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Remembering Alice Amsden

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World renowned development economist Alice Amsden passed away this week.

Alice Amsden seared through conventional economics and political science with her analyses of East Asian development in the later part of the 20th Century. She will long be remembered as one of the best development economists, and political economists, of her time.

Her book “The Rise of the Rest: Challenges to the West from Late-Industrializing Economies” crystallized a lifetime of work that blended theory, quantitative analysis, and careful field work on “late development.” Other landmark books were “Asia’s Next Giant: South Korea and Late Industrialization” and “Beyond Late Development: Taiwan’s Industrial Upgrading.”

In each of these books Amsden empirically showed how many East Asian nations diversified themselves away from peasant agriculture to become some of the most vibrant industrialized economies the world has ever seen. Her findings flew in the face of neo-classical trade theories that were fashionable at the time.

Whereas traditional theory would argue that a nation like South Korea should capitalize on its comparative advantage in rice, Amsden showed how South Korea realized that relying on a low value added primary commodity for long run growth was un-sustainable. Thus, South Korea, like Japan before them and Taiwan and China after, worked to develop dynamic comparative advantages with strong state involvement in the form of subsidizing learning and innovation.

Indeed, there is some irony to the fact that the day of her death is the day that the United States ratified the US-South Korea trade agreement. In that deal, the US was concerned that opening the US market to Korean cars would damage the US car market. South Korea was up in arms that subsidized rice farming in the US would flood the fragile rice market in South Korea. South Korea built an industrialization powerhouse where cars, shipping, electronics and more are core to their development – so much so that they now rival the US. If the two countries entered trade negotiations in 1960 it would have been the US worried about rice imports, the South Koreans about auto imports.

She taught the political scientists a thing or two too. Nations cannot just flick a switch and proclaim they have an innovation policy to generate long run growth and employment. In addition to what Amsden called “getting the prices wrong,” they had to get the political economy right. She showed how successful late industrializers deployed “reciprocal control mechanisms” in the form of performance requirements that “disciplined capital” so as to avoid the rent-seeking that critics of industrial policy like

Anne Krueger so scorned. Firms and sectors only received state support if they met certain performance requirements.

Amsden's approach is part of a long line of economic thinking that sees the work of Schumpeter, Gerschenkron, Keynes, Alexander Hamilton, Richard Nelson, and her colleague Lance Taylor as the core building blocks for long run development. I was her student and had the opportunity to read the manuscript versions of the "Rise of the Rest" when it was being written in the late 1990s – but she made sure that we started with these economists, and with Arthur Lewis, Joseph Stiglitz, Douglas North, Nicholas Kaldor, Kalecki, and others as well.

I will personally always remember her strong and confident attitude. Goliath wouldn't have intimidated her, and because of that she intimidated many – especially male economists in her profession that never questioned their theories, never read economic history or the history of thought, and never conducted fieldwork to visit plants and peasants in the countries they supposedly knew something about.

In the wake of the financial crisis, may she rest in peace knowing that her work has been vindicated. Nations across the world such as Brazil, China, India, and South Africa have returned to industrial policy and a more managed form of the state in economic affairs. Indeed, now even the World Bank writes of a "new structural economics" and sees industrial policy as an important component of the development process. May the countries that embark on this path also pay attention to her call to "get the political economy right" and not close the door on the ability of other countries to follow such a path after they achieve a certain level of development—as has the United States, Amsden's home country.