World Too Complex For One-Size-Fits-All Models[1]

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Development “big think” has always been dominated by comprehensive visions about transforming poor societies. From the so-called “Big Push” to “Balanced Growth”, from the “Washington Consensus” to “Second Generation Reforms”, the emphasis has been on wholesale change. Today’s fashion in development is no different. The prevailing obsession with the “governance” agenda entails a broad-based effort to remould institutions in developing societies as a prerequisite for economic growth. The United Nations Millennium Project involves a large-scale, co-ordinated push of investment in human capital, public infrastructure and agricultural technologies. But there have also been iconoclastic dissenters from such comprehensive approaches, among whom Albert Hirschman was without doubt the most distinguished. Indeed, Hirschman’s seminal contributions have now been recognised by the US Social Science Research Council, which this year established a prize in his honour. When Hirschman was still involved in development debates, he would frequently remind his contemporaries that any country that had the capacity to undertake comprehensive programmes would not be underdeveloped to begin with.

Hirschman believed that the possibilities for economic development are not nearly as constrained as comprehensive theories lead us to believe. The imbalances specific to underdevelopment create opportunities that policy makers can seize on. Instead of relying on fads emanating from abroad, we need to experiment and look for the unique solutions that will allow us to circumvent ingrained social structures that inhibit growth.

Hirschman’s central insights on development have held up extremely well. The key lesson of the past half-century is that policy makers must be strategic, rather than comprehensive. They have to do the best with what they have instead of wishing they could transform their society wholesale. They need to identify priorities and opportunities, and work on them. They must seek sequential, cumulative change rather than a single, all-inclusive breakthrough.

Successful countries do share some common features. They all provide some degree of effective property rights protection and contract enforcement, maintain macroeconomic stability, seek to integrate into the world economy, and ensure an appropriate environment for productive diversification and innovation.

But how these ends are achieved differs. For example, greater integration with world markets can be achieved via export subsidies (South Korea), export-processing zones (Malaysia), investment incentives for multinational enterprises (Singapore), special economic zones (China), regional free trade agreements (Mexico), or import liberalisation (Chile).

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The best-designed policies are always contingent on local conditions, making use of pre-existing advantages and seeking to overcome domestic constraints. That is why successful reforms often do not travel well.

Moreover, generating economic growth requires hitting the right targets, not doing everything at once. What matters at any point is to alleviate a society's immediate binding constraints. China was constrained by poor supply incentives in agriculture in the late 1970s. Today's Brazil is constrained by inadequate supply of credit. El Salvador is constrained by inadequate production incentives in tradable goods. Zimbabwe is constrained by poor governance. These problems all require different methods for unlocking growth. What we need is selective, well-targeted reforms, not a laundry list.

Countries run into trouble when they do not use high-growth periods to strengthen their institutional underpinnings. Two kinds of institutions in particular need shoring up: conflict management institutions to enhance economies' resilience to external shocks, and institutions that promote productive diversification.

This line of thinking has vast implications for the design of appropriate global economic arrangements. Hirschman would be aghast at the extent of intrusion into domestic policy-making that the World Trade Organisation or the International Monetary Fund engage in nowadays. As international bureaucracies with a penchant for "best practices" and common standards, these institutions are poorly suited to the task of seeking innovative, unique pathways suited to each country's particular circumstances.

Many economists were sceptical about Hirschman's approach because they could not quite fit it into the economics they had been trained to practice. But, over the years, economics has become richer, too. Dynamic models have become much more common, an economics of the "second-best" has flourished, political economy has become mainstream, and behavioural economics has thrown the "rational actor" into doubt. As a result, Hirschman looks less and less the maverick that he fancied himself to be. Conventional wisdom may finally be catching up with him.

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