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QUESTIONING DEVELOPMENT ORTHODOXY

Cameron Weber and Matthias Thiemann

ABSTRACT

This paper traces the history and current state of international economic development through its institutions and attempts to reassess these institutions and their processes in a heterodox manner. There are many stereotypes and clichés to the foreign assistance industry: that it takes from the poor in rich countries and gives to the rich in poor countries; that it provides laboratories for economists and other social scientists to apply theories abroad that they would never attempt at home (the most obvious examples of these are population control programs and the privatization of pension funds); and that development creates "brain drain" from indigenous institutions to the very institutions of development itself. Although a brief summary of the major research programs in development is given, the paper does not attempt to disprove or confirm any of these or other research programs and their corresponding policy recommendations. The purpose of the paper is to question the very nature of international economic development through a historical and philosophical re-examination of its institutional constructs. The Hegelian dialectical method of analysis is applied to the institutions of economic development and is used to ask, "what next and why?"

I INTRODUCTION

"*The school of historical thinking indeed provides the very best method to arrive at the proper understanding of social, economic, and political processes.*"
Gustav von Schmoller (Speigel 1952: 368)

This paper traces the history and current state of international economic development through its institutions and institutional relationships and attempts to reassess these institutions and their processes in a heterodox manner[1]. There are many stereotypes and clichés to development: that it takes from the poor in rich countries and gives to the rich in poor countries; that it provides laboratories for economists and other social scientists to apply theories abroad that they would never attempt at home (the most obvious examples of these are population control programs and the privatization of pension programs); and that development creates "brain drain" from indigenous institutions to the very institutions of development itself.

There has been a plethora of economic research in development (an industry which is, after all, dominated by economists.) The Austrian School argues that development is central planning[2] and therefore, due to the economic calculation problem[3], *laissez-faire* should be the route toward development. The Public Choice School argues that the government and quasi-government agencies of development act as rational actors, maximizing the best interests of the agencies and the people who make up the agencies, and not the best interests of the intended recipients of development programs[4]. Concurrently it has been argued that orthodox market liberalization under the aegis of international development institutions increased inequality in the host countries[5], and that the (post-) Washington Consensus under which development policy is created and implemented is hypocritical because the rich countries developed through infant industry programs and other protectionist policies which are counter to that called for under orthodox development strategies[6].

On the other hand, many if not most developing countries were created out of -- or exist in -- a post-colonialist or war-devastated environment and wealth-transfers may be morally imperative. It has been argued that economic development programs have increased growth in developing countries by funding public goods that host governments might not be able to[7], and that development assistance needs to be increased with policy conditionalities removed in order to have more steady and assured sources of funding for recipient governments[8].

This paper does not attempt to disprove or confirm any of these or other research questions and programs surrounding international economic development[9]. The purpose of this paper is to question the very nature of development through a philosophical re-examination of its institutional, historical, and philosophical constructs.

II THE INSTITUTIONS OF DEVELOPMENT

If we mark the beginning of economics as a scientific discipline with the publication of the *Wealth of Nations* as many (but of course not all of us) do, than the theory of international economic development can be said to have also begun in 1776. What is *The Wealth of Nations*, after all, but a study into what makes some countries thrive and other countries stagnate or decline[10]? However, from an *institutional* perspective development can be said to have started with the founding of the set of institutions devoted specifically to the development of "poor" countries[11].

The Bretton Woods Agreements in 1944 created the World Bank, the International Monetary Fund, and the General Agreement on Trade and Tariffs (now the World Trade Organization). In addition the governments of "rich" countries created bilateral foreign assistance agencies after what was seen as the success of the Marshall Plan (1947–1953) to assist in the reconstruction of Europe after World War II and perhaps also as attempt to prevent Europe from aligning with Josef Stalin and the Soviet Union. Under the Marshall Plan sixteen countries expended the equivalent of US$130 billion[12] over four years.

Table 1: Brief outline history of the largest bilateral development programs.

Donor	Government Development Agency
United States of America	Economic Cooperation Agency (ECA) created in 1948 to coordinate Marshall Plan; current United States Agency for International Development (USAID) established with the Foreign Assistance Act of 1961.

France	Ministry of Cooperation established in 1961; French aid was divided into two parts until 1998: one section for those countries which were once part of the French empire and another for those that were not.
Japan	Japan foreign assistance programs began in 1954, including payments for war reparations; first Japanese aid agency established 1962. Today aid is coordinated between the Foreign, Finance, and Economics, Trade and Industry (METI) ministries.
Germany	German foreign assistance became part of the government budget in 1955, coordinated by the Federal Ministry for Economic Cooperation and Development (BTZ). Current primary German aid agency is the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) founded 1975.
United Kingdom	U.K. established Department of Technical Co-operation in 1961; the current Department for International Development (DFID) was created in 1997.

It could be said that formal *institutionalization* of bilateral aid began in 1960 with the creation of the Development Assistance Committee (DAC) in the Organization for Economic Cooperation and Development (OECD). This committee established agreed-upon guidelines for peer-review and classifying development assistance by donor nations.

In 2005 (for 2003 activity) the DAC reported 22 donor nations giving a total of $54 billion to 103 recipient nations[13]. These donor funds took form in bilateral grants and bilateral concessional loans (noting that OECD guidelines exclude military assistance from aid calculations). In addition multilateral development institutions received $19 billion from donor nations. The multilateral institutions include the World Bank itself and the regional development banks; the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. Donor nations thus disbursed a total of $73 billion in 2003 for development.

Table 2: The largest donors and their recipients for 2003 activity.

Donor Country	**Percentage of Total Bilateral assistance**[14]	**Largest Recipients**
United States of America	30%	Iraq (10% of USA aid or $1.5 billion.) Democratic Republic of Congo (9%) Jordan (6%) Colombia (4%) Russia (4%)
France	12%	Democratic Republic of Congo (19%) Cameroon (4%) Serbia and Montenegro (3%) Morocco (3%) Poland (3%)
Japan	11%	Indonesia (19%) People's Republic of China (13%)

Japan (cont'd)		The Philippines (9%) Vietnam (8%) India (5%)
Germany	10%	Democratic Republic of Congo (12%) Cameroon (8%) Zambia (5%) People's Republic of China (3%) Nicaragua (3%)
United Kingdom	9%	India (7%) Tanzania (6%) Bangladesh (5%)

Sweden, Norway, Belgium and Canada round-out the *Top Ten Donors* for 2003. *The Top Ten Recipients* are the Democratic Republic of Congo, Iraq, Vietnam, Indonesia, Tanzania, Afghanistan, Ethiopia, Bangladesh, China and Serbia and Montenegro.

The World Bank signs 20-30,000 contracts with a total value of about $20 billion each year. About 10,000 of these contracts (particularly large-value contracts) are reviewed by World Bank staff prior to the contract award[15]. USAID lists 532 Private Voluntary Organizations (PVOs, e.g. not-for-profit organizations) registered to do business with the agency, has 160 "partnerships" with more than 200 U.S. colleges and universities from 40 states, and in the most recent reporting period let 4633 contracts, grants, and cooperative agreements for the year[16].

We would also like to include the International Monetary Fund (IMF) in our institutional analysis even though IMF programs are available to both "poor" and "rich" countries -- it is only when IMF loans are given under concessional (below market) terms are the loans considered Official Development Assistance (ODA). The main reason for including the IMF is that the IMF and the World Bank might be considered the two prime *policy-making* bodies of the development industry. In order for World Bank lending agreements to be enacted, a recipient country must first have a signed agreement with the IMF. The IMF and the World Bank then coordinate the development plan within each recipient country. Bilateral donors and other development banks coordinate their activities around this plan. World Bank, IMF and regional bank lending are the largest sources of donor capital, as opposed to non-financial technical assistance, which more often than not is what is contributed by the donor countries through bilateral grants[17].

This set of institutions – the World Bank, the International Monetary Fund, the regional development banks, the government agencies of both donor and recipient nations, and the contractors, grantees and research institutions and individuals who implement and evaluate the aid programs and development lending--can be labeled as the "development industry." It is this industry which is the main focus of analysis in this paper.

III INSTITUTIONAL ANALYSIS

In 2005 (for 2003 activity) the World Bank lists 61 countries as low income, 56 countries as lower middle income, 38 as upper middle income, and 54 as high income. You will note that there were 103 recipient countries in 2003. This data reveals that a large minority (41%) of these recipients were classified by the WB as at least lower middle income countries[18]. A cursory glance at the *Top Ten Donor* and *Top Ten Recipient* lists shows that development is not just an economic phenomenon in the neo-classical economic sense where donors try to maximize economic growth with limited aid dollars in recipient countries. (This interpretation would of course imply all aid money going to the poorest countries, or more specifically, the poorest countries which could show growth). A reading of the *Top Ten* lists above implies that rich countries also give aid to poor ones (and not so poor ones) for political purposes – to their ex-colonies, for nation-building, for regional stability, to buy political favor for potential commercial contacts in countries with statist economies, and, perhaps, to influence military-security cooperation and materiel contracts.

The present authors propose that as social scientists it is time to question the very nature of development: we need to question the *development orthodoxy*.

Our proposal is simple. We believe and hope to prove below that development has become a self-fulfilling prophesy; by labeling countries as rich and poor we have perpetuated nation-state classes of rich and poor. By allowing the orthodox divide of rich and poor to permeate our social consciousness, our economic methodology, and our long-standing, well-established, international and national development institutions, we have created a self-perpetuating dichotomy of rich and poor, of North and South. Very few countries, in Africa particularly, have "graduated" from the development industry. We have created the development industry, we have not created development.

It is only by questioning the orthodoxy of development that we as a global system will become equals and not separated by a politically-enabled institutional divide. If we face the motionless dialectic that development has become – between promises and failures, between nation-state class-systems of rich and poor - and agree that it is not development we seek, but political influence amongst nation-states, at least we are being honest. From there we can address "what next and why?", but we cannot address that question from here.

As illustrated, donor nations do not necessarily give funds to the most efficient or poorest candidate nations as neo-classical orthodoxy might prescribe, but use aid to buy political influence within these nations. It has become the norm to continue these donations as long as the political alliance continues and to stop only once the political alliance has been fractured (Weeks 2006)[19]. These political relationships, and the development institutions themselves, have created a post-imperialist international society imposed by financial transfers, not by armies. We propose that only by deconstructing these institutions can we move on to the next stage of human development, beyond self-perpetuating nation-state classifications of donor and recipient, rich and poor.

It is no accident that we list the *Top Ten Donors* and the *Top Ten Recipients* in the same way that a football league lists its winning teams. Thorstein Veblen wrote of the tendency for nation-states to devolve into sportsmanship-like conduct, with patriotism being a substitute for skill and workmanship.

> The patriotic spirit is a spirit of emulation, evidently, at the same time that it is emulation shot through with a sense of solidarity. It belongs under the general caption of sportsmanship, rather than workmanship. Now, any enterprise in sportsmanship is bent on an invidious success, which must involve as its major purpose the defeat and humiliation of some competitor, whatever else may be composed its aim…; and the emulative spirit that comes under the head of patriotism commonly, if not invariably, seeks this differential advantage by injury of the rival rather than by an increase of home-bred well-being (Veblen [1904] 1958: 33).

Our donors and our recipients have become like these sports teams, dressed in the uniforms of the institutions of international economic development, especially the World Bank, the IMF, and the bilateral development programs. The institutions, and the people within these institutions, became "captured" by the constructs created at Bretton Woods and developed and solidified during the Cold War. These institutions have outlived their time and place. In fact, they may have now become a hindrance to the economic well-being and self-possessed will of the peoples the aid programs are intended to help[20]. The development industry offers only "the defeat and humiliation" of the world's poor by continuing to label them as the world's poor. In addition, as is discussed later, the nation-state construct of the development industry is a "fetter" (Karl Marx's term for power inequities thwarting progress) holding back development of the world's people.

a *Development and the nation-state*

Instead of *economic* development the industry has become, and in fact it could be argued was founded on, *political* development subject to the mores of the budgetary process[21]. Aaron Wildavsky states that, "being a good politician…requires essentially three things: cultivation of an active clientele, the development of confidence among other government officials, and skill in following strategies that exploit one's opportunities to the maximum" (Wildavsky [1964] 1985: 64-65). Wildavsky goes on to describe the 'clientele' process as one of 1) find a clientele, 2) serve your clientele, 3) concentrate on individual constituencies, and, 4) secure feedback. This aptly describes the development industry, where the institutions of the development industry are each others' clientele, and the feedback they receive are increased budgets. The bureaucracies of the host and donor country foreign ministries, the budget officials in the donor-governments and their partners at the aid agencies, the development bank officials and their oversight officials at the donor-nation finance ministries; these are both the *clientele* and the *constituency*. The bureaucracies of development work together in a self-perpetuating, self-evaluating, feedback mechanism within the given constraints of the development dialectic. Under the political process to win at the development 'game' is not to develop but to receive more funds during the next budget process.

Development is the politics of nation-states. Donors and recipients by definition exist on a contractual basis in agreements between nations. Where is Veblen's "common man" in this construct of development?[22] Does development seek to improve the welfare of people or to create and perpetuate status-quo political ties amongst nations? According to Wesley Clair Mitchell when writing about Veblen's methodology, "As individuals we find our places either in the 'kept classes' or among 'the underlying population' – and either ranking makes us wince" (Speigel 1952: 386). The development industry and the host country general population serve here as proxies for Veblen and Mitchell's notion of the relationship between the common man and the government elite. The development elite--whether knowingly or unknowingly, consciously or unconsciously--perpetuates Veblen's ranking, dividing peoples[23].

b *A Thought Experiment: Perceptions of Development*

Here let us try one of one of Joan Robinson's 'thought experiments' (Robinson 1981). The next time you read about rich and poor nations, would not the 'think piece' or article say the same thing, or in fact more, without the generalities and artificial classifications? The journalism of rich versus poor has become an institution, no different than the institutions of international economic development. For example, a recent *Economist* article, "Banks in developing countries: branching out," states: "The days when American and European banks were the only foreign options in developing countries are long gone, as a growing number of banks in such places are owned by banks from other developing countries" (*The Economist* 2006: 71). The article then describes the increased cross-investment which is occurring worldwide under the WTO and other globalization efforts, "This is the natural development coming from increased trade and economic relations between southern countries… and is growing faster than North-South trade."

What is this article really saying? It is saying that *despite* the North-South divide, economic growth continues. The next step, the missing step, in our thought experiment is: what would that growth and development be *without* the divide in our collective consciousness?

Maybe this articulation points us in a new direction; "fast-growing" or "not fast-growing," e.g. either a country is growing at 5% per year per person or they are not. This may be more true to the language of macroeconomics under the rapid globalization of the 20th and 21st centuries than the increasingly economically anachronistic and tautological "rich" and "poor". Adam Smith in *Wealth of Nations* argued that,

> It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labor. It is not, accordingly, in the richest countries, but in the most thriving, or in those which are growing rich the fastest, that the wages of labor are the highest (Smith [1776] 1994: 79).

Labeling the world according to rich and poor, developed and developing, first and third world fails to recognize the fact that geo-politics are not constant and that economies are constantly changing. Who are rich and why they are rich is constantly changing, but the categories have been the same since development institutions first appeared[24]. This constitutes a hindrance to achieving development in the eyes of established media and perception, no matter the underlying realities of the situation. To quote Søren Kierkegaard, "once you label me, you negate me."

c *Classical Political Economy and Institutional Economics*

Karl Marx, like Adam Smith before him, used the concept of society and economies advancing through stages as a historical process, and then used these stages as a basis for analysis. The analytical method where man is the center of analysis, and economics - or the production of "commodities" - is the result of, or follows, this social stadial analysis. This analysis is the method of *classical political economy*. In contrast, *economics* uses the production of commodities as its center point, and the social structures of man as given.

To quote Marx,

> Let me point out once and for all that by classical political economy I mean all the economists, who since the time of W. Petty, have investigated the real internal framework of bourgeoisie relations of production as opposed to the vulgar economists who only flounder within the apparent framework of those relations, [who] ceaselessly ruminate on the materials long since provided by scientific political economy and seek there plausible explanations of the crudest phenomena for the domestic purposes of the bourgeoisie. Apart from this the vulgar economists confine themselves to systematizing in a pedantic way, and proclaiming for everlasting truths the banal and complacent notions held by the bourgeoisie agents of production about their own world, which to them is the best possible one (Marx [1867] 1979: 174-175, footnote 34).

The methodological approach of the development industry is one of "vulgar" economics, where "rich versus poor" is the given set of assumptions and within which economic technicalities are applied (that is when they are wealth-maximizing techniques as opposed to politically-driven techniques). The stadial development approach of classical political economy has been cast-aside--or actually taken *reductio ad absurdum*--for a methodology of technical economics under a world class-system built and sustained since the time of Bretton Woods[25].

In Smith's *Wealth of Nations* stadial development is one where society advances through stages from hunter-gatherer tribes to pastoral animal husbandry and small scale farming (concurrent with partitioning of land and the development of property rights) to an agriculture-feudal stage and then on to commercial society with limited government--the stage at which Smith's Society of Perfect Liberty manifests itself[26].

The commercial stage is one free of "systems of preference and constraints," e.g. free of government interventions which limit human wealth-creation and progress made possible through the division of labor. Both mankind and resources are free to move from one trade to another, and people are free to trade with each other (removed from mercantilist protectionist policies and other constraint "systems") under commercial society, whereas in previous stages power was uneven due to economic classes enforced through violence or fear of violence, e.g. feudal lord versus share-cropper.

> Projectors disturb nature in the course of her operations in human affairs; and it requires no more than to let her alone, and give her fair play in pursuit of her ends that she may establish her own designs…[and in one of Smith's most famous passages] Little else is requisite to carry a state to the highest degree of

> opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all else brought out by the natural course of things. All governments which thwart this natural course, which force things into another channel or which endeavor to arrest the progress of society at a particular point, are obliged to be oppressive and tyrannical (Smith [1776] 1994: xliv).

Using an analysis of this stadial, classical political economy approach to history and wealth creation we come to the crux of the problem of economic development as it stands today. Those countries which are deemed 'poor' never had the opportunity to grow organically their own indigenous sets of institutions needed for the Society of Perfect Liberty. The progress of history towards liberty was thwarted by imperialism, which only ended in the post-World War II era, after which the development industry and its external systems were placed upon the 'poor' world from above replacing one set of external systems with another. Thus emulation of (or exploitation by) the 'rich' instead of development of the 'poor' became the institutional construct, not one of internal, 'home-grown' progress. The nation-state--and the foreign assistance industry as its surrogate--became Smith's "projectors" and the foreign model for wealth-creation, not the stadial development towards commercial society envisioned under classical political economy.

Institutional Economics teaches us about the organic derivation and evolution of local social and economic institutions. From Gustav von Schmoller of the German Historical School of Economics we learn that, "human institutions are not the product of rational deliberations but that they grow unnoticeably out of the national characteristics of a people" (Speigel 1952, 367). Wesley Claire Mitchell states that John Commons of the
American Institutional School of Economics,

> Accorded a supreme attentiveness to the institutions contrived by workmen without the aid of mentors from those of high social stations [and what is the development industry but a form of international diplomacy?] and education – institutions such as trade unions, cooperative buying clubs, cooperative workshops and the like. He [Commons] rejoiced in tracing the steps of unlettered statesman whereby these movements laid stable foundations under these organizations by method of trial and error. And as a student of such movements he knew how incompatible such creativeness from below was with external domination by employers, messianic intellectuals, or government. To Commons the workingmen were not building blocks out of which a jealous deity called "History" was to shape the architecture of the new society, but beings with legitimate ambitions for higher standard of living and more dignity in their lives (Mitchel, in Speigel 1952: 406).

Mitchell then inserted financial institutions into the method of institutional economics, arguing, "the important matter to understand about money is the money economy – that is, the cultural significance of the highly organized group of pecuniary institutions, how they have developed since the middle ages, how they have gained a quasi-independence, and how they have reacted upon the activity and the minds of their makers" (Speigel 1952: 421). Development banks in particular have their own lives, they are less beholden to shareholders and performance based on market efficiency and profit than other financial institutions. Development banks by definition, and by their charters, have a large percentage of their portfolio at below-market rates and therefore are not held towards self-perpetuation and growth through capital reflows based on repayment and profit. They perpetuate themselves through donor-nation contributions and sovereign guarantees.

Thorstein Veblen (a co-founder of the New School for Social Research) wrote that in fact there may not be a role at all for the nation-state in commercial society,

> As an industrial unit, the nation-state is out of date…Life and material well-being are bound up with the effectual working of the industrial system; and the industrial system is of an international character - or it should perhaps be said that it is of a cosmopolitan character, under an order of things in which the nation has no place or value (Veblen 1934: 388-89).

The development industry has been forced – not by the point of a gun, but through the allure of inexpensive financial resources -- upon those countries who gained independence after World War II. These foreign "development" institutions may have crowded-out the evolution of domestic commercial institutions by dominating the social consciousness--and cash flows--of those working for the development institutions in-country, where many of the best paying and most prestigious jobs are those with the bilateral agencies and international organizations of the development industry, as some of the most sound institutions in the poorest countries are those of the development industry.

The development industry too by its quasi- and actual governmental nature has created, consciously or unconsciously, a system of preferences and constraints for perpetuating the industry's institutions. The international development institutions by their very existence therefore may have taken the place of freely evolving local institutions where man's instincts for self-betterment in his or her community can take hold and flourish, and where commercial institutions and commerce-enhancing institutions might arise organically as appropriate.

IV. HEGELIAN DIALECTIC, PROGRESS AND ECONOMIC DEVELOPMENT

Georg Wilhelm Friedrich Hegel in *Philosophy of History* (1830-1831) proposed that mankind's history is a progress towards freedom. In *Science of Logic* (1812), Hegel introduces his now famous dialectical method of analysis; to paraphrase, that this march towards freedom is one of thesis, antithesis, and synthesis. In an institutional construct this can mean that institutions are developed during a historical (relative) moment in time, they outlive their usefulness, are opposed by alternative institutions which then evolve into a third set of institutions, synthesizing the first two set of institutions which then point the way towards progress, towards freedom. Institutions form, evolve and/or disappear along the paths of history according to whether or not they are just and proper.

The imperialism of the 18^{th}, 19^{th} and 20^{th} centuries evolved into the post-imperialism of the 20^{th} and now 21^{st} century, and the creation, continuation, and ever-enlarging powers of the nation-state and international institutions of development. It may now be time for another antithesis, one that will move us beyond the artificial constructs of 'rich' vs. 'poor' nations and one that will help *people* (Veblen's "common man"), not *nation-states*, (Veblen's "sportsmanlike conduct") to progress. The Hegel dialectic of development requires a new synthesis at this moment; one that takes up and negates and thus incorporates both imperialism and post-imperialism into a new configuration that is more reasonable.

The progress of history is one of moving from the finite to the infinite, and the next stage may already be before us. Hegel writes, "The infinity of the infinite progress remains burdened with the finite as such, is thereby limited and is itself finite…in this alternating determination of the finite and the infinite from one to other and back again, their truth is already implicitly present, and what is required is to take-up what is before us" (Hegel [1812] 1989, 142- 143).

The classification of 'rich' and 'poor' which began under Bretton Woods in 1944 is the definition of Hegel's finite. The international development institutions and the nation-state development agencies which followed are themselves limiting and finite, self-defining and perpetuating a by-definition limiting endgame: that of "rich versus poor." With the institutions of development the endgame is finite as opposed to infinite, which, arguably, is the better state of consciousness for the world's peoples[27]. Without the self-fulfilling "rich" and "poor" dialectic of development the endgame--and in fact an limitless endgame and thus no endgame at all--can evolve through history infinitely; with state-sponsored "rich" and "poor" classifications and the institutions which perpetuate and reinforce this notion, the endgame is finite.

We have seen in Schmoller and Commons that the economic institutions which belong in history are those of their own making, driven to the fore through man's own ambitions for self-improvement, not from above by his 'betters.' Marx wrote of institutions forming through class struggle and the seeking of and institutionalization of power. Smith argued that it is a free commercial society which evolved from the one-sided power relationships of feudal society, the state at which many 'poor' countries found themselves at the time of colonialization. These states, especially in Africa, have not had the opportunity to create modern institutions on their own historic trajectories due to the overlay of development institutions on their histories.

It is only when free will is exercised that old institutions are allowed to pass into new ones, building upon what has come before. Inorganic, inflexible, government institutions may be restrictive, may be 'fetters' preventing progress in the dialectical thesis-antithesis-synthesis formation of societal institutions. Institutions which are grounded in law–or in international treaty--and not subject to the laws of reform through free-association and evolution may not have historically-evolving life-spans. It may be that only their destruction, not their reform, is possible.

> As has been remarked, a share in government may be obtained by every one who has a competent knowledge, experience, and a morally regulated will. Those who know ought to govern, not ignorance and the presumptuous conceit of "knowing better"….This is the point which consciousness has attained, and these are the principal phases of that form in which the principle of Freedom has realized itself; - for the History of the World is nothing but the development of the idea of Freedom. But Objective Freedom – the laws of real Freedom – demand the subjugation of the mere contingent Will – for this is in its nature formal. If the Objective is in itself Rational, human insight and conviction must

> correspond with the Reason which it embodies, and then we have the other essential element – Subjective Freedom – also realized (that is the will of the individual goes along with the requirements of reasonable laws; translator's note)….Philosophy concerns itself only with the glory of the Idea mirroring itself in the History of the World. Philosophy escapes from the weary strife of passions [from sportsmanship] that agitate the surface of society into the calm region of contemplation; that which interests it is the recognition of the process of development which the Idea has passed through in realizing itself – i.e., the Idea of Freedom, whose reality is the consciousness of Freedom and nothing short of it (Hegel [1830-1831] 1956: 455-456).

The progress of freedom is one of consciousness; in this case the need to reexamine and replace our vulgar economics and our current commodity-man relationship for a renewed consciousness of shackle-reducing classical political economy. The Idea of Freedom asks that we re-examine our historic, nation-state proxy institutions *as they are* with an eye toward replacing them with indigenous commercial institutions and internally-empowered political processes *as they could be*.

V. CONCLUSION

This paper presents a new perspective on the creation, history, and current state of the international development 'community' and its attendant institutions, and grouped these together for purpose of analysis as the "development industry." The paper then attempts to show that the goal of this industry may or may not be the actual economic development of 'poor' nations through development programs funded by the 'rich' nations, but that the industry is one of a relationship between nation-states and thus highly subject to the vagaries of the budget process and political winds.

The analytical methodology of classical political economy and institutional economics shows that the institutions of development have created a roadblock to sustainable human development by obstructing stadial development over time, especially thwarting the evolution of institutions which had the opportunity to manifest themselves in 'rich' world commercial society through history. Lastly, Hegelian philosophy shows that the march of history toward ever increasing human freedom may be held back by internationally-created and nation-state development institutions and that only with raised awareness on the part of both rich and poor, but especially within the development industry--the funders of the construct--will the stalled progress towards freedom continue.

It is not the purpose of this paper, nor is it possible, to present a completed set of blueprints for the development of peoples of this globe whose lives remain at subsistence level. This blueprint, we endeavored to show, can only come with historical development and the evolution of institutions amongst 'free' peoples. This paper attempted to demonstrate, however, that this historical process cannot be obtained under current international development schema. As economists and social scientists, we need to become aware of this point in history and our current burden of the Hegelian finite.

Karl Marx,

> The veil is not removed from the countenance of the social life-process, i.e. the process of material production, until it becomes production by freely-associated men, and stands under their conscious and planned control. This, however, requires that society possess a material foundation, or a series of material conditions of existence, which in their turn are the natural and spontaneous product of a long and tormented historical development (Marx [1867]1979: 173).

Georg Hegel,

> In the absolute method the Notion maintains itself in its otherness, the universal in its particularization, in judgment and reality; at each stage of its further determination it raises the entire mass of its preceding content, and by its dialectical advance it not only does not lose anything or leave anything behind, but carries along with it all it has gained, and inwardly enriches and consolidates itself (Hegel [1812] 1989: 840).

The wealth of the world (the wealth of nations) increased ten fold in the 20th century over the 19th century (DeLong 2006) so perhaps the institutions of development could be abolished, per Veblen's concept of the obsolesce of outdated institutions, without those currently poor undergoing "a long and tormented historical development," per Marx. Or perhaps a metamorphosis of the development institutions is possible, per Hegel. However, history since these institutions' founding makes this doubtful.

We are not asking for the abandonment of the idea of economic development altogether; to help others avoid mistakes that one has learned him- or herself is altogether human. But the impulse for learning and the seeking of betterment can only come from peoples and societies themselves. A starting point might be to ask, "what next and why?" Do we want or expect the institutions of development, the prognosticators of the 'rich' versus 'poor' divide, to continue for another 50 years? What should we be doing about it now, if anything?

END NOTES

[1] Colander and Rosser. (2004) describe heterodox economics as that which is part in, and part out, of the mainstream. Orthodox economics is primarily neo-classical economics and is wholly in the mainstream. The authors list, but make it clear that heterodox economics is not limited to, Austrian, Feminist, Old Institutional, Marxist and Post-Keynesian economics.

[2] See for example Coyne and Boettke (2006) for a recent Austrian School critique of orthodox economic development.

[3] Economic calculation determines how resources are allocated in a society. The Austrian School describes the difficulty under socialism (state-led government) to make economic calculation absent the market price mechanism, which is needed to determine how the resources in an economy are most efficiently distributed via the profit motive. See for example von Mises [1927] 1985, 70-71.

[4] McNutt (2002, 49) states, "The bureaucrat directly determines the supply of government output." Note that the recipient does not have a say in the matter.

[5] See for example Cornia (1999) on resultant increased in inequality through market-led development.

[6] See for example Chang (2005) on the Washington Consensus in development policy.

[7] See for example Reddy (2006) on aid for public goods and effect on economic growth.

[8] See for example Weeks (2006) on the inconsistency of funding for aid in Africa.

[9] It should be clearly noted that the authors do not wish to infer that poverty, class systems, exploitation or monopoly capital do not exist, it is the way in which these economic issues are addressed under development orthodoxy which is being questioned in this paper.

[10] The full title of Adam Smith's book is *An Inquiry into the Nature and Causes of the Wealth of Nations*. This has been abbreviated to *The Wealth of Nations* in modern times.

[11] The vernacular for countries giving foreign assistance (aid) is Donor Country and for those receiving aid is Recipient Country. "Rich" and "poor" might be considered to be synonymous with donor and recipient, though this oversimplifies the income-status of both giver and receiver. Popular and politically-correct terms for recipient countries have changed over the last 50 years – from the "third world", to "lesser developed countries" (LDCs), to "developing countries", to "emerging" and "modernizing economies", and back again to "developing countries" and the now popular "North" and "South".

[12] Constant 2006 dollars. See http://usinfo.state.gov/usa/infousa/facts/democrac/57.htm for more information on the Marshall Plan. (Accessed November 24, 2006).

[13] All data in this paper taken from The World Bank 2005a unless stated differently. Figures are rounded to the nearest $US one billion or one million for narrative clarity.

[14] The calculations made, are assistance by donor country divided by total bilateral assistance. So for the USA: $16 billion USA bilateral development assistance divided by $54 billion in total bilateral development assistance.

[15] Taken from: http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/. (Accessed November 24, 2006).

[16] Contracting information from USAID.gov, the most recent list of contract, grants and cooperative agreements on the website is from 2001. (Accessed November 24, 2006).

[17] Note that the term "grant" in the aid industry may cause some confusion to readers. The term is used to describe money given directly, granted, to the recipient government, however, the term is also used to describe aid in the form of technical assistance which is usually the donor hiring under a contract or grant advisors (contractors or grantees, mostly from the donor nation itself) to manage the donor's projects. It can also mean the purchase of commodities which are then given to public or private institutions in-country.

Specific details on bilateral Official Development Assistance (for 2003 activity) can provide insight to the reader on how aid works [see the introductory chapter of this NSER issue for graphical overview of these statistics]. For example, the USA granted $16 billion to recipients and had net bilateral loans of negative $2 billion (more was paid back from previous bilateral sovereign concessional lending than was lent out for the year). France granted $6 billion and had net negative $0.5 billion in loans, Japan granted $4.5 billion and had net loans of $2 billion, and Germany granted $5 billion and had a net negative $1 billion in loans.

The *Top Ten Donors* gave $60 billion in grants, had net pay-back of $1 billion in bilateral lending and gave $19 billion to the World Bank and the regional development banks. The *Top Ten Recipients* received a total of $8 billion in grants, had a net negative $50 million from the World Bank, net positive $100 million from the IMF and net positive $375 million from the regional banks in concessional borrowing.

The Democratic Republic of Congo (the largest recipient of aid in 2003) received $5 billion in grants, $148 million net in World Bank lending, net $75 million IMF lending, and had negligible regional development bank lending. Iraq received $2 billion in grants and did not have any World Bank, IMF or regional bank lending. Vietnam received $1 billion in bilateral grants, received net $500 million from the World Bank, paid back $70 million to the IMF, and received net $180 million in regional (i.e., Asian Development Bank) lending. Tanzania received $1 billion in bilateral grants, received net $400 million from the World Bank, net $20 million from the IMF, and $50 million net from regional (i.e., Africa Development Bank) lending.

[18] Calculation: 103 recipient countries minus 61 low income countries equals 42 countries not in the low income category, e.g., 42 recipient countries were classified by the World Bank as lower middle income or higher.

[19] See for example Weeks (2006) who proposes that donors provide more stable levels of funding year-to-year so that recipient nations can better rationalize this funding in their national planning to garner larger impact from development assistance.

[20] See Locke (2004 [1690]), for the concept of self-possession - free will and the ability to exercise this will in a free society - which was built-upon by Adam Smith and other Scottish enlightenment figures.

[21] Reddy (2006) directly classifies aid given for political purposes and for economic development purposes.

[22] Dowd (2000, 21) in his intellectual biography of Veblen writes, "the instinct of sportsmanship, then, or the exploitative instinct, is a predatory inclination, setting man against man in a relationship of parasitism. This must be compared with the constructive instincts which are cooperative in their general application. The state, the military and the church are all buttressed by the predatory instincts, with patriotism and religious belief acting to preserve the existing order….which, consciously or not combined, to extract a toll – in the fashion of medieval robber barons – from the common man."

[23] Attempts to mediate between interest groups in a society to generate consensus about common development goals rather than initiating development according to a scheme set from outside seems to be a promising approach. The idea is to strengthen development ideas from within the country. If this dialogical method of development is possible in the existing institutional framework remains questionable, due to necessities of measurement of success for legitimization of development organizations, their hierarchical structure and their initial and still prevailing political setup.

[24] It is interesting to note that Wassily Leontief (1966, 210-214) charts-out in a paper entitled "The rates of long-run economic growth and capital transfer from developed to underdeveloped areas" returns on capital including aid transfers for "developed" and "underdeveloped" countries assuming different economic growth rates for these country classifications. Leontief assumes that underdeveloped countries don't grow faster than 3% and developed countries don't grow slower than 5% over the life of his analysis (10 years). Considering that much of current world economic growth is due to India and China (above 7% each *per capita*), this again shows how time and circumstance have overcome what was once assumed to be the rich and poor status-quo which helped serve as the foundation of current international economic development orthodoxy .

[25] It might be argued that the institutions of development have created their own form of a static stadial history, one with two perpetuating stages; *rich* and *poor*.

[26] See Smith (1976 [1759]) for the concept of the Society of Perfect Liberty based on philosophical views of man's nature as developed during the Scottish enlightenment, especially relating to political and social philosophy which Smith then used in his methodological approach to the later *Wealth of Nations*.

[27] An infinite consciousness is more equitable than a finite consciousness. Equality of opportunity, one definition of equity, is more open-ended without self-defining limits put upon one at birth.

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