

Arthur Lewis and the United Nations¹

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Introduction: Two UN Expert Groups 1949-51

In mid-1950 the UN Security Council was about to have its mettle tested as Chinese troops from Mao Tse-tung's victorious People's Liberation Army pushed across the Korean border. At the same time the UN Economic and Social Council was wrestling with the problem of how to deal with the return of recession that a downturn in the US economy in late 1949 seemed to prefigure. In July it debated an expert group report on *National and International Measures for Full Employment (1950)*, henceforth the *NIFE* report. Nicholas Kaldor had drafted this report. It had recommended that countries announce targets for full employment, and commit themselves in advance to the measures that they would adopt, if recession were to return, as he and many others predicted that it would. Since recession spread internationally via changes in the propensity to import, the *NIFE* report also proposed a new system of international recession lending. Thus, when a country's demand for exports fell below its 'normal' level, the country should pay into an IMF fund an amount equal to the decrease in import value. This could then be re-lent to those countries where export demand was deficient,

¹ This paper was prepared for the Conference on "The Lewis Model After Fifty Years" at Manchester University from 6th-7th July 2004. It draws on our previous research published in John Toye and Richard Toye, *The UN and Global Political Economy: Trade, Finance and Development*, Bloomington, Indiana University Press, 2004, Chapter 4.

allowing them to remain at full employment rather than being sucked into a world recession.

These proposals had caused considerable controversy between Britain and the United States. Kaldor's new system of recession lending was made at the point when the US, relatively unscathed by the recent world war, was the dominant source of international effective demand. In practice, the lending requirement would have impinged much more heavily on the US than on any other single country. The US saw the proposal as an attempt by Britain – led by Hugh Gaitskell, a rising star of the Attlee Government - to stave off, yet again, measures of trade liberalization to which it had agreed as a quid pro quo for the wartime lend-lease arrangements. It was quite unwilling to bind itself to the constraints implied by the Kaldor group's proposals. Both diplomats and US academics criticized them as representative of what they called "extreme Keynesianism".

In the wake of this controversy, Arthur Lewis was among a group of experts who were asked to deal with the issues of unemployment and underemployment in developing countries. They did so in a manner that carefully side-stepped potential accusations of "extreme Keynesianism". Instead, as this paper will explain, they made economic development a consensual focus for the UN's activities, even while the Cold War was at its height. This surely demonstrated Lewis's command of clever footwork in the dangerous international political dance of the Cold War era.

Ronald Findlay, in his 1987 article on Arthur Lewis in the new Palgrave dictionary of economics, stated that during the 1950s Lewis was “a senior official in agencies of the United Nations”.² This is incorrect: Lewis never held a post in the UN secretariat or was an employed official of a UN agency. He did work in the UK Board of Trade and the Colonial Office between 1940 and 1945. Apart from this, between 1938 and 1958 he was employed as an academic in Britain, as a Lecturer at the LSE until 1948, and then as the Stanley Jevons Professor of Political Economy at Manchester University. Thereafter he returned to the Caribbean and then settled at Princeton University. Findlay’s factual error, which curiously he did not make in an earlier biographical article³, is significant because it highlights the general impression of a strong connection between Lewis and the UN in the 1950s – which did exist, even though he was never officially employed there.

This connection is most famously exemplified by his work as a member of the “group of experts”, chosen by the first UN Secretary General, Trygve Lie, to make policy recommendations aimed at reducing unemployment and under-employment in what were then known as “under-developed countries”. The other members of the expert group were Alberto Baltra Cortez (Chile), D. R. Gadgil (India), George Hakim (Lebanon) and Theodore. W. Schultz (USA). Arthur Lewis, however, seems to have been mainly responsible for drafting the group’s report. The final report, unanimously agreed by the group, was published in May 1951. Lewis’s draft of this UN report thus well pre-dated

² Ronald Findlay, “Lewis, W. Arthur” in John Eatwell, Murray Milgate and Peter Newman (editors), *The New Palgrave: a Dictionary of Economics*, Volume 3, London, the Macmillan Press, 1987, p. 170-1.

³ Ronald Findlay, “On W. Arthur Lewis’s Contribution to Economics” in Mark Gersovitz, Carlos F. Diaz-Alejandro, Gustav Ranis and Mark R. Rosenzweig (editors), *The Theory and Experience of Economic Development. Essays in Honour of Sir W. Arthur Lewis*, London George Allen and Unwin, 1982, 1-14.

his famous 1954 article on economic development with unlimited supplies of labour. Nevertheless, he was already applying the idea of unlimited supplies of labour and advocating the development of manufacturing industries where surplus agricultural labour was available. The UN report therefore represents an intermediate stage in his thinking, and can shed some light on the evolution of what Findlay has called “his one big idea”.⁴

From Underemployment to Economic Development

At the 10th session of UN Economic and Social Council, Brazil, Chile, India, Pakistan and Peru had complained that, although Resolution 308(IV) of the General Assembly had stressed the need for action to overcome unemployment and under-employment in under-developed countries, the authors of the *NIFE* report had taken the view that this was outside their terms of reference.⁵ At the 11th ECOSOC meeting in July 1950, the US delegate, Isador Lubin, had accordingly concluded his speech by proposing that

“the Secretary-General should be requested to appoint a group of experts to prepare a report on under-employment, particularly in the under-developed areas. Such action would, in his Government’s view, be the logical development of activities already initiated in the United Nations”.⁶

⁴ Ibid, 3.

⁵ UN, *Yearbook of the United Nations 1950*, Department of Public Information, United Nations, New York, Dec, 1951, Sales No. 1.24, p.468.

⁶ UN ECOSOC Records, 17 July 1950, p. 125.

This US proposal was acted on by resolution 290 (XI). A new expert group was appointed “to prepare, in the light of the current world situation and of the requirements of economic development, a report on unemployment and under-employment in under-developed countries, and the national and international measures required to reduce” them. The Lebanese diplomat, George Hakim chaired this group of economists, notable because it gave more representation to experts from the developing world.

This UN report, published in 1951, had in the event remarkably little to say specifically about unemployment and underemployment. It simply finessed the whole debate on these topics. The strategy adopted by the group was to put its emphasis on specifying “the requirements of economic development”, and then argue that employment problems would be resolved once rapid economic development had got going.⁷ Hence they entitled their report *Measures for the Economic Development of Under-developed Countries*.⁸ The Introduction to the report concluded with this statement.

It will be seen that we are led by the analysis of technological unemployment and of under-employment to the same point, namely, that new employment must be created rapidly. This is the task of economic development. And this is the reason why the emphasis of our report is upon economic development rather than upon employment.”⁹

⁷ Kenneth Dadzie, “The United Nations and the Problem of Economic Development” in Adam Roberts and Benedict Kingsbury (eds.), *United Nations, Divided World: the UN's Roles in International Relations*, Clarendon Press, Oxford, 1988, p. 140.

⁸ UN, *Measures for the Economic Development of Under-developed Countries*, UN DEA, New York, 1951.

⁹ *Ibid*, 9, para. 22.

This finessing of the employment agenda attracted the criticism that, having shifted the focus to economic development, the report never spelled out what it meant either by ‘economic development’ or ‘economic progress’. These terms were used quite interchangeably, and the authors of the report simply assumed their meanings to be self-evident. Yet the report, together with the subsequent writings of Arthur Lewis, established a powerful paradigm of the process of economic development, while at the same time establishing this as a central mission for the UN.

The report made three rather optimistic economic assumptions. The first was that underdeveloped countries could draw on an ever-increasing stock of technologies, which had made each latecomer country’s period of catching-up shorter than its predecessor’s.

¹⁰ The second was that the marginal productivity of capital must be higher in underdeveloped countries, because of its scarcity there relative to labor. The third was that, because of gross under-employment of labor in the agricultural sector, labor was available at very low real cost, and that this could be put to work with additional capital to produce labor-intensive manufactures for export.¹¹

These widely held, but perhaps not wisely held, assumptions underpinned both the UN report and Lewis’s later model of economic development. The Lewis model of 1954 envisaged a process of capitalist accumulation, one that gradually transferred into industrial employment, at a fixed real wage and without any shrinkage of agricultural

¹⁰ *Ibid.*, 28-9, para. 80. See also Arndt, *Economic Development*, p. 62-3.

¹¹ Hans Singer, “La creation de la CNUCED”, *Revue Tiers-Monde*, Tome XXXV, No. 139, Juillet-Septembre 1994, p. 492.

production, surplus labor from the agricultural sector. Once initiated, the transfer of labor would generate steady growth of the industrial sector because capitalists – whether private or public – saved and then re-invested their profits. Industry thus became ever larger in the structure of national output, and savings and investment became an increasing proportion of a growing national income.¹² This model - or rather this grand design for development, based on a reading of economic history plus key optimistic assumptions about the then under-developed countries - was clearly anticipated in the 1951 UN report.

Anticipations of the Lewis Model

First, the doctrine that the marginal productivity of agricultural labour is zero is clearly stated in the report's initial definition of the "disguised unemployed".

The disguised unemployed are those persons who work on their own account and who are so numerous, relatively to the resources with which they work, that if a number of them were withdrawn for work in other sectors of the economy, the total output of the sector from which they were withdrawn would not be diminished even though no significant reorganization occurred in this sector, and no significant substitution of capital.¹³

¹² Arthur Lewis, "Economic Development with Unlimited Supplies of Labour", *The Manchester School of Economic Studies*, 1954.

¹³ UN, *Measures*, 7, para. 17

The report also affirmed the quantitative significance of agricultural surplus labour. It states that in Egypt, India, Pakistan, and in parts of the Philippines and Indonesia, the surplus population cannot be less than 25 percent of the total.¹⁴

Second, the doctrine that “effort has to be concentrated upon creating new industries off the land, of which manufacturing industries comprise the largest and usually the most promising category” was also clearly stated. The justification for this proposal was that, where under-employment was the most acute, nearly all land that could be cultivated was already being cultivated. The report assumes that the raising of agricultural yields, which it also encouraged, would be achieved by adopting a better agrarian technology, but that this process would not be a way to absorb additional productive labour in agriculture.

Third, the report stated the need for the rate of investment to increase as a share of GDP from 5 to 10 per cent.¹⁵ The share of savings would also have to rise similarly, and while foreigners could supply some of the rise, some would have to come from domestic sources. In this context, the report refers to “the normal way countries have developed in the past” in the following terms.

Starting from a position where savings were a small proportion of national income, they have climbed to a position where savings were a much larger proportion of the national income by increasing production faster than

¹⁴ Ibid, 8-9, para. 20.

¹⁵ Ibid, 35, para. 96.

consumption. The mechanism has been growing inequality of income, development giving rise to large profits which are ploughed back in the creation of large private fortunes.¹⁶

However, recognizing that the creation of large private fortunes was out of political fashion, the report goes on to consider how the state could be enabled to take on a larger role as an agent of capital formation. Issues of taxation, inflation and financial intermediation are reviewed. In the end the report settles for advocating an appropriate balance between public and private investment, while giving little guidance on how such a balance might be struck.¹⁷

Many of the main elements of the Lewis model are thus already evident in the UN report. All the same, it recognizes that the importance of industrialization does vary from country to country, according to the pressure of population on the land and the prospects for improving agricultural yields. Peter Bauer's subsequent claim that Lewis had neglected the benefits of investment in agriculture was characteristically half true.

“Especially in the early stages of economic development (but not only then), when agriculture and its ancillary activities account for most of the national income, and more particularly at the stage when an exchange economy is spreading but has not yet become dominant, there is often much activity in the extension and improvement of the cultivable area . . .

They are often an essential factor in economic growth at the early stages

¹⁶ Ibid, 39, para. 113.

¹⁷ Ibid, 44, para. 129.

of the exchange economy. Their disregard vitiates much current discussion on underdeveloped countries.”¹⁸

The point is that Lewis does not disregard the possibility of agricultural improvement, but he does make particular (and possibly disputable) assumptions about the scope for extending the cultivated area and the degree of labour absorption that could be achieved by spreading a superior agricultural technology.

Partly, Lewis took over the assumption of stagnant agriculture from classical economic thought, which regarded the prospects of agricultural improvement as slight in “old” or “settled” countries. Partly, however its use was validated in the 1950s because agricultural improvement in underdeveloped countries was understood as involving the mechanization of agriculture, which would necessarily displace rural labor. This point had been made repeatedly in the ECOSOC debates.¹⁹ Indeed, the terms of reference of the expert group had asked them to make recommendations on social security measures for agricultural workers who became unemployed because of technological progress. Thus, it was regarded as better to begin with industrialization that would absorb labor than with agricultural improvement that would, it was then thought, necessarily displace it.

¹⁸ Peter T. Bauer, “Lewis’ *Theory of Economic Growth*. A Review Article”, *American Economic Review*, Vol. XLVI, No. 4, September, p. 632-41, at 635.

¹⁹ See, for example, the speech of Mr Ali (Pakistan) on behalf of the Asian underdeveloped countries. “At the moment, agricultural labour was under-employed. The introduction of mechanical methods of farming would still further reduce the demand. The result might be that a very large proportion of the rural population might become superfluous . . . [T]hey would have to be absorbed into industries.” UN ECOSOC Records, 10th Session, 367th Meeting, 28 Feb. 1950, p. 172, para. 71.

The main empirical contribution of the report was to make estimates of the external capital that would be required to achieve a 2 percent annual increase in income per head in developing countries. It was assumed that this increase would be brought about in two ways – first, by transferring population out of agriculture into non-farm occupations with a fixed endowment of capital per person, and, second, by spending 4 percent of national income on agricultural extension and research and new agricultural capital.

The link between supplies of capital and economic growth was simple and mechanical, a number called the ‘capital/output ratio’. Somewhere inside this capacious portmanteau of a statistic lay the problem of the lack of labor skills. T. W. Schultz, who was a member of the expert group, had at this point not started to develop the idea of human capital as a complementary factor to physical capital, or its corollary, the need for an appropriate balance between investment in physical and in human capital.²⁰ This did not happen until 1956. The expert group, while acknowledging a skill shortage in underdeveloped countries, thought that the remedy was large-scale technical assistance.²¹

These estimates of required rates of capital accumulation for industrial and agricultural growth (para.239-41) then led naturally to further calculations in the expert group report, of the savings gap (para.246-8 and Table 2) and to targets of capital exports from developed countries (para.268). The IBRD (as the World Bank was then known) came

²⁰ Arndt, *Economic Development*, p. 62.

²¹ The UN had begun its Technical Assistance Programme in 1948, before “Point Four” in Truman’s Inaugural Speech of January 1949. The Soviet Union, which originally refused to cooperate with the UN TAP, subsequently agreed to contribute to it. See Edmund H. Kellogg, *The 7th General Assembly “Nationalization” Resolution: A Case Study in United Nations Economic Affairs*, New York, Woodrow Wilson Foundation, 1955, pp .4-5.

in for some robust criticism for its low level of lending to developing countries and its narrow and restrictive interpretation of its Articles of Agreement. To overcome the Bank's "failure to meet the challenge of the circumstances", the expert group advised the UN to establish an International Development Authority to make grant to under-developed countries. Unlike the proposals of the NIFE report, this recommendation did not get translated into action, though not in exactly the way that the experts had intended. The US in 1958 persuaded the IBRD to incorporate a new arm, the International Development Agency, to administer highly concessional loans to poorer developing countries, as a device to keep such a facility out of the hands of the UN.

Apart from generating a design of economic development that made a profound impact on professional economic opinion, the report was important because it also popularized the practice of development planning. It recommended that developing country governments should establish a central economic unit to carry out national economic surveys, make development programs, advise on policy measures for implementing them and report on the outcomes. It specifically called for the drawing up of a national capital budget, showing how much new investment could be financed from domestic and how much from foreign sources.²²

This emphasis on 'planning' was picked on by economists of free market persuasion as evidence that the UN was promoting a technocratic, if not an autocratic approach to

²² Gerald M. Meier, "The Formative Period" in Meier and Seers, *Pioneers*, p. 18.

development.²³ Such criticism was wrong-headed and misleading. The development planning of the report was distinctly different from Soviet-style of physical planning, with its array of quantitative production targets for individual commodities. Lewis had previously distinguished this kind of ‘planning by direction’ from ‘planning through the market’, which was the method that he favored.²⁴ Development planning, far from replacing market forces, assumes that they operate actively, and then checks in a systematic fashion whether politically given growth targets are economically feasible. Feasibility depends on the prior identification of the constraints on growth. Constraints that were seen as particularly important at this time were the two constraints that Michal Kalecki had identified - rising inflation, and the limited ability to increase rapidly the supply of food. These constraints would bind precisely because markets would be operating freely.

When used properly, development planning is still a diagnostic tool for governments that are serious about economic development, and it directs their attention towards the policy changes that they need to make if they are to realize their growth ambitions. In this way, it is still used by the World Bank under the euphemistic label that they prefer to use, that of ‘macroeconomic programming’. It can, needless to add, also be used by governments that are less serious about development, as a technical window-dressing for policy inactivity and as a mandatory enclosure in letters seeking foreign aid. As Lewis remarked wryly nearly two decades later, “making Development Plans is the most

²³ S. Herbert Frankel, “United Nations Primer for Development”, in S. Herbert Frankel, *The Economic Impact on Under-developed Societies*, Basil Blackwell, Oxford, 1953, 82-110.

²⁴ See his *Principles of Economic Planning*, London, Allen and Unwin, 1949.

popular activity of the governments of underdeveloped countries since the war, and is also nearly their biggest failure".²⁵ The spread of both planning and aid-giving was much influenced by the UN Report on Economic Development.²⁶

The Pursuit of Economic Development: a Move to Safer Ground?

The *NIFE* report was an important and pioneering study, notwithstanding the many accusations of naivety and extremism. It went beyond the closed economy framework of Keynes's thinking, and showed how the international economy was integral to the problem of maintaining the level of employment. As one of its critics acknowledged, it "renders great service in stressing that in a true world economy, full employment, like peace, is indivisible".²⁷ Unfortunately, in 1950, an integrated world economy was a long way off. Among the industrial countries, there were clear divisions of national interest. The report's proposals would have had the effect of requiring the United States both to adopt domestic policies for which there was no domestic political or professional consensus, and to assume by far the greatest part of the international responsibility for the maintenance of full employment. Kaldor and his co-experts had tried to put the US government on the spot, and at the same time to get the Western European countries (notably Britain) off the hook of having to relax their controls on trade and payments

²⁵ Lewis, W. Arthur, *Some Aspects of Economic Development*, Tema, Ghana Publishing Corporation, 1969, p. 37.

²⁶ Dadzie, "The United Nations", p. 141.

²⁷ Henry C. Wallich, "The United Nations Report on Full Employment", *American Economic Review*, Vol. 40, June 1950, 876-83, at p. 882.

before their industries could stand the inevitable competition. This was no better than the cunning plan of the mice to put a bell around the neck of the cat.

The Lewis report moved smartly away from this international agenda. Anxieties about the international transmission of recession, and “Keynesian” schemes to prevent it, were here left behind. Lewis thought that, in that regard, future prospects were good. He had written in 1949:

“The U. S. A., whose fluctuations dominate the world economy, has learnt much since 1929. Agricultural prices can no longer topple catastrophically, because the parity formula puts a floor to them, and nearly all responsible Americans now seem to agree that it is the duty of their government to pursue a budgetary policy that will minimize industrial fluctuations. The world will yet see many slumps: but it is unlikely to repeat the horrors of the 1930s.”²⁸

Accordingly, the process of economic development could be analyzed in the classical framework of long-term structural change. Short-run problems that had occupied the Keynesians could be ignored.²⁹ That meant that economic development could be treated

²⁸ W. Arthur Lewis, *Economic Survey 1919-1939*, London, Allen and Unwin, 1949, p.175.

²⁹ Nevertheless, Lewis continued to be given advice by eminent Keynesians. See Gaitskell papers, University College London, A137.3. Letter from Hugh Gaitskell to Arthur Lewis, 17 Feb 1954, concerning a chapter by Lewis for a new volume of Fabian Essays which in fact was never published: “[Richard] Kahn in particular made one or two suggestions, as follows:-
(a) In considering what the United Kingdom can do by way of investment in under-developed areas, some distinction should possibly be made between boom and depression. We should, in other words, try and arrange for any slack in the economy here to be absorbed by higher investment overseas, including of course the running down of Colonial balances.

within what was virtually a closed economy model, while offsetting external capital flows were recommended to fill any emerging savings or foreign exchange gaps.

Lewis also understood very clearly the international differences among the developed countries that had shipwrecked Kaldor's *NIFE* report. In 1957, he noted that the UN ECOSOC had requested an investigation into possible international measures to control the spread of recessions. He commented that:

Ingenious proposals were made for international controls, but these came to nothing because of the unwillingness of the great powers to submit themselves to international controls.³⁰

He was shrewd enough to guess that, when the Cold War heated up in Korea, the US had preferred to pump up international demand by waging war on communism under the flag of the United Nations. To underpin at the same time the international effort to maintain full employment seemed to many Americans a costly diversion. In the event, rearmament and the prosecution of the war provided the entire stimulus to world effective demand that was needed to keep employment at levels much higher than had previously been believed to be possible. Rising commodity prices at the same time brought balance of payments relief to hard-pressed underdeveloped countries.

(b) One suggestion is that if the terms of trade improve for the United Kingdom, some part of the benefit of this should go to helping Colonial development."

³⁰ W. Arthur Lewis, "The Economic and Social Council" in B. A. Wortley (editor), *The United Nations: the First Ten Years*, Manchester, Manchester University Press, 1957, 34-46, at p. 39.

After 1953, the new UN Secretary General, Dag Hammarskjöld, personally led the UN's retreat from 'extreme Keynesianism'. He spoke out against "political thinking in economics, calling on UN economists to embrace a more pragmatic and eclectic approach."³¹ He thereby sought to steer the Organization on to the less divisive ground of economic development. Here greater consensus came to exist among the industrial countries about what needed to be done. During the 1950s, their experiences in Vietnam, Malaya, Suez and Algeria (to list some of the more important) led the European colonial powers reluctantly to conform to the US view that their empires were no longer tenable. In the transition from empire, a new common purpose among Western nations could be fashioned in relation to the future of the former colonies. Development was also an area where there was more of a consensus between the West and the Soviet Union and China.³²

All of this was undoubtedly assisted by the way in which the Lewis model avoided raising awkward questions about the meaning of 'economic development' or 'economic progress'. The idea that economic development was a matter of increasing "output" was one that proved to be acceptable both in the West and in the socialist countries, provided that no questions were raised about the definition of "output". In fact, statisticians in the two blocs used different definitions about what counted as output, and different conventions to attribute value to the different categories of production that were so

³¹ Brian Urquhart, *Hammarskjöld*, 370-1.

³² "The [UN] organization was thus forced to occupy itself with matters on which there was more of a consensus, 'development' being one of the most important of these", according to Gilbert Rist, *The History of Development From Western Origins to Global Faith*, London, Zed Books, p. 81.

counted. These differences were aligned with their different economic philosophies of the respective roles of the market and the state, and of the relative desirability of consumption and investment goods production. Given silence of these issues, however, which Lewis duly observed, ‘economic development’ could act as a unifying concept.³³

Conclusion: from Pragmatism to O’Brien’s Rule

The UN’s early attempt to analyze and respond to the fact of global interdependence petered out in the middle of the 1950s, as member governments became increasingly preoccupied with the problem of economic development. Sidney Dell later commented that

“In retrospect, it seems unfortunate that this was the outcome but it is important to note that the shift from global to development objectives was not the result of any particular failure of the UN. It reflected rather the sense of priorities at the time – based on the fact that while the world economy was, on the whole, doing well, the Third World was being left behind”.³⁴

As has been argued here, however, Dag Hammarskjöld saw the need to establish less contentious priorities within the UN Secretariat, sensing the surprisingly little disagreement between member countries about the appropriate means of promoting economic development, despite the different content given by the two sides of the Cold War to the term ‘planning’. When it came to the modality of external intervention, the

³³ See Bauer, “Lewis’ *Theory of Economic Growth*”, p. 634-5.

³⁴ Dell, “Relations between the United Nations and the Bretton Woods Institutions”, p. 31.

Cold War was actually a unifying factor, as the utility of foreign aid – bilateral and multilateral - in the great game of geopolitical influence was lost neither on the Soviet Union nor on the West. In the task of re-orientation Hammarskjold needed intellectual allies who could both advance the economic development agenda, and do so in a pragmatic and non-ideological fashion. Arthur Lewis was ideally suited to this task.

In 1951, Lewis was very much a newcomer to the field of economic development. Despite his work for the Colonial Office, his intellectual efforts while at the LSE had been made on other topics. As Findlay has said, his work on development did not really begin until after his move to Manchester in 1948. It has been suggested that the arrival of Kurt Mandelbaum in the Department in 1950 was a very powerful stimulus in this regard.³⁵ Mandelbaum's earlier book entitled *The Industrialization of Backward Areas* had started from the premise of large amounts of surplus agricultural labour, and had gone on to elaborate a detailed scenario of industrial growth. Although Lewis never acknowledged it, he must have learned much from Mandelbaum. Yet he never became a slave to any school or tradition, and was renowned for his breadth and scope of his understanding, his sweet reasonableness in argument and his ability to balance between the strategic choices of private and public, domestic and foreign – even, pace Bauer, of industry and agriculture. It was these qualities that made Lewis so valuable to the UN in the 1950s.

³⁵ FitzGerald, E. V. K., "Kurt Mandelbaum and the classical tradition in development theory" in Kurt Martin (editor), *Strategies of Economic Development: Readings in the Political Economy of Industrialization*, Basingstoke, Macmillan, 1991, 11.

His political judgment is well illustrated by the fact that what he wrote for the UN on the social and political pre-conditions for economic development still reads well fifty years later. His report stressed that a country's institutions must be conducive to development, not only its economic institutions, but also its social, legal and political institutions (para.23). It stressed that the political leadership of a country must be committed to a strategy for development, rather than the entrenchment of its own privileges (para.37-38). It stressed that governments must do more than provide basic services, and that they must be able to regulate economic activity, whether in the public or the private sector (para.39). This is all being re-discovered in the 'governance' initiatives of today's development cooperation agencies, but Lewis said it all at the height of the Cold War.

However, having laid out these fundamental political and social pre-conditions for successful economic development, the report did allow the reader to assume that they were, or easily could be, fulfilled in the under-developed countries. It then proceeded to elaborate a much more narrowly economic design of development. Between the socio-political preconditions and the working through of the economic design for which Lewis became famous, there was an enormous – and sometimes unobserved - leap of faith. This was a leap that was hardly avoidable given the unwritten diplomatic conventions of the era, and Lewis certainly made it very gracefully.

The Lewis Model of 1954 added one major ingredient to the elements already present in the UN 1951 report. It was the assumption of a constant industrial real wage, determined by the subsistence wage in agriculture plus a fixed margin. This extra precision of the

model meant that the Lewis's vision of development now conformed to O'Brien's Rule – which says that the best theses are those that are wrong, provided that they are wrong in interesting ways. Much subsequent development economics was no more than the exploration of the interesting ways in which the Lewis model was in error.³⁶

³⁶ John Toye, "Changing Perspectives in Development Economics" in Ha-Joon Chang (editor), *Re-thinking Development Economics*, London, Anthem Press, 2003, 23-6.