The Methodological Challenge in Development Economics

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Introduction
At first sight, a discussion of methodology in development economics may seem rather unexpected. Since development economics is part of economics science, it certainly seems natural to assume that the same type of methods should be used as in economics in general. Although practitioners in this field, being mostly pragmatic people addressing concrete problems, are not in general known to have taken too much interest in the issue of methodology, it has been a matter of considerable implicit controversy. We can find at least four reasons for this controversy:
1) Development economics has a broad scope, touching on or overlapping several other disciplines, such as political science, history, anthropology, etc..
2) Development economics deals, primarily, with dynamic, long-run issues and less with static resource allocation.
3) The emphasis of development economics is distinctly normative, seeking to find solutions to the problem of underdevelopment.
4) The focus of development economics is on poverty, a phenomenon that does not attract much attention in mainstream economics.

These four features call for a closer scrutiny of at least two, mutually interrelated, questions:
1) What type of economic theory would be appropriate for the study of development issues?
2) What sort of problems can be attacked using economic theory?

Relevance of Standard Economic Theory to Development
The natural first reaction to the question whether standard (neoclassical) economic theory can be used for analyzing development problems is probably that the issue is only one of application. There is no a priori reason why development should be a special case, demanding a special type of economics (cf. for example the definition of the discipline by Stern 1989).

On second thought, however, this question seems somewhat more complicated. In the early days of development economics, many researchers adopted the standard approach with, at times, less than satisfactory results. The most likely reason for the poor results in this context is that the standard assumptions of economics and the reality of less developed countries (LDCs) differ too much. It is well known that standard economics is full of assumptions which may not necessarily be valid in all circumstances. (The economy is assumed to consist of rational, well-informed and utility-maximizing individuals, interacting in a society where exchange is based on the use of money, and where the public sector aims at maximizing social welfare.)

If it can be shown that the behavior of poor people differs consistently from that of standard “economic man”, this may cast doubt on the usefulness of the whole framework of economic theory. In fact, it has often been suggested that behavior in LDCs differs from that of industrialized economies. Hence, development problems have frequently been related to certain inherent qualities of people: lack of ambition, entrepreneurship, punctuality etc. (cf. e.g. Dasgupta 1974, pp. 2-5).

The problem is, however, that neoclassical foundations were laid at a time when the conditions of living were not too different from those prevailing in the LDCs of today (Schultz 1979). Moreover, as noted by Sen (1983); “...neoclassical economics did not apply terribly well to underdeveloped countries. This need not have caused great astonishment, since neoclassical economics did not apply terribly well anywhere else.”

Friedman’s point on the realism of assumptions (Friedman 1953) has an obvious bearing on this discussion. Of course this is a problem for the economist profession as a whole, even though it seems to appear with particular clarity in a “grassroots” field of the discipline such as development economics. It is impossible to go into the discussion inspired by Friedman’s contribution here. Suffice it to point out that the view asserting that the literal realism of a model is neither possible nor necessarily desirable today would now seem to have the overwhelming support of economists. It is largely agreed that the very usefulness of a model rests, not on its realism, but on its abstraction of

As a matter of fact, economists very seldom try to modify the basic assumptions of economics. The reason for this may vary from an “Austrian” view, which renders the issue of “realism” meaningless (cf. von Mises 1976), to the lack of credible alternatives. Instead, differences between models normally consist of differences in the way in which the abstractions are made. A reasonable rule of thumb is that only relations really relevant for the problem at hand should be included in the model. We cannot always know for sure which relationships are relevant. In the case of development economics it is, however, economic and social institutions, behavioral and judicial rules, culture, etc. that should be considered. Those factors may not be crucial in all circumstances, but when they are the researcher is almost bound to make serious mistakes unless he takes them into account. However, this happens all too often. With a good deal of justification, economists have been accused of not being too interested in examining the starting points of their analyses. Instead, they tend to preoccupy themselves with deducing “results” from given assumptions (cf. Allais 1990).

Unfortunately, the task of economic modeling cannot be prescribed in a cook-book fashion. It may, however, be useful to point out briefly a few pitfalls in that process, especially concerning development issues. (The discussion here is heavily based on Streeter 1970.)

A common mistake is to invoke implicit ceteris paribus assumptions into the analysis in cases when that should not be done. This may mean, for instance, that institutions, traditions, attitudes etc. are implicitly assumed to be invariant across countries and are thus left out of the analysis. This is of course frequently done for developed countries as well, but in that case it is often more justifiable, not because those factors are unimportant but because they can be reasonably assumed to be fairly stable over time and similar across countries. (Many of the standard problems within mainstream economics are not crucially intertwined with the institutional, political and cultural infrastructure either.) When the focus of the analysis is shifted to a LDC this cannot be assumed.

Secondly, we have the problem of automatic mutatis mutandis, implying that economic changes will automatically be followed by changes in institutions, traditions, etc. This is not always the case. For example, it is sufficient to consider Islamic fundamentalism, or feng shui (the belief in the significance of location of e.g. buildings and furniture, timing of important events etc.) in the Chinese culture to see that this assumption does not always hold.

A third pitfall is misplaced aggregation, meaning that modes of aggregation, or even the very concepts, used in standard economics become unclear or meaningless when applied to a LDC. The distinction between consumption and investment is a good example of the former problem. In a LDC much of what is regarded as typical consumption, such as expenditure on food, may sometimes be more correctly characterized as investment. This reasoning is relevant when an increased intake of food increases productive capacity. Labor market terminology is an example of largely irrelevant concepts. Consider, for instance, the meaning of the term “unemployment” in a situation where it is not possible to register as unemployed, and where it is necessary for everybody somehow to find a livelihood.

To conclude, the point in creating a viable discipline of development economics is evidently not the construction of a distinct logical framework. Rather is is a question of the kinds of phenomena and relations that are to be explicitly included in the analysis.

The Realm of Development Economics

A related, but partly different question is what kind of problems may be relevant for development economists. Even the basic texts (cf. Todaro 1989, p.8) suggest that development economics is a broader field than “standard economics”. The same conclusion may, of course, be drawn from our discussion of modeling problems above. Thus a basic problem here is whether, and to what extent, the development economist should adopt a multidisciplinary approach.

The complexity of development problems certainly suggests that a multidisciplinary approach would be commendable. A fact is, however, that academic disciplines rather tend to resist the contributions of other sciences instead of encouraging their utilization (cf. Redding 1990, p. 238). The main reason is probably that the conceptual frameworks of different disciplines are incompatible.

How exactly interdisciplinary work should be carried out in this context is a rather difficult question, even if its importance is acknowledged. Since the specialization of a single researcher is normally rather narrow, it is risky to try to venture into other disciplines. An interdisciplinary group of researchers may be a preferable alternative. At least such a group is much less likely to overlook some crucial aspect of an issue. Instead, communication may be the problem. This is because different disciplines, as we noted, have very different frameworks and concepts which may not be easy to unify, even if the researchers can
understand each others' arguments.

From an economist's point of view, the fact that economics is by far the most formalized of the social sciences may pose a particular problem. Under these circumstances, it is quite likely that economics will provide the framework of the analysis. In that case there is a risk that the role of the other sciences will be one of filling out the "gap" between the explanation of "pure" economics and reality. The problem here is one of "too good", i.e., tautological, explanations, rather than too poor ones (cf. Blomqvist 1987).

In order to be of more than suggestive value, the contribution of other sciences to the economic analyses of developing countries must be firmly integrated in the analysis, not just a device for "explaining" what cannot be explained by economics. The way out, we suggest, is that the fundamental concepts and analytical techniques of economics are used, but in a fashion that does not neglect issues raised by other academic disciplines.

There are two ways to proceed. The more traditional one is to introduce restrictions into the economic models, in order to capture a certain institutional feature or regulation. Of perhaps greater interest is the recent tendency for economists to go one step further, to model actual behavior in allegedly non-economic situations. There are, in fact many examples of this approach. One of the most interesting from a development point of view is the so-called new political economy. This new "research program" strives at endogenizing the behavior of e.g. government, civil servants and politicians. It is evident that the government acts as a "clearinghouse" for rival lobbies (Bhagwati 1991), and that different factions in the public administration have special interests which they try to satisfy. Furthermore, the government may have objectives of its own, not necessarily closely related to the welfare of the society at large. The expanding research on e.g. rent-seeking and public choice is evidence of the increasing insights that are being made in the importance of integrating institutional features in economic analysis. Although this type of work has to date been carried out mainly in the context of developed countries (Findlay 1990), it seems to also have tremendous potential for LDCs.

Conclusions

Our discussion leads us to two main conclusions. Firstly, modelling of developing countries does not necessarily require a "new" type of economic theory. Instead the crucial point seems to be a careful formulation of the starting points of the analysis in terms of the variables that are explicitly to be taken into account. Secondly, "non-economic" phenomena often have to be introduced into the analysis, a conclusion that seems to warrant a multidisciplinary approach. It is important, however, to do this in a way that properly integrates the "non-economic" phenomena within the economic framework.

References


