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A Journey through the Theory of Economic Development

The theory of development economics changed significantly from the first attempts of defining the concepts in the 50s until nowadays. The contributions to the development theory are at the same time closely related to the historical context of the underdeveloped and developing countries. This paper tries to facilitate the understanding of the way development economics evolved, by presenting the main contributions to the theory. The research methodology used in this study is analytical, based on the gathering of the information, its organisation in a logical way, the presentation and analysis of the most significant ones, and finally the drawing of relevant conclusions. The main findings of this paper are that after five decades of strong ideas and recepies of economic development we have reached a point of uncertainty regarding what is beneficial or harmful for the nations' economic development.

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The theory of economic development has been grately enriched in a rather short time, aproximately six decades. The reason might be the fact that economic development became the goal of many nations, regions and localities, for many years now. This paper aims to present the evolution of the development economics by identifying the main contributions to the theory of the most representative development economists.

Even though we can find many definitions of development in the economic literature, we would like to mention Hegel's thoughts about it. The great philosopher considered that the principle of *Development* involves the existence of a latent germ of being, a capacity or potentiality striving to realize itself, that is more than a harmeless tranquility of mere growth, but a stern reluctant working against itself *(Hegel 2007:54-55)*. As far as we're concerned this is one of the most profund and complete definitions given to development that can be also applied in the economic literature.

The term of economic development was formed and it always came as an answer to concrete needs, specific to certain countries and certain social, economic and politic environment. Therefore, once the colonial rule ended and independent states were created in the Third World, at the end of World War II, economists focused on their economies, their development needs and policies needed to boost growth. United Nations have become very concerned about specific issues of former colonies as well as their needs of international financial reconstruction, forming as objectives the promotion of higher standards of living,

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full employment of labor force and creating the socio-economic conditions of economic development *(World Bank 1984:13-19)*. As a result, the UN regional commissions would deal with development problems, while the institutions created during the Bretton Woods Conference in 1944, the International Monetary Fund, World Bank respectively, were to ensure financial stability, steady exchange rates and employment. In addition to these institutions, GATT (General Agreement on Tariffs and Trade) was founded in 1947 which allowed certain privileges for developing countries, promoting in the same time the expansion of free trade.

In the 1940s and 1950s, there was an explosion of hypotheses and theories on economic development, a clear perspective on the development and its objectives was set and thus the development strategies derived from new theories and goals were promoted. These are considered to be pioneering years of the new economy of development, whose focus was the development problems of Asian, African and Latin America states *(World Bank 1984:3)*. Given the historical context, economic development was considered at that time as represented by per capita income growth in less developed countries, many of which were former colonies. Thus, in 1944 Arthur Lewis suggested that the objective of rapid development programs was to reduce the gaps between rich and poor countries in terms of income per capita, while the United Nations study, „Economic Development in Selected Countries" in 1947, mentioned that the ultimate goal of national governments in terms of economic development is to increase welfare for the entire population. Arthur Lewis, says Arndt, published his well-known work on economic development entitled „The Theory of Economic Growth" in 1955, followed by the one of W.W. Rostow in 1960 that turned Marx's stages of development into stages of economic growth.

During the same time, Gunnar Myrdal spoke in „Economic Theory and Under-developed Regions" about development as raising the living standards of ordinary people. *(Arnd 1981:465)*. Although there have been some voices considering development as being both economic growth and also change (Bert F. Hoselitz, EE Hagen, Hla Myint, Jacob Viner), the general perception of the economists in the 50s remained the same, putting a sign of equality between development and economic growth *(World Bank 1984:6-7)*.

This perception continued until the mid-'70s, when poverty reduction started to become a major component of the notion of development, along with economic growth. During this whole period, economic development objectives have diversified, as the study of underdeveloped economies features deepened. Thus, in addition to GNP growth, development policies and strategies aimed to maintain balance of payments, increasing employment and reducing inequalities in terms of income. *(Thorbecke 2006:3-11)*.

Doubling of oil prices in the late 1970s and early 1980s led to rising inflation, negative changes in current account balance, slowing the expansion of international trade and lower economic growth rates in most countries and especially in the developed countries, which thus have entered recession. Anti-inflationary policies promoted by industrialized countries have caused a drastic decline in demand, thus affecting production, international trade and prices of primary goods. This slowdown was felt strongly in developing countries who have registered for the first time in the postwar period, an overall decline in production and per capita income. These aspects together with the increasing budget deficits and balance of payments, and also the increasing interest rates, have resulted in a debt crisis in underdeveloped and developing countries. Following this crisis, affected states have had to adopt stringent measures of stabilization and adjustment. Thus, national reforms to adjust to

the new international economic environment have become the main development policies promoted, insisting on structural reforms and institutional changes *(United Nations 1990:3)*.

Stabilization and adjustment continued to be the major objective of development in the first half of the ,90s. Despite the economic recovery of some developing countries that housed nearly half of the world population, overall global economy was still stagnant. Solutions to overcome this state were considered to be institutional changes to reduce corruption and facilitate the transition from command or socialist economies to market economy, especially in Eastern Europe and Sub-Saharan Africa. The second half of the ,90s was strongly marked by financial crises in Asia which have reversed the trends of poverty reduction from recent decades, as well as by socio-economic changes in former Soviet states, so that reducing poverty in its broadest sense, including improving health conditions, food, education, access to information and public goods, has become the main objective of economic growth continued also in early 21st century *(Thorbecke 2006:20)*. The world economy began to recover again, and economic development objectives to diversify by including human development, reducing vulnerability of poor people, environmental protection, establishing the millennium development targets by the United Nations („Millennium Development Goals") and reviewing the policies of International Monetary Fund. In 2007, however, a new economic crisis started that swept across the world, strongly affecting the financial system and economic growth and development.

Evolution of the economic development theory

Regarding the economic theory, Lord Bauer *(World Bank 1984:27)* said that, after the Second World War, the image of the international trade was negative, being considered harmful rather than beneficial to the underdeveloped countries. What would have helped their economies would have been a large supply of capital for infrastructure, for the rapid growth of manufacturing industry and socio-economic modernization. This volume of capital could not be generated by underdeveloped countries because the low income did not allow savings, and also because of small selling markets generating low profitability of private investment. Thus, to determine the economic development the government action was absolutely necessary to remove current obstacles and support economic growth.

In his research, Lord Bauer has addressed matters related to trade's role in economic development, stabilization of prices and incomes, the vicious circle of poverty, income gap between different countries, financial aid and development planning that has fought many of existing theories at the time. Thus, in his travels in Southeast Asia and West Africa, he noted the importance of international trade in attracting capital, specialization of manpower, stimulating investment and production. Analyzing the situation in the underdeveloped areas, and influenced by the writings of Milton Friedman, Lord Bauer questioned the effectiveness of governmental actions in an attempt to stabilize prices and incomes, and proposed that this be left to economic agents. Also, for the great economist, the answer to the vicious circle of poverty is foreign capital that will boost local savings, therefore local investments, higher incomes and again higher savings *(World Bank 1984:27-50)*. However it turned out that the attraction of foreign capital can be very difficult, underdeveloped or developing countries presenting a high investment risk.

A significant contribution to the development theory was made by Colin Clark through its quantitative studies on the gross national product that led to its use as a tool for measuring economic growth, by putting into question the consideration of capital investment as a determinant factor of growth, recognizing their necessity, but not their sufficiency, through his study on limiting the level of taxation and its proposal to reduce this level, by highlighting the existing potential of agriculture in developing countries and by comparative analysis of productivity in this sector, and also by recognizing the benefits of population growth *(World Bank 1984:58-88)*. Thus Clark has revolutionized the concepts of its time by proposing ideas and theories available until today: the gross national product is still one of the most commonly used indicators for measuring economic growth and development.

Walt Whitman Rostow had also an outstanding contribution to the theory of economic development. In his book, "A Historian's Perspective on Modern Economy Theory", *Rostow (1952:24-29)* says that a proper analysis of economic development can not be achieved in a short period of time and without taking into account the relationship between economic decisions and social and political forces. He groups the economic development issues in determinants of population growth, determinants of capital increase, respectively the correct composition of current investments and suggests solutions that require minimal direct government intervention. In "The Stages of Economic Growth", *Rostow (1959:1-16)* presented growth process in terms of society evolution, identifying five stages of economic growth: traditional society, the precondition to boom, the boom itself, the road time to maturity and the years of mass consumption. The difference between these and the stages of development set out by Marx is given, says Rostow, by the human behavior. Thus, if in Marx's conception the human behavior seeks maximization, in that of Rostow it attempts to balance alternatives, people wanting not only economic benefits but also personal and national power. Through this work Rostow tried to make the transition from the analysis of aggregates taken from Keynes, to a dynamic sector analysis *(World Bank 1984:231-234)*. This transition has allowed the development of economic studies and identification of more specific solutions than those previously existing. Rostow's contributions are still in the pipeline, the nowadays economic analysis being carried out on long term, taking into account also the influence of social or political factors.

One of the theories which arose during this period was the theory of "big push" or the great momentum theory, issued by Paul Rosenstein-Rodan. It emphasized the importance of economies of scale in basic industries. The appreciated economist believes that underdevelopment presented common characteristics (e.g. surplus labor and lack of capital) in all five regions identified by him, Far East, Colonial Africa, Caribbean, Middle East and Eastern and South-Eastern Europe *(World Bank 1984:15)*, and the new theory gave the investment incentives in several sectors as a way to boost these areas. As the domestic market could not support the simultaneous industrialization of many complementary sectors, Rosenstein-Rodan's solution was to organize an institution or a company for doing this thing *(Santos – Silva, 2004:5)*. Researches carried out by Rosenstein-Rodan in terms of economic development can be characterized by the slogan "Nature Facit Saltum" in response to the motto used by Alfred Marshall. Not the traditional theory of static equilibrium that analyzes conditions at the point of balance is the one helping us to understand the problems of economic development, says the great economist, but an analysis of the dynamic path toward equilibrium *(World Bank 1984:207-208)*.

Unfortunately underdeveloped or developing countries have more in common than the surplus of labor and lack of capital, such as low labor training, lack of institutions or unhealthy institutions, corruption and unstable and abusive legislation. Considering these aspects, we believe that investment impetus in the form of foreign aid cannot result in the much needed economic development. These investments will be run by corrupt national institutions and implemented by a poorly prepared workforce. Therefore, there has to be created the institutional context for investment impulse to function.

Also on industrialization, Arthur Lewis proposed three strategies for its support: increasing exports of agricultural products, developing self-sufficient economy, focusing on the local market and export of manufactured products. Self-sufficiency of an economy refers to its ability to produce goods and supply the internal market and is a necessary condition for promoting the substitution policy of imported goods. This policy had great influence at that time and was considered complementary to the dependency theory that promised independent economic growth for underdeveloped countries by breaking dependence from industrialized countries. This also required a set of policies to determine the structural changes needed to achieve self-sufficient economy *(A. Lewis in the World Bank 1984:121-137)*. It is indeed recommended for underdeveloped countries or developing countries to increase exports of manufactured goods and agricultural products, with high added value, against exports of raw materials, because the selling price is higher and labor used in manufacturing is a national one. But we do not consider necessary or beneficial to promote a policy of import substitution, as the relative advantages of international trade have been demonstrated.

Prebish-Singer thesis also had a major impact on existing theories by showing a contradiction between theoretical expectations and practical results. This was developed separately by economists Raul Prebish and Hans Singer and showed that the terms of international trade between primary products and manufactured goods will deteriorate over time, against countries that export primary products *(Jomo 2005:211)*. The thesis encouraged therefore the assumption that investments in developed countries are more beneficial than exports of primary products.

Another theory generated in the 50's was the balanced growth theory of Ragnar Nurkse. The theory considers as main obstacle of development the lack of large markets, so development is seen as a simultaneous and coordinated expansion of various sectors based on scale economies and an increase in production, including the agricultural one. Emphasis is put on capital investment, not on its formation. This will be achieved by developing plans and small countries joining the customs unions in which industries at scale can be used more efficiently. *(World Bank 1984:146, 199-200)*

This theory was disputed by Albert Hirschman who believed that if a company is able to design and implement a plan for coordinating the investment projects, then that society is already developed, no longer needing a balanced growth. Hirschman promotes unbalanced growth as a solution to the problem of underdevelopment. For his reasoning, he assumes that the problem is not the lack of capital, but the lack of entrepreneurial skills in poor countries. Lacking these skills, the entrepreneur needs an imbalance that is either in profit or loss, to motivate and influence decisions. Continuing his idea, Hirschman proposes to support those investments that cause the biggest imbalances, on one hand, and that cause other investments because of their linkages backward and forward, without asking too many entrepreneurship skills *(Santos – Silva, 2004:10-14; World Bank 1984:87-111)*. Thus, the main determinant of development would be carrying out those activities with a powerful connection effect, especially backward, combined with creative solutions applied to specific circumstances *(Bianchi, 2004:4, 9)*. In our opinion, both Nurkse's theory and that of Hirschman are very hard to put into practice, are very general and require difficult planning and selection even for developed countries, much so for the underdeveloped ones.

The planning for achieving long-term development was one of the main research themes of Jan Tinbergen. In his 1958 work "The Design of Development," Tinbergen presented available techniques and tools for setting realistic goals and building development policies, including forecasts of production, future consumption and investment, he talked about how to assess public investment projects, about selecting the right industries, and the means to stimulate private initiatives, building thus a guide for underdeveloped and developing countries *(World Bank 1984:315-319)*. Tinbergen's studies have contributed to structuring the theory of economic development and the re-evaluation of proposed objectives and policies.

Other specific topics for the early years of economic development were those related to financial aid and international inequality. Gunnar Myrdal was a vocal critic of the unequal distribution of income in the world, seeing this problem closely linked to underdevelopment. In his works of that time he said that as long as necessary social policies are not adopted, inequality will continue to grow both internationally and nationally. The great economist has admitted later that his research took into account the initial inequality of resources and power as potential causes of underdevelopment. Myrdal supported the grant of financial assistance to poor countries, promoting it in his own country, Sweden and also internationally. Financial aids have become an objective of the international community, set at 1 percentage of national income, even with the possibility of long-term growth. However, his vision has changed over time along with analysis of their possible effect *(World Bank, 1984:150-165)*. In time it turned out that international financial aid only is not sufficient to stimulate economic development. We believe that Myrdal had a significant contribution for the growth theory by bringing into attention of the economists the inequality, which currently occupies a significant place in the theory of economic development.

Optimal allocation of investments between the industries of consumer goods and capital goods in underdeveloped countries facing a high rate of unemployment was approached by Lionel Stoleru in his work "An Optimal Policy for Economic Growth" in 1965. Optimizing the allocation of investment resulted in total employment as quickly as possible and so that economic growth and producing the maximum possible of consumer goods follows thereafter. Stoleru used Potryagin's maximum principle as a method of analyzing the situation of Algeria, concluding at that time that Algeria can achieve full employment and economic growth in less than 20 years *(Stoleru 1965:321-347)*. This was not done for several reasons (political, economic, social).

The role of agriculture in economy has been widely discussed in the theory of economic development. If in 1954 Lewis gave agriculture within his model a more passive role, considering it as being only a potential source of unlimited labor force for the modern sector, in the second half of the 60's agriculture was seen as a dynamic sector with enormous potential by its offer of resources *(Thorbecke 2006:6-7)*. This shift in perspective of development theory encouraged the investments in agriculture and natural resources exploitation.

The hypothesis of the development patterns' existence was tested by *Chenery and Taylor (1968:391-416)*. This refers to the emergence of uniform patterns of change in production structure, as the income level increases, being therefore used economic development analyses. Based on the countries comparison, the authors identified three development patterns: large countries, small countries oriented towards primary production, small countries oriented towards industry. Chenery and Taylor identified also several sectors such as primary production and the chemical and metal production, in which technological progress strongly influences the percentage held by these sectors over time. The two economists managed to present a way that development manifests, but did not identify the factors that determine it.

As economic development was still largely considered synonymous with growth, the development theory has paid special attention to the characteristics of economic growth. After *Simon Kuznets (1973:247-258)*, a country's economic growth was a long-term increase capacity to offer more and more diverse assets to population, this capability relying on advanced technology and institutional and ideological necessary adjustments. The economist states therefore the context for economic growth, underlying the importance of existing institutions and ideology, thus making a remarkable contribution to the economic theory. Kuznets identified six characteristics of economic growth, namely: high growth rates of per capita product and population in developing countries, high rates of productivity growth, high rates of structural transformation, rapid changes in the structure and ideology of society, the tendency of developed countries to influence the rest of the world, respectively the limited spread of economic growth. Thus Simon Kuznetz established the pattern of economic growth. Following its empirical studies on economic growth of nations, Kuznets noted that the conventional way of measuring national product and its components on one hand does not reflect many of the adjustment costs of economic and social structures to technological innovation, and on the other hand omits to include other positive results such as improved health and longevity, increased mobility and leisure time, lower income inequality. We believe that Simon Kuznets has made an outstanding contribution to the theory of economic growth and development.

In the same period, the focus was directed toward the role of informal sector in the process of economic development *(Thorbecke 2006:12)*. A major contribution in this direction was made through the case studies conducted by the International Labour Organization (ILO), starting from the 1973 Report on Kenya. Among other things, they underlined that informal activities are an important potential source of increased growth and employment. Other empirical studies of ILO and World Bank have addressed the relationship between population growth and employment of population, between population growth and economic development, the causes of migration from rural to urban areas and the role of traditional agriculture in the economic development.

The main economic theory developed in the 80s was "endogenous growth theory" whose main promoters were Paul Romer and Robert E. Lucas. A successful theory of economic development clearly needs at first, says *Lucas (1988:41)*, mechanisms that are consistent with sustainable growth and sustainable diversity in income levels, but there is not one receipe of economic growth for all economies, so that a useful theory must include the forces that cause change of their growth paths and mechanisms that allow these forces to operate. Of these forces, endogenous growth theory considers the lack of human capital as the main obstacle in achieving economies of scale resulting from industrialization. Human capital refers to trained labor force, able to handle sophisticated equipment and generate new ideas and methods useful in the economic activity. Given the difference in labor endowment and human capital between the developed states and developing or underdeveloped ones, the possibility of their convergence remain at least ambiguous or a downward trend *(Ray 1998:100-125)*. It can still be achieved provided that the developing and underdeveloped countries will allocate public funds for education and life-long training. We in our turn support the crucial importance of human capital and significant role in stimulating economic development, considering such investments in education as one of the most important development policies.

Within the production function related to this theory, the labor force (unskilled) and capital are amplified by a term representing human capital and knowledge, thus leading to obtaining increased performances. This is the conception on human capital that determined the consideration of technical progress as an endogenous factor of production, and not an exogenous one *(Thorbecke 2006:15)*. Technical progress, says *Ray (1998:124)* results from two sources: intentionally innovation determined by the allocation of human and financial resources for research and development, and dissemination of know-how through the contagion effect from one firm to another or from one industry to another. The contagion effect is an externality, in this case a positive one, to the economic activity of other agents, leading to greater social benefits than the individual benefits of companies investing to obtain know-how. Given this, we believe that the state should support investment in research and development.

Economic theory of the 80s has greatly expanded in terms of the link between trade and economic growth due to numerous quantitative and qualitative empirical studies conducted in that period *(Thorbecke 2006:16)*. Outward orientation of trade was strongly correlated with economic growth, showing that countries that have liberalized and encouraged trade had a higher growth rate than those who have adopted a trade strategy focused inward. This is possible according to this theory, by adopting new technologies that increase the value of human capital through the process of "learning by doing", before spreading throughout the industry, and later in other industries through contagion effects. Thus, export orientation is a means of endogenization and accelerating technical progress and economic growth and also reducing poverty. Although we recognize the benefits of international trade and support its liberalization, we believe that this should be done gradually to allow time for national companies to adapt to the conditions and competition on the international market.

A contribution to the theory of economic development made in the '90s was the concept of social capital, complementary to that of human capital. Social capital refers to networks and social groups including individuals of a community that bring many benefits such as informal loans, aid in search of work, provision of information and transfer of know how. If individuals are socially excluded, marginalized or discriminated they can not benefit from community support that could help get out of the poverty trap *(Thorbecke 2006:22)*. We believe that social integration is very important for the development of disadvantaged communities.

In the same period, the role of institutions in economic development has become a significant point in economic theory, considering that they are essential in reducing corruption and stimulating development. Before the Asian crisis, it was believed that the very public institutions and their policies were the key for miracle of Asian tigers, these being considered a model of development for world countries. After the financial crisis, however, government actions to promote industrial development were viewed with more skepticism and were the subject of many critics. Thus, neo-institutional theory considers

that the state can positively influence economic development by creating a macroeconomic and microeconomic environment stimulating effective economic activity by providing the institutional infrastructure (property rights, peace, law and order, regulation) that encourages long term investment, also by providing education, health care and infrastructure necessary to conduct economic activities *(Thorbecke 2006:17, 21)*. We agree with this theory, recognizing the state's role in providing an economic, social and political stability, and also by public services with a degree of decentralization as high as possible.

In his paper "Development Strategies for Next Century", *Dani Rodrik (2000:1-36)* discusses the concept of mixed economy, the combination of state and market economy, of interventionism and laissez faire, arguing that successful economic development requires a market supported by sound public institutions. However, Rodrik believes that individual initiative is what ultimately determines the development of the economy and also the right decision regarding investment and production *(Hausmann and Rodrik 2003:4)*.

During this period, a group of economists specialized in economic development working in the United Nations Development Program, have built an index for measuring welfare, called the Human Development Index (Human Development Index). This has become the standard mean for measuring human development, being used since then for the classification of the world in developed, developing and underdeveloped countries, as well as for quantification of the impact of development policies on quality of life.

The very concept of development has benefited from new insights within economic theory, in particular by the works of Amartya Sen. The famous economist considers development as a process of expanding the real freedoms that people enjoy. This is a much broader approach that contrasts with other perspectives, such as identifying it with gross national product increase, with increasing personal income, industrialization, technological advance or with social modernization *(Sen 1999:3)*.

Analysis of the link between trade and economic development, as well as of its ongoing conditions was resumed in the first decade of the 21st century. Therefore *Bhagwati (2002:1-10)* proposes to reduce trade barriers imposed on developing and underdeveloped countries, and to grant them equally technical and financial assistance, so that they can exploit existing commercial opportunity. *Stiglitz and Charlton (2005:1-33)* address the issue of trade liberalization and adjustment costs thus created, represented by loss of revenue from trade taxes, lack of funding necessary to restructure the economy, inability of poor people to cope with short-term unemployment, etc. The two economists point out that trade liberalization must be carefully made and must be accompanied by national and international policies to reduce adjustment costs such as creating new businesses and expand existing ones to take advantage of new export opportunities and keeping interest rates at a low level *(Stiglitz – Charlton, 2005:213)*. We agree with Stiglitz and Charlton's view on trade liberalization, considering that it must be performed gradually and accompanied by policies that support domestic companies adjust to the international market.

Debraj Ray (2010:45-60) also discusses again the issue of unbalanced growth, presented by Hirschman, trying to analyze the source and its nature, and also the reactions to it. Ray examines the relationship between unbalanced growth and inequality, respectively conflict, and underlines the importance of human behavior and individual aspirations in generating positive or negative reactions to this type of growth.

Though all the contributions brought in the past ten years to the economic development theory are significant, we can not help but notice that they tackled existing ideas, without bringing new ones. *Lindauer and Pritchett (2002:1-40)* carry out a comparation between the economic theory in 1962, 1982 and 2002, emphasizing its great change between these periods of time. In 1962 the government played a central role, capital accumulation represented the engine of economic development, trade and foreign direct investments were avoided, but government loans suppoted, while in 1982 the government was seen as the main obstacle to economic development, the investments in the private sector were fundamental, international trade offered many advantages and governmental loans were to ve avoided. We can see a clear antagonism between the economic thought from the 70's and the 90's. According to the two authors, in 2002 we don't have a clear perspective on what works and what does not, regarding economic development. Any attempt of promoting market reforms will be considered as being a continuation of the present failed strategies, while any tendancy towards strategies needing government intervention will be considered as returning to past failed strategies.

Thorbecke (2006:26-28) considers that the main contribution broght to the development doctrine in the past decade is represented by reaserch techniques, rather than theories, reffering in particular to the reandom and controled experiments used in choosing and evaluating public development policies. The promoters of these non-agregate experiments believe that they can use this research instrument to explain why the poor countries can not overcome their condition *(Banarjee – Duflo 2004:1-69)*.

Random and controlled experiments implies the random selecting of a population in order to implement a policy, the recording and measuring of the effects on the selected population and the comparing of the results with the situation of the population that has not benefited from these policies. Their advantage is that it can test specific policies at a microeconomic level, allowing the estimation of parameters that could not be assessed in any other way, and the results have a strong internal validity *(Banarjee 2008; Banarjee – Duflo 2009)*. The disadvantage of these experiments is the lack of external validity, the small possibility of generalizing the obtained results, the difficulty of assessing long-term effects and the small number of alternative policies evaluated so that many economists still support traditional research methods such as comparative empirical studies of countries *(Rodrik – Rosenzweig 2009:1-19)*. We do not believe these techniques should be mutually exclusive, but we think they should both be used in order to achieve both specific results and general trends and macroeconomic comparative analysis.

Conclusion

The theory of development economics changed grately from the firsts attempts of defining the concepts in the 50s until nowadays. The contributions to the development theory are closely link together and also to the historical context of the underdeveloped and developing countries. This paper tries to facilitate the understanding of the way development economics evolved by presenting the main contributions to the theory.

After many contradictory beliefes regarding the role of the state, the impact of international trade, foreign direct investment and aid, we find ourselfes nowadays not beeing able to offer a development receipe to the nations in need, not beeing able to clearly define what will trigger economic development. Maybe the answer is a combination of taylored policies, adapted to the national, regional and local economical, political and social context, evaluated through both agregate and non-agregate research techniques. Remains to be seen weather we'll be able to identify this perfect combination.

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