

Dear Workshop Participants,

This is a first and very preliminary draft of a spin-out paper from my book project, provisionally titled: *Life as Investment: How Humans Became Capital, 1890-1990*. I discussed Schultz in my dissertation of virtually the same name, but the account I give here is deliberately different. My ultimate goal is to turn the essay into a stand-alone article whose ideas can later feature, in compressed and perhaps more general form, in the book itself. Beyond any details, I struggled with two areas that might be worth mentioning. The first was structure, which I changed multiple times. Right now it follows something approaching a chronological order, but I don't know if this means a slog before the main focus. The second was detail. I've deliberately given an account that does not get bogged down in many technicalities, in my view a huge although understandable problem in 20th century global history. But I'm curious if the result leans too far in the other direction. Any thoughts on these areas or anything else most welcome and encouraged, however critical. Finally, let me apologize that this is being sent so late.

Sincere thanks for reading.

Jonny Bunning

Economists Without Borders: Latin America and The Cold War Origins of Human Capital Theory at Chicago

Between the mid 1950s and early 1980s, economists claimed authority over a range of topics previously considered beyond their legitimate bounds: sex, drugs, crime, law, labor, education, even life were all redefined as simple economic problems. The expansion was dubbed economics imperialism and its center was unquestionably the University of Chicago, promoted there by H. Gregg Lewis, Richard Posner, Gary Becker, Ronald Coase, Milton Friedman, and other members of the so-called Chicago School of Economics. Is there any connection between this disciplinary imperialism and the contemporary economic imperialism of the United States? Any satisfactory answer would need to avoid a simplistic reductionism or argument by analogy, instead exploring the practical, organizational, and social formations that allow particular kinds of knowledge to be assembled, gain assent, and circulate across borders. My aim is to do this with specific reference to human capital theory, one of the signature products of the Chicago School and not implausibly seen as the model on which later expansions were based.

Human capital theory has become an unexamined staple of economics and policy, while a more critical interest in this idea has ballooned since Michel Foucault's ambiguous discussion was published (depending on the language) in the mid to late 2000s. Perhaps paradoxically, all these approaches share a certain vision of linear historical change, be it the progress of ever-improving theory or a tectonic shift in economic structure. In both instances, the origins of human capital theory at Chicago have remained strangely unexplored, and while origin should not be confused with essence, my suggestion is that deeper engagement with the emergence of this theory overturns a series of current understandings that rely on assumption more than evidence.

Posing the question in these terms suggests that a novel perspective on neoliberal economics might be gained from conceptualizing its emergence as, provisionally, a problem of space rather than (as the 'neo' prefix invites) of linear time. Critics have been too obliging in awarding neoliberalism the status of intellectual vanguard or representative of a new phase of economic history, a cutting-edge even if dangerous project. Emphasizing the spatial elements of the Chicago School, by contrast, offers a path to a more social account that will lead to the possibility that even critics of neoliberalism have been unwilling to entertain: that it is not a novel so much as a conservative epistemic project, and one whose apparent prophetic applicability to late 20th century economic life derives from its emphasis on robust, mobile, and generally applicable knowledge, all of which can be explained in mundane ways without recourse to theological idioms of prophecy or heresy. Conceptualizing human capital spatially is thus a provisional methodological maneuver, not an abdication or rejection of historical imagination. In fact, a detour through geography will turn out to have implications for the historical understanding of human capital. It reveals an original and animating anchor in studying pre-industrial, agrarian society, an attempt at economic theory that could apply outside of the industrial modernity of the Global North. As the latter began to disintegrate, starting in the 1970s, an economic theory developed for the Cold War problems of the Global South began to be rearticulated as the prophecy of a changing tide.

What does it mean to evoke problems of space? I have in mind a certain geography of knowledge centered on Latin America, a continental compliment to the more familiar epistemic spaces such as the clinic, library, laboratory, campus, or, in the case of the Chicago School of Sociology, the city itself as experimental site of knowledge production. In all these examples, the spatialization of knowledge is simultaneously its socialization: a refusal to understand knowledge as located ‘inside’ minds and hence a rejection of Cartesian individuality as the locus of epistemological explanation. In doing so, however, I make no specific claims that Latin America was constituted *by* these knowledge practices, nor that Chicago human capital theory was an imported and repackaged product first produced by Latin American scholars. In both these senses my account is, explicitly although perhaps not excusably, *not* an attempt at recovering an essentially Latin American character lying within Chicago School human capital theory. It is, however, an attempt at explaining the origins of that theory using untapped archival evidence to suggest that the study of Latin America was the crucible from which it emerged. In doing so, I therefore assume that empire is always a problem of epistemology, and that global history and the history of knowledge practices can never be understood separately.

One of the serious deficiencies of current scholarship on the Chicago School of Economics, in fact, has been a reluctance to situate that school relative, first, to the Chicago Schools of sociology and anthropology and, second, to the wider world. Starting with a rigid view of disciplinary borders and ignoring what is happening in parallel fields, the growing interest of economists in other topics can only ever appear as an illegitimate expansion; starting with a view of Chicago as a peripheral outpost, isolated from the mainstream of post-war economics and policy alike, the growing influence of its economists in other areas can only ever appear as an incursion. Both these stories were crafted by Chicago economists themselves, producing a heroic account of free-thinking iconoclasts unafraid to disrupt orthodoxy. A better model might be found elsewhere, in the most influential history of Chicago itself, a work that has not been brought into dialogue with its most famous economists: William Cronon’s *Nature’s Metropolis*. In the spirit of that work, I want to suggest that the Chicago School be seen as an aggregating center in a vast hinterland, a place where the superficially static world of agriculture formed the dynamic basis for the future and its markets.

1. Latin America as Lab

In 1953, anthropologist Sol Tax published a study of what he called a “Guatemalan Indian Economy,” the fruit of over fifteen years’ research in Panajachel, a small lakeside town in the highlands west of Guatemala City. Both the location and its ethnographer had a degree of chance. Tax had been sent south by his mentor and later friend, Robert Redfield, leading light of the Chicago School of Anthropology, who spent many years researching nearby. Redfield, the son-in-law of Chicago School Sociologist Robert Park, transformed the objects of anthropological study from pristine tribes existing on the fringes of European empires to peasants whose relationship to the wider world was more ambiguous. Moving beyond the ‘salvage’ anthropology of the earlier 20th century, and equipped with techniques recently developed, Redfield had earned his Ph.D. from the Department of Anthropology and Sociology at the University of Chicago—the disciplines were not yet split—and was central in extending its

tenets to Latin America. The signature move of the Chicago School of Sociology, in fact, had been to apply ethnographic methods to social life, using the surrounding city of Chicago as a ‘laboratory,’ a rhetorical move intended to cement the field’s academic bona fides as a disinterested science. Redfield had started out in just this way, studying acculturation among Mexican immigrants in Chicago in 1924–5, funded by the new Social Science Research Council. Soon Redfield was in Mexico studying a community in the Chicago style, producing a well-regarded book, *Tepoztlan: A Mexican Village*, published in 1930.

Redfield’s work soon intersected with a growing attempt to produce knowledge about Latin America, of interests to corporations, institutions, and government. To take one iconic example, the Peruvian exploits of Hiram Bingham, who discovered Machu Picchu after being led there by a local farmer, Malchor Arteaga, were funded by the founder of the United Fruit Company, the Carnegie Institution in Washington, and President Taft, who saw the project as having foreign policy implications.¹ In the light of this apparent success, the Carnegie Institution in Washington (CIW) embarked on a similar “Mayan Program” with a focus on architecture and language. Stalled by the onset of the Mexican Revolution, in 1926 its new director expanded its remit into what he called a ‘panscientific attack’ on problems of the Maya.² Working in a coordinated manner, scholars in different disciplines would study specific topics that, when combined, would create a panorama of Mayan culture. Robert Redfield was charged with studying its contemporary expression. The result was a flood of studies of villages, towns, and cities in southern Mexico and Guatemala under Redfield’s direction, dubbed the ‘community study.’³

This view of central America did not remain entombed in specialist monographs. Redfield’s conclusions were spread widely by Stuart Chase, an economist better known—in his own day at least—for coining the term ‘New Deal’ in 1932. Drawing heavily on Redfield’s work, Chase contrasted Tepoztlan to ‘Middletown,’ and the result was not flattering to the latter. The economic structure of Middletown relied on machine production, goods produced for external markets not consumption. “It exists only as a cell in a vast interdependent industrial structure,”⁴ and that structure, in 1932, was at the apex of dysfunction. Tepoztlan, by contrast, was “not a cog in the wheel, but an economically independent community” (16) free from unemployment and neurosis. Money was “not important” (219) in Tepoztlan, its inhabitants “utterly devoid of pecuniary behavior” (220). “Not cash but goods, indeed frequently not goods but happiness and peace of mind,” Chase wrote, “is the prevailing Mexican desire.” “The future hangs like a great black raven over Middletown. In Tepoztlan the sky is clear.” (222). Chase’s book, *Mexico: Two*

¹ “BINGHAM BACK WITH PRE-INCAS’ SKULLS; Expedition Laid Bare Ruins of the Ancient Peruvian City of Machu Picchu. (Published 1912),” *The New York Times*, December 20, 1912, sec. Archives, <https://www.nytimes.com/1912/12/20/archives/bingham-back-with-preincas-skulls-expedition-laid-bare-ruins-of-the.html>; Christopher Heaney, *Cradle of Gold: The Story of Hiram Bingham, a Real-Life Indiana Jones, and the Search for Machu Picchu*, 1st ed (New York: Palgrave Macmillan, 2010).

² Helen Delpar, *Looking South: The Evolution of Latin Americanist Scholarship in the United States, 1850-1975* (Tuscaloosa: The University of Alabama Press, 2008), 59.

³ See, for example Robert Redfield and Alfonso Villa Rojas, *Chan Kom: A Maya Village*, Carnegie Institution of Washington Publication, no. 448 (Washington, D. C.: Carnegie institution of Washington, 1934); Elsie Worthington (Clews) Parsons, *Mitla, Town of the Souls: And Other Zapoteco-Speaking Pueblos of Oaxaca, Mexico*, The University of Chicago Publications in Anthropology. Ethnological Series (Chicago, Ill: University of Chicago press, 1936).

⁴ Stuart Chase and Marian Tyler Chase, *Mexico: A Study of Two Americas* (New York: Macmillan, 1931), 15.

Americas, was a runaway success. Illustrated by Diego Rivera, it was reprinted sixteen times in four years.⁵

The growing intellectual and cultural interest in Latin America was matched at the level of high-diplomacy. By the turn of the 19th century, the United States had terminated its continental expansion, and now held the political and industrial capacity to produce a credible navy, as well as industrialists like Carnegie and Rockefeller pushing for expanded markets. In consequence, it began its imperial spread further afield, in the Pacific, Caribbean, and Central America. During the inter-war period, gunboat diplomacy softened into Roosevelt's Good Neighbor policy. Chasing clear skies during the depression, secretary of State Cordell Hull created the Import-Export Bank in 1934 to give easy credit to boost US exports; the Reciprocal Trade Act dropped tariffs with Latin American countries, a means to bypass the protectionism of the Smoot-Hartley Act.⁶ In an attempt to consolidate a continental bloc resistant to Nazism, Roosevelt became the first president to visit Latin America, travelling by steamer for the 1936 Buenos Aires Conference.⁷ As a new wave of scholarship has recently argued, Latin America became a test-bed for the global system that the United States construct at the close of World War Two.

If global trade was to be extended, however, the prospect of a world in which money was "not important" posed a certain difficulty. If pecuniary interest was confined to so many Middletowns then the cogs of global commerce could not turn far. At this limit, a rather different and less friendly neighbor comes into view: George Kennan. After a whistlestop tour south in 1950, and always happy to burden his secretaries, Kennan his musings on Latin America—"shots in the dark, based mainly on instinct and general experience"—typed into a characteristically long, flatulent report. Latin America was to be seen as a source of raw materials for military and a source of ballast in the attitudes of the political community. The problem, though, was that the region constituted "a sort of Alice's Wonderland, where normal relations between cause and effect have lost their validity, where nothing may be judged on its actual merits, where no idea has more than a relative integrity, where real things receive recognition only by their relation to the diseased and swollen human ego, where nothing is ever wholly finished" (602) The result? "We must concede," Kennan claimed, "that harsh governmental measures of repression may be the only answer; that these measures may have to proceed from regimes whose origins and methods would not stand the test of American concepts of democratic procedure; and that such regimes and such methods may be preferable alternatives, and indeed the only alternatives, to further communist successes." Making an example out of any government willing to tolerate "anti-American activities" was the goal, but it would need to be reached, he stressed, without raising any alarm of overt imperial intervention.

It was in this context that the long-gestating monograph by Sol Tax stood out. Tax had finished his Ph.D. in anthropology in 1934 and headed to Guatemala, his initial field site rendered unusable by the filming for a film, *Tarzan*, forcing him to move west to the shores of

⁵ Josef and Anni Albers began their Mexican journeys in 1935.

⁶ Justin Hart, *Empire of Ideas: The Origins of Public Diplomacy and the Transformation of U. S. Foreign Policy* (OUP USA, 2013), 15–41.

⁷ Uwe Lübken, *Bedrohliche Nähe: die USA und die nationalsozialistische Herausforderung in Lateinamerika, 1937-1945* (Franz Steiner Verlag, 2004).

Lake Atitlán.⁸ Among the local customs and rites, Tax discovered something that previous studies had failed to notice, something quite surprising and exotic. So surprising and exotic, in fact, that some still disbelieve it really exists: Tax alleged to have found, hidden in the mountains, far away from modern industry, a perfectly competitive, rational system of exchange occurring between fully atomized individuals. If people everywhere were walking calculators, rapid processors of costs and time and sales and profit, then development projects could travel freely. A plan originating in Boston could be freighted to Guatemala, Gambia, or New Guinea, descending through the mists of local culture to touch down on the hard core of universal economic reason. “There are no machines, no factories, no co-ops or corporations,” wrote Tax of Panajachel. “Every man is his own firm.”⁹

2. Economic Problems of the Peace

Perhaps the greatest unacknowledged irony in the history of economics is that neoclassicism—Pangloss, Bentham, Robinson Crusoe, and an accountant all sharing one cramped suit—found its ideal world in a military command economy. World War Two was “the economists’ war,” as Paul Samuelson put it, a war in which economists found unexpected applications for their tools and, in the process, long-sought credit and demand for their expertise. The boost given by military patronage is hard to overstate. Whereas recently professionalized American economists had failed to predict the Wall Street Crash and then failed to propose a credible solution to it, remaining shut out of government, their techniques of maximizing production while minimizing waste—of exacting maximum damage using minimum munitions, of devising optimum means to allocate resources—became useful for problems as varied as shipping routes, gasoline mixing, and aerial bombardment. And if such optimization problems suggested that economic reason might be extended to topics far beyond previous boundaries, economists also enjoyed success in the industrial core, raising aggregate production at the scale of nations. Simon Kuznets, commissioned via the National Bureau of Economic Research (NBER), coordinated the effort to quickly shift the US economy into high gear without stalling. As World War morphed into Cold War, things would only get better.

Theodore Schultz was one of many whose fortunes rose as a result. An agricultural economist from South Dakota, however, his interests and style were apparently ill-suited to the endless frontiers of military cash flowing into new research institutes such as RAND, which employed legions of economists from 1947, or indeed to the heavily mathematical forms of economics emerging from post-war centers such as MIT.¹⁰ Schultz was also, superficially, an unlikely leader of the economics department at Chicago during its heyday. Unfailingly nice, undogmatic, fond of spicing up his articles with some Faulkner or Tolstoy rather than weighing them down with utility functions, Schultz seemed to occupy a different economic universe to a Milton Friedman or a George Stigler. While Wall Street was crashing and Redfield was writing

⁸ The expert undertaking this study was meant to be Ruth Bunzel, who moved to Chichicastenango and helped develop Carnegie plan. Redfield passed her over and gave the position to Tax, who had no regional experience. Bunzel never received permanent teaching position.

⁹ Sol Tax, *Penny Capitalism: A Guatemalan Indian Economy*, Publication / Smithsonian Institution. Institute of Social Anthropology, no. 16 (Washington, D.C: U.S. Govt. Print. Off, 1953).

¹⁰ Paul Samuelson, the physics-trained doyen of the MIT department, wrote Vannever Bush’s famous report on scientific funding.

about Tepoztlan, Schultz was in Stalinist Russia touring collective farms, and he came away with a good impression.

Yet Schultz's specialty, agricultural economics, had developed sophisticated statistical approaches in the interwar period, helped by the Department of Agriculture's collection of detailed numerical data, turning it into an orthogonal but nonetheless highly innovative branch of economics. Problems of food production became of utmost political concern toward the end of World War Two, when the prospect of feeding war-ravaged Europe and, no doubt, the British-made Bengal Famine of 1943 weighed heavily on the prospects of civil peace. Schultz, who had moved from Iowa State to the University of Chicago in the year of the famine, immediately began meeting with Hans Morgenthau and others to plan for the post-war order; he had already joined the board of a new Committee for Economic Development, a business confederation whose broad objective, "simply stated" in a confidential report, was "to assist commerce and industry in developing means whereby they will be in a position when peace comes to make their full contribution to stability and prosperity through maximum employment and high productivity." In this capacity, Schultz toured Latin America to explore mutual opportunities for the agribusinesses of the plains and pampas in 1944. At the close of the conflict, Schultz was attached to the Seventh Army in Germany to calculate calorific production and consumption rates, then soon after to India to prevent mass hunger.¹¹ In short, Schultz was a one-man refutation of the belief that the Chicago School existed in isolation from government influence or patronage. Between the 1930s and 1980s, he shuttled between Washington committees, presidential galas, beef industry think tank speeches at an astonishing pace, ferrying ideas out of the economics department he ran and into the hands of influence. As the postwar order unfurled, few surfed the epistemic-political possibilities as capably.

As the initial task of stabilizing Europe and Japan appeared provisionally successful, and as the American economy was demilitarized without a repeat of the post-World War One slump, attention turned to producing a series of foreign capitalist markets able to keep the Soviets out and exports up. American prosperity was increasingly reconceptualized as dependent on a global economy, and apparently zero-sum political disputes increasingly reconceptualized as technical wrinkles best soothed by material abundance.

While recent scholars rightly question the absolute novelty of its principles, Truman's Point Four speech nonetheless outlines such thinking well. Without mass affluence, Truman said in his inaugural address, people around the globe "may turn to false doctrines which hold that the way of progress lies through tyranny." Increasing their productivity and purchasing power would create new markets and inputs for America and for Europe, to be achieved via aid in two closely related categories. One was the "technical, scientific and managerial knowledge necessary to economic development," the other the production of goods. Such state stimulus was not an end in itself, but a means of stimulating capitalism. "All countries concerned with the program," Truman went on, "should work together to bring about conditions favorable to the flow of private capital," with the US government underwriting unavoidable risks and promoting capital friendly policies such as guarantees against expropriation or rebellion. The young United Nations Organization endorsed an international plan based on these principles unanimously in 1949.

¹¹ I have found no direct paper trail, but my assumption is that Schultz's work may well lie behind Lucius Clay's famous claim about there being no competition between 'democracy on 1000 calories a day and communism on 1500.'

After becoming law in 1950, the Point Four principles would bankroll the new field of economic development. But what did development mean?

For the most influential economists of the early 1950s, the answer looked like their wartime activities played backward. Walt Rostow, who had served in the Economic Warfare Division, was perhaps the most famous. As Nick Cullather remarks with devastating accuracy, for Rostow and many of his colleagues, development meant “dropping in ingredients that would produce the quickest and longest-lasting economic (and political) gains.”¹² During World War Two, strategic bombing surveyors and operations researchers had debated the most efficient means of destruction: target specific, key, ‘upstream’ industries such as ball-bearing plants? Industrial facilities? Logistics networks? Civilian populations? Each of these modes of taking life were reconfigured, so to speak, into new projects to make live.

Most development theory of the early post-war was industrial in outlook. Emigré Polish economist Paul Rosenstein-Rodan, writing in 1943, served as an early and influential proponent of this view, arguing that development necessarily entailed the transformation of an agrarian into an industrial economy. There existed what he called an “agrarian excess population” (202) whose productive potential would be hopelessly diluted if they were not moved into factories, an idea later dubbed the ‘big push’ model. But Rosenstein-Rodan’s calculations arrived at a depressing and unpalatable conclusion that made them awkward in the age of decolonization. “Even with a bold and rather optimistic programme of industrialization,” he concluded, “cannot abolish the whole of the surplus population in the next decade.” At best about three quarters could be employed. “It follows that emigration will still have to supplement industrialization.” (211).

A lengthier account was offered by W. Arthur Lewis, born in St. Lucia, the first Black professor hired at a British university. While his colleagues were calculating ways to blow things up or ship tanks across the Atlantic, Lewis served as an expert on the Colonial Economic Advisory Committee. He argued that the colonial administration should foster industrialization. Increased agricultural productivity would create surplus food and population, allowing for the creation of an industrial workforce. The Colonial Office, happy to send subject populations to the killing fields, and in any case keen to conserve industrial primacy, rejected the advice, pushing Lewis to resign. He would develop the idea into an article, *Economic Development with Unlimited Supply of Labour*, in 1954. “Unquestionably his outstanding scholarly achievement” (Tignor 79) according to Lewis’s biographer, it would win him the Nobel Prize in 1979. His co-laureate was Theodore Schultz.

Lewis’s argument was an explicit attempt to return to classical political economy, a move that found contemporary echo in the work of Piero Sraffa. Lewis claimed an unlimited surplus population emerged from a mixture of Malthusian increase, agriculture, “casual labour, petty trade, domestic service, [and] wives and daughters in the household.” Their productivity was low, perhaps less than zero, and it could only rise if they had the possibility of employment in a stimulated “capitalist sector.” In this account, like Rosenstein-Rodan’s, development meant industrialization. In fact—the classical inheritance?—the capitalist sector itself meant industry.

¹² Cullather 483, see also Nick Cullather, “‘Back to the Stone Age’: Origins of a Cliche,” *The Asia-Pacific Journal: Japan Focus*, 2006.

Starting in the early 1950s, fueled by Point Four, the key practical attempt at rolling out this kind of development was known as “technical assistance.” Programs of technical assistance—in an egalitarian gloss also dubbed ‘technical cooperation’—were launched by the ILO, the UN, the Organization of American States, the World Bank, the Rockefeller Foundation, and many others. The primary and secondary literatures on these programs are a tangle of acronyms, overlapping jurisdictions, partial collaborations, reorganizations, expansions, committees, secretariats, councils, and other kinds of mid-century chloroform.¹³ Sociologically understood, they represent the expansion of a global technocratic imaginary in which political and social problems were best solved through targeted projects administered by outside expertise. Technical assistance was the outcome of heightened faith in technical solutions following World War Two—discussed above, although also more positively involving products of that war such as antibiotics and DDT—and also the political problems of its aftermath. Technology, in this framing, existed above and beyond politics as a universal instrument. Illustrative of this point is that while the United States explicitly promoted technical assistance through the ILO as a means to achieve its foreign policy goals, the Soviet Union rejoined the organization in order to participate.¹⁴ In the context of Latin America, to this day the focus of the ILO’s largest ever project,¹⁵ technical assistance offered the possibility of governance without direct control. Less an individual imperative, Foucauldian notions of governmentality might better be located at the level of inter-state relations and their apparatuses.

Schultz organized a study to investigate the operation and effects of technical assistance programs in Latin America in 1953. He was its director of research, chose the staff, and studied “all 20” Latin American republics. The project was sponsored by the National Planning Association, although costs were offset by a large grant from the Ford Foundation. The name was misleading, deliberately so. The NPA, set up in 1934 in response to the New Deal, promoted the idea that “through effective private planning we can avoid a ‘planned economy.’” (28) It aimed at “the highest possible cultural and material standard of living without sacrificing our freedom.”

Schultz explained his thinking on technical assistance, and by implication the research project, in a draft paper shared with Robert Redfield in 1953. Using the language of political realism, perhaps with a nod to Morgenthau, Schultz was clear that “technical assistance that improves the arts is not neutral in relation to the government and the political process of the Latin American country.” (12) It could be substituted for military assistance “over a wide range in most Latin American countries,” which would be advantageous in general and in the long run.

¹³ Daniel Maul, *Human Rights, Development and Decolonization: The International Labour Organization, 1940-70*, electronic resource, ILO Century Series (New York: Palgrave Macmillan, 2012), <https://yale.idm.oclc.org/login?URL=http://site.ebrary.com/lib/yale/Doc?id=10531005>; Véronique Plata, “Le Bureau international du travail et la coopération technique dans l’entre-deux-guerres,” *Relations internationales* n° 157, no. 1 (June 17, 2014): 55–69; Véronique Plata-Stenger, *Social Reform, Modernization and Technical Diplomacy: The ILO Contribution to Development (1930–1946)* (Walter de Gruyter GmbH & Co KG, 2020); David Webster, “Development Advisors in a Time of Cold War and Decolonization: The United Nations Technical Assistance Administration, 1950–59*,” *Journal of Global History* 6, no. 2 (July 2011): 249–72, <https://doi.org/10.1017/S1740022811000258>.

¹⁴ Daniel Maul, *Human Rights, Development and Decolonization: The International Labour Organization, 1940-70*, ILO Century Series (New York: Palgrave Macmillan, 2012), <https://yale.idm.oclc.org/login?URL=http://site.ebrary.com/lib/yale/Doc?id=10531005>.

¹⁵ Chloé Maurel, “Le Programme indien-andin des Nations unies (années 1950-1960),” *Cahiers des Amériques latines* 2011/2, no. 67 (August 31, 2011): 137–61, <https://doi.org/10.4000/cal.299>.

Technical assistance and economic assistance “have a strong complementarity in some Latin American countries,” but that US had failed to take advantage of this. It was a position almost diametrically opposed to that of Kennan. And unsurprisingly so, because Schultz’s account did not see Latin America as operating on non-economic principles, Edenic or otherwise; and it did not restrict capitalism to a restricted industrial sector. His account rested on different principles: those of Sol Tax and related anthropologists. “Certainly no one in economics drew on the research and the data files of our anthropologists as I did,” as Schultz told an interviewer later in life. “Sol Tax’s *Penny Capitalism* was a gold mine.” (10-11)

Using aggregate statistics, Schultz noted a series of discrepancies between capital inputs and output. In the US in 1950, he noted, “the agricultural output was 75 per cent larger than in 1910 and yet only 14 per cent more inputs were employed to produce it.” (19) Six years later, in 1959, he called this “the enigma of the American economy.” It was, he said, like crops without nutrients, “fat without calories.” (B10) In more scholarly terms this problem became known as the residual, a generic category that acquired a specific macroeconomic meaning.

The residual was, as macroeconomist Moses Abramowitz famously put it in 1956, the “measure of our ignorance about the causes of economic growth.”¹⁶ It was the rather awkward fact that the vast majority of historical growth could not be explained, calling into question not just the credibility of economists’ policy recommendations, but also presenting practical problems for development economics itself. How could growth be promoted if nobody could say what drove it? The residual had large implications, then, but was not itself an abstract problem. As Mary Morgan has demonstrated, the success of Keynesianism in these years was less a product of the original theory than of simplified models that encapsulated some of its key assumptions into practical tools, and the residual emerged as a feature these models could not explain.

The most important early post-war growth model, known as the Harrod-Domar model, attempted to arrive at maximum productivity and full use of resources, but assumed a fixed relationship between inputs of capital and labor, producing a highly unstable result. Slight shocks to the system became self-reinforcing. In the mid-1950s Robert Solow critiqued what he called the “knife edge” quality of this model, and instead argued for substitutions between capital and labor, allowing changes to be absorbed in a dynamic way. But he continued the assumption that it was quantitative increases in inputs that accounted for quantitative increases in aggregate output.¹⁷ Soon after, he incorporated technological change into the argument, explaining growing output not simply as a result of *more* labor or capital, but as a result of increasing productivity per man-hour.¹⁸ Although he suggested that this increased productivity was a result of improvements in “plant and equipment,” Solow thus opened up the idea that a rather embarrassing problem could be resolved through appeal to qualitative changes in technology. Solow’s account, whose influence was huge, gave special credit to Theodore Schultz. It was a different solution to this problem that Schultz thought he had discovered in Latin America.

¹⁶ Moses Abramowitz, *Resources and Output Trends in the United States since 1870*. NBER Occasional Papers (National Bureau of Economic Research New York, 1956).

¹⁷ Robert M. Solow, “A Contribution to the Theory of Economic Growth,” *The Quarterly Journal of Economics* 70, no. 1 (1956): 65.

¹⁸ Robert M. Solow, “Technical Change and the Aggregate Production Function,” *The Review of Economics and Statistics* 39, no. 3 (1957): 312–20, <https://doi.org/10.2307/1926047>.

In 1956 Schultz spent a year at the Stanford Center for Advanced Study in Behavioral Sciences, founded in 1954 by the Ford Foundation. Its first director, Ralph Tyler, had been dean of social sciences at the University of Chicago. At Schultz's request, Tyler also invited Arrow, Abramowitz, Solow, and Arthur Lewis, forming a study group to discuss their shared interest in economic growth.¹⁹ Others in residence included Frank Knight, Karl Popper, and E. E. Evans-Pritchard. [*This section is intended to be an account of the role of trans-disciplinary social science institutions the Cold War, combining this with an account of Schultz's time at Stanford. This appears to be the period in which he took raw data from his Latin American project and produced a developed theory of human capital from it, promoting that theory as president of the AEA and in government. Schultz left Stanford directly for the Caribbean, then to meet the ambassador of Argentina (the 'Chile Project' was in fact only the first of what was to be a continent-wide program), then to Chile. This discussion will transition into the origins of the Chile Project itself. Now notorious for its role in the Pinochet dictatorship, this training program originated as an attempt to actively experiment with Schultz's theory of human capital, investing in embodied skill rather than high technology.*]

3. Passing the Baton

If Schultz had developed human capital outside of the industrial imaginary, his colleagues would initially apply it to contexts equally alien to its later uses. The first was Milton Friedman, sent to India in the autumn of 1955 to advise on the structure of the Second Five Year Plan. Having been asked for economic advice, the Eisenhower administration sent Friedman and UCLA economist Neil Jacoby in a bid to counter what they saw as the left-leaning influence of other international experts. Friedman's resulting memorandum for the Indian government used the somewhat awkward metaphor of the American frontier, calling technical and scientific knowledge "the economic equivalent of the untapped continent" once represented by the U.S. West. Friedman, like Schultz, critiqued any rigid, mechanical ration between quantity of investment and output, stressing that "in any economy, the major source of productive power is not machinery, equipment, buildings and other physical capital; it is the productive capacity of the human beings who compose the society." Yet national accounting ignored the latter entirely. "In the United States, for example, only about one-fifth of the total income is return to physical capital, four-fifths to human capital"²⁰

Closer to home, Friedman and Schultz's star student Gary Becker began to develop his own theory of investment in education in the late 1950s. His first publication on the topic, scrubbed from his CVs and personal reflections, was as a RAND analyst working on problems of military budgeting. The problem was that recruits often dropped out of the military soon after going through their drills, causing persistent budget and manpower problems. What should the military do? Where others had suggested raising pay to attract and retain more soldiers, Becker dismissed this as suboptimal, proposing two more radical solutions instead. The first was to charge recruits for their own training, lending money at a market interest rate to those too poor to afford it. Those enlisting would thus demonstrate their commitment through their willingness to

¹⁹ Only Solow was unable to get leave to attend, arriving the next year instead (Solow Stanford June 1 1956 to Tyler).

²⁰ Milton Friedman, "A Memorandum to the Government of India (1955)," in *Friedman on India*, ed. Parth Shah (New Delhi: Centre for Civil Society, 2000). 22

pay, and those dropping out would still cough up for any skills they took with them. “I see no difficulties in doing this, so it will not be discussed any further,” Becker said simply.²¹ The problem with this plan, though, was that the military would still be entangled in what Becker saw as two independent industries, training and defense, hence his second and preferred proposal extended the idea of trainees paying their own way while eliminating this messy mix. The military should get out of all but the most specialized, non-transferable training, turn over everything else to for-profit institutions, then simply purchase the resulting embodied skill: “If the trainee is himself paying all training costs, contracting out is equivalent to buying the end product of the training process.” Recruits, in other words, should invest in themselves, then sell their embodied abilities—“the end product”—to the military, not unlike mercenaries. Becker maintained the proposal was not so far-fetched. The military already did just this when hiring physicians and dentists. “I merely propose that this technique of buying the trained person instead of training the person be extended systematically to a much wider range of activities.”²²

In the late 1960s, a Ph.D. student in anthropology at Cambridge did fieldwork in Africa, turning parts of the resultant dissertation into a series of articles. Keith Hart drew on a strain of ethnographic literature such as William F. Whyte’s *Street Corner Society*, submitted as his Chicago sociology Ph.D. thesis in 1943; and the work Oscar Lewis, whose work was an homage to Robert Redfield. Hart argued that the distinction between formal and informal was “based essentially on that between wage-earning and self-employment,” between a ‘modern sector’ of enumeration and surveys and another of low rationalization and the absence of bureaucracy. The informal, in this scheme, were “the remainder—that is, those who escape enumeration.”²³ They were the non-waged workers, the rentiers, hawkers, musicians, shoe-shiners, barbers, photographers, maintenance workers. They were, Hart suggested, sounding like Sol Tax, “one man enterprises.” (71).

Having workshopped one of these papers at the Institute for Development Studies at Sussex, Hart would see his ideas taken up by the audience with alacrity. The distinction between formal and informal sectors was written into an influential ILO report on Kenya, research led by Hans Singer as part of the World Employment Program. Rapidly spread through the development literature, the idea of an ‘informal’ sector lying outside of the calculability of the mid-century statistical state would, within a decade, be applied by British economists to their own economy and its labor force.²⁴

Hart’s work reprised the themes of Tax’s *Penny Capitalism*, elaborating an economic account of life not structured by the framework of post-war liberal democracy, nor captured by its statistical apparatus. It was, like Schultz’s project, the generalization of economic existence outside the assumptions of industrial modernity. As those assumptions began to collapse, a particular politics of knowledge in space began its transformation into a depoliticized account of the movement of history.

²¹ Gary S. Becker, “Should the Military Pay for Training of Skilled Personnel?,” Rand Documents (Santa Monica, Calif: U.S. Airforce Project Rand, August 15, 1957), 5, H. Gregg Lewis Papers, Duke University.

²² Becker, 6.

²³ Keith Hart, “Informal Income Opportunities and Urban Employment in Ghana,” *The Journal of Modern African Studies* 11, no. 1 (1973): 68; See also Keith Hart, “Small-Scale Entrepreneurs in Ghana and Development Planning,” *Journal of Development Studies* 6, no. 4 (July 1970): 104, <https://doi.org/10.1080/00220387008421338>.

²⁴ Keith Hart, “THE INFORMAL ECONOMY,” *Cambridge Anthropology* 10, no. 2 (1985): 54–58.

Conclusion

Standard accounts of the rise of neoliberal economics suggest its key principles radiated out from Chicago and the conferences of the Mont Pelerin Society, hitting the ground in Chile in 1973, the US and UK circa 1980, and then spreading into development discourse in the subsequent decade. This essay, provisional as it may be, suggests this view is grossly distorted. By foregrounding the problem of space, I suggested that human capital theory emerged as a solution to problems of economic development in Latin America. A search for growth outside the industrial core of the world economy, I suggested, produced a theory whose relevance to a deindustrializing society was more coincidence than design. Similarly, focusing on the Latin American development of human capital theory offers new perspective on the much-commented question of Chile. Rather than a cause of Pinochet's regime, the Chicago Boys might better be understood as the legacy of a specific attempt to implement a new theory of economic growth in a developing economy.

A decentered view of Chicago School human capital theory also means a perspective not rooted within the discipline of economics alone. Bringing the history of the Chicago schools of sociology and anthropology into the frame reveal an ongoing dialogue that fed back into economics itself. While the mid-century change in fortunes for the credibility and political power of economics has come to obscure other social sciences, Schultz's development of human capital suggest an enduring foundation previously obscured.

Finally, refusing to privilege the progressive qualities of the Chicago School reveals its key theory to have emerged as a solution to problems with Keynesian models to explain the nature of economic growth itself. While the Chicago approach, particularly Milton Freidman's monetarism and Robert Lucas's rational expectations hypothesis came to supplant Keynesian macroeconomics in the policy debates of the 1970s, human capital theory initially gained a significant fillip within a Keynesian framework. The concern with growth therefore helped human capital to 'take off' within the dominant paradigm of Keynesianism even as it attacked its premise. As mentioned above, this was no idle question at the time, as Schultz himself was well aware. As he put it shortly after his AEA address, in a popular article on the Soviet economy that featured a photo of him with one of the heads of Gosplan, "a much neglected aspect of Soviet economic growth is the amount and rate at which the quality of human effort entering into economic activities has been improved."²⁵ Human capital allowed a convenient fudge, a way to mop up the 'residual' without, for the time being, fundamentally rethinking Keynesian economic models or policy. Humans, along with 'technological improvements' were simply inflated to fill the gap. Rather than demonstrating the imperial strength of Chicago School Economics, the theory human of capital reveals a more fundamental weakness with its entire architecture. The theoretical drive for discrete, universal units could never comprehend knowledge, skill, life, or cooperation as fundamentally social.

²⁵ Theodore W. Schultz, "Human Capital: A Growing Asset," *The Saturday Review*, January 21, 1961, 37.