

Can the Poor Support the Rich?

M. A. Hussein Mullick

During the past twenty years, many developing countries have seen their growth rates soar. But they have also seen unemployment increase because of the failure to create adequate job opportunities. They have seen income inequalities widen and poverty spread more deeply into the lower depths of the population. Those elaborate economic theories which, for the most part, were developed in western industrial countries, have contributed to understanding several of the special problems facing emerging nations but, on the whole, the results have been disappointing.

Western Theories are Unsuitable

Many factors have led to the failure of past development efforts in the Third World. Fascination with the growth rate of the GNP along with the concomitant extraordinary role assigned to non-human capital, have conspired, with inequality and the capitalist system, to produce failure on a grand scale. The importance of capital has been exaggerated out of all proportion. No one denies that capital plays one of the key roles in the creation of employment but it alone cannot trigger the whole process.

Concepts like the marginal rate of savings can also be misleading. Planners are tempted to choose those projects which ensure the highest marginal rate of savings on the basis of this concept. But the concept is dangerous. True, the economy does succeed in generating maximum savings from amounts invested, but in the process important social goals are by-passed and the mobilization of various production factors is neglected. Poor countries, where capital is scarce and where

The concept of the equitable distribution of wealth in poor countries is increasingly coming to be realised as an important factor in the development process. In this article Hussein Mullick examines some aspects of this problem. Mullick is the Chief of Research, Pakistan Institute of Development Economics, Islamabad.

what economists call factor endowments like labour, raw materials and rudimentary skills are abundant, turn-out in the long run to be net losers, not winners. In the same way, capital-oriented theories have emphasized income inequality as a concomitant to modern development. As a practical result of these development models, small islands of development are created, while the larger agricultural sector and export or small-scale industrial sub-sectors are ignored. This inequality-based development leads to another undesirable consequence — the production of goods and services for the relatively privileged well-off part of the population.

The lack of sufficient and sufficiently powerful social stimuli in the majority of Third World countries is another important weakness of present development policies. Most poor countries suffer from an "early" capitalist economic order largely brought about by two factors. First, the inability of leadership to devise alternative socially acceptable development systems, and second, the use of "leverage" by capitalist countries to promote the interests of powerful vested groups of capitalists or exploiters in the poor countries. These groups are now well-established and strong enough to run the economies of their countries on their own terms for at least one or two more decades.

New Ways

The Third World must now explore new ways to meet the various challenges of development and not dwell on past development failures, particularly in the fields of employment and social justice. Western development theories and experience may offer some basic truths and tools for Third World development, but

the realities of the recent past have demonstrated only too clearly that the emerging nations must develop their own designs for development to meet the aspirations of their broad masses.

It is unfortunate to find so many higher GNP-growth advocates among economists, when it is well known that these rates mean so little for the masses of population in developing countries. Mere statistical growth does not indicate that high growth has had a positive role in the economy. In the same way, mere increased steel production doesn't indicate real economic development, especially if it is used mostly in military and weapon construction.

Achieving real development means departing from long-established capital-oriented development models. This can be done by adding to the previous development recipes the element of "raw labour". This is one resource which is very much available in many developing countries. There is no reason why development equations cannot be formulated to illustrate new ways to substitute gradually human time and human capital. But this shift in development policy is impossible under the prevailing economic power constellations where 20 per cent of the population dominates both production and distribution. If and when the use of raw or unskilled labour increases, both production and distribution will have to be restructured and this will obviously involve de-monopolization and de-oligopolization of the present economy dominated by the "twenty percenters".

Ensuring social justice for the broad masses would require the development of, as Pajestka puts it, "a new . . . matrix of development interrelationships, the 'input' side of which would cover different economic factors, while the 'output' side would deal with the social effects of their various applications. These social effects would include their impact on employment, on income, on the qualifications of individuals, on health, on cultural development . . ."

One explanation for the failure of past development models could be that they are based on false premises as far as Third World economies are concerned. Having grown out of Western countries' development experiences, these models make neither allowances for the fact that the developing countries' economies are quite different from those of developed countries, nor that they differ among themselves.

Industrial countries' economies operate under quite different conditions. They possess well-developed market mechanisms and are endowed with suitable socio-political discrimination against non-capitalist sectors, against imperfect market mechanisms, against external interferences and, last but not least, against the prevalence of sharp income inequalities with their negative impact on output and mass-consumption.

Sharp differences in income and opportunities have a direct and much more unfavourable impact on production and employment in underdeveloped countries than they have in developed economies. The fact that the present constellation of socio-economic and political forces are both products of and defenders of an inequitable order means that new resources injected into the economies of these countries, planned or unplanned, automatically begin to make things worse. The unfortunate consequence is that inequalities in income along with inequalities in opportunities have become the standard in most developing countries. The economic order, based as it is on the foundations of "disequalizing forces" does not promote an efficient and fair nationally-spread development. On the contrary, it maximizes the wealth of the richer groups and strengthens their hold over the poor masses.

In a nut-shell, underdevelopment is not merely the backwardness of some in relation to the growth and advancement of others, but also the condition under which the development of some is obtained and supported by the sacrifice of others. In this sense, what underdevelopment amounts to is essentially social and economic imbalance at the national, regional and international levels.

1975 - "CRUNCH" YEAR FOR THIRD WORLD

George Bickerstaffe

Two major reports—from the World Bank and the General Agreement on Trade and Tariffs (GATT)—have painted a bleak picture of the economic prospects of developing countries in the current world situation. Making use of these two reports, Bickerstaffe, the London correspondent of the World Feature Service, focuses on the plight of exporters of primary commodities and suggests that fundamental changes are required in the "economic order".

Two major reports have cast a bleak light on the economic position of those developing countries that are forced to import petroleum and related products.

The annual report of GATT (the General Agreement on Trade and Tariffs), and the World Bank's annual report both point to 1975 as the "crunch" year for the oil-importing developing world.

The boom in the industrialised countries of 1972-73 which sent the demand for, and the price of, primary commodities soaring has collapsed.

The oil-importing developing world has seen its major export earning potential vanish, while its imports, from the industrialised countries, have risen in price through world inflation.

The World Bank report estimates that in 1975 the purchasing power of exports of primary commodities will decline by 13 per cent.

The effect of this decline on individual developing countries is emphasised in the GATT report.

By indexing the prices of a list of 26 commodities which in 1972 represented 60 per cent of the exports of the developing world (excluding the oil producers) against the prices of imported manufactured goods, food and fertilisers, the report shows that five of these commodities fell in buying power even during the commodity boom. (The five were tea, jute, iron ore, tobacco, and bananas).

Eleven developing countries depended on one of these commodities for between 20 per cent and 50 per cent of their total export earnings, while five countries had more than 50 per cent earning dependence on one.

By April this year another 10 commodities on the list had declined below their 1969-71 value, wiping out the benefit of the price boom. Twenty-six countries were dependent on one of these for up to 50 per cent of their export earnings, and 16 countries for more than 50 per cent.

The World Bank report comments that increased aid from the developed world, and the opportunity for greater export earnings are essential. GATT, however, feels that the real economic storm is only now hitting the developing world. "Only in 1975 will the stagnation and decline in

income in the industrial areas exert their full adverse effect on the economies of developing countries", it says.

The reason for this is that the increase in exports and the rise in prices during the commodity boom allowed many developing countries to boost their economies, and expand their international reserves in some cases, because of time lags, right up to the middle of last year.

Since then the recession in the developed world has turned the terms of trade against them, and many have had to finance large balance of payments deficits—made worse by the rise in oil prices.

These deficits have been financed by large-scale commercial borrowing and the expenditure of international reserves—in the past six months these reserves have been reduced by US \$650,000,000.

The balance of payments situation in the developing world could become so bad that import controls are introduced, aggravating the recession in the industrialised countries.

At the same time, the current falling off in the level of inflation in most developed countries—which benefits the developing world as well—is mainly due to the depressed prices for primary commodities.

The World Bank report calls for an increased flow of concessionary "no strings" development aid, and an expansion and liberalisation of world trade as the answer, though it has reservations about both.

World trade offers more positive potential, the bank report suggests. The liberalisation of import controls against primary commodities, it argues, could halve the amount of extra foreign exchange required to reach the 6 per cent growth target. It would also, though, involve the oil-importing developing countries in some US \$18,000 million investment in additional productive capacity to meet the extra demand.

If the "crunch" year of 1975 is to be avoided and not to become a recurring phenomenon, international co-operation is certainly essential, and the adjustments involved in establishing "a new economic order" may have to be more fundamental than any yet envisaged.