A CONCISE HISTORY OF ECONOMIC DEVELOPMENT 1940-2015

Michael Borsellino
16 December 2015

Table of Contents

Introduction: What is Development? 3
The Beginning of Development: The Bretton Woods System 4
Modernization 9
Basic Needs 13
New Political Economy 16
Washington Consensus 20
Millennial Development 22
Conclusion 26
Works Cited 28

"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."

—Friedrich Hayek, *The Fatal Conceit*

INTRODUCTION: WHAT IS DEVELOPMENT?

The practical implications and semantic interpretations of development are often under contention, making the concept of development remarkably polarizing. Optimists may see the word as a motif for future successes, while pessimists may only see past failures. Development is the "goal," it is the device for achieving the "goal," and, more ambiguously, development is what "development experts" do "in the name of development" (Thomas 40). Even in simplest definition of development, Robert Chambers' "good change" (Chambers 2), there is an inherent controversy: Who gets to decide what "good" is? The difficulty in defining development is due to its multidisciplinary nature. Development is part economics, part public health, part social welfare, and part culture. It encompasses the dichotomies of rural and urban, wealthy and poor, individual and societal; it can be both progressive and regressive—destructive and creative.

This is not to say that there is no agreement on what development is. Development can be the eradication of poverty, a reduction in disease prevalence, establishing political freedom, or achieving equality. It can be reduced infant mortality, increased safety, or access to better educational resources. It can be overcoming the challenges inherent to achieving any one of these goals. Perhaps Chambers' *better* definition, but one that he overlooks, is that development is "different things at different times, in different places, and by different people in different professions and organisations" (Chambers 2). This holds most true, as development has been continually reinterpreted and adjusted to agree with trending political and economic ideologies.

The following sections will examine these political and economic ideologies, byproducts of the longstanding debate between Alexander Hamilton and Thomas Jefferson on the scale and focus of the central government. These faddish ideologies will serve as an apposite context for analyzing the historical roots of international development. In some decades, development is a dominant economic focus, while in others it is obscured by other economic issues; this paper will attempt to mimic that dynamic relationship through its structure. The geographic scope of this paper is international; as a result, American relationships with European powers have a tendency to be assertive. Even so, the overall focus will remain on development efforts in the "third world," a term coined by Alfred Sauvy in 1952 as a reference to the underdeveloped countries that were often exploited and scorned (Sauvy 1).

THE BEGINNING OF DEVELOPMENT: THE BRETTON WOODS SYSTEM

January 20th, 1949 marks the official (read: public) beginning of the United States' involvement in international development (W. Sachs xvi). It is on this day that Harry Truman gave his second inaugural address, expressing:

> We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas. For the first time in history, humanity possesses the knowledge and skill to relieve the suffering of these people. (Truman 4)

His speech goes on to stress international cooperation, national sovereignty, industrialization, and democracy (Truman 4-5); this is Truman's, and America's, "'fair deal' for the entire world" (Escobar 3). This outward focus was possible due chiefly to the fact that the United States had overcome its own economic problems of "poverty, unemployment and inequality" that had plagued it during the first half of the twentieth century. This freed up tremendous resources that could be allocated elsewhere (Seers 8). As stated above, this was the United States' official, and public, entrance into international development. However, international development actually became part of the United States political agenda five years earlier.

By the end of World War II, the global economy had been ravaged. The value of world trade had declined approximately 65 percent since 1929. In an effort to stabilize the global economy and to eradicate the three problems cited above—poverty, unemployment, and inequality—forty-four nations gathered in July of 1944 for the Bretton Woods Conference (Hewitt 291). The Conference, led jointly by British economist John Maynard Keynes and American economist Harry Dexter White (Singer 1), sought to establish four international organizations for global governance. Known as the four pillars, they would work together to "[regulate and monitor] the financial economic and political workings of the world," promising global equilibrium, multilateralism, and modernization. This Hamiltonian initiative on a grandeur scale signaled the shift from "national-centered economic behavior to internationally co-ordinated finance and trade" (Hewitt 291).

The first of the four pillars was the International Bank for Reconstruction and Development (IBRD), later renamed the World Bank. However, it's a misnomer to describe it as the "first pillar"; the IBRD, at the time of creation, was "not going to be a very important geopolitical institution". It was designed to be a fund that focused primarily on post-war

reconstruction before fading into the background once its mission was complete (Steil 3). However, this roll was subverted by the Marshall Plan of 1947.

The Marshall Plan was a large, multinational aid program with the goal of "reconstructing the war-damaged economies of Western Europe, Japan, East Asia, etc." (Singer 4). The Plan was seen as a means to improve the United States' economic, political, and strategical interests on a global scale by developing "mutually beneficial trading relationship[s]" (Sanford 12). Over the next four years, over $13 billion was gifted to European countries (Sanford 14). The problem: this highlighted the lack of funding available to the World Bank and IMF, while also demonstrating that the development of "first world" economies was the unequivocal priority. Despite this fact, and the "short-term economic sacrifice for the United States," the Marshall Plan was a great success; the countries who were beneficiaries of the Plan saw their per capita income rise 144.6 percent over the next thirty years (Sanford 15-17).

A critical, people-focused aspect of the Plan allowed European "manufacturing and agricultural teams... [to] visit the United States to study American production methods" which increased European productivity and human capital through education on the most modern industrial technologies. This proved to be absolutely imperative for solidifying international relations and enhancing "transatlantic understanding" (Sanford 15-17). As one British team leader put it, "'we had all heard about American hospitality before we came here, but one has to experience it to appreciate what it means'" (qtd. in Sanford 15). As for the United States, it benefited from the Plan in three way. Economically, "exports increased several fold in the decades that followed" and trade continued to improve. Politically, European nations felt indebted to the United States which "contributed to the effectiveness of the Western military

alliance system". And strategically, the principal result was to position the United States as *the* global leader of the free world (Sanford 17).

As a result of the Marshall Plan, the World Bank shifted its focus to development through "the direct financing of individual [long-term] projects." The projects were governed by Keynesian thinking; specifically that increased saving in an economy would lead to increased investment. This, in turn, could be used for technological advancement and, ultimately, overall development. The charter of the World Bank specified that this technological advancement could only be achieved "through the direct financing of individual projects". Unfortunately, it proved to be "far more difficult, time-consuming and labor-intensive...to identify high-yielding projects". This ultimately prevented the World Bank from having the early, however small, impact that was envisioned for it (Singer 4-5).

The second pillar of the Bretton Woods system was the International Monetary Fund (IMF) (Singer 6), the global monetary and financial manager (Singer 13). Its main objective was "defined as 'the promotion and maintenance of high levels of employment and real income and the development of productive resources of all members'" (Singer 6). In other words, the IMF was the global economic stabilizer. Its mission was aided by the creation of the gold exchange currency, whereby countries would fix their currency value to the United States dollar and the United States dollar was fixed to the value of gold (1 ounce of gold was equal to $35). In order to maintain economic stabilization, the IMF was designed to act as a bank (Singer 10), relying on short-term lending "to compensate for balance of payments deficits and exchange rate fluctuations" (Hewitt 291). To finance this short-term lending, it was proposed that the IMF have a budget equal to "50 per cent of annual world imports"; this rate would continue to drop,

further decreasing the IMF's role as a "source of international liquidity" (Singer 7). Similar to the World Bank, the IMF was undermined by the same political powers that created it.

The third pillar was the International Trade Organization (ITO). The ITO was proposed as a means to stabilize global commodity prices and to regulate international trade. Due to the complexity of international trade, the Conference ended with a resolution to form the ITO at a later conference; this never occurred. In its place, the General Agreement on Tariffs and Trade (GATT) was established, though three years later, in 1947. However, it "lacked the jurisdiction and continuity of a permanent institution... [and] was essentially limited to the trade of manufactured goods" (Singer 9). This would prove to be devastating for developing economies, most of which were largely dependent on commodity exports (Hewitt 292).

The fourth, and final, pillar was the successor to the League of Nations and would come to be known as the United Nations. The roll of the United Nations was two-fold: it was "the focus for global economic management" and "the focus of a major aid program for developing countries" (Singer 10-11). Simply, it was designed to be manager of "global development strategies" (Singer 13). Incidentally, despite being called "pillars," the IMF and the World Bank were designed as a derived part of the United Nations, to which they would "'give consideration to the views and recommendations of such organization''. Unfortunately, the United Nations is governed on a "one-country one-vote basis," whereas the IMF and the World Bank are governed, in reality but not necessarily by design, on a "one-dollar one-vote basis". This led the industrialized countries (and private financial actors) to all but disregard the authority of the United Nations in favor of using their monetary influence on the IMF and World Bank (Singer 10-11). As a result, the United Nations effective role was diminished to international conflict resolution (Hewitt 292).

The ambitious goal of the Bretton Woods system, to "[regulate and monitor] the financial economic and political workings of the world" (Hewitt 291), failed, though failing is unfair. It was never given the opportunity to operate as designed; "the Bretton Woods system which was meant to walk on four legs...was hobbling along on the last two only," Hans Singer wrote in 1989, referring to the IMF and the World Bank (qtd. in Hewitt 292). Despite these failures, international development was actually quite successful in the aftermath of the Bretton Woods conference; the success can be attributed, in part, to the Bretton Woods system and the economic philosophy that created it.

MODERNIZATION

The Modernization Era is loosely defined as the years between 1950 and 1970. The prevailing economic development theory of this era was the same that defined the Bretton Woods system: a Keynesian ideology that stressed increasing gross national product as the key indicator of economic development. Further, the United States saw the developing world as a producer of solely primary goods; that is, raw materials which could be turned into intermediate and finished goods by more developed economies. As a result of this mindset, single-industry economic models that utilized increased investment in "infrastructure and industry" to improve production technologies, and thus gross national product, "became fashionable to use as an analytic framework...because of their completely aggregated and simple production functions" (Thorbecke 3-4). Hence, modernization can be seen as synonymous with industrialization. Erik Thorbecke elaborates on the perceived importance of industrialization for developing economies:

> Industrialization was conceived as the engine of growth which would pull the rest of the economy along behind it. The industrial sector was assigned a dynamic role in contrast to the agricultural sector which was...looked at as a passive sector

> to be 'squeezed' and discriminated against...It was felt that industry...would offer alternative employment opportunities to the agricultural population, would provide a growing demand for foodstuffs and raw materials, and would begin to supply industrial inputs to agriculture. The industrial sector was equated with high productivity of investment. (Thorbecke 5)

This could be called the path to development. The idea was that all nations develop in the same way; if a producer of primary goods could begin to produce intermediate, and eventually finished, goods, they would develop.

This path to development is best described by Walt Whitman Rostow's "Stages of Economic Growth," which describes a nation's economy at different points in its lifecycle. First, there is a "Traditional Society"; this is a society with low productivity and limited social mobility. Second, the "Preconditions for Take-Off". This is a society that has increased its productivity and reinvestment in technology. At this point, the economy is shifting from the production of primary goods to the production of intermediate goods; think the onset of the United States' Industrial Revolution in the nineteenth century. Third is the "Take Off," where economic growth continues but also begins to support itself. In these societies, the leading industries are supporting most, if not all, of the growth and further development. Rostow calls the fourth stage of economic growth as the "Drive to Maturity". This could be considered the final push of the "Take Off" stage. The "Drive to Maturity" continues the trend of increased growth and increased investment. The economy becomes incredibly modern, efficient, innovative and diversified; it is no longer dependent on its leading industries from the "Take Off" stage. Subsequently, a nation is capable of exporting the goods it once imported; it may also become a power in the global economy. The final stage is the "Age of High Mass-

Consumption". At this point, the nation is prosperous and focused almost entirely on the production and consumption of final goods. Rostow also notes that this stage will eventually lead to a welfare state, as technology will be able to replace most forms of labor (Rostow 5-9).

The final development theory to emerge from this decade was import substitution industrialization; it is briefly described in Rostow's "Drive to Maturity" stage. Import substitution industrialization occurred when a nation replaced previously imported goods with domestically-produced goods. For the large majority of developing countries, this process involved intermediate goods (read: manufacturing) which led to economic industrialization. In order to expedite this process, nations would often use protectionist measures, a tool that Alexander Hamilton supported; these measures included "restrictive licensing systems [and] high protective tariffs". This artificial hastening of growth through economic nationalism led to large but inefficient industries which were incapable of competing in the global market (Thorbecke 6). This ended up having the opposite effect; developing countries ended up relying more on imported goods. Further problems continued to arise from rapid industrialization: rapid urban growth fueled by former farmers looking for better opportunities quickly led to urban food shortages. What is more, industrialization, though rapid, could not provide enough jobs to sustain the coincidental urbanization. This bevy of problems led to unemployment and an increasing prevalence of slums in urban developing regions.

In terms of both theory and application, the 1960s were very much similar to the 1950s. A national increase in savings was seen as a way to boost investment, investment funded industrialization which was seen as a large driver of economies, and a growth economy would be marked by an increasing gross national product. However, the simplistic, single-sector models that guided development were replaced with more complex, dual-sector models. The second

sector is agriculture. Despite its inclusion, the agricultural sector was still thought of as "backwards". The importance of this progression to economic dualism is that economists now recognized some degree of sector interdependence; that is, the agricultural sector "had to release resources for the industrial sector, which in turn had to be capable of absorbing them". This idea would prove to be invaluable as it inspired a series of economic evolutions (Thorbecke 6).

The belief that agriculture and industry were dependent on one another first led to the theory that neither industry could be more or less advanced than the other, at least from an economic perspective. This synthesis of economic production led to the ideas of balanced and unbalanced growth; balanced growth stressed whichever sector was less productive as the bottleneck for economic production, while unbalanced growth blamed market indecisiveness for stagnating production. "Both approaches emphasized the role of inter-sectoral linkages" which would eventually pave the way for the introduction of multi-sector economic models. The final change that occurred in the late 1960s, independent of the above, was the realization that developing countries tended to have high unemployment. Thus, job creation became the second indicator of growth, alongside gross national product (Thorbecke 8-9).

During this two-decade period of modernization, "industry has been the fastest growing sector in virtually all developing economies". What is more, developing countries, as a whole, saw their income per capita grow by nearly 3% annually during this period; that growth accelerated from 2% annually around 1950 to roughly 3.4% by 1970. This was promising considering that most "first world" countries saw their income per capita increase at less than 2% during their respective industrialization stages. However, just half of the developing countries saw gross national product per capita increase by over 2% annually (The World Bank 3). This is the first indication that industrialization is not the universal path to development. Further

contradicting modernization principles, South Korea and Taiwan experienced economic growth during this period due to their focus on the agricultural sector, and specifically generating agricultural surpluses (Thorbecke 3). Perhaps the best example of modernization's faults is the retrogression of Africa, which failed to "industrialize on a large scale [like East Asia], and could only begin to do so in the following decade" (Hewitt 295). Thus, the true failure of modernization, and the least anticipated, was that "the [economic] polarization that has taken place has done so within the Third World, but not between the Third World...and the developed economies" (qtd. in Hewitt 296). This severely discredited the idea of development as an impending, and inevitable, economic process. Despite this undermining, the earlier evidence is clear: developing economies were growing.

BASIC NEEDS

Around 1970, international development started to depart from the path of pure economic development. Regardless of the modest economic growth illustrated above, living conditions were not improving as equally as hoped. The problems of import substitution industrialization—high unemployment, increasing slum prevalence, and deadly famines—were becoming increasingly common. In a 1973, Robert McNamara, then President of the World Bank, stated that "The basic problem of poverty and growth in the developing world can be stated very simply. The growth is not equitably reaching the poor. And the poor are not significantly contributing to growth" (McNamara 10). At this point, "Poverty alleviation became the [World] Bank's conceptual focus and in effect a moral goal" (Taylor 147). The Basic Needs Era was born.

The term "Basic Needs" is a reference to Albert Maslow's 1943 psychology paper, "A Theory of Human Motivation" (Emmerij 1). In his paper, Maslow defined the five needs

inherent to human growth, in order from most important to least, as physiological, safety, love, esteem, and self-actualization (Maslow 372-382). Around 1976, this hierarchy was redefined for development by the International Labour Office (ILO) to encompass the "certain minimal requirements of a family for private consumption, such as adequate food, shelter and clothing...and [the] essential services provided by and for the community at large, such as safe drinking water, sanitation, health, and educational facilities" (Thorbecke 14). It is around this time that other factors, including "education, nutrition and health and fertility, infant mortality and...the birth rate" were noticed as being crucially important to achieving development (Thorbecke 12).

To achieve poverty alleviation, economic growth remained the tool of choice. However, the traditional indicators of development had to be discarded. Gross national product failed to depict equal economic growth within a society (Thorbecke 11) while job creation was now viewed only as a means "to fulfill the basic needs of individual human beings" (Emmerij 1). Consequently, the World Bank enacted a new, two-pronged approach to economic growth: "The first is to raise the productivity of those who have some access to productive assets such as land, even if only as tenants. The second is to increase employment opportunities in both urban and rural areas, particularly by encouraging more labor-intensive patterns of production" (The World Bank 26). As a result, McNamara introduced large-scale lending projects that targeted small-scale producers in both the urban and rural sectors (Thorbecke 14). His projects also focused on need-based lending, as opposed to output-based lending, as well as rural development and improved education for the impoverished. The ultimate goal was "redistribution [of wealth] with [economic] growth and [the] fulfillment of basic needs" (Thorbecke 18).

During his tenure, McNamara effectively shoehorned the World Bank into the roll it is currently known for. He circumvented the project-based lending restrictions, allowing him to increase the organization's philanthropic commitments from approximately $1 billion per year to $13 billion per year ("Robert Strange McNamara" 2). His background as the United States Secretary of Defense, where he "was used to handling much larger budgets than the chicken-feed activities of the [World Bank]," is credited for his ability to make these sweeping changes (Singer 5). McNamara continued to overhaul the organization, increasing the number of staff by 4,100 and placing the control of lending in the "hands of regional vice presidents" ("Robert Strange McNamara" 2).

Three problems plagued the Basic Needs era. First, the "development fallacy" of finding "good projects". "'Good' or 'high priority' projects...would be financed by the governments themselves...Hence, the World Bank was...supporting some marginal project...which the government would not otherwise have financed". This was overcome to some degree, as "good projects" would later be identified as those with "inherent soundness" but lacking in "overall capacity" to be implemented by their own governments. For example, large initiatives to update existing infrastructure (Singer 5). The second, and more fundamental problem, was the concept of "basic needs" itself, which had been redefined by the ILO to mean "minimum requirements". This created "a certain complacency" (Mosley 22), with low expectations stifling progress. The third problem of the Basic Needs era had nothing to do with poverty alleviation. Due to international debt related to expenditures during the Vietnam War, as well as decreasing gold reserves and currency vulnerability, President Richard Nixon delinked the United States dollar from gold in 1971. This had the effect of destroying any hope of global currency stabilization and it quickly led to record inflation. In order to protect their wealth, the Organization of

Petroleum Exporting Countries (OPEC), a partnership of petroleum-exporting nations that seeks market stabilization and equal capital gains, increased petroleum prices by 400% in 1973 through an embargo. To prevent this from having a devastating effect on the United States' economy, Nixon was able to form a deal with OPEC to value all future petroleum sales in United States dollars – the "petrodollar". Other countries, and especially less-developed countries, were not able to avoid devastation. Between 1970 and 1983, Third World debt increased by $75.1 billion to $634.4 billion. Likewise, between 1983 and 1986, the Latin American countries experienced a net capital loss of $113 billion, as compared to a net capital gain of $52 billion in the 1970s (Canak 18-20). Nevertheless, the Basic Needs era was a step in the right direction in terms of human development. The focus on developing "human capital" in addition to "economic capital" brought attention to many other issues stemming from poverty that had, up to this point, been ignored. Notably, women, for the first time, were identified for the roll they placed as economic drivers in the informal sector (Hewitt 297).

NEW POLITICAL ECONOMY

The oil crisis of the 1970s and rising interest rates towards the end of that decade led to the debt crisis of the 1980s. In 1982, after a decline in international reserves forced the government to devalue the peso, Mexico defaulted on its external debt. At that point in time, the debt was valued at a colossal 49% of Mexico's gross domestic product. That number would increase to 78% of gross domestic product by 1986. This had the effect of devastating Mexico's economy; real wages fell by approximately 30% and unemployment skyrocketed. Between 1983 and 1988, "Mexico's real gross domestic product grew at an average rate of just 0.1%," leading to the 1980s being nicknamed the "lost decade" (Rabobank 1-3). Worse yet, this problem was not contained to just Mexico, which effectively negated most development work that had been

done up to that point. In Africa and Latin America, "per capita national incomes...declined, investment declined (resulting in the deterioration of infrastructure in transport, communication, education and health care), and unemployment and underemployment grew". Further, the number of "least developed countries," or countries with a gross national product per capita of approximately $300 or less, grew from 31 to 42 (Hewitt 301). For reference, the United States' gross national product per capita in 1985 was $17,510 (The World Bank. GNI per capita 1).

Conservative leaders saw this as a failure of the earlier development efforts, namely import substitution industrialization and economic nationalism (Mosley 3-4). A new goal emerged: stabilization of the economy through "deregulation". To achieve this, "painful stabilization and structural adjustment policies" were implemented with the goal of achieving both "external equilibrium and internal equilibrium". In other words, balanced international trade and balanced national budgets (Thorbecke 15). Up to this point, the IMF was the main economic and political tool responsible for global stabilization. However, the debt crisis, and lack of gold standard, caused massive destabilization and the macro-economy was not recovering as quickly as was hoped. For this reason, and at the direction of political leaders, the World Bank shifted its focus away from poverty and "moved alongside the Fund into the business of providing balance-of-payments support to countries afflicted by the debt crisis and falling export prices, adding newly invented 'structural adjustment loans' to its project credits" (Taylor 147).

The political leaders of this era, President Ronald Reagan in the United States and Prime Minister Margaret Thatcher in the United Kingdom, subscribed to neoliberal economic theory. Neoliberalism "posits that...the same rules of economic development can be applied across the board from the most developed to the least developed" (Hewitt 302). Further, and perhaps more importantly, neoliberals firmly believe that "government interventions in the market slow

economic growth" (Taylor 147). Thus, neoliberal policies stress "the individual and...the free play of market forces": Adam Smith's "invisible hand". The policy focus is on short-term growth, as the "invisible hand" should, in theory, take care of long-term growth. As a result, neoliberals thought, much like Thomas Jefferson, that the government should be small and hands-off, "only provid[ing] those goods and services (such as infrastructure) which would not otherwise be provided by the private sector" (Hewitt 302). Moreover, neoliberals were in favor of dismantling the welfare state that Rostow describes in his fifth and final stage of development. In order to force these (regressive) economic principles on developing countries, Structural Adjustment Programs (SAPs) were formed. They were weapons crafted by conservatives, wielded by the IMF and the World Bank, and targeted "big government".

Structural Adjustment Programs were (and remain) financial assistance packages with political conditions imposed on the borrower. In reality, these programs were the opposite: political conditions with financial incentives (Hewitt 302). The conditions stressed outward-oriented governments that would "encourage exports and industrialization in labour-intensive consumer goods" (Thorbecke 18). This would "generate very large trade balance surpluses in very short periods of time" (Edwards 161). A variety of mechanisms were utilized so as to meet this goal, including "[currency] devaluation, removal of artificial price distortions [like tariffs and subsidies], trade liberalization, and institutional changes at the sector level" (Thorbecke 18), "coupled with...privatization and financial reform" (Edwards 179). These policies reversed everything that import substation industrialization had worked to achieve in the 1970s, but that was the point. Unfortunately, nothing could be; "Developing countries were strongly encouraged, if not forced, to rely on the operation of market forces and in the process to minimize government activities in most spheres, not just productive activities" (Thorbecke 19).

The irony of all this being that while neoliberals wanted nothing more than limited government intervention, they were intervening.

The New Political Economy of the 1980s was likely the worst era for international development since its inception in the 1940s; the policies were too focused on "safeguarding the interests of international commercial banks," which had been gifted unilateral control over the global financial market through deregulation. As a result, the neoliberal policies failed to have any meaningful positive impact (Nyerere 67). Worse yet:

> The programmes for stabilization and adjustment pressed upon developing countries did not provide for sufficient external financial support to permit adjustment to occur and endure without choking their growth...This...aggravated the developing countries' economic woes and social distress in a number of ways. In particular, the complete disregard of equity in prescriptions for structural adjustment consisting of cuts in public spending and changes in relative prices had devastating effects on vital public services like health and education, with especially harmful consequence for the most vulnerable social groups. (Nyerere 67-68)

Government contraction and privatization had the opposite of its intended effect: inefficiency increased, real income declined, and unemployment climbed rapidly (Edwards 161). Even in the face of falling exports, trade balance surpluses remained the goal. To achieve this goal, imports, "even the most essential ones" were restricted. In the end, "after several years of 'adjustment' many countries found themselves in the position of having unwillingly or unwittingly caused large and irrecoverable losses to their economy and undermined their growth prospects" (Nyerere 68).

Despite the economic failures of this decade that overshadowed just about every aspect of human development, there was some progress. It was previously stated that at the end of the 1970s, women were finally recognized for the roll that they played in the informal sector, the informal sector being "those who were not in formal employment" (Hewitt 297). This is part of a greater discovery, that of "understanding...the role of human capital as a prime mover of development". "Low human capital endowment" was identified as the "primary obstacle to the achievement of the potential scale economies that might come about through industrialization" (Thorbecke 15). This led to a new effort to invest in "human capital and knowledge" (Thorbecke 19). Microfinance emerged as the tool to mobilize the marginalized human capital and alleviate poverty. The goal of microfinance is to harness the entrepreneurial potential of the poor through small loans to individuals within groups, thereby increasing self-employment, and bolstering the economy as a whole. Pioneered in the 1970s by the Grameen Bank of Bangladesh, microfinance came to prominence in the 1980s and has persisted as a key technology of development (Weber 50-51).

THE WASHINGTON CONSENSUS

Much in the same way that the 1960s climate was a continuation of the 1950s, the 1990s were a continuation of the 1980s. The major difference between the 1980s and the 1990s was the dissolution of the Soviet Union. This left capitalism, and democracy in some capacity, as the "only" viable form of economic, and political, system. Further, the United States was left as the de facto global leader. This led the world to adopt the United States' economic policies, hence the "Washington consensus" (Williamson 1329). The consensus stressed largely the same marked-based stabilization and adjustment neoliberal policies as the 1980s: fiscal discipline, public expenditure reform towards fields with high economic returns, tax reforms to broaden the

tax base and cut marginal tax rates, financial and trade liberalization, increased foreign investment, privatization, and deregulation (Williamson 1332-1333). This compounded the catastrophic policies of the 1980s:

> 100 countries have undergone grave economic decline over the past three decades. Per capita income in these 100 countries is now lower than it was 10, 15, 20 or in some cases even 30 years ago. In Africa, the average household consumes 20 percent less today that it did 25 years ago. Worldwide, more than 1 billion people saw their real incomes fall during the period 1980-1993. (qtd. in "The IMF and the World Bank..." 2)

Fortunately, there were some, though limited, fundamental changes to the West's development mindset. The collapse of the Soviet Union left with it drastically deteriorated socioeconomic conditions which helped the development community realize that:

> Fundamental and deep-rooted institutional changes to reduce corruption and facilitate a successful transition from socialism and command economies to market economies were a precondition to successful adjustment and a resumption of development. (Thorbecke 19)

A focus on human development and poverty alleviation was finally set to return to the forefront, but the forefront of what? On a global scale, development efforts were pushed to the periphery. Tom Hewitt called the 1990s "the end of development" (Hewitt 304), Erik Thorbecke referenced "a strong and lingering case of 'aid fatigue'" (Thorbecke 25), and Wolfgang Sachs wrote that "The last forty years can be called the age of development. This epoch is coming to an end. The time is ripe to write its obituary" (W. Sachs xv). The first world was no longer focused on external development.

MILLENNIAL DEVELOPMENT

Towards the end of the "Washington Consensus" era, in 1997, the financial systems of many East Asian countries collapsed. From a development standpoint, the most devastating effect was "a sharp reversal of the long-term poverty reduction trend" (Thorbecke 20). The havoc wreaked by the crisis:

> Forced a critical re-examination of an international trade and financial system based on excessive trade and capital liberalization and financial deregulation. The large increase in the incidence of poverty that followed in the wake of the crisis sensitized the development community to again focus on poverty alleviation and improvements in the socioeconomic welfare of vulnerable households as the overarching objective of development. (Thorbecke 24)

This quickly revitalized the development community. The crisis forced a "fundamental re-examination of the role of aid and the uncritical acceptance of rules of the game, based on outdated international trade and money system...no longer consistent with the contemporaneous conditions" (Thorbecke 26). The World Bank was one of the earlier adopters of this new attitude, making it clear that poverty reduction would now be "measured in terms of outcomes (health, education, employment, access to public goods and services and social capital) rather than inputs was the primary goal to strive for" (Thorbecke 24). This kick-started the modern era of development, Millennial Development.

In 2000, at the Millennium Summit, the United Nations created eight international development goals to be achieved by 2015. They are: 1) eradicate extreme poverty and hunger, 2) achieve universal primary education, 3) promote gender equality and empower women, 4) reduce child mortality, 5) improve maternal health, 6) combat HIV/AIDS, malaria and other

diseases, 7) ensure environmental sustainability, and 8) develop a global partnership for development (The United Nations xi). While not completed outright, great advances have been made in achieving the goals. For example, those considered to be extremely impoverished, or living on less than $1.25 per day, has decreased from 47% in 1990 to 14% in 2015. Over the same time period, the number of child deaths annually has decreased from 12.7 million to 6 million (Galatsidas 1-3).

One of the main proponents of these goals is Jeffrey Sachs, author of *The End of Poverty*. In his book, Sachs argues that the "poverty trap" is the main obstacle to alleviating poverty. He argues that when people are "utterly destitute, they need their entire income, or more, just to survive. There is no margin of income above survival that can be invested for the future" (J. Sachs 56). To overcome this trap, wealthy countries must invest in poorer countries to get them onto the "ladder of development" (J. Sachs 73). Finally, he writes that poor governments are just as susceptible to this "poverty trap" (J. Sachs 59). His response to the "poverty trap" was to create the Millennium Village Project (MVP), a centrally planned but rurally focused initiative that captures a unique collaboration of Hamiltonian and Jeffersonian ideals. The MVP is a collection of fifteen villages across ten African countries which "are designed to demonstrate how the Millennium Development Goals can be met in rural Africa over 10 years through integrated, community-led development at very low cost" (Millennium Villages 1). Sachs has claimed that the Millennium Village Project has be "a tremendous success" in many aspects (J. Sachs *EconTalk* 6).

Unfortunately, Sachs' Millennium Village Project is not as successful as claimed. Nina Munk, a journalist and author, spent several years following Jeffrey Sachs around the globe. In

an interview with Russ Roberts, she described one of the many flaws of the project that she witnessed:

> One of the ideas there [in Ruhiira, Uganda] was to lift the people out of poverty by introducing fertilizers and high-yield seeds. It makes perfect, imminently [*sic*] good sense....
>
> The maize yields had jumped from 1.3 tons per hectare to 3.7 tons...And the villagers suddenly were not only well fed but they also had excess maize that in theory you could store. Except there was a problem. There were no storage facilities to keep the maize safe...And there isn't really that much demand for maize, because in that part of Uganda, Mutolke [*sic*], the local cooking banana is what people really want...
>
> And what quickly became apparent was that even if you could find a buyer for this excess maize...given that there were no properly paved roads and this village was so isolated, the cost of transport alone would wipe out any profit....
>
> And in the end, most of the farmers were forced to sell this maize for far less than the cost of the inputs. Because they wound up doing what farmers so often do with bumper crops when you are in a remote region: You dump the excess maize all at once. The market prices collapsed, of course. Any number of farmers just couldn't find buyers at all, and they just left the maize to rot. (Munk 5)

At the end, she is quoted as saying that "there were no industries or long-term jobs or anything that...was going to last when the Project officially came to an end" (Munk 10), not that it

mattered because "There is no connection to the global economy or even their own domestic economies" (Munk 4). The sad truth is that, if one prescribes to Jane Jacobs' theories of economic growth, this is the expected outcome. Jacobs' book, *The Economy of Cities*, states in its second paragraph that "rural economies...are directly built upon city economics and city work" (Jacobs 4), which discredits the basis of the MVP: rural development.

Even more critical of Sachs is William Easterly. In his book, *The White Man's Burden*, he argues that Sachs is a "Planner" and developing countries need "Searchers". The difference?

> Planners announce good intentions but don't motivate anyone to carry them out; Searchers find things that work and get some reward. Planners raise expectations but take no responsibility for meeting them; Searchers accept responsibility for their actions. Planners determine what to supply; Searchers find out what is in demand. Planners apply global blueprints; Searchers adapt to local conditions. Planners at the top lack knowledge at the bottom; Searchers find out what the reality is at the bottom. Planners never hear whether the planned got what it needed; Searchers find out if the customer is satisfied. (Easterly 5-6)

He continues this claim from a human capital standpoint, arguing that only an "elite few in the West can be Planners. People everywhere...can all be Searchers" (Easterly 30). He concludes his tirade against planning, and Sachs, by showing that, up until 1975, Africa's economy, as a whole, was growing by approximately 2% annually—1975 being when McNamara's World Bank was just beginning to focus on large-scale lending. Post-1975, annual gross domestic product growth in Africa dropped dramatically; within ten years, growth was at 0% annually and continued to decline (Easterly 46). He does, however, concede that aid projects can work if they

are targeted at fixable problems. For instance, "drilling...new boreholes [in Malawi]...has led to a decline in cholera" (Easterly 22).

Easterly's argument has two notable flaws. First, it fails to give credit to the importance of humanitarian aid, especially in times of crisis. Second, he ignores the fact that Western experts can and should be involved in the development process, like when British farmers were brought to America to learn during the Marshall Plan. This has the effect of increasing human capital without directly interfering as Planners. The aggregate is that, in a distinctly neoliberal fashion, Easterly fails to believe that any sort of intervention should be utilized to encourage economic growth. This critical failure to address economic growth in developing nations leaves his arguments just as one-sided as those early plans that focused solely on economic growth. In the end, his vehement disapproval of foreign aid is short-sighted.

CONCLUSION

Sachs is probably right in the sense that capital inflows are needed in developing countries. These capital inflows could be used to attract Richard Florida's "creative class," "the fast-growing, highly educated, and well-paid segment of the workforce on whose efforts corporate profits and economic growth increasingly depend" (Florida 3). They could be used to fund large public works projects, to build new and better schools, to fund public health projects, or to establish more lending institutions for small businesses and poor individuals (like the Grameen Bank). From a very Jacobsian perspective, capital should be used to mobilize existing assets, not replace them. But capital should not be used to fund projects planned by the West, which, demonstrated most recently by Easterly in his Planners versus Searchers tirade, are incredibly inefficient and ultimately ineffective. My only concession is that—even though all evidence suggests he was doomed to fail—at least Sachs tried.

I believe the Millennium Village Project is a shining example of why planning is so often embraced. From an economic standpoint, development increases our network of “buyers,” thus increasing our wealth. But from the even more fundamental humanity standpoint, it is in human-nature to be altruistic. When Nina Munk asked George Soros if he was concerned about his $50 million investment in the Project, Soros’ response was that “the worst case scenario is it’s just a humanitarian investment, in which case it’s a good investment on its own. But you know, imagine if it actually succeeds. In that case we’re going to wind up with a reward that will be way out of proportion to the investment that I made” (qtd. in Munk 8). It’s this sense of hope in the greater good that so often makes us try too hard to help.

The true path to development needs to be homegrown; it needs to start out small and evolve organically by mobilizing Easterly’s searchers. It must be discrete, dynamic, and interdisciplinary—a compromise between Hamilton and Jefferson. The future of development is not in megaprojects, but in small, individually tailored projects. It is in adapting the Grameen Bank’s microfinance model to all aspects of development. The future of development is microplanning.

Works Cited

Bernstein, Henry. "Colonialism, Capitalism, Development." *Poverty and Development in the 21st Century*. By Tim Allen and Alan Thomas. Milton Keynes: Oxford: Open U ; Oxford UP, 2000. 241-70. Print.

Canak, William L. *Lost Promises: Debt, Austerity, and Development in Latin America*. Boulder: Westview, 1989. Print.

Chambers, Robert. "Ideas for Development: Reflecting Forwards." *ResearchGate*. Institute of Development Studies, Nov. 2004. Web. 29 Nov. 2015.

Easterly, William. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done so Much Ill and so Little Good*. New York: Penguin, 2006. Print.

Edwards, Sebastian. "Structural Adjustment Policies in Highly Indebted Countries." *Developing Country Debt and Economic Performance*. By Jeffrey D. Sachs. Vol. 1. Chicago, Ill: U of Chicago, 1989. 159-208. Print.

Emmerij, Louis. *The Basic Needs Development Strategy*. Working paper. N.p.: World Economic and Social Survey, 2010. Web. 01 Dec. 2015.

Escobar, Arturo. *Encountering Development: The Making and Unmasking of the Third World*. Princeton, NJ: Princeton University Press, 1995. Print.

Florida, Richard. "The Rise of the Creative Class." Washington Monthly, May 2002. Web. 02 Dec. 2015.

Galatsidas, Achilleas, and Finbarr Sheehy. "What Have the Millennium Development Goals Achieved?" *The Guardian*. N.p., 06 July 2015. Web. 02 Dec. 2015.

Hayek, Friedrich A. Von. *The Fatal Conceit: The Errors of Socialism*. Ed. William Warren Bartley. Chicago: U of Chicago, 1989. Print.

Hewitt, Tom. "Half a Century of Development." *Poverty and Development in the 21st Century*. By Tim Allen and Alan Thomas. Milton Keynes: Oxford: Open U; Oxford UP, 2000. 289-308. Print.

Jacobs, Jane. *The Economy of Cities*. New York: Random House, 1969. Print.

Maslow, A. H. “A Theory of Human Motivation.” *Psychological Review* 50.4 (1943): 370-96. Web. 01 Dec. 2015.

McNamara, Robert S. “Address to the Board of Governors.” The World Bank Annual General Meeting. Kenya, Nairobi. 1973 Sept. 24. *The World Bank*. Web. 01 Dec. 2015.

Millennium Villages. “FAQ.” N.p., n.d. Web. 02 Dec. 2015.

Munk, Nina. “Nina Munk on Poverty, Development, and the Idealist.” Interview by Russ Robers. *EconTalk*. N.p., 27 Jane. 2014. Web. 02 Dec. 2015.

Nyerere, Julius K. *The Challenges to the South: The Report of the South Commission*. Oxford: Oxford UP, 1990. Print.

Rabobank. “The Mexican 1982 Debt Crisis.” *Economic Research*. N.p., 19 Sept. 2013. Web. 01 Dec. 2015.

“Robert Strange McNamara.” *The World Bank Archives*. The World Bank, 15 May 2005. Web. 01 Dec. 2015.

Rostow, Walt Whitman. "The Five Stages of Growth: A Summary." *The Stages of Economic Growth: A Non-Communist Manifesto*. Cambridge: U, 1960. 4-16. Print.

Sachs, Jeffrey. “Jeffrey Sachs on the Millennium Villages Project.” Interview by Russ Roberts. *EconTalk*. N.p., 17 Mar. 2014. Web. 05 Dec. 2015.

Sachs, Jeffrey. *The End of Poverty: Economic Possibilities of Our Time*. New York: Penguin, 2005. Print.

Sachs, Wolfgang. "Introduction." *The Development Dictionary: A Guide to Knowledge as Power*. London: Zed, 1992. Xv-Xx. Print.

Sanford, William F., Jr. "The Marshall Plan: Origins and Implementation." *Marshall Foundation*. United States Department of State, Bureau of Public Affairs, 5 June 1947. Web. 29 Nov. 2015.

Sauvy, Alfred. "Trois Mondes, Une Planéte." L'Observateur, 14 Aug. 1952. Web. 29 Nov. 2015.

Seers, Dudley. "The Meaning of Development." Institute of Development Studies, 1969. Web. 29 Nov. 2015.

Singer, Hans W. "Rethinking Bretton Woods: From an Historical Perspective." *Promoting Development: Effective Global Institutions for the Twenty-first Century*. By Jo Marie Griesgraber and Bernhard G. Gunter. London: Pluto, with Center of Concern, Washington, DC, 1995. 1-22. Print.

Steil, Benn. "Benn Steil on the Battle of Bretton Woods." Interview by Russ Roberts. *EconTalk*. N.p., 16 Feb. 2015. Web. 05 Dec. 2015.

Taylor, Lance. "Editorial: The Revival of the Liberal Creed – the IMF and the World Bank in a Globalized Economy." *World Development* 25.2 (1997): 145-52. Web. 01 Dec. 2015.

"The IMF and the World Bank: Puppets of the Neoliberal Onslaught." *The Thistle* 13.2 (2000): n. pag. Sept.-Oct. 2000. Web. 09 Dec. 2015.

Thomas, Alan. "Means and Views of Development." *Poverty and Development in the 21st Century*. By Tim Allen and Alan Thomas. Milton Keynes: Oxford: Open U ; Oxford UP, 2000. 23-48. Print.

Thorbecke, Erik. *The Evolution of the Development Doctrine, 1950-2005*. Helsinki: United Nations U. World Institute for Development Economics Research (UNU-WIDER), Dec. 2006. Web. 29 Nov. 2015.

Truman, Harry. "Truman Inaugural Address." Truman Library, 20 Jan. 1949. Web. 29 Nov. 2015.

The United Nations. *Taking Stock of the Global Partnership for Development* (2015): n. pag. Un.org. 18 Sept. 2015. Web. 02 Dec. 2015.

The World Bank. GNI per capita, Atlas method (current US$). 2014. Raw data. N.p.

The World Bank. "World Development Report, 1978." The World Bank, Aug. 1978. Web. 29 Nov. 2015.

Weber, Heloise. "The Global Political Economy of Microfinance and Poverty Reduction." *Microfinance: Perils and Prospects*. By Jude L. Fernando. London: Routledge, 2006. 43-63. Print.

Williamson, John. "Democracy and the "Washington Consensus"." *World Development* 21.8 (1993): 1329-336. Web. 2 Dec. 2015.