

What can we learn from re-reading Albert O. Hirschman in the ‘neo-Rostovian’ age of ‘good governance’?

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An earlier version of this paper was presented at the 12th Conference of the “European Society for the History of Economic Thought” (ESHET), Prague, Czech Republic, 15–17 May 2008. The paper is currently under review at the *Cambridge Journal of Economics*. Please do not cite without the permission of the authors.

Abstract: According to the developmental agenda of ‘good governance’ (GG), less-developed countries should devise the same ‘institutional’ stages of development, through which the now-developed countries once passed. The rationale behind this contemporary agenda is reminiscent of Walt W. Rostow’s ‘anti-Marxist’ ideas, which once dominated development discourse. However, Rostow’s stages-oriented developmental approach was refuted by Alexander Gerschenkron. Relying on Gerschenkron in certain respects and drawing attention to Karl Marx’s ambiguity on development, Hirschman criticized ‘monoeconomics’ inherent in Rostow’s stages. We critically re-interpret this monoeconomic line of developmental thought by re-reading Hirschman against the resurgent ‘neo-Rostovian’ parlance manifested in the contemporary GG discourse.

Keywords: Gerschenkron, Hirschman, Marx, Rostow, governance

JEL Codes: B20, B31, N01, O10

What can we learn from re-reading Albert O. Hirschman in the ‘neo-Rostovian’ age of ‘good governance’?

1. Introduction

Neo-liberal economic thought has dominated development discourse since the late 1970s. The IMF and the World Bank prescribed openness, privatization and deregulation to the less-developed countries (LDCs) throughout the 1980s. This so-called Washington Consensus involved a standard recipe for development, dictating that ‘there is no alternative’ (TINA) to market-oriented economic policies. However, many countries that subscribed to the neo-liberal TINA-approach experienced economic crises from the 1990s onwards (e.g., Mexico in 1994, Turkey in 1994 and 2001, East Asia in 1997, Brazil and Russia in 1998, Argentina in 2002). Meanwhile, socio-economic problems of sub-Saharan African countries were aggravated. Income inequality and poverty have increased in many countries. On top of that, China and India, which did not comply with the Washington Consensus, have become the most successful countries in terms of economic development (Chang, 2007A, pp. 26-31).

Despite its policy failure, neo-liberalism has retained its position as the dominant ‘developmental’ paradigm since the 1990s. The failure of neo-liberal ‘good policies’ has been attributed to the presence of ‘bad institutions’ in the LDCs. Thus, the earlier Washington Consensus has been augmented so as to emphasize the need for building ‘good institutions’. According to this ‘augmented Washington Consensus’ (Rodrik, 2002), LDCs should carry out institutional reforms to establish ‘good governance’ (GG) in their public and political spheres, in addition to the ‘good’ economic policies of the earlier Consensus. This new agenda was initiated and developed by the World Bank (1989, 1992, 1994, 1997, 2000, 2002) from the late 1980s onwards, along with the collaboration from the IMF (2002). The United Nations and the OECD also contributed to the development of this new agenda (UNDP, 1997A, 1997B; OECD, 2001A, 2001B, 2002).

There is yet no consensus on the functions the ‘good’ institutions should perform, nor is there an agreement as to which institutional forms can serve these good functions best (Chang, 2007B). But the dominant view backed by the ‘augmented Washington Consensus’ is that ‘good institutions’ are what we find in the now-developed countries (NDCs), especially in the Anglo-American ones (Chang, 2005).

In this sense, the GG agenda can be interpreted as involving an interesting analogy to Walt W. Rostow’s famous ‘stages-approach’, which was influential within development discourse, especially during the 1960s. However, the Rostovian understanding of development contrasted sharply with the contributions of some of his contemporaries, such as Alexander

Gerschenkron and Albert O. Hirschman. In this paper, we make use of the history of developmental thought in this vein in order to scrutinize the resurgent ‘neo-Rostovian’ parlance manifested in the contemporary GG discourse.

In Section 2, we examine Rostow’s now-classic book – *The Stages of Economic Growth*. This anti-Marxist book involves an earlier version of what may be called ‘institutional determinism’, along with an alleged ‘universality’ of the stages-approach. We point out that the GG discourse is essentially reminiscent of Rostow’s analysis. Both approaches consider country-specific institutional differences as merely affecting the ‘speed’ (rather than the ‘infrastructure’) of development, along a given ‘universal’ path. After emphasizing this analogy, we turn to Hirschman’s concept of ‘monoeconomics’ in Section 3. Hirschman was a critic of what he calls ‘monoeconomics’ – the assertion that economics is a universal science applicable to all countries at different times. In accordance with Gerschenkron’s critique of Rostow, Hirschman emphasized the unworkable aspects of monoeconomics inherent in Rostovian stages. Interestingly, Hirschman also drew attention to Marx’s controversial monoeconomic attitude towards capitalist development. In Section 4, by way of conclusion, we draw attention to the contemporary relevance of some of Hirschman’s earlier contributions, which involve what we call ‘reasonable economic determinism’ vis-à-vis the ‘unreasonable institutional determinism’ inherent in the neo-Rostovian GG agenda.

2. Rostow’s ‘institutionalism’ in *The Stages of Economic Growth* and ‘good governance’:

The Stages of Economic Growth was first published in 1960 with a provoking sub-title: *A non-communist manifesto*. For Rostow (1990, pp. 2), Marx had considered social and politico-cultural institutions as “a mere superstructure built upon and derived uniquely from the economy.” Rostow’s contention was that the institutional superstructure also affects economic development. In this sense, Rostow was one of the first development economists to emphasize that institutions matter for economic development. This ‘institutionalist’ viewpoint was Rostow’s vehicle in constructing his stages-approach as an alternative to Marx’s economic determinism. Upon this early version of institutional determinism, Rostow (1990, chps. 2, 3, 4, 5 and 6) built his famous five stages of growth: i) the traditional society, ii) the preconditions for take-off, iii) the take-off, iv) the drive to maturity, and v) the age of high mass-consumption. The second and the third stages are especially important for our purpose in this paper.

In the stage of ‘the preconditions for take-off’, society undergoes an institutional transition from ‘traditionalism’ to ‘take-off.’ This transition takes place quite slowly, as society and the economy are “still mainly characterized by traditional low-productivity methods, by the

old social structure and values, and by the regionally based political institutions that develop in conjunction with them” (Rostow, 1990, pp. 6-7). The next stage of ‘take-off’ is “the great watershed in the life of modern societies”, as growth becomes the “normal condition” of society in this phase: “Compound interest¹ becomes built . . . into [society’s] habits and institutional structure” (Rostow, 1990, p. 7). The transition from the second to the third stage is essentially a case of institutional change: “Just before and during the take-off, the new modern elements, values, and objectives achieve a definitive break-through; and they come to control the society’s institutions” (Rostow, 1990, p. 70).

In this connection, there are both similarities and dissimilarities between Rostow’s ‘institutionalism’ and the contemporary GG discourse. We discuss the dissimilarities in sub-section 2.1. Then, we underscore the similarities in sub-section 2.2.

2.1. The dissimilarities between Rostow’s stages-approach and ‘good governance’

For Rostow, there were two distinct cases of transition from traditionalism to take-off in the developmental trajectory of nations. First, there was the general case of most countries in Europe, Asia, the Middle East, and Africa. In this case, major preconditions for take-off involved not only economic and technical changes, but also fundamental institutional changes. Secondly, there was the case of those countries which were ‘born free’. This second case of transition was experienced historically by the ‘British offshoot’ countries, such as the United States, Australia, New Zealand, and Canada. These countries benefited institutionally from Britain’s experience of first industrialization more than other countries did. This institutional advantage, along with the abundance of their land and natural resources, helped the British offshoot countries complete their transition stage much more easily and quickly. In other words, these countries “never became so deeply caught up in the structures, politics and values of the traditional society; and, therefore, the process of their transition to modern growth was mainly economic and technical” (Rostow, 1990, pp. 17-18).

Rostow’s distinction between these two historical cases of transition reminds us of the fact that institution building is a formidable task. The British offshoot countries were historically lucky in that they did not have to deal so much with ‘bad old institutions’. They were ‘born free’ from the retarding legacy of an old institutional setting. It was far more time-consuming and difficult for the other countries to replace their bad old institutions with new good ones required for successful take-off. This institutional distinction made by Rostow should be taken as a warning by the contemporary proponents of GG. Today’s LDCs did not start with an institutional *tabula rasa* as did the British offshoot countries. In contrast, the advocates of the GG agenda

dictate a swift replacement of ‘bad institutions’ with ‘good institutions’, as if the LDCs possess ready-made tools to eliminate their institutional legacies embedded firmly in their underdeveloped past. GG scholars all too easily recommend the transplantation and construction of Anglo-American institutions for developmental success.

Moreover, unlike the neo-liberal scholars, who envisage a sidelined developmental role for the state, Rostow argued that “governments must generally play an extremely important role in the preconditions period” (Rostow, 1990, p. 25), citing examples from the US in the 1815-1840 period. According to today’s neo-liberal myths, however, NDCs were able to achieve development by implementing free-market policies and establishing market-friendly institutions. If we believe the neo-liberal myths, we must accept that NDCs did not use state-led trade protectionism and institutional interventionism in their stages of ‘preconditions for take-off’.² In this connection, Rostow read the history of the NDCs more honestly than the contemporary neo-liberals did, despite his anti-communism and powerful position as a ‘spokesman’ of capitalism.

Therefore, Rostow’s consideration of the institutional aspects of development is different in certain respects from that of the neo-liberal GG agenda. As compared to proponents of GG, Rostow may be regarded as a more sophisticated analyst of economic development. However, these differences can be partially attributed to the contrasting spirits of the times. Rostow wrote under Cold War circumstances, as a powerful representative of the anti-communist world, at a time when welfare states and developmental states were effective as the ‘official’ institutions of the then-existing capitalism. The GG agenda is, however, the more recent product of the politico-economic forces generated within the context of the so-called ‘globalization’ process. Globalization has gained momentum since the late 1970s, at a time when state-led economic policy-making and institution-building fell into disrepute together with the waning of welfare and developmental states. In the last analysis, however, our contention is that there is a fundamental similarity between Rostow’s perception of development and the GG discourse.

2.2. The similarities between Rostow’s stages-approach and ‘good governance’

Rostow was one of those scholars who attribute a ‘positive’ historical role to the colonialist and imperialist activities of the great powers. Colonizers and imperialists brought about “transformation in thought, knowledge, institutions and the supply of social overhead capital which moved the colonial society along the transitional path” (Rostow, 1990, p. 27). For Rostow, thus, colonialist and imperialist activities had a modernizing effect on the backward regions of the world. This effect took the form of organizing “a traditional society incapable of self-organization (or unwilling to organize itself) for modern import and export activity,

including production for export” (Rostow, 1990, p. 109). From the fifteenth to the nineteenth century, “the native societies of America, Asia, Africa, and the Middle East were, at various stages, structured and motivated neither to do business with Western Europe nor to protect themselves against Western European arms”, and this was the historical reason why “they were taken over and organized” (Rostow, 1990, pp. 109-110).

At this point, Rostow was effectively arguing that if you are not ready to do business with the advanced countries or if you are unable to defend yourself against them, then it is all the more normal that you will be taken over and re-organized.³ From a humanitarian point of view, such legitimation of colonialism and imperialism is unacceptable for us. But what is more important for our purpose in this paper is that Rostow based his argument on the ‘institutional incapability’ of backward countries. He considered colonialism and imperialism as a normal historical outcome of “the nature of the initial relation between a traditional and a more advanced society”, because “the doing of efficient business required a type of administration the traditional society could not supply” (Rostow, 1990, p. 112). For Rostow, thus, developmental backwardness is basically a matter of institutional incapability of self-organization for trading and doing business ‘efficiently’ with the advanced countries.

This aspect of the Rostovian conception of development resonates in the contemporary GG agenda, which requires the LDCs construct ‘good’ institutions. The LDCs are compelled to build such institutions basically because of a neo-liberal concern for establishing and maintaining ‘efficient’ economic relations between the NDCs and the LDCs. Efficient institutions, which would guarantee ‘free’ trade and financial relations with the NDCs, are presented to the LDCs as the only route to economic development. This rhetorical idea of ‘efficient business by efficient institutions’ is the first major similarity between Rostow’s modernization thesis and the GG discourse.

Furthermore, Rostow claimed that his stages-approach was designed “to dramatize not merely the uniformities in the sequence of modernization but also – and equally – the uniqueness of each nation’s experience” (Rostow, 1990, p. 1). However, in reality, as we shall see in the next section, Rostow’s approach was mainly criticized for ignoring the uniqueness of each nation’s experience. The second major similarity between Rostow’s stages-approach and GG discourse has to do with this tendency to assert ‘universal’ (i.e., global) applicability. But how can it be that Rostow attributed ‘universality’ to his stages-approach, even though he regarded this approach as indicative of country-specific uniqueness in developmental processes? An answer to this crucial question can be obtained from Rostow’s discussion of Russia’s developmental experience.

In the first place, Rostow emphasized the importance of creating the *institutional* preconditions for take-off “in terms of the ideas, attitudes, and aspirations of various groups of Russians” (Rostow, 1990, pp. 65-66). Then, he argued that his stages-approach has universal applicability in *economic* terms, so much so that it applies even to the czarist and communist Russia: “In its broad shape and timing, then there is nothing about the Russian sequence of preconditions, take-off, and drive to technological maturity that does not fall within the general pattern; although like all other national stories it has unique features” (Rostow, 1990, p. 67). Our contention is that, in Rostow’s mind, “the general pattern” (i.e., universal path) pertained to *economic development*, and “unique features” (country-specific paths) to *institutional development*. In other words, Rostow’s construct suggests that economic development is a universal process for all countries, irrespectively of the possible uniqueness of their institutional development.

In Chapter 7 of his book, where he compares and contrasts the US and the USSR, Rostow clarifies his insight: “the first point to grasp is that Russian *economic development* over the past century is remarkably similar to that of the United States, with a lag of about a half-century in per capita output in industry” (Rostow, 1990, p. 93, emphases ours). While the two countries were “remarkably similar” in terms of economic development, “the creation of the preconditions for take-off was, *in its non-economic dimensions*, a quite different process in Russia” (Rostow, 1990, p. 98, emphases ours). Thus, in Rostow’s analysis, non-economic or institutional differences do not affect the supposedly universal path of economic development. Even in the comparative cases of ‘czarist versus capitalist’ or ‘communist versus capitalist’ institutional settings, Rostow’s approach indicates that the path of economic development is the same. This supposedly universal path comprises Rostow’s five stages of economic growth.

On the one hand, Rostow accepts that different countries can historically pass through different paths of *institutional development*. On the other hand, his analysis suggests that even very different countries with obviously different institutions are bound to achieve *economic development* by passing through a universal path. Therefore, institutional differences affect merely *the speed*, rather than *the path*, of economic development in Rostow’s stages-approach. As emphasized by Rostow in the quote in the previous paragraph, the conspicuous institutional differences between Russia and the US “over the past century” (circa 1860-1960 period) caused merely a *time lag* in terms of the economic development of these two countries.

Consequently, for Rostow, countries can have different (i.e., unique) experiences of institutional development. However, such institutional uniqueness exists within the same (i.e., universal) context of his five economic stages. Therefore, in this scheme, ‘development’ is

reduced to a simple problem: for the LDCs, the only and the fastest possible route to economic development is *imitation* of the earlier institutional stages of the NDCs. The implication is that the LDCs and the NDCs have inherently same economic ‘laws of motion’. Smooth and rapid operation of these economic ‘laws’ requires institutional imitation in the first place. In this sense, the neo-liberal GG agenda bears an affinity to this Rostovian scheme. That is, GG implies that LDCs should build ‘global’ standard institutions as quickly as possible in order to speed up their progress through the ‘standard’ path of economic development.

But what if there is *not* a ‘standard’ path of economic development? If not, economic development may not be guaranteed after successful institutional imitation and institutional development. What if all countries in general, and the LDCs and the NDCs in particular, have structurally different economic development paths, like their institutional development paths? If so, it may not be sufficient for the LDCs to preoccupy with institutional imitation in order to catch up with the NDCs in economic terms. Indeed, an honest reading of the historical record tells us that economic development requires upward shifts in technological infrastructure in the first place. It is less likely for the LDCs to achieve such technological upward shifts, especially in the face of the institutional governance reforms dictated for establishing ‘free’ trade and ‘free’ financial relations with the NDCs. Genuine development cannot be achieved by moving along a pre-determined, technologically inferior economic path. Unfortunately, these important developmental issues are usually overlooked within the ‘neo-Rostovian’ context of the GG agenda. The flawed logic of this ‘monoeconomic’ agenda can be revealed effectively by examining Hirschman’s contributions.

3. Hirschman’s critique of ‘monoeconomics’ and Marx’s ambiguity on development

Following the Second World War, the emergence of the Third World was accompanied by the birth of ‘development economics’ as a new discipline. Backed by the Keynesian spirit of the time, development economics sprang up in opposition to neoclassical orthodoxy. It rejected at the outset what Albert Hirschman (1981A, pp. 3-5) termed the “monoeconomics claim” of the orthodoxy. Insisting on the validity of a universal economics applicable to all countries at all times, the orthodoxy usually went hand in hand with the ‘modernization theory’ in the realm of social sciences. This coalition found one of its most influential expressions in Rostow’s *The Stages of Economic Growth*. We discuss the monoeconomic aspect of Rostovian stages in the following sub-section 3.1. Then, we turn to Marx’s controversial attitude towards monoeconomic development in sub-section 3.2.

3.1. Hirschman and Gerschenkron as critics of Rostovian mono-economic development

Rostow summarized his main point towards the end of his book, arguing that it is “useful” and “roughly accurate” to consider the developmental processes of LDCs “as analogous to the stages of preconditions and take-off of other societies, in the late eighteenth, nineteenth, and early twentieth centuries” (Rostow, 1990, p. 139). However, Alexander Gerschenkron powerfully criticized this Rostovian approach. He drew attention to the possibility, indeed the inevitability, of multiple paths of economic development, analyzing especially the European ‘late-comers’ (Gerschenkron, 1962, 1968).

According to Hirschman, “the struggle between advocates and adversaries of mono-economics was echoed in the debate between Rostow and Gerschenkron” (Hirschman, 1981A, p. 11). Rostow “had really taken a mono-economics position” by conceptualizing economic development in terms of five stages “with identical content for all countries, no matter when they started out on the road to industrialization” (Hirschman, 1981A, p. 11). Since the Rostovian scheme was “dominated by the idea of uniformity”, Gerschenkron (1962, p. 355) contended: “Rostow was at pains to assert that the process of industrialization repeated itself from country to country lumbering through his pentametric rhythm”. Gerschenkron demonstrated the fundamental differences of such late-comers as Germany and Russia with respect to the British industrialization in terms of their economic development. As such, “Gerschenkron’s work was of great importance for development economics by providing *historical* support for the case against mono-economics” (Hirschman, 1981A, p. 11).

Despite their opposite attitudes towards the “mono-economics claim”, development economics and neoclassical orthodoxy had one common premise. They both admitted what Hirschman (1981A, pp. 3-5) called the “mutual-benefit claim”. This is the claim that “the core industrial countries could make an important, even an essential, contribution to the development effort of the periphery through expanded trade, financial transfers, and technical assistance” (Hirschman, 1981A, p. 12). In general, orthodox and non-orthodox scholars of development shared the view that the contact between the First World and the Third World has the potential to yield mutually beneficial outcomes. That is to say, there was a consensus on an extended version of the classical Smithian-Ricardian view that gains accrue to both sides of any international trade relation. The mutual-benefit claim formed the basis of Rostow’s non-communist analysis in *The Stages*. Thus, even though development economics was anti-Rostovian in terms of anti-mono-economism, it was still partially Rostovian as far as it approved the mutual-benefit claim.

In sum, development economics relied on two main premises. First, it rejected the mono-economics claim, arguing that “certain special features of the economic structure of the

underdeveloped countries make an important portion of orthodox analysis inapplicable and misleading”. Secondly, it asserted the mutual-benefit claim, arguing that “there is a possibility for relations between the developed and underdeveloped countries to be mutually beneficial” (Hirschman, 1981A, p. 5).

In regard to these two claims, Hirschman (1981A) dealt also with Marx’s approach to development and neo-Marxist theories.⁴ For our purposes in this paper, it is useful to examine Marx’s position in this scheme at least for two reasons. First, as noted earlier, Rostow sub-titled *The Stages of Economic Growth* as “a non-communist manifesto” in an effort to refute Marx’s ‘economic determinism’. Indeed, Rostow (1990, pp. 145-167) devoted the whole last chapter of his book to a comparative analysis of “Marxism, Communism, and the Stages-of-Growth”. Secondly, concerning economic determinism, Hirschman drew attention to a developmental affinity between himself and Gerschenkron in another essay (Hirschman, 1981B). This important affinity has to do with Marx’s position on mono-economics and development, as we shall see below.

3.2. Hirschman and Gerschenkron as development economists ‘more Marxist than Marx’

In *Das Kapital*, Marx tended to reject the mutual-benefit claim, as he focused upon the exploitation relations pertaining to the processes of production and exchange under capitalism. However, Marx considered England’s role in India’s development as “objectively progressive” so that “he did not perceive the ‘laws of motion’ of countries such as India as being substantially different from those of the industrially advanced ones” (Hirschman, 1981A, pp. 4-5). Therefore, it is not unreasonable to argue that there is a particular tendency in Marx’s writings in favor of the mono-economics claim. Indeed, Marx’s famous remark that “the industrially most developed country does nothing but holds up to those who follow it on the industrial ladder the image of their own future” is quite supportive of the mono-economics claim.

In another context, Hirschman discusses this famous remark: “Here Marx seems to suggest that capitalist *industrial development* is bound to exhibit uniform features and stages in all countries no matter how late they step on the ‘ladder’” (Hirschman, 1981B, p. 89, emphases ours). However, Hirschman warns that Marx envisaged a different path of development for Germany and continental Europe with respect to England, due basically to particular *institutional* differences – “because of the absence of factory laws and in general because of a variety of social and political residues from feudalism that did not exist in England” (Hirschman, 1981B, p. 90).

Hirschman elaborates this ambiguous aspect of Marx’s approach by: i) drawing attention to Marx’s distinction “between England and Germany on the basis of certain elements in

Germany's *juridical institutions and historical heritage*", and ii) considering Marx's distinction as "remarkable – and characteristically *un-Marxist*" (Hirschman, 1981B, p. 90, emphases ours). Hirschman's subsequent comment is all the more important as he interprets Marx's attitude towards the effect of the 'institutional superstructure' on economic development:

In projecting likely differences in historical outcome [Marx] thus appeals to *differences in the "superstructure"* while apparently perceiving *the infrastructure* – industrial development under capitalism – as being *identical* for England and Germany. In this respect later students of comparative capitalist development were to be *more Marxist than Marx* (Hirschman, 1981B, p. 90, emphases ours).

There are two important questions to be addressed: i) how can we interpret Marx's attitude towards mono-economic development in the light of this quote from Hirschman, and ii) what is the meaning of being "more Marxist than Marx" in this context?

First, let us paraphrase Hirschman: According to Marx, England and Germany had different paths of institutional development (in terms of their superstructures), while their paths of economic development was the same (in terms of their infrastructures). But this is similar to Rostow's conception of development that we discussed in Section 2! Interestingly enough, Rostow (1990, p. 152) thought that Marx had believed in the existence of "a uniform superstructure" for different countries under capitalism. Hirschman's interpretation of Marx is just the opposite of Rostow's, however. In other words, like Rostow, Marx might have thought that superstructural institutional differences affect the speed, and not the infrastructural contents, of economic development. Therefore, Rostow's 'mono-economic' stages can be understood as a modified version of Marx's 'economic laws of motion'. Their main difference might be merely due to their opposing positions on the mutual-benefit claim, which Marx rejects and Rostow asserts.

Secondly, Hirschman regards himself, together with Gerschenkron, as "more Marxist than Marx" in terms of favoring *economic determinism* in developmental issues:

In explaining differences between the development pattern of England and that of latecomers such as Germany and Russia, [unlike Marx] Gerschenkron . . . did not invoke residues from the previous historical experiences of the latter two countries; rather, he concentrated on the different rates of development of agriculture and industry during the period of industrial expansion and on the different roles of consumer goods and capital goods production.⁵ In looking at countries of even more recent industrialization, I have similarly attempted to show that the "tightly staged" pattern of import-substituting industrialization, the importance of foreigners in the process, and the long-continued absence of any industrial production for export could explain much about some outstanding features of political development in these countries, such as the weakness of the national bourgeoisie⁶ (Hirschman, 1981B, p. 90).

Hirschman's point is that Gerschenkron's and his own developmental analysis relies on 'economic determinism' more than Marx's analysis did. As far as our purpose in this paper is concerned, we can deduce the following conclusion from re-reading Hirschman: superstructural institutional differences (in terms of politico-cultural factors and historical legacies) are important, but economic factors are still the most potent explanatory variables at the very root of developmental issues. It is exactly in this context that Hirschman identifies Gerschenkron and himself as "more Marxist than Marx".

In our view, rejection of the mono-economics claim should be at the heart of development economics. Such rejection relies accurately on a *reasonable* 'economic determinism'. It is 'reasonable' in the sense that the insistence on the priority of economic factors – rather than politico-cultural institutions – in explaining economic development is not based on a denial of the importance of institutions. Given this distinction, the Gerschenkron-Hirschman line of developmental thought can be re-interpreted as follows: without a certain degree of economic development in the first place, it is all the more formidable to construct 'good' institutions that are conducive to economic development. 'Good' institution building requires a certain degree of economic development as a prerequisite.

Nevertheless, this line of thought has been belittled for the last two decades by the *unreasonable* 'institutional determinism' of the neo-Rostovian GG discourse. As an extension of our discussion so far, we can now scrutinize some defective aspects of the contemporary GG agenda by focusing attention on Hirschman's developmental insights.

4. By way of conclusion: Hirschman's relevance in the debate on 'good governance'

The GG agenda involves a mono-economic approach to development. It dictates that 'there is no alternative' to 'good' neo-liberal policies, for whose effective implementation countries need 'good' neo-liberal institutions. This view is reminiscent of Rostow's supposedly 'universal' stages, through which all countries are destined to pass. The LDCs, the GG argument goes, should adopt the policies and the institutions that prevail in the Western world in general, and in the Anglo-American countries in particular. Such standardization of policies and institutions is needed in order for LDCs and NDCs to carry out 'efficient business' with each other. This GG-oriented mutual-benefit approach is akin to Rostow's justification of the colonialist and imperialist practices.

The allegedly 'universal' Rostovian stages of development are in fact *non-universal*, not only between the NDCs and LDCs, but also within the LDCs themselves.⁷ Therefore, every country must be allowed the autonomy of building its own path to development, with 'non-

standard' policies and institutions that are most suitable for its country-specific case of underdevelopment. However, the GG agenda considers 'development' as a matter of 'good-versus-bad institutions'. Narrow-mindedly, NDCs as a group are seen as the countries with good institutions, and LDCs as the ones with bad institutions (with the causality running from institutions to development). The salient differences between the LDCs and NDCs in terms of economic and technological infrastructures are usually overlooked for the sake of what may be called '*unreasonable* institutional determinism'.

In line with the GG discourse, it has become popular to explain past success stories of development in terms of some 'good' institutional and cultural factors. Of course, institutions and culture matter for economic development. However, the problem is that there is now a growing literature, which propagates unreasonable institutional determinism, implying a one-sided causation from institutional and cultural factors to economic development. To take just two examples, the pro-developmental aspects of Confucianism have been counted widely as the main reasons behind Japanese and East Asian development. Or more particularly, Botswana's consensus-oriented political institutions have been seen as the main engine of its economic development (Acemoglu et al., 2003). One major problem with this type of 'institutional determinism' is that it ignores the great variety of different structural elements embedded in the institutional complex of a country. This over-simplification opens door to *ex post* justification. A country's institutional complex is treated as a whole as pro-developmental or anti-developmental, relying merely on the individual specific elements chosen deliberately to support the argument (Chang, 2007B). For instance, in contradistinction to the recent literature, Confucianism was once counted as one of the main reasons behind the underdevelopment of East Asia, just before the developmental 'miracle' of this region (Chang, 2007A, p. 190).

Our contention is that economic development is likely to precede, or at the least effectively accompany, institutional and cultural development. Unless it is preceded or accompanied by economic development, institutional and cultural transplantation is most likely to remain as a quest for utopia. Historically, behavioral and institutional structures that are considered to be pro-developmental have emerged and evolved as the consequence, rather than the cause, of economic development (Chang, 2007A, chp. 9). Such conception of 'institutional development' as an outcome of 'economic development' does not rely on a blind subscription to 'economic determinism'. This approach is 'reasonable' because it relies on historical fact, which also drew Hirschman's attention early in his career, some fifty years ago.

Of course, there have always been lots of economic and non-economic prerequisites of economic development, in terms of required material resources and institutional circumstances.

But the crucial point is that “these resources and circumstances are not so scarce or so difficult to realize, *provided, however, that economic development itself first raises its head* (Hirschman, 1958, p. 5, emphasis in the original). And, for economic development to raise its head first, LDCs should be allowed to adopt effective developmental policies and institutions, which would work to narrow down their existing technological and infrastructural gaps with respect to the NDCs.⁸

As Dani Rodrik, the first winner of the Albert O. Hirschman Prize of the Social Science Research Council (SSRC) in the US in 2007, rightly pointed out: “The Augmented Washington Consensus is bound to disappoint, just as its predecessor did”, because “it is an impossibly broad, undifferentiated agenda of institutional reform”, which is “too insensitive to local context and needs” (Rodrik, 2002, p. 1). Interestingly, this critical argument was already anticipated by Hirschman half a century ago:

If one turns to the conditions that indirectly determine development by their influence on the supply of capital, entrepreneurship, and skills, the spectacle becomes far more bewildering. It is usual at this point to list *the need for minimum standards in public order, law enforcement, and public administration*. In attempts to dig more deeply, economic historians and sociologists, starting with Max Weber, have identified a number of *beliefs, attitudes, value systems, climates of opinion, and propensities which they have found to exert a favorable influence on the generation of enterprise and of developmental initiative*. . . . In spite of the many valuable insights gained from these theories, their cumulative impact on the unwary reader could well raise serious doubts about the possibility of any economic development at all. *For how can any stagnating country ever hope to fulfill simultaneously so many necessary conditions?* (Hirschman, 1958, pp. 1-2, emphases ours).

Put differently, the idea that institutions – in the form of attitudes and value systems – are to be taken as the prior factors of economic development existed well before the emergence of the GG discourse. And, Hirschman had already criticized such a developmental approach.⁹ This half-a-century-old criticism by Hirschman is rather prophetic in the sense that it still applies in our day.

All in all, re-reading Hirschman is potentially a useful exercise in this ‘neo-Rostovian’ age of GG. A truly *developmentalist* critique of GG can be derived from such an exercise by means of reasonable economic determinism. We attempted to provide a critique in this direction in the preceding pages. To sum up: the Rostovian conception of economic development implies that all the LDCs have the chance to pass successfully through pre-determined stages of a universal path of economic development. According to this mono-economic approach, constructing the ‘right’ (capitalist) institutions would accelerate economic development. It is possible to re-interpret Rostow’s ‘universal’ recipe for development as analogous to the recipe of GG discourse. According to this neo-Rostovian agenda, if the LDCs want to develop faster in economic terms, then they should build the very same institutions that are found in the NDCs. If Rostow’s

ideological recipe suggested the establishment of ‘non-communist standard institutions’ in the midst of the Cold War, GG nowadays dictates ‘global standard institutions’ in accordance with the ideology of neo-liberalism.

However, this neo-Rostovian ‘institutional determinism’ is not compatible with a truly *developmentalist* approach, which has been elaborated by Hirschman since the 1950s. True developmentalism focuses attention upon improving economic and technological infrastructure in the first place. Rejecting monoeconomics, it asserts a reasonable economic determinism for development. We hope that further research on this line of developmental thought will expand the ‘development possibility frontier’ of the LDCs, whose economic policy-making and institution-building capabilities have been limited severely by the ‘Procrustean’ rules of the neo-liberal GG agenda.

Endnotes

1) Rostow uses the term “compound interest” frequently throughout the book. He uses it to mean “a shorthand way of suggesting that growth normally proceeds by geometric progression, much as a savings account if interest is left to compound with principal” (Rostow, 1990, p. 2).

2) For a refutation of these neo-liberal myths, see, for example, Chang (2002, 2007A) and Chang and Grabel (2004).

3) Indeed, for Rostow (1990, p. 28), “there is no doubt that without the affront to human and national dignity caused by the intrusion of more advanced powers, the rate of modernization of traditional societies over the past century-and-a-half would have been much slower than, in fact, it has been”. Colonial and imperialist activities must have had some modernizing effects, but the problem with this argument is that such effects were the by-products of oppressive and bloody processes. This raises some serious questions: Is it possible to legitimize such activities on account of their epiphenomenal modernizing effects? For example, should we today acknowledge the ‘goodness’ of US interventions in Afghanistan and Iraq as legitimate actions thanks to their modernizing effects, which are supposed to ‘trickle down’ from ‘wars on terrorism’?

4) In contrast to development economics, neo-Marxist theories rejected not only the monoeconomics claim but also the mutual-benefit claim. However, an analysis of neo-Marxist theories is beyond the scope of this paper.

5) Hirschman’s note: Gerschenkron (1962).

6) Hirschman’s note: Hirschman (1971).

7) Hirschman provides a nice summary of this problem: “[D]evelopment economics had been built up on the basis of a construct, the ‘typical underdeveloped country,’ which became increasingly unreal as development proceeded at very different rates and took very different shapes in the various countries of Latin America, Asia, and Africa. Lenin’s law of uneven development, originally formulated with the major imperialist powers in mind, caught up with the Third World! It became clear, for example, that, for the purpose of the most elementary propositions of development strategy, countries with large populations differ substantially from the ever more numerous mini-states of the Third World, just as there turned out to be few problems in common between petroleum exporters and petroleum-importing developing countries. The concept of a unified body of analysis and policy recommendations for all underdeveloped countries, which contributed a great deal to the rise of the subdiscipline, became in a sense a victim of the very success of development and of its unevenness” (Hirschman, 1981A, p. 20).

8) Indeed, “before it starts, economic development is hard to visualize, not only because so many different conditions must be fulfilled simultaneously but above all because of the vicious circles: generally the realization of these conditions depends in turn on economic development” (Hirschman, 1958, p. 5). Analogously, “once economic development gets going, it will change people’s behaviour and even the beliefs underlying it (namely, culture) in ways that help economic development. A ‘virtuous circle’ between economic development and cultural values can be created” (Chang, 2007A, p. 198).

9) “When it was increasingly realized that economic backwardness cannot be explained in terms of any outright *absence* or *scarcity* of this or that human type or factor of production, attention turned to the attitudes and value systems that may favor or inhibit the emergence of the required activities or personalities. To some extent we shall ourselves be concerned with this line of inquiry. But whenever any theory was propounded that considered a given value system a *prerequisite* of development, it could usually be effectively contradicted on empirical grounds: development had actually taken place somewhere without the benefit of the ‘prerequisite’” (Hirschman, 1958, p. 4, emphases in the original).

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