Abstract: Economists became skeptical about the benefits of free trade for developing countries during the Great Depression, but in the 1960s some had come to recognize the problems with import substitution policies and the benefits of encouraging exports. This paper examines how four economists who led this transition – Ian Little, Jagdish Bhagwati, Anne Krueger, and Bela Balassa – came to their views and helped build a new professional consensus on trade policy and economic development. In each case, practical experience, and empirical observation, particularly from India, helped shape their opinions, persuading two of the four to revise their previous beliefs.

How do economists come to hold the views that they have? And how do intellectual “revolutions” occur that change the professional consensus about economic policy? Do such changes occur in response to contemporary events, the gathering of new evidence, or the emergence of new theories?

These questions have long been posed with respect to John Maynard Keynes and the development of macroeconomics in response to the Great Depression of the 1930s. The Depression transformed the views of economists about macroeconomic policy and also diminished the profession’s confidence in the desirability of free trade, particularly for developing countries.2 The collapse of world trade in the early 1930s led to a sharp deterioration in the terms of trade of commodity exporters. These countries, it was believed, could no longer rely on export growth to promote development. This “export

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2 As John Hicks (1959 [1951], 41) observed, “Free Trade is no longer accepted by economists, even as an ideal, in the way that it used to be.” Keynes himself is a case in point. A staunch advocate of free trade in the 1920s, Keynes modified his position during the Depression and came to believe that if limiting imports would help promote full employment then free trade would have to give way.
pessimism” led to the idea that inward-oriented policies, aimed at building up domestic industries, would be a better way to foster economic growth and development. “As a young economist, I was a neoclassicist and fought against protection,” the Argentine economist Raúl Prebisch (1984, 178) recalled. “But during the world Depression, throwing overboard a substantial part of my former beliefs, I was converted to protectionism.”

As a result, the leaders of the new field of development economics that emerged in the 1950s – including Prebisch, Gunnar Myrdal, W. Arthur Lewis, Albert Hirschman, Ragnar Nurkse, and Hans Singer, among others – were generally skeptical about unfettered trade. The static model of specialization and comparative advantage seemed to imply that producers of primary products would remain trapped exporting raw materials and never industrialize. Developing countries faced a chronic shortage of foreign exchange which they needed to purchase capital goods that were essential for industry. Most experts believed that increasing foreign exchange earnings through exports was not possible (export pessimism) because foreign demand for commodities and raw materials was not growing rapidly and was not very price sensitive. Because foreign exchange earnings were constrained, governments needed to carefully regulate spending on imports. Quantitative restrictions on imports were viewed as the best way of dealing with balance of payments difficulties. These import substitution policies would encourage domestic production in replacement of expensive foreign manufactured goods, thereby saving valuable foreign exchange and promoting domestic industries. Alternative policies, such as a devaluation, would fail to stimulate exports (due to the price insensitivity of foreign demand) and simply raise the cost of imported capital goods and other essential imported products.

But just as the Keynesian Revolution of the 1930s was challenged by the Monetarist Counterrevolution in the 1960s, the trade and development consensus of the 1950s was challenged by a “neoclassical counterrevolution” in the 1980s (Toye 1987, 2018). In both

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3 Each had different reasons for their skepticism about trade. For example, Prebisch and Singer worried that increased trade would deteriorate the terms of trade of developing countries (Toye and Toye 2003). Prebisch emphasized the need for developing countries to industrialize to escape this fate (Calcagno 2023). Hirschman and Nurkse debated whether growth should be balanced or unbalanced across sectors. There has been extensive research in recent years on early development economics, see for example Alacevich and Boianovsky (2018).
cases, changing circumstances and new evidence brought generally accepted views into question and forced economists to revise their previously held beliefs. In the case of Keynesian economics, it was the coexistence of rising inflation and higher unemployment; in the case of trade and development, it was the relative success of countries pursuing outward-oriented trade strategies in contrast to the apparent inefficiencies associated with an inward-oriented approach. In both cases, the counterrevolution originated in 1960s and came into greater prominence in the 1970s and 1980s.4

The challenge to the Keynesian consensus is often associated with a few key individuals, particularly Milton Friedman. Similarly, the overturning of the trade and development consensus also depended on a few key individuals. In particular, four economists – Ian Little, Jagdish Bhagwati, Anne Krueger, and Bela Balassa – were largely responsible for persuading the profession to view existing government policies regarding trade and development more critically. Each of them provided descriptive evidence on the deficiencies of import substitution and empirical estimates of the costs associated with protectionist policies, sometimes supplemented with theoretical work that clarified the issues involved. Little coauthored a prominent book detailing the problems with inward-oriented trade policies (Little, Scitovsky, and Scott 1970). Bhagwati coauthored a pathbreaking theoretical paper that strengthened the case for free trade (Bhagwati and Ramaswami 1963) and coauthored an important book on India’s experience with trade controls (Bhagwati and Desai 1970). Krueger analyzed the costs of foreign exchange controls (Krueger 1966) and published a famous theoretical paper on rent seeking and quantitative import restrictions (Krueger 1974). Balassa (1971) calculated unexpectedly high rates of effective protection to industries in developing countries and later compared

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4 De Vries (1966) and Keesing (1967) were among the first to detect a shift in the trade and development literature. De Vries (1966, 10) observed that “many of those who were previously strong advocates of protection and restricted trade and of exchange controls or multiple exchange rates for developing economies have become somewhat disenchanted with the operation of these policies in practice.” Keesing (1967, 303) wrote that “Contemporary experiences of less-developed countries in the realm of trade policy have shifted a considerable body of influential opinion away from an inward-looking strategy that relies exclusively on the home market for manufactures, towards what may be called an outward-looking strategy of trying to export manufactures early in the process of industrial development.”
the favorable economic performance of export-oriented countries to that of inward-oriented ones.

Working independently, these economists concluded that import controls were a poor way of addressing balance of payments problems, that devaluations would, in fact, help stimulate exports and increase much needed foreign exchange earnings, and that tariffs were a better policy instrument than quantitative restrictions or administrative controls in regulating imports. These findings supported the view that developing countries could benefit from less suppression of imports and more openness to trade. By the 1970s, these views contributed to a marked shift in the professional consensus about trade policy and economic development.5

This paper examines how these four economists arrived at the views that eventually proved to be so influential within the economics profession. Whereas previous economists had speculated about what trade policies might best serve the interests of developing countries, these four studied the actual policies pursued by governments and the actual outcomes of those policies. Remarkably, each approached the basic question of which type of trade regime would best advance economic development as an open one because there was no clear evidence at the time. As Bhagwati (1979, 305) put it: “the intellectual challenges of the 1950s and 1960s were . . . substantial and real: we really had little clue, if we were to be truthful, as to which trade and payments regime options for LDCs [less developed countries] would yield superior economic performance.”6

In each case, practical experience and empirical observation, sometimes through cross-country comparisons, shed light on the effect of different policies and led to

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5 Several economists at the time noted that the trade and development consensus had begun to change in the late 1960s. As Harry Johnson (1974, 710) commented: “Ideas on development evolved very rapidly in the 1960s, especially in the latter half of the decade, reflecting accumulating experience of the process and disillusionment with its results. Ideas from 1964 cannot be treated on a par with ideas from 1969.” Healy (1972, 792) noted: “There can be little doubt that a thorough survey of opinion on the problem of economic development would show that at the end of the ‘sixties and the beginning of the seventies a new consensus began to emerge. Like all new attitudes, it arose not in a vacuum but in response to the demonstrable failure of past beliefs and practices.” On the rise and fall of import substitution, see Irwin (2020).

6 There was a lot of speculation about what policies might be desirable, but not much evidence. As Cairncross (1960, 558) pleaded: “We know what most countries have done; it would be interesting if we could be told, by an economist . . . what the results have been and what they should have done.”
conclusions that shaped the positions that they came to hold. Three of the four were consultants to institutions such as the World Bank and the U.S. Agency for International Development from which they gained first-hand knowledge of developing country trade policy. Those experiences deeply influenced their outlook. For three of the four, India proved to be an important country from whose experience they drew their inferences. Two of them (Little, Bhagwati) changed their minds during their research. Only one (Balassa) had what might be called an ideological precommitment to a market orientation, but even he focused on evidence rather than theory or a priori reasoning.

The identification of particular individuals as critical to building a new professional consensus requires a judgement about whom to include and exclude. Other contenders are Peter Bauer, Deepak Lal, Robert Baldwin, and Max Corden.7 While each made important scholarly contributions, none had quite the same influence on the trade and development consensus as the four selected here. Bauer and Lal wrote more against planning and foreign aid than about trade policy specifically. Corden and Baldwin are famous for their trade research in the 1960s, Corden for the theory of effective protection and Baldwin for infant industry protection, but neither focused on developing country policy issues to the same degree as the others.8

This paper examines the process by which Little, Bhagwati, Krueger, and Balassa came to reach similar conclusions about trade regimes and economic performance in

7 Others have identified different combinations of these four economists, depending on their specific focus. Toye (1987) devotes a chapter to Lal, Little, and Balassa. In an essay on Balassa, de Melo and Christ (2008) noted: “With a handful of trade economists, including Jagdish Bhagwati and Anne Krueger, Bela [Balassa] would tirelessly recommend a simplification of the trade regime, moderate protection of industrial activities supported by uniform tariffs, a removal of quantitative restrictions, and a unification of the then prevailing multiple exchange rate regimes.” Williamson (1991, 72) writes that: “The profession was converted [to support freer trade] by Little, Scitovsky, and Scott (1970), followed by the meticulous assembly of empirical evidence at the World Bank under the intellectual leadership of Bela Balassa, and reinforced by the dramatic and visible success of outwardly oriented policies in the East Asian newly industrialized countries.” According to The Economist “This bloodless revolution [in thinking about economic development] is a triumph for the relatively small group of economic thinkers who, for years, withstood the contempt of the development-economics establishment … economists such as Anne Krueger, Bela Balassa, Deepak Lal and Ian Little are regarded – above all in the third world itself – as largely vindicated.” “The Left, the Right, and the Third World,” The Economist, March 14, 1992, p. 127.

8 Mention should be made of Harry Johnson, the University of Chicago trade economist who edited the Journal of Political Economy at this time. He published nearly all of the key articles on trade policy during the 1960s, including Bhagwati and Ramaswami (1963), Corden (1966), Krueger (1966), and Baldwin (1969).
developing countries. The evolution of their views is set out in their contemporaneous writings, supplemented by later recollections, which are of course self-reported but are largely corroborated. The paper does not focus on how the four came to have broader influence within the profession and among policymakers. The paper concludes with some speculation about how economists reach conclusions that have the potential to change the profession’s views on policy matters.

**Ian M. D. Little (1918-2012)**

After serving as a fighter pilot for the Royal Air Force during World War II, Little was educated at Oxford, where he spent most of his academic career. He won fame for his book *A Critique of Welfare Economics* (1950) before getting drawn into development economics by the end of the 1950s. At the time, India was attracting the attention of economists around the world for its ambitious Second Five Year Plan (1956-61). This proposal called for large state-led investments in heavy industry in the hopes of accelerating economic development. When implemented, this spending – coupled with a desire to keep the exchange rate of the rupee fixed against other currencies – quickly drained India’s foreign exchange reserves and forced the country to impose strict controls on imports to reduce foreign exchange outflows. These events stimulated an international debate about whether India could export its way out of its balance of payments difficulties or would require import restrictions and foreign aid to meet its investment and production targets.

Like most economists at the time, Little supported India’s planning and import substitution approach. Little (1960, 25) believed that “the broad strategy of Indian planned development is eminently sound” and “the relative attractions of import substitution are great.” Adding the slight caveat that “[T]his does not, of course, mean that export opportunities should not be explored,” he concluded that the “risks of failure are much less” with an import substitution strategy. A year later, he wrote a dismissive review of a

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9 For a brief biography, see Bliss and Joshi (2014).
10 As Little (1999, 76) later recalled, his early work “purveys the Indian planners’ thinking of the same time, which I accepted almost unreservedly.”
pamphlet on India by Bauer in which Little attacked many of the views that he would later embrace (Little 1961).

His supervision of an Oxford D.Phil. thesis by Manmohan Singh began to move him away from this position. Singh (1964, v) argued that “the stagnation of export earnings was partly a consequence of faulty Indian economic policies.” In particular, Singh concluded that India’s sluggish export growth was primarily due to domestic supply constraints rather than weak foreign demand. Little (1999, 77) later reported that Singh’s thesis “was one of the influences that slowly lifted the veil of export pessimism from my eyes.” (Singh later served as India’s Finance Minister during the 1991 trade reforms and as Prime Minister from 2004-14.)

But what really changed Little’s mind about India’s policies was his participation in a 1965 World Bank mission evaluating an investment project, a plant to produce electrical machinery and equipment in Bhopal. This visit marked “a watershed” in his thinking (Little 1999, 81) and seems to have been the primary impetus for changing his views on trade policy, project evaluation, and development. Little’s report, which was only declassified in 2010, is scathing. Using information that policymakers had in 1957 when they started the project, Little (1965, 7) concluded that one “needed little more than a glance at the figures to see that Bhopal was going to be an uneconomic project, even if all expectations were fulfilled (as they seldom are, anywhere).” He stated that the project “was unacceptable by any possible economic criterion and should have been rejected.”

Little was equally critical of the actual operational performance of the plant: “The dominating impression is that of an excessively expensive setup, in which far too little is happening.” The plant was not run at scale and was much too capital intensive for a country with India’s labor abundance. Visiting it is “nearer to standing in a gothic cathedral than an operating factory,” Little (1965, 17) observed. The project had a low rate of return partly

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11 Little (1999, 81) stated: “although the change [in my views] was insidious from 1960 to 1990, my India visit of 1965 was a watershed. It led directly to my research programme at the OECD, and hence to increasing emphasis on free trade and the reduction of domestic controls.” As a close friend and coauthor said: “his work on India in the 1950s had supported central planning. But in 1965 he visited again and had the cardinal insight that economic progress in India and elsewhere had gone off the rails as a result of neglecting the efficient use of foreign trade. This idea was to provide the focus of his work for the next 10 years.” Vijay Joshi, “Promoter of Liberal Trade Dies,” Financial Times, July 12, 2012.
because it neglected the advantages of international trade, and the cost-benefit analysis was not conducted using world prices. "This insight, blindingly obvious as it now appears, was then quite original, for the ethos of development economics at the time prohibited paying any attention to the advantages of trade," Little (1999, 80) recalled.

He further confessed that "I have not discovered any rational approach to project selection in the public sector in India" and that the selection process was insufficiently cost conscious. Whether the metric of success was profits or contribution to national income or balance of payments viability, simple calculations all led to the same conclusion: the Bhopal project "should have been rejected." For Little, this one project brought into question the whole idea of economic planning.  

Shortly after his 1965 trip, Little led two major research projects on developing countries for the Organization for Economic Cooperation and Development (OECD), one on trade and industry policy and the other on project evaluation. The final reports proved to be highly influential. The first was Industry and Trade in Some Developing Countries (1970), co-authored with Tibor Scitovsky and Maurice Scott. This landmark study was the first serious, in-depth analysis of developing country policy regarding trade and industry. Compellingly written and accessible to non-specialists, the book achieved a wide readership. Summarizing evidence taken from six background country studies, Little, Scitovsky and Scott (1970) were sharply critical of existing policy, arguing that trade controls and inward-looking policies imposed large economic costs and depressed exports.

Specifically, the book contended that protection had reached extremely high levels, that import substitution policies created a significant bias against agriculture, and that

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12 In an unpublished autobiographical memoir, Little (n.d.) discussed his trip to Bhopal: "My work on Bhopal was a major factor in changing my ideas about planning development. I concluded that this very large project was seriously flawed in conception, implementation, and current operations, and that it promised a very low rate of both financial and social return. The project evaluation work of other members of the Bell Mission suggested that Bhopal was no exception. If planning threw up many projects that seemed to have a very low rate of return, belief in planning – anyway, in planning as it was actually done – was undermined." I thank Lydia Segrave, Little’s widow, for providing a copy of this unpublished memoir. See also Little (1999, 80).

13 Little (1999, 82) explained why he chose to become involved in the project: "My recent Indian experience strongly influenced this choice of subject, since I had come to suspect that the neglect of trading opportunities might be resulting in very inefficient industrialization in other developing countries besides India."
these policies suppressed exports. None of these conclusions were fully appreciated by economists at the time. When the book was published, Little (1979, 265) recalled, there was “no recognition that protection inhibits exports” and “no distinction was drawn between protection by controls and by tariffs.” The authors argued that administrative controls on imports were burdensome and inefficient. They recommended that countries make greater use of the price mechanism and become more open to trade with less protection to domestic industry and less use of quantitative import controls.

The second project was *Manual of Industrial Project Analysis in Developing Countries, Social Cost Benefit Analysis* (1969), coauthored with James Mirrlees, later revised and published as *Project Appraisal and Planning for Developing Countries* (1974). This study argued that world prices should be used to evaluate projects in developing countries, a controversial proposal that faced heated resistance from many development economists.  

Thus, Little began the 1960s believing in planning and import substitution and ended the decade supporting trade liberalization and import decontrol. “I am widely regarded as having shifted from uncritical belief in dirigiste planning to excessive trust in the price mechanism,” Little (1999, 81) observed. “Apart from the adjectives, this is broadly true.” He characterized his change in views as being “driven by experience and research.” He attributed his early beliefs to having “too much faith in government” and being excessively critical about the faults of the price mechanism, both of which led to the desire to interfere with markets. Speaking for his generation, he confessed: “We were slow to realize that the most prevalent reason for market failure was government itself. Governments were driven by false economic ideology – heavy industry, protection, import substitution – and also became increasingly self-serving and corrupt.”

**Jagdish Bhagwati (1934-)**

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Born in India, Jagdish Bhagwati received his undergraduate education at Cambridge University (1954-56) and did graduate work at Oxford University (with a year at MIT) in the late 1950s. He returned to India in 1960 to teach at the Indian Statistical Institute and then at the Delhi School of Economics.\(^{15}\) At that time, he said he was a conventional supporter of import substitution type policies. As Bhagwati (2001, 144) recalled:

“when I first came back from Oxford, we all were supporters of the [import substitution] policy. For a couple of years, we were all export pessimists. Like everyone, I was a prisoner of my training. . . . I don’t know anyone whom we respected who was against import substitution in those days.”\(^{16}\)

That training was based on the premise that government intervention would be rationally designed. But, as he adds, “I got off the bus very quickly once I saw the inefficiencies of import substitution.”

Bhagwati’s early publications are not especially revealing about his policy views and do not establish that he was a strong believer in import-substitution policies. His famous theoretical paper on immiserizing growth considered an extreme case of export pessimism in which growth in a country’s exports so deteriorates its terms of trade that it is no better off (or even worse off) than before the growth (Bhagwati 1958). But he also wrote an empirical paper expressing skepticism about the Prebisch-Singer hypothesis that developing countries suffer from a secular deterioration in their terms of trade (Bhagwati 1960). In 1961, he discussed how the presence of market distortions made it difficult in theory to rank a free trade equilibrium over one with tariffs, or even autarky. This prompted Roy Harrod (1963, xiii) to write of “Mr. Bhagwati’s chilling agnosticism” about the benefits of trade “in striking contrast to the traditional approach.”\(^{17}\)

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\(^{15}\) He moved to the United States in 1968, taking a position at MIT and then moving to Columbia University in 1980.

\(^{16}\) Three prominent economists who spoke out against industrial planning in India were Peter Bauer, B. R. Shenoy, and Milton Friedman, but they were not respected by mainstream economists. As Bhagwati (2001, 144) later said, “B. R. Shenoy was a vocal opponent but we (wrongly) put him down as a libertarian and an ideologue.”

\(^{17}\) Harrod (1963, 394, 396) “found it depressing” that modern theory was “so agnostic” about welfare propositions regarding trade when distortions were present. He “asked for some comfort on the benefits of free trade in view of the seemingly protectionist conclusions of modern theory.”
By his own telling, as late as 1962 Bhagwati was still of the view that India should be pursuing import substitution. In that year he went to a conference in Japan and discussed India’s export prospects with Saburo Okita. As Bhagwati (1986, 60) recalled, Okita believed “that the world economy was expanding rapidly and we should consider exports a more serious alternative. I equally remember my sense that Okita-san was being too optimistic and that the Indian, inward-looking import-substituting (IS) stance was substantially correct. In retrospect, there is little doubt that his judgment was the correct one!”

However, his growing engagement in the Indian policy debate reveals a different set of views. Bhagwati (1962a) called for a devaluation of the rupee, rather than import controls, to deal with India’s foreign exchange shortage. A devaluation would stimulate exports better than export subsidies, which were “cumbersome and sometimes frustrate their own purpose.” He dismissed as “specious” the argument that a devaluation would increase inflation. If a devaluation was not possible, Bhagwati (1962b) argued that foreign exchange should be auctioned to the highest bidder rather than be rationed by the government in ways that could be inefficient and lead to corruption.

In “On How to Decide What to Import and What to Produce,” Bhagwati (1962c) pushed back against K. N. Raj and Amartya K. Sen who suggested that domestic production should receive priority over importing. He argued that it would require fewer resources to allow the importation of some goods rather than produce them at home. In “The Socialist Pattern of Society and Foreign Trade,” Bhagwati (1962d) attacked the government’s “hypocrisy” for banning imports of luxury goods on the pretense of suppressing their consumption when in fact it willingly invested in producing those goods at home. That policy was “enormously wasteful” because it led to inefficient small scale and excess capacity. These papers reveal that Bhagwati was deeply concerned about economic efficiency and the role of trade and markets in promoting the best use of resources.

Bhagwati also made a theoretical breakthrough (with V. K. Ramaswami) that was hugely influential in the trade and development debate. Bhagwati and Ramaswami (1963) argued that domestic distortions – the misalignment of prices and costs that led markets to
misallocate resources – should be addressed by governments policies that intervened at the source of the distortion or misalignment. In principle, taxes or subsidies on foreign trade were inferior (second-best, or worse) at correcting such distortions compared to domestic taxes and subsidies targeted at the point of divergence. For example, if wages were unnaturally higher in industry than in agriculture, raising costs and discouraging growth in that sector, the appropriate policy would be a wage subsidy not import protection. This finding meant that the existence of market failures did not mean that free trade was no longer desirable, as was commonly thought at the time. This result essentially resolved the “agnosticism” problem that Harrod had lamented earlier. Once again, Bhagwati showed that he was deeply interested in the efficiency of resource use.

Ramaswami, who at the time was an economic adviser to the Ministry of Commerce and Industry, also played an important role in shaping Bhagwati’s views on India’s trade regime. Bhagwati recalls asking Ramaswami about how the government made decisions about the allocation of foreign exchange to different industries, therefore determining which goods to import and which goods to produce at home. When the government allocated import licenses, for example, Bhagwati wanted to know how officials decided whether to produce diesel or turbine engines. Ramaswami answered that officials simply had to decide but there were no real principles to guide them or any sound economic basis for the decisions that they made. “Ramaswami confessed to me that he took the decisions but had no meaningful criteria for these decisions; there was really no theory you could bring to bear on these policy choices,” Bhagwati (2001, 143) recalled. “When you looked at the targets carefully, you found no consistency, no optimality, and no economic principles that make any sense.”

The Ramaswami disclosure, that the government had no particular criteria for allocating foreign exchange but rather made decisions somewhat arbitrarily, made a deep impression on Bhagwati and left him incredulous. This revelation helped shape his 1970 book with Padma Desai, India: Planning for Industrialization. (This book was prepared as

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18 See Panagariya (2006) on the importance of the Bhagwati-Ramaswami article.
19 In his 1968 Frank Graham Lecture at Princeton University, Bhagwati (1968, 55) attacked the idea that “domestic availability justified exclusion of imports,” a principle that “led to a total disregard of efficiency.”
part of the OECD project led by Ian Little on trade and industry policy in developing countries.) Much of the book was descriptive and detailed the shortcomings of India's economic planning, with attention paid to import and export policy as well. Bhagwati and Desai (1970, 291) repeatedly stressed the "absence of clear, economic criteria for determining import allocations" through the licensing system. Instead, "the agencies involved in determining industry-wide allocations fell back on vague notions of 'fairness,' implying pro rata allocations with reference to capacity installed or employment, or shares defined by past import allocations and similar other rules of thumb without any clear rationale." Bhagwati and Desai (1970, 308) concluded that "the import control system worked on incomplete and unsystematic information; lack of any economic criteria; and a series of ad hoc administrative rules of thumb for operating by a time-consuming bureaucracy. Further, whatever limited allocational aims it may have had were frustrated, in varying degrees, by the corruption that inevitably arose from the large premia on imports under the controls system."

Unlike Little's trip to Bhopal, there was no single event that seems to have altered Bhagwati's thinking. Certainly by the mid-1960s, Bhagwati was no longer enchanted with import substitution on grounds of theory or evidence.20 Perhaps reflecting his own change in view, Bhagwati (1975, 508) later wrote that

"among the important psychological reasons for the disillusionment of many economists with the import-substitution strategy has been the shock of finding that LDC [less developed country] governments . . . have import-substituted in an economically chaotic way! In our theory classes, we spend a lot of time discussing why the Invisible Hand may not work or, as Joan Robinson once put it graphically, why it may work by strangulation. When, however, we go and see the actual nature

20 In 1969, Bhagwati reviewed a book by B. R. Shenoy, giving Shenoy credit for being "among the few economists to notice and condemn the inefficiency of the import control regime and the wastefulness of the detailed control of industrial licensing and production, when in fact it was fashionable and personally rewarding to do otherwise" (Bhagwati 1969, 636). Yet Bhagwati remained dismissive about Shenoy's "strong ideology of the Friedmannite variety" and "his antipathy to planning per se" (ibid., 635-6). Bhagwati still favored a "form of planning where key, efficient decisions are taken in selected areas and the rest is left largely to the market."
of the intervention, the maze of controls, quantitative restrictions, and automatic protection in many LDCs, we find the intervention chaotic and comprehensive.”

In the 1970s, Bhagwati continued to do influential research on the costs of restrictive trade policies in developing countries. Inspired by the Little OECD project, he and Anne Krueger organized a National Bureau of Economic Research (NBER) project on foreign trade regimes and economic development (Bhagwati and Krueger 1973). The project produced nine country studies (including Bhagwati and Srinivasan on India and Krueger on Turkey) as well as two summary volumes (Bhagwati 1978, Krueger 1978). This project generally highlighted the superior performance of export-promoting trade regimes as opposed to import substituting ones. Bhagwati’s (1978) synthesis volume focused on the detrimental effects of exchange control regimes on efficiency and exports. He continued to write in the 1980s about the benefits of an “export promotion” strategy on the part of developing countries (Bhagwati 1987).

Bhagwati (2001, 145) later described his change in views as “an intellectual conversion based on an examination of both the theory and the policy of protectionism.” He argued that it was not due to his observing the success of East Asian countries with export-oriented development, which came later in the 1960s and 1970s. The timing of his published views appears to corroborate this statement.

Anne Krueger (1934–)

Unlike Little and Bhagwati, Krueger did not start her career with a presumption in favor of import substitution. When she began her graduate studies at the University of Wisconsin in the mid-1950s, Krueger (1990, 4) recalled, “international economics seemed to provide important tools of analysis, but . . . policymakers concerned with development seemed to be rejecting those tools. The apparent contradiction was uncomfortable, but I left it alone for several years.” Yet first-hand exposure to the inefficiencies of restrictive trade systems in practice soon made a mark on her, as it had on Little and Bhagwati.

Krueger joined the faculty of the University of Minnesota in 1958 and briefly engaged in the debate over India’s export prospects. She rejected export pessimism and criticized the neglect of exports in India’s plans. As she put it (1961, 432): “it is ironic that
in a country where the Planning Commission has largely determined the allocation of resources and has so totally neglected investment in export industries, that the failure of exports to increase should then be used as a basis for the argument that they will not increase and that therefore import-competing industries should be developed."

In 1965, the U.S. Agency for International Development (USAID) asked if she would become a consultant on trade policy issues facing developing countries. Given the choice between working on Turkey or Colombia, she chose Turkey and visited the country to learn more about its trade regime. "Travel there, and discussions with businessmen and others were sufficient to convince even a casual observer of some of the problems associated with import substitution regimes," Krueger (1990, 4) recalled. This led her to question "the conventional wisdom as to the costs of inappropriate economic policy mistakes."

In her USAID report, Krueger (1965, 47) concluded that "the economic cost to Turkey of continuing and increasing the emphasis on import-substitution is enormous." A synopsis of her report was published as "Some Economic Costs of Exchange Control: The Turkish Case" in the Journal of Political Economy in 1966. This paper reached the stunning conclusion, based on a sample of firms, that manufacturing output could double in value using the same resources if the country had a more liberal exchange control regime. The overvalued Turkish lira meant that the country’s exports were priced out of the market, leading to a massive incentive to produce and sell for the domestic market. The resources used to produce a certain amount for the domestic market would be worth three times as much, at world prices, if produced for export. "I learned a lot about how the foreign trade and exchange control regime actually worked," Krueger (2014, 231) later put it, "and many anecdotal reports were suggestive of side effects of the trade and payments regime that I had not really considered, nor had I seen them discussed in the literature."

This was followed by another USAID consulting trip, this time to India in 1968. As in Turkey, she observed gross inefficiencies with import substitution, this time in the motor vehicle industry (Krueger 1975). She also noticed efforts made by producers and merchants to evade government rules and regulations as well as capture the rents (price premia) arising from quantitative import restrictions. Like Turkey, India had an import
regime based on licensing, hence acquiring licenses from the government was a valuable activity in itself. As Krueger (1990, 4) recalled: “Within a short period of time, it was evident to me that businessmen were devoting much of their time to circumnavigating government regulations and controls, and that the focus of economic activity was profit by regulations, rather than to produce goods and services.”

These observations helped inspire the hugely influential paper “The Political Economy of a Rent Seeking Society,” published in the American Economic Review in 1974. The paper made the point that real resources were being diverted from production to lobby for rents from licenses and other quantitative import restrictions. Such rent seeking was not just a transfer activity that redistributed domestic income, as usually thought. Rather, it diverted resources away from productive activities and had a real cost in pushing a country inside of its production possibility frontier. The rents associated with import licenses and other import restrictions were not small: the value of rents was estimated to be 7 percent of India’s national income and 15 percent of Turkey’s national income. As a result, the welfare cost of quantitative imports restrictions was significantly higher than the welfare cost of import tariffs. A committee later selected this paper as one of the twenty most influential articles published in the first one hundred years of the American Economic Review.

As already noted, Krueger and Bhagwati led the NBER project on trade and development in the early 1970s. “To the great surprise of participants, and even somewhat to ourselves, many of the same phenomena were reported across the ten countries,”

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21 As Krueger (2014, 232) explained: “I learned a lot about the many and varied ways in which people responded to the incentives created by government regulations, especially in the trade and payments regime. These included not only the predictable smuggling and over- and underinvoicing, but also phenomena such as the ‘exportation’ of shiploads of stones, which were then dumped overboard (to collect export subsidies), the misgrading of commodities such as tobacco (tobacco inspectors were bribed by farmers to overstate the quality of tobacco), the wasteful stockpiling of spare parts and even entire machines in order to be able to produce should a crucial part or machine malfunction or import licenses be delayed or unavailable, and many, many more people will respond to relative rewards so that political and social objectives need to be sought through measures that create incentives for behavior consistent with those objectives. For example, a greater gap between the official exchange rate and the black-market rate will almost certainly lead to more behavior, both legal and illegal, to arbitrage at least to some extent the differential with significant economic costs.”

22 The committee wrote that the paper “helped to launch a voluminous literature on the role of corruption and governance in the process of economic development” (Arrow et al. 2011, 5).
namely the inefficiency of import substitution policies, Krueger (2014, 233) recalled. In her summary volume, Krueger (1978) focused on the results of liberalization attempts and their consequences, concluding that countries promoting exports performed better than those pursuing import-substitution policies.

The findings from the country studies reinforced impressions already established from her work in the 1960s. As Krueger (2014, 235) later explained:

“The experience of the countries in the Bhagwati-Krueger project, combined with the more in-depth experience in Turkey and India and the evidence of the benefits resulting from policy reform in Korea, convinced me that the benefits of an open-trade regime, while certainly including those in the traditional comparative advantage analysis, went far beyond that. An open-trade regime constrained economic policy makers in ways that an inner-oriented trade regime did not. It gave policy makers an objective way of estimating and enabling rewards for the performance of individual firms, so that entrepreneurs could no longer claim efficiency and productivity they did not in fact have. An open-trade regime also provided competition for domestic producers, which was important even for relatively large developing countries. For success, an open-trade regime had to be supported at least by adequate infrastructure and a reasonably stable and predictable set of macroeconomic policies.”

From 1982-1986, Krueger served as chief economist at the World Bank where she became an influential and sometimes controversial voice for market-oriented trade reforms. She was occasionally accused of being dogmatic or ideological by her opponents.

23 As Robert Baldwin (1988, 12), who studied the Philippines as part of the NBER project, later recalled: “It was remarkable how the conclusions of the authors of all nine country studies began to converge as the project proceeded. They all agreed that a policy of extensive import substitution, after a short period of rapid growth, resulted in a slowdown in the rate of development as excess capacity and other inefficiencies emerged in import-competing sectors, export production declined and serious balance of payments problems developed.” Baldwin continued: “It was also apparent from cross-country comparisons that the economies of countries that consistently followed liberal policies grew considerably faster than those more closely tied to an import substitution strategy. Though many of us had been convinced early in our careers that considerable government intervention was necessary in both developed and developing countries to maintain adequate employment and growth levels, we gradually came to reject this view, especially as applied to developing countries, as we observed their experiences after World War II.”
but she didn’t see it that way. “The Bank was also less critical of exchange control regimes and other government interventionist policies than I tended to be,” Krueger (2014, 236) stated. “I had never thought that ‘ideology’ was the basis for economists’ judgments but found myself accused of being ‘ideological’ when questioning price controls, import licensing regimes, and so on.”

In her 1997 presidential address to the American Economic Association, entitled “Trade Policy and Economic Development: How We Learn,” Krueger reflected on the changes in economic thinking about these issues. “In hindsight, it is almost astonishing how much thought and policy on trade and development have changed since the 1950s,” she recalled (Krueger 2014, 243). In her view, economists came to appreciate the benefits of an open economy only through the process of research and experience (Krueger 1997).

**Béla Balassa (1928-1991)**

Balassa was born and raised in Hungary. After receiving an advanced education in Budapest, he was forced by the communist government to leave the city and work in cotton fields in eastern Hungary. The months of involuntary servitude involved strenuous work that, in his words, “brought a deepening of my intellectual interests” (Balassa 1990, 17). Unlike the other three, Balassa’s personal experience early in life gave him a negative view of state control over the economy and a more favorable view of decentralized markets. As de Melo and Christ (2008) put it: “Influenced by events in his youth, Béla held a deep lifelong belief in political and economic freedom.” 24

He was released from manual labor but later fled to Austria after the 1956 Soviet invasion of Hungary. He arrived in the United States and began graduate studies at Yale University, where he received his Ph.D. in 1959. He stayed at Yale as an assistant professor

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24 “He had not only witnessed but had resisted the Russian invasion of Hungary in 1956 and, as one of the freedom fighters, he had fled for his life as well as his liberty” (Walters 1993, xvi). During his internal exile, Balassa read works by John Stuart Mill that “gave Béla a life-long faith in the superiority of markets over central planning” (de Melo and Sapir 1991, ix).
until 1966 when he moved to Johns Hopkins University and became a consultant with the World Bank.

Balassa’s research initially focused on trade issues among industrial countries, but he turned to developing countries after becoming involved with the Bank. In the late 1960s, he led a team that calculated effective rates of protection in several developing countries. His book *The Structure of Protection in Developing Countries* (1971) documented the high and variable effective rates of protection in manufacturing industries, the degree of protection being much greater than anyone expected. For example, the effective rate of protection to manufacturing was as high as 68 percent in Brazil and 57 percent in the Philippines. The cost of this protection was high as well, coming to 9.5 percent of GDP in Brazil and 6.2 percent of GDP in Chile and Pakistan (Balassa 1971, 72, 82).

Like Bhagwati, Balassa concluded that governments were not making decisions about industry protection on a rational economic basis. Import substitution policies could not be said to reflect a deliberate strategy but were being pursued in an ad hoc way:

“Whatever the intrinsic merits of this policy [of import substitution], its application has rarely been based on a consistent program of action. Rather, the existing system of protection in many developing countries can be described as the historical result of actions taken at different times and for different reasons. These actions have been in response to the particular circumstances of the situation, and have often been conditioned by the demands of special interest groups” (Balassa 1971, xv).

In the 1970s and 1980s, Balassa’s work did much to dispel the idea of export pessimism. He explored the contribution of exports to economic growth and concluded that export growth was driven by supply-side rather than demand-side factors (Balassa 1987, 463). He found that export incentives, through maintaining a realistic exchange rate and giving exporters duty-free access to raw materials and intermediate inputs, had succeeded in promoting exports in many countries (Balassa 1978). He argued that Taiwan, Korea, and other emerging exporters owed their success not to free trade policies but to creating incentives that amounted to a “free trade regime for exports,” by which he meant exporters
received world prices for their final output and paid world prices for their imported intermediate inputs.

Balassa did not use sophisticated theory or advanced econometrics but reached simple, straightforward conclusions about what the cross-country evidence showed about the outcomes of different trade regimes. For example, he did simple comparisons to conclude that export-oriented countries withstood the oil shocks of the 1970s better than inward-oriented countries (Balassa 1981). This finding came as a surprise because it had been thought countries less dependent on trade would be more insulated from global shocks.

Above all, Balassa was a persistent advocate of policy reform. Balassa (1975) urged countries to reform their system of incentives in a more market-oriented direction, especially by dismantling export disincentives, such as excessive protection to import-competing industries and overvalued exchange rates. He consistently and forcefully argued that countries should give producers an equal incentive to produce for export markets as for the domestic market. As Balassa (1989a, 19) stated:

“...My advice to developing countries was impregnated by my liberal economic philosophy. I advocated liberalizing trade and reducing state interventions in economic life. This came at a time when a dirigiste philosophy still held sway. Acclaimed writers like Gunnar Myrdal, Raul Prebisch, and Hans Singer called for import protection and state intervention... In 1966, when I wrote my first paper on development, I was practically alone with such a philosophy among economists of my generation. At the World Bank also, protection and state intervention were the order of the day.”

Balassa was a prolific author of policy-oriented papers at the Bank and participated in dozens of Bank missions around the world in the 1970s and 1980s. A tireless advocate of more liberal economic policies, he had an enormous impact on thinking at the World Bank and among policymakers around the world. The semi-official history of the World Bank notes that Balassa was “a protagonist of the Bank’s conceptual transformation in the trade-
policy area during the 1970s” (Kapur et al., 1997: 483). As a vigorous advocate of reform, he was sometimes accused of being dogmatic.25

Like Krueger but unlike Little and Bhagwati, Balassa did not experience an intellectual conversion to favor more liberal trade policies. Over the course of Balassa’s career, de Melo and Sapir (1991, xi) concluded that “one is struck by his consistency and perseverance in the advocacy of economic liberalism.” He refined and deepened but did not change his fundamental views over time.

The Continuing Debate

Working almost entirely independently from one another, these four economists came to similar conclusions about trade policy in developing countries. They broadly rejected import-substitution policies and thought that governments should give domestic producers the same incentive to produce for the world market (exports) as for the domestic market. That is, they wanted to eliminate any policy bias against exports, a stance which was misleadingly called export promotion to provide the contrast with import substitution. As Little (1975, 252) once exclaimed: “Who the hell wants to promote exports? What we are really talking about is removing biases against exports.”26

They also believed that countries should replace quantitative import restrictions and foreign exchange rationing with simple import tariffs. That is, they wanted to use price rather than quantity-based policies to regulate imports. For this reason, they favored devaluation (or the maintenance of competitive exchange rates) as a better way of dealing with balance of payments difficulties than import controls.

25 Hollis Chenery (1991, xiv), the World Bank’s chief economist during the 1970s, observed that Balassa “is known to some as a rather dogmatic advocate of neoclassical economics and outward-oriented trade policies.”

26 “Without ever advocating free trade, Béla recommended a system of incentives that did not discriminate between sales for domestic markets and sales for foreign markets,” de Melo and Sapir (1991, x) point out. As Bhagwati (1986b, 93) put it, “the motivation is simply that the EP [export promotion] strategy eliminate the bias against exports, thereby restoring the incentive to export as much as to produce for the home market” (emphasis in the original).
These four economists were critical of the protectionist policies associated with import substitution but did not endorse free trade in the sense of zero tariffs. Little, Scitovsky, and Scott (1970, 158-59) recommended that countries eliminate import quotas and impose a uniform tariff of 10 percent. If any industry deserved more support, they suggested that should be done through subsidies (not protection) in the range of 0-20 percent, or about 5-7 percent, on average. Balassa (1971, 1975) argued that countries with market power should impose optimal export taxes to improve their terms of trade, give infant industries temporary protection of about 20 percent, and provide equal (uniform) effective rates of protection for manufacturing at approximately 10 percent because of external economies of scale (about which he provided no evidence). In his judgement, protection greater than 10-15 percent “would involve costs are not commensurate with the expected benefits” (Balassa 1975). Bhagwati and Krueger often spoke about the direction that policy should take but their more academic work never provided precise details about what they believed policy should be.27

How did the older generation of economists respond to the new thinking on trade and development? And what did the new guard think of the older generation?

There was surprisingly little intellectual engagement across the generations. Writing more than a decade after the contributions of Prebisch, Myrdal, Nurkse, Hirschman, and the others, these economists did not elicit much of a reaction from them, as they had retired, passed away, or moved onto other issues.28 By the end of the 1960s there were no major figures mounting a serious defense of import substitution policies as the deficiencies became widely recognized.29

27 Krueger (1980, 288) once suggested that the “production of tradables should be undertaken to the point where the international marginal rate of transformation (IMRT) equals the domestic marginal rate of transformation (DMRT),” a standard theoretical condition but hardly advice a policymaker could easily implement.

28 Singer (1979) reviewed Krueger (1978) favorably, calling it “indispensable” and “convincing.” Still, he suggested that the line of causation did not run from devaluation and liberalization to economic success, but the other way around, that successful countries could afford to liberalize. He also worried that the international economic environment of the 1970s would be more difficult for developing countries than the pre-1973 period of stability studied by Krueger.

29 At a conference in 1973, Carlos Diaz-Alejandro (1975, 112) observed that “the weaknesses of the ‘import-substitution syndrome’ are by now being repeated ad nauseum, and fairly sympathetic reviews of
For its part, the new generation did not offer much commentary about the previous generation, although Balassa and Little were occasionally tough on their predecessors. In commenting on Singer’s (1984) reflections about his contribution to development economics, Balassa offered no praise. He flat out attacked the idea that developing countries suffer from a secular declining terms of trade, leveling the accusation that Singer “resurrects the old shibboleth about the possible adverse effects of trade on economic growth in the developing countries” (Balassa 1984, 308). Balassa countered that “it is anti-export policies that have adverse effects on economic growth.”

Little (1985, 47) concurred: “Balassa was definitely rough with Singer – justifiably so in my opinion.”

Little also made critical comments on the previous development thinking. Little (1979, 265) noted that when “the Singer-Prebisch-Balogh-Myrdal team dominated” the development landscape “a generation of development economists had been taught to sneer at the idea” of comparative advantage. But, he continued, “the pessimists were wrong” (278). Not all joined the attack. Bhagwati (1979, 303) did not share “the pleasure he [Little] evidently derives from what he considers to be the final rout of the Gang of Four – Gunnar Myrdal, Raul Prebisch, Hans Singer, and Thomas Balogh – who, to his discomfort, dominated the field for over two decades; I, on the other hand, consider their intellectual contributions in a somewhat more benign fashion.”

Although Bhagwati (1986, 28) thought the export pessimism of the early development economists was astonishing, he did not criticize or blame them for thinking so. He called Prebisch “a man of great distinction” who “unfortunately, . . . went wrong in advocating import substitution” (Bhagwati 2001, 145). “I do honor the man, but one has to say he went down the wrong road.” For her part, Krueger (1995, 2505) merely observed in a footnote that “Prebisch’s analysis was not entirely logically coherent.”

that strategy . . . are grossly outnumbered by orthodox and structuralist critiques.” By the mid-1960s, even Raul Prebisch had become critical of the trade policies being pursued by developing countries (Irwin 2020).

30 As Balassa (1989, 1648-49) bluntly stated: “The policies advocated by Prebisch and Myrdal came to be widely applied by developing countries in the early postwar period, through the imposition of import protection on manufactured goods and export taxes on primary products. The adverse effects of these measures on the export performance of the developing countries are indicated by aggregated as well as by disaggregated estimates.”
As the views of Little and the others gained traction in the 1970s and 1980s, they received pushback from critics who argued that they had overstated their case. Although he agreed that “much of the case for export orientation and against a policy bias towards import substitution is by now generally accepted and has considerably validity,” Streeten (1982, 162, 169) maintained that it was “oversimplified and misleading” to emphasize exports as a key to growth and that the term outward orientation was “too general and vague to present a good guide to policy.” Singer (1988, 232) criticized the World Bank’s 1987 World Development Report for promoting outward orientation while all possible qualifications were “swept away and forgotten in the confident and triumphant assertion that ‘outward orientation works.’” He argued that outward orientation did not work well for low-income countries, particularly in sub-Saharan Africa. Streeten, Singer, and others proposed a new form of export pessimism, that some countries could benefit from an export-oriented approach, but global demand could not accommodate the increased supply if all developing countries were to do so.

Another critique centered on the interpretation of the success of East Asian exporters. Little and the others had studied and often pointed to Taiwan, Korea, Singapore, and Hong Kong as countries that achieved high rates of growth through exports. Amsden (1989) and Wade (1990) countered that these countries could not attribute their success just to freer trade and “getting prices right,” but to smart government interventions, including protection, subsidies, and industrial policies targeted at specific industries.

Little agreed that these government intervened but insisted that such interventions were not responsible for these countries’ success. Little (1987) denied ever stating that these countries followed (or that he ever advocated) a policy of laissez faire. Rather, these countries provided a “free trade regime” for exporters, which meant that those producers faced world prices for their inputs (through duty-free access to raw materials and intermediate inputs) and their outputs (through a realistic exchange rate). Little (1999, 32)

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31 See the responses by Henderson (1982) and Balassa (1983).
32 As Little (1987, 46) stated: “I know of no economist who has claimed that their success [Korea and Taiwan] has been due to free trade and laissez-faire. What I and others have claimed is that their success (like that of the other members of the Gang of Four) is largely due (among other things, naturally) to the
argued that “the main ‘secrets’ [of success] were the maintenance of competitive real exchange rates for exports, and a free labour market,” that combined to produce phenomenal growth in labor-intensive exports. “The revisionists give no evidence of high social returns” in targeted industries, Little (1994, 364) complained, and he dismissed their attempts “to buttress their case by entirely unjustified and easily refutable attacks on some ‘neoclassical’ writers for . . . ignoring protection and other forms of government intervention.”

Similarly, Balassa (1988b, S286) did not “deny the role of government in the economic life of East Asia,” but believed “apart from the promotion of shipbuilding and steel in Korea and of a few strategic industries in Taiwan, the principal contribution of government in the Far Eastern NICs has been to create a modern infrastructure, to provide a stable incentive system, and to ensure that government bureaucracy will help rather than hinder exports.” In the case of Korea, Balassa (1988a) maintained that “the government acts largely as a promoter rather than a regulator” and supported and subsidized all exporters (not selected ones). Furthermore, Balassa (1988a, 30) believed that the Korea’s industrial policy in the 1970s, the Heavy Chemical Industry drive, “brought disastrous results” which explains why it was discontinued.

Conclusion

This paper has examined how four leading economists reached new conclusions about trade policy and economic development and thereby reshaped the profession’s perspective on the matter. All four arrived at their views in the 1960s by closely observing government policies in practice and sometimes undertaking empirical assessments of those policies. By gathering descriptive and empirical evidence about the costs of establishment of a trade regime that is virtually unbiased as between the home market and exports (ingeniously combined with selective protection of the home market – though they are moving away from this): it is suggested that this success could be despite, and not because of, some selective intervention by government in favour of certain mainly heavy industries which would not have been started (or, rather, not stated so early as they were) without that intervention."

Little (1979, 266) noted: “none of the challenging authors [i.e., himself and the others] has wanted to deny that an industrial promotion policy may be justified. It was difficult, however, to justify the effective protection exposed, which was over 100 percent for Argentina, Brazil, Chile, India, and Pakistan.”
protectionist policies and later noting the success of export-oriented countries, they helped change the professional consensus about trade and development. Economic theory may have guided their thinking but otherwise played little role in producing this transition.34

Each came to recognize the shortcomings of inward-looking trade policies by following a different path. Organizations such as the World Bank and USAID played a critical role (except for Bhagwati) in hiring these economists as consultants where they received first-hand exposure to developing country policy issues. Little and Bhagwati overcame their previous views and learned from observation and experience in India. Krueger does not appear to have started her research with strong prior beliefs but was struck by what she learned during visits to Turkey and India. Of the four, Balassa had strong convictions from the start, but he also reached conclusions based on evidence and experience.

Winters (2003, 63) has suggested that “Economic research is so diverse that one can always find an intellectual precursor to any change in policy views, but that does not answer the question of whether the precursor was influential and, if it was, why it happened to be preferred among the alternatives available at that particular time.” This paper has focused not so much on how the four became influential but on the initial formation of their views. A speculative answer to Winters’ question would be that their work, anchored in concrete observations and country experiences, was influential (even earning the respect of their critics) because it was among the first to study the actual contours and consequences of developing country trade policy.35

34 As Krueger (1980, 288) put it: “trade theory provides little guidance as to the role of trade policy and trade strategy in promoting growth,” partly because dynamics analysis of the relationship was unsettled. In her view, “no amount of theory can ever definitively resolve an issue” (Krueger 1990, 6). “Theoretical work did not help very much,” Winters (2003, 67) concluded, not only because it was not very operational but because it was largely agnostic about whether import substitution or export promotion would work better in practice.

35 For this reason, some have thought their job was an easy one. “While it is not that hard to explain why a development strategy that involved heavy government intervention, and in particular import restrictions promote industrialization, became popular, it is remarkable how few challenges were offered to that orthodoxy,” Krugman (1995, 728) writes. He suggests that the earlier ideas were weak and easily refuted: “Not only were the economic models underlying this orthodoxy clever but flimsy; the whole strategy was entirely speculative in the sense that there were no examples of its success.”
References


