

Economics of Late Development and Industrialization: Putting Gebrehiwot Baykedgn (1886-1919) in

Context

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Abstract: During the last few decades, developing countries have been pushed by international economic institutions and developed countries to effectively abandon promotion of industrialization and structural transformation as a key developmental agenda. In addition, the ‘development’ debate of recent decades has tended to focus solely on internal factors as if external economic forces are always benign. Within this context, this paper analyzes the key ideas of a pioneer African development economist Gebrehiwot Baykedagn (GHB) (1886-1919), traces their lineages and considers their current relevance with a view to draw back attention to structural transformation and industrialization, and the type of external economic relation that facilitates this process. In brief, for GHB, the main keys to economic development are the creation, accumulation and use of knowledge and skill, technology, innovation and technical change. The means to do this is through deliberate and comprehensive set of state directed, synergistic interventions in areas such as infrastructure development, human development and education, promotion of technology adoption and innovation, internal market expansion, financial sector development and import protection. Based on historical and theoretical evidence, this paper argues that the main ideas of GHB and his colleagues are still valid and relevant for today’s developmental context.

Key Words: Late industrialization, structural transformation, ‘unequal exchange’, synergistic interventions, import protection and substitution.

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1. Introduction

There was a general consensus until the late 1970s that economic development is largely about the transformation of the productive structure (and the capabilities that support it); and this was mainly to be achieved through industrialization (Chang, 2010: 1-2). Recent research has also concluded that economic development requires structural change from low to high productivity activities, and that the industrial sector is a key engine of growth in the development process (Rodrik, 2007:7; Hesse, 2008: 1). This conclusion is supported by the fact that virtually all cases of high, rapid and sustained economic growth in modern history have been associated with industrialization, particularly growth in manufacturing production (Szirmai, 2009). However, since the 1980s less developing countries have been pushed by international economic institutions and developed countries to effectively abandon promotion of industrialization and structural transformation as a key developmental agenda (Shafaeddin, 2005). Moreover, the dominant global development discourse has come to ignore structural transformation and industrialization for the economic development to the extent that, at the more formal level, ‘development’ has come to mean poverty reduction, provision of basic needs, individual betterment, sustenance of existing productive structure and so on (Chang, 2010: 2). In addition, the ‘development’ debate has also tended to focus solely on internal factors that determine success/failure in development, “assuming that external market forces are always benign, with strongly positive influences on economic performance and prospects.”(Sundram *et al*, 2011: 2).

Under such context, this paper analyzes the key ideas of a pioneer African development economist Gebrehiwot Baykedagn (1886-1919) (GHB for short, herein after), traces their lineages and considers their current relevance with the view to draw back attention to two key issues related to late development: structural transformation and industrialization on the hand, and the type of external economic relation that facilitates such structural transformation.

GHB is an author who has been known by many educated Ethiopians but virtually unknown outside his home country. Even in his home country, we are not aware of any scholarly writing that has properly assessed the intellectual lineages of GHB's ideas, their validity and how they relate to the current development thinking. Furthermore, no systematic analysis of his policy proposals and whether or not they are relevant to his home country or the wider African context has been done before. Therefore, it is also the aim of this paper to fill this gap in analyzing his ideas, putting them in their proper intellectual context and look into their relevance today.

The rest of the paper is structured as follows. Section 2 provides biographical highlights about GHB and the context to his writing, and briefly reviews how his ideas have been received. Section 3 looks at GHB's ideas related to governance, institutions and the political economy suitable for economic development. Section 4 presents a summary of the main theoretical arguments of GHB and other economists of the same intellectual lineage regarding determinants of economic development in a late developing economy. Section 5 discusses GHB's explanation of the real causes of the observed 'unequal exchange' in the economic relations between backward and advanced economies. Section 6 considers GHB's policy proposals vs. the industrialization policy tool box that has been successfully employed in history for late industrialization. Section 7 relates his ideas with those of later development thinking and concludes.

2. Biographical Background and Intellectual Context

Gebrehiwot Baykedagn (GHB) was born in 1886 the village of Zengui/Maimshem, Adwa district in what is today called Tigray Region of Ethiopia (Tenkir, 1995: 19)¹. He attended elementary school at the Swedish missionary school at Minkulu, near Red Sea port of Massawa in the present day Eritrea (Bahiru, 2009: x). According to Bahru (2002: 49-50), that period was exceptionally turbulent in Tigray region due to the political disintegration and psychological void created by the death of Emperor

¹ All Ethiopian authors in this paper are referred using their first names since this is the norm in the country.

Yohannes² of Ethiopia, the ravages of one of the longest and most devastating famines the country had ever known, and the destruction that attended Emperor Menilek's campaign of 1890 to assert his new authority (Ibid). It was at this period that GHB fled to Hamasen (Eritrea) at the age of seven (Bahru (2002:50). During a trip to the Red Sea port of Massawa, GHB and his friends got permission from the captain of a German ship to visit the ship; and on departure, GHB stowed away; on arrival in Europe, the captain entrusted him to a rich Austrian family that adopted him. He studied medicine at Berlin University in Germany (Ibid).

After completing his study of medicine in Berlin, GHB returned to Ethiopia as part of a medical team sent from Germany to attend to the ailing emperor Menelik (Bahiru, 2009: IX).³ In 1909, he was forced to flee to Sudan as he was disturbed by the controversy that arose within the medical team attending the ailing emperor (Bahiru, 2009: IX). He returned to Ethiopia after about two years (Bahiru, 2002), was hospitalized in Massawa (present day Eritrea), and recovered with financial support of a friend named Paulos Menameno (Gebrehiwot, 2009 [1912]: 2). After recovering from this illness until his death in July 1919, GHB held two post in the government: first he was assigned as Inspector of the Addis Ababa-Djibouti Railway (the only rail-way in the country at the time), and briefly held the post of *Naggadras* (Chief of Commerce and Customs) of *Dre Dawa* (an important import-export trade hub) (Bahru, 2002: 52). According to one source⁴, GHB died of complications from grippe infection (a deadly type of flu) at an age of 33, a pandemic of which great number of people died in Ethiopia in 1918/19.

GHB wrote two books in Amharic (the official language of Ethiopia), both of which were published by his friend Paulos Menameno.⁵ The first one is *Atse Menilik na Ethiopia (Emperor Menelik and*

² Dejazmach Kassa, governor of Tigray region, was crowned as Emperor Yohannes ('King of Kings') of Ethiopia in 1871. He died in March 1889 after being fatally wounded at the Battle of Metema where his army defeated (Sudanese) Mahadists.

³ Apparently he joined the German medical team and came back to Ethiopia as he was unable to get employment in Europe because of the color of his skin (Alemayehu, 2004: 4).

⁴ Prince-Duke (*Leul-Ras*, in Amharic) Emru HaileSELLASIE (2008), *From What I Have Seen and What I Recall* (Kayehut ena Kemastawusew, in Amharic). Addis Ababa: Addis Ababa University Press. Pp. 88-90.

⁵ Paulos Menameno (c 1884- 1936) was an Ethiopian progressive intellectual, diplomat and English translator (GHB, 1912 [2009], Editor's note 1.

Ethiopia), published in Asmara (present day Eritrea) by *Berhan Yihun* in 1912.⁶ This is a short book of just about 28 pages which was specifically written as an advice piece to Eyasu Michael, the young heir-designate to Emperor Menelik.⁷ In this little book, one could see clear policy proposals and ideas for reforming the Ethiopian state of the time. His emphasis on the importance of education, building of constitutional and legal systems and institutions of good governance, the importance of domestic production of necessities rather than importing, importance of learning and emulating from post-Meiji restoration Japan (particularly how Japan was emulating European technology and industrialization while maintaining its independence and cultural identity) and how political independence without economic transformation (industrialization) is precarious and easily destroyable, are some of the ideas that were briefly mentioned; but their fuller expression had to wait for his second work. Thus, *Emperor Menelik and Ethiopia* is not complete treatise but is essentially an urgent call to the emperor-designate to implement a reform package in order that the country could emulate and adopt the knowledge and technology of Europe and survive and thrive in an age where underdevelopment meant perishing as a polity.⁸ Nevertheless, it is remarkable for being the first ever work in Ethiopia explicitly aimed at reforming and modernizing the Ethiopian state and economy.

The more significant work by GHB is *Mengistina YeHizb Astedader* (literally meaning ‘State and Public Administration’). As indicated by Paulos Menameno (the publisher) in the preface to the book, following the death of the author, the manuscript of the book were scattered in different places, and written partly in ink and partly in pencil. It was published in 1924 by the Berhanena Selam Press.^{9,10} This book is essentially a treatise on political economy of development (or in today’s language economics of development); however, there is no consensus among historians and commentators as to why GHB

⁶ Translated by Beletu Kebede and Jacques Bureau into French in 1993 as "L'Empereur Menelik et L'Ethiopie". Addis Ababa/Paris: Maison des Etudes Ethiopiennes Institut National Des Langues et Civilizations Orientales.

⁷ Eyasu was emperor-designate from 1909 until he was deposed by the nobility and clergy and imprisoned in 1916 - never officially assumed the throne.

⁸ The proposed reforms include, among others, separation of the property of the emperor and that of the state; formation of a single formal national army; introduction of formal, clear and progressive taxation system and monetization of taxation, formulation of standardized school curriculum, promotion of science and technology education, introduction of written national constitution and declaration of religious freedom.

⁹ Paulos states in the preface that he had to put together and copy the scattered manuscript by himself and obtain the permission of the then Crown Regent Teferi Mekonnen (later crowned as Emperor Haileselassie) to publish it.

¹⁰ The second edition was published in 1960. A reprint of this edition came out in 2007; but the Addis Ababa University Press published an annotated and re-edited version in 2009 (2002 Ethiopian Calendar) as Works of GHB where his two books were combined. Unless and otherwise specifically mentioned, all references to this work in this paper refer to the 2007 reprint of the 1960 edition. Translations from Amharic to English are our own.

chose to give it this title. Nevertheless, it is very clear from the very beginning of the book that the author intended it to be specifically about how a people or nation may fail or succeed to develop and attain high standards of living and welfare (Ibid: 11-12). The book was annotated, introduced and translated into English by Tenkir Bonger in 1995 (Tenkir and GHB, 1995).

According to Salvadore (2007), GHB's contribution to the descriptive and normative understanding of Ethiopian modernity has been investigated by many of the most respected scholars of Ethiopia and thus, he enjoyed a degree of interest by scholars of Ethiopia far superior to that reserved to the other intellectuals (Ibid: 62-63). Salvadore (2007) states that the first scholars to look at GHB did so from a Marxist standpoint as his sharp criticism of the Ethiopian nobility and its economic perspective squared well with Marxist approach and offered substantial evidence for a class-based analysis of Ethiopian history (Ibid)). Some writers described his work as Eurocentric for his conception of history "within the paradigm of European historiography" (Shiferaw, 1994 as cited in Salvadore (2007: 564). Bahiru (2002) offered a comprehensive perspective on the Ethiopian *Japanizers*¹¹ and in particular on GHB, contending that he stands apart from most of the other intellectuals since he was arguing not so much for the adoption of Western ways and modes as for an autochthonous path of development (*Ibid*). But this did not stop others such as Mesay Kebede (2006) from continuing to accuse GHB of a purported Eurocentrism¹² and for seeing Ethiopia through the eyes of the Western anthropologist rather than those of a native scholar (Ibid: 815). In any case, no one can deny the uniqueness of GHB as an Ethiopian intellectual in the sense that, other than him, none of the early proponents of modernization and development in the country produced any significant theoretical or applied works on economic development.¹³

¹¹ The term *Japanizers* refers to the strong interest of the early 20th c Ethiopian intellectuals in the successes of the Meiji restoration in Japan. The use of the term is itself controversial because the intellectuals offered a wide variety of perspectives and recipes for change often bearing little resemblance to the reforms of late nineteenth century Japan (Salvadore, 2007: 563).

¹² According to Samir Amin, *Eurocentrism* is a "culturalist phenomenon in the sense that it assumes the existence of irreducibly distinct cultural invariants that shape the historical paths of different peoples. Eurocentrism is therefore anti-universalist [because Europe *is* different...] but it presents itself as universalist, for it claims that imitation of the Western model by all people is the only solution to the challenges of our time" (Samir Amin, 1989: p. vii; as cited in Salvadore, 2007: 61).

¹³ See Bahiru 2002 for a comprehensive discussion of all the major reformist intellectuals of the early 20th c. Ethiopia

That as it may, there has not been any significant scholarship in relation to GHB's core ideas of economic development such as identifying the intellectual lineages of his ideas and theories as well as critical assessment of their validity either in their original or today's context. For instance, Tenkir (1995) translated and introduced GHB's book but did not attempt to trace the main ideas' origins, inspirations and connection/difference with similar/opposed development theories that preceded GHB's. Similarly, Alemayehu (2002, 2004, 2013) has not gone seriously into analyzing GHB's main ideas and theoretical structures, or tracing their intellectual lineage beyond mentioning that GHB was influenced by the scholarly tradition of the 19thc American/German System of Political Economy (particularly by Henry C. Carey). Consequently, he underestimates the influence of and similarities of GHB's ideas with those of Carey (and exaggerates the originality of GHB's ideas and his contributions to development economics).¹⁴

3. Governance, Institutions and Political Economy Conducive for Economic Development

In *Menelik and Ethiopia*, GHB makes an interesting note regarding one feature of state vis. economic development: in a developed society, the state is a sort of voluntary association of citizens where their leader's authority is constitutionally and legally limited and where change of leadership or death of a leader does not significantly affect the existence and continuity of the state (Ibid, 10). He contrasts this with the situation of the then Ethiopia where the king/emperor is the state/government and any change of leadership threatens the very existence of the country as a polity since constitutional and legal frameworks and well functioning bureaucratic public administration did not exist (Ibid). Thus, for him, existence of a stable and constitutionally governed state that has a meritocratic public administration is a necessity for economic development and modernization. Beyond this, his position regarding the form of government appears to be that of a "benevolent dictatorship". He begins the book *State and Public*

¹⁴ See for example Alemayehu (2013) (which unfortunately is available only in Amharic) for details on this.

Administration by quoting an author named Estier-Somlo¹⁵ arguing that the wealth, stability and strength of a state is intimately linked with the welfare and prosperity of the general population, i.e. the *right* of the leader to rule is tied to his/her *responsibility* to deliver widespread prosperity and development. For him, economic development requires a synergistic and mutually supportive/reinforcing relationship between the state and its citizens where human development plays a key role (p.13).

The enlightened self-interest of the state and rulers necessitates ensuring equitable and wide-spread economic growth and development since “[a] poor person who lacks food and clothing will have no reason to love his country; and so, will not care whether the state of the nation becomes strong or is devastated” (p. 119). This view of the state puts him in agreement with the views of Italian Renaissance, Cameralist and the German Historical School traditions, such as Friedrich List for whom nationality without prosperity is meaningless (List, 1909 [1841]: 341).¹⁶ It is to be noted that Cameralism was the dominant school of economics and political writers in Europe in the 17th and 18th centuries where writers aimed at convincing the princes, kings and rulers that their *right to rule* a state country also entails a *duty to develop* the state (Reinert, 2005). Thus, the ‘enlightened ruler’ is to be in charge of this ‘developmental dictatorship’; and the job taken up by the Cameralists was to advise, assist, guide, correct, flatter and cajole the rulers into doing their jobs properly (Ibid).¹⁷

The second interesting feature of GHB’s theoretical structure is related to context specificity of institutions and policies. Unlike the currently dominant development discourse where it is contended that policies and institutions that are good for development are fairly constant and context free, GHB repeatedly argues that appropriate policies, institutions and strategies differ across time and context of a society, and that there is no optimal set of policies and institutions that apply to all contexts (e.g. p. 15,

¹⁵Most likely Fritz Stier-Somlo (1873-1932) who was an Austria-Hungarian-German legal scholar and political scientist who served from 1925 to 1926 as rector of the University of Cologne. He studied law, economic and philosophy in Berlin University but it is very unlikely that GHB studied with him or under him as Estier-Somlo obtained his PhD in 1896 – well before GHB may have joined the university.

¹⁶ Similar views are found in the works of Renaissance economists of Naples such as Antonio Genovesi (1713 – 1769) who argued that national independence was as meaningless as it was fleeting without the economic power, and more specifically the industrial and thus military power, to guard it from foreign interests. (See Sophos Reinert (2011) for an excellent discussion of these and other ideas within this tradition.

¹⁷ As indicated in the previous section, just like the Cameralists, GHB’s main objective in writing both books is ‘enlighten’, advise and guide the rulers of Ethiopia with respect to development policies.

78, 124). Moreover, he argues that wholesale copying and importation of ‘best practice’ policies and institutions from developed countries could be counter-productive and waste of resources as the most appropriate policies and institutions can only be developed from within the country itself based on its specific needs and developmental contexts (p. 124-125). Overall, his views concerning institutions and policies are close to those of the best of the mercantilists and Cameralist traditions of Europe which understood that economic institutions co-evolve with the mode and structure of production, and where institution-building was fundamentally seen as a *demand-pull* phenomenon, and that *the mode of production of a society* would determine its institutions (Reinert, 2007)¹⁸. Nevertheless, it is impossible to identify any direct or indirect influences of Cameralist and German Historical School authors on GHB’s views on this topic as he does not make reference to any.

Another key feature of GHB’s thinking is his emphasis on fair, equitable and just distribution of wealth, income and opportunities across various sections of the society. Given the fact that Ethiopia (the object of his developmental ideas) was and is a multi-ethnic and very diverse society, he argues that fair and equal treatment of all ethnic groups within a state is not a matter of benevolence but matter of long-term survival (p. 14). His emphasis on fair and wide distribution of benefits and wealth also extends to land as well as wealth and economic opportunities in general (p. 54, 88, 119-120,). Furthermore, he is against wealth concentration because it undermines feelings of unity and nationalism in a nation which, for him, are essential ingredients of national development and industrialization (p. 119). Overall, in this respect as well, his views are similar and possibly influenced by the authors in the tradition of German Historical School such as Gustav Schmoller¹⁹ who played a critical role in envisioning and laying the

¹⁸ Reinert (2007) reports that in 1620, Francis Bacon formulated a view that was to dominate in the social sciences for almost the next two centuries: ‘There is a startling difference between the life of men in the most civilized province of Europe, and in the wildest and most barbarous districts of New India. This difference comes not from the soil, not from climate, not from race, but from *the arts*’. Reinert (2000) further argues that, when German economist Johan Jacob Meyen, stated in 1769 ‘It is known that a primitive people does not improve its customs and institutions, later to find useful industries, but the other way around’, he expressed an understanding of causality considered common sense at the time. See particularly Reinert (2007) for detailed examples on this point.

¹⁹See for example, Backhouse (2011) on Schmoller’s influence on today’s German Social Market Economy (Soziale Marktwirtschaft) (Ibid: 391)

foundations of the modern welfare state in Europe but the context of their recommendations are very different.²⁰

Before moving into the core of GHB's development ideas, we would like to note the emphasis he put on the importance of peace and stability for development (p. 34, 41, 42). While discussing the destructive conflict cycles in the history of Ethiopia, he emphasizes that war and conflict are possibly the biggest obstacles for development, and that poverty and inequality maintain a vicious cycle of underdevelopment. Recently, this nexus between poverty and conflict has been publicized, among others, by Collier (2007) who argues, "civil war is much more likely to break out in low-income countries: halve the starting income of the country and you double the risk of civil war" (Ibid, 19). However, in contrast to Collier (2007) who goes on to recommend fostering of competition to break this vicious cycle of conflict and poverty (Ibid, p. 160), GHB recommends *changing the structure of the economy through industrialization* because, according to him, synergistic development of increasing returns activities in an agglomerated manner with extensive division of labor and specialization leads to increased social harmony, more thrust, less conflict and more cooperative behavior (p.84). This is similar to the views put forward recently by Reinert, Amaizo and Kattel (2009) who argue that absence of an increasing returns sectors in an economy creates zero-sum-game societies of static rent-seeking which makes such nations prime candidates for developing into failing, failed and fragile (FFF) states (Ibid: p. 5). Thus, the root causes of poverty and underdevelopment lie in a certain type of economic structure which fails to produce the virtuous circles of economic growth that need increasing returns and sufficient diversity and diffusion of economic activities in order to become self-sustainable (Ibid: p. 4).

4. The Nature, Causes and Mechanics of Late Development and Industrialization

²⁰ The time when GHB was writing was such that poverty and inequality was rampant in Ethiopia - with very heavy burden of taxation and operation under a brutal feudal aristocracy. Therefore, throughout his book one could clearly see his compassion and concern for the uneducated and downtrodden poor people; and so, using historical experiences of other countries, he warns the leaders of the time that Ethiopia was in an imminent danger of collapse and chaos due to sprouting signs of wealth concentration, exploitation of the poor (by the feudal aristocracy) and the general state of underdevelopment (p. 119). In contrast, the social question in Europe of, say, Schmoller's time was essentially that of advanced capitalism.

In most of the mainstream academic and policy literature it is argued that some countries and societies have much better chance of economic development. However, there is no agreement as to what factors play more important role. For instance, Bloom and Sachs (1998) suggest that 60 to 90 percent of Africa's slow growth is attributable to geography and demography – tropical climate and a tropical disease burden, hostile and unfertile soil quality, a high youth dependency ratio, a semi-arid climate with rainfall subject to long cycles and unpredictable failure, among others. Similarly, Diamond (1999) argues that both geography and the environment played major roles in determining the shape of the modern world (Ibid: 405). Meanwhile, Acemoglu, Johnson and Robinson argue that the most important factor is presence or absence of ‘appropriate’ institutions because, according to them, after accounting for institutional differences, geographic variables have little influence on incomes today (Ibid, 2002). Yet for others, it is about policies. For instance, Collier (1998) argues that it is quite difficult to achieve structural transformation in Africa since long-lasting and hard to reverse effects of poor policies (e.g. trade barriers, transport costs, power costs, transaction costs, information costs, and high risk) make it quite infeasible (Ibid: 280-1). Therefore he suggests, "For the present Africa must live with dependence upon primary commodities, and for parts of Africa this is the only likely future" (Collier, 2002: 28).

Contrary to these views, GHB argues that the key ingredients of economic development are not geography, climate or environment; and as discussed above, even institutions are not causes of wealth and prosperity *per se* as they co-evolve with the economic structure. For him, “All people have the potential to develop. This [their fate] solely depends on themselves.” (p. 11). This conviction is derived from the fact that, for him, all the key ingredients of economic development are artificial: “When man was created, he was endowed with great mind; over time, he became master over the earth by accumulating knowledge on this great mind.” (P. 16). Thus, man’s key to development lies in creation, accumulation and use of knowledge, technology and skills (p.42, 53, 61). Therefore, any society has the potential to achieve economic development, continually improving its living standards with ever more

ease through innovation, skill development, technical change and accumulation of knowledge (p. 24, 51, 61).

Explicitly acknowledging ‘an American scholar named Carey’ (whose influence on GHB will be discussed below) in the book as the source of his ideas elaborates how accumulation of knowledge and innovation is a circular and cumulative process whereby a generation benefits from and builds upon the knowledge and technical innovation accumulated by its predecessors (p. 24-25). In addition, innovation and technical change motivate and facilitate further innovation and technical change in a society (p. 29). Increase in productivity due to innovation and technical change leads to increase in population which in turn facilitates further division of labor and this is a mutually reinforcing, continuous process (p. 26-29). This virtuous cycle facilitates economies of agglomeration and development of public infrastructure, all leading to continuous improvement of living standards.²¹ With simple but clear examples, he emphasizes the importance of virtuous cycles of discovery, innovation and technical change leading to increases in productivity, further technical change and decline in cost of production (p. 50). Later on, he states, “It is not difficult to reproduce an item once the first copy is produced... For this reason, once an activity is accomplished once, it makes the next step easier” (p. 58). This is of course the well known case of increasing returns to scale.²²

In his theoretical system, value and price are also largely determined by the artificial factors of knowledge, skill and technical change in such a way that “as knowledge increases, the price of all things that are needed for living declines since the effort required and obstacles to be surmounted to obtain these things declines” (p. 45). Furthermore, as determinants of economic development, knowledge and technical change also take precedence over natural resource abundance since natural resources become

²¹He also argues that development of infrastructure, technical knowledge and skill in a society leads to reduction in costs of production (and prices), improvement in living standards, increase in the profit of producers, decrease in the profit that accrues to middlemen and merchants and increase in division of labor (p. 49-50). See also pp. 59-60 on how development tends to create positive and cumulative *inertia* to achieve more development. See also pp. 61-63 and p.129 on the positive relationship between specialization, division of labor, innovation and technical change; see pp. 65-67 and p. 78 on his emphasis on economies of agglomeration and reducing the costs of transaction and transportation (p. 65-67).

²²According to Reinert (2009), increasing returns to scale means that, as the volume of production increases, fixed costs per unit of production fall. Importantly, increasing returns invalidate the core assumption of standard economics: perfect competition (Ibid 17). The higher the increasing returns, the larger will be the barriers to entry and the more imperfect the competition. Presence of increasing returns tends to lead to higher wages which in turn increase the relative price of labour, which in turn makes mechanization increasingly profitable. This spiral of increasing wages (i.e. increasing demand) and increasing productivity due to mechanization is at the core of the impressive growth of developed economies since the 1850s (Ibid).

valuable only when knowledge and technical progress creates uses for them: “Today, thousands of ships across the world are fueled by coal. The coal had always been available in England. It only began to be wealth [useful resource] to the English after the locomotive train was invented and it was discovered that coal was useful for [fueling] the locomotive. Prior to that, there was as such no one who considered coal as valuable.” (p. 56).

For him, investments in human development not only create virtuous cycles of development but are also critical to develop the national capability to maintain the momentum of development, and “[t]herefore, if a government educates and trains workers in its territory and brings them closer [e.g. through development of transport infrastructure], if it motivates them to be industrious, if it exerts efforts to maintain their health and wellbeing, and if it spends money [to these ends], the returns are equivalent to that of putting the money in a bank that not only maintains the principal but credits interest daily, monthly and annually” (p. 60-61). In effect, according to GHB, true national wealth is attained not through accumulation of capital or money but through the acquisition and maintenance of the capability to produce (productive capability) (p. 57-58). Moreover, “The cause of increases or decreases in the amount of gold and silver [hard currencies, in today’s context] that flows into a state is just one and is clearly known.” (p. 111); it is economic diversification into skill and knowledge based, increasing returns-to-scale activities that ensure very large division of labor within a single macroeconomy (pp. 112-113; p. 128).

Also, synergistic development of increasing returns and constant/decreasing returns to scale activities side by side within a single macroeconomy plays a key role in addressing the development challenge in a late developing economy. Thus, “If we pay close attention to the situation in our country, the chief reason why land ownership is becoming more and more concentrated, the peasants are abandoning their agriculture and idly following officials/aristocrats like a dog, and the benefit of the government is declining is the fact that the market from which the farmer buys all that he needs is located in a far off

foreign country.” (p. 84). The remedy to this problem lies in co-location and co-development of industry and agriculture - and this is good for both sectors (p. 87-88)²³. His advocacy for industrialization (i.e. focus on development of increasing returns sectors) does not preclude development of the agriculture and other primary sectors. Rather, his view is that, agriculture cannot be modernized and made more productive except simultaneously with industry (p. 92). In addition, he argues that development of agriculture *presupposes* cheap modern inputs and reliable and close-by market (p. 96).

Another important issue stressed by GHB is the absolute necessity of making *synergistic and simultaneous* investment in human development, infrastructure, economic diversification (both increasing returns and constant/decreasing returns activities) and financial sector development. With respect to the need to develop physical infrastructure and education and skilling of the population simultaneously he argues,

“Roads and railways are highly beneficial if one is able to quickly understand [their true value]. It is important to immediately set up schools and training facilities that provide training on various professions and skills. And when the population is educated and skilled, it produces whatever it needs by itself. Division of labor would be very extensive and the producers will be located close to each other...Therefore the producers/workers will have more time to engage themselves in their profession. As a result, they will conduct research and discover new production techniques and products. They will make more profit out of the increased profit. Over time, the wealth of the people and power of the government will grow continually as wealth is one form of power. But roads and railways without knowledge and skill [among the population] impoverish the nation and are not useful. Therefore, a government that is interested in the benefit of its people should not separate these two things [educating the workforce and development of infrastructure]; it shall strive to undertake them simultaneously.” (p. 76)

²³ Later ‘high development theorists’ (particularly Ragnar Nurkse) make a similar point in his ‘balanced growth’ approach. See Kattel, Kregel and Reinert (2009) on this.

The risks posed by heavy investment in transport and communications infrastructure without equivalent investment in education, economic diversification and domestic market expansion are related to development of taste for foreign products and exacerbation of the problems of ‘unequal exchange’ as this promotes imports of higher valued products in exchange for low value primary exports (p. 75) (to be discussed in detail below). For him, the source of financing required to industrialize a late developing economy has to be raised almost exclusively from domestic sources through creation of economic surplus, domestic savings and channeling of savings into productive investments (p. 65). Another key element in his development theory relates to the need for development of a national financial sector *simultaneously and synergistically* with the other key elements (human development, physical infrastructure, deliberate/interventionist promotion of increasing returns activities, etc.) (p. 125-126). This is because the development and expansion of financial institutions and financial services become useful only in a context where savings are channeled into productive investments in increasing returns sectors; otherwise, it will only promote consumerism and increased demand for imports - further exacerbating the problems of chronic trade deficits (p. 136-137, 139). Overall, he compares promotion of railways and banking in Ethiopia of his time with “digging the grave of the people” unless done simultaneously with a comprehensive programme of industrialization and human resource development (p. 127-28).

To put GHB’s key ideas into context, it would be important first to consider the intellectual influences on his work. As his major book was not finalized when he passed away, there are only two references in the whole book: Estier-Somlo and ‘an American scholar named Carey’. After some effort, we were able to confirm that, of the two influential American economists of the 19th c with that name (Matthew and Henry Carey, father and son), many of the key ideas propounded by GHB actually show unmistakable resemblance to the ideas in Henry Charles Carey’s book *Principles of Social Sciences In Three Volumes. Vol. I* (1888). In fact many of the passages in GHB’s book appear to be shorter, refined, contextualized and clearer versions of passages in Carey (1888).

For instance, while GHB borrows the idea of labor theory of value from Carey (1888), GHB refines it by specifically stating that, what creates value is not just labor but the quality of labor and the technology used by labor – i.e. the knowledge, skill and knowhow applied by and embodied in the labor and enhanced by technology. One could also say the same thing with respect to other key ideas of GHB such as ideas related to increasing returns, circular and cumulative causation, importance of diversity of professions and division of labor, economies of agglomeration and co-development of manufacturing industry and primary production within a single economy, unfairness of international trade between technologically ‘unequal partners’ (to be taken up in the next section), etc. In all cases, it could be said that GHB absorbed and refined the core ideas of Carey and left those that are not relevant to his readers²⁴, contextualized them and presented them in very clear and concise manner.

Other major authors who preceded GHB and whose ideas bear close resemblance to his include Antonio Serra (1613) and Friedrich List (1841). According to Reinert and Reinert (2003), Antonio Serra coherently presented the kernel of development economics in his 1613 short book *Breve trattato*, including some of its key elements such as increasing returns, cumulative and circular causation and synergies (Ibid). For him, the most important causes of ‘the wealth of nations’ are “*the quantity of industry*,” “*the quality of the population*,” “*the extension of trading operations*,” and “*the regulations of the sovereign*” (Ibid: 16-17) which work dynamically and in synergetic conjunction (Ibid 20-21). Thus, one could see that some of GHB’s ideas are similar to those of Serra who wrote about three centuries before him, but there is no evidence that GHB was directly influenced by Serra’s work; rather it is very likely that the influence could have come indirectly through Carey (1888).

²⁴ Carey was not only an economist but, like his father Matthew, an agitator and zealous promoter of the ideas of what was referred to as the American System. Kaplan (1931) describes him as the “devoted champion of diversified industry and an adequate home market, matching the zeal of his father before him. In newspaper, magazine, pamphlet, and book, he hammered away (with “unwearying wearisomeness,” according to Professor Roscher) at the theme that national prosperity consists in “placing the consumer by the side of the producer” so that “with every step in this course he will obtain increased returns from a diminished surface.” (Ibid: p. 54) Meanwhile, GHB distills Carey’s main ideas that are relevant to the Ethiopian context while avoiding the irrelevant polemics and arguments against the classical school of economic thought that litter Carey’s work. In short, while GHB’s work can be noted for brevity and conciseness, Carey’s is verbose and long.

One also finds many ideas similar to those of GHB in Friedrich List's magnum opus *The National System of Political Economy* which was published in 1841 (English translation of 1909). Therein one finds excellent description of the main cause of development (Ibid:87); the process of late development and industrialization (Ibid: 32); importance of proximity of manufacturing industry and agriculture (Ibid: 83); the co-evolution and circular causality of institutions, economic structure and culture (Ibid: 40); social, institutional and political nature of production and economic development (Ibid: 87); emphasis on productive capability rather than on static forms of wealth; etc. which are quite similar to the ideas of GHB. However, unlike the case of Carey (1888), there is no direct internal evidence showing that List was a major influence on GHB. Since List was closely associated with Carey's family²⁵ we can speculate that List's influence on GHB could be through Carey who propounded ideas that are similar to those of List. Even if GHB may have read List's work (since he lived and studied in Germany), their views widely diverge with respect to one key issue: while List recommends specialization in primary production for 'tropical', 'torrid' nations' (e.g. List, 1909 [1841]:312), GHB is of the view that industrialization is the *only* path to prosperity for *all* nations.²⁶

Overall, it is clear from his book that GHB had access to and was well acquainted with the then major contending theoretical frameworks and intellectual debates related to economic development (e.g. p.78). In addition, it is clear from his book that he was well versed with the economic history and economic policy history of many industrialized and industrializing countries of his time (e.g. p. 79). Therefore, his choice of the work of Carey as a foundation for his work was not due to ignorance of alternative intellectual traditions but was intentional and deliberate.

²⁵ List was the protégé of Carey's father, Matthew Carey who was the publisher and promoter of List's ideas in America.

²⁶ List argues that Britain's proposals to open German market for manufactured goods in return for its removal of barriers to German export of timber and agricultural produce amount to trying to make Germany an agricultural colony of Britain (Ibid: 323). However, few pages later (pp. 336-37) he recommends Asia and other 'inferior' civilizations to be suppliers of raw materials and markets for European manufactures. Later on, he outlines how Germany should colonize less developed countries, in order to make them sources of raw materials and markets for German manufactures (pp. 347-49). On the other hand, Carey avoids the hypocrisy of writers like Smith and List in terms of recommending the underdeveloped nations to specialize in raw materials and avoid trying to industrialize. In fact he strongly criticizes America's policy of pushing the Republic of Mexico and native American Indians towards primitive economic activities and raw material production as short-sighted and narrow-minded (Carey, 1888: 372; See also pp. 360, 367 on how forced specialization due to British colonial policy left "vast heaps of humanity, festering in compulsory idleness" and leading to "barbarism, leading to famines and pestilences, ending in decay and death, and thus giving color to the theory of over-population").

5. Nature and Causes of “Unequal Exchange” in International Trade

As discussed above, for GHB, what determines the value of products and level of welfare in a society are levels of skill, knowledge, technological and innovation capability. Therefore, any trade, be it domestic or international, is ruled by this same law of value. As a result, if trade/exchange is to be mutually beneficial, both sides to the transaction should operate under the same level of technology, skill and knowledge; otherwise, the result would be harmful to the nation with lesser knowledge and technological capability:

“At present day Ethiopia, it is not possible to manufacture bottles, glass, kettle, dishes and table ware. All these are produced in Europe with considerable ease and no great effort. But our countrymen exchange these [items] with things for which they have exerted lots of effort...Therefore, he [an Ethiopian peasant] exchanges products which have required him several days of labor to produce with something [like] abujadi [a type of textile] that was produced in an instant...because he does not possess the knowledge/skill required to produce the cloth...Is this not the case even within our country where the labor of the carpenter is valued more than that of someone who supplies to him wood?.....Thus, when we say that value is determined by amount of labor, knowledge and skill of the producers that exchange their output have to be equivalent. This means that, when a producer of cloth exchanges his products that are made using machines with a farmer, the farmer is harmed [by the exchange] while the producer of cloth benefits, unless he also produces with machines. When the farmer produces with machine [but if the cloth maker does not], then the cloth maker is harmed but the farmer benefits. This is the reason why peoples [nations] that have superior knowledge have advantage in [international trade] over those that are inferior in knowledge.” (p. 52-53)

“Thus, as the goldsmith buys the labor of the one who makes his fire and the carpenter buys the labor of the log carrier at cheap prices, likewise, people with knowledge [skill and technology]

buy the labor of peoples that lack knowledge [skill and technology] at cheap prices...That knowledge rules the world is an unshakable eternal law.” (p. 53)

“Producers of various products could make fair exchanges of outputs of their labor when the knowledge and skill required for their respective products are balanced. If the required knowledge and skills are not balanced, the value of their exchanges cannot be balanced. Therefore, when peoples [nations] that lack knowledge/skill exchange their products with peoples [nations] with advanced knowledge/skill, the level of harm suffered by the peoples lacking knowledge is great.” (p. 67)

As shown by the above quotes, for GHB, the root causes of the ‘unequal exchange’ in international trade between producers of primary commodities and producers of manufactured products are the knowledge, skill and technology embodied and employed in the products and the production process. Furthermore, he also argues that, processing of raw materials and primary commodities domestically not only saves a country from the harms of ‘unequal exchange’²⁷ but also creates employment opportunities for the domestic workforce as well as for improving skill levels of the workforce (p. 68). It will also help eliminate the cost of transportation and the profit that goes to importers, exporters and other middlemen in international trade. Conversely, continuation of the *status quo* of ‘unequal exchange’ exacerbates poverty in the primary commodity exporting nation.

In addition, a country exporting raw materials and primary commodities while importing manufactured products is bound to suffer persistent trade deficits which are generally financed through foreign borrowing.²⁸ As he was writing at a time when development aid was unknown, these do not figure at all in his analysis. Moreover, unlike recent times when most mainstream development policy literature

²⁷ He corroborates this phenomena of ‘unequal exchange’ with the export import export data of the then Ethiopia comparing the quantity and value of raw materials and other primary commodities Ethiopia exported and the quantity and value of finished products imported from abroad (p. 67-68). He also shows that, in general, any trade between raw materials and finished products creates unequal exchange in favor of the later (p.114).

²⁸ Using the relatively modest trade deficit encountered by Ethiopia in 1911/12 (Ethiopian Birr 191,950.00), he argues that somehow this deficit was financed through some form of borrowing, and goes on to argue that a nation that imports for consumption beyond what its exports earn will have to pay for this deficit not just the principal but also with interest (p. 73).

sings the virtues of foreign direct investment (FDI), GHB considers this source of external finance as being equivalent to prohibitively expensive loans.²⁹ This is because, by definition, foreign investors bring capital into a less developed economy to make substantial profits which they will eventually repatriate into their home countries (p. 73). The following is a perceptive description of the essence of FDI that goes into primary commodity production in developing countries (thereby re-enforcing and locking them into the developmental ‘dead-ends’ of specializing in primary commodities) and warning about the risks of taking the route of low-wage (‘cheap labor’) path that has been recommended to poor developing countries by the mainstream literature:

“Even if they do not explicitly say it like this, it seems foreigners who come to Ethiopia [with capital] would say to the Ethiopian people as follows: the reason why we have come to Ethiopia is to take the wealth of your country. However, since the land is yours, you will not let us work on it and take what is in it. [But] if you let us [do this], we will not bring workers from our country as the cost of labor would be high. As the wages of your labor are extremely low, let you yourself do the work and give us [the output]; we shall pay you small amount of money for your exertions. But, with this small amount of money we pay you, do not buy the equipment and machinery that is required to manufacture the clothing and other items that you need for your consumption; and never produce them by yourself. From now on, do not manufacture *shema* (cotton garment produced by Ethiopian traditional textile industry), swords and all the things that have been locally produced. Buy everything from us. Return to us the money we have given you immediately with large amount of interest.” (p. 74).

²⁹Ragnar Nurkse (1961, 141; as cited in Kattel, Kregel and Reinert, 2009) presents arguments that are similar to those of GHB in the sense that development has to be mainly financed from domestic sources. In fact, Nurkse’s position against attempts to finance development from foreign sources such as FDI mirror those of GHB as, according to Nurkse, trade and foreign investment would engender a number of obstacles to development: namely, first, large parts of such financing would seek to utilize poor countries resources and eventually lock these countries into undiversified economies with a skewed social structure; and second, there is a clear danger that significant amounts of foreign financing would end up funding private consumption patterns emulating Western living standards and thus creating balance-of-payments problems (Ibid:12). In a similar vein, based on empirical evidence of the 20th c, Kregel (2004) argues that indeed there has been persistent negative financial flows into developed countries and that, development initiatives dependent on external financing have generally been inextricably linked to the problems of unsustainable debt creation and debt burdens, sharp reversal of external flows and increasing prevalence of financial crises in countries that had experienced periods of positive external capital inflows.

Using the case of the then Ethiopia where cheap imports of low quality textiles and garments from Europe wiped out domestic production of better quality equivalents, he goes on to show how foreign competition destroys existing ‘uncompetitive’ and less efficient industries (without replacing them with more efficient ones) (pp. 79-81). His examples also show that he was well aware of how development of taste for imported conspicuous luxury consumption items could not only pose risks to domestic manufacturing industry but also would put added pressure on the economy to export more and more primary products (which was already under pressure to cover the unavoidable trade deficits due to the ‘unequal exchange’) in order to cover the ever increasing costs of imports (pp. 74-75).

To put this portion of GHB’s work in context, like the case of the previous section, it is easy to see that GHB’s ideas resemble those of Carey (1888) and probably for the same reasons. However, even though in both cases the key ideas related to ‘unequal exchange’ are directly derived from (or implied by) the underlying theories of key domestic causes and mechanics of development, GHB’s ideas show marked clarity and refinement compared to those of Carey (1888). For instance, unlike GHB, Carey (1888) does not specifically and explicitly ascribe ‘unequal exchange’ to differences in knowledge, skill, technology, returns to scale and agglomeration though their final conclusion is very similar.

6. Strategies for Late Development and Industrialization

The main purpose of GHB’s book was to show the people and then state of Ethiopian the sure ways and means of achieving development and real and meaningful political and economic independence as a nation. As such, all his theoretical discussions point to distinct policy directions. For instance, it was already alluded in previous sections that his approach leads to focusing on deliberate and comprehensive set of state directed, synergistic interventions in the areas of infrastructure development, human development and education, promotion of technology adoption and innovation, internal market expansion, suppression of consumption of imported products, financial sector development and import

protection – all aimed at industrialization and structural transformation. In addition to such general policy statements scattered throughout the book, his book also contains a section that contains a comprehensive set of policies with particular emphasis on selective and dynamic protective tariff schemes aimed specifically at promoting import substitution industrialization (pp. 81, 84). This includes:

- Erecting sufficient barriers on import of finished products where tariff protection is not meant for revenue but for the purpose of creating and sustaining national productive capability (pp.103, 126);
- Removing tariffs and other barriers to import of machinery and raw materials; discriminating against imports that can be produced with machinery and equipment that is allowed to be imported duty free; providing incentives to domestic producers of raw materials and agricultural outputs;
- Encouraging and supporting FDI in the area of manufacturing and import substituting industries; encouraging FDI and immigration of skilled foreigners with explicit objective of knowledge, technology and skill transfer - as well as creation of industrial and skilled employment (p. 97-98)
- Promoting export of finished products (p. 97); discouraging export of raw materials (p. 99) particularly discouraging export of primary commodities that are based on non-renewable resources (p. 118)
- Ensuring that, export earnings from raw materials and primary commodities be used to import advanced technology but not for consumer product (p. 114)

Overall, his stress is on creating a diversified economy based on knowledge and skill based increasing returns activities (p. 112-113) which is to be achieved through a dynamic and context specific combination of import protection/substitution and export promotion strategies which are to be supplemented and complemented by its three “inseparable colleagues” (p. 97-98): foundation and expansion of education and training institutions; construction of physical infrastructure; and promotion

of technology and skill transfer oriented inward FDI and skilled immigration. Moreover, his proposals for import substitution/protection with dynamic policy interventions are explicitly aimed at creating synergistic and side-by-side development of agriculture and industry thereby creating a virtuous cycle of prosperity (p. 85-87).

Looking at the contents of the industrialization policies proposed by GHB, it is easy to see their similarity with most of the policy proposals made by Friedrich List (1841). Similar but cruder sets of policy proposals were made or implemented among others by Jean-Baptiste Colbert, Louis XIV's General Controller of Finances (France)³⁰; and going even further back, we find many similar policy ideas in Hörnigk's 'Nine Points of Economic Policy' which was proposed in 1684 and implemented in Austria with great success.³¹ They also bear resemblance to the logic, content and objectives of the famed "American System" that was for the first time forcefully and ingeniously sketched in 1791 by Alexander Hamilton, the first Secretary of the Treasury of the US, in his famous "Report on Manufactures". The long-term impact of the ideas proposed in the *Report* is such that one author states, "[it] contained the embryo of modern America: here, if a date can be assigned to a development so amorphous and far-reaching in its consequences, was conceived the grand design by which the United States became the greatest industrial power in the world." (Greenfeld, 2001: 393). The resemblance is not surprising as one of the aggressive and relentless promoters of the policy proposals of "American System" was Henry Carey (who had substantial influence on GHB) as the result of whose "vigorous preaching", "it enjoyed wide acclaim around the economically alert world, was regarded with interest in Britain and France, and taken very seriously in Germany and Japan" (Ibid: 328). In Germany, where GHB also spent his formative years and must have witnessed the achievements first hand, List's proposals were successfully implemented particularly under Bismarck (Reinert, 2004: 32; see also Chang, 2002).

³⁰ See List (1841[1909]:57-58 for a succinct summary of the main elements of Colbert's industrialization program.

³¹ Philipp Wilhelm von Hörnigk (1640-1714) published his 'Nine Points of Economic Policy' in 1684 in the book *Österreich über alles, wann es nur will* ('Austria above everyone else, if only she had the will to') (published anonymously), and the book was the most successful German-language economics book of the period (Reinert, 2005; Schumpeter, 1954: 192).

Moreover, Erasmus Peshine Smith, one of the most influential economists of the American School and the protégé of Henry Carey, was an economic advisor to the Japanese government following the Meiji restoration.³² As a result, key figures in the design and implementation of the economic policies following the Meiji Restoration in Japan (such as Wakayama Norikazu, Okubo Toshimichi and Fukuzawa) were all followers of Carey's and List's ideas (Greenfeld, 2001: 328-334). And therefore, it is not surprising that GHB's policy proposals resemble those that propelled Japan from a poor feudal society to an industrialized nation. Nor should we be surprised that he advised the then Ethiopian government to learn from and emulate Japan. Later on, while somewhat modified by the experiences of the second world war and indeed the aftermath of the war, these ideas again played part in influencing Japanese development from the 1960s (Reinert, 2004: 33). Since Taiwan, South Korea and Singapore were greatly influenced by the Japanese model of industrialization, their spectacularly successful industrialization policies also greatly resembled those of Japan.³³

7. GHB's Ideas and Later Theoretical Developments: Are their core ideas still relevant?

Moving forward in the history of economic thought, we could clearly see that the main ideas of List, Carey and GHB underlie much of the kernel of the development economics of the 1940s, 1950s and 1960s when the field was thriving. The group that promoted these ideas which collectively form what is now called "classical development economics" or "pioneers of development" typically consist of the following key thinkers: Paul Rosenstein-Rodan, Hans Singer, Arthur Lewis, Albert Hirschman, Gunnar Myrdal and Ragnar Nurkse (Kattel, Kregel and Reinert, 2009). Two key ideas of these "high development theorists" that are particularly similar to those of GHB are that (a) financing for development has to come to a large extent from the developing country itself ("Capital is made at

³² According to Reinert (undated), in 1871 – four years after the Meiji Restoration – the Japanese government requested from the government of the United States an advisor in international law. The Secretary of State recommended Peshine Smith, who was to spend eight years in Japan as the first US citizen to serve the Japanese government in an official capacity. When he left, he proudly commented that the 'American System' of economic theory – as opposed to English theory – had become 'common thinking among Japanese statesmen, government officials and philosophers.'

³³ An excellent source for the Taiwanese case is Wade (1990); for that of Korean it is Amsden (1989). Chang (2002) provides a comprehensive and well researched historical narrative for several 'old' and newly industrialized countries.

home”; Nurkse 1961, 141; as cited in Kattel, Kregel and Reinert, 2009: 12), and the key areas to be financed need to exhibit increasing returns in order to trigger dynamics of development or, as Myrdal argued, virtuous circles of growth (Ibid:12).

Unfortunately however, the key ideas of both groups of economists (List, Carey, GHB, et al, and the ‘high development theorists’ of the 20th century) have been ignored and by-passed in the mainstream development literature of recent decades to the extent that Krugman (1994) confidently states “By the 1980s or so, virtually all vestiges of high development theory had disappeared from development economics” (Ibid: 28). This is despite the fact that their key ideas “remain intellectually valid and may continue to have practical applications” (Ibid: p. 7); and so, “[t]he irony of course is that high development theory was right” (Ibid: 28). The reason he gives for the disappearance of these valid and logically sound ideas is the fact that mainstream economics became “essentially a collection of models. Broad ideas that are not expressed in model form...do not endure unless they are codified in reproducible – and teachable form” (Ibid: p. 27); and leading development economists of the time “failed to turn their intuitive insights into clear cut models that could serve as the core of an enduring discipline” (Ibid: p. 24). In effect, mainstream economics has sacrificed theoretical/intellectual validity, relevance and practical applicability in favor of mathematical elegance and simplicity.

Meanwhile, as noted earlier, the ‘development’ debate over the past few decades has tended to focus solely on internal factors that determine success/failure in development as if external economic forces are always benign. In fact, the powerful countries are pressing the developing world to adopt wholesale trade liberalization on the grounds that the best way to raise global living standards is to maximize trade (Rodrik, 2001: 5, 10; Shaikh, 2007: 50). This view is supported by the conventional economic theory which concludes that trade and financial liberalization will lead to increased trade, accelerated economic growth, more rapid technological change, and a vastly improved allocation of national resources away from inefficient import-substitutes toward more efficient exportable goods (Shaikh, 2007: 51). This

conclusion is arrived through patently unrealistic assumptions of the standard trade theory including fixed labor (fixed endowments); full employment of resources; constant returns to scale; balanced trade; no transportation costs; perfect competition in all products; internally mobile but internationally immobile factors of production and differing production technologies across countries (Feenstra, 2004: 1-2, Sen, 2005:1012-13).

The well recognized empirical failures of both the classical and neoclassical theories of free trade led in the 1980s to the flourishing of a set of theories collectively known as New Trade Theories. The overall thrust of these theories is to extend the analysis of the standard theory by incorporating market imperfections, increasing returns, strategic behavior, new industrial economics and the new growth theory (Deraniyagala and Fine, 2000:4). The results of these ‘new’ models, particularly when they assume presence of increasing returns activities (industries) in developed ‘North’ while assuming decreasing/constant returns activities in the underdeveloped “South”, confirm the conclusions of GHB and co. in the sense that free trade would harm the “South” while benefiting the “North”. However, even the major contributors to this line of theorizing, such as Paul Krugman, recanted these possibilities and continue to advocate for free trade.³⁴ One could say that the only notable recent mainstream work in the tradition of ‘New Trade Theory’ that unequivocally presents results that are similar to those of GHB and co. is Gomory and Baumol (2000) which shows that there are in fact inherent conflicts in international trade. Accordingly, once realistic assumptions are adopted, whether a nation benefits or loses from international trade critically depends on “what countries actually choose to do, what capabilities, natural or human-made, they actually develop.... The existence of this range of outcomes, with such different consequences for the countries involved, implies that... a country’s welfare is critically dependent on the success of its industries in international trade.” (Ibid: 5)

³⁴ See for example Krugman’s Noble Prize acceptance lecture (Krugman, 2009).

Therefore, given the fact that the key ideas of ‘classical development economics’ (and hence those of GHB and co.) related to the causes and mechanisms of development as well as the nature, causes and remedies of ‘unequal exchange’ between “South-North” economic relations are still found to be theoretically valid and are based on more realistic assumptions compared to mainstream theories, the policy makers of developing countries should seriously look into the policy proposals derived from these. This is because validity and practical relevance should come before mathematical elegance and neatness. Moreover, though conventional economic theories may dominate academic discourse, our brief discussion above shows how policy packages like those of GHB have been proven successful again and again under vastly different geographical, historical and socio-political contexts. Thus, while bearing in mind GHB’s emphasis on context-specificity of development policies and institutions, policy makers of the present late developing countries would do well to learn from him and other like-minded scholars of the past.

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