RECENT RELEVANT METHODOLOGICAL APPROACHES TO SOCIO-ECONOMIC ANALYSIS OF DEVELOPMENT PROCESS

by

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Fourth Founder's Day Lecture

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Foreword

CMDR has been organizing in recent years foundation day lectures in memory of Vidyaratna Sri R.S.Panchamukhi, its Founder President, by distinguished social scientists every year on themes of fundamental interest to the researchers in different disciplines and also policy makers. So far, three such lectures were delivered, one by a noted historian, since the founder president was a historian and an indologist, by his profession and the other by an eminent Gandhian economist. The Third Foundation Day lecture was delivered by Prof M.V. Nadkarni, eminent economist and a multi-disciplinary scholar of high repute, Ex Chairman CMDR and currently Honorary Member of Governing Council of CMDR and Honorary Visiting Professor at the Institute for Social and Economic Change (ISEC), Bangalore, on a highly topical theme of 'Integrating Ethics into Economics'. As can be seen there seems to be an element of continuity in the foundation lecture of last year delivered by Prof Sudarshan Iyengar, on *Rethinking on Human Behaviour: A Gandhian Perspective* and this year's lecture by Prof. M.V. Nadkarni on *Integrating Ethics into Economics*, as all the earlier lectures aim at examining the philosophical foundations of economic science.

Economics has been described by many critics as a dismal science because of its conceptual foundations. This is particularly true in the light of developments covered under the term neo-classical economics. The assumptions of an economic man, who was presumed to undertake all actions only for maximizing his self-interest, the assumption of *ceteris paribus*, overlooking the effect of all other factors other than the ones being studied, attempts to introduce an element of exactitude in analysing the social phenomena by using rigorous quantitative techniques overlooking the fact that the these techniques are only tools for better understanding the complex reality rather than the bases for formulating precise policy making. This further drifted the discipline from the realistic perspectives. Kenneth Boulding, an eminent reflective and highly critical economist of late last century, had observed, 'mathematics brought rigor to Economics. Unfortunately, it also brought mortis'. Though the difficulties imposed by such restrictive perspectives of economics have been appreciated by even the main line theoreticians in Economics itself, the restrictive framework continues to be the most frequently adopted framework by teachers, researchers and others while analysing the life situations, since habits are hard to die. If the same thing is repeated again and again then more often the other approaches appear less important and even irrelevant, though they are likely to be more realistic in understanding the life situations. This is what seems to be happening in the case of the discipline of economics also.

Blind applications of methods of analysis adopted by the western scholars of developed countries have further drifted our discipline from the indigenous framework. In the process, certain human values are made to appear irrelevant while studying economics. This is the tremendous damage inflicted upon our discipline by the trends in research and teaching in Economics. Interestingly this was not the perspective of the ancient economic thinkers of the West as well. Unfortunately, the Father of Economic Science Adam Smith is known more for his *Wealth of Nations* rather than for his *Theory of Moral Sentiments.* The latter work certainly raises the issue of taking a holistic perspective about human behaviour, adoption of which in a particular background would truly enrich the subject matter of economics. Appreciation of desire to be free, sympathy, habit of labour and sense of propriety are as important as the propensity of self-love or self-interest and propensity to truck barter and exchange, the springs of human conduct in the framework of six springs of human conduct, identified by Adam Smith as motivating forces behind human behaviour. A closer scrutiny of propensity to truck barter and exchange also shows that there are elements of concern for fellow beings even here and this propensity is guided not just by self-interest. However, in the studies such aspects hardly receive a focus. Our indigenous approaches to the human behaviour in the ordinary business of life give an impression of being a better blend of ethical and moral considerations in economics. Emphasis on self-restraint rather than self-interest maximization, renunciation as the end goal of human activities rather than considering consumption as the end of all economic activity, as in the case of modern economic science, treating money as an aid for achieving fundamental human values, etc., (as epitomized in the classic statement (*Dhanam hi Dharmaikaphalam),* in Bhagavata, an eclectic work *par excellence,* not emphasizing the individual right over resources and treating them as the resources of the divinity, (*Ishavasyam idam sarvam yat kim cha jagatyam jagat tena tyaktena bhunjeethaah ma grudhah kasya swit dhanam*), as ordained in the *Ishavasyopanishat*, etc., are some of the values which are in-built into the ethos of human thinking in the east in general and in India in particular, since ancient times. There might have been aberrations in this ethos on occasions but the underlying universal ethos in this part of the world cannot be overlooked. Any deviant from these basic undercurrents of values was and even now is automatically treated as an outcast and looked down upon with suspicion and remorse. It is for this reason that even certain systems of philosophy like Charvaka system, advocating the utmost form of self-interest (which is epitomized in a statement attributed to it as *'Bhasmeebhuutasya Dehasya punaraagamanam kutah, Tasmat sarvaprayatnena Runam krutva Ghrutam pibet'* meaning *'since this body does not come back after death to enable us to enjoy the pleasures of life, everyone should enjoy sensuous pleasures without worrying about even the implications of huge debts incurred for the purpose of acquiring the resources for such an enjoyment'*). Hence, in the background of both intellectual pursuits and policy making witnessed in recent times, integrating ethics in economics (rather than integrating economics in ethics, otherwise the dominant ethos of self-interest as the basis for economics might contaminate ethics itself) seems to be the crying need of our times. The theme of the Foundation Day lecture delivered by Prof. M.V. Nadkarni, therefore, eminently deserves the attention of intellectuals in economics and policy makers alike.

Prof. Dutta presents…..

The Centre extends its grateful thanks to Prof. Dilip Dutta for delivering the Fourth Foundation Day Lecture on an important theme, not only for the discipline of economics but also for all social sciences. CMDR also expresses its thanks to him for promptly making available the finalized version of his lecture to the Centre, facilitating its publication.

P.R.Panchamukhi
Chairman, CMDR Dharwad

RECENT RELEVANT METHODOLOGICAL APPROACHES TO SOCIO-ECONOMIC ANALYSIS OF DEVELOPMENT PROCESS

INTRODUCTION

Respected Professor P. R. Panchamukhi, Chairman of the *Centre for Multi-Disciplinary Development Research* (CMDR), the members of its Governing Council, Professor Anil Mudbidri, Professor Pushpa Trivedi, and all the scholars & staffs of the Centre.

It's a great pleasure for me having the privilege to deliver the Fourth Founder's Day Lecture in honour of the Late Vidyaratna Sri R. S. Panchamukhi, the Founder President of the CMDR.

Through this lecture, I'm truly honoured to reflect on the extraordinary contributions made by the Founder President himself and then laying a foundation for his successors to continue multi-disciplinary development research under this highly respected research centre.

I'm also grateful to Professor Pushpa Trivedi for arranging today's event to happen within a very short period of time after my email correspond-ence began only on 30th August, 2013.

My chosen topic of today's lecture is an abridged version of a chapter titled: *Convergence of structuralism and institutionalismin Development Economics and Studies–Revisited* from my forthcoming edited book titled:*Inclusive growth and development in 21st century–A structural and institutional analysis of China and India* to be published by World Scientific Publishing Co. as Vol. 9 in Series on Economic Development and Growth, National University of Singapore.

In my lecture, I'll focus mainly on the relevant methodological approaches to socio-economic analysis of development process in recent decades. I'll, however, not be going into any country specific details, except some tangential touchesthat may be required for strengthening my arguments.

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I. Introduction

To the orthodox economists, a society is supposed to be *homogeneous* in its character; individual behaviour is guided primarily by utilitarian motivation and pecuniary calculation in a so-called *static* equilibrating system of markets; the operating forces behind the market are assumed to be structurally and institutionally given as data (*ceteris paribus* assumption) and hence the process of institutional and structural changes in the face of new scarcities, new technique, new knowledge, new tastes and preferences, new political regimes, new world order, etc. is of no interest. This mechanistic approach to an economy by separating it out from the society as if society's social, political and cultural forces do not have any bearing on its economic decision making process is a serious distortion. Alternative methodology of *holistic* approaches, particularly based on *structuralism* and *institutionalism*, is often argued by many social scientists to have more relevance for the analysis of development process, more so during the transitional period of an economy. The usual argument in favour of these alternative approaches is that they help not only to understand the historical processes of growth and development, but also to select a specific *development strategy* reflecting the very structural and institutional constraints of a particular society.

We will first briefly review in section-2 how a number of structuralists and institutionalists in the earlier decades from 1950s to 1970s have enriched the development economics/studies. Section-

3 reviews two newer methodologies of *neostructuralism* and *new-institutionalism*, and their methodological convergence in the context of the need for a pragmatic blend of market force and government intervention during the last decade of the twentieth century. Section-4 makes an attempt to argue that the convergent methodological approach is continuing implicitly or explicitly behind the *diagnostic approach* currently in vogue in both development economics and development studies. Finally, a conclusion is drawn in section-5.

2. A review of earlier structuralist and institutionalst views in Development Economics and Studies from 1950s to 1970s

The focus on economic development literature from 1950s to 1960s was mainly on capital accumulation, technological adoption, and import substitution. Many decolonised states were following development plan/policy for achieving economic self-sufficiency. During 1970s, macroeconomic policies had been added as a crucial dimension in growth and development process of developing countries.

Structuralist view

The structuralist views on economic development can be traced back to the writings of two groups of development economists/planners during 1950s. One group was identified with the 'surface' structuralist outlook that the free market price mechanism is inadequate in less developed countries for the specific rigidities and lags in their economic structures. The other group was associated with the structuralist views of inflation in Latin America that were developed in Santiago, at the United Nations' Economic Commission for Latin America (ECLA) of which Raul Prebisch (1950) was Executive Secretary, and at the Institute of Economics of the University of Chile. This second group makes an attempt to isolate, what Jameson (1986, p. 227) calls, a 'deep' structure of the international economy and then links it with the 'surface' structure of the domestic economy. The first group includes writers such as Paul Rosenstein-Rodan, Ragnar Nurkse, W. Arthur Lewis, Hans Singer, etc., while the latter group includes writers such as Juan Noyola Vazquez, Osvaldo Sunkel, Raul Prebisch, *etc*. Later on, 'dependency theory' extends the work of the Latin American structuralists by incorporating both moderate (Celso Furtado, Theotonio Dos Santos, *etc*.) and radical (*e.g*., Andre Gunder Frank) analyses of 'center-periphery' relationship within a world economic structure.

Since the late 1970s, in the wake of increasing activities of international banks in recycling petrodollars into many of the Latin American economies, there has been a resurgence of structuralism, called 'new structuralism' as a vital mode of understanding development problems. Generally speaking, many of the new structuralist writers tend to apply various macroeconomic concepts and theories such as Kaleckian mark-up pricing, exogenously determined investment process, theories of segmented labour markets, disequilibrium macroeconomic theories, etc. in analyzing traditional structuralist issues of both domestic terms-of-trade (between the agricultural and the industrial sectors), and external terms-of-trade (between export and import sectors).

Institutionalist view

The application of 'institutionalist thoughts' for the socio-economic analysis of contemporary underdeveloped countries as such begins a bit late. To the institutionalists as well, the economy is more than just the market mechanism. Although market itself is a major institution, it, as they argue, comprises of a set of other subsidiary institutions and interacts with other institutional complexes in society. The fundamental institutionalist position rests on its primacy of organizational and control networks of the economic system or, more specifically, on the power (rights) structure and technology, in particular.

The primary source for the foundation of the institutionalist development theory goes back to the institutionalist conceptions advanced by the progenitor of economic institutionalism, Thorstein

Veblen (1966 [1919]), during the late nineteenth and the early twentieth centuries. The two cornerstones of this theory are Veblen's 'conceptions of economic activity as an ongoing evolutionary process and his recognition of the dualistic nature of human behaviour as between tool-using and ceremonial activities'[*]. The 'tool-using activities' or 'workman-like pursuits' are assumed to be embodied in scientific-technological process, while 'ceremonial activities' as characterized by power and prestige, force and fraud, etc. are embodied in social and cultural institutions. According to the institutionalist theory of economic development, the utilization of technological (*instrumental*) invention, discovery and adaptation is the propelling force for economic growth, while the institutional (*ceremonial*) patterns of human behaviour present in the culture of many less economically developed countries may inhibit progress.

One of the main contributions to the development theory by the institutionalists, or by C.E. Ayres (1952, 1962 & 1966) in particular, is their emphasis on the *technological* (instrumental) dimension of the new social structures that are sought for by the structuralists in order to foster socio-economic progress. Ayres related the above 'general conceptions of human behaviour to the long historical progress by which science and technology had come to represent organized human intelligence directed toward the solution of problems and the origination of novel solutions'.[†] Thus, following the instrumental logic of John Dewey (1939), he refined the concept of technology itself to a form of behaviour– called *instrumental* behaviour in which both tools and skills were indispensable.

The three basic tenets of the institutionalist thought of development as often identified are: the dynamism of technological progress, the resistance of institutions, and the inevitability of

[*] Street (1987, p. 1865).

[†] Street (1987, p. 1866).

change. They are somewhat similar, although in a simpler context of institutional framework, to the Schumpeterian process of (capitalistic) growth: invention (a technological process), innovation (the application of an invention by the enterprises), and the 'creative destruction'.

Because the institutionalists are primarily *reformist*, maintaining societal stability within the ideological framework of the prevalent dominant political institutions is regarded as their basic objective. They do not seem to allow any major change that may be required for drastic redesign of the social order, they instead acknowledge the need for some incremental changes in various institutional arrangements that are essentially required either to increase the efficacy of technology or to induce innovation. This is why the development economists/planners sometimes known as *neo-institutionalists*, such as Gunnar Myrdal, John Kenneth Galbraith, *etc*. among others, advocate deliberate State intervention and planning as important instruments for achieving orderly growth and development.

Since the mid-1970s, there has been emergence of a new group of economists and economic historians such as Oliver Williamson, Douglas North, Robert Thomas, etc, whose works have been given the label of ‘new institutional economics’ (NIE). Although the new institutional economists accept neo-classical *reductionism*[‡] believing that individual actions alone explain societal phenomena, but allows for endogenous *institutional changes* arising out of the individual decision making actions. In other words, the “NIE seeks to explain not only individuals’ choices with a given set of institutions but, more important, the way that individuals’ beliefs and choices affect the evolution of the institutions themselves”.[§] Thus NIE believes that the competitive and evolutionary processes lead to socially beneficial (efficient) results as an unintended consequence of individual action.

[‡] Neo-classical *reductionism* allows for ‘reduction of the explanatory framework’s dimensions’ because it is based on the view that a societal system or a phenomenon can be understood in terms of a knowledge of its isolated parts, rather than of all its relevant constituting parts.

[§] Clague (1997, p. 16).

3. <u>Neostructuralist and new-institutionalist views in Development Economics and Studies during 1980s & 1990s</u>

In the 1980s, there was a resurgence of neo-classical free-market decentralised approach toward economic management due to the political ascendancy of conservative governments in North America (the United States and Canada), and two major European countries (Britain and West Germany). This greatly influenced economic theory and policy in many of both developed and developing countries. The main argument of this approach is that underdevelopment is a result of inefficient resource allocation due to incorrect pricing policies and too much state intervention by 'overly active developing-nation governments'[**]. Thus 'getting the price right' by eliminating exchange and price controls was the main objective behind the argument. Many developing countries had followed or were forced (by donor countries and/or international institutions like *World Bank* and *International Monetary Fund*) to follow the strategy of comprehensive *economic liberalisation* and, therefore, various *institutional reforms,* which led to the emergence of the *Washington Consensus*. For much of the 1980s and into 1990s, this so-called 'consensus' on development policy that reflected the free-market approach to development, with total disregard for underdeveloped countries' structural, institutional, and historical legacies of their past, had great influence especially through 'pressures from the international financial agencies in favour of implementing the consensus.'

Neostructuralism

As an alternative to the orthodoxy, neo-conservative adjustment and restructuring programs of the 1980s, a theoretical framework of *neostructuralism* emerged.[††] Neostructuralists share the basic structuralist view that the sources of underdevelopment are not primarily due to policy-induced distortions in relative prices, but are rooted in endogenous *structural rigidities* of

[**] Todaro and Smith (2012, p. 127).

[††] Mostly, Latin American and North American economists who are behind this framework include: Alejandro Foxley (1983); Albert Fishlow (1985, 1990); Lance Taylor (1983); Patricio Meller (1991); Osvaldo Sunkel (1993); among others [Ramirez (1993, p. 1026)].

individual countries/regions. Ramos and Sunkel (1993, p. 7) provide a tangible proof of the neostructuralist view with three crucial aspects of Latin America's economy in the late 1980s:

(1) an international specialization in products lacking dynamic potential;
(2) the prevalence of an uncoordinated, vulnerable and highly heterogeneous production pattern that tends to concentrate technical progress and is incapable of fully and productively absorbing new entrants into the labour force; and
(3) the persistence of a growth pattern that excludes the vast majority from the fruits of progress, evidencing the system's inability to lower poverty significantly.

The major implication of the above endogenous *structural rigidities*, as elaborated by Ramos and Sunkel (1993), is that optimal dynamic allocation of resources for growth needs more than free market prices that result in allocative-efficiency models solely from their efficient allocation in a static neo-classical framework. Furthermore, an active support of the *nation-state* (as a complement to *market*) is necessary not only to provide its classical functions (public goods, macroeconomic stability and equity), but also– within the limits of its administrative capacity– to (i) promote or stimulate missing markets (long-term capital markets and future markets in foreign exchange); (ii) strengthen incomplete markets (the market for technology); (iii) eliminate or correct structural distortions (the heterogeneity of the production structure, the concentration of property, the segmentation of the capital and labour markets); and (iv) eradicate or compensate the most significant market imperfections (arising from technology and trade), among others. These tasks are nothing but appropriate designs of *institutional frameworks* after identifying endogenous *structural rigidities*.

Neostructuralists also do critically examine some of the key assumptions of the basic structuralist tradition, especially those pertaining to its excessive reliance on idealized state interventionism; exaggerated pessimism with respect to export possibilities; and insufficient recognition of the importance of timely and operational policies to deal with macroeconomic disequilibria, particularly its underestimation of the importance of monetary and financial aspects.

Accordng to the neostructuralists, *expenditure-switching* policies such as devaluation (designed to enhance the competitiveness of exports) and *expenditure-reducing* policies such as indiscriminate cuts in government spending (designed to bring inflation under control) should not be applied simultaneously as has been done in many countries of the Latin American regions. Neostructuralists, instead, recommend for a sequential and gradualist approach in the short to medium run. In the long run, they advocate the implementation of a set of consistent policies designed to change the prevailing pattern of economic growth and development.

New institutionalism

During 1980s and 1990s, various strands of "institutionalisms" have flourished within the social sciences in general and the discipline of economics in particular. They under the banner of *new institutionalism* have stimulated 'significant discussion not only of formal rules and governance structures, but also of informal norms and social networks, and of the relationships between them. Some of this discussion has reconnected economics with literatures in sociology and political science'.[‡‡] There has also been an increased interest in using such concepts as social capital, trust, community, and civil society across different disciplines. Similarly, aspects of this literature on *new institutionalism* have also served to stimulate attempts to renew the *old institutionalism* by bringing together more recent work in psychology, evolutionary models, and resource or competence based theories of the firm with ideas taken from Thorstein Veblen, John Commons, and other old institutionalists. Over time, the interest in institutions has come from different sources and with different, even opposing, motivations from within social sciences.

One of the major effects of the revival of *new institutionalism* has been an explosive growth of literature on *new institutional economics* (NIE). As we have noted towards the end of section-2, the early literature on NIE started around the mid-1970s accepting neo-classical *reductionism*, but allowing for *endogenous* institutional changes. Since its revival during the 1980s, there have been several different strands of literature on NIE focussing on economics of transaction

[‡‡] Rutherford (2001, pp. 188-89).

cost, imperfect information, property rights, collective action, institutional innovation, and game-theoretic cooperation.[§§]

While many developing/emerging countries were engaged in various institutional reforms during the 1980s and 1990s, new institutional economist North (1995, p. 22) cautions that a successful development policy must entail 'an understanding of the dynamics of economic change if the policies pursued are to have desired consequences.' To the new institutional economists, economic change is an incremental process that is a consequence of the choices/decisions individuals and entrepreneurs of organisations are making every day within the existing structure of property rights and political rules. When the decisions are not routine and require recontracting or new contracting between individuals and organisations, institutional rules/norms need to be altered/modified or newly designed. Modification of existing institutions or introduction of new institutions occurs because individuals and entrepreneurs perceive that such changes will have the maximum pay-off. The source of this perception is, according to NIE, basically the mental constructs of the players and may be exogenous to the economy–for instance knowledge from foreign sources.

The fundamental source of economic change is, according to NIE, learning by entrepreneurs of organisations, and the rate of learning will determine the intensity of competition amongst organisations. But the kind of learning, being a function of the expected pay-offs of different kinds of knowledge, does 'reflect the mental models of the players and most immediately at the margin, the incentive structure embodied in the institutional matrix' characterised by network externalities, complementarities and economies of scope among the existing organisations.[***] Douglass North is, however, very particular in emphasizing that the dominant player, the nation-state, at the top echelon of society 'can never be treated as an exogenous actor in development policy.'[†††] "It is," as North (1995, p. 25) argues, "polities that shape economic performance

[§§] For more discussion on these strands, see Clague (1997, pp.18-23).

[***] North (1995, pp. 23-24).

[†††] North (1995, p. 23).

because they define and enforce the economic rules of the game. Therefore the heart of development policy must be the creation of polities that will create and enforce efficient property rights."

4. Problem solving approaches in Development Economics and Studies during 2000s

During the 1990s, institutional changes and active governance had been recognised as the crucial forces for growth enhancement, employment generation and poverty reduction for *sustained* economic development across the developing/emerging countries. Although East Asian countries have not only realized the importance of institutional change and innovation, but also made this realization all the more acute by creating renewed impetus to modernize institutions, including political institutions, particularly after the 1997 crisis. China and India, together accounting for about 40 per cent of the developing world's population, have been relatively successful by moving toward greater reliance on market forces especially in export markets of merchandise products (China) and services (India).[‡‡‡] Both China and India are often credited for reforms adopted and institutions built, although within a framework of *partial trade liberalisation*.[§§§] But such successes have not been uniform among the developing/emerging economies across the board mainly because these countries face different binding structural constraints and possess differing level of institutional development.

There was also a resurgence of interest in analysing and measuring inequality during 1990s fuelled mainly by the neostructuralists' observation that the growth pattern in Latin America persistently excluded a vast majority of people from the fruits of economic growth. This pattern seems to be visible more and more worldwide with dire implication for inclusive growth and development strategy. Following a 2004 report: *A Fair Globalization: Creating Opportunities*

[‡‡‡] China, the largest developing economy, has been gradually continuing various reforms it had begun in 1979 after adopting the 'open-door' policy in December 1978. India, the second-largest developing economy, adopted a comprehensive liberalisation policy in 1991 by speeding up liberalisation started as 'directional changes' in the early 1980s [Dutta (2004, pp. 170-71)].

[§§§] For details of *partial trade liberalization* in China and India, see World Bank (2005, pp. 143-44).

for All prepared by the World Commission on the Social Dimensions of Globalization, Stiglitz (2006, p. 8) notes:

> 59 per cent of the world's people are living in countries with growing inequality, with only 5 per cent in countries with declining inequality.

There have been attempts in recent literature to explore the important links between the distribution of assets in a society and the institutions that emerge (not just the performance of the existing institutions). As the socio-economic problems that developing/emerging countries face in the globalising world with increasing inequalities both within and between nations, people have been demanding for inclusive growth directly or indirectly since the late 1990s and the demand is getting intensified especially with the help of information and communication technology (ICT) mediated various action groups and networks.

Amidst popular demand for inclusive growth and development during 2000s, the individual nation-states, particularly in developing/emerging countries, find increasingly difficult to manage all socio-economic and political issues simultaneously. There has been 'a shift in attention from a sole focus on reform *contents* (what should be done) toward reform *context* (where it is to be done) and *process* (how the problem is to be agreed on and a solution developed or reform sequenced).'[****] Hausmann, Rodrik, and Velasco's (2005) *growth diagnostics* approach is one such framework that emphasises on reform *context* and *process*, rather than on a sole focus on reform *contents*.

Growth diagnostics approach

Hausmann, Rodrik, and Velasco (HRV) (2005, pp. 1-2) note that their *growth diagnostics* approach is motivated by three considerations:

> First, while development is a broad concept entailing the raising of human capabilities in general, increasing economic growth rates is the central challenge that developing nations face.

[****] Blum, Manning and Srivastava (2012, p. 5).

> Second, trying to come up with an identical growth strategy for all countries, regardless of their circumstances, is unlikely to prove productive. Growth strategies are likely to differ according to domestic opportunities and constraints.
>
> Third, it is seldom helpful to provide governments with a long list of reforms, many of which may not be targeted at the most binding constraints on economic growth. So growth strategies require a sense of priorities.

As has been further clarified by Hausmann, Rodrik, and Velasco (2006), they are mainly concerned with short-run constraints, and, therefore, their approach is meant to 'help clarify the options available to policymakers for responding to political constraints.'

An approach of thorough diagnostic, agility and experimentation

In a recent analysis of problem-solving approach to public sector management reform, Blum, Manning and Srivastava (2012, pp. 5-7) highlight three broad principles that can help bridge the gap between what is known about such reform and how it is conducted. 'These principles call for designing reforms based on thorough diagnostics, agility and experimentation in implementing reforms, and continuous learning from reform experiences….' They argue that these three principles, bolstering *tacit* knowledge that likely to work in a particular context, along with more *codified* scientific knowledge[††††] about what works in general, could help to develop practical reform strategies. The approach is basically in line with the methodology of *new institutionalism* in the forefront, and that of *neostructuralism* in the background, although terminologies used here are borrowed from the *principal-agent* theoretic literature that deals with motivating one party, the *agent* or *stakeholder* (such as the government/politicians), to act in the best interest of another, the *principal* (such as the people/voters), instead of in its own interest (at least in short run).

[††††] The difference between *tacit* and *codified* knowledges, as has been summarised in Dutta (2009, p. 294), is: 'The former is specific, experimental and heavily influenced by user needs, and hence less amenabale to replication and transmission. The latter is generic and easy to transfer among the firms in an industry or among the industries in a sector.'

Blum, Manning and Srivastava (*op. cit*) summarise their approach in terms of three principles:

Principle 1: *Designing solutions based on rigorous diagnostic*,
Principle 2: *Implement with agility*, and
Principle 3: *Learn as we go*

The above three principles essentially call on the policy makers to be ready to adapt on the basis of evidence—to adapt reform designs to clients' specific problems and context, to adapt solutions to what is learnt from experimentation along the way. They are ultimately about a move toward a more scientific method combining *new institutionalism* with *neostructuralism* than the orthodox mainstream economists' so-called analysis of objective reality based on methods of *reductionism* and *formalism*.

5. **Conclusion**

Most of the less developed societies not only are internally segmented and differentiated by different socio-economic-technological environments, but also have various socio-economic groups/classes competing each other for their economic and non-economic objectives to achieve. The complementarity between the *structuralist*/*neostructuralist* and the *institutionalist*/*new-institutionalst* views reinforces the fact that the processes of development and underdevelopment are *dynamic* and *organic* in the sense that structural and institutional elements are not only interrelated, but also constantly changing in their patterns of interactions–more so during the transitional period in a developing society.

Being deeply embedded in their history and structural constraints, and now directly or indirectly integrated into the globalised world, their policy makers need to design development strategies very carefully. Selection of an appropriate development strategy by studying the socio-economic structure of such a society is as important as to gear up its behavioural and motivational patterns in terms of appropriate institutions. A successful development strategy will essentially depend on a judicious blend of market forces and strategic planning/policy, which is also the key to a sustainable pattern of growth and development in developing societies. Picking up either 'market forces' or 'government intervention' as the villain in the case of failure is now hardly justifiable. This is why remarks such as 'governments may not have wrongly intervened, but they may have intervened wrongly' or 'the market has not wrongly freed, but freed wrongly' are noteworthy[‡‡‡‡] are noteworthy. Both these remarks suggest for nothing but the need for a theory of optimal blend of market forces and strategic planning/policy (reflecting effective institution building based on a good understanding of a society’s structural rigidities).

[‡‡‡‡] Savoie and Higgins (1992).

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