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Introduction to the Handbook

Machiko Nissanke and José Antonio Ocampo

1 Development Economics as Evolved

Great thinkers such as Albert Hirschman, Paul Rosenstein-Rodan, Rognar Nurkse, Arthur Lewis, Gunnar Myrdal and Raúl Prebisch addressed big issues related to development in the classical tradition of Smith, Ricardo, Mill and Marx with a historical perspective at core and established development economics as a branch of economics in the early post-war period. Over time, development economics has grown exponentially in terms of thematic issues addressed and analytical tools applied. As Erik Thorbecke's adept contour to the history of the development doctrine presented in Chap. 3 of this handbook shows, development economics has evolved to serve a diverse set of development objectives and form a basis for deriving development policies and strategies over the past seven decades. This evolution has been guided and facilitated by advancement of development theories, models and techniques as well as an expansion of underlying data.

In terms of theories and methodologies applied, however, one cannot but notice that development economics, which was viewed as a distinct field of

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studies in its own right by many of the founding scholars known for their pluralistic approaches, has been absorbed into mainstream economics. Development economics is by now largely seen as a branch of neoclassical economics, as the latter has revised and extended the original confined version of the general equilibrium models in several directions by incorporating new perspectives such as imperfect competition, economies of scale, externalities, imperfect information, incomplete contracts, strategic game theories and so on. Enhanced with these new analytical perspectives and tools, neoclassical models have been embraced as an appropriate framework to address issues arising from underdevelopment such as missing markets and 'inappropriate' institutions.

Given this advancement, theoretical propositions, methodological approaches and analytical tools of the neoclassical economics are increasingly accepted, *to the exclusion of other schools of thoughts*, as a universal lens through which issues related to economic development are addressed.[1] This trend has been intensified since the early 1980s, as the neoclassical school has progressively gained a dominant position in economics as a subject discipline in teaching and research. Thus, New Institutional Economics and New Political Economy—not the evolutionary school of thought or classical political economy—have been adopted as a principal analytical framework to address institutional issues related to political economy of development.

At the backdrop of these trends, development economics has widened its scope with a proliferation of topics and issues covered with the growing body of empirical results arising from fieldwork data and a large number of datasets made available with easy access worldwide. Unsurprisingly, therefore, analytical perspectives taken for these empirical studies have also converged narrowly to those accepting neoclassical economics as the standard toolkit for applied research, often without its theoretical foundation being appraised in light of conditions prevailing on grounds or in a historical political economy context. In this 'conversion' process, the big picture and important questions posed by the founders of development economics from a much broader perspective have often been neglected, and their central tenant that economic development should be analysed as historical *processes* has been somewhat sidelined or forgotten altogether at times.

[1] Krugman (1995) explicitly attributes the 'fall of high development theories' of the pioneers of development economics such as Albert Hirschman, Paul Rosenstain-Rodan and Gunnar Myrdal to their methodological choice, that is, the rejection of tightly specified models and mathematical founded analyses in favour of a loose, 'discursive' style of expositions of their ideas in the name of pragmatism. Krugman suggests that the ideas embedded in high development theories could get recognition as a respectful branch of economics only after adopting the unique language of discourse of economic analysis found in neoclassical economics.

This tendency has been intensified with the rising popularity of behavioural economics—one of the burgeoning sub-fields of economics to examine markets and agents' behaviour through randomised controlled trials (RCTs)—in development economics too. A vast number of RCTs have been conducted at household, firm and community levels in developing countries for impact evaluations, and RCT-led evaluations and social experiments have become dominant in the fields of development *microeconomics*, where experimental studies of this kind are seen as an ultimate legitimate response to evidence-based rigorous analyses.

Even for those who have made substantial contributions to development economics within the realm of mainstream economics, this recent predisposition in development microeconomics has been the source of concerns. Echoing the critique over the proliferation of the 'randomisation' method in development economics by Basu (2014), Deaton (2010), Deaton and Cartwright (2018) and others, Michael R. Carter and Aleksandr Michuda in Chap. 11 of this handbook refer to this tendency as a shift of development economics away from big picture theorising towards an impact evaluation economics. Further, Erik Thorbecke reminds us in Chap. 3: "All theories (such as the neo-classical framework) and techniques (such as the randomized controlled experiments that have become the gold standard of the present generation of researchers) used in the analysis of development phenomena act as lenses that distort somewhat the outside reality". His critical review of the history of development economics has led him to conclude that while development economics has followed a time path that moved it to become more experimental and more rigorous in approaches and techniques, the almost total emphasis on microeconomic phenomena, in particular RCTs, may have detracted researches from exploring fundamental 'big picture' macroeconomic and political economy phenomena.

Turning to the field of *development macroeconomics*, there is also an explosion of data-driven empirical analyses with use of cross-country regression analyses or analyses of 'big data' and others, not always underpinned by a deeper theoretical inquiry. A large number of empirical studies to examine determinants of economic growth by cross-country regressions are often such an example. As discussed in Chap. 15 by Machiko Nissanke and in Chap. 21 by Elissa Braunstein, Piergiuseppe Fortunato and Richard Kozul-Wright, there are also serious methodological and technical pitfalls associated with trying to capture processes as complex as growth and their determining factors such as aid or trade openness or globalisation, let alone their interaction, in econometric equations. Empirical results are extremely sensitive to model specifications, time periods and countries covered, or omitted variables.

Further, in terms of issues addressed, until recently, development macroeconomics has been kept preoccupied with the central question of conventional macroeconomics, that is, how to achieve macroeconomic stability by *nation states*. In this framework, macroeconomic stability is usually understood in a narrow sense, as low inflation and sustainability of (public sector and external) debt ratios, over the objectives of smoothing business cycles, that is, 'real' stability (Ocampo 2008). It frequently uses closed economy models, which dominate most macroeconomic textbooks, notwithstanding the fact a myriad of shocks originating from globalisation forces tend to be today the major force overwhelming developing economies.

Furthermore, while achieving macroeconomic stability is undoubtedly crucial, the conventional macroeconomic policy discourse, with its exclusive focus on maintaining 'sound macro fundamentals' is inadequate in accelerating development entailing transformation of socio-economic structures. First of all, macroeconomic policies derived from the Keynes' General Theory were very much focused on the mission of maintaining aggregate demand through business cycles. Macroeconomic models subsequently developed in the Keynesian tradition were, hence, built around the promise that there exist an inherent tension and *trade-off* between the two objectives—*stabilisation* and *growth*—in the short run, while the two objectives can be complementary in the long run. Macroeconomic management is then understood as treading carefully this short-run trade-off.

When this is applied to developing countries, however, it should be explicitly recognised that their aspiration lies not merely in stabilising prices and debt ratios, or even output over business cycles and sustaining growth over time, but in realising their broad developmental missions. Therefore, their macroeconomic policy performance should also be evaluated in relation to development goals, that is, how stabilisation measures affect developmental objectives. In this sense, macroeconomic management should set both *stabilisation* and *development* as the main objectives. Here, development should be understood as *processes* involving changes in multiple dimensions of a socio-economic system, including its production matrix, social structure, institutional setting and its relationship with the natural environment. As Ricardo Ffrench-Davis and Stephany Griffith-Jones in Chap. 20 state, "the challenge of macroeconomics for development is to design a set of counter-cyclical policies—fiscal, monetary, exchange rate, domestic financial market and capital account regulations—that takes into account the relationship between the short and long term, reconciles real economic stability with more dynamic long-term growth and promotes social inclusion".

In the past, this critical question regarding how to address the short-run trade-off between the *development* objective on the one hand and the *stabilisation* objective on the other has got much less attention than it deserves. Clearly, macroeconomic management of developing economies cannot simply be based on the theories and policymaking rules advanced for developed economies. A fresh approach to resolving the trade-off between the stabilisation and development objectives, and the management of the shocks generated by globalisation, is called for.[2] Since macroeconomic conditions should be supportive of other policies deployed to pursue economic development and structural transformation in a more integrated global economy, the neglect of these questions is not justifiable for development economics as a subject discipline.

Over the recent decades, the importance of addressing these questions and associated policy issues has acquired an urgency all the more with developing economies increasingly exposed to large and frequent external shocks—not only *real* such as terms of trade shocks but *financial* shocks propagating through financial systems—as the recent phase of globalisation has accelerated its pace since the 1980s. As Ricardo Ffrench-Davis and Stephany Griffith-Jones examine in Chap. 20, with finance taking the lead in economic globalisation, macroeconomic stability is incessantly threatened from the inherent procyclicality of unfettered capital flows, producing large negative effects on growth, jobs and income distribution with increased frequency.

Yet, up to recently, despite some vocal concerns raised after a series of financial crises in emerging economies,[3] mainstream macroeconomics literature went along with promoting financial globalisation either on account of the large benefits that financial openness is promised to produce or because free capital mobility is claimed to be inevitable due to changes in global technology, market structures or politics. Despite the huge developmental costs incurred by emerging economies in Latin America and Asia that have embraced capital account liberalisation with International Monetary Fund's (IMF's) strong endorsement, the proposition of the 'imperative of financial globalisation' was first time properly questioned at its core in the IMF's official policy documents only in the aftermath of the North Atlantic Financial Crisis of 2007–2009, which is more widely known as the Global Financial Crisis (GFC).[4]

[2] See Nissanke (2019) for a detailed discussion on exploring macroeconomic frameworks of resolving the trade-offs between the stabilisation and development objectives for structural transformation.

[3] See Stiglitz (2008) and Bhagwati (1998) among others.

[4] See Ostry et al. (2012, 2016) and Ghosh et al. (2017). For a review of this debate, see also Ocampo (2017), ch. 4.

In fact, several key aspects of mainstream approaches to development macroeconomics have been placed under critical reappraisal over recent years, as theories that guided macroeconomic policymaking in advanced countries have also been under scrutiny since 2008.[5] Valpy Fitzgerald in Chap. 5 notes, for example, that the onset of the GFC initiated discussions on renewed state intervention, public macro-financial management through macro-prudential regulations, capital account management and universal social protection, which are the central theme of public economics literature. The new analytical approach emerging from these academic and policy debates has begun to displace the conventional orthodoxy of public choice theory, deregulation and fiscal minimalism and restore public economics to its historical role at the core of development economics.

Similarly, in Chap. 4, Amitava Krishna Dutt notes the re-emergence of several versions of the structuralist approach, which was dominant in development economics from the 1940s to the 1960s, but whose influence waned with the rise of the neoclassical approach since the late 1970s. An example of this can be found in Chap. 9, wherein Xinshen Diao, Margaret McMillan and Dani Rodrik state that their empirical studies are built on the complementarity between structuralist models of growth and the neoclassical model of growth first introduced by Solow (1956). Structuralism is interpreted therein as the position acknowledging that the developing countries differ qualitatively from developed countries due to the presence of structural dualism—or structural heterogeneity, the term preferred by Latin American structuralists—between the traditional and modern sectors of the economy. Hence, they argue that policies should recognise these crucial differences.

Indeed, how development economics has been shaped and evolved as a branch of economics since the 1980s has had profound policy implications for the course of economic development of many developing countries. As a practical policy-centred field of economics, the opinions and positions taken by development economists have far-reaching influences on the formation of development strategies and economic policies in the developing world. Economic policy advices given by development 'experts' are purportedly derived from their rigorous analyses in light of empirical evidence. However, policy conclusions and advices are inevitably conditional upon which paradigms are adopted as a basis of their analysis. Hence, development policy advices should be always critically scrutinised and openly debated. Yet, in the past, the policy debates of the field have often been driven by some extreme ideological positions taken by the dominant school of the day. As a result, the

[5] Stiglitz (2008), Blanchard and Summers (2017), and the papers included in Blanchard et al. (2012).

debates tended to be bifurcated or polarised. Voices of more nuanced and balanced positions have been ignored or suppressed in these debates.

In particular, since '*policy* conditionality' has been actively utilised in one form or another in aid disbursements and debt restructuring processes by the 'donor community', aid-dependent countries have been often deprived of opportunities to challenge the position taken by the 'donor community', as discussed by Machiko Nissanke in Chap. 15. Critical voices are often not given an open platform or marginalised at best in such unhealthy intellectual environments. Developing countries have had little option but to adopt development policies deemed appropriate and correct in the eyes of the 'development experts' who are more aligned with the views and interests of the donor community and the International Financial Institutions (IFIs) in particular.

This condition, which prevailed since the early 1980s to the first decade of the twenty-first century, has not only influenced the course of economic development of many developing countries but also stifled the healthy advancement of development economics as a field of social science. Open, honest and contested debates are necessary for any discipline of sciences, including social sciences, in fulfilling the useful societal function expected of it. Encouraging pluralistic approaches would allow development economics to contribute more positively to enriching our knowledge on development as *processes* and providing a rich menu of policy scenarios and options for consideration. This is particularly important and relevant today since developing countries, as well as the global community, face formidable challenges in navigating development missions in an increasingly globalising and uncertain/volatile world. These challenges are qualitatively different than those envisaged by the founders of development economics in the early post-World War II years.

2 Scope and Overview of the Handbook

2.1 Themes and Scope of the Handbook

Today, we witness an ever-shifting world order with significant changes not only in political-economic power relationships but also in the global demographic transition in favour of developing nations. Thus, development economics is concerned with welfare of the growing majority of the world population, who would aspire to have a better future with secure jobs and productive employments in stable environments. This places enormous responsibility and expectation in the hands of those specialising in this sub-discipline of economics. At the same time, almost all national economies have become truly integrated into the global economy in the hope of benefiting from constantly evolving technological advancements and an infusion of dynamism.

Indeed, deeper economic integration can be a major engine for growth in aggregates and has the potential for accelerating development through the spread and transfer of technology and the transmission of knowledge and information worldwide. However, as shown in detail in Chap. 2 by Machiko Nissanke and José Antonio Ocampo, *hyper-globalisation* as practised to date—corporation-led and finance-centred and purely market-driven integration—has exposed itself to the reality that the process is unsustainable socially, economically and politically as well as ecologically, with discontents growing all around. It is associated with an increasing inequality in many countries—and in some of them of astounding scale. It has failed to accommodate mechanisms and procedures for preventing severe economic and financial crises of global nature from occurring periodically. Yet, it is often the vulnerable and the poor who are forced to bear the heavy cost associated with the resolution of these economic crises. The unchecked process of globalisation has also contributed to an escalation of green-house effects that has engendered an ecological disaster. The deteriorating eco-system resulting from climate changes poses the greatest threat to food security and the livelihood of those most vulnerable in the world. Many developing countries have remained extremely vulnerable to external forces of all kinds. As noted by Raphael Kaplinsky in Chap. 17, "the global economy is experiencing interlocked crises of economic, environmental and social sustainability".

The need for addressing these issues requires the global community to face up to these shared challenges with a view of laying down a foundation for sustainable development in all the key aspects, that is, searching for a social, economic, financial and environmental sustainable path for the global economy. It is critical for those specialising in development economics to engage with the pivotal question of how to change the nature and course of globalisation so as to make globalisation work for inclusive and sustainable development. In this context, fresh and innovative perspectives should be constantly searched in the field of development economics so that the discipline can make a substantial contribution to the academic and policy debates with a view to setting new approaches and agenda in dealing with the pressing issues of addressing multifaceted sustainability at all levels: community, national, regional and global in a constantly evolving globalised world.

Taking on these challenges while remaining relevant to real-world issues requires critical appraisal of a variety of methodological approaches and analytical tools applied in light of rich empirical evidence accumulated from a broader and balanced perspective. In fact, empirical evidence shows that economic development cannot be treated as taking a monolithic path. Instead, it follows different paths depending on institutional configurations in place or other conditions such as different resource endowments, rates of knowledge diffusion, locational externalities and so on. Such a critical, careful appraisal would allow us to advance the frontier of development economics as well as generating more refined and balanced policy perspectives in our quest for sustainable development paths in all key aspects in the interest of stakeholders of nation-states, regional blocks and the global community.

This handbook is conceived with these overall needs in mind. It aims at providing students in postgraduate courses and scholars with specialisation in development economics as well as policymakers with reference materials to inspire critical thoughts and approaches on a wide range of issues. Such thoughts and approaches could lead to a formulation of fresh policy perspectives on how to make globalisation work for advancing sustainable development in the twenty-first century. Hence, we have collectively attempted to examine economics of development paths, in particular how globalisation has affected development paths, in relation to the ideas and concepts of 'sustainable development' in the triple dimensions—economic, social and environmental—as well as in the institutional and political economy dimensions. There are deep and strategically crucial, conceptual and policy links between the development paths and the multidimensional questions of sustainability. Yet, these links are not well examined analytically and documented in a systematic way in the current literature of development economics so far. Each contributor to this handbook is therefore asked specifically to explore these conceptual and policy links by setting appropriate questions and critically reviewing relevant literature in his/her chapter.

Thus, the hallmark of this handbook is a *critical* and *pluralistic* approach to the main issues of development economics and an *innovation* of linking explicitly and systematically issues of economic development to multidimensional questions of sustainability in the context of globalised environments. It is critically *reflective* in examining effects of globalisation on development paths to date, and in terms of methodological and analytical approaches, as well as *forward-looking* in policy perspectives for addressing challenges facing the development community in the ever inter-connected, dynamically evolving globalised environments of the twenty-first century.

The handbook explicitly adopts a broad approach to wide-ranging conceptual and analytical issues as well as various policy questions by accommodating heterogeneity of views and approaches. It reflects our attempts to address *grand* issues in development economics at a deep conceptual level as the pioneers of this sub-discipline of economics, with a focus on "the processes of development by discussing the concept of development, its historical antecedents, and alternative approaches to the study of development, broadly construed"—the approach adopted by Hollis Chenery and T.N. Srinivasan as the editors of the *Handbook of Development Economics* published three decades ago (Chenery and Srinivasan 1988).[6] In our view, it is timely, appropriate and important to revisit these fundamental questions in development economics in light of rich empirical evidence accumulated to date since the early/mid-1980s. It presents an opportunity to review, pose fundamental methodological questions and apply fresh analytical tools to historical development experiences in different regions. At the same time, these questions should be addressed in relation to new challenges faced by the global community.

We hope that our *critical* and *pluralistic* approaches to issues in development economics would timely meet the growing demand from students of economics worldwide for broadening curricula of economics courses, currently dominated by mainstream neoclassical economics. This handbook can hopefully respond to these needs and aspirations of the current and future generations of professional development economists by providing critical reference material, so that they can be exposed to ideas and positions contained in alternative analytical perspectives *alongside* or *in relation to* mainstream propositions.

2.2 Overview of the Handbook

With these overarching themes and scope in mind, the handbook, which contains 24 chapters, including this introductory chapter, is divided into *five* parts by thematic topics. In addition to this Introduction, *Part I* has another overview chapter (Chap. 2) where, as co-editors of this handbook, *Machiko Nissanke* and *José Antonio Ocampo* present our collective critical reflections on

[6] In editing the first three volumes of Handbook of Development Economics, Hollis Chenery and T.N. Srinivasan, were conscious in selecting authors known to have different views regarding the nature of development economics. The first volume is, for example, organised by the editors around the implications of different sets of assumptions and their associated research programmes. Since then, North Holland has added two volumes as new policy agenda and analytical tools have emerged over time. These subsequent volumes are useful for research students and scholars in one of these very specialised topics. However, the chapters appearing in the subsequent volumes tend to engage with narrowly specialised topics and issues. The *grand* issues in development economics addressed at a deep conceptual level in the first three volumes have not been revisited in a comprehensive manner.

how globalisation has affected the course of economic development over the last four decades. We argue that despite the potential of globalisation in accelerating economic growth and development through the spread and transfer of technology and the transmission of knowledge and information, *hyper-globalisation* as practised to date—corporation-led and finance-centred and purely market-driven integration—has exposed itself to the reality that the process is unsustainable socially, economically and politically as well as ecologically, with discontents growing all around. There is urgency for us all to engage with the pivotal question how to make globalisation work for inclusive and sustainable development, and to arrest the tide of the political fallouts with grave consequences for the global community. Against this background, drawing on many insightful analyses provided by the chapter contributors to the handbook, our collective narrative on the effects of globalisation on development is organised under two themes: (i) the diverse development experiences of countries in the South under globalisation; and (ii) the growing inequality and its implications. We then proceed to discuss challenges facing us for finding a way to change the course and nature of globalisation and indicate several pathways for making globalisation work for sustainable and inclusive development.

Part II consists of six chapters, all of which address methodological and conceptual issues in development economics.

In Chap. 3, *Erik Thorbecke* examines the history and evolution of *development doctrine*. He suggests that the selection and adoption of a development strategy depend upon three building blocks: (i) the prevailing development objectives which, in turn, are derived from the prevailing view of the development process; (ii) the conceptual state of the art of development theories, hypotheses, models, techniques and empirical applications; and (iii) the underlying data system available to diagnose the existing situation, measure performance and test hypotheses. He then defines development doctrine as the body of principles and knowledge resulting from the interrelated complex of these four elements that is generally accepted by the development community at that time. This analytical framework is applied to describe the state of the art that prevailed in *each* of the five decades (from the 1950s to the 1990s) and in the most recent period 2000–2017 to highlight in a systematic fashion the changing conception of the development process. Over the last 67 years, the definition of development and strategies to achieve it progressed and broadened from the maximisation of GDP in the 1950s to employment creation and the satisfaction of basic needs in the 1970s, to structural adjustment and stabilisation in the 1980s and early 1990s, to poverty reduction, and culminated with the present broad-based concept of inclusive and sustainable growth. He concludes that while development economics has followed a time path towards more experimental, multidisciplinary, and more rigorous, the present emphasis on microeconomic phenomena and randomised and controlled trials may have detracted researches from exploring fundamental 'big picture' macroeconomic phenomena.

Chapter 4 by *Amitava Krishna Dutt* provides an overview of the structuralist approaches to economic development. It discusses the contributions of the early structuralists, distinguishing between the European-US strand and the Latin American strand as well as newer structuralist approaches, including formal structuralist macroeconomics, CEPAL[7] neo-structuralism, new structuralism based on technology studies, new developmentalism, new structural economics and development traps. The main theoretical ideas of structuralists are (i) their focus on structures of systems rather than individual units; (ii) viewing the world in terms of the structure of the global economy, their emphasis on structural differences between developed and developing countries, and different structures among developing economies; and (iii) their engagement with not only issues related to growth but distributional questions. In terms of policies, structuralists recommend active flexible state that promotes the synergy between the state, markets and society and addresses macroeconomic and sectoral issues. The chapter also evaluates structuralists' policies in a number of areas including trade and industrial policies with focus on developing technological capability and upgrading; macroeconomic policies that promote economic growth and external competitiveness, dampen cycles, and avoid instability; and policies aimed at reducing poverty and inequality. It discusses both the approaches' strengths and possible problems and how the latter can be overcome.

Chapter 5 by *Valpy Fitzgerald* addresses the theoretical and practical relationships between public economics and development economics from a critical perspective. With better appreciation that the state has been the leading collective actor in the process of structural transformation, a new approach has challenged, over the past two decades, the conventional orthodoxy of public choice theory, deregulation and fiscal minimalism. This rethinking process on both ideas and policy has been accelerated by the impact of the global financial crisis. The emerging analytical approach is based on the integration of modern theories of market failure, income inequality and endogenous growth on the one hand, with the recent practice of emerging market economies in managing structural change, welfare provision and integration

[7] CEPAL is the Spanish acronym for the United Nations Economic Commission for Latin America and the Caribbean (ECLAC according to the English acronym).

to the world economy on the other. The chapter discusses the recent shift towards proactive management of structural change, reduced inequality and resilience to external shocks. It further discusses the issues related to (i) public sector resource mobilisation to undertake these vital tasks expected of the state; and (ii) the fiscal transformation caused by economic globalisation, the opening of capital markets and the determination of corporate tax rates by international competition. It concludes with discussions on the implications of the analysis for the design and implementation of public economic policy in developing countries.

Chapter 6 by *Robert Boyer* presents the views of the French *Régulation* school, which offers a framework for gaining deeper understanding about economic development as processes. He argues that (i) development derives from the art of creating virtuous circles in which social values, organisations, institutions and technological systems co-evolve; (ii) development modes are built upon the discovery of institutional arrangements that fulfil two conditions: the viability of the accumulation process and a political legitimacy around an implicit or explicit institutionalised compromise. Derived from these propositions, the chapter discusses a variety of development modes, that is, *spatial diversity*, and also points to the *temporality* of these modes. It then examines three challenges facing the future of development: (i) how to overcome the opposition between the State and markets; (ii) organisational forms and institutional arrangements for global public goods provision and management of the global commons; and (iii) the merits of an anthropogenetic model based on education, health and culture.

Chapter 7 by Richard Nelson shows how economic development is viewed from the perspective of modern evolutionary economics. It lays out the basic conceptual view of economic activity and economic change provided by evolutionary economic theory, the central role played by technologies and their evolution in economic dynamics, and the key role of evolving institutions in forging the evolutionary processes at work. He argues that (i) the key driving forces involved in development are the co-evolution of technologies and institutions; (ii) an adequate economic framework for analysing long-run economic change must recognise the rich set of institutions involved—not just firms, households and markets but also a wide range of private not-for-profit and public organisations and structures; and (iii) the varied roles of government cannot be understood simply as responses to 'market failures'.

Chapter 8 by Maria S. Floro provides critical reflections from a gender lens on the economic development theories and policy debates. It demonstrates that the pre-eminent theories of economic development are overwhelmingly androcentric or male-centred in terms of the values they assert and the underlying premises upon which the theories are built. Since these models serve as a framework for policymaking and analyses, their predictions and policy prescriptions reflect male-centred predilections and biases. The chapter then introduces the gender dimensions of economic development processes, highlighting the contributions of gender scholars and feminist economists to the analysis of economic development and to contemporary policy debates around globalisation and market liberalisation. It presents a forward-looking agenda towards the development of a feminist theory of sustainable development. It not only incorporates non-market activities and women's experiences in its description of economic processes but also captures the underlying power relations including unequal gender relations that underlie production, consumption and distributive processes. It also depicts the interdependence between human systems and ecological systems and the importance of accounting the different impacts and outcomes for women and men as well as for current and future generations.

Part III consists of five chapters, which discusses various themes clustered under socio-economic development processes, covering topics of structural change, inequality, poverty, institutions and capabilities.

In Chap. 9, *Xinshen Diao*, *Margaret McMillan* and *Dani Rodrik* examine the patterns of structural change of developing economies across regions, focusing on their respective *growth acceleration episodes* with updated data from 2010 to 2014. By decomposing overall labour productivity growth into 'within-sector' productivity growth component and inter-sectoral labour reallocation effects, their analyses show consistently divergences among the regions. In Asian economies, both pioneering Newly Industrialised Countries (NICs) and contemporary Low Income Countries (LICs) in the region, both within-sector productivity growth and inter-sectoral structural change have made a strong and positive contribution to overall productivity growth. This is not the case in other regions. In Latin American countries, while within-sector labour productivity growth in non-agricultural sector was observed, there was not much growth-increasing structural change through inter-sectoral labour reallocation. Labour moved from high-productivity activities to low-productivity ones in non-agricultural sector and this resulted in premature de-industrialisation. In Africa, growth-increasing structural change took place, but labour productivity within modern, non-agricultural sectors declined. Thus, during their high-growth spells, other regions could not replicate East Asia's experiences of fast export-led industrialisation. Rather, none of the recent growth accelerations in Latin America, Africa and South Asia was driven by industrialisation.

In Chap. 10, *Rolph van der Hoeven* provides a historical overview on how income inequality has been addressed in developing countries. The chapter offers a critical literature review on how distribution issues and interrelationships between inequality and growth have been debated in development economics. It also presents a rich set of empirical evidence pertaining to increasing income and wealth inequality, declining labour income shares and increasing top incomes under globalisation, among other trends. With this background, it proceeds to discuss contemporary issues of income inequality in the context of growing globalisation. It shows that (i) trade globalisation, investment liberalisation, financialisation and skills-based technical change have been important exogenous drivers of inequality; (ii) the effects of these globalisation drivers on within-country income inequality depend also on national macroeconomic and labour market policies, which can either counteract or intensify the disequalising market-driven trends; (iii) the adverse effects of financial and trade globalisation on income inequality have been exacerbated by national policies that had a negative impact on income distribution; and (iv) these exogenous drivers have often strengthened existing patterns of inequality through a very high wealth inequality and intergenerational transfers of inequality due to skewed access to higher level education. It concludes that (i) national policies, which include a strengthening of institutions to deal with inequality, can play an important role in reducing income inequality; in particular, fiscal policies should be used to mitigate a high primary income inequality down to lower levels of secondary and tertiary inequality; (ii) the right mix of macroeconomic, fiscal, labour market and social policies executed coherently can reverse the rising trend in income inequality.

Chapter 11 by *Michael R.Carter* and *Aleksandr Michuda* presents an interpretive intellectual history of contemporary economic thinking on rural poverty and development, centred around the agrarian questions of whether, when and how the initial distribution of productive assets shapes the dynamics of poverty and rural development. In the 1960s and 1970s, academic and policy debates on agrarian issues spun around the distribution of land, with some arguing that neither rural development nor poverty reduction was possible without asset redistribution. Over time, however, the argument for large-scale redistribution gave way to microfinance for 'enhanced capital access' and other less radical interventions intended to allow low-wealth households to do more with their existing, modest asset endowments. This 'lend, don't redistribute wealth' perspective coincided with a shift of development economics away from big picture theorising towards an impact evaluation economics focused on reliable identification of microfinance and other singular interventions. However, despite the promise of microfinance to substitute for asset redistribution, impact evaluation of microfinance found that it has at best modest effects on the class positions and living standards of poor households. In contrast, a new generation of programmes with modest transfer of tangible assets has shown more promise in terms of changing households' economic strategies and placing them on trajectories of sustained economic advance. These fresh approaches reflect new learning on both the psychology of poverty and the economics of asset accumulation by poor households, indicating the important synergies between efforts to build up both the physical and psychological assets of poor rural households.

In Chap. 12, noting that institutions were at the foundation of development economics in its inception as a separate branch of economics, *Ha-Joon Chang* and *Antonio Andreoni* provide a review of the theory of institutions from old institutionalism to new institutional economies and critically assess today's mainstream view on institutions and economic development. The chapter engages specifically with analytical issues related to the definition of institutions, the conceptualisation of the role of institutions, the theory of the relationship between institutions and economic development, and the theory of economic development. It highlights the importance of focusing on the *variety of types, forms and functions* that institutions have taken historically, and on their *collective* nature. In this respect, it introduces Abramovitz's concept of *social capability*, understood as 'tenacious societal characteristics' embedded in productive organisations, as well as a variety of political, commercial, industrial and financial institutions. They discuss the idea of social capability by analysing historical examples of six types of institutions and their role—forms and functions—in the industrialisation process. These institutions are those of production, productive capability development, corporate governance, industrial financing, industrial change and restructuring, and macroeconomic management for industrialisation. The chapter underscores the importance of developing productive capabilities at the sectoral and social level, so that industrialisation could make a real contribution to social-economic changes and advancing development agenda.

Chapter 13 by *Sakiko Fukuda-Parr* and *Ismael Cid-Martinez* provides an overview of the capability approach and human development paradigm and situates them within development economics—thought and practice—highlighting its contrasts with conventional thinking, and complementarities with human rights and feminist economics. It suggests that (i) human development as a development paradigm, built on Amartya Sen's capability approach to development, puts people at the centre of development—as its principle end and means; and (ii) it provides a normative framework for assessment of individual wellbeing, social outcomes and public policies. They argue that the human development paradigm challenges standard prescriptions in a broad range of areas including social, macroeconomic, political, environmental and cultural arenas. Therefore, as it is built on its rich and complex concept of human development, the human development paradigm cannot be reduced just to an agenda for meeting basic needs, or social welfare programmes and social investments, nor to its reductionist measurement tool, the 'Human Development Index' that only includes education, income and a decent standard of living.

Part IV presents five chapters, which address issues related to different productive assets, that is, finance, labour, technology and ecology, and their contribution to economic development.

Chapter 14 by *Fernando Cardim de Carvalho*, *Jan Kregel*, *Lavinia Barros de Castro* and *Rogério Studart* presents a history of theoretical debates and an evolution of practice regarding the provision of *development finance*, that is, how best to allocate efficiently resources towards economic and social transformation. It critically analyses theories associated with the two opposing policies towards financial sector development—policy of 'financial repression' and that of financial liberalisation—and how these policies have been implemented in practice and their respective performances in provision of development finance in a comparative perspective of Latin America and Asia. It discusses why and how the pendulum turned completely against 'financial repression' in the late 1970s on both academic and policy fronts. The predominant view became that government activism was to be blamed for the very problems that it had been set to overcome. It claimed that financial repression not only resulted in inefficient allocation of existing resources but had long-term consequences of deterring financial development and leading to poor economic and social performance. This perspective prevailed over three decades since then, but its validity has been increasingly questioned after the GFC and a new nuanced position has been emerging. While a reversal of financial liberalisation could be only partial in the light of the radical changes to financial systems in the intervening period, we require new financial architectures for provision of development finance to face up to challenges on multiple fronts.

Chapter 15 by *Machiko Nissanke* traces the evolution of the academic and policy debates on the 'aid-debt-growth' nexus and evaluates the extent to which these debates in macroeconomic terms reveal dynamic interactions in the aid-debt-growth triad and their effects on development. The chapter brings 'aid' and 'debt' literature together to highlight the importance of an integrated treatment of developmental effects of aid and debt in developing countries with access to concessional windows as part of aid packages. It shows that (i) despite abundant micro-level evidence that aid's contribution to development is context specific, an answer to the question on whether 'aid works' has been sought through an investigation of macroeconomic relationships, often with cross-country regression analyses; and (ii) how research outputs have been selectively used to rationalise donors' positions prevailed at times with profound implications for development outcomes of 'recipient' countries. It argues that *policy* conditionality attached to aid and debt relief as practised through Washington and post-Washington consensus has created an unproductive environment for nurturing mutual trusts necessary for building institutional foundations and technical capacity for making governments accountable to domestic stakeholders in policy making and governance. It calls for an overhaul of 'conditionality' so that it is based on adherence to universally accepted codes of conducts and norms to basic human rights, and governments' efforts to achieve collectively agreed targets such as the United Nations' Sustainable Development Goals (SDGs). It argues that successful development depends on long-term processes of institutional development, to which all parties could contribute as an equal partner through development cooperation. The chapter presents the ways forward to make debt sustainable and aid work for development by designing efficient aid and debt contracts, and moving away from the *austerity-dominated* management of debt crisis to the *investment-centred* management for preventing debt crises from emerging.

Chapter 16 by *Servaas Storm* and *Jeronim Capaldo* examines the impact of labour institutions on economic development. Labour market institutions consist of a set of labour interventions and regulations such as providing for minimum wages, unemployment insurance, employment protection, improving working conditions or facilitating collective wage bargaining. Their effects on economic growth, employment and inequality have been controversial in both developed and developing countries alike. Mainstream economic analysis traditionally portrays these legal interventions as 'luxuries' for developing countries, as these regulations are regarded as harmful to economic efficiency in the long run by raising labour costs and hence reducing countries' competitiveness, even though these institutions may be useful for social stability or for short-term support to aggregate demand. On this basis, deregulation of labour market institutions has been justified and promoted worldwide under globalisation. Given this background debate, after a critical review of theoretical propositions and empirical evidence, they challenge the mainstream claim that policy efforts to protect workers are futile as they push workers into precarious informal employment. They demonstrate with use of a macroeconomic model of a balance-of-payments constrained small open economy that these labour market institutions could well lead to a dynamic economic efficiency. They also examine the effect of labour market institutions from a political economy perspective and conclude that these institutions would promote economic development through improving income distribution and positive effects on aggregate demand, labour productivity and technology.

Chapter 17 by *Raphael Kaplinsky* presents the evolution of analysis and policy with regard to technology and innovation in the post-war period. It starts with a review of analytical issues, arguing that (i) technology is created and requires resources and focused and dedicated effort; (ii) the driving force for technological innovation and for productivity growth has been the quest by capitalists for producer rents; and (iii) technology is malleable and the direction of technological progress is induced by a series of the social, political, economic and environmental factors as well as by the unfolding imperatives of the technology itself. The chapter goes on to examine the evolution of innovation and technology policy and its associated analytical discussion during the phase of import substituting industrialisation, which lasted for three decades to the end of the 1970s. This was a period when developing countries were heavily dependent on imported technologies, many of which were inappropriate in their environments. Import substitution was complemented and then succeeded outward-oriented growth strategies. This transition was associated with the growth of human and technological capabilities in many developing economies. From the mid-1980s, a rapidly growing proportion of global trade occurred within global value chains (GVCs), which now dominate global trade, and this helped to shape the direction of technological progress. However, since the millennium, growth trajectories have faltered globally. Productivity growth has declined in advanced economies and is static in many developing economies. At the same time, the dominant growth trajectories have run into a crisis of sustainability. Not only is economic growth uneven and unstable, but also its environmental and social character threaten its sustainability, as well as the survival of life on earth. This has posed new challenges for the organisation and path of innovation, giving rise to growing attempts to foster more inclusive patterns of innovation.

In Chap. 18, noting the increasing link between ecological scarcity and poverty in developing countries *and* the growing calls to respect sustainable economic development, *Edward B. Barbier* explores the implications for sustainable development of these two trends. He adopts the *capital approach* to sustainable development as an analytical framework, in which *ecological capital* is treated as a unique form of economic wealth. As ecosystems are subject to irreversible conversion and prone to collapse, sustainability encompasses limits on the exploitation or irrevocable loss of this ecological capital in light of 'planetary boundaries' to the expansion of economic activity and populations. In these efforts, however, it is important to consider uneven distributional consequences of ecological decline. It is the rural poor who are disproportionately affected by the increasing scarcity of ecosystems. In this light, the chapter explores the policy challenges posed by these two interrelated problems—ecological scarcity and poverty, and ecological sustainability and planetary boundaries—arguing that overcoming these challenges is important not only for economic development and poverty alleviation but also for intergenerational resource transfer for global sustainability. It concludes with discussions on policy options for dealing with the global market failure through (i) compensating developing countries for conserving ecosystems and biodiversity; (ii) international payments for ecosystems services; and (iii) new international environmental agreements.

Part V contains six chapters, all of which address international policy agenda in the context of the globalisation and development nexus.

Chapter 19 by *Deepak Nayyar* presents a critical essay on the implications and consequences of globalisation for development situated in its long-term historical perspective. While there have been many waves of globalisation during the second millennium, its focus is on the two recent eras of globalisation: (i) from 1870 to 1914 and (ii) the present era which started circa 1980. His comparative analysis reveals striking parallels, similarities and differences between the two waves of globalisation. Comparing characteristics in international trade, investment flows and migration flows, he emphasises the critical differences in international migration flows between the two eras, arguing that the severe restrictions placed on cross-border migration of unskilled labour in combination with free capital mobility in the current globalisation era have significantly worsened income distribution globally as well as within individual countries. The chapter examines outcomes in development during the second epoch to explore the underlying factors and highlight the emerging problems, suggesting that globalisation has historically always been a fragile and reversible process. He argues that (i) the underlying reasons have been embedded in the consequences of the process of globalisation, ranging from the spread of disease or pandemics to economic strains or political conflict between winners and losers, whether countries or people; (ii) the backlash has taken different forms at different times; (iii) the problems and challenges that have now surfaced are largely attributable to its economic and political consequences of contemporary globalisation; and (iv) globalisation has never been the end of either history or geography.

In Chap. 20, *Ricardo Ffrench-Davis* and *Stephany Griffith-Jones* provide a critical literature review and empirical evidence that show that (i) financial markets have increasingly taken the centre of development objectives, which has led to the fast rise of financial activity, with finance taking the lead in economic globalisation; and (ii) capital account liberalisation and unfettered capital flows, especially procyclical, short-term and reversible ones, have had negative effects on macroeconomic stability, growth, jobs and income distribution. Hence, they call for policies geared to manage the capital account, which would reap the positive effects of capital flows whilst mitigating or eliminating the depressive and regressive effects of unmanaged flows. They note that while the IMF revised its long-held position of promoting capital account liberalisation after the GFC of 2008–2009 and now favours countercyclical capital account regulations, World Trade Organisation (WTO) and bilateral trade deals still include provisions to limit individual countries' ability to regulate capital flows. The chapter calls for an aggiornamento of WTO and bilateral trade provisions on this account.

In Chap. 21, *Elissa Braunstein*, *Piergiuseppe Fortunato* and *Richard Kozul-Wright* show how the pattern of international trade and investment flows has been changing over time. The developing countries' share of world trade has been rising sharply since the early 1990s. A growing portion of world trade is taking place in the South-South trade. After presenting a succinct review of extensive literature in the trade-foreign direct investment (FDI)-development nexus and strong empirical evidence of the export-investment-profit nexus, the chapter examines the shifting terrain of globalisation through a trade and development lens, and how the nature and governance of international trade and investments flows have changed from the era of managed globalisation established at the end of World War II to the era of hyper-globalisation. In the earlier regime, governments had a space to manage their economic integration in line with a broad set of national policy goals. In contrast, as globalisation gathered pace since the early 1990s, capital flows have been increasingly liberalised and the governance of international trade has been left to large multinational firms. Hence, the chapter further analyses the pros and cons of FDI and participation in GVCs, with particular attention to the obstacles to diversification and upgrading in these chains and the unequal economic relations that they generate. In this context, it stresses the ongoing importance for developing countries of manufacturing activities, including for export, even in an era of rising services, and calls for a pragmatic policy approach and for an active developmental state able to set priorities, manage unavoidable trade-offs and deal with distributional challenges and conflicts of interest that could hinder a desirable pattern of integration.

Chapter 22 by *Hania Zlotnik* examines how migration and the development process interact, including the role of international migration in increasing human welfare and enhancing development outcomes. It focuses on the two major effects: (i) the selectivity of migration and its impact on wages and (ii) the potential of remittances to improve livelihoods and promote productive activities. Although international migration continues to be highly regulated, international migration flows continue to increase and diversify. In examining the most comprehensive estimates of net migration flows by origin and destination between 1960 and 2010, she shows that (i) middle-income and certain high-income countries, rather than low-income countries, are more likely to be important sources of international migrants; (ii) 'south-to-north' migration has been growing; and (iii) migration among developed countries has been on the rise. Her review of empirical studies further shows that the impact of recent immigration on wages is small and beneficial in receiving developed countries, which have been increasingly selecting migrants on the basis of skills. However, migration of skilled persons is detrimental to developing countries of origin where skill shortages are constraints on economic development. At the same time, she notes the boom in global remittances has been contributing to improve the livelihoods of millions of people. Remittances not only ensure a satisfactory level of consumption for their recipients and families but also improve agricultural productivity or invest in small or micro-enterprises. Remittances are shown to increase the school enrolment of children in households with migrants abroad, as well as bringing other benefits, and known to boost household incomes and reduce poverty more generally.

José Antonio Ocampo in Chap. 23 presents analyses of the international monetary system, the weakness of which has been exposed repeatedly by the major international financial crises of the past decades. After examining the defects of the current international monetary system, particularly from the perspective of emerging and developing countries, the chapter sets the major objectives of a reform agenda in seven areas: (i) a better international reserve system than the current fiduciary dollar standard, and particularly one that makes counter-cyclical allocations of IMF's Special Drawing Rights (SDRs) that increase international liquidity during crises and help fund counter-cyclical IMF lending; (ii) better instruments to guarantee the consistency of national economic policies of major countries; (iii) a system of managed exchange rate flexibility that promotes stability and avoids negative spillovers on other countries; (iv) the regulation of cross-border finance to mitigate the procyclical behaviour of capital flows; (v) appropriate balance of payments financing during crises, particularly through financing facilities that are automatic or have simpler prequalification processes and simpler or no conditionality, to overcome the stigma associated with borrowing from the IMF; (vi) adequate international sovereign debt workout mechanisms; and (vii) reforming the governance of the system through a more representative apex organisation than the current G-20, stronger voice of developing countries in the IMF and a 'dense' architecture, in which the IMF is complemented with regional and interregional institutions.

In Chap. 24, *Inge Kaul* addresses the critical issue of 'under-provision' of global public goods (GPGs) such as climate change mitigation, financial stability, global health and cyber security, which threatens development globally, both in the North and in the South, and sustainability in all three dimensions—economic, social and environmental. The chapter examines how GPG provision functions today and what are the impediments for adequate provision, showing that the existing range of corrective actions by state and non-state actors are far off from what is required to resolve global challenges in the absence of a systematic theory and practice of global public policy. It suggests that new analytical lenses are required through which we can examine current policymaking realities, understand the impediments and facilitators of GPG provision, and spark willingness among policymakers to choose new policy paths for enhanced interdependence management, development and global sustainability. With this in mind, it suggests an agenda for future research and debate for constructing the building blocks of a new branch of public policy, which can offer well-founded advice on how to combine individual state and non-state actor interests, including national sovereignty concerns, and meet the adequate provision requirements of global public goods.

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