there has been a full meeting of minds. But soon after virtue has been ‘bought’ through aid under these conditions, the reservations and resistances will find some expression—for example, through half-hearted implementation or sabotage of the agreed-to policies—and relations between donor and recipient will promptly deteriorate as a result (Hirschman 1968a, p. 205).

In sum, critics of the program approach supported aid policies focused on specific project loans. These had the advantage of being local, focused, subject to objective technical evaluation, and overall respectful of the strategic policy decisions of the

⁹After his experience as an ambassador, Galbraith became an economic advisor to the Indian government.

recipient country. As advocates of project loans maintained, an aid policy centered on individual investment projects would have been less ambitious in goals and means, but more feasible and more efficient.

IV. THE DEBATE ON DEVELOPMENT REVERBERATES INSIDE THE IBRD

Conflicting Approaches: Program vs. Project

Within the International Bank for Reconstruction and Development (IBRD), the debate between different approaches to stimulate development of poor countries took the form of a discussion between those who supported program loans and those who were in favor of loans linked to individual projects. The report of the Bank's first general survey mission to a backward country—i.e., Colombia, 1949—clearly supported a general approach, a “plan” policy. Lauchlin Currie, the mission chief, stated:

It appears essential that the attack on the problem be incorporated in a comprehensive, overall program that provides for simultaneous action on many fronts. Economic, political and social phenomena are so inter-related and interwoven that it is difficult to effect any significant and lasting improvement in one sector of the economy while leaving the other sector unaffected. . . . Poverty, ill health, ignorance, lack of ambition, low productivity are not only concomitants—they actually reinforce and perpetuate one another (Currie 1950, p. 5).

Supporters of project loans, instead, insisted that, according to the Bank's Articles of Agreement, “loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.”¹⁰ The Bank would have been able to gain stable confidence of North American investors—the principal and practically the only source of financial resources available on international markets in the years immediately following the Second World War—only if it strictly adhered to this practice. Only individual and well-monitored projects would be able to guarantee to American investors that loans were administered according to sound criteria of responsible economic management.

Lauchlin Currie was not alone in promoting broad and multifaceted programs of development. Between 1947 and 1952, Paul Rosenstein-Rodan, then the most important economic theoretician at the Bank, opposed the institution's increasing propensity towards financing of individual projects.¹¹ Specifically, Rosenstein-Rodan maintained that linking a loan to a single, well-defined project was chimerical. He claimed that single-project loans would end up financing the *marginal* project that the beneficiary country would have abandoned had it not obtained a line of credit from the Bank. In other words, these funds would finance a project that a country would probably have accomplished anyway. It was a problem of “fungibility” of funds,

¹⁰Articles of Agreement, Article III, Section 4 (vii).

¹¹Rosenstein-Rodan's frequent disputes with senior management at the Bank forced the economist to leave the institution soon after the general reorganization of 1952 (Oliver 1975, pp. 272–273).

their at least partial transferability from one destination to another, that caused, in the words of Rosenstein-Rodan, “[the] psychoanalytical problem why a bunch of intelligent people committed what to an economist (not only to an economist, to any logical thinking people) must be rather an extraordinary shift in perspective in the wrong direction of giving so much emphasis to projects. . . . The bank thought it financed an electric power station, but in fact financed a brothel”.¹²

To better understand the implications of the discussion, it is interesting to note how—as a reaction to the restrictions posed by the Bank on the use of the disbursed funds—the notion of “fungibility” was deliberately used by the Colombian government during negotiations for a loan that would have covered a program to increase supply of both electricity and potable water in the city of Bogotá.¹³ Since Colombian officials knew it would be easier to receive funds for electricity than for potable water, a preliminary report prepared by the office in charge of contacts with the Bank suggested applying only for a loan for the electricity project. The total amount requested, however, would actually cover the funds needed for both the electricity project and the potable water one.¹⁴

Even critics of program loans, such as Arnold Habberger, admitted that the issue of fungibility was a serious one, and recognized the potential weakness of project loans in the fungibility of funds. “The net effect of project lending by the World Bank, by AID, and by other aid-giving agencies is to enable a longer list of projects to be actually undertaken by the recipient country” (Habberger [1969] 1972, p. 635). Moreover, a project approach could entice the recipient to exaggerate the dimensions of single projects, the share of foreign capital required, or the usefulness of yet another infrastructural project submitted to the donor; in sum, it could well happen that the project submitted for financing was not really a high-priority, useful project for the beneficiary of aid, but was put forward only because it was the kind of project that attracted aid from donors (Singer 1965; Hirschman 1968a). The only solution, according to many, would lie in a dramatic improvement of the project-evaluation function in less-developed countries. But even supporters of this kind of analysis admitted that this would be very difficult to achieve (Habberger [1969] 1972).

¹²Oral History Interview, Paul Rosenstein-Rodan, August 14, 1961, pp. 1–2, 01 Columbia University project, WB IBRD/IDA 44 Oral histories. Burke Knapp’s thought was in line with Rosenstein-Rodan’s with respect to US loans to post-war Europe within the frame of the Marshall Plan. In a later recollection, Knapp said: “The creditworthiness of countries has to be determined on the basis of their total capacity to service debt, rather than according to what particular commodities they are going to receive under an aid program. . . . The question of whether you lend hard money or soft money should depend upon the country that you’re dealing with and its overall capacity to mobilize resources and make repayment, not upon the particular nature of the project” (J. Burke Knapp, Oral History Interview, July 24 and 30, 1975, available at www.trumanlibrary.org/oralhist/knappjb.htm, paragraphs 92 and 94). This argument was also posited by scholars outside the International Bank; for example, Hans Singer (1965). For a critique of Singer on this point, see Bird (1967).

¹³“Ensanches del acueducto de Bogotá,” Marzo 26, 1953, Lauchlin Bernard Currie Papers, Rare Books, Manuscript, and Special Collections Library, Duke University, Durham, NC (henceforth LBCP). See also Lauchlin B. Currie, “Resumen del Plan para Bogotá,” May 28, 1953, LBCP.

¹⁴“As [the electric] company is in a better position to contract foreign loans than is the Waterworks, it is recommended that the application for a foreign loan be limited to the electric company” (“Waterworks,” January 1, 1953, p. 4, LBCP). See also “Expansion of Electric Power for Bogotá,” January 1, 1953, LBCP.

Program vs. Project: The Bank's Changing Attitude

Even though the propensity of the Bank to disburse loans to individual projects was expressed in its Articles of Agreement, during the years of transition from reconstruction to development there was a significant internal debate on the scope and extent of this mandate: more precisely, about the “special circumstances” defined by the Articles that would allow the institution to make exceptions.

As agreed by all the authors who wrote about the first years of the Bank—the period of European reconstruction before the Marshall Plan—the first loans from the Bank went towards large programs of reconstruction. The first and largest loan ever disbursed by the Bank was given to France in 1947 in the amount of \$250 million.¹⁵ Loans given to other European countries all had the same characteristics: they went towards “governments’ reconstruction programs” and “deviated from what was expected to be the standard pattern for loans” (Kraske 1996, p. 55). In the opinion of the Bank’s vice-president, Robert Garner, the loans for European reconstruction were supposed to be an exception: “the feeling at the time was that [they were] not to form a precedent for the normal operations.”¹⁶

In other words, the Bank’s top management did not think it was part of the Bank’s role to provide overall program loans to developing countries. Exceptions in favor of program loans were made reluctantly; for example, in the case of the reconstruction of post-war Europe.

The Bank’s documents, however, did not completely abandon the rhetoric of “planning” and “programs.” During those years, programs of development that would frame the effort of modernization of a country were not at all uncommon, and many missions and institutions produced programs of this kind. The Bank’s publications remarked that “the Bank would prefer to . . . base its financing on a national development program, provided that it is properly worked out in terms of the projects by which the objectives of the program are to be attained” (IBRD 1950b, p. 8).

V. CURRIE VS. HIRSCHMAN: IRON AND STEEL PRODUCTION

As mentioned in the introduction, Hirschman explained that the conceptual structure of his 1958 book was based on his experience in Colombia, when he found himself deeply at odds with the other economic advisor to the government, Lauchlin Currie. As Hirschman put it in the introduction to his book, in Colombia he felt a strong dissatisfaction with the existing theories of growth in developing countries, and at the same time he began to see his own reflections “more and more like variations upon a common theme” (Hirschman [1958] 1963, p. v); that is, he was beginning to build his own theory. In the preceding sections we have examined the clash between balanced and unbalanced growth, and between planning and project approach, as it emerged in scientific publications. In the next sections, we will examine the contrasts in action between Hirschman and Currie, and how they nurtured their theoretical

¹⁵Equivalent to \$2.4 billion in 1994 (Kraske 1996, p. 55).

¹⁶Oral History Interview, Robert L. Garner, July 19, 1961, p. 6, 01 Columbia University project, WB IBRD/IDA 44 Oral histories.

elaborations. We will focus on one of the icons of a country's economic development: the iron and steel industry.

The Currie Mission: An Analysis

At the end of the Second World War, domestic steel production was regarded in Colombia as an overriding strategic national interest, which would have affected the entire strategy of industrialization of the country. The IBRD mission sent to Colombia in 1949, headed by Lauchlin Currie, examined this issue with particular attention, also because a project for an integrated steel plant close to the city of Paz del Río, in the internal region of Belencito, was in an advanced stage of implementation.

The mission judged negatively both the opportunity of an integrated steel plant, a particularly capital-intensive production with the need of high volumes of output, and the internal location, notwithstanding the presence of coal seams. Technical and geographical considerations contributed to make the implementation of the project unadvisable—namely, the less than excellent quality of the raw materials available, the lack of waterways with enough capacity to feed the cooling systems, and the high altitude, which would have made combustion particularly difficult. Most of all, under scrutiny were the limitations due to the unfortunate geographic position. The location of the steel plant, the Belencito region, was far from all the main lines of communication of the country, making it arduous and expensive to bring the output to the final destinations. Furthermore, Belencito would never become an attractive location for other heavy enterprises due to its isolation, thus inhibiting the formation of a “growing point” and harnessing the by-products of steel production (e.g., the gas). All these reasons would contribute, in the mission's opinion, to make the cost of the output not competitive (IBRD 1950a, pp. 423–425).

The Bank's mission proposed a different solution: to establish a smaller steel plant for the transformation of imported scrap metal in Barranquilla, on the northern coast of the country. Without a coking plant and blast furnaces, it would be simpler and less costly. Moreover, its location on the Caribbean coast at the terminus of one of the main railway lines of the country put it in a strategic position for supplying both the international and the national markets (IBRD 1950a, p. 427).

Strong political pressures and a public opinion reclaiming self-sufficiency on some strategic goods obliged the national committee appointed to implement the mission's recommendations—the Comité de Desarrollo Económico—to find a compromise solution.¹⁷ The Barranquilla proposal was discarded in favor of the Belencito integrated steel plant. The plant, however, would be smaller and the technology simpler than originally conceived, so that it could be supplied by Colombian firms.¹⁸

This proposal seemed to square the circle: on the one hand, the national need to produce a strategic good (steel) without depending on the international markets for scrap metal was guaranteed. At the same time, an investment of gigantic proportions was avoided. Moreover, because of the possibility of internally producing most of the

¹⁷Among the advisors to the Comité were Lauchlin Currie and other mission members.

¹⁸Comité de Desarrollo Económico, *Informe de la misión para el Comité. Fomento de una industria colombiana de acero*, draft, December 15, 1950, LBCP.

machineries, spending in foreign currency would have also been reduced. Finally, a smaller plant would have helped management and local workers to acquire expertise without incurring too-serious mistakes. The principle of *learning by doing* would be the basis of an incremental strategy, from small to large dimensions, and from relatively basic to cutting-edge technology.¹⁹

Iron, Steel, and Development: The Disagreement between Hirschman and Currie

This second proposal proved not luckier than the first. The board of directors of the Empresa Siderúrgica Nacional Paz del Río, leveraging the growing concerns related to the difficult international situation—the Korean war had broken out on June 25, 1950, in the middle of the Colombian debate on the steel plant issue, raising the prices of many raw materials—imposed its original project, and a tremendously large, integrated steel plant saw the light in Belencito.²⁰

Even from this quick description of the events, it appears that the final decisions on the Paz del Río plant were taken primarily in light of political pressures. In the words of the Bank's vice-president, Robert Garner, "Paz del Río had become a national symbol."²¹ However, the motives were not only political in nature, as opinions diverged about the financial soundness and technological feasibility of the proposals.

A document prepared by the Comité de Desarrollo Económico is, in this respect, revealing: "The maximum progress achievable with a 5 billion peso investment"—the total amount available for investments, public and private, calculated by the Comité for the years 1951 to 1955—"is only possible if the amount devoted to each sector, for example transportation, agriculture, or industry, is proportional to its contribution to the overall Colombian economy during this period."²² The alternative uses of the funds needed for the project of Paz de Río were also listed: the construction of a hydroelectric plant for an additional production of 120,000 kw (half of the production of electric power in Colombia in 1950); or thermoelectric plants for 240,000 kw; or 30,000 private houses; or the purchase of 266 diesel locomotives and the increase of roads and railways by about 500 km; or the building of 23,000 rooms for hospitals, or of new schools accommodating 900,000 students, thus doubling the availability of the primary scholastic structures.²³

Two concepts emerge: a) the development of a sector should have been proportional to the development of other sectors; and b) investments in different

¹⁹Comité de Desarrollo Económico, *Informe preliminar sobre el establecimiento de una planta siderúrgica*, Bogotá, December 14, 1950, LBCP.

²⁰The plant would produce 140,000 tons per year, costing about US\$70–80 million. See Empresa Siderúrgica Nacional de Paz de Río, "The Board of Directors of the Empresa ...," Dec. 20, 1950, p. 3, LBCP. According to Currie (1981, p. 157), by 1955 more than US\$150 million had been spent, up to almost \$200 million by 1959.

²¹R.L. Garner to Mr. Elmer G. Burland (Tommie), February 13, 1951, Colombia, General Negotiations 2; Country Operational Files; Fonds 1; World Bank Group Archives (henceforth WBGA).

²²"El progreso máximo que es dable alcanzar con la inversión de 5.000 millones sólo es posible si la suma asignada a cada campo, digamos transporte, agricultura o industria, es proporcional a su contribución al progreso total de la economía colombiana durante este período," Comité de Desarrollo Económico, *Informe de la misión para el Comité. Fomento de una industria colombiana de acero*, draft, December 15, 1950, p. 15, LBCP.

²³*Ibid.*, pp. 16–17.

sectors were considered as mutually alternative, substantially as a zero-sum game. These two concepts were the basis of a conception of economic growth as primarily “balanced,” to be pursued through an intense planning activity by the Comité. As already noted, a planning approach was a common feature of the development discourse in those years, and the Comité embraced this approach.²⁴

Hirschman’s and Streeten’s critiques were directed against such reasoning, and especially against the necessity of considering the investments as mutually alternative. For Streeten, the proportional growth of different sectors, far from allowing the maximum possible progress, forced firms, plants, and entire industrial sectors into a condition of constant inadequacy. They would have been condemned to keep up with the growth, which was often slow and uncertain, of the national economy.

Hirschman presented his own reflections on the Paz del Río controversy in an article published a few years later (Hirschman 1954). Criticizing both the general trend towards “overall plans” by “international agencies” and by the “economist-planner” (read: the International Bank and Lauchlin Currie), and the specific case of their failure to support the project of Paz del Río, Hirschman wrote:

The economist-planner should bring his talent primarily to bear on the elaboration of well-planned sector projects. . . . In spite of all the insistence on ‘overall’ planning, I have yet to see a project that is thus well conceived rejected by national or international agencies disposing of investment funds on the ground that the investment required is too high considering the need for monetary stability and for ‘balanced’ development. In Colombia, the only case to my knowledge into which this kind of consideration has thus far entered at all was that of Paz del Rio steel mill. Nevertheless, the report of the International Bank Mission, which objected to the project, carried only one extremely vague sentence about the fact that the money involved in Paz de Rio might be put to better use elsewhere in the economy (Hirschman 1954, p. 49).

Hirschman argued that, due to the effects of “backward” or “forward linkages,” it was unlikely that a newly founded industry could be oversized in the context of the national economy: the industry should be considered dynamically, taking into account the contributions of satellite and non-satellite industries created after the establishment of the main industry. The iron and steel industry was a good example. According to Hirschman, Paz del Río was not only a “national symbol” but also a potential generator of linkages, and thus a powerful instrument of development for the country: “Perhaps the underdeveloped countries are not so foolish and so exclusively prestige-motivated in attributing prime importance to this industry!” (Hirschman [1958] 1963, p. 108). Hirschman’s critique shows his reservations toward the concept of “overall planning,” which to him appeared shallow and, most of all, useless in the policy-making process.²⁵

²⁴The planning attitude of the Comité and, later, of the body that would replace it, the Consejo Nacional de Planeación, was also evident in the field of urban development. Lauchlin Currie attempted to coordinate his 1952–1953 plan for the economic development of Bogotá with the urban plan that was being prepared by the two architects, Josep Lluís Sert and Paul Lester Wiener (Alacevich and Costa 2009).

²⁵On this subject, Hirschman agreed with those who, like Dahl and Lindblom, criticized the opposition of planning and market as naïve and vague (Dahl and Lindblom [1953] 1976).

The considerations of technical and geographic nature in the Currie report underlined first of all the weak impact that the investment in Paz del Río would have as stimulus for other industrial sectors. As already noted, it would have been very difficult to form a “growing point,” which was considered the most desirable result by the mission, and to which Hirschman dedicated a chapter in his 1958 book (Hirschman [1958] 1963, Ch. 10).

When it became clear that the construction of the plant in Paz del Río could not be avoided, an attempt was made to program an incremental development of the plant. This would have limited the costs of the unfortunate location and allowed the business to gain strength despite this initial handicap. There would have been gradual growth as staff and workers acquired competencies and the plant itself gained a bigger market share.

This reasoning was not too different from Hirschman’s attempt to find the “hidden rationalities” in the process of growth. Thanks to these hidden rationalities, the economy of a sector or a country is pushed towards new paths for growth that were previously invisible or unpredictable. Paradoxically, obstacles may play a positive role in the process of growth when they help to forge decisions and contribute to unite efforts and attempts, to discard unfeasible hypotheses, and to find solutions unthought of previously.

The Comité took a mediator’s role between political-ideological or lobbying needs on the one hand, and technological and economic issues on the other. In other words, the Comité was at the center of a process of forming and structuring decision-making processes. This is what Streeten and Hirschman highlighted as the most necessary element (but also the rarest) for development in backward countries.

VI. CHANGING ALLIANCES

Agreements and Disagreements

From this discussion, one can draw the conclusion that while there were, indisputably, some disagreements, the fundamental approach of Currie and the Comité on the one hand, and the approach of Hirschman on the other hand, were more similar to each other than the *ex post* reconstructions of the debates among developing economists may normally suggest. Clearly, there was not total agreement. But the point is that the different positions were not so clearly mutually opposed, and the fundamental visions about development were much more similar than their individual advocates were ready to admit.²⁶

²⁶There is another possible contrast between the positions of Currie and Hirschman. According to Krugman, Hirschman based his concept of “backward linkages” on “the idea of economies of scale at the level of the individual plant [which] translated into increasing returns at the aggregate level through pecuniary external economies” (1993, p. 22). Chandra and Sandilands (2005), on the contrary, maintain that the importance of economies of scale is marginal if compared to increasing returns. Sandilands, in particular, interprets Hirschman’s formulation more as a reference to external economies of a technological nature and only marginally to external economies of a monetary nature, which were at the center of Currie’s analysis. More precisely, Sandilands holds that Hirschman’s “backward” and “forward linkages” tend to be mainly technological (framed in an input-output relation), whereas Currie focused on the size of potential demand. I would like to thank Roger Sandilands for having brought my attention to this point. However, it seems to me that this diversity of positions on what type of external economy was at the basis of Hirschman’s “backward linkages” shows the possibility—for a more theoretical debate—to amplify divergences that, in the field, were much less definite and distant.

With respect to “comprehensive” or “overall plans,” for example, the preceding discussion has shown the strong opposition raised against them by advocates of more focused “project loans.” However, as has been noted, the International Bank—even though it privileged project loans—never gave up general plans of development. In the Colombian case, for example, the official position of the Bank was that the Comité de Desarrollo Económico was expected to take on “the responsibility of formulating an overall investment program.”²⁷ The Bank privileged loans for single and specific projects, but at the same time recognized the need to look at them as elements of a broader picture that could be viewed only through the lens of a “comprehensive plan.” The 1949 World Bank/Currie mission to Colombia apparently started from opposite premises: first came the plan and the general framework, and only later were projects taken into account. Yet, the integrated steel plant of Paz del Río was a fundamental project for the mission and its report. The mission’s critique focused on other useful projects that resources diverted from Paz del Río could have financed, and to make this argument it relied on concepts such as linkages and agglomeration processes, widely used by advocates of a project approach. Partly, this was inspired by the political and economic debate that was going on in Colombia at that time and was highly focused on the case of Paz del Río (although it should be kept in mind that the mission was a prominent actor in the national debate and contributed to shape it. Local newspapers discussed at length “el Plan Currie”). In all cases, the relevance of projects in the perspective of a planning approach can be explained with the fact that projects were cornerstones of planning when it came to its implementation. In India, for example, advanced planning reports presented detailed lists of industrial projects.²⁸ Thus, the Bank and Hirschman shared a common perspective when they focused on a project approach. But at least the Bank was not insensitive to the perspective of the planning approach. Planners, on their side, when discussing implementing a plan, applied logics very similar to those of project advocates.

Other discussions show a similar ambiguity. One example is the difference between “Social Overhead Capital (SOC)” and “Directly Productive Activities (DPA)” proposed by Hirschman in his book *The Strategy of Economic Development* ([1958] 1963, pp. 83–97). In the SOC, Hirschman included all the services necessary to enable the functioning of the DPA: “In its wider sense, it includes all public services from law and order through education and public health to transportation, communications, power and water supply, as well as such agricultural overhead capital as irrigation and drainage systems. The hard core of the concept can probably be restricted to transportation and power” (Hirschman [1958] 1963, p. 83). According to Hirschman, the SOC, in its hard core, may be considered a description of the activities privileged by the International Bank.²⁹ On the other hand, in its wider

²⁷Jacques Torfs to Dr. Toro, April 10, 1952, Colombia, General Negotiations 2; Country Operational Files; Fonds 1; WBGA.

²⁸George Rosen, “The Plan for Industry,” Center for International Studies, MIT, Economic Development, India Project, A/56–36, September 1956.

²⁹Jacques Torfs wrote that “top priority should be given to TRANSPORT, POWER, and AGRICULTURAL RESOURCES.” Jacques Torfs to Harold [last name missing, probably Harold Larsen], September 10, 1951, Colombia, General Negotiations 2; Country Operational Files; Fonds 1; WBGA.

sense—but this is not an observation by Hirschman—the approach of the Currie mission is easily recognizable. Advocates of SOC insisted on economic indivisibilities that result in Marshallian external economies, and saw private investment as contingent on the creation of SOC. As Paul Rosenstein-Rodan put it in 1950, “one can only establish an environment conducive to investments in many industrial plants by creating a social overhead capital framework; without this framework, the opportunities for individual industrial investments are scarce.”³⁰

In any case, neither the hard-core nor the wider vision satisfied Hirschman, who instead privileged an approach that leaned towards investments for DPA. This leaning was consistent with his general approach to unbalanced growth. A minimal investment in SOC was, of course, necessary as the initial condition for investing in DPA, but this is all that was needed: “Excess SOC capacity is essentially permissive, [but] it invites rather than compel” (Hirschman [1958] 1963, p. 93). If, on the contrary, the DPA came before investments in SOC, spontaneous and compelling pressures will develop to achieve adequate SOC. The DPA, in other words, “yield an extra dividend of ‘induced’, ‘easy-to-take’, or ‘compelled’ decisions resulting in additional investment and output” (Hirschman [1958] 1963, p. 89). As such, progress achieved in the development of DPA would generate new needs and the pressure to satisfy them, which, at least partially, would make up for the scarcity of “the power to take decisions” that was, according to Hirschman and Streeten, *the* truly scarce factor in developing countries. Through this classification, therefore, Hirschman criticized an approach that we can attribute both to Currie and the International Bank.

In another reflection, Hirschman proposed an additional and different possible divide among options of intervention, which in this case made him closer to Currie. In his 1954 article, he underlined another negative trend typical of the International Bank: “large international lending agencies . . . are looking for shortcuts to economic development and are ready to let themselves be persuaded that they have found them in the form of a hydroelectric project, a few arterial roads or an irrigation scheme, [or] the big ‘steel-and-concrete’ projects” (p. 52). Just as important was, in Hirschman’s opinion, “the elaboration of projects in the unglamorous, but nonetheless essential, fields of education, small industry, improvement of agricultural methods, etc.” (Hirschman 1954, p. 53).³¹ In this case, it is useful once again to remember the structure of the Currie mission’s report and the attention devoted to “unglamorous but nonetheless essential” fields, such as education and health, or the necessity—as reiterated by Currie—to link together “noneconomic as well as strictly economic fields” (Currie 1981, p. 55).³² Hirschman’s agreement with Currie on this

³⁰Paul Rosenstein-Rodan, “Riflessioni sulla teoria dello sviluppo economico dei paesi poveri,” Conversazione tenuta per invito della Società Italiana per l’Organizzazione Internazionale e dell’Associazione per lo Sviluppo dell’Industria nel Mezzogiorno, Roma, March 1950, in Archivio Storico della Banca d’Italia, Banca d’Italia, Carte Baffi, Cart. 251, Carte sciolte, my translation.

³¹In a letter from Bogotá, in which he spoke *inter alia* about “housing” and “social security,” Hirschman stated “the need for improvements in these various fields.” Albert O. Hirschman to Mr. Richard H. Demuth, August 23, 1952, Colombia, General Negotiations 2; Country Operational Files; Fonds 1; WBGA.

³²For a discussion of this point in connection with all the early World Bank’s General Survey Missions to less developed countries and the foreign aid policies of the United States of the late 1940s and early 1950s, see Alacevich (2011).

point is not surprising: they both had a direct and expansive knowledge of the very low average standards of living in deeply underdeveloped areas; they both appreciated the importance of health and education for deprived populations, and the centrality of agricultural production for countries whose industrial sector was, at best, very thin. Once again, this shows that the positions were not univocal, and the contrasts between individuals and institutions involved in the strategies for Colombia's economic development between the 1940s and 1950s showed changing alliances and fractures.

VII. A SOCIOLOGICAL INTERPRETATION OF THE DEVELOPMENT ECONOMICS DEBATE: ROBERT K. MERTON AND THE "KINDLE COLE" PRINCIPLE

The analysis of a case in which theoretical reflections merged and intertwined with the practice of economic advising has brought to light many points of substantial agreement that would have otherwise not been understood on purely theoretical grounds. When confronting a specific situation regarding the development of heavy industry in Colombia, both Currie and Hirschman reflected on the mechanisms of industrial polarization, mechanisms of induction, and forward and backward linkages; one of them framed them as a program, while the other underlined their economically "unbalancing" role.

So far, thus, it emerges that an analysis of the issues in question, and how they were tackled in practice, helps to better understand the more theoretical debates. But after having "emptied" these issues, it is more difficult to understand why a strong debate developed between the two approaches of "balanced" and "unbalanced growth." For a better understanding, we need to extend the horizon of our analysis. After focusing on the individuals and their specific theories, we will now turn our attention to the discipline of development economics considered as an institution, with its own history and dynamics.

A particularly useful help comes from the sociology of science. Robert K. Merton's analysis focuses on the system of norms that regulates scientific research. His observations describe the social conflict within a social science so poignantly that it is worth citing a long passage:

Much of the controversy among sociologists involves social conflict and not only intellectual criticism. Often, it is less a matter of contradictions between sociological ideas than of competing definitions of the role considered appropriate for the sociologist. Intellectual conflict of course occurs; an unremitting Marxist sociology and an unremitting Weberian or Parsonian sociology do make contradictory assumptions. But in considering the cleavages among [sociologists], we should note whether the occasion for dispute is this kind of substantive or methodological contradiction or rather the claim that this or that sociological problem, this or that set of ideas, is not receiving the attention it allegedly deserves. I suggest that very often these polemics have more to do with the allocation of intellectual resources among different kinds of sociological work than with a closely formulated opposition of sociological ideas.

These controversies follow the classically identified course of social conflict. . . . Since the conflict is public, it becomes a status battle more nearly than a search for truth. . . . The consequent polarization leads each group of sociologists to respond largely to stereotyped versions of what is being done by the other. . . . Not that these stereotypes have no basis in reality at all, but only that, in the course of social conflict, they become self-confirming stereotypes as sociologists shut themselves off from the experience that might modify them. The sociologists of each camp develop selective perceptions of what is actually going on in the other. They see in the other's work primarily what the hostile stereotype has alerted them to see, and then promptly mistake the part for the whole. In this process, each group of sociologists become less and less motivated to study the work of the other, since there is manifestly little point in doing so. They scan the out-group's writings just enough to find ammunition for new fusillades (Merton 1973, pp. 55–56).

This passage is applicable to any group of social scientists, including economists or development economists. In his book *On the Shoulders of Giants* (1964), Merton proposed a more general version of these reflections—this time as a *scherzo*. On this occasion, focusing on a dispute between Sir Isaac Newton and Robert Hooke on who had first formulated the theory of colors, Merton described the interaction between people in the field of science according to the principle he defined as the “‘kindle cole’ principle” (Merton 1965, p. 29). This principle established that “though . . . the collision of two hard-to-yield contenders may produce light yet if they be put together by the ears of other's hands and incentives, *it will produce rather ill concomitant heat which serves for no other use but . . . kindle cole.*”³³

Accordingly, the debate about different development strategies may also be interpreted as a function of the models of social interaction that are typical of a closed and specialized group of “peers” dedicated to the advancement of knowledge, such as the group of development economists soon after the war. The largely accepted opinion about the necessity of a balanced growth was opposed after several years with a strong and explicit polemical intention, the position that maintained the necessity of an unbalanced growth.³⁴ The positions quickly radicalized, and there is no doubt that, as Merton has underlined, the supporters of either one or the other position soon projected stereotypes and manipulations—more useful to the polemics than the progress of knowledge—onto the complexity that characterized the opinions of their adversaries.

This does not mean, naturally, that there were not legitimate clashes strongly based on substantial issues or intellectual opposition. The sociological approach proposed here does not deny these aspects. At the same time, however, it allows an understanding of other issues that would otherwise be inexplicable; for example, how the debate could systematically go beyond the differences in contents that existed among the conflicting parties, and why the scholars became so easily involved

³³Robert Hooke to Isaac Newton, year 1670, quoted in Merton (1965, p. 28; emphasis by Merton).

³⁴Hirschman's bibliography is rich with articles or autobiographical notes. This may also be read as an additional comment: “one often writes against someone, even if unconsciously. . . . Speaking of enemies, I have had quite a few, especially in the years I worked on the problem of development. . . . I had written largely against the theory of balanced growth proposed by Rosenstein-Rodan and by Ragnar Nurkse. . . . This just goes to show that one often has *intimate* enemies and to tell who they were” (Hirschman 1998, pp. 108–109).

in this debate (whose terms were, it is worthwhile to remember, the *possible* policies—often situational and limited—to be applied to developing countries).

Scientific institutions face the problem of managing conflicts just as economic or political institutions. These conflicts are not unintelligible anomalies: rather, they reveal some patterns that allow a better understanding of the dynamics of the groups where conflicts appear. In addition, a sociological reflection allows an understanding not only of situations that favor the emergence of conflict—for example, searching for colleagues' approval as proof of one's good work and the public recognition of it—but also of changing conditions that constitute their broader basis, and that therefore provide new information about how and when major conflicts can arise. In the case of development economics, the need of recognition and legitimation as an autonomous branch of economics pushed its "pioneers" to build heavy theoretical analyses. This happened not necessarily because—as Merton once said about "pioneering sociologists"—they "happened to be system-minded men but because it was their role, at that time, to seek intellectual legitimacy" (Merton 1973, p. 50). These theoretical analyses opposed each other and sought to gain internal hegemony. "This was not in terms of specialization but in the form of rival claims to intellectual legitimacy, claims typically held to be mutually exclusive and at odds" (Merton 1973, p. 51). We cannot avoid remembering Hirschman's challenge to the theory of balanced development: "[this] theory fails as a theory of *development*" (Hirschman [1958] 1963, p. 51).

Similar considerations were posited by Amartya K. Sen in a 1960 review of Hirschman's *The Strategy of Economic Growth*:

Controversies on "balanced" *versus* "unbalanced" growth tend to leave the readers—at least, one reader—a little puzzled. Put in their native forms, both the doctrines look right; examined from the other's point of view, each looks totally inadequate. . . . The "balanced" and the "unbalanced" growth doctrines have a considerable amount of common ground (Sen 1960, p. 591).

Sen's conclusion was just as important: "One cannot, however, help feeling that Professor Hirschman is overstating his case. . . . I have no doubt that this is how economic thought progresses: we discover a hitherto concealed aspect of the problem, and make it the *essence*, if not the *whole*, of the problem (Sen 1960, p. 592, emphasis in the original)."

Subsequent testimonies by some of the actors in the debate between advocates of "balanced growth" and those of "unbalanced growth" confirm this interpretation. Albert Hirschman wished to settle the debate in a 1961 work in which he underlined the common points between the two opposing sides. He posited that the two theories can be compared to two ways to consider the nucleus of an atom. It is possible to focus on the nucleus itself, indivisible, or on the energy that holds it together.

In other words I do not deny by any means the interrelatedness of various economic activities of which the balanced growth theory has made so much. On the contrary, I propose that we take advantage of it, that we probe into the structure that is holding together these interrelated activities. . . . To look at unbalanced growth means, in other words, to look at the dynamics of the development process *in the small*.³⁵

³⁵Quoted in Hirschman ([1958] 1963, pp. viii and ix, emphasis in the original).

Years later, Lauchlin Currie stressed the pointlessness of dismissing the complexity of the issues of development by reducing them to dichotomies or mutually exclusive positions. At a 1975 conference, he stated:

Although I have a great respect for the power of economic incentives and the efficacy of decentralized decision making, I am still an inveterate planner. . . . The “invisible hand” became two hands, the traditional one working more or less silently through economic incentives, and the more visible one of national economic policy making. The resulting strategy is a mixed one, difficult to classify.³⁶

A mixed strategy, difficult to classify, certainly more complicated than an oversimplified stereotype of the “planning” approach, still understood today as an “excessive and knee-jerk dirigisme”—these last words from Columbia University economist Jagdish Bhagwati, who would probably consider Currie’s eclectic approach as an exception: “the problem with many of these countries was that Adam Smith’s invisible hand was nowhere to be seen” (Bhagwati 2004, p. 21).

In conclusion, observing development economists in their advising capacity allows a better understanding of their theoretical positions, and a reassessment of the extent of contrasts between theories. These contrasts have not disappeared, but their seemingly rigid opposition—conveyed through the testimony, in part misleading, of the scientific literature—appears nowadays out of date. On this shift in perspectives, Hirschman wrote:

In an interesting interview, Paul Krugman . . . said that certain writers, such as Arthur Lewis, Paul Rosenstein-Rodan, Gunnar Myrdal, and Albert Hirschman, should be “rehabilitated” as a group who made important contributions to economic development in the Fifties. Now it is true that all of us had something in common, because we all recognized that the “underdeveloped” countries, as they were called then, needed to adopt certain public policies. Yet there was a considerable difference between my theories and those of the other members of the group. When I wrote *The Strategy of Economic Development*, my “enemies” were exactly those people with whom my name is now being associated (Hirschman 1998, p. 109).

Today we are in a better position to appreciate the nuances of the relation between two doctrines that, at the time of the pioneers of the discipline, were described as “enemies,” and today can be considered “associated.”

VIII. CONCLUSIONS

An authoritative tradition of research has devoted an exclusive focus on the “essential structure of author[s]’s analytical system,” so much that “one who understands the first five chapters of Ricardo should be able to write his chapters on taxation” (Stigler 1969, p. 110). This is somewhat a simpler exercise than the undertaking of Borges’ writer, who managed, by enormous concentration and focus on the original, to

³⁶Lauchlin Currie, conference held in Panama, 1975, quoted in Sandilands (1990, p. 372).

re-create word by word Cervantes' *Don Quixote*. However, both are examples of an exclusive interest in an author's reference system.

Instead, this article has focused on the relation between theory and practice. Unlike other economic fields of research, development economics was born as an attempt to answer a very practical question: how to foster economic development in so-called backward areas. It emerged after World War II as a specific discipline to tackle the eminently political question of how to develop newly independent countries until then relegated to the status of colonies, and, at its core, it always leaned toward policies more than theories (Myrdal 1968). It is probably for this reason that development economics has long suffered of a weak disciplinary identity, and has not established a lasting and recognizable doctrinary corpus.³⁷ It is still very difficult to define development economics in strictly economic terms. Paul Streeten, one of the founding fathers of development studies, put it clearly: "it is not a sub-branch of economics, but a field of study much wider than economics" (Streeten 1995, p. 352).

Development economists did participate in the theoretical debates typical of the "golden years of high development theory"; however, the discipline is also characterized by another level of reflection, perhaps less visible but equally important, focused on the actual conditions of developing countries and on the concrete aspects of policy making. The increasing availability of individual economists' and institutional archives is helping researchers document this side of the story.³⁸ Irrespective of where one sided in the debate between "balanced growth" and "unbalanced growth," when the discussion focused, say, on a country's iron and steel sector, all economists examined the potential for industrial agglomeration, complementarities, access to markets, firms, etc. They shared not only a common vocabulary, but also a common patrimony of concepts, methods, and ideas.

Today, both the theory and the implementation levels continue to exist in development economics, but carry different weights. Big divisions still exist. For example, the clash between the approaches of "balanced" and "unbalanced growth" and between "plan" and "project" is having a reincarnation in the opposition between the focus on comprehensive strategies such as the Millennium Development Goals, on one side, and single, specific projects on the other, or, as William Easterly put it, between "planners" and "searchers" (Easterly 2006).

The weak disciplinary borders of development economics are still obvious today. Development economics is unquestionably a lively field; however, this is due more to the importance and the urgency of its object—eradicating poverty worldwide—than to the consistency or the uniqueness of its doctrine. Dani Rodrik, one of today's leading development economists, entitled a recent book *One Economics, Many Recipes*, to emphasize that development economics needs not to rely on a set of economic principles different from the ones used to analyze advanced economies

³⁷Albert Hirschman went as far as to exclude dependency theorists from the boundaries of development economics, because they rejected what he called the "mutual-benefit claim"; i.e., the idea that both underdeveloped and developed countries can benefit from economic relations between the two groups of countries (Hirschman 1980).

³⁸See, for example, the interesting biography of W. Arthur Lewis by Tignor (2006), based on the Lewis papers held at Princeton University.

(Rodrik 2007).³⁹ The recent trend to do without grand development theories, however, does not result in a shortcoming. On the contrary, the strong interest in microeconomic issues offers promising developments. Contemporary scholars are making a strong case that impact evaluation and appraisal techniques of aid intervention must be improved, and that historically specific analyses, rather than general theories, are fundamental to understand what really works (Banerjee 2007). The precedents exist and are remarkable: in 1968 Albert Hirschman introduced Judith Tendler's first book maintaining that "the major contribution to our knowledge of economic development must now come from detailed studies" of the processes of change (Hirschman 1968b, p. viii). It looks as though the conflict between the theoretical and the practical levels is fading away. Referring to the debates of the 1950s, Paul Streeten commented: "In retrospect, much of the balanced versus unbalanced growth controversy seems to me a sham dispute... Often in practice there was much more agreement than in theory. You know the definition of an economist: when he sees something working in practice, he asks, but will it work in theory?"⁴⁰

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³⁹Another element in Hirschman's definition of development economics was the rejection of what he called the "monoeconomics claim." On the contrary, he supported, "the view that underdeveloped countries as a group are set apart, through a number of specific economic characteristics common to them, from the advanced industrial countries and that traditional economic analysis, which has concentrated on the industrial countries, must therefore be recast in significant respects when dealing with underdeveloped countries" (Hirschman 1981, p. 3). Ironically, while publishing his 2007 book, Dani Rodrik was awarded the inaugural Albert O. Hirschman Prize of the Social Science Research Council.

⁴⁰Paul P. Streeten to Michele Alacevich, October 15, 2004.

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