Mustó István

Development economics – development policies Some remarks on concepts, applications and fallacies

„Practical men who believe themselves to be quite exempt from any intellectual influence are usually the slave of some defunct economist"

(J. M. Keynes)

This is a brief summary of the development theories and policies of the last 5 decades. The neoclassic economic approach, the dependency paradigm and the contemporary „post-modern" concepts and strategies are analyzed and commented with reference being made to the respective problems and fallacies. Development, so the conclusion, is a self-regulating process in complex. open and dynamic socio-economic systems that are not susceptible to planning but which are progressively improving their ability to manage their increasing complexity and the mechanisms to adjust to changing circumstances.

The term „development" is a rather ambiguous concept. A firm that manufactures or sells petticoats knows precisely what petticoats are and the purpose they are intended to serve. An institution such as a university is clearly committed to comply with its tasks in teaching and research. An institution, however, which is supposed to promote and manage economic and social development, is confronted with a rather vague idea of the nature of its task, its „product" and the cost-benefit ratio which all this implies. The subject of development economics and policies, namely the very concept of „development" as a comprehensible, reproducible and realizable description of a desired state, is basically undefined, in other words, resources are invested in order to maximize an undefined objective.

In the natural sciences and evolutionary systems theory, „development" is a process during which a system becomes increasingly independent or autonomous from its original environment and acquires the ability to survive under changing external conditions and ultimately within environments ever further removed from the original. This implies an improvement in the self-regulation and adjustment mechanisms within the system, which is itself linked with a decline in entropy at the expense of the environment. Whether this formal explanation can be applied to historical processes taking place within socio-economic systems – and, if so, how – is a question to which there is no certain answer; therefore, the sciences which explore socio-economic development have no fixed subject of research.

Mustó István a Berlini Műszaki Egyetem ny. professzora, a Debreceni Egyetem magántanára.
E-mail: smusto@netquick.hu

This opens the floodgates for intellectual self-indulgence. Accordingly, it is hardly surprising that the experts of today, after more or less five decades of intensive investigation in development issues, find themselves having to admit that their understanding of socio-economic development is becoming increasingly blurred. The more our knowledge about details of economic growth and social progress world-wide increases and intensifies, the less "clear picture" of the mechanisms which exert an influence on the underlying processes we have. Which also, therefore, makes difficult to generalize in terms of theoretically consistent and empirically verified blueprints for strategies.[1]

Development concepts and strategies have changed over time. Throughout the 1950s there was the model of the linear development continuum, the recipe here was growth, modernization, and integration in the world economy. Then the conflict model, or the paradigm of dependency moved into the center of the stage; the implication was liberalization from neocolonialism, inward looking development, detachment from the world market. The practical experience gained over the past forty years has produced a substantial measure of detailed information on specific problems encountered within the development process, but the major links, the decisive interrelations have become ever more vague. Policy-makers revise and relativize the dogmas, models and recipes of the past; they have become more astute, more differentiated in approach and also more cautious, but they have lost their overall sense of direction. Development science is at a loss; development policy is operating increasingly in a theoretical vacuum.

In the following a brief outline of the different theories and strategies of economic and social development will be presented distinction being made between the paradigm of economic growth and modernization, and the paradigm of dependency or neo-colonialism. Subsequently, the contemporary state of the art of development science is analyzed. Some final remarks on the fallacies of the present day development strategies will close this contribution.

The paradigm of economic growth and modernization

Development Science is a very recently established discipline. Historically it grew out of colonial economics and political considerations following the collapse of the colonial empires. The former colonial powers were interested not only in securing markets and former investments but also in sustaining political stability and calculation particularly in view of the East-West confrontation. Consequently, and in accordance with the mainstream economic and social science, development was defined in terms of economic growth and societal modernization. The theories of growth have been accumulating continuously since the 1930s. On the basis of some important models, e.g., the key role assigned to innovation and private entrepreneurship *(Schumpeter 1934);* the idea that governments are able and entitled to intervene in the market economy for securing full employment (*Keynes 1936);* the concept of national accounts to measure the economic performance of nations (*Kuznets 1941);* the idea that welfare can be maximized by an optimal allocation of resources *(Pareto 1927)*; and the concepts of saving and investment as the central forces behind economic growth *(Harrod-Domar 1937/47, Solow 1957)* (among other theories) on the conditions to achieve redistributable economic growth. The social dimension of

[1] *More detailed analysis in Musto S.A., (1989)*

growth was defined, mainly in accordance with the categories of the American Structural-Functionalism (*Parsons 1957)*, in terms of an educated, pluralistic, urban-based industrial society with a high standard of living and a permeable structure permitting social mobility. This mode of development rested „on the classical-neoclassical view of a world in which change is gradual, marginalist, non-disruptive, equilibrating, and largely painless...spreading among nations and trickling down among classes so that everybody benefits from the progress" (*Nugent-Yotopoulos 1979).*[2] Since the 1950s, such a view of the world has been representing the ruling paradigm of „mainstream economics" although it was confronted with an increasing challenge by Marxist theory, alternative development models („ecologism", „anotherness") and the paradigm of an emerging regional science.[3] It was in 1951 that the United Nations invited a panel of experts who made the first formal distinction between „developed" and „underdeveloped" countries and formulated the basic principle for the newly emerging nations: they must replicate the recent economic history of the already industrialized countries. They should, so the argumentation, modernize their economic and social structures in order to achieve a high rate of capital accumulation and industrialization.[4] The key elements involved by such a strategy have been defined as the openness to trade and economic stimulation from the world economy, the emphasis on urban industrialization, the concentration of investment capital in the hands of a progressive-minded elite, and the introduction of rational planning mechanisms to achieve an optimal resource allocation for economic growth. Accordingly, development was seen as a uni-directional process, a blueprint based on the experiences of the industrialized countries. To simplify somewhat the ruling development paradigm: it was conceived as a *linear continuum* which has its origin in a traditional, poor, agriculturally oriented community and its culmination in a modern. wealthy industrial society. Progress along this continuum was conceived as a gradual movement from the starting towards the ultimately desired and projected position. No other theorist than *W. W. Rostow* has formulated this thesis so clearly and in a more simplistic way as he did:

„It is possible to identify all societies, in their economic dimensions, as lying within one of five categories: the traditional society, the preconditions for take-off, the drive to maturity, and the age of high mass-consumption."[5]

Other authors elaborated a more differentiated approach to the issue of development. *Myrdal* formulated his well-known theses on circular causation („if a nation is poor, it has no resources to invest, consequently it remains poor"), and on cumulative causation („if economic growth occurs, it will be transmitted through a network of spread and backwash effects to the less developed regions").[6] Resources for investment may have three main potential sources: domestic savings enforced by political measures, foreign direct investments, and development assistance. One year later, *Albert O. Hirschman* published his important book on *The Strategy of Economic Development,* in which he argued in favor of an „unbalanced" instead of a „balanced" *(Lewis, 1955)* development, that means significant capital investment in the „modern sector" which may, through the interconnections

[2] *Nugent J.B. – Yotopoulos P.A. (1979), p. 542.*
[3] *Musto S.A.: (1986).*
[4] *More detailed description in C. Weaver (1981)*
[5] *Rostow W.W. (1963), p. 4.*
[6] *Myrdal G. (1957)*

with other sectors of the economy, produce dynamic effects for the economic system as a whole. His concept of „forward" and „backward linkages" (if a factory is built, it needs inputs from other sectors and it has a stimulating output for other sectors) has laid the base for analyzing and planning the economic interrelations between different components of an economic system.[7]

Industrialization, it was argued, requires therefore investment in those key sectors which are most closely interrelated with other industries, that means, where the forward *and* the backward linkages turn out to be the strongest (infrastructure, iron and steel, chemicals. textiles, paper industry, etc.) in comparison with the sectors where *both* types of linkages prove to be the weakest (fishery, services, trade, etc.).In consequence, preference was assigned to massive investments in infrastructure (highways, airports, dams, hydroelectric plants, etc.), heavy industries (coal, steel), and also textiles to replicate the successful start up for the industrialization of Great Britain two centuries before. Such investments were funded to a large extent from World Bank resources on a project basis (it took more than 30 years that the World Bank switched to program financing) and from foreign direct investments most frequently complemented by development aid from the donor countries. Relating to the question, how far openness or closeness vis-a-vis the world market should be practiced, two basic strategies were pursued: the import substituting industrialization protecting the newly emerging domestic production from world market competition, and the unconditional integration into the world market. Both strategies had their respective positive and negative implications: import-substitution created a certain basis for autonomous industrial production but, in the longer run, it reduced international competitiveness and led to serious balance of payment problems; total openness, on the contrary, froze existing production structures and contributed, like in the case of some African countries, to the fixing on traditional exports with an ever declining terms of trade.

After the „First Development Decade", in the 1950-ies, the results were disappointing. There were at least three important arguments that seemed to invalidate the model of development as an uni-directional linear continuum. Firstly, the strict application of the theories of economic growth and modernization has, despite massive investments, not reduced, instead further increased the development gap measured in terms of GDP per capita between the Third World and the highly industrialized countries. Secondly, strategies of economic growth have frequently produced negative effects in terms of structural distortions and social polarization. The completion of large-scale projects with a short timetable (e.g. hydroelectric plants) has often been accompanied by the emergence of grave social problems, loss of job opportunities, downgrading of manpower skill levels, decay of recently built infrastructure, downward trend of settlements, migration trends towards the urban agglomerations, and the massive decline in agricultural production making the country ever more dependent on food imports.[8] Thirdly, the theoretical foundation of the growth and modernization paradigm has turned out to be basically erroneous: the industrialized states of today have never been „underdeveloped" in the sense of present time third world countries. The original state of today's developing countries, whether in Asia, Africa, or Latin America, was not a „deficit situation" as postulated by

[7] *Hirschman A.O. (1958)*

[8] *See D. Schwefel (1977), some more details in Musto S.A. (1989)*

the growth and modernization paradigm of economic and sociological science; it became a deficit situation by virtue of the comparison provoked by the co-existence of economic and social systems with different structures and the view that economic and social systems presenting certain characteristics are superior or inferior to others. The concept of development was thus reduced, in line with the good old positivist tradition, to that what distinguishes the highly developed from the so-called developing countries. In the early 1960-ies, therefore, the mainstream development model was challenged by a new dialectic, conflict-based paradigm.

The paradigm of dependency or core-periphery dialectics

While under the paradigm of economic growth and modernization „underdevelopment" has been considered as a *deficit* to be eliminated by appropriate strategies of „catching up", some other, mainly Latin American theorists have defined „underdevelopment" as a *product* of the very system of capitalism leading forcefully to unequal exchange between core and peripheral economies. Underdevelopment, it was argued, is not the original state of an economy and society but the distorted result of involvement in the system of international capitalism. The most characteristic (although not necessarily the most important) publication on this paradigm appeared, accordingly, under the title *The Development of Underdevelopment* (*.Frank 1966).*

This new interpretation and revaluation of the concept of development emerged in the early 1960-ies in Santiago de Chile, headquarters of the CEPAL[9] under the direction of *Raul Prebisch.*[10] His original concern was the chronic deterioration of the terms of trade for primary producers. The world consisted, so his argument, of a „core" of industrial countries and a weak „periphery" of exporters of primary products; the gap between their average incomes shows a stable tendency to grow thus making industrialization and modernization of the peripheral economies to be ever more difficult. The significance of this approach was that it opened the door for criticism of neoclassical theory. The Prebisch doctrine, though far from revolutionary, had important repercussions by stimulating a generation of economists and sociologists to adopt a new, dialectic paradigm of development (or more precisely: underdevelopment) which dominated for more than a decade the international discourse on the right way towards progress.

Under the umbrella of the core-periphery model, a great variety of different „sub-theories" were formulated such as „dependency", „structural heterogeneity", „neo-imperialism" or „unequal exchange". Among them, two basic directions can be distinguished: the Marxist-Leninist orientation which transferred the Marxist concept of class struggle to the international relations between countries of the core and the periphery, (*Cardoso-Faletto 1969, Cardoso 1970, Dos Santos 1970, Wallerstein 1973),* and the bourgeois orientation which simply advocated for a de-linking of the developing nations from the world capitalist system through an „inward-looking" or „auto-centric" development strategy (*Jaguaribe 1970, Furtado 1972, Sunkel 1967, 1972).* From the African authors *F. Fanon (1961), A. Emmanuel (1970) and S. Amin (1972)* can be mentioned. Despite differing perspectives

[9] In English: ECLA (Econmic Commission for Latin America)

[10] The first and perhaps most important contribution of Prebisch to the development problem particularly in Latin America was his book El desarrollo económico de America Latina y sus principales problemas, New York 1949.

and conclusions, a premise common to all these theories related to „the deformation of the periphery due to the penetration of capitalist relations of production without the creation of an inter-linkage between rising mass incomes and increasing productivity comparable to that in the center".[11]

Another thesis shared by most of the respective authors is that traditional societies were by far not identical with poor societies (as suggested by neoclassical economics); rather, poverty has been created by colonial exploitation and conscious distortion of third world production structures to benefit capital accumulation and industrialization in the colonial powers. Several cases of the effects of exploitation on Third World economies (e.g. India, Brazil, Bolivia) were analyzed to demonstrate the emergence of poverty as a historical correlate of the core countries' economic development (*Baran 1970, Frank 1970)*. Some authors particularly emphasize that relations of dependence and domination at the international level had been reproduced at the level of the internal economic and social structures of the peripheral countries („internal colonialism") where the dominant social classes and power elites replicate the same attitude vis-a-vis the own population which has been characteristic between the center and the periphery.[12] In consequence, development *within the world capitalist system* was stated to be ultimately obstructed by the inherent structural constraints of that system.

Regarding the way to remove the corset of such structural constraints and to open the path towards autonomous economic and social development, two basic strategies were suggested. The Marxism-oriented wing of authors saw the only chance for Third World countries in a worldwide revolution against capitalism, whereas the more moderate representatives of the dependency paradigm argued in favor of a de-linking from the international capitalist system through a nation-centered, autonomous development strategy. In view of the success of the OPEC cartel in the mid 1970-ies, new hopes emerged that the unequal exchange could be reversed through extending the cartel mechanisms to a wide scope of other primary products. A „New International Economic Order" was proposed including the establishment of a buffer stock to stabilize Third World export earnings as well as the indexation of price relations between industrial and primary products. It was actually not surprising that, in the UNCTAD conference in Nairobi, the industrialized countries bluntly rejected such demands. Ultimately, the oil price explosion did not support the Third World's demands; on the contrary, it contributed significantly to the progressive international indebtedness of the majority of developing countries.[13]

The decline of the dependency paradigm began in the late 1970-ies and the early 1980-ies. There were many reasons to invalidate at least partly the respective theories though it was not neglected that some of the analytical contributions were by far not incorrect.[14] First of all, the theoretical foundations of the paradigm proved to be weak and somewhat vague. Poverty and underdevelopment may have been created in many developing

[11] H. Elsenhans: State. Class and Development, New Delhi 1996, p. 88.

[12] P. Gonzalez Casanova: Sociologia de la explotación, Mexico 1969.

[13] In 1973 and as a reaction to the Yom Kippur war, the price of a barrel of crude oil rose from 3 to 12 US $. In December 1978 the price for the barrel increased again reaching 32 US $ in December 1980, that means ten times more than in early 1973. This required serious measures of adaptation on the side of the industrial countries. Most developing countries had to pay the bill by credits, whereby a wawe of progressive indebtedness in most developing countries was originated.

[14] A thorough descriptive and critical analysis by T. Evers and P. v. Wogau: „Dependencia" – Lateinamerikanische Beiträge zur Theorie der Unterentwicklung, in: Argument No. 20, 1973.

countries as a consequence of colonial exploitation, but we have to remind that some of the poorest countries have never (or for less than a decade) been colonized (e.g. Ethiopia). Secondly, socialist experiments through partial de-linking from the world economy (e.g. Guinea, North Korea, Cuba, temporarily Tanzania, Chile during the period of Allende) have never succeeded in achieving a higher level of economic development than did countries integrated into the capitalist world system (e.g. South Korea, Singapore, Taiwan, Malaysia, etc.).[15] Thirdly: during the course of the 1970-ies, the so-called Third World experienced a significant differentiation through which some Asian and Latin American countries have considerably increased their competitiveness and appeared at the international scene as important competitors of the so-called core of industrialized countries. This implied a relevant rupture in the basic concept of core-periphery dialectics. And finally: the dependency paradigm offered an interesting analysis, but not a realistic solution for the development problem of the Third World countries. Worldwide socialist revolution turned out to be an illusion, at the latest after the collapse of the Soviet empire and China's transition to market economy. Auto-centric, or inward looking endogenous development has proved to be a myth as soon as globalization became the main driving force and model for the world economy.

„Endism", or the implications of post-modernism

Since the early 1980-ies no comprehensive theory of socio-economic development has been elaborated. On the one hand, all big theories have failed. On the other hand, based on the experiences of five decades of development economics and policies, a tremendous amount of knowledge in specific features of the most different development issues has been accumulated. The more we know about economic, monetary, political and cultural factors which influence economic and social change, the less are we able to draw generalized conclusions. Thus, a widening gap has emerged between the cognitive and the normative assessment regarding actual and wishful ways towards the future.

Postulates of economic growth and modernization have experienced a forceful revival in the 1980-ies, though under much more difficult and complicated conditions than in the 1950-ies and 1960-ies. Economic relations have been radically transformed. About 3 trillion US $ of financial capital circulates the globe every day affecting to a significant extent the monetary policies and the balance of payment of developing countries. Increasing international indebtedness which amounted to more than 2 trillion US $ in 2000, requires continuous debt management by the less than fully effective structural adjustment programs of the International Monetary Fund. Diseases, illegal drugs, traffic of weapons, terrorism, environmental problems spreading across national boundaries can not be controlled anymore at the level of nation states. The movement toward creating regional economic or trading blocks (EU, NAFTA, ASEAN, etc.) is introducing a new, complex stratification in international political and economic relations.[16] Globalization, which

[15] *It has, of course, not to be ignored that success or failure in development efforts was not totally independent from direct or indirect interventions by the USA and other industrial powers.*

[16] *Comp. among others, A. Shakow: A Changing Instituion in a Changing World, in M. ul Haq-R.Jolly-P. Streeten (eds.) The UN and the Bretton Woods Institutions, London 1995, p. 34 ff.*

practically means a „one-world-approach," has induced the so-called donor states and institutions to formulate and impose specific conditions to be fulfilled in order to release development assistance („conditionally") which in earlier years would have been considered as an infringement of the holy principle of sovereignty. Now, „the governments (of the developing countries) are depicted as centers of corruption, policy-failures, rent-seeking, ignorance..."[17] while the international financial institutions such as the World Bank have „acquired a self-confident position of being in possession of the Holy Grail of good policies and the ability to sort out the ‚good boys' from the ‚bad boys'."[18] The conditions of the IMF, the Cotonou Agreement between the EU and the ACP countries, or the HIPC -Initiative[19] contain very specified provisions to be fulfilled („struggle against poverty", „good governance", „conflict prevention", etc.) in order to be qualified for benefiting from financial assistance. Beyond the formal principle of sovereignty, the policies and economic performance of the developing nations have become internationally accountable.

Consequently, some authors speak of „endism". This means the end of the Third World as such, the end of sovereignty, the end of the nation states, the end of national economies, the end of the model of „catching-up" to the level of the highly industrialized Western states.[20] The slogan of post-modernism („anything goes") opens a new floodway to discretional decisions on economic policy and development strategy within or beyond the limits of „good governance". Under post-modern conditions, development policy and development economics are not being guided by comprehensive theories or strategies, rather they are centered on the mechanisms of institutions founded and devoted to finance „development".

The institutions of development policy (World Bank, EU, other UN multilateral institutions, bilateral development agencies, NGOs) are apparently more active now than they were decades ago: they are all that is real in development policy. If intelligence is defined as that of measured by intelligence tests, „development" is nothing other than that which the institutions concerned are actually supporting and encouraging. When the Spanish philosopher Ortega y Gasset wrote that philosophy is nothing other than the history of philosophy itself, then, by analogy, development policy is nothing else than the patterns traced by the historical and structural functions of the institutions of development policy.[21] Each one of these institutions applies its own catalogue of criteria, conditions, procedures according to the respective priorities, political or economic interests. It may seem to be a paradox, but the international economic environment is today much more fragmented, differentiated and complicated, while at the same time much more thoroughly subjected to a system of quasi-universal binding rules than ever before during the past five development decades.

On the one hand, global capital and commodity markets, the mobility of capital, transport and communication, the spread of universally applicable technologies, have signifi-

[17] *H. W. Singer: An Historical Perspective, in: M. ul Haq-R. Jolly-P. Streeten: op.cit. p. 21.*

[18] *Idem, p. 21.*

[19] *Highly Indebetd Poor Countries. The initiative enables poor countries to apply for debt release under certain conditions.*

[20] *Comp. U. Menzel: Das Ende der Dritten Welt und das Scheitern der grossen Theorie, Frankfurt 1997. See also R. Kaplan: The Ends of the World from Togo to Turkmenistan, from Iran to Cambodia – A Journey to the Frontiers of Anarchy, New York 1996.*

[21] *S. A. Musto, (1989), p. 5-6-.*

cantly limited the room and the scope for maneuver of national economic and development policies. As the renowned American economist Lester C. Thurow writes:

„A global economy creates a fundamental disconnect between national political institutions and their policies to control economic events and the international economic forces that have to be controlled. Instead of a world where national policies guide economic forces, a global economy gives rise to a world in which extra-national geo-economic forces dictate national economic policies. With internationalization, national governments lose many of their traditional levers of economic control."[22]

On the other hand, the impact of the emergence of globalized, quasi-universal conditions of the international economic environment is by no means uniform. Different countries and regions are quite differently affected by such conditions, with the consequence of further differentiation of development potential. The countries of *East Asia* are increasingly sophisticated economies, able to access public and private capital markets and to attract private investment. Most *Latin American* countries have succeeded in refining their objectives for economic management, redefining the role of government in the economy, thereby opening the way towards relying on the private sector growth, despite continuous problems of external debt and internal structural deficits. The countries of *Eastern Europe,* which have never been „underdeveloped" in the traditional sense but had to readjust an obsolete, distorted economic system, have more or less successfully managed the economic transformation. The development of the *Middle East,* potentially in possession of all human and natural resources, is obstructed by political (and cultural?) circumstances. Finally, *Africa* seems to be the loser of the game, due to weak institutions, fragile health and education services, civil wars, armed conflicts, and limited prospects for growth.[23] Exporters of agricultural or other primary resources have a particularly difficult position: world market prices of natural resources have fallen, in real terms, more than 60 percent from the mid 1970-ies to the mid 1990-ies.[24] Benefits and losses of the global world economy are, accordingly, unevenly distributed.

In consequence, the time for general debates on development policies and strategies is over. National and international development agencies are revealing a new type of modesty by focusing on a limited set of objectives to be attained in the foreseeable future: 1) the fight against poverty aiming at reducing the rate of absolute poverty defined as people living from.1 US $ or less per day; [25] 2) prevention or at least management of armed conflicts in developing countries through a set of measures of mediation, welfare projects, collection of small arms and light weapons[26]; 3) the management of the external debt of developing countries through IMF conditionally and the HIPC initiative;[27] and 4) protection of the environment as defined in the protocols of Stockholm, Vienna, Rio, or Kyoto.[28] Development economics and policies are basically defined in terms of the compliance with these

[22] *L. C. Thurow: The Future of Capitalism, Penguin 1996, p. 127.*

[23] *Comp. A. Shakow: op. cit,. p. 35 ff.*

[24] *See also L. C. Thurow: op. cit. p. 57.*

[25] *World Bank: World Development Report, Washington 2000/2001.*

[26] *Several case studies in B. Fahrenhorst (ed.): Die Rolle der Entwicklungszusammenarbeit in gewalttätigen Konflikten, Berlin 2000.*

[27] *World Bank: Financial Impact of the HIPC-Initiative – First 22 Country Cases, Washington, www.worldbank.org.hipc.*

[28] *Some comments on „sustainable development" in B- Fahrenhorst-S.A.Musto (eds.): Grenzenlos – Kommunikation, Kooperation, Entwicklung, Berlin 2000.*

objectives and the criteria of „good governance". This implies also that the share of official development assistance in total transfers from industrialized to developing countries was reduced from 51 percent in 1987 to 25 percent in 1995, representing just 5 percent of the total export earnings (1100 billion US $ in 1995) of that countries. The share of official development aid in total public and private transfers to the so-called Third World countries amounted in the last years to 2 to 3 percent in average, being this figure as high as 10 to 15 percent in the case of the least developing countries. The major part of development aid and private investments was, however. directed to 10 or 12 countries (China, India, Egypt, etc.) because of reasons of political and economic interests of the donors. Independently from aid and from national policies, the development gap is increasing.

Some fallacies

When the theoretical foundations begin to crumble, all certainty evaporates as to who should be supported, why and how. The consequence of the theory vacuum is that the means-end relationship dissolves within a context of political interests and the corresponding flow of funds. The outcome, therefore, is an upgrading of the weight and the weighting of the funds themselves, a situation in which real purposes become ever more blurred while, by contrast, the objective constraints imposed by the available funds become ever clearer and have an increasingly decisive impact on the decision-making process. Anyone engaged in the field of decision-making for development objectives cannot have failed to notice that the means-end relationship has indeed been largely inverted here: it is the funds and their allocation for that legitimate purposes must be sought and presented.

The efforts to promote development are, therefore, frequently exhausted in the elaboration of ever new intervention techniques: inflating budgets, more projects, more differentiated criteria, better planning, improved accounting, more efficient implementation, more attentive follow-up action, more accurate information systems, more sophisticated forecasting techniques, better trained personnel, more effective integration, more attentive progress control, better coordination, greater commitment.[29] A bit more of everything, everything to be made a bit better. An additive and divisive principle in a world of logarithms and non-linear processes. The core of the matter is merely the futility of trying to repair the world with the tools available. The development policy instrument applicable relates to the complexity of the development problem in a manner comparable to Demarcates atom theory to the quantum physics of the Copenhagen school.

All this implies the fallacy that financial transfers in form of development assistance, subsidies or other sorts of benefit have a tendency to perpetuate the problem they are supposed to solve. Three aspects should be mentioned here. Firstly, the problem of recurrent costs. Any investment generates recurrent costs. Experience has shown that developing countries or regions are only seldom able to cope with investment-induced recurrent costs. In case they manage to do it, this is done at the expense of additional burdens elsewhere:

[29] *It is sufficient to study the rules, catalogues of criteria, procedures or accounting systems of the international development agencies such as UNDP and others, including the allocation mechanisms of the Structural Funds of the EU, to recognize that the statement above is by no means a phantastic exaggeration. The author has evaluated a very large number of development projects, funded by EU, UN and other agencies, in many countries, so he assumes to know what he is talking about.*

the public budget, the balance of payments (e.g. supply of spare parts), or the foreign exchange reserves. B. J. Lecomte illustrates the situation succinctly, albeit in extreme terms:

„Aid knows how to give a country an asphalt road...have it constructed by European firms and inaugurate it as a gift from an aid donor. But ten years later the same aid donor is shocked when asked to rebuild the road completely. ‚Wasn't it part of your road network?" they ask. ‚Why didn't you maintain it?"....The gift is poisonous. It is too attractive to refuse, but too foreign to fit in, too costly to be repaired but just perfect to form the basis of another aid application..."[30]

Secondly, the development process fosters economic, social and regional polarization[31] Increasing inequality requires additional funds, from national or international sources, to cope with the respective problem, a new need for funds which is induced by the original transfers. Polarization effects need not be perceived as negative per se; egalitarianism is not necessarily the best of all ideologies and the allocation principal not necessarily the most effective of all development premises. The problem amounts to who benefits and who suffers disadvantage. To decide this, is up to the political assessment, but a government that wants to be re-elected, will most probably not renounce to the corresponding additional expenditures. Thus, the aid helps to create the very gaps that it claims to close.

Thirdly, external financial transfers for development purposes tend to weaken self-regulating faculties; they transpose internal responsibility elsewhere. This shift of responsibility is a common feature of all development paradigms (including the dependency or imperialism model). This implies an extremely negative effect: it dumps the entire responsibility for the fate of poor countries or poor regions on the rich countries, relieves the national or local governments of their own responsibility, and creates a self-portrait presenting helplessness, oppression and exploitation. The externalization of problem-solving competence (to the IMF. EU, other donors) induces national or regional authorities to transfer their competence outwards; their accountability is directed less towards their own population than to external actors: international financial institutions, donor agencies or foreign investors. This, in many cases, creates disincentives at both government and local level.

Development, at least what we understand by it, has never been a rational, consciously planned process. It was an organic evolution of self-regulating mechanisms in complex open and dynamic socio-economic systems. When at some time between the late medieval era and the beginning of modern history, today's industrial countries developed their own internal dynamism and set out to modify their course, neither this process nor its direction were in any way planned or foreseen. They set out with any presentiment of where they were going in the same state of ignorance that holds true for our journey from here and now into the future. In short: no development concept, no overall objective was required for development, neither in abstract nor in operational goal categories. A process was named ex post facto, and the designation transformed a fact into a norm. „How many diseases would not exist today" André Gide wrote, „if they have not been given a

[30] *B. J. Lecomte: International Aid: A Hinderance to the Growth of Local Capability, in: C. Stevens (ed.): The EEC and the Third World – A Survey, London 1984.*

[31] *Remind the polarization effects of the economic transformation in the former socialist countries in East Central Europe.*

name." It is, therefore, not surprising that some historians or even natural scientists have contributed probably more to the deeper understanding of „development" than economic textbooks ever did.[32]

References

Amin, S.(1972): *Developpement et transformations structurelles: L'experience de l'Afrique 1950-1970* in: Tiers Monde, 13,51, pp.467-490

Baran, P.A. (1970): *On the Political Economy of Backwardness,* in: Rhodes, R.I. (ed.) *Imperialism and Underdevelopment,* New York, pp.285-301

Cardoso, F.H. (1970): *Teoria de la dependencia,* in: Revista latinoamericana de ciencias politicas, Santiago, Vol. 1, No.3, pp.402-414

Cardoso, F.H.- Faletto, E. (1969): *Dependencia y desarrollo en America Latina,* Mexico, Siglo XXI

Diamond, J. (1997): *Guns, Germs and Steel: The Fates of Human Societies,*

Dos Santos, T. (1969): *Socialismo o fascismo – dilema latinoamericano,* Santiago de Chile

---- (1970): *Lucha de clases y dependencia en America Latina,* Bogotá

Elsenhans, H. (1996): *State, Class and Development,* New Delhi

Emmanuel, A. (1970): *La question de l'échange inégal*, in: L'homme et la societé, No. 18, pp. 35-59

---- (1977): *A Socialist Project in a Disintegrated Capitalist World,* in: Socialism in the World, No. 2, pp. 21-38

Evers, T.T. – Wogau, P.v. (1973): *„dependencia": Lateinamerikanische Beiträge zur Theorie der Unterentwicklung,* in: Argument, 20, pp. 404-450

Fanon, F. (1961): *Les damnés de la terre,* Paris

---- (1966): *Sociologie d'une revolution,* Paris

Frank, A.G. (1966): *The Development of Underdevelopment*, in:Monthly Review, No. 18, pp.18-31

---- (1970): *On the Mechanism of Imperialism: The Case of Brazil,* in Rhodes, R.I. (ed.): *Imperialism and Underdevelopment*, New York, pp. 89-100

Furtado, C. (1972): *Externe Abhängigkeit und ökonomische Theorie,* in Senghaas, D.(ed.): *Imperialismus und strukturelle Gewalt,* Frankfurt a.M.

Harrod, R.F. (1949): *Towards a Dynamic Economics,* London

Hirschman, A.O. (1958): *The Strategy of Economic Development,* Yale University Press

Jaguaribe, H. (1969): *Causas del subdesarrollo latinoamericano,* in: Matos Mar, J. (ed.): *La crisis del desarrollismo y la nueva dependencia,* Lima

Keynes, J.M. (1936): *The General Theory of Employment, Interest and Money,* London

Kuznets, S. (1941): *National Income and its Composition*, New York

Lewis, A.W. (1969): *Some Aspects of Economic Development,* London

Menzel, U. (1998a): *Das Ende der einen Welt und die Unzulänglichkeit der kleinen Theorien,* in: Entwicklung und Zusammenarbeit, Frankfurt

---- (1998b): *Globalisierung versus Fragmentierung,* Frankfurt a.M.

[32] *There is no room to describe the theses of non-economic authors relating to the issue of socio-economic development. I just mention two of them. J. Diamond: Guns, Germs and Steel – The Fate of Human Society, 1997, and L. Mumford: The Myth of the Machine (German version) Fischer 1977.*

Mumford, L. (1977): *The Myth of the Machine* (in German translation: *Der Mythos der Maschine*), Fischer

Musto, S.A. (1986): *European Economic Development with Particular Reference to the European Periphery,* in: World Futures, Vol. 22, pp. 31-83

---- (1989): *The Crisis of Development Theory – Towards a Critique of the Manipulative Mind,* in: Bablewski, Z. – Hettne, B. (eds.): *Crisis in Development,* Göteborg

Myrdal, G. (1957): *Economic Theory and Underdeveloped Regions,* London

Nugent, J.B.–Yatopoulos, P.A. (1979): *What has Orthodox Development Economics Learned from Recent Experience?* in: World Development, Vol.7, No. 6.

Pareto, V. (1927): *Manuel de l'économie politique*, Paris

Rostow, W.W. (1963): *The Stages of Economic Growth*, Cambridge University Press

Schumpeter, J.A. (1934): *The Theory of Economic Development,* Cambridge, Mass.

Schwefel, D. (1977): *Bedürfnisorientierte Planung und Evaluierung,* Berlin

Shakow, A. (1995): *A Changing Institution in a Changing World,* In: ul Haq, M.-Jolly, R.-Streeten, P. (eds.): *The UN and the Bretton Woods Institutions – New Challenges for the Twenty-First Century,* London, Macmillan

Sunkel, O. (1967): *Politica nacional de desarrollo y dependencia externa,* in: Estudios Internacionales, Vol. 1, No. 1.

---- (1972): *Transnationale kapitalistische Integration und nationale Desintegration,* in Senghaas, D. (ed.): *Imperialimus und strukturelle Gewalt,* Frankfurt a.M.

Thurow, L.C. (1996): *The Future of Capitalism*, Penguin

Wallerstein, I. (1974): *The Modern World System*, New York-San Francisco-London

Weaver, C. (1981): *Development Theory and the Regional Question: A Critique of Spatial Planning and its Detractors,* in: Stöhr, W.B.-Taylor, F. (eds.): *Development from Above or Below?*, Chichester-New York-Brisbane-Toronto