

My Journey through the History of Development Economics

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- 4. Pattern of World Trade, Integration, and Globalization
- 5. Role of Agriculture in Economic Development and Structural Transformation
- 6. Employment and Basic Needs
- 7. Role of Institutions in Economic Development

Preamble: Motivation for Writing *My Journey*

- I recently completed a “History of the Evolution of the Development Economics Doctrine: 1950-2017” for the Palgrave *Handbook of Development Economics*.
- My professional career, starting in the 1950’s, **overlapped** almost completely with the period covering the lifetime of development economics.
- I was fortunate enough to have known personally and often collaborated with **giants in the field**.
- I thought that by reviewing some of my **modest contributions** to development economics and my interaction with some of the major contributors, I could hopefully **enliven the narrative around the history of development economics through personal anecdotes**.

Preamble: Motivation for Writing *My Journey* and Disclaimers

- Finally, there might be **some lessons** (not always positive) that younger researchers might learn from my story.
- A disclaimer is in order at the outset. In any semi-autobiographical account, **humility** is called for, and I shall try hard to be as modest as I can, realizing perhaps better than anyone else the limitations of my own contributions. I may not always have been successful and **I beg your indulgence for any possible failure and lack of modesty.**
- Over the course of my career, my research interests evolved. The progression was usually chronological but I often would revisit and embrace earlier themes and combine them with new ones. I must confess that my natural curiosity and impatience, during my lifetime, led me to work simultaneously on research projects in **different fields.**

Brief Review of Influential Experiences and Interactions

- Netherland School of Economics: Tinbergen (1947-51)
- University of California: Condliffe, Dorfman, Leibenstein, Irma Adelman (1952-57)
- Haberler and AEA (1961-63)
- Iowa State University: Karl Fox, Gerhardt Tintner (1957-72)
- National Planning Institute in Lima Peru (1961-64)
- USAID: Hollis Chenery, Gustav Ranis (1966-68)
- McNamara, World Bank and Development Research Center (1967-)

Brief Review of Influential Experiences and Interactions

- ILO World Employment Program: Graham Pyatt (1971-75)
- Social Accounting Matrix and Basic Needs (1971-)
- Paul Streeten and *World Development* (1980-2000)
- Cornell: **Program on Comparative Economic Development (1980-2000)**
- Collaboration with Gary Fields, Walter Galenson, Henry Wan, Jan Svejnar, Kaushik Basu, Ravi Kanbur, David Sahn (1974- present)
- Employment, Basic Needs and Poverty in Kenya: Harris Mule (1970's and early 1980's)
- OECD Development Center: Ian Little, Monty Yudelman, Christian Morrisson, François Bourguignon, Jaime de Melo (late 1960's to 2000)

Brief Review of Influential Experiences and Interactions

- African Economic Research Consortium: Establish African Capacity to Undertake Poverty Analysis (mid 1990's to 2016)
- DERG. Nordic Development Association (1990's)
- WIDER: Impact of Globalization on the World's Poor (2000's)

1. African Development

- *Socio-economic Development Performance: 1960 to the Present*

1960- 2000: Stagnation: - Annual Growth Rate of p.c. GDP in SSA 0.14%; Large Increase in Poverty and Inequality

2000-2015: Quantum Jump in GDP Growth: 2.5-3% p.a. Large Decline in Poverty but not in Inequality. Pattern of Growth is Becoming more Inclusive.

1. African Development

- *Contributions to the Development Doctrine Influenced by the African Initial Conditions*
- Harris-Todaro Model
- Stiglitz' Efficiency Wage Theory
- Informal Sector and Fields' Segmented Markets Concept
- Bates' Urban Bias and Discrimination against Agriculture
- Enclave Economies/ Resource Curse
- Inadequate Property Rights
- Collier's Conflict Economies
- F-G-T Poverty Measures Initially Conceived in Kenya

1. African Development

- *My Personal Journey through the History of African Development*
- In 1994 I was invited by the OECD Development Center to a conference and Experts' meeting on "**What Future for Africa?**" I wrote and presented a paper co-authored with S. Koné on "The Impact of Stabilization and Structural Adjustment Programs on Performance in SSA".
- We argued that a case could be made for a balanced combination of two very different approaches to adjustment: the hard-nosed conditionality approach endorsed by the World Bank and IMF, at that time, and the kinder "Adjustment with a Human Face" strategy promoted by UNICEF.
- **Paul Collier** as discussant was very critical of us even considering the latter approach and questioned my competence in evaluating African development issues.
- Cold Shower and Lesson Learned.

1. African Development

- Prior to that conference my involvement in African development was indeed somewhat limited. I was concentrating more on other developing regions.
- Surprisingly Benno Ndulo (Executive Director of AERC at that time) invited me to evaluate their research program. It was the beginning of a 25 years deep involvement in the research and training modalities of AERC and I became a *bona fide African development expert*.
- So perhaps I should be thankful to Paul Collier for the cold shower.

1. African Development

- *Some of My (modest) Contributions*
- Made a Convincing Case that AERC should emphasize **Poverty Analysis** in its Research and Training Portfolio.
- Help Organize **Training Workshops** in Poverty Analysis and Large Scale Surveys' Software Packages in different venues led by most distinguished scholars in the field. Around 150 African scholars were trained.
- Directed and Co-directed a **large scale collaborative** ten year long (1995-2005) research and training program on "Poverty, Income Distribution and Labor Markets in SSA" generously funded by a consortium of donors.
- The collaborative institutions consisted of the universities of Cornell (lead institution), Copenhagen, Gothenburg, Laval (for the Francophone researchers), and to a lesser degree, Oxford and CERDI.
- Great Success of **Twinning** Modality.

1. African Development

- Cornell hosted around a dozen country teams including teams from South Africa, Kenya, Nigeria, Uganda, Cameroon and Madagascar.
- In a number of SSA countries, Poverty Research Networks were institutionalized and made major contributions to the World Bank's *Poverty Reduction Strategies Papers* for their respective governments.
- Co-directed (together with Machiko Nissanke) WIDER project on "Impact of Globalization on the Poor in Africa, Asia and LA."

1. African Development

- *Some of my Other Research Contributions*
- **Anatomy of Growth** in SSA. Interrelationship among Growth, Inequality and Poverty.
- Changing Structure of Growth in SSA. Getting more **Inclusive**.
- Some Evidence that, in contrast with other developing regions, **poverty convergence** is occurring in SSA- likely because many African governments, as well as public and private aid donors allocated their aid flows proportionately more towards poorer countries, regions and more vulnerable groups.

1. African Development

- I was deeply touched and humbled when the African Development Institute at Cornell and the African Economic Research Institute (jointly) organized a **Symposium in my honor** on “Poverty Reduction in the Course of African Development” where a dozen scholars presented papers, which led to the publication of a festschrift (Nissanke and Ndulo, editors, 2017).

1. African Development

- In Concluding this first theme, **please allow me, and forgive me for, a moment of immodesty and indulgence by quoting** from the Preface of that volume by Lemma Sembet (until a few months ago Executive Director of AERC).
- *“Erik Thorbecke’s contributions to the African Economic Research Consortium have been truly transformational. His impact has pervaded all dimensions of the AERC research capacity-building framework- thematic research (learning –by-doing research), collaborative research, policy outreach, and networking- all anchored by the AERC collaborative project on ‘ Poverty, Income Distribution and Labour Markets in Sub-Saharan Africa’ led by Erik and a younger generation of African researchers whom he has nurtured.”*

2. Income Distribution, Inequality and Poverty

- Two Revealing quotes:
- *“Marx held that politics is determined by economics...and imagined that what people most desire is to grow rich...Experience since his time has shown that there is something which people desire even more strongly and that is to keep others poor” (Bertrand Russell, 1951).*
- *“...a fair balance. As it is written: “The one who had much did not have too much, and the one who had little did not have too little.” 2 Corinthians 8.*

2. Income Distribution, Inequality and Poverty

- *Income Distribution and Inequality*
- My **Peruvian Experience** in the 1960's: Alliance for Progress project
- Agrarian Reform (Gini coefficient of land distribution: .88) and Income Distribution between Costa, Sierra and Selva.
- Latifundia/Minifundia
- Faced with Moral Conflict: Enjoy Luxurious life of the Rich or Devote my professional life to Reduce Poverty and Deprivation.
- Decided to Become a Development Economist.
- In mid 1960's joined **USAID** and worked closely with Hollis Chenery and Gustav Ranis. Collaborated on formulation of Redistribution with Growth Strategy.

2. Income Distribution, Inequality and Poverty

- Funny Interaction with Robert Mundel
- Monetarism vs. Keynes
- $MV=PT$ and Central Bank Estimation of GNP

2. Income Distribution, Inequality and Poverty

- *Poverty*
- Invitation by Harris Mule to write a White Paper for Kenyan Government on “**Basic Needs and Poverty in Kenya**” (late 1970’s)
- **Forced me to Face Issue of how to Apprehend and Measure Poverty before being able to analyze it.**
- Central Bureau of Statistics (CBS) completed an extensive Survey of Smallholders (constituting about 80% of population) which I was asked to evaluate and use to measure poverty.
- My very bright student (Joel Greer) spent a year in Nairobi organizing, cleaning, manipulating and analyzing what was at the time a large scale survey.

2. Income Distribution, Inequality and Poverty

- *Poverty*

- F-G-T Poverty Measures were Conceived in Kenya and Borneo at Cornell.
- Visit to Cornell by Amartya Sen in 1979 was important catalyst in birth of F-G-T.
- At that time the **Sen's poverty measure was arguably the gold standard** among alternative poverty measures. One interesting **creative moment** was when, in one of many discussions with Joel, I objected to the rank-ordering weighting system underlying Sen's measure. The weighting scheme is such that the least poor individual was given a weight of 1, the next poorest a weight of 2, and so on with the poorest individual assigned a weight of n (assuming n poor individuals). I felt that this ordering scheme was arbitrary as an infinite number of different distributions could yield the same rank ordering. Instead, I proposed to use the actual distance from the poverty line as weights. This yielded the squared poverty gap measure (FGT P2)

2. Income Distribution, Inequality and Poverty

- *Poverty*
- Formalization of F-G-T could not have occurred without the help of **James Foster** (a fellow graduate student of Joel) at the time who has now become a distinguished theorist.
- F-G-T labor of love among individuals with complementary skills.
- F-G-T can be used as a **Social Welfare Function** in Allocating Budgetary Funds so as to Minimize Poverty.
- I was very pleased and humbled that the **Mexican Constitution** of 1999 (Chapter V Article 34) adopted FGT P2 as decision rule and specified that central government transfers should be allocated to provinces according to the severity of poverty (P2) in the areas of nutrition, health and education.

Income Distribution, Inequality and Poverty

- Growth-Inequality-Poverty Nexus and Interrelationship in SSA
- Causality Growth to Poverty but also **Reverse Causality** Poverty to Growth
- *Pro-Poor Growth Strategy* and *Pro-Growth Poverty-Reduction Strategy*

3. Economic Structure, Interdependence and Quantitative Development Analysis

- *Quantitative Economic Policy and Economic Structure*
- Influence of **Tinbergen** and **Karl Fox**
- Tinbergen Introduced some of the tools of Physics into Economics (via Paul Ehrenfest a colleague and close personal friend of Einstein)
- I co-authored book on “**Quantitative Economic Policy**”.
- In retrospect, the assumption that policy instruments are exogenous and can be manipulated at will by policymakers must appear **naïve** today when the prevailing view is that policy choice is endogenous. However, in the context of the immediate post WWII period and even the 1960's, the faith in planning and using technocratic methods to affect the economy was strong and led to some very successful outcomes in terms of growth, inflation control, and income distribution (particularly relating to the share of GNP received by labor and employers (**Dutch Social Economic Council**)).

3. Economic Structure, Interdependence and Quantitative Development Analysis

- Influenced by Herbert Simon concept of “Causal Ordering” that identified clearly how influence is transmitted within a socio-economic system.
- Developed Recursive models that allow a complete unidirectional interpretation of changes in exogenous variables (policy instruments) on the whole system.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- *Early Development Theory: Dualism, Dual-Dual Framework, Employment Creation and Basic Needs Doctrine*
- I organized with Irma Adelman a conference on the “*Theory and Design of Economic Development*” attended by e.g. Hollis Chenery, Dudley Seers, Gustav Ranis, Dale Jorgensen, and Samuel Bowles...
- Led to a book with same title that was probably the **first textbook** on Economic Development.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- *Early Development Theory: Dualism, Dual-Dual Framework, Employment Creation and Basic Needs Doctrine*
- I extended Dual Economy Models into **Dual-Dual Models**.
- I felt that a richer and more accurate reflection of the structure of a developing country at an early stage of development could best be captured by a **dual-dual structure** distinguishing between **rural** (essentially agriculture) and **urban** areas (essentially non-agricultural production), on the one hand, and between **modern and traditional technologies and forms of organization**, on the other.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- Active within the ILO World Employment Program in 1970's.
- Basic Needs Doctrine Initiated within WEP.
- Association with Paul Streeten and Hans Singer.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- Serendipitous Meeting and Collaboration with Graham Pyatt Leading to Book on “*Planning Techniques for a Better Future*”.
- Incorporation of Basic Needs and Poverty into SAM framework.
- Cambridge University Conference and Meeting with Richard Stone. Jeff Round recently wrote me: “It was a profoundly important occasion for me - there were exchanges between you, Graham Pyatt, Richard Stone and Alan Brown in particular - all quite transformative.”
- ISS/Cornell SAM Project with CBS in Indonesia over 10 Years’ Period’. Led to the institutionalization of the Production of SAM within CBS.
- The SAM of Indonesia is one of the most disaggregated and is considered by experts to be one of the most- if not the most, reliable one in the world.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- Roger Downey and Steven Keuning
- SAM and Structural Path Analysis (SPA)
- Structural path analysis identifies all the paths through which influence is transmitted within a socio-economic system as reflected by a SAM.
- From SAM to Computable General Equilibrium (CGE) Models.
- OECD Development Center Project was based on linking a macro Computable General Equilibrium Model (CGE) to a micro structure allowing, among other, the impact of macroeconomic shocks and macro policies on incomes (poverty) and employment of specific household groups and even individuals to be simulated (Bourguignon, de Melo, and Morrisson, 1991). As part of this project (together with a number of collaborators) I built a highly disaggregated CGE model of Indonesia which allowed the impact of alternative policy measures on income distribution and poverty to be simulated (Thorbecke and collaborators, 1992). I

3. Economic Structure, Interdependence and Quantitative Development Analysis

As part of this project (together with a number of collaborators) I built a highly disaggregated CGE model of Indonesia which allowed the impact of alternative policy measures on income distribution and poverty to be simulated (Thorbecke and collaborators, 1992).

One difficult and rather intractable issue that we explored together with Alain de Janvry and Betty Sadoulet was how to impute the value of benefits received by poor households from direct and indirect government transfers covering such areas as education, health and nutrition.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- Subsequently, following the devastating impact of the Asian Financial Crisis of 1996-97 on Indonesia's economy that led to a 14% fall in GDP in one year and a large increase in poverty I decided together with a leading Indonesian economist and ex-student of mine (Iwan Azis) to explore the effects of the conditions and policy recommendations that the IMF imposed on that country to obtain a loan as its currency crumbled.
- With the help of the Central Bank , we built a Financial SAM and integrated it with a Real SAM to simulate various alternative policy scenarios.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- Together with David Stifle, we built a SAM, and corresponding CGE model, of an **archetype African country** at an early stage of development and simulated the effects of trade reform on the structure of growth and more particularly on migration and poverty.
- With many of my students we built village, regional and interregional SAMs to explore village economies and lives in the light of rural industrialization.

3. Economic Structure, Interdependence and Quantitative Development Analysis

- *Regional Science*
- Interaction with Walter Isard- the father of Regional Science. As a student of Leontief he was a proponent of Input-Output Analysis and at an advanced age he wanted to learn the SAM methodology leading to a new book we wrote with a number of collaborators on “Methods of Multiregional and Regional Analysis”.

- Thank you for your patience and indulgence during my LONG JOURNEY

