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The Underdevelopment of Theory: Some Conceptual Elements of Mainstream Economics

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I. ECONOMICS AND THE ABSENCE OF HISTORY

Neo-classical economics (the dominant orthodoxy in economics today) sees economics as essentially concerned with the allocative problem: i.e., how to combine available inputs (resources) for maximizing the production of that particular basket of goods which would maximize the satisfaction of consumers.[1]

Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses[2].

Out of this approach has emerged a conceptual apparatus designed to show that the process of production and distribution of goods is determined by immutable and neutral laws of the free market. Output is supposed, in this scheme, to be generated on the basis of three resources or 'factors of production':

Land, Labour and Capital. Each factor of production has a price: rent is the price of land, wage the price of labour, and profit the price of capital. The crucial proposition that serves to enclose economics within a purely technological, hence 'value free' realm is that under conditions of market equilibrium, the price of each of these 'factors of production' is equal to its marginal product. The marginal product is defined as the addition.

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1 For an excellent presentation of the Market Efficiency argument, Tibor Scitovsky, Welfare and Competition Unwin University Books, 1968. For an analysis of the conditions of market failure see, F M Bator, 'The Anatomy of Market Failure', The Quarterly Journal of Economics, Harvard University Press. Cambridge, Mass, August 1958.

2 L Robbins. The Nature and Significance of Economics Science, London, 1932.

to total output brought about by applying an additional unit of that factor of production, other things remaining the same. Now since the addition to output induced by an additional unit of a particular factor of production is technologically determined, the equivalence of marginal product to factor price means that the distribution of income between social groups has a technological rather than a social basis. Thus rent, wage of and profit express not a relationship between people in the course of human history but between inputs (units of factors of production) and output.

Let us examine two fundamental concepts, wage and profit, to understand how orthodox economics excludes both people and history from its domain. Consider the concept of wage. As Paul Sweezy[1]' has argued, the non-economist would have a perfectly sensible definition of wage. He would say, that wage is an amount of money paid by an employer to an employee at regular intervals of time. In terms of this commonsensical understanding wage clearly cannot occur in all periods of history and all forms of social organization. Wage is only possible at that particular period in history, and within that particular society where employers and employees exist as distinct social groups. But this is not the way contemporary economics propounds the concept of wage. Here wage is seen as the marginal produce of labour, i.e., it is an output produced by a unit of activity. Thus Neo-classical economics fails to make a distinction between the proprietor of a workshop operating his own lathe machine and a worker employed in a factory or between an owner-cultivator and a serf. Since each of these individuals engage in labour, therefore, the argument goes, each has a marginal product that is technologically determined.

Let us take profit as another example. Now the overall rate of return on capital in the economy is defined as the profit rate. In Neo-classical theory, the profit rate is supposed to be the price of capital. This is again technologically determined because under conditions of equilibrium it is argued the marginal product of capital (in the aggregate) becomes equal to the profit rate. As Cambridge economists like Joan Robinson and Pasinetti have shown, there is an inherent inconsistency in this

1 P M Sweezy, 'The Theory of Capitalist Development', Monthly Review, Modern Reader Paperback, New York, 1968.

explanation of profit[1]. If profit is the marginal product or the price of capital then the aggregate amount of capital in the economy must be capable of measurement independently of the profit rate. This, of course, is not possible. Let us see why this is so. What is capital? It is machines and productive assets of various types in the economy. How do you add up machines of various types? You obviously cannot do this by adding up the number of machines. Adding up for example a machine producing cloth with a machine producing steel would be like adding mangoes and apples. So the only other way is to find out the prices of machines and add those up. Therein lies the contradiction. For inherent in the price of the machine is a profit rate. Thus the contradiction of the Neo-classical theory of profit as the price of capital is as follows: in order to estimate the overall profit rate you have to measure the value of capital in the economy. But in measuring the value of capital you have already assumed a profit rate! Thus Cambridge economists have shown that in fact Neo-classical economics does not have a credible explanation of how profit arises in the economy. The professed argument that profit is the marginal product of capital, and hence purely technologically determined does not stand up to scrutiny. So we are obliged to seek an explanation of profit in the dialectic of power which emerges in history when the owners of the means of production become a social group distinct from those who use them.

If we take off our Neo-classical glasses for a moment, a simple but important perception becomes apparent: the human enterprise of producing and distributing goods involves essentially a social relationship between people as they interact with each other and with nature. The form of this relationship is historically specific. Thus, for example, the social relations between landlord and serf that were involved in production in sixteenth century Europe were quite different from those prevailing between capitalist and labourer in the twentieth century capitalist West. The former were determined by extra economic coercion, or the terror of tradition, while the latter are conditioned by the hidden hand of the market. Similarly the relationship between the ruling elite in Europe and the peoples of the periphery was structured by the coercive

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[1] G C Harcourt, Some Cambridge Controversies in the Theory of Capital, Cambridge University Press, Cambridge, 1972.

apparatus of the state in the nineteenth century, while in the late twentieth century, this relationship is determined, amongst other factors, by the Neo-classical rationality of international financial institutions such as the IMF and the World Bank.[2]

Yet what is a historically specific relationship between people is inverted by Neo-classical economics and presented to us as a universal and a historical relationship between goods: that is, between inputs and outputs.

The problem with such an inverted and abstract specification of 'economic reality' is that since the relationship between people are filtered out, ethical and emotional responses to this economic reality are also precluded. Both the brutality of the oppressor and the cry of the oppressed creature that actually echo through history are concealed under the coverlet of an 'objective' or 'neutral' logic. The essential feature of such a neutral logic is the underlying premise that the 'social scientist' is divorced from the reality he is describing. Consequently in the Neo-classical paradigm both the individual and the world he inhabits are deprived of ontological status, thereby converting both into abstractions. Therefore, the actual actions of people in history find no place in such a scheme: the passion that charged Dullah Bhatti's resistance against the Moghul establishment, the longing for freedom that filled the hearts of those who fell at Jallianwala Bagh or the struggle for democracy in Pakistan would be beyond the scope of a 'neutral' logic. Thus various forms of resistance and struggle in history appear to the Neo-classical economist not as vital responses to economic processes but as mere anecdotes quite beyond the pale of his discipline. It is not surprising that in a methodology where the human presence is systematically excluded, human history is also absent from its desolate terrain.

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[1] M Guitian, Fund Conditionality: Evolution of Principles and Practices, IMF, Washington DC, 1981.

Also see, Tony Killick (ed), The Q for Economic Stabilization: The IMF and the Third World, Heinemann, London 1984.

Cheryl Payer, The World Bank: A Critical Analysis, Monthly Review Press, New York 1981.

For a good case study of the role of IMF/World Bank conditionality at the country level, see V R Jose, Mortgaging the Future: The World Bank and IMF in the Philippines, Foundation for Nationalist Studies, 1984.

For other country experiences, see, Akmal Hussain, 'Through the Economic Minefield', Economic and Political Weekly, Bombay, February 1989.

Tony Killick (ed), The JMF and Stabilization: Developing Country Experiences, Heinemann Educational Books, London, 1984.

II. TOP-DOWN DEVELOPMENT AND THE METHODOLOGY OF DEVELOPMENT ECONOMICS

Development economics in the postwar period emerged from a recognition that the free market mechanism by itself was not an adequate framework for ensuring the development of underdeveloped countries. The structure of the world economy at the end of the colonial period was characterized by the developed countries specializing in manufacturing and the underdeveloped countries specializing in the production and export of primary commodities. A whole range of economists from Raul Prebisch[1] and Myrdal[2] at one end, and Paul Baran[3], A G Frank[4], Emmanuel[5], Samir Amin[6], Rosa Luxembourg[7] and Lenin[8] at the other end of the theoretical spectrum were able to show that the so-called free market in the twentieth century on a world scale operated as a mechanism of real resource transfer from the underdeveloped to the developed countries. They showed that the prescription of comparative advantage based on the world market mechanism would simply reinforce the production structure inherited from the colonial period, and which was the fundamental cause of under-development. Out of this intellectual atmosphere emerged one common view, that industrialization was a necessary condition for self-reliant development and this required conscious state intervention.

In those heady days of intellectual ferment while the argument for state intervention in the economy of an underdeveloped country was formulated with admirable rigour what was not systematically specified was the particular form that such intervention should take. Even less thought was given to the impact on development of a large bureaucracy that was not

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[1] Raul Prebisch, 'Towards a New Trade Policy for Development', Report of the Secretary General of UNCTAD, United Nations, 1964.

[2] *G Myrdal, Asian Drama, Vintage Books, New York, 1970.*

[3] *Paul Baran, The Political Economy of Growth, Monthly Review Press, New York, 1957.*

[4] *A G Frank, Latin America: Underdevelopment or Revolution, Monthly Review Press, New York, 1969.*

[5] *A Emmanuel, Unequal Exchange, Monthly Review Press, New York, 1972.*

[6] *Samir Amin, Unequal development, The Harvester Press, Sussex, 1976.*

[7] *Rosa Luxemburg, The Accumulation of Capital, Monthly Review Press, New York, 1968*

[8] *V I Lenin, 'Imperialism the Highest Stage of Capitalism', in Collected Works 4th ed. Vol. 22, Foreign Languages Press, Moscow, 1964.*

only inflexible, corrupt, incompetent and unable to 'deliver' the results in most cases, but often had the propensity to further the metropolitan economic interests rather than culturally conditioned national interests.

The economies of most Third World countries continued to be structurally integrated with the global capitalist economy and no fundamental change took place either in the internal distribution of productive assets or in a self-serving military bureaucratic power structure. Therefore it was eminently predictable that non-productive expenditures and income inequality would increase rapidly. Moreover, it was only a question of time before loan dependence and endemic poverty emanating from these trends would threaten both the economic sovereignty and political stability of these states. Thus large budget deficits, heavy debt and growing poverty which are today causing such anxiety in the world community were actually inherent in the form of intervention adopted by Third World regimes in the postwar period, i.e., intervention by centralized state structures allied with traditional economic elites on the one hand and locked into the global market on the other, Of course, intervention by centralized states did produce dramatic results in a few countries but these were mostly restricted to cases where traditional economic elites had been overthrown through revolutionary upheavals and where there was a structural delinking from the economies of the advanced capitalist countries. Thus the Soviet Union and China achieved self-reliant industrialization and alleviation of poverty within a relatively short period of time. But even in these countries the inefficiency of centralized bureaucracy resulted in such large resource losses that by the 1980s they were obliged to seek a decentralization of economic decision-making, the Soviet Union through Perestroika, and China through the Four Modernizations programme. In the capitalist Third World, too, there were success stories such as the NICs (New Industrializing Countries) of South Korea, Taiwan, Hong Kong and Singapore. However, because of their small size arid massive inflow of multinational capital and technology, their impressive economic performance can be attributed more to the phenomenon of internationalization of production rather than success through the policies of a nation state.[1]Japan is a great success story of

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[1] E Lee (ed), Export Led Industrialization and Development ILO, Geneva, 1981.

state intervention, but that experience cannot be included in the category of Third World development efforts, for two reasons:

a) Japan's industrialization drive spanned a hundred years: from the middle of the nineteenth century, at the time of the Meiji restoration, to the 1960s.

b) Japan's industrialization drive was based initially on invertible resources and cheap raw materials obtained from its own colonial empire in the Pacific region.

India is the only remaining country in the Third World with a semblance of success in terms of the establishment of a heavy industrial base through centralized state intervention and national planning. Yet after forty-two years of development, over 40 per cent of its population continues to live below the poverty line. Although through its technological base it has developed the military muscle of a regional super power, yet this posture can only persist by writing off the bottom 40 per cent of its people. This is clearly not sustainable even in the eyes of some of their own leaders. The political pressures emanating from regional economic disparities and endemic poverty may well undermine its fragile democratic state structure. Apart from this we find that Inspite of achieving a heavy industrial base, India's economy has begun to stagnate, while the huge military and bureaucratic establishments are generating intolerably high budget and balance of payments deficits[1] (see Chapter 6, Table 1).

So for the postwar development attempts in much of the Third World, the chickens have come home to roost. What is then the solution? It is clear that the radical alternative of state ownership of the means of production by regimes claiming to represent the proletariat can by no means be propounded with the same confidence that marked the first half of the twentieth century. However, what is equally clear is that the solution does *not* lie in the other extreme of *laissez-faire* arising from dogmatic Neo-classicism. The IMF and the World Bank with their legions of Neo-classical economists charged with a fervour akin to religious fundamentalism, are today imposing on many Third World countries, often through elites who share

[1] P Patnaik, 'Recent Growth Experience of the Indian Economy: Some Comments', Economic and Political Weekly, Bombay, May 1987.

the same perspective, a Neo-classical policy package. It is rooted explicitly in the nineteenth century theory that the free market mechanism is the best framework for resource allocation. There is no doubt that some of the logical creases in Neo-classical theory that became apparent in the early twentieth century have now been smoothed out by a number of brilliant mathematical formulations. They range from Samuelson's factor price equalization theorem,[1] to the theory of rational expectations of Lucas,[2] Friedman and others[3]. The essential question from the viewpoint of economic policy, however, is not whether the free market mechanism in theory is the most efficient allocator of resources. The question rather is, that in a real world where perfect markets demonstrably do not exist and have in fact never existed, will policy prescriptions based on the presumed efficacy of free markets merely produce second best results or complete disaster?

The recent experience of Third World countries of producing according to the policy of 'comparative advantage' within the framework of IMF loan conditionality, points to the devastating consequences of such a policy. For example, the IMF pressure on African countries to service their heavy debts through the export of primary commodities, forced these countries to overuse their fragile soils resulting in rapid desertification. According to the United Nations Report of the World Commission on Environment, the consequence was that almost one million people died of famine and the survival of 35 million people was put at risk during the period 1984 to 1987[4]. The report indicates that this 'recent destruction of Africa's dry land agriculture was more severe than if an invading army had pursued a scorched earth policy'. Similarly, in Latin America the debt servicing obligations through primary exports has resulted in a situation where 'the region's natural resources are now being used not for development but to meet financial obligations of creditors abroad.' The Report goes on to show

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[1] P A Samuelson, Foundations of Economic Analysis, Harvard University Press, Cambridge. 1955.

[2] E Lucas Or), 'Optimal Investment and Rational Expectations', in Lucas and Sargent (ed), Rational Expectations and Econometric Practice, University of Minnesota Press, Minneapolis. 1981.

[3] Friedman, 'The Role of Monetary Policy'. American Economic Review, No. 58, 1968.

[4] Commission on Environment and Development, Our Common F Oxford University Press, Delhi, 1987.

that such a policy requires 'relatively poor countries to simultaneously accept growing poverty while exporting growing amounts of scarce resources'.[1]

In the present world, developed countries have placed trade barriers on Third World exports and prices of primary commodities are low. Under these circumstances, IMF conditionality which in effect pressurizes Third World countries to fulfill their debt servicing obligations through primary exports cannot be regarded as a prescription for economic efficiency nor of economic stabilization. On the contrary the recent rioting in Jordan (April 1989) and Venezuela (February 1989) sparked off by IMF policy shows that such programmes can result in political destabilization.

III. CONCERNS. OF TWENTY-FIRST CENTURY ECONOMICS

From the perspective of development, twentieth century mainstream economics has four major features:

I. Preoccupation with Resource Allocation

It is essentially concerned with the allocative problem, i.e., organizing most efficiently available resources for the production of precisely that combination of goods that consumers demand with their income. Of course the question of why some people are rich and others poor, i.e., how a particular distribution of income came about is not adequately explained by mainstream economics (as we have argued in Section I of this chapter). Similarly unexplained is, how the preference for certain goods is determined, and how the presumed consumer psychology of desiring an unlimited volume of goods regardless of the deprivation of others comes about[2]. These questions were swept under the carpet by means of two assumptions:

(a) The consumer is sovereign, i.e., his tastes and preferences are internal to him and influenced neither by other consumers nor by the market.

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[1] Ibid.

[2] See, T Vestergaard and K Schroder, The Language of Advertising Basil Blackwell, Oxford, 1985.

(b) The larger the quantity of goods the consumer has, the greater is his satisfaction regardless of what happens to others. (This is part of the so-called consumer rationality assumption).[1]

2. The Hidden Hand of the Market

The second major feature of Neo-classical or mainstream economics is that it sees the free market mechanism as the 'framework' for the most efficient allocation of resources for the production of goods, and the most efficient distribution of these goods amongst consumers with pre-determined incomes. The market, according to the Neo-classical theory, mediates between competing consumers and producers to determine a set of prices. Once prices are fixed they act as reference points for two sets of actors: prices guide producers to allocate their given resources to produce just the right combination of goods which will maximize their profits; prices also guide consumers to select with given incomes just the right combination of goods that will maximize their satisfaction.[2]

Having developed an argument for the efficacy of the market on the basis of highly restrictive assumptions, Neo-classical economics then proceeds to apply it on a global scale. It takes the world market as it existed at the height of the colonial period in the late nineteenth century, and sees it as the ideal framework for the most 'efficient' production and distribution of goods on a world scale. Having conceived of the world market in an abstract and a historical way it then prescribes the theory of 'comparative advantage'. Simply put this theory suggests that each country should specialize in producing goods in which it is 'relatively efficient', and through free trade import goods which it cannot produce at competitive prices at home. This way the theory argues, national and world income would be simultaneously maximized. Of course the theory neatly ignores the question of how it came about that in the nineteenth century (when this theory was first propounded by David Ricardo) some countries were more efficient in manufacturing goods and others in agricultural goods; or why over time the

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[1] Scitovsky, op.cit.
[2] Ibid.

income gap between industrial countries and agricultural countries had been growing rapidly.'[1] Moreover the actual world market today is by no means free, given the fact that the industrialized countries are placing import barriers on goods from the Third World.

3. The Divorce between Man and Nature

The third major characteristic of Neo-classical economics is that it regards nature as a set of 'resources' divorced from man to be 'exploited' by him in the process of making profit. As we have seen in Section I, this economics sees the individual as atomized and separate from society, rather than in terms of his social relations; in the same way, it sees nature in terms of its component elements that are to be exploited, rather than as an organic wholeness that is in a delicate ecological balance within itself and with man.

The consequence of this approach to nature was that market or profit criteria began to be applied to nature at the level of individual project selection. The problem in this case is that private profitability only takes account of the 'private' costs and benefits of the project concerned and not those for society as a whole, or for the next generation[2]. Thus, for example, a pesticide manufacturing plant that throws toxic waste into the river, does not count as part of its cost, the loss of fish species downstream. Similarly the wood contractors who cut trees in river watershed areas, do not include in the sales price of wood the social cost of flooding and soil erosion caused by their tree cutting activities. Finally, manufacturers of aerosol sprayers which emit chlorofluorocarbons do not include in the price of the product the damage to the ozone layer of the earth and the consequent increase in skin cancer frequency in the world.

The conflict between private gain and social or ecological loss that is inherent in the market criteria for project selection has over the years brought devastation to the earth's• environment. It has initiated processes of desertification and

[1] Phyllis Deane, 'The Long Term Trends in World Economic Growth', Malayan Economics Review, Kuala Lumpur, October 1961.

[2] E J Mishan, The Cost of Economic Growth, London, 1969.

resultant famine in sub-Saharan Africa, global warming associated with carbon dioxide emissions from industrial plants and depletion of the ozone layer of the earth[1]. These processes which are the uncounted aggregate cost of individual investment decisions are now beginning to undermine the delicate ecological balance of our planet and hence threatening life on earth.

4. State Intervention in Market Economics

The fourth main feature of a market economy and one that Neo-classical economists have not sufficiently recognized is the discovery by Keynes[2] and Kelecki[3] that the market mechanism on its own cannot ensure full employment. This important contribution laid the theoretical basis for state intervention in the advanced capitalist economies in the period following the Great Depression of the 1930s. Although Keynes demonstrated the possibility of market equilibrium at less than full employment, he was concerned with a short-run situation where productive capacity in the economy was fixed. Subsequent economists like Harrod[4] and Domar[5] showed that even when productive capacity was changing the market mechanism could not ensure economic stability. Harrod showed that the steady growth path, (or the warranted growth path as he put it) was one where starting from a full employment situation, investors expectations of demand were fulfilled[6]. Such a growth path requires a unique relationship between investment decisions, the savings ratio and the capital output ratio, i.e., the 'steady growth' path is possible if and only if the growth rate of output expected by investors is equal to the ratio between the savings rate and the capital output ratio[7]. Such a unique combination of circumstances is unlikely in a free market economy where

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[1] World Commission, op.cit.

[2] J M Keynes, The General Theory of Employment Interest and Money, Macmillan, London, 1963.

[3] 'M Kelecki, Theory of Economic Dynamics, Allen and Unwin, London, 1954.

[4] R F Harrod, Towards a Dynamic Economics, Macmillan, London, 1948.

[5] E D Domar. Essays in the Theory of Economic Growth, Oxford University Press, Oxford, 1957.

[6] Harrod, op.cit

[7] See, A S Sen (ed), Introduction, Growth Economics, Penguin Modern Economics, England, 1970.

investment is the aggregate result of a large number of individual investment decisions based on individual expectations. Harrod showed that even if such an equilibrium growth did occur by some accident it would be an unstable one. If expectations of investors diverged from the 'warranted growth rate of output', the market mechanism would set in motion forces that would cumulatively shift the actual growth path away from the 'steady growth' path, if (as Joan Robinson adds) future expectations are based on present experience.[1]

While the theoretical basis for state intervention was being attempted, the instrument of this intervention was conceived in terms of a centralized nation state through monetary and fiscal policy. In the contemporary world, monetary and fiscal interventions are being done at an even more centralized level than the nation state. For example, the economic stabilization programmes being imposed by the IMF and World Bank today, constitute massive interventions in the economies of Third World countries, by supra state institutions that are centralized at a global level (yet it is precisely these global institutions of economic intervention that are propounding the ideology of the free market mechanism at the level of the nation state!).

IV. CONCEPTUAL CHALLENGES FOR TWENTY-FIRST CENTURY ECONOMICS

Today, as we stand amidst the global economic and ecological crisis, it is evident that twentieth century mainstream economics needs to be transcended by a new economics for the twenty- first century. This economics would contribute to achieving a new relationship between man, nature and growth. Such a relationship would be sought in a world where nations struggle to achieve a decentralized democracy within states, on the one hand and, on the other, global cooperation to preserve the ecology of our planet, to maintain peace and to overcome poverty.

[1] Joan Robinson, 'Harrod's Knife Edge', in Collected Economic Papers, Vol. 3, Basil Blackwell, Oxford, 1965.

1. Human Community as the Focus

The focus of economics must shift from mere resource allocation and GNP as the end product. A deeper understanding of reality confirms that economics must concentrate on the problems of fulfillment of the human potential, within the context of the culture, social organization and limited non-renewable resources. The emphasis would therefore shift away from short-term profit maximization at the micro-level and value indices of GNP at the macro-level. Instead the new performance criteria would be the quality of life within an inter-generational perspective.

Recently the Human Development Report[1] (UNDP, 1990) has proposed a Human Development Index (HDI) in an attempt to improve upon GNP per capita as a measure of development. The HDI is composed of three quantitative indices: life expectancy, literacy and purchasing power. This new index, apart from having the same shortcomings as income measures (such as ignoring the distribution of purchasing power) is narrow in its scope and is static. It ignores the dynamic processes which enable a community to achieve sustainable development Over time.

What is needed is a more wide ranging measure that takes account of specific features of the quality of life and the mechanisms of change. For example, how many more people have been provided with clean drinking water, what is the state of housing, transport and education, what new forms of production organization and cultural norms have emerged that unleash the creative possibilities of the individual and which enable control by the local community over its economic, social and ecological environment? Some theoretical work on environmental preservation, and irreversibility, has been done by Vandana Shiva and also by Arrow and Fisher[2]. Much more work lies ahead in this field and in the cultural dimension.

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[1] Human Development Report, 1990, UNDP, Oxford University Press, New York, 1990.

[2] i) Vandana Shiva, Staying Alive: Women, Ecology and Development, Zed Books, London, 1989.

ii) Arrow and A C Fisher, 'Environmental Preservation, Uncertainty and Irreversibility', Quarterly Journal of Economics, May 1974.

iii) A C Fisher, 'Environmental Externalities and the Arrow Link Theorem', American Economic Review, 1974.

2. New Project Evaluation

Project selection would be done not just in terms of static social cost benefit analysis (as in work done by Dasgupta and Pearce[1], Little and Mirlees,[2] and Sen[3], but would take account of two vital dimensions of sustainable development: the capacity of a particular project to further the goal of an integrated and self-reliant community on the one hand and conserving the ecological balance on the other. These concerns must be brought into a new calculus of project evaluation. Work done in *Towards a Theory of Rural Development*, by GVS de Silva et.al., has made a beginning in this direction[4]. A concept of development project has been proposed by them in which the emergence of group identity, the level of community participation in the project formulation and implementation is an integral element of project design and evaluation.

3. Interlocking Crisis and New Finance Concepts

The new economics must come to grips at the global level with the interlocking crisis of economy and ecology. Mechanisms of finance production and distribution must be found, which can enable nation states to achieve a selective de-linking from the current centralized processes of finance and accumulation. At the same time forms of international finance must be developed that ease the capital constraint of the Third World countries without locking them into a crippling debt trap. International financial relations must reflect our awareness of the systematic transfer of non-renewable resources from the Third World to the First World or the endemic poverty crisis will have adverse repercussions at a global level for the preservation of peace and ecology.

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1 A Dasgupta and D W Pearce, Cost Benefit Analysis: Theo and Practice, Macmillan, London, 1972.

2 I M D Little and J A Mirlees, Project Appraisal arid Planning for Developing Countries, Heinemann, London, 1974.

3 A K Sen, 'Control Areas and Accounting Prices: An Approach to Economic Evaluation', Economics,, No. 82, Special Issue, 1972.

4 G V S de Silva, W Haque, N Mehta, A Rahman and P Wignaraja, Towards a Theory of Rural Development, Progressive Publishers, Lahore, 1988.

4. Economics and Praxis

The paradigm of mainstream economics during the twentieth century has conceived of the individual in isolation from his social and natural environment, it has understood development to be the result of strategic intervention conceived by paternalistic policy makers divorced from the people and implemented by a centralized bureaucracy. Such an approach has not only failed to ameliorate the conditions of 'underdevelopment' but has locked these economies into a permanent poverty trap. There is a growing transfer of non renewable resources, perpetuation of poverty, growing budget deficits, rising debts and intensifying dependence. The new development paradigm must be premised not on the atomized individual but on an organic community. It must involve decentralizing the state and empowering the people. Development must become part of a new praxis whereby people would become both the subject as well as the object of development: Knowledge and action would be integrated into a new dialetic at the local, national and global levels. These issues will be elaborated further in Part III of this book.