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HOW RELEVANT IS KEYNESIANISM TODAY FOR UNDERSTANDING PROBLEMS OF DEVELOPMENT?

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INTRODUCTION: THE KEYNESIAN AND THE WASHINGTON CONSENSUS

It is now fifty years since Keynes's death and sixty years since he published his pioneering work *The General Theory of Employment, Interest and Money*. When the *General Theory* was published, the great problems were unemployment, deflation, collapse of commodity prices, international beggar-my-neighbour policies, etc., but of all these unemployment was identified as the basic cause of all the other troubles. So Keynes and Keynesianism was governed by the intention of 'never again' - never again to permit a recurrence of mass unemployment. For 25 years after the Second World War, under the Keynesian Consensus, the world in fact enjoyed a 'Golden Age' of full employment, rapid growth, greater welfare and equality - and for a long time also low inflation. The developing countries also were doing well, partly as the result of full employment in the industrial countries, partly as a result of high commodity prices, and partly as a result of applying Keynesian doctrines of high effective demand and promotion of public investment in their own active domestic macroeconomic policies. It looked as if the Keynesian Consensus had fully established itself as a permanent solution.

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1 I am grateful to Syed Nawab Haider Naqvi, Brian Reddaway, Adelino Torres and Adrian Wood for comments on an earlier draft.

It was not to be. The era of the Keynesian Consensus terminated in the early 1970s. Rising inflationary pressures had already begun to undermine the sustainability of the Golden Age even before the death blows of the collapse of the Bretton Woods exchange rates system in 1971, and the quadrupling of oil prices in 1973. The object of 'never again' shifted from the fight against unemployment to the fight against inflation. The era of the Keynesian Consensus was superseded by the era of the Washington Consensus.[2] This also claimed to be a lasting and permanent solution to the problems of its day, but once again after another 25-year cycle this claim is beginning to be shaken by experience and events. As the Keynesian Consensus was terminated by the inflationary pressures (partly at least engendered by the inherent logic of the Keynesian Consensus itself), so the Washington Consensus is now being shaken to its foundations by the re-emergence of the spectre of unemployment and the evident dangers of social exclusion and rising inequalities, and the doubtful effects of structural adjustment and stabilisation programmes. The pendulum is swinging back. This is indicated by increasing attempts in recent years to add a 'human face' to the original tough 'Washington Consensus' but this comes more naturally when it is part of the objective itself rather than an 'add-on'. The Washington Consensus is not what it used to be - unemployment is its nemesis, as inflation was the nemesis of the Keynesian Consensus.

Of the two objectives, full employment and control of inflation,[3] the employment objective clearly has the advantage. It deals with the real economy and real people rather than the financial phenomena of prices. It is inherently egalitarian insofar as moving people from unemployment into employment is one of the major ways of dealing with poverty. It can claim to have a 'human

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2 The term 'Washington Consensus' is usually attributed to John Williamson but the author can also claim a modest part in its genesis. The Washington Consensus is a conglomerate of trade liberalization, privatization, deregulation, and observance of the fiscal and monetary 'fundamentals'.

3 Reflecting its Keynesian foundations, the Articles of Agreement of the IMF set it the task of 'promotion and maintenance of high levels of employment' (Article I). There is no mention of control of inflation - this may come as a surprise to many today!

face', at least more plausibly than observance of the fundamentals of the Washington Consensus. Indeed the main defence of the emphasis on inflation control under the Washington Consensus is the claim that its indirect and ultimate effect is precisely to make possible, at a later stage, the pursuit of Keynesian full employment policies. The Keynesian answer would be that the hoped-for long run may never arrive because the initial effects create their own downward dynamic and that in any case there is no need for such a sacrificial short-term J-curve approach where the worse today leads to a better future ('in the long run we are all dead'). Keynes himself also argued that once a condition of full employment has been reached and maintained (the 'Special Case'), market forces could be reinstated and relied on for effective supply incentives. But as far as sequence is concerned, this is the reverse of the Washington Consensus where inflation control and proper observance of the fundamentals are presented as a pre-condition for full employment, whereas Keynes presented full employment as a pre-condition for bringing the free market fundamentals back into their own. Keynes was as concerned to avoid inflation as the advocates of the Washington Consensus, only he believed that an acceptably low Non Inflation Accelerating Rate of Unemployment (NIARU) could be achieved by proper macroeconomic policies.

In the European industrial countries the growth in effective demand and investment are clearly below the 'warranted' full employment level, i.e. labour supply plus the rate of productivity growth. On the official count unemployment in Western Europe amounts to 18 million people (equivalent with their family members to the total population of the UK or France or Italy). Beyond that - just as the Keynesians explained - there is a vastly larger number of people suffering from underemployment and disguised unemployment, i.e. not working at the full level of their productive capacity or working short-time, or not offering themselves in the labour market because of the absence of jobs. As I am writing these lines the European Union is embarking on its Inter-Governmental Conference (IGC) in which the unemployment issue has emerged paramount on the agenda. The present label for what the Keynesians called open plus disguised unemployment is social exclusion. So the question today is not whether Keynes's thinking is still valid and relevant today, but rather whether it is again valid and relevant today.

INTERNATIONAL KYNESIANISM AND THE DEVELOPING COUNTRIES

However my subject is the relevance of Keynesianism in the field of development, meaning the development of the poorer or Third World countries rather than the industrial countries. Here the current relevance of Keynes and Keynesianism is even more glaringly obvious - in this case referring especially to the later Keynes who was the guiding spirit in establishing the new international economic order at Bretton Woods in 1944 rather than the Keynes who wrote the *General Theory* in 1936. One needs only mention a single dominant fact to establish this. It is estimated that at present there is something like a $500 billion per year resource outflow from the developing countries, offsetting many times over the reverse flow of aid. This $500 billion outflow is made up of four major items:

(1) Terms of trade losses: compared with say 30 years ago, the terms of trade of the primary commodities and simple low-tech manufactures on which most developing countries still depend have sharply deteriorated in relation to their imports of high-tech manufactures. This factor alone amounts to a tax of 20-25 per cent on the export earnings of developing countries. During the decade of the 1980s the decline in real commodity prices cost the developing countries no less than $540 million.[4] The precise extent of the terms of trade losses depends of course on the initial point from which the deterioration is measured, but the 30 years period has as its base the commodity prices of the 1960s which were much lower than those of the immediate post-war period.

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4 South Centre: *International Commodity Problems and Policies - the Key Issues for Developing Countries*, The South Centre, Geneva, 1996, Annexe Table 4.

(2) Debt servicing: these debts have their origin in the early 1970s arising from the way in which the big financial surpluses of the OPEC countries were recycled by the commercial banking system and reacted to by the industrial countries. Debt servicing amounts to another 20-25 per cent tax on export earnings. The debt pressure and terms of trade losses are mutually inter-related (in a way which Keynes had already described 15 years before the *General Theory* in connection with the reparations imposed on Germany after the first World War).

(3) Repatriation of profits and transfer pricing: this source of outflows by foreign investors and especially multinational corporations operating in developing countries is volatile and in any case difficult to estimate, but it may well be of a similar order of magnitude to terms of trade losses and debt servicing.

(4) Capital flight from developing countries: also volatile and difficult to control or even to trace, this is facilitated by the globalisation and liberalisation of financial services and currency transactions. Assets held in developed countries are subject to less risk of inflation, devaluation, and political instability.

What is the point of listing here these four major drains which together deprive the developing countries of half or more of their potential export earnings? The point is that under the arrangements which Keynes proposed in his preparatory memoranda for Bretton Woods and which were partially implemented during the Golden Age of the Keynesian Consensus in the 1950s and 60s these catastrophic drains would not have occurred. Terms of trade losses would have been avoided or reduced by stabilisation of primary commodity prices through international buffer stocks and international commodity agreements. Keynes was a fervent supporter of such stabilisation. He even proposed initially a world currency based on a bundle of 30 primary commodities, thus automatically stabilising their average price (while not ruling out fluctuations of individual commodities against this average). This would also have

contributed to global macroeconomic stability: in slack times when commodity prices were low international buffer stocks would have been accumulated, thus injecting additional liquidity into the world economy, and *vice versa* in case of inflationary demand pressures and high commodity prices. In the system proposed by Keynes there was in addition to the IMF and World Bank an essential third pillar: an International Trade Organisation with commodity price stabilisation as its major function. In fact the ITO was duly negotiated and established in Havana in 1947 but never came into existence, failing to obtain ratification by the US Congress. Neither GATT nor the newly-established WTO has any of the commodity functions envisaged for the ITO.

Similarly, debt servicing would not have arisen, or would be much less under the Keynesian Consensus. Keynes had proposed an international tax on balance of payments surplus countries (for 'exporting unemployment') and liquidity support for balance of payments deficit countries from an 'International Clearing Union' - his original term for the IMF., but visualised as much larger and operating with less conditionality (to save deficit countries from having to deflate).

The transfer of profits out of developing countries and repatriation of investment by multinational corporations would also have been prevented if Keynes's original ideas had been followed. He advocated control of capital movements and regulation of foreign investment (as practised by South Korea during its successful rise to the status of an industrial power). In his own words: he wanted 'homespun economies'. He was deeply suspicious of financial markets and the 'casino economies' which dominated them. 'The proper job of finance is to see that nothing is done on purely financial grounds.' Control of outflows turned out to be very difficult, in view of transfer pricing and increased globalisation of capital markets. This mattered less when aid was coming in quantities overshadowing private capital movements, but the decline of aid has reduced the capacity of developing countries to obtain favourable conditions from the multinationals. Some of the volatile investment practising, uncontrolled outflows through transfer pricing etc would have been kept out by selective entry controls in the first place.

As far as capital flight is concerned, this also would have been eliminated or reduced by controls on capital movements. In any case, if the economies of developing countries had been put on the expansionary path of full employment growth suggested by Keynesianism (as expressed by the Harrod-Domar formula to which we later turn), the incentive for capital flight would have been much less.

So much for the question of relevance of international Keynesianism to our current development problems. We now turn to two specific contributions of national Keynesianism to our understanding of development policy i.e. the concept of disguised unemployment and the Harrod-Domar model of sustained growth.

DISGUISED UNEMPLOYMENT

The concept of disguised unemployment or underemployment is associated more directly not so much with Keynes himself than with one of his closest disciples and followers, Joan Robinson.[5] Keynes himself had thought of the labour supply only in two broad categories: one part fully employed and another part fully unemployed. The purpose of his macroeconomic proposals was to increase the first part and reduce the second part. Joan Robinson pointed out that there is in fact a more complicated spectrum in the labour market. Apart from those fully employed and fully unemployed, there are those who are employed at low productivity, partly employed with reduced working hours, self-employed making a precarious living because of the absence of an employer willing to take them on, etc. A lack of effective demand for labour may show as much or more in these intermediate categories of disguised unemployment as in the official unemployment figures. The concept of underemployment fitted in well with the concepts of underdevelopment or underdeveloped countries (the original name

5 Robinson, J. V., 'Disguised unemployment' in *Essays in the Theory of Employment*, London: Macmillan) 1937.

for what we now call more diplomatically, but less accurately, the developing countries).

Joan Robinson's concepts, like those of Keynes, were initially applied to the UK and industrial countries in general, as indicated by her favourite identification of disguised unemployment with 'selling matches in the Strand'. This is certainly of direct relevance at the present time. Quite recently, John Eatwell of Cambridge University has undertaken a detailed study of disguised unemployment in the G7 countries.[6] According to his results, relating to 1990, disguised unemployment - mainly in the form of low-productivity employment in the services, construction, and agriculture sectors - was larger than open published unemployment. According to his figures, in 1990 average open unemployment in the G7 countries (simple average of the 7 countries) was 6.7 per cent. But true unemployment including disguised unemployment was 14.9 per cent. In other words disguised unemployment was 8.2 per cent compared with open unemployment of 6.7 per cent. Between 1973 and 1992 the percentage of part-time employment increased from 16 per cent to 23 per cent in the UK, from 14 per cent to 21 per cent in Japan, from 16 per cent to 18 per cent in the US, from 10 per cent to 16 per cent in Germany and from 6 per cent to 13 per cent in France. Underemployment can be visible (shorter working hours than desired) or invisible (low-productivity work: the 'working poor').

However, it became soon apparent that the most important application of the concept of disguised unemployment is in developing countries where it amounts to 20 per cent, according to ILO estimates in its more visible form alone. Here full and open unemployment is not usually practicable - except by support through the kinship system - because there is no social insurance and a fully unemployed person could simply not survive. Moreover, in the agricultural sector, which provides the main reservoir of labour in developing countries, work is in any case shared among all the household members and in the same way in slack seasons unemployment is shared among the household members. Furthermore the available data show that labour productivity in

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6 John Eatwell, *Disguised Unemployment: the G7 Experience* UNCTAD Discussion Paper No 106, November 1995.

agriculture and also in services is much lower than in manufacturing. It was thus a small step from there for the early development economists to draw the conclusion that the low-productivity agricultural sector constituted a labour reserve and the transfer out of this sector into higher productivity sectors, particularly manufacturing, was the royal road to development. In fact, a rudimentary model of this kind had already been sketched by Adam Smith in *The Wealth of Nations.* The economist most strongly associated with this strategy of using the disguised agricultural employment as an opportunity for economic growth through transfer was Arthur Lewis, with his emphasis on 'unlimited supplies of labour'.[7] Joan Robinson herself in 1937 was also well aware of this application to developing countries, for in addition to mentioning 'selling matches in the Strand' she also mentions 'cutting brushwood in the jungles'. Rural unemployment has been well described as 'a first cousin of Keynesian unemployment equilibrium'.[8]

The strategy of using disguised unemployment in agriculture as a means of growth by transfer to higher-productivity industry has been criticized as leading to lopsided development through neglect of agriculture, notably by T. W. Schultz.[9] This criticism may be legitimate in relation to the emphasis on industrialisation and the 'urban bias' inherent in treating agriculture mainly as a reservoir for feeding the labour demands of industrialisation. But it is not legitimate when applied to the concept of disguised unemployment as such. It is quite open to policy-makers to decide to deal with the problem by reducing the degree of disguised unemployment in agriculture itself, i.e. by raising the productivity and output of farming. Which is the better strategy - or rather the best combination of the two strategies - is a matter of analysing which combination yields the highest net benefits in terms of economic growth. In support of Arthur Lewis, it can be stated that a

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7 W A Lewis: 'Economic Development with Unlimited Supplies of Labour', *The Manchester School*, May 1954.

8 Syed Nawab Haider Naqvi, *Development Economics: A New Paradigm*, Sage Publications, New Delhi, 1993.

9 T. W. Schultz, *Transforming Traditional Agriculture*, Yale University Press, New Haven, 1964. Ironically Arthur Lewis and T W Schultz received a joint Nobel Prize in Economics.

reduction of the proportion of population in agriculture and an increase in the share of industrial production in GDP has been an invariable feature of economic growth. In support of T. W. Schultz, the example of the Green Revolution in India and Pakistan, or the high agricultural productivity in Korea and Taiwan, can be quoted as demonstrating the potential of a more agriculture-led growth. Another element in favour of the Schultz position was introduced by the Harris-Todaro model. This pointed out that because of the different levels of earnings in agriculture and formal industrial employment the volume of transfer from rural to urban areas would be excessive and hence a significant proportion of the transfer would amount to a transfer from low-productivity employment in agriculture to urban unemployment, or at best to equally low-productivity employment in the urban informal sector, i.e. disguised unemployment. The implication of the Harris-Todaro model is that Keynesian policies of increasing effective demand may thus increase rather than diminish unemployment! But the balance was tilted back again towards the Lewis position when the ILO Employment Mission to Kenya pointed out that the developmental productivity of employment in the urban informal sector was larger than had previously been assumed.[10]

The simultaneous existence of open unemployment, disguised unemployment, and underemployment in various forms is a recognition that unemployment is not a homogeneous phenomenon. Keynes dealt with open unemployment - the most pressing problem of his day - as a homogeneous case and suggested a single remedy, i.e. an increase in effective demand. Yet even within this category of open unemployment there is no homogeneity. For example, the case of the long-term or elderly unemployed may be different from that of the short-term or young unemployed, and accordingly different remedies may be appropriate for these different categories. It is plausible that an increase in effective demand will not be sufficient to persuade employers to take on the long-term unemployed who in their perception are no longer used to the discipline of work and have lost necessary skills and work habits. In their case, supply side measures such as training or perhaps

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10 ILO *employment, incomes and equality - a strategy for increasing productive employment in Kenya,* International Labour Office, Geneva, 1972.

direct employment subsidies may be necessary, while an increase in effective demand mops up the short-term or younger unemployed.[11] There is no reason to think that Keynes as an active policy-maker would have denied that measures related to effective demand would need supplementation on the supply side in such specific cases. In fact, a combination of both types of measures is necessary as essential complements of each other: without a strengthening of effective demand the increased employment would still go to the short-term unemployed, while without supply side measures even the increase in effective demand will not be sufficient to persuade employers to take on the long-term unemployed. In that sense, the discussion of supply-side measures ('flexible labour markets') *versus* demand-side measures is beside the point.

With surplus labour, capital becomes the scarce factor. This leads directly to the emphasis on capital accumulation (investment) as the source of economic growth in the Harrod-Domar growth model. These two avenues of influence of Keynesianism on development thinking are thus clearly and directly connected.

THE HARROD-DOMAR FORMULA

Like disguised unemployment, this other influential contribution of Keynesianism to development studies was due less to Keynes himself than to one of his close disciples, in this case Roy Harrod. Keynes himself, until he later (1942) became involved in the preparation of the post-war international economic order, was interested in the practical problems of reducing unemployment in the UK, and not what would happen once full employment had been achieved and how it could be sustained. 'In the long run we

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11 See Brian Reddaway 'How Useful are Keynesian Ideas in 1996?' *Royal Economic Society Newsletter*, issue 93, April 1996. The same point also emerged in a study of long-term unemployment in the UK undertaken during 1936-38, shortly after the publication of the *General Theory (Men Without Work: a Report to the Pilgrim Trust*, Cambridge University Press, 1937).

are all dead.' When Keynes exceptionally and outside his main work gave some attention to long-term problems, as in his essay on 'The economics of our grandchildren', he did this not in terms of a dynamic model of continued growth of GNP. On the contrary, he thought of the long-run equilibrium as one of reaching a plateau of reasonable satisfaction of basic needs when further accumulation and growth would be pointless and the fruits of further technical progress would be taken in the form of increased leisure, development of non-economic artistic and cultural activities and improved quality of life. In this respect Keynes was the forerunner of development economists like Dudley Seers, Paul Streeten, and others, who also questioned the objective of growth of GNP as the beginning and end of economic development.

Harrod's model (later supplemented by Evsey Domar) does not belong to this school of thought. It explores the preconditions for self-sustaining dynamic economic growth over time, implicitly accepting this as equivalent to development. It directly derives from Keynes in so far as like Keynes it uses the concept of the multiplier and puts capital accumulation or physical investment at the centre of the analysis as the element most suitable for manipulation in order to produce the warranted growth rate which leads to full employment. The basis of Harrod-Domar is so simple as to amount almost to a tautology. The rate of growth is determined by the share of investment in output (in equilibrium equal to the share of saving) divided by the capital-output ratio. If the rate of investment is 12 per cent and the capital-output ratio is 3 (i.e. three units of capital needed to produce one unit of output in all subsequent years) the rate of growth will be 4 per cent. If the rate of population increase is 1 per cent per annum, then the rate of per capita income growth will be 3 percent. Simple, but all the same illuminating and also controversial.

The formula is illuminating because capital accumulation or physical investment is clearly an important element in economic growth, just as disguised unemployment identified industrialisation and structural transformation from agriculture as important elements in development. Without first creating a capital base, countries cannot take advantage of trade and growth of markets and effective demand. A high and steady rate of investment has been an outstanding feature of the high-performing East Asian economies.

A recent authoritative study of these economies finds that 'these countries top the international league tables not just with respect to the long-term growth of their GDP but also to their national savings and investment rates'.[12] More questionable was the limitation of the concept of investment to physical capital. Development economists have come to place more and more emphasis on the importance of human capital (which Keynes, concentrating on short-term problems and the UK, took more or less for granted, as he did the capacity to supply higher rates of capital investment). In the formal sense this is not a valid criticism of the Harrod-Domar formula itself, which remains tautologically true. An increase in human capital - say better education, higher skills, or better health - will improve the capital-output ratio and by lowering it increase the rate of sustainable growth. Mathematically it makes no difference whether human capital is taken care of by adding it to investment in the enumerator or by lowering the capital-output ratio in the denominator.

However, while it may make no difference mathematically, it is true to say that by expressing everything in relation to physical capital accumulation the formula may lead to a neglect of other factors important for growth. The role of technical innovation for instance, as emphasized by Schumpeter, is not easily accommodated in the Harrod-Domar formula. Does it find expression in additional capital formation - this seems to be at odds with Schumpeter's emphasis on 'creative destruction' - or in improving the capital-output ratio?. Also, in the Harrod-Domar formula the rate of investment and the capital-output ratio are presented as two separate and presumably independent factors. Keynes himself, in line with neo-classical growth theory, seemed to believe that continued capital accumulation would be associated with falling marginal efficiency of investment. Subsequent development economists, like Kaldor, have presented development models where growth feeds upon itself with constant or increasing returns, i.e. an incremental capital-output ratio (ICOR) equal to or lower than the average capital-output ratio, the foundation of the 'new growth theory'. Myrdal's cumulative causation may also lead to similar results, but

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12 Ajit Singh, 'The causes of fast economic growth in East Asia' in *UNCTAD Review* 1995,.p118.

in a downward as well as an upward direction. With these new insights the Harrod-Domar model may be seen to be in the nature of a razor's edge (as Harrod himself had already made clear) where a steady rate of growth is achieved almost by rare accident and the normal case would be either inflation or stagnation or in fact a combination of both in the form of stagflation. Deviation from the warranted rate of growth would be self-amplifying. there are many examples in recent history to support such a knife-edge model.

The Harrod-Domar formula does not distinguish to what extent the crucial rate of investment, and the crucial increase in the rate of investment needed for full-employment growth, are to be achieved by public or private investment. But Keynesians, while advocating a mixed economy, tended to stress the catalytic role of public investment and the complementary relation between the two. Reliance on private investment might also involve the acceptance of income inequalities and of a high rate of profits (a major source of savings and investment). Many Keynesians, and Keynes himself in his later life, wanted greater equality in the form of a welfare state: hence they were leaning towards public investment and strategic public investment planning, project appraisal and cost-benefit analysis. This had an influence on the early development economists who were much concerned with techniques of development planning. The early Indian Five-Year Plans and the Mahalanobis model on which these plans were based served as a centre-piece of analysis and debate.

The emphasis on physical capital accumulation also provided an intellectual basis for aid to developing countries. Aid was supposed to go into capital formation rather than consumption. Moreover, aid was supposed to be a transfer from capital-abundant donor countries with low marginal returns to capital (i.e. a high capital-output ratio) to poorer countries with little capital and hence a favourable capital-output ratio. The success of the Marshall Plan - the most formidable aid project of the time - also seemed to support an emphasis on capital investment. However, this last point could be questioned: it was pointed out that the success of the Marshall Plan might be due to the ready availability of human capital in the recipient countries and also to the fact that rehabilitation and reconstruction is easier and has a lower capital-output ratio than building up capital from scratch. Also it could be

pointed out that the development institutions were in place, which leads us to the criticism of the Harrod-Domar formula that it does not explicitly include institutional factors in the growth formula. Political stability, solid financial institutions, social harmony, the rule of law, etc are clearly factors in economic growth, but do not explicitly figure in the Harrod-Domar formula, although Harrod and Domar would have readily accepted them as important determinants of both the rates of investment and the Incremental Capital/Output Ratio.

In the extreme case when there is no supply response due to structural deficiencies (lack of infrastructure, entrepreneurship or market institutions), the ICOR in the Harrod-Domar model becomes zero. Increases in investment will simply result in inflationary pressures unless the investment itself is specifically directed towards removing the bottlenecks causing a zero ICOR. However, in Keynesian thinking, the inflationary pressures can be contained or suppressed if the expansion of effective demand is accompanied by relevant macroeconomic controls.

CONCLUSION

Thus in answer to the question raised by our title, we may point to disguised unemployment and the Harrod-Domar formula as two examples of Keynesianism which have had a deep and lasting effect on development thinking and development policy. Neglect of employment effects (including disguised unemployment), of maintenance of effective demand, of a full-employment sustainable growth path and of the promotion of capital accumulation (both physical and human) have had harmful effects in the stabilisation and structural adjustment programmes imposed on developing countries. There are signs that this is being increasingly recognised and that the pendulum is swinging back from the excesses of the neo-liberal counter-revolution and towards an updated Keynesian Consensus.

The neo-classical counter-revolution, proclaimed as supplying an alternative (and superior) development paradigm to that derived from the original Keynesian revolution, is not really an alternative but a supplement. Once full employment has been achieved and sustained much of the neo-classical teaching about the importance of the market as a welfare-maximising allocative force becomes valid and relevant. But the Keynesian principle of providing full-employment effective demand comes first. The Keynesian dog should be wagging the neo-classical tail. Today, under the Washington Consensus, the tail is wagging the dog, with unhappy results for development economics - and, more important, for the developing countries.