

This work is licensed under a
Creative Commons Attribution-NonCommercial-
NoDerivs 3.0 Licence.

To view a copy of the licence please see:
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

(832)

(a) UNIVERSITY OF NAIROBI
(b) Institute for Development Studies
Working papers

AFTER DIVORCE: THE REMARRIAGE OF ECONOMIC
THEORY AND DEVELOPMENT ECONOMICS?

By

Ian Livingstone

WORKING PAPER NO. 221

INSTITUTE FOR DEVELOPMENT STUDIES

UNIVERSITY OF NAIROBI

P.O. BOX 30197

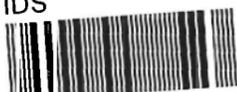
Nairobi, Kenya

June, 1975

Views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of the Institute for Development Studies or of the University of Nairobi.

RN 322289

IDS



095297

LIBRARY

1 FEB 2011

INSTITUTE OF
DEVELOPMENT STUDIES

After Divorce: The Remarriage of Economic Theory and Development
Economics?

It is more than six years since an Africa-wide conference was held in Dar es Salaam on the Teaching of Economics in Africa.¹ It is not necessary here to repeat the details of the general consensus for change in syllabuses which emerged at that time, though one may note in passing that syllabuses in Africa have nevertheless remained quite static. Discussion of the relevance of 'economic theory' to the analysis of developing countries had been going on for a number of years before then, particularly in Latin America.² This relevance had always been questioned by Marxist economists (and not simply because of differing political value judgments, but because they had always focussed more on long term structural change in the world economy). Since 1972, however, a number of articles, including several by distinguished Presidents of national associations of economists in Britain and America, have seriously questioned the relevance of contemporary economics to the analysis of Western economies themselves.³ Many of their findings turn out to be similar to those of the Dar es Salaam conference (which a leading publisher had found too radical and 'partisan' to publish). It is worth asking why this should be and what, if anything, the two discussions can offer each other.

The review of the debate at Dar es Salaam stated (p.24) that

"The main charge... is not that uses cannot be found for a whole collection of pieces of 'economic theory' in the developing countries. It is that we have no theory which explains the most important problems facing the poorer countries, that is, the lack

1. I. Livingstone, G. Routh, J.F. Rweyemamu and K.E. Swendsen, eds., 'The Teaching of Economics in Africa', Chatto and Windus, 1973.
2. D. Seers' seminal paper, "The Limitations of the Special Case", Bulletin of the Oxford Institute of Economics and Statistics, May, 1965, was used as a starting point for a conference held in Manchester yielding K. Martin and J. Knapp, eds., The Teaching of Development Economics, Frank Cass, 1967. A Latin American conference yielded 'The Need for New Perspectives in Teaching and Research in Economics in Latin America', Social and Economic Studies, March, 1969.
3. See E. Phelps-Brown, "The Underdevelopment of Economics", G.D.N. Worswick, 'Is Progress in Economic Science Possible?' and N. Kaldor, 'The Irrelevance of Equilibrium Economics', all in the Economic Journal, 1972, J.K. Galbraith, 'Power and the Useful Economist', American Economic Review, 1973, and Sir D. MacDougall, 'In Praise of Economics', Economic Journal, 1974.

of development or its slowness, and indicates the means for its acceleration."

But Worswick finds economics generally lacking, not only for what it has yielded for less developed countries:

.."the performance of economics seems curiously disappointing, the moment one puts a few test questions (p77)..."

One of these relates to growth:

"Already growth theory has itself become big enough to have its own specialisms, but how much light has this economic theory thrown on the question why the growth rate in the United Kingdom and the United States has been so much slower than elsewhere?... these models throw up fascinating problems.. but there is very little of it which is of any help in answering such questions why growth rates differ among countries and between periods (p.77)."

Similarly Phelps-Brown finds (p.1) that

"the most conspicuous developments of economics in the last quarter of a century have been: the refinement of the logic of resource-allocation and decision-taking;

the building of growth models;
econometric analyses of systems and of economic forces."

Like Worswick, however, he does not find that these have yielded very significant fruits in understanding the important economic questions of the day.

The reason why growth models have not yielded a great deal for developing countries is firstly that many of them are neo-Keynesian models, where Keynesian assumptions do not hold; secondly, that where the assumptions are neo-classical the models are highly aggregative and not based on very plausible functional relationships between key variables in the less developed countries, which relationships are generally not known; and, thirdly, that they are equilibrium growth models, whereas the process of growth is essentially a disequilibrium process.

This last point applies equally, to an important degree, to growth in developed and less developed countries. And it is probably the case that the explanation of why growth rates differ is the same in kind if not degree when, say, Britain and France are compared and when Latin America and Europe are compared.

But growth is only one example of this. The sort of things which economics explains badly in less developed countries - the distribution of income is another example - are just those areas in which its performance in relation to developed countries is criticized in the recent articles mentioned. The difference, of course, is that the resultant gap between theory and reality is much more apparent in the less developed countries. Accordingly it is not surprising that development economists as a group should have been the first to express serious dissatisfaction with economic theory.⁴ There is much more in common between the economic problems of developed and less developed countries than is generally realized; and many concepts introduced by development economists could well be used in the analyses of situations in industrial countries, as well as vice versa. Indeed the over refinement of economic theory which is criticized in the papers mentioned is probably itself mainly responsible indirectly for generating the excessive and artificially large gap between 'economic theory' and 'development economics' which did not exist, of course, at the time of Adam Smith.

In looking at these recent articles, it is possible to distinguish three main areas of dissatisfaction: the emphasis on equilibrium economics, both in relation to the static economics of allocation and to growth equilibrium analysis; the analyses of income distribution and related factors; and the analyses of the behaviour of firms, workers and consumers, and its results.

The Limitations of Equilibrium Economics

Kaldor's statement is the strongest regarding "the irrelevance of equilibrium economics,"⁵ though Worswick (p.75) also states that "it is arguable that the notion of equilibrium has been deleterious in economics." The crucial element, in Kaldor's view, is the omission of increasing returns in the analysis. This affects first of all the

4. It is perhaps surprising, though, that none of the present critics make any reference at all to this preceding literature.

5. He states (p.1237) that... "the powerful attraction of the habits of thought engendered by "equilibrium economics" has become a major obstacle to the development of economics as a science".

description of the growth process.

While now this is voiced in relation to the relative growth of industrial countries, and in criticism of growth model analyses, it should be noted that the question of increasing returns is at the heart of some of the major concerns of development economists in relation to 'Orthodox' theory: with how to explain growth itself (compare Hirschman's unbalanced growth theory); with how to explain the relative growth rates of developed and less developed countries, and the resulting lopsidedness in world development; with how to reconcile comparative^{cost} and free trade theory with lagging growth rates (one of Worswick's five questions).

And the operation of increasing returns is crucial not only in describing the growth process, but also in relation to the strategy and tactics required for fostering growth. While Western capitalist growth proceeded to a great extent under laissez - faire, and over a long period, the present developing countries are attempting to concertina this process in order to accelerate growth and shorten their transition to developed country status. Where the socialist path is not taken, this implies some kind of 'directed capitalist growth', and (Western?) development economics is concerned especially with the appropriate strategy and tactics for directing this system in the optimum way.⁶

Secondly, the omission of increasing returns underlies the lack of realism in the equilibrium theory of the firm. The facts are that it is difficult to pin down diseconomies of scale or limits to the size of the firm⁷: firms of different sizes coexist; firms grow, mergers occur, multinational companies become increasingly dominant within national economies and at the global level. Yet the textbooks ignore these striking everyday phenomena and by implication tell their student readers to ignore them. They ignore the 'theory of growth of the firm'⁸. A static

6. Hirschman's theory of inbalanced growth, focussing on key points and offering judicious stimuli here and there to an essentially private enterprise system, is a prime example of a 'directed capitalist system'.

7. Kaldor cites for example the work of C.F. Pratten who "found that of 44 types of activities examined, the minimum efficient scale of a single plant is 100% or more of total U.K. output in 7 cases, and in the range of 25-80% in 10 other cases"; C.F. Pratten, Economies of Scale in Manufacturing Industry, D.A.E. Occasional Paper No. 28, Cambridge University Press, 1971.

8. As represented particularly in the works of E.T. Penrose, R. Marris, and W.J. Baumol.

equilibrium diagram demonstrating equilibrium output and price under sales maximization is often now included, without pointing out that if the motivation underlying sales maximization is general, then equilibrium is not likely to be the result at all, but a progressively changing market structure quite inconsistent with the basic model of competition outlined in the text: but much nearer to reality.

Thirdly, and related to the discussion of the size and growth of the firm, is the extension to the discussion of allocation of resources under the price system. Kaldor questions (pp 1245-6) whether even in a developed economy the discussion of the allocation of resources in the static context is meaningful:

"The whole issue ... as whether an 'equilibrium of costs and advantages' is a meaningful notion in the presence of increasing returns. When every change in the use of resources - every reorganization of productive activities - creates the opportunity for a further change which would not have existed otherwise, the notion of an 'optimum' allocation of resources - when every particular resource makes as great or greater contribution to output units actual use as in any alternative use - becomes a meaningless and contradictory notion: the pattern of the use of resources at any one time can be no more than a link in the chain of an unending sequence and the very distinction, vital to equilibrium economics, between resource-creation and resource-allocation, loses its validity. The whole view of the economic process as a medium for the 'allocation of scarce means between alternative uses' falls apart - except perhaps for the consideration of short-run problems, where the framework of social organization and the distribution of the major part of available 'resources'.. can be treated as given as a heritage of the past, and the effects of current decisions on future development are ignored."

Clearly this statement applies with even greater force in developing countries.

A major defect of textbook monopoly theory is that it deals only with the supposed (i.e. theoretically derived) effects or symptoms of monopoly rather than the causes or origins of monopoly (imperfect capital markets, increasing returns mergers). The gap between the stress laid in economics teaching on the monopoly equilibrium diagram (which no student will escape) and the relatively benevolent attitudes of policy-makers to large concerns is a striking one.

While Kaldor stresses the effect of increasing returns on the growth of large firms, Galbraith emphasises the importance of power in the growth of firms and industries and, through the relative expansion of the most powerful, and less competitive, sectors of the economy, over

the allocation of resources. In contrast with the reality of this situation, the concentration of Western textbooks on the perfectly competitive model of the price system (and of journal articles on refinements of the theory) is positively misleading:

"The most commonplace features of neoclassical and neo-Keynesian economics are the assumption by which power and there with political content, is removed from the subject. The business firm is subordinate to the instruction of the market and thereby to the individual or household. The state is subordinate to the instruction of the citizen (p2)."

The competitive model of the allocation of resources is of limited usefulness because there is no way in which the theoretical 'optimum' allocation of resources would ever be achieved in reality: and certainly not in less developed economies. If a more realistic analysis of the operation of firms within an economy is attempted, on the other hand, one finds a possible rapprochement between the discussion of monopolistic firms (focussing on the causes of monopoly, the growth of firms, and the rise of multinational companies) and the discussion of the impact of monopoly capitalism and foreign investment on developing countries. None of the recent attempts at producing African or Asian economics textbooks, it may be noted, have tried to think out what are the special characteristics, if any, of the monopoly problem in less developed countries. The most significant feature is that many of the large firms or monopolists are expatriate concerns, in many cases multinationals. Monopoly policy is, for that reason, less likely to be effective in developing countries. Many of the biggest firms represent merely the 'tail' of the system of monopoly capitalism centred on the industrialized countries. Thus the less developed countries are to a great extent dependent upon the monopoly policies adopted or not adopted in metropolitan countries. Since multinational companies may now be large compared even to some governments, Galbraith's argument regarding the importance of economic and political power comes into its own. The position has been described as follows:⁹

9. Paul Streeten, 'Costs and Benefits of Multinational Enterprises in Less Developed Countries, in John H. Dunning, ed., The Multinational Enterprise, George Allen and Unwin, London, 1971, p. 245.

"Today, a handful of powerful, large companies confront a host of small, competing, weak and not always single-minded governments. The large and powerful multinational producing enterprise can draw on a pool of skilled and experienced manpower, and on occasion, on the support of the government of the parent company. The officials of the host government, by contrast, are typically inexperienced. The foreign firm will tend to demand privileges with regard to taxation, relief from duties on imported goods necessary for its investment and production, low bank interest rates and protection against foreign competition."

In these circumstances, clearly, the viewing of a monopoly situation as a correctable deviation from the 'norm' of perfect competition is problematic, as indeed is the whole concept of an 'optimum' allocation of resources. However the position of the less developed countries in this regard is only a magnification of the general reality. A more dynamic real-world approach to the theory of the firm, taking cognizance of increasing returns and of 'economic power' would thus unify the analyses, making it relevant simultaneously to developed and less developed countries.

Economic Power and the Distribution of Income

Apart from its effects on the allocation of resources, the existence of substantial economic power outside of the state and the citizenry is an issue in its own right. Galbraith points out (p.5) "Elections in the United States and Canada are now being fought on the issue of the subordination of the state to corporate interest. As voters, economists accept the validity of the issue. Only their teaching denies it." It is this issue of political economy which is behind the opposition of the Labour left to Britain's joining the Common Market. It is the same concern felt even more strongly in the less developed countries and which has led them to policies of partnership, localization or nationalization: it is related to their dissatisfaction with all forms of economic dependence on the developed countries.

As Galbraith points out (p.8), power is a major factor in the problem of inflation and monetary constraint: "Monetary constraint is far less painful for the large established corporation which has ensured itself a supply of capital.../ ^{the} competitive claims of unions can most conveniently be resolved by passing the cost of settlement along to the public." Thus "the interaction of corporation and trade union power can be made to yield only to the strongest fiscal and monetary restraints." The distribution of power was certainly the key / ^{in the conflict} element in Britain on the conflict between the government, concerned with inflation, and trade unions, concerned with the distribution of income, in early 1973, leading in fact to the demise of the former.

Power is involved in the sales maximizing and growth-oriented behaviour of large firms. The expansion of the large corporation brings benefits first and foremost to its employees, particularly senior employees, rather than, perhaps, its shareholders. Galbraith states (p.5) that:

"Profits are also a source of prestige and therewith of influence. But of paramount importance is the much more directly political goal of growth. Such growth carries a strong economic reward; it directly enhances the pay, perquisites, and opportunities for promotion of the members of the technostructure. And it consolidates and enhances authority. It does this for the individual - for the man who now heads a larger organization or a larger part of an organization than before. And it increases the influence of the corporation as a whole."

Thus while all employees of the corporation do not have an identity of view, they certainly may have a considerable common interest. This differs from the neoclassical labour market theory in ^{which} workers are merely inputs, bought on the free market, with no interest in the firm as such, or participation in management. It differs also from the imperfect market analysis incorporating trade unions, in which there is a direct conflict between management and workers. Such analysis assumes the 'cake' to be divided between the 'firm' and the workers, again regarded separately, to be constant. If, however, the revenue (sales) of the corporation are expanding steadily, all can gain. A full analysis should therefore cover both the elements of conflict and those of common interest. Once again, these relationships are magnified and easier to recognise in developing countries. Thus the employees of the large firms and international corporations of the 'modern' sector have already been recognized as a 'labour aristocracy' with considerable common interest with multinational companies.

The collaboration of such companies with local vested interests, including government officials and workers, is discussed by Streeten.¹⁰ Clearly power, economic and political, should be a major ingredient in the analysis of factors affecting the distribution of income. This is true in the developed countries, but even more apparent in the less developed. What theory of income distribution does one adopt in such economies? Are increases in the salaries of higher civil servants, or soldiers, or company executives, or the relative wages of factory workers and rural labourers, to be explained by supply and demand, and the marginal productivity theory?

10. P. Streeten, loc cit.

The analyses of monopoly and competition discussed earlier is also related to that of the distribution of income. One of Worswick's "questions for Economics to answer" was 'can we in practice distinguish a monopoly profit from a reasonable rate of return? Microeconomic theory implies that 'normal' profits constitute a reasonable return. But 'normal profits' is an extremely artificial concept. The 'normal profits' and other earnings of a large European or American company will be sufficient to cover the high standards of living of perhaps hundreds of business executives, as well as remunerating shareholders. This will be very different from the competitive level of 'profits' obtained by African peasant farmers. While the Chairman of a large company may earn, say, £50,000 per year, the average earnings of African entrepreneurs in, say Ugandan coffee growing might be £20. Even within the United States and other developed countries very different rates of profit are earned in different industries, for instance as between the major oil companies or leading manufacturers and farmers, small building firms, or retailers. As semi-independent pools of capital, management and technological expertise, corporations are to some extent insulated from the market, or able to determine their own markets. Part of the situation of the developing countries is that they lack their own home-based corporations operating overseas to swell incomes and job opportunities for their nationals, but are instead forced by circumstances to make their own markets available to expatriate companies. It is at this point that questions of internal income distribution, economic dependence, and international trade policy come together

The Analysis of Economic Behaviour

The final major area of economic analysis which is called into question is the analyses of economic behaviour. In the view of Phelps-Brown and Calro MacDougall, (p.78), the assumption of rational maximizing behaviour which underlies most of economic theory is 'plucked from the air' (p.3). We have already raised questions about the motivation and behaviour of firms and workers. Interestingly enough, an entire literature on peasants' supply responses and on economic efficiency in peasant farming has accumulated in recent years, aimed at demonstrating that economic man in the developing countries behaves in much the same way as his profit-maximising counterpart in the developed. But as Worswick says (p.78):

..."Anyone who has worked with empirical data from firms in an industry is frequently struck.. by the extraordinarily wide range of costs and profits.. Over five years ago Professor Liebenstein gave a name to the concept of X-efficiency, indicative of the differing efficiency with which managers combined similar groups of inputs, and he argued that X-inefficiency was far more prevalent, and important, than the allocative inefficiency of traditional micro-economics. Nevertheless theorems in the traditional allocative economics go on being generated all over the place as though X-efficiency had never been heard of".

If X-efficiency and variation in firms' economic performance should be studied within industrialized countries, so should variations in economic performance within African peasant farming, where they are clearly manifest. If the relative innovativeness of British and German firms should be studied, so should factors affecting the responsiveness to innovations of African farmers. Just as the former question is related to relative growth in^{the} Britain and West Germany, so would a study of X-efficiency on the manufacturing sectors of developed and less developed countries be pertinent to an understanding of their relative growth. Instead of assuming maximizing behaviour, it would be better to study actual behaviour and then its results.

Concluding Remarks

As we have seen, the criticisms of economic theory as applied to the reality of the developed countries made by our 'distinguished group' apply in a similar way and with still greater force to its relevance to the developing countries, and are similar in kind to those made earlier by development economists vis-à-vis the latter. Some of the more specific prescriptions are also similar. The Dar es Salaam conference for instance argued the need for an interdisciplinary and problem-focussed approach, as does Phelps-Brown (pp 7-8); for new tools (Phelps-Brown says: "let us observe whatever seems significant, and follow clues to causes wherever they may lead.. This should remove the temptation to seek the job for the tools instead of the tools for the job".); for avoidance of excessive preoccupation with mathematical formulation and elegance (Phelps-Brown, p.9., Galbraith, p.2, and Worswick, p.77); for supporting economics teaching with the necessary historical background (Phelps-Brown, p. , MacD MacDougall, p.781).

We thus have a number of weighty voices calling in surprising unison and on surprisingly similar lines, for change in Economics. The dissatisfaction expressed with this Economics is very similar to that previously expressed regarding the relevance of Economic Theory to developing countries, and the suggested directions along which Economics

should now move are much the same. If, therefore, these voices are taken seriously, it is quite possible that "Economic Theory" and "Development Economics" will come close together again, if not as a single general theory, in various areas of overlap in terms of subject matter and analytical approach. Some time ago M.J. Fores wrote in the Economic Journal¹ that

..."If there ever is another great synthetic statement to cover economics and its current problems of growth, then that new statement or theory will not be a general theory of economics alone, it will instead be a general theory of social affairs."

He might even be proved right.

Appendix: Laying the Foundations for an Economics Degree Programme in Developing Countries

Teachers of Economics in developing countries may find the foregoing general discussion interesting but are bound to ask: how can we do much about this now, in our teaching? After the first year of Economics it is possible to be selective in the choice of teaching materials by piecing together articles, or sections of books. But the only comprehensive first year textbooks are the standard 'Western' textbook of Economic Theory such as Samuelson's. Development Economics comes in separate books and at more advanced levels. The ^{lecturers} /_ themselves are invariably hard pressed and must produce lectures immediately for the forthcoming week: modifications they may make, but it is difficult not to accept the basic framework of these texts. It is worth therefore considering here what a new framework for an Introductory Course might be.

The Wrong Approach

Before suggesting an approach to writing a suitable textbook, it may be useful to give examples of a wrong approach. There was sufficient awareness in international circles as long ago as 1962 for UNESCO to attempt to sponsor a Textbook for Africa: international relations however required representation in the authorship of all the philosophical and geographical schools of thought so that about 16

1 M.J. Fores, "No More General Theories? Economic Journal, March, 1969.

authors were eventually invited to contribute sections. Not surprisingly, and perhaps fortunately the book never appeared. A similar international gathering was sponsored this year in Bellagio¹² at considerable expense, only to come up with the most trivial outline of an introductory course in Economics which is intended to form the basis of a text to be written by two of the participants. There are three quite separate core chapters on idealized Economic Structures (Market), Idealized Economic Structures (Socialism) and Common Features in Developing Economies, the last itself in three sections embracing 1. The Role of the State, 2. The Role of the Market, and 3. The Role of Foreign Trade. Presumably the student himself is supposed to work out how, if at all, these pieces fit together. It seems safe to conclude that appropriate technology in textbooks will not come through either sponsorship or group authorship.

Disadvantages of the Standard Approach.

The general discussion above indicated what may be wrong with Economics teaching in general, and a fortiori with Economics teaching in developing countries. When we examine basic textbooks, however, our alarm should increase, because Economics in general appears to be in a much better state than the Economics of the textbooks, which have shown little change since the War, and have become more and more solidified, if not ossified, into a standard exposition and sequence. The reason for this is not unconnected with the general trends in Economics discussed earlier, since it is because of the narrowing of economic method towards scientific and positive economics that economists have been proud to offer proof of their advance over other social science disciplines in the form of an agreed set of Principles of Economics.

In fact if the standard first year course is examined closely, it can be seen that while a series of useful tools and concepts are expounded, this is done in the course of focussing on two basic economic problems of Western capitalist countries:

1. how to improve the allocation of resources under the price system (i.e. within capitalist societies). This is dressed up under the title of Microeconomics.

12. Conference on the Improvement of Teaching Materials in Economics, Bellagio, March 15-20, 1975.

2. how to maintain full employment in developed capitalist societies suffering from periodic demand deficiency. This is dressed up as Macroeconomics, but bears little relation to the macroeconomics of underdeveloped countries. This is not to say that the wide range of principles, tools and concepts used in tackling these two problems are not extremely useful, though it should be said that as a result of this particular focus some concepts may be overemphasised (particularly the marginal analysis) and others underemphasized (for example shadow prices, external economies). With section 2, the problem is that an excessive amount of time is spent out of the crucial first year on an area of Economics which should not be a priority for students in developing countries. The problem with section 1 is not so much with the individual concepts used, but the total impact of fitting these into what is essentially an extended exposition of the allocation of resources under the static equilibrium assumptions of the competitive model which, as we have said, excludes increasing returns and growth and by assuming large numbers of firms and consumers, excludes economic power. The sections on international trade in the conventional texts do nothing to help, since these are based on the comparative cost theory, only an extension of the competitive model of resource allocation.

It is here that there exist the greatest dangers of students' developing the wrong habits of thought in relation to their eventual task of analysing and improving their own economies. It is for this reason that it is not enough to say: "Let us teach them basic ^{economics} / in Year 1; we can teach development economics and applied problems of the local economy subsequently." The foundation course should set out the main economic problems of the developing countries and provide a framework for subsequent study and analysis. More than the tools themselves, it is the frameworks of Western analysis and especially Western textbooks which is unhelpful, or even misleading.

Making a Start

This suggests that some progress, at least, can be made using much of the conventional apparatus. Some of my own ideas are currently being incorporated into a substantially re-written edition of a first - year textbook which has been teaching and possibly misleading African students for some years. At least the procedure will not be limited to interspersing conventional expositions with 'local examples', though a fair amount of local applied economics is incorporated into the general discussion.

The book attempts throughout to integrate the expositions of 'economic principles' and 'development economics'. The way in which the latter is brought in is (after expanding the conventional Factors of Production - land, labour, capital - chapter into a Factors in Economic Development, Chapter 2) through an initial discussion of Economic Structure in East Africa (Chapter 4) emphasising the features typical of developing economies, and then the following sequence: trade theory, including the terms of trade (Chapters 18-20, emphasising the position of less developed countries within the world economy) issues in industrialization (Chapter 21, arising out of this international position: for instance agriculture vs. industry, balanced vs. unbalanced growth, export promotion vs. import substitution), industrial structure in Eastern Africa (Chapter 22, as compared to the alternatives discussed in Chapter 21), and eventually Development Planning (Chapters 36-37) which simply pulls together the analysis of preceding chapters. The essential change is to put the analysis of international trade and the world economy at the core of the book.

Static allocation economics and Keynesian economics are both considerably de-emphasized, in line with the general discussion above. There is just one chapter on Income Determination (Chapter 27). Within 'microeconomics', the most important decisions are taken to be the choice of products, choice of technique, the decision to invest, and that regarding the scale and size of the firm (especially in relation to the minimum viable size of a firm, which is more important in less developed countries than the 'optimum' size). Short-run pricing decisions of the firm are considered much less important and incorporated at the end mainly to put across the useful concepts of fixed and variable costs. The competitive supply curve is not included, since it lacks much meaning in a dynamic context.

As regards behavioural assumptions, some effort is made in the analysis of the firm to play down the assumption of profit-maximization. In the linear programming approach used, it is stressed that different types of objective could be incorporated into the objective function or into the constraints.

In the analysis of the firm diseconomies of scale are not assumed invariably to produce a specific optimum size of firm. The concept of the growth of the firm is introduced, and that of the 'receding managerial limit'. The role of finance in the growth of the firm is also stressed, providing a link between the discussion of the size

and growth of firms, and the establishment of special financial institutions in developing countries to deal with credit 'gaps' and encourage local firms (i.e. with special features of the 'capital market' in developing countries). Increasing returns and the growth of firms leads on to the discussion of the causes of monopoly, and the form of the monopoly problem, examining the specific aspect of large expatriate concerns and multinational companies.

The reorganization in the basic structure and topic content of the text facilitates the re-deployment of the standard tools of economics. The discussion of isoquants and the production function is not undertaken in analysing the firm's demand for inputs (only in Chapter 30 is the demand for labour considered as a function of output and the choice of technique) but in a specific chapter (13) on the Choice of Technique. By using a linear approach in this chapter, emphasising a finite number of available processes, it is possible to consider the extent of choice of processes in developing countries and the question of appropriate technology. This is perhaps the best example of how a standard textbook concept (isoquants, generally expounded as part of the analysis of the 'profit-maximizing behaviour of firms) can be taught in a more interesting and useful context to students in the developing countries.

It may also be that a concept which is not usually taught in the first year in advanced countries is particularly interesting in the context of developing countries and can actually be put across effectively in the first year. Thus first-year students at the University of Nairobi appeared to find the concept of effective protection very interesting and not too hard to grasp. The elements of social cost-benefit analysis are also included (Chapter 14).

The main effect of the different structure, however, is on the relative emphasis placed on the different tools. Keynesian multipliers obviously do not get much of a look in, and the accelerator not a mention; but also the marginal analysis is considerably de-emphasized (along with firm's pricing decisions). Without deliberate intent, but simply because of the sequence of topics covered, shadow prices (under disguised unemployment, linear programming analysis of the firm, social investment decisions, the case for protection, and development planning), external economies (in numerous places) and time preference (in subsistence farmers' consumption-investment decisions, cost-benefit analysis, development planning) turn out to be particularly useful. They take the place of marginal cost and marginal revenue in the Western texts!

The topics covered and the concepts taught (as well as the supporting descriptive and applied material on the East African economy supplied) should provide good foundations for subsequent work in the second and third years of the degree programme. The next step would be to coalesce the teaching of 'economic theory' and 'development economics' in the second year where these are taught in separate compartments in probably all African universities by lectures frequently uncomfortably aware of the awkward dichotomy.