Chapter 12

‘THEORY’ IN ECONOMIC DEVELOPMENT

Objectives

What is the appropriate method to use in an applied, interdisciplinary subject such as Economic Development? We want to be able to make correct predictions and justify the predictions as being based on science. Since we want to apply our ideas, the method must give us definite answers, and the interdisciplinary nature of the subject matter suggests that the fewer the prerequisites for a clear understanding, the better. Partial Equilibrium analysis fulfils both criteria: most of us can still recall how the Demand-Supply diagram of our first economics course made so much sense in explaining the effect of a tax and how the variety of backgrounds or interests of the class did not affect the joy of comprehension. Perhaps words and pictures suffice for an applied, interdisciplinary subject! Those who wish to complicate analysis must meet at least at least the first, indispensable criteria of providing clear-cut answers. The desire to extend the applications beyond the one parameter, one industry limitations of partial equilibrium naturally leads us to consider more complicated cases, first to changes involving multiple variable models and eventually to changes in the economy as a whole. However, this ambition, so natural in any scientist, is also deadly. It so happens that, even if the scientific status of economics be granted, there are very few cases of interest where economics can make definite predictions. This failure to predict, so commonplace a joke in popular news, is even taken by some as grounds for refusing economics any scientific pretensions.¹

Man is an animal who lives for the future. Therefore, our hopes and fears, in technical jargon, our ‘expectations’, must constantly, even if silently, affect our actions. One of the most important set of such beliefs consists of the nature of the relationship that we have about each other. It is hard to accept economics as a science since both facts and theories in subjects dealing with human interaction possess “personality”. Science, on the other hand, requires a collection of interpersonal facts, or “publicality” (if I may coin a word). The laws of gravitation would be of marginal interest if the form of the law depended on the age, sex and nationality of the person who applied it. It is the very unfeeling, resolute determination with which the law enforces itself

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that is so impressive. Science requires constants, parameters and 'rigid' structures – economics provides us with none of these. The normative basis for development economics is speed, the factual basis for its policy action is the absence of markets and the desideratum of economic development is structural change. With such a heavy load to bear, students of economic development should welcome mathematical theories. Unfortunately, not only are the three requirements noted somewhat at odds with each other, they also militate against the construction of "theory". The absence of markets means more complicated theories must be constructed,--- not a welcome demand when we have trouble generating conclusions even with complete markets. And if the basic parameters are to keep changing, as we desire in any successful development policy, then equilibrium, even if it exists, keeps on changing and the relevance of the entire equilibrium construct as a guide to policy is called into question. As a result, it is incumbent upon those who wish to use complex methods in an applied subject to prove their case. This focus upon simplicity and accessibility has the added benefit of allowing us to both talk to policymakers and persuade the public.

Why has the importance of judgement become a stepchild in the last half-century? The answer, it seems to me, lies in the popular opinion that problems in physics require no personal judgments and that the real work facing physicist's lies in providing precise solutions for well-defined technical problems. If a similar claim could be made for economics then one would indeed have good grounds for urging the abolition of the history of economic thought. It so happens that philosophers of science no longer feel that "science" can make the claims to objectivity that it once used to make. Mary Hesse has described succinctly the old view that there is an external world which can in principle be exhaustively described in scientific language. The scientist, as both observer and language-user, can capture the external facts of the world in propositions that are true if they correspond to the facts and false if they do not.²

She has then gone on to point out that "almost every assumption underlying this account has been subjected to damaging criticism." Even while the older philosophy of science was being formed, one of the greatest mathematical physicists of all time, Henri Poincare, was trying to warn against too rigid a faith in mathematical rigor.³ When a physicist finds a contradiction between two theories . . . one of them at least should be considered false. But this is no longer the case if we only seek in them what should be sought. It is quite possible that they both express true relations, and that the contradictions only exist in the images we have formed to ourselves of reality.