



20-10 The Rise and Fall of Import Substitution

Douglas A. Irwin

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ABSTRACT

In the 1950s, many economists believed that import substitution—policies to restrict imports of manufactured goods—was the best trade strategy to promote industrialization and economic growth in developing countries. By the mid-1960s, however, there was widespread disenchantment with the results of such a policy, even among its proponents. This paper traces the rise and fall of import substitution as a development idea. Perhaps surprisingly, early advocates of import substitution were quite cautious in their support for the policy and were also among the first to question it based on evidence derived from country experiences.

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Douglas A. Irwin, nonresident senior fellow at the Peterson Institute for International Economics, is the John French Professor of Economics at Dartmouth College.

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1. INTRODUCTION

Development economics has had its share of ups and downs and rises and falls over the decades. This pattern is reflected in the titles of several well-known papers, including “The Birth, Life, and Death of Development Economics” (Seers 1979); “The Rise and Decline of Development Economics” (Hirschman 1982); “The Fall and Rise of Development Economics” (Krugman 1993); “The Rise and Fall of Development Theory” (Leys 1996); “The Rise and Fall of Development Aid” (Browne 1997); “The Rise and Fall of the Washington Consensus” (Gore 2000); and “The Rise and Decline of Economic Structuralism” (Love 2005).

To this list one could add the idea of import substitution, which was fashionable in the 1950s but fell out of favor by the late 1960s. Broadly speaking, advocates of import substitution argued that developing countries should discourage imports of manufactured goods in order to promote domestic industries and reduce their dependence on foreign trade.

The idea of import substitution emerged shortly after World War II, when many economists believed that the prospects of developing countries achieving economic growth through trade were slim.¹ By the mid-1960s, however, import substitution was encountering widespread skepticism, and support for the idea was fading.

This paper explores the rise and fall of import substitution as a development idea. It seeks to explain why it was originally considered desirable and why it fell out of favor. The focus is solely on the *idea* of import substitution, not the *practice* of import substitution in the policy realm, where it lived on long after most economists had grown skeptical of it.² The paper examines the views of key figures in development economics in the 1950s, including Raúl Prebisch, Gunnar Myrdal, W. Arthur Lewis, Albert Hirschman, and Ragnar Nurkse.³ Although these economists were generally critical of the idea of free trade that seemed to emerge from the static competitive model of neoclassical economics, they had surprisingly mixed views about import substitution. Prebisch was arguably the leading proponent of the idea, yet he and others were among the first to identify some of the shortcomings of import substitution in practice—the fact that import controls did not necessarily conserve foreign exchange as hoped, that rates of tariff protection were high and variable across industries for reasons unrelated to any apparent economic logic, that small and inefficient firms were created that served only domestic markets, and that taken together the policies became an obstacle to promoting exports.

Yet despite complaints about how import substitution policies had been implemented, few of these early development thinkers repudiated the notion that an import substitution approach could be beneficial. Nor did they advocate any significant reforms to developing-country trade policies that would mark a shift toward an export promotion strategy.

1 The basic idea of import substitution has had a long history; see Waterbury (1999).

2 As Arvind Panagariya pointed out in correspondence, import substitution “may have met its death in the academic community, but it surely has nine lives in the practitioners’ world.”

3 Several of these figures have been the subjects of major biographies in recent years. See Tignor (2006) on Lewis, Dosman (2008) on Prebisch, Barber (2008) on Myrdal, and Adelman (2013) on Hirschman. On Nurkse, see Kukuk and Kukuk (2009).

The task of calling for such reforms was left to a new generation of economists, who were responsible for a growing body of research that identified and quantified the costs of restrictive trade policies. These economists—including Ian Little, Anne Krueger, Jagdish Bhagwati, and Bela Balassa—began to document the economic costs of import substitution and to point out the benefits of a more outward-looking, export-oriented approach to trade and development. This shift in economic opinion from import substitution to export promotion (or outward orientation) began in the mid-1960s and later became enshrined as part of what John Williamson called the “Washington Consensus” of the 1980s.

In tracing the rise and fall of import substitution as a guide to policy, the paper contributes to the renewed interest in the origins and early evolution of economic thought regarding economic development.⁴ The paper begins by examining the views of Prebisch, perhaps the foremost advocate of import substitution, who, it finds, was not an unqualified advocate of the policy. It then shifts to the views of Myrdal, Nurkse, Lewis, and Hirschman, who also were not uncritical supporters of import substitution. The paper then briefly considers whether international organizations, such as the United Nations, the World Bank, and the International Monetary Fund (IMF), endorsed import substitution policies in the 1950s and 1960s. It then traces how Prebisch’s views changed in the 1960s as evidence of the shortcomings of import substitution emerged. The last section discusses how critical research by a new generation of economists led to the intellectual demise of import substitution by the end of the 1960s.

2. RAÚL PREBISCH AND THE CASE FOR IMPORT SUBSTITUTION

In the 1950s, the emerging field of development economics was dominated by a few key figures, including Prebisch, Myrdal, Lewis, Hirschman, and Nurkse.⁵ To varying degrees, they argued that the conclusions derived from standard economic theory were based on assumptions that were not germane to the economic circumstances of developing countries. Therefore, any policy conclusions that might emerge from standard theory would be inappropriate for those countries.⁶

In particular, the traditional case for free trade was thought to be based on a static model of perfect competition using neoclassical assumptions that were inapplicable to developing countries.⁷ For example, the theory of comparative advantage, it was believed, implied that developing countries would be locked into a disadvantageous pattern of specialization and trade—exporting primary commodities in exchange for imports of manufactured goods—which would keep them poor and from which they would never escape. Industrialization was

4 See, for example, Ascher (1996), Alacevich (2011), and Alacevich and Boianovsky (2018). Anne Krueger (1995, 1997) captures many of the themes addressed here, without the specific focus on import substitution.

5 See the reflections and profiles of these early development economists in Meier and Seers (1984).

6 As Myrdal (1956, 223) put it: “When economists . . . treat the commercial policy problems of underdeveloped countries within the framework of general theories that are fitted to the conditions and interests of advanced countries, they are following a procedure which is intellectually false.”

7 Prebisch (1950, 7) argued against the “false sense of universality” of the benefits of free trade.

seen as the principal path to development, and specialization for trade was seen as preventing developing countries from establishing a manufacturing base. Furthermore, as Prebisch and Hans Singer famously argued, exporters of primary products would experience a secular decline in their terms of trade, forcing them to export more and more in exchange for fewer and fewer imports.

In addition, it was believed that market prices would not produce the right allocation of resources, because high wages in manufacturing (compared with agriculture and primary sectors) meant that industry would be “too small” relative to the social optimum.⁸ As a result, extensive government intervention would be needed to organize resources more efficiently and mobilize the capital needed for economic growth.

This was the context in which the idea of import substitution emerged as a foreign trade strategy for developing countries. In describing the replacement of imports of manufactured goods with domestic production of such goods, the term *import substitution* was both descriptive and prescriptive: it was both an observation of what *would* happen as a country gradually acquired the capacity to produce manufactured goods at home and a prescription of what *should* happen with appropriate government policies. The notion that economic growth would naturally lead to import substitution is distinct from the idea that deliberately restricting imports could promote growth.⁹ This paper focuses on the prescriptive and seeks to understand why such trade policies were considered desirable for developing countries at the time.¹⁰

Prebisch and others originally advanced the idea of import substitution on a relatively narrow basis, not as a way of reducing total imports but as a way of shifting the composition of imports from consumer goods to capital goods. After World War II, most developing countries faced a severe shortage of foreign exchange. A leading policy goal was to reduce spending of foreign exchange on imports of nonessential consumer goods and redirect those scarce funds toward imports of capital goods that were more critical for development. Imports of consumer goods could be replaced by domestic production, but domestic producers did not have the technology to produce capital goods, which would still have to be imported. Advocates of import substitution never discussed in detail the specific policies that would best accomplish this and other objectives,

8 See Hagen (1958).

9 As Winston (1967, 108) put it: “Import substitution induced by these long run structural changes is a far cry from the import substitution that may be brought about by a policy of closely licensed imports under disequilibrium exchange rates and it is highly improbable that a relative increase in domestic production under these two very different circumstances would have the same effects on a country’s growth. In short, import substitution may always accompany economic growth, yet a policy that tries to force import substitution may have repercussions that stifle growth.”

10 Hollis Chenery (1955, 51–52), one of the leading development economists of the period, observed that “industrialization consists primarily in the substitution of domestic production of manufactured goods for imports.” He made this statement as a factual matter, not as something to be advocated. Chenery (1961) observed that import substitution would occur as a country grew and its comparative advantage changed but was vague about whether government policies should be employed to further this process. Chenery (1992, 387) later admitted that “I advocated cautious support for certain types of import substitution policies under certain structural conditions.”

such as the support of infant industries, although they seemed to support the use of import duties, import licensing, multiple exchange rates, and government allocation of foreign exchange.

The idea of import substitution is most closely associated with Raúl Prebisch, the first executive secretary of the United Nations Economic Commission for Latin America (ECLA) (1949–63) and the first secretary general of the United Nations Conference on Trade and Development (UNCTAD) (1964–69). He was among the most prominent economists of the day who articulated specific reasons why developing countries were not well served by the existing international division of labor. His ideas gave rise to heterodox notions about asymmetries in the global economic system, unequal exchange between the center and the periphery, *dependencia* theories, and economic structuralism.¹¹

In his famous 1950 report, *The Economic Development of Latin America and its Principal Problems*, which became known as the “Manifesto,” Prebisch set out his views on international trade between developed and developing countries.¹² He began by rejecting the “outdated schema of the international division of labor” in which developing countries exported primary products in exchange for imports of manufactured goods from advanced countries. Although the economic advantages of such exchange were “theoretically sound,” Prebisch (1950, 1) warned that it was “based upon an assumption which has been conclusively proved false by facts,” namely, that both sides would gain from such exchange. Advanced countries that produced manufactured goods would certainly benefit from trade; equivalent gains for developing countries were less certain. Because the income elasticity of demand for manufactured goods was much greater than that for primary products, Prebisch posited that the prices of primary products would fall over time. As a result, even if developing countries could expand their exports, they would be constantly fighting against a secular decline in their terms of trade.¹³ As Prebisch (1950, 10) put it: “While the centers kept the whole benefit of the technical development of their industries, the peripheral countries transferred to them a share of the fruits of their own technological progress.”

Prebisch never denied that exports were critical for developing countries. Exports produced the foreign exchange that was necessary to pay for imports of capital goods that were essential for domestic investment. “It should therefore not be forgotten that the greater the exports from Latin America the greater may be the rate of its economic development,” he stated (1950, 46). Export growth was paramount because spending on imports was limited by the foreign exchange earnings made available by exports: “If the latter were to rise sufficiently, it would not be necessary to restrict imports.” But Prebisch doubted that export earnings would be sufficient to finance all the imports of consumer goods and capital goods that developing countries would require. Therefore,

11 See Love (1980, 1995, 1990). See also Boianovsky and Solís (2014).

12 On the intellectual origins of the Manifesto, see Dosman (2001).

13 Prebisch and Singer came up with this idea independently around the same time; see Toye and Toye (2003).

governments had to ensure that scarce foreign exchange earnings were spent on capital goods, to promote investment and growth, and not on consumer goods, which were seen as economically unimportant.¹⁴

In the effort to boost domestic manufacturing and diversify the economy away from just primary production, Prebisch (1950, 46) recognized that protectionist trade policies could be carried too far, reducing not just imports but exports as well. In that case, the “substitution of industrial production for exports may represent a loss of real income,” although there was “no sign that Latin America is approaching this limit.” Prebisch rejected the goal of economic self-sufficiency and was aware of the potential costs of import restrictions.¹⁵ He recognized that one of the major problems of import substitution could be “the subdivision of industry into an excessive number of inefficient undertakings within a country or of the multiplication of comparatively small enterprises in countries” (1950, 47).

Thus, perhaps surprisingly, Prebisch did not fully endorse import substitution in the Manifesto. As Arndt (1987, 75) noted, Prebisch “stopped short of actually advocating such a policy [of import substitution], but the whole argument pointed toward it.”¹⁶

The Manifesto was hardly Prebisch’s last word on the matter. Throughout the 1950s and 1960s, he and the ECLA staff issued a steady stream of influential reports on trade and development that more openly advocated import substitution.¹⁷ For example, in a 1954 report, Prebisch (1954, 60) stated that “a reasonable measure of protection is generally indispensable for industrialization” in developing countries, because domestic manufacturing would not grow spontaneously without government assistance. In perhaps his clearest statement about the need for import substitution policies, Prebisch (1954, 10) wrote:

The economic development of a country demands, as a general rule, a continuous substitution of imports by domestic production, insofar as foreign markets cannot, without a perceptible deterioration in the country’s terms of trade, absorb enough

14 As Prebisch (1950, 45) put it: “A change in the composition of imports would . . . appear essential to the development of industrialization,” which could be accomplished by “decreasing or eliminating nonessential goods, in order to allow increased imports of capital goods.”

15 “If industrialization is considered to be the means of attaining an autarkic ideal in which economic considerations are of secondary importance, any industry that can produce substitutes for imports is justified. If, however, the aim is to increase the measurable well-being of the masses, the limits beyond which more intensive industrialization might mean a decrease in productivity must be borne in mind” (Prebisch 1950, 6).

16 Working independently, Singer came to many of the same conclusions as Prebisch. Singer (1958, 86) believed that “the earning of foreign exchange by underdeveloped countries is crucial for attempts to step up rates of investment,” which “means the utmost promotion of primary commodity exports . . . and of import substitution, with maximum allocation of the foreign exchange earned to essential investment.” Yet earlier, Singer (1953, 27) warned that using protective tariffs to help domestic manufacturing “may saddle underdeveloped countries with permanently high-cost projects which constitute a continuing drain on national resources and thus prevent the very development they are supposed to promote. Often, however, there is no real alternative.”

17 On the close relationship between ECLA and advocacy of import substitution, see FitzGerald (2000). Although the intellectual influence of Prebisch’s ideas in Latin America and elsewhere was considerable, he did not necessarily influence the course of policy. As Haber (2006, 538) argues: “The research by Raúl Prebisch and the United Nations Economic Commission for Latin America (ECLA) economists in the 1950s gave intellectual legitimacy to developments already taking place: their research did not, in and of itself, cause governments to adopt policies designed to protect and subsidize manufacturing.”

of the country's exports to satisfy its entire demand for imports. This process of substitution normally requires measures of protection and development to stimulate private enterprise and place it in a position to compete with foreign activities having a greater productivity achieved during earlier stages of development and maintained through their higher capital density and their easier access to modern techniques.

He also reiterated that the principal goal of import substitution was not to reduce overall spending on imports but to change the composition of imports from consumer goods to capital goods. As exports of primary commodities would be insufficient to earn enough foreign exchange to pay for both categories of foreign goods, the government had to discourage imports of wasteful consumer goods to save foreign exchange for growth-enhancing capital goods.

Yet even at this early stage, Prebisch (1954, 62) expressed some doubts about whether governments were actually using trade policy to this end: "It appears, however—save in exceptional cases—that no country in Latin America [has] developed a policy of protection which, besides being based on logical criteria of economic soundness, took account of the import substitution necessary for economic development, so as to give investments their indispensable order of priority." Although warning that indiscriminate protection would be harmful, he still concluded that "the need for protection in a sound development policy cannot be avoided."¹⁸

By the mid-1950s, Prebisch started to suggest that the "easy part" of import substitution—the replacement of imported consumer goods by domestic production—had been completed in Latin America. He then began to worry that economic efficiency was being compromised if each country started to push into production of capital-intensive goods and created its own automobile, steel, and machinery industries. "Import substitution in watertight compartments," as he put it, would diminish competition and prevent firms from achieving scale economies. Therefore, Prebisch (1954, 62–63) proposed that this type of import substitution be pursued not within national markets but within a larger Latin American common market. "Without a common market, there will be a tendency by each country to try to produce everything—say from autos to machinery—under the sheltering wing of high protection which means splitting the industrialization process without the benefit of specialization and economies of scale."¹⁹ Even so, this regional trade bloc should not be autarkic: "Such an idea would be an error of incalculable dimensions. Latin America has to export more and more . . . there is a perfect compatibility between the idea of a progressive integration of our economies and the equally meritorious idea of the most intense export thrust."

By the end of the decade, Prebisch (1959, 265) came to recognize that "in some cases indiscriminate or massive protection has gone far beyond the optimum point, to the serious detriment of exports and world trade." He still

18 Prebisch (1954, 62–63) believed that "if the restrictions are not applied by selectively decreasing or eliminating some imports in order to increase others, the country is obliged by the play of economic forces either to compress its income and to slacken the rate of growth or to restrain imports through currency devaluation, so as to correct the disequilibrium. In any case, the reduction of imports to the level of the payments' capacity is inevitable."

19 Quoted in Dosman (2008, 327).

supported import substitution in principle, although the policy was becoming less sharply identified with changing the composition of imports to conserve foreign exchange and more with protecting domestic industry in general. As Prebisch (1959, 265) put it: “Industrialization needs a dynamic policy of protection, which should be continually adapted so as to introduce new changes in import competition as the economy develops and disparities in the income elasticities of demand play their role.” He continued to argue that import substitution “is the only way to correct the effects on peripheral growth of disparities in foreign trade elasticity” (p. 253).

3. OTHER DEVELOPMENT ECONOMISTS ON IMPORT SUBSTITUTION

Like Prebisch, other development economists believed that free trade was not the right course for developing countries, but they had surprisingly mixed views about import substitution. Myrdal was a critical supporter, Nurkse was skeptical, Lewis was implicitly supportive, and Hirschman was downright dismissive.

In his book *Economic Theory and Under-Developed Regions* and elsewhere, Myrdal (1957, 94–95) attacked “the logically untenable and fallacious doctrine of free trade.” In his view, “the advice underdeveloped countries are now often gratuitously given to abstain from interfering with foreign trade, and from tampering with the foreign exchanges, is in most cases tantamount to advice not to bother about economic development.” He emphatically rejected using market prices as a way of judging how resources should be allocated.

Although he rejected free trade as a guide to policy, Myrdal never denied the importance of exports. In *An International Economy*, Myrdal (1956, 229) argued that “an underdeveloped country has powerful reasons for maximizing the total value of its exports; for its ability to export will always be the main determinant of its capacity to import capital goods which it needs in order to build up, inter alia, its manufacturing industries.” Therefore, “the proper approach to exports for an underdeveloped country would seem to be in the nature of a general and uncomplicated policy of export promotion,” particularly if such a policy would help diversify exports.²⁰

Myrdal (1956, 276) did not disparage the importance of imports, because developing countries were in “dire need” of acquiring foreign capital goods. The problem for these countries was a shortage of foreign exchange. As a result, a developing country “will be compelled to apply import restrictions in order to protect its exchange balance, quite apart from any other [protective] reasons,” of which there were many.²¹ Thus “import restrictions are forced upon them as a consequence of the development policy” (Myrdal 1957, 93).

20 Myrdal worried that world demand for primary products was not very elastic and was not growing, possibly leading to immiserizing growth. “If all underdeveloped countries did their utmost to increase their present staple exports,” he wrote, “they might end up poorer than they were” (1956, 255). Bhagwati (1958) formalized this idea.

21 Beyond balance of payments reasons, Myrdal (1956, 276) thought that “the underdeveloped countries have quite a number of other sound reasons, based on their peculiar situation, for using these restrictions for protective purposes,” particularly because of the “lopsided internal price structure disfavoring industry” (279).

In addition, the market could not be trusted to allocate scarce foreign exchange appropriately, so government authorities had to intervene to “give free entrance to capital goods but clamp down on imports of consumption goods and, in particular, luxury goods” (Myrdal 1956, 276). Like Prebisch, Myrdal (1956, 269) argued that the government should alter the composition of a country’s imports: “The development of domestic industry should be pushed in order to substitute domestic for import goods . . . in order to push its development, an underdeveloped country will normally be bound to restrict imports of consumption goods in order to devote as much as possible of its available foreign exchange to buying capital goods.”²²

To alter the composition of their imports, Myrdal (1956, 283) believed that countries should use import tariffs, not import quotas. “Managing such quantitative controls, the rules for which easily grow into a complex tangle without really diminishing the intrinsic arbitrariness of the entire operation, has not been such a success in advanced countries”; in developing countries, “where the administration has been inapt and partly corrupt, the damaging effects have been serious.” The government allocation of import quotas would lead to rent-seeking; as he put it, a system of imports controls “tends easily to create cancerous tumors of partiality and corruption at the very center of the administration, where the sickness is continuously nurtured by the favors distributed and the grafts realized and from which it tends to spread out to every limb of society.” Myrdal (1956, 74) strongly opposed quantitative import controls, arguing that they “create unearned profits, by conferring special advantages on those receiving import or foreign exchange permits, and it lends itself to corruption and lowers the moral standards of business.”

Despite these objections, Myrdal (1956, 284) believed that countries would have to use quantitative import controls: “Though I have come to the conclusion that underdeveloped countries will be compelled to rely upon quantitative controls as a regular means of restricting imports, I am bound nevertheless to recognize the serious difficulties they create for economic development.” In fact, Myrdal (1957, 93) was not optimistic that developing countries would pursue the right trade policies: “The fact that protectionism can be proved to be rational in an under-developed country should not, of course, be used to conceal the other fact that the interferences with international trade, as today actually applied, are grossly irrational in perhaps most under-developed countries.” This recognition, however, did not lead him to question whether governments should interfere with imports.

By contrast, Ragnar Nurske was skeptical about import substitution in principle, because it did not address what he saw as the binding constraint on development. In *Problems of Capital Formation in Underdeveloped Countries* (1953), Nurske advocated a policy of balanced growth in which capital investment should be increased across a range of industries to help diversify the economy. In doing so, he always emphasized that the major bottlenecks to

22 “None of this implies protectionist motives,” Myrdal (1956, 276) insisted, but developing countries should simply try to put foreign exchange to its best use. However, they should “seek to produce at home and substitute for imports everything [they] can produce at costs that are not too much higher than the prices of corresponding import goods,” Myrdal (1956, 269) wrote, although he never elaborated on the “not too much higher” threshold.

capital accumulation were on the supply side (the need to increase savings) rather than the demand side (a shortage of investment opportunities). For this reason, he was skeptical about whether import restrictions should be used to promote domestic manufacturing when local markets were small, making large-scale investments uneconomic. “There has been no lack of tariff protection in underdeveloped countries,” Nurkse (1953, 105) noted, but “tariff protection alone is an ineffective means of promoting economic growth” because it overlooks the problem of capital supply.²³

For Nurkse, the most effective way to increase capital formation was to increase domestic savings, an objective that was largely beyond the reach of trade policy. The reason that so many people focused on restricting trade instead, Nurkse (1953, 118) thought, was that “commercial policy appears as the easy way of doing things.”²⁴ Nurkse (1953, 115) doubted that restricting trade would work: “The simple idea that more capital can be got for the country merely by pinching and twisting the foreign trade sector of the economy is, in my opinion, an instance of the fallacy of misplaced concreteness.” Every piece of imported capital equipment amounts to an act of investment that, in the absence of external finance, calls for an increase in domestic savings or a corresponding decrease in domestic investment elsewhere. At the same time, Nurkse (1952, 581) thought it “possible, although not certain, that ‘luxury import restrictions’ will lead to some increase in the rate of capital formation in an underdeveloped country.” That did not make such restrictions a good idea, because “the result will be that the country’s capital supplies, scarce as they are, and painfully brought into existence, will be sucked into relatively unessential uses”—that is, producing luxury goods that were no longer imported (Nurkse 1953, 117). Therefore, the government would need to restrict investment in such sectors (perhaps through consumption taxes) to discourage that undesirable type of import substitution.

Nurkse’s early questioning of import substitution later turned to outright criticism. By the end of the 1950s, he argued that import substitution would draw resources away from the export sector and “may lead to costly and inefficient production in import substitutes,” reducing real income and domestic savings. “It is not to be denied that import restrictions can help in a policy of balanced

23 Import restrictions might help increase the demand for investment, but he questioned whether “the inducement to invest in a certain protected industry is not likely to endure beyond the point at which imports have been replaced” (Nurkse 1953, 105). If investment rose simply to serve the domestic market, there was a small, and one-off, limit to what import substitution would achieve.

24 At the same time, Nurkse (1953, 22) was an export pessimist: “To push exports of primary commodities in the face of an inelastic and more or less stationary demand would not be a promising line of long-run development.” A decade later, Nurkse (1961a, 244) was more optimistic, writing that “the traditional pattern of development through production for expanding export markets is not to be despised and ought not to be discouraged.” There was no tension between domestic growth and international trade because “they are really friends, not enemies.”

domestic investment, but their unfavorable effect on real income and possibly saving should always be remembered,” Nurkse (1961a, 256–57) noted. “They should therefore be used sparingly.”²⁵

Meanwhile, W. Arthur Lewis discussed trade policy in the context of his “dual” economy model, in which there was “overpopulation” or “unlimited supplies of labor” in agriculture. In his 1953 lectures at the National Bank of Cairo, he emphasized that improving productivity in agriculture should be given priority over promoting manufacturing, because it would generate higher incomes and might start the industrialization process. Still, if the marginal product of labor in agriculture was zero, or possibly even negative, then subsidies to shift labor from agriculture into manufacturing would be beneficial. For countries with “unlimited supplies” of labor, Lewis (1953, 39) argued that “there is a theoretical justification for protection” if real earnings in manufacturing were higher than in agriculture. He argued for limited subsidies or protection for industries in which there was learning by doing and for general protection (for perhaps 20 years) if there were external economies of scale in manufacturing. As his biographer Robert Tignor (2006, 87) points out: “Although he did not employ the term *import-substitution industrialization*, he was promoting precisely that strategy.”²⁶ Unfortunately, he did not elaborate on the design of a proper trade strategy for developing countries. At the same time, Lewis was not an export pessimist and never failed to point out the benefits of exports.

Albert Hirschman was openly critical of the idea of import substitution, at least during the 1950s. In *The Strategy of Economic Development* (1958, 123–24), he argued that “the advocates of protection and industrialization” have been “reluctant to notice the connection between imports and industrialization.” Certain unnamed writers were “far too intent on blaming imports for the economic backwardness of their countries,” ignoring the fact that imports could stimulate rather than squelch industrialization. Unfortunately, many countries “often adopted a policy that is self-defeating from the point of view of their avowed objective: by restricting imports too severely, they have been shutting out the awakening and inducing effects which imports have on industrialization” (p. 124). Hirschman also believed that the focus on import substitution “leads to

25 At a 1958 conference, Nurkse (1961b, 253ff) was even more critical of import substitution policies. “In my own opinion the restriction of imports may sometimes help but should never be relied upon. Actually it is apt to be overdone because it is such an easy thing to do.” He raised the possibility of trying to export manufactured goods, “a possible alternative” to import substitution. “It is in their interest at least to maintain, if not to increase, production of primary staples so as to keep up their foreign exchange proceeds from this source at the highest possible level. We are all indebted to Colonel Perón for an excellent demonstration of the loss which a country [Argentina] can suffer by sacrificing its traditional exports and hence its import capacity also.” Furthermore, Nurkse (1961b, 257) said that import substitution in terms of manufactured consumption goods was “largely an accomplished fact. . . . If balanced growth is based on import substitution alone, there is little scope for it left.” But Nurkse argued that balanced growth need not be based on import substitution but rather on the need to expand the size of the market: “In short, import substitution is not enough and may, in the long run, or even initially, not prove to be necessary at all.”

26 In his famous article on unlimited supplies of labor, Lewis (1954, 191) did not discuss trade policy in much detail, but he did point out that “the Law of Comparative Costs is just as valid in countries with surplus labor as it is in others. But whereas in the latter it is a valid foundation of arguments for free trade, in the former it is an equally valid foundation of arguments for protection.” He also did not elaborate much on trade policy in his book *The Theory of Economic Growth* (1956).

an underestimation of the crucial contribution of exports.” He concluded that “there is no real alternative between export promotion and import substitution. The former may often be the only practical way of achieving the latter.”

What are we to conclude from these early development thinkers’ views on import substitution? There was widespread agreement that trade was vital for developing countries: Exports earned the precious foreign exchange needed to buy critical imports. At the same time, there was widespread agreement that free trade—often equated with *laissez-faire*—was not a good strategy for developing countries, because it would do nothing to stimulate domestic industry. Still, import substitution as a policy idea received surprisingly mixed reviews. Although early development economists were skeptical about free trade, they did not issue a blanket endorsement of the protection of manufacturing industries or the substitution of domestic production for imports.

4. INTERNATIONAL ORGANIZATIONS AND IMPORT SUBSTITUTION

Import substitution was more than just an idea debated by academic development specialists. International organizations, particularly those associated with the United Nations, also advanced the idea in the 1950s and 1960s. An early UN report (1951, 58) highlighted the problems of unemployed labor and idle resources, infant industries, and deterioration in the terms of trade that faced developing countries: “These matters taken together will in most underdeveloped countries amply justify some degree of protection.” In particular, the foreign exchange bottleneck made it “of the highest priority in development to encourage industries which are foreign exchange earning (export industries) or foreign exchange saving (substitutes for imports).”

Under Prebisch, of course, ECLA supported import substitution. The 1956 *Economic Survey of Latin America* noted that “industrialization is the only way in which such countries can lessen their dependence on exports” (ECLA 1957, 150–51). Import substitution would not eliminate the need for exports, as it “changes, rather than reduces, the demand for imports.” Still, the growth of exports “is the only reliable source for financing the expanding volume of imports,” which leads “to the paradoxical conclusion that the only sure way of financing the imports for growing secondary industries is to expand the volume of primary commodities.” But, the 1958 *Economic Survey of Latin America* concluded, reflecting Prebisch’s view, “in the more highly industrialized Latin American countries, import substitution possibilities have been virtually exhausted in respect of current consumer manufactures” (ECLA 1959, 80).

Support for import substitution was not confined to Latin America, although other regions lacked a charismatic figure like Prebisch to lead the way. The United Nations’ *Economic Survey of Asia and the Far East* for 1959 reported “the conclusion of a necessary trend toward greater import substitution for the region as a whole would appear unavoidable” (UN 1959, 96). In a remarkable statement, given that many Asian countries were among the first to benefit from export-led growth, the Survey argued that “the development of the region can hardly rely exclusively on exports” and that “rising exports are unlikely to play a leading role in the development process of most countries in the region” (p. 101). Therefore, “import substitution of manufactured consumer goods and food will be necessary in the primary producing countries of the region if they are to develop

at a reasonably rapid rate.” Furthermore, the Survey concluded pessimistically, “in some countries, even the most severe degree of import substitution will probably not suffice to provide a large enough margin for imports of capital goods, so that a formidable effort will have to be made to produce them at home.” (p. 104).

Other international organizations were somewhat more skeptical about import substitution. The IMF did not weigh in directly on the matter, but it was critical of foreign exchange controls and multiple exchange rates in general during the 1950s. It paid little attention to developing countries until the early 1960s. In its 1963 annual report, the IMF (1964, 68) noted that “while some degree of protection of infant industries may be a rational policy for developing countries to pursue, the type of protection afforded by restrictive import licensing is highly erratic and is usually much more extreme than that which would be afforded by a rational tariff system.” And, it continued, “when protectionism is practiced by the less developed countries themselves, it is particularly important that they do not overemphasize the allocation of resources to import-substitute industries or to export industries, but attempt to maintain an appropriate balance between the two,” otherwise production for exports will be “unduly discouraged” (p. 74).

During this period, the World Bank was engaged in project lending in developing countries and generally did not advise governments on trade policy. However, it was not opposed to import substitution policies or projects when it encountered them. “During much of the Bank’s country-by-country work in the 1970s, it was fairly common to find the institution supporting IS [import substitution],” wrote Kapur, Lewis, and Webb (1997, 483–84) in their official history of the Bank.²⁷ That stance began to change in the late 1970s and early 1980s as a result of developments discussed in section 5.

The General Agreement on Tariffs and Trade (GATT) was not in a position to comment on or make recommendations about the trade policies pursued by developing countries. However, in a 1958 expert report from a committee chaired by Gottfried Haberler, entitled *Trends in International Trade*, the group touched on the issue in passing. Acknowledging the special considerations that would justify using trade controls in developing countries, including restricting imports of luxury goods, the GATT report (1958, 125) noted that “there have certainly been cases in which the trade control policies of the underdeveloped countries have gone far beyond these points in discouraging exports of their primary products and in encouraging import-competing industries. When this has happened, the result has almost certainly been to the disadvantage of the under-developed country itself.” Beyond that, little was said about developing country trade policy.

27 Kapur, Lewis, and Webb (1997, 484) quoted from a 1979 advisory report: “It is noteworthy that, until the early seventies, the Bank’s economic and sector missions to developing countries used to adopt benevolent attitudes towards (protectionist) import-substitution policies, while they now advocate vigorously for fairly neutral incentive systems combined with reasonably liberalized trade regimes and realistic exchange rates.”

5. GROWING SKEPTICISM OF IMPORT SUBSTITUTION IN PRACTICE

In the 1950s, Prebisch supported import substitution, albeit not without some misgivings. In the 1960s, he became more openly critical of the way such policies were being practiced. In many Latin American countries, Prebisch (1961, 3) observed, import substitution “has been carried out with very serious flaws.” Existing policies were not the product of a well-thought-out development strategy but often the result of emergency measures designed to cope with balance of payments difficulties. Although he still did not question import substitution in principle, Prebisch (1961, 5) wondered whether such policies had gone too far in practice and were having a detrimental impact on exports:

The need for import substitution and for consequent protection of substitution activities has been unavoidable. But there has been a failure to boost exports to the same extent. There has been discrimination in favor of industrial substitution policy and against exports, mainly industrial exports. The ideal policy would have been to promote exports in order to place them on an equal footing again with substitution activities, which does not necessarily mean equal incentives. . . . By subsidizing substitution production rather than production intended for *new* exports (industrial or primary), export opportunities have been lost which, had they been properly used, would have reduced the scope of substitution policy or made more rapid economic growth possible.²⁸

In a farewell report for ECLA, Prebisch (1963, 7–8) warned of “exaggerated protectionism” in Latin America, arguing that “the development of industrialization in watertight compartments has created vested interests and prejudices which oppose reciprocal trade without taking account of the serious effects of such an attitude on economic development.”²⁹ Once again, he did not back away from his support for import substitution in principle (calling it “essential”), but he regretted that “it has not been applied with moderation, nor has there generally been a policy laid down rationally and with the foresight which is essential for the alleviation, if not the prevention, of balance-of-payments crises.” He also began to recognize that import substitution may create inherent obstacles to export promotion. Prebisch (1963, 72) worried that “the closed industrialization fostered by excessive protectionism, as well as the unduly high customs tariffs applied to some staple agricultural commodities, have created a cost structure which makes it extremely difficult for Latin America to export manufactured goods to the rest of the world.”

Although Prebisch did not call for more import substitution, he did not advocate a wholesale reform of trade policy in developing countries. Rather, he repeated his call for regional economic integration so that import substitution

28 He also made a passing reference to the “exorbitant” cost of import substitution and suggested that subsidies rather than tariffs might be a preferred method of helping those industries but reducing the cost to the economy.

29 Prebisch (1964, 71) argued that “the proliferation of industries of every kind in a closed market has deprived the Latin American countries of the advantages of specialization and economies of scale, and, owing to the protection afforded by excessive tariff duties and restrictions, a healthy form of internal competition has failed to develop, to the detriment of efficient production.” As a result, “an industrial structure virtually isolated from the outside world thus grew up” in Latin America. Although tariffs were better than prohibitions, “these tariffs have been carried to such a pitch that they are undoubtedly—on an average—the highest in the world. It is not uncommon to find tariff duties of over 500 percent.”

would occur within a larger Latin American common market rather than within small independent countries. Such integration would allow firms to operate in a larger market, reducing the efficiency costs of import substitution on a national scale. He also called for a new form of trade reciprocity—namely, unilateral tariff concessions by developed countries—so that developing countries could diversify their exports by selling labor-intensive manufactured goods in those markets.

Prebisch's souring on the practice of import substitution was reflected in a growing disenchantment at ECLA with the policy. In a scathing indictment of Latin American trade policies published in the *Economic Bulletin of Latin America*, Santiago Marcario (1964, 67) concluded that “domestic industry is still accorded excessive and indiscriminate protection, basically geared to import substitution at any cost.” The “lack of rationality” and the “prevalence of excessively high rates” of protection, he concluded, “have redounded to the detriment of their economic development.” Like Prebisch, Marcario did not think there was a problem with the idea of import substitution, but he believed its implementation had been problematic and had led to inefficiency.³⁰ Countries in the region had adopted ad hoc policies to solve short-term problems rather than selecting the industries to be protected “by rational and systematic selection with a view to promoting the optimum allocation of resources and/or the maximum real saving of foreign exchange.” Furthermore, government officials were too passive in determining which industries should be protected, leading to policy capture by special interests: “Direct controls became a source of favoritism and corruption” because “they were both adopted and applied at the discretion of the administrative authorities and resulted in exceptional gains for the sectors, groups or individuals they benefited.”

In his first report as secretary general of UNCTAD, Prebisch (1964, 22) took another swipe at import substitution as actually practiced: “The relative smallness of national markets . . . has often made the cost of industries excessive and necessitated recourse to very high protective tariffs; the latter in turn has unfavorable effects on the industrial structure because it has encouraged the establishment of small, uneconomical plants, weakened the incentive to introduce modern techniques, and slowed down the rise in productivity.” Increased competition, he insisted, was necessary to drive improvements in productivity and reduce costs.³¹ Yet Prebisch (1964, 21) still did not repudiate the idea of import substitution: “Industrialization based on import substitution has certainly been of great assistance in raising income in those developing countries, but it has done so to a much lesser extent than would have been the case had there been a rational policy judiciously combining import substitution with industrial exports.” Instead, he advanced two of his usual recommendations: that developing countries should (a) pursue regional integration schemes

30 The region “cannot be said to apply a protectionist policy, if by this is to be understood a systematic body of measures deliberately designed to permit and encourage the development of certain industries rationally selected within an over-all framework of objectives established under a given economic development policy,” Marcario (1964, 61) wrote.

31 Because “industrialization proceeded piecemeal in a large number of watertight compartments with little inter-communication, to the serious detriment of productivity. . . excessive protectionism has generally insulated national markets from external competition, weakening and even destroying the incentive necessary for improving the quality of output and lowering costs under the private enterprise system” (Prebisch 1964, 21–22).

to rationalize industry within a larger market and (b) press advanced countries to grant them tariff preferences so that they could increase their nontraditional exports.

By the mid-1960s, many economists shared Prebisch's concerns about import substitution in practice. Nurkse had passed away, but Lewis (1966, 43) thought it was time to move on because "the possibilities of import substitution of manufactures are already exhausted, or about to be exhausted, and development must move into a new stage, or decelerate."³² In his massive book *Asian Drama*, Myrdal (1968, 672, 1203) conceded that import substitution "is no shortcut to engendering development" but simply asserted that "the obstacles to export promotion in manufactures are so great that import substitution usually offers a more promising prospect." Despite his earlier skepticism about the policy, Hirschman (1968, 3) now cautioned that "there may be considerable exaggeration in the announced failure of import-substituting industrialization [ISI] . . . The rapidity of the reversal in the climate of opinion makes one rather suspect that ISI had, *from its very outset*, both positive and negative aspects, with the latter simply coming into view a few years after the former." To be sure, Hirschman (1968, 32) "by no means denied the various difficulties which the ISI process is apt to experience," but he did not dismiss the policy as quickly as he had a decade earlier. Still, he offered no specific advice about how an import substitution approach should be designed or how it might succeed.

Whatever enthusiasm there had been for import substitution in the 1950s was largely gone by the mid-1960s. The change was recognized by the very group that was most sympathetic to the idea of import substitution in the first place. What is remarkable is what these leading development thinkers left unsaid. Almost completely absent from their writings was any call for developing countries to reform their policies by reducing import barriers (except among themselves in regional trade blocs) and open up more to trade on a multilateral basis. This point was left to a growing number of outside critics.

6. ORTHODOX QUESTIONING: THEORY AND COUNTRY EXPERIENCES

In the 1950s, international trade economists, as distinct from economists specializing in economic development, did not directly criticize the idea of import substitution or explore its potential failures. In prominent lectures on trade and development during that decade, Jacob Viner (1952) and Gottfried Haberler (1959) maintained that the theory of comparative advantage was still

32 Lewis (1965, 487) never lost hope about the prospects for exports fueling growth: "It is not an accident that in the past economic development has usually started because of an increase in exports."

relevant for developing countries, focusing their criticisms on the idea that developing countries were struggling with a secular deterioration in their terms of trade or suffering from significant disguised unemployment.³³

By the mid-1960s, other trade economists were more critical of Prebisch, Myrdal, and ECLA doctrines that implicitly or explicitly justified the need for import restrictions. They complained that theories purporting to show how developing countries were losers from trade were vague and imprecise. They questioned whether trade restrictions necessarily followed as the right policy prescription even under the assumptions made by advocates of import substitution.³⁴ A growing body of empirical research on trade restrictions in practice was even more effective in bringing the idea of import substitution into question.

Several early papers that quantified the impact of developing country trade policy focused on Pakistan. John Power (1963, 201) concluded that the lack of competition because of import restrictions meant that there was “just a lot of plain inefficiency” in Pakistani industry. This inefficiency illustrated the “dangers inherent in a strategy of primary emphasis on replacement of imported consumption goods,” which encouraged investment in many small, uneconomic industries without sufficient competition to enforce efficiency and progress, “in short, doing many things poorly instead of fewer things well.” Ronald Soligo and Joseph Stern (1965) calculated that many Pakistani industries had negative value added at world prices.

In studying the Philippines, Power (1966, 182) reached “somewhat depressing” conclusions regarding the economic efficiency of import substitution. Protection, he claimed, was “likely to misallocate resources by means of a strong bias against exports, against backward-linkage import substitution, in favor of less essential industries, and in favor of heavy users of foreign exchange. Nor can any of the arguments for correction of market failures bolster very much the case for this kind of protection.” Power (1966, 170) even wrote that “a naïve import substitution strategy can impede growth via an adverse effect on the marginal savings rate, as well as on the social product; and that its influence on the latter over time depends as much on inducements to efficiency and innovation as on

33 Viner (1952, 62) criticized Prebisch on the issue of whether agricultural countries were necessarily poor, arguing that the “dogmatic” identification of agriculture with poverty is “mischievous fantasies, or conjectural or distorted history, or, at the best, mere hypotheses relating to specific periods and calling for sober and objective testing.” In accepting the infant industry argument for protection, Haberler (1959, 5) noted that “it does not necessarily follow that a 100 percent free trade policy is always most conducive to most rapid development. Marginal interferences with the free flow of trade, if properly selected, may speed up development. But I do not want to leave any doubt that my conclusion is that substantially free trade . . . is the best policy from the point of view of development.”

34 June Flanders (1964) questioned whether the policy prescription of trade restrictions necessarily followed from the questionable finding of a secular deterioration in the terms of trade. Jagdish Bhagwati (1964, 637) wrote that the trade and development literature “is overwhelmed by the loose (but imaginative?) writings of economists such as Prebisch, Singer, Balogh, and Myrdal.” Criticizing Myrdal, Thomas Balogh, Nicholas Kaldor, and others who did not believe that comparative advantage worked for developing countries, Max Corden (1965, 58) argued that “imprecision in their thinking makes it more difficult to summarize their views.” Gottfried Haberler (1969, 408) bluntly stated that their views were “exceedingly voluminous, vague, diffuse, often internally contradictory and changing over time, and largely based on wrong factual assumptions, faulty theoretical reasoning and misunderstanding or misinterpretation of opposing views.”

resource allocation.” He regretted that his was “not a happy conclusion, for the difficulties are very great and the alternatives to an import substitution strategy are not very promising.” Similar findings were made in other countries.³⁵

The mid-1960s also saw the concept of the “effective rate of protection,” popularized by Max Corden (1966), become a widely used framework for calculating the impact of tariff structure on industry value added. For developing countries, such calculations tended to reveal high and highly variable effective rates across industries, apparently unrelated to concerns about economic efficiency. One early study by Stephen Lewis and Stephen Guisinger (1968) pointed to the severe price distortions in Pakistan’s economy and the extraordinarily high effective rates of protection for certain industries. In his cross-country compilation, Bela Balassa (1971) noted that the protection given to various industries tended to emerge from a haphazard process rather than any deliberate economic strategy.³⁶

These developments led Margaret de Vries (1966, 34ff) to write of “a marked disenchantment with the results of import restrictions and multiple exchange rates as measures to foster protection and to cope with balance of payments deficits,” as well as increased recognition that “exports have been the key to successful economic development for one basic reason—they provide the most important wherewithal to purchase imports necessary for development.” One force, she noted, “in causing shifts of thinking about the need for restrictions has been the now almost widespread realization in practice—as well as an intellectual argument—that restrictions on imports contribute little to the basic problem of enhancing a country’s capacity to import.”

This sense was supported by the growing number of countries that seemed to be enjoying economic success by creating incentives for exports rather than by focusing on import substitution. Pointing to the experiences of Taiwan, Hong Kong, South Korea, Israel, and others, Donald Keesing (1967, 303) observed 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, toward what may be called an outward-looking strategy of trying to export manufactures early in the process of industrial development.”

35 Krueger (1966) found that exchange controls for import-substitution purposes in Turkey suppressed exports and distorted resource allocation. Johnson (1967) reported that Chile had about a dozen automobile firms that were saddled with inefficiently high costs because of the small market. By the late 1960s, an increasing number of studies along these lines was being published.

36 Balassa (1971, xv) wrote that “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. The authorities have generally assumed a permissive attitude toward requests for protection and failed to inquire into the impact of the measures applied on other industries and on the allocation of resources in the national economy.”

Thus, by the end of the 1960s, it was clear that intellectual support for import substitution was on the wane.³⁷ In 1970 and 1971, three influential books dealt crushing blows to import substitution in practice: *Industry and Trade in Some Developing Countries* by Ian Little, Tibor Scitovsky, and Maurice Scott, *India: Planning for Industrialization* by Jagdish Bhagwati and Padma Desai, and *The Structure of Protection in Developing Countries* by Bela Balassa. The first two books documented the economic inefficiency of existing import restrictions; the last book highlighted the high and variable effective rates of protection in many countries. All three shaped the views of economists and helped usher in a new wave of thinking about trade strategy for developing countries. At a major conference in 1973, Carlos Diaz-Alejandro (1975, 112) declared that “the weaknesses of the ‘import-substitution syndrome’ are by now being repeated ad nauseum, and fairly sympathetic reviews of that strategy . . . are grossly outnumbered by orthodox and structuralist critiques.”

The few remaining defenders of import substitution did not find fault with the goals of the policy but claimed that such policies had been poorly implemented.³⁸ Bruton (1970, 123–24) believed that “although the countries that have built their development policies around import substitution have experienced great difficulties, there are reasons to believe that a satisfactory approach to development can be built around this approach . . . specifically, it appears that the distortions and misallocations that have been imposed on the economy by the conventional approach to IS have themselves created difficulties that contributed significantly to the widespread failure of the approach to work as satisfactorily as many expected.”

7. CONCLUSION

In the 1950s, the idea that developing countries should pursue a policy of import substitution was in vogue among thought leaders in development economics. Yet this paper finds, perhaps surprisingly, that even the leading proponents of the idea were hardly unqualified advocates of the policy. Moreover, there was little uniformity in their views: Prebisch favored import substitution but was an export pessimist, Myrdal favored import substitution but supported export promotion,

37 As Haberler (1969, 411, 415) concluded: “There is now general agreement that the policies of protection by most less developed countries have gone far beyond what can possibly be justified by infant industry or any other grounds. This view is confirmed by the disillusion with the results of ‘import substitution’ among the policy’s former ardent advocates themselves If the less developed countries in general and the Latin American countries in particular want to further their economic welfare and speed up growth, they should move away from extreme protectionism.”

38 This view was repeated by other economists sympathetic to import substitution. Singer and Alizadeh (1988, 60) argued that “the main trouble with the IS strategy was not inherent in the strategy itself, but due to the way in which it was implemented.” Thorp (1992, 195) wrote that “the many negative features of the final [import substitution] model were not intrinsic to it, and certainly not intended by its early theorists, who wanted a moderately protectionist model with heavy emphasis on efficiency and technical progress.” Bruton (1998, 933) admitted that “import substitution as implemented failed” and discouraged learning and knowledge accumulation “as practiced,” but he did not think the policy’s failures compromised the basic idea. As for the (then) new vogue for export promotion, Singer (1986, 4) argued that pitting import substitution against export promotion was an “absurd and silly discussion,” because “we want a combination of import substitution and export promotion. We want export promotion but the exports have to be based on indigenous inputs.”

and Nurkse opposed import substitution but was an export pessimist. Hirschman was perhaps the only one in the group who was initially critical of import substitution and supportive of promoting exports.

Although Prebisch and Myrdal rejected the idea of free trade and believed that import restrictions would facilitate development, they were also aware of potential problems if such restrictions were taken too far. By the 1960s, such problems in practice had become apparent. Yet Prebisch and Myrdal never repudiated their support for the idea of import substitution. Both acknowledged the shortcomings, such as the inherent anti-export bias of such policies, but the problems they recognized were not enough to make them reject the idea of import substitution in its entirety. Like others, Prebisch found fault not with the goals of import substitution but with its implementation in various countries. And yet Prebisch never pressed developing countries to reform their policies and reduce their barriers to imports.

The decline of import substitution as a policy idea accelerated after empirical studies from the mid-1960s began identifying the impact and cost of import restrictions. Much later, as Love (2018) points out, economists at ECLA and elsewhere who were sympathetic with the goals of import substitution shifted their emphasis from import restrictions to build up manufacturing to a new idea—“neoliberalism”—focused on achieving a more equal distribution of income, expansion of export markets, and more rapid technological change. Instead of using government policy to restrict imports, the idea was to use industrial policies geared more toward promoting rather than protecting certain sectors of the economy. The debate over such policies continues to this day.

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