

THE THEORY AND PRACTICE OF POVERTY ALLEVIATION IN SOUTH ASIA

by Dr. Ponna Wignaraja

Dr. Ponna Wignaraja is currently Co-ordinator of the United Nations University Project on South Asian Perspectives, based in Colombo. In this capacity he works closely with the SAARC countries on problems of poverty alleviation. Dr Wignaraja started his career as an Economist in the Central Bank of Sri Lanka and over the past twenty five years has served as a Development Adviser with various UN Agencies (IMF, World Bank, IFAD, UNICEF, UNDP and the United Nations Asian Development Institute). During this period he was also Chairman of the Participatory Institute for Development Alternatives (PIDA) in Sri Lanka and Secretary General of the Society for International Development, a local and global NGO respectively. He has authored a wide range of publications on development alternatives and poverty alleviation.

The Search for Alternative Paradigms

In the late 1940's and 1950's, amidst the process of decolonisation in South Asia, a number of ideas caught the imagination of South Asian scholars and ruling elites. These included the "instant" creation of new nation states (with the illusion of transference of political power), the grand vision of progress through development with modernisation and industrialisation, and the notion of a single interdependent economic system (known as "One World"). Taken together these ideas appeared to provide a coherent paradigm that was to mould the destiny of the South Asian Region for the next half century. Few hard critical reviews were made of the processes - economic, social and political - that followed the adoption of this paradigm. This uncritical acceptance was also extended to the more specific economic development intervention that was an integral part of the paradigm.

The partial success of India's early planning and efforts at industrialisation, the green Revolution in Pakistan and later in India, the aid flows and foreign "expert" advice that accompanied it mesmerised all concerned and re-inforced the belief that a rapid social transformation was underway and that the world economy would be managed for the betterment of all people.

Whatever, criticism there was of the process as it unfolded, came mainly from a minority of conventional Marxist intellectuals who understood some of the dangers of incorporation of South Asia into the global capitalist framework. However, the limited categories in their early analytical framework did not permit them to either understand the complexity of the reality or to see many of the contradictions that were to emerge subsequently. Mahatma Gandhi with his now famous dictum "*the World has enough for everyone's needs, but not for everyone's greed*", provided an alternative vision for development, but with his death soon after Indian independence, neither the theoretical nor practical implications of his vision for South Asia were fully worked out.

As the warning signals began to emerge in the 1970's, one of the earliest attempts to understand the reality, question the "development" intervention that had taken

place and systematically begin to conceptualize a different paradigms was undertaken by a group of South Asian Scholars. A somewhat broader framework of economy than conventional single discipline analysis, was reflected in a trilogy of separate studies undertaken by these Scholars between 1974 and 1979. These have now been published in one book under the title "Towards a Theory of Rural Development."¹

The beginnings of this alternative approach was based not on a priori theorizing or borrowed thinking from Western Social Sciences. It was based on looking at the South Asian reality and formulating a more rational intellectual framework for eradication of rural mass poverty, rooted in a more 'scientific' approach to South Asian history and culture than the conventional paradigm. The material basis for their generalizations on alternatives was provided both by the negative impact of a quarter century of development on large numbers of people in South Asia, as well as, by the first generation of positive experiments at the micro grassroots level. This analysis demonstrated the possibilities of incorporating social justice and participation, into a process of accumulation and economic growth which would involve and benefit the poor and the vulnerable in the all round development of their lives. In particular, there was increasing evidence that such processes were sustainable at the micro-level. At that time, these scholars also had the lessons of China's post war development experience of "socialism under the non-classical conditions" and South Korea's "capitalism under non-classical conditions" to draw from.

In the 1980's as the countries comprising South Asia began to face an even more critical crisis of development, with the global system itself in disarray and the structures and institutions of the South Asian nation states unable to cope with the twin crises of development and democracy, another intellectual effort was crystallised. A larger network of South Asian scholars, under the auspices of the United Nations University South Asian Perspectives Project (UNUSAPP), came together to understand the steady slide of these societies into anarchy and destabilization, despite the rhetoric of development, democracy and regional cooperation. Breaking out of the conventional paradigms and transcending the cruder versions of

Neo-classical and Marxist thinking, UNUSAPP Scholars also took a deeper look at the emerging reality and articulated elements in an alternative, within an inter-disciplinary framework. The aim of the exercise was not only to examine the available alternatives in terms of categories that were hitherto neglected, but also to focus on those alternatives which were sustainable in the present South Asian context. The results of this research and reflection were embodied in a book titled "The Challenge in South Asia: Development, Democracy and Regional Cooperation".²

A part of this United Nations University network was also concerned with the Gender and Equity crisis - another facet of South Asia's growing economic, social and political problems. Here again there was an increasing body of positive evidence which indicated that poor women contributed significantly to economic and social development, particularly in the informal sector and represented a new factor. In looking at the ground it also became evident that they could overcome their double burden of being women and poor, through better organization and using local resources and knowledge and their own creativity.

Moreover, where they had support from sensitive macro institutions, the small development actions initiated could also go to scale and be sustainable. A study entitled "Women, Poverty and Resources"³ attempted to draw the lessons from these experiences for poverty alleviation among women and further refine the concepts and methodology of an alternative approach to poverty alleviation for South Asia.

These three studies paved the way for a further probing of the South Asian reality at both the macro and micro levels. Building on a number of positive fresh development experiments at the micro-level, a new study was undertaken entitled "Participatory Development: Learning from South Asia".⁴ It not only highlights the deepening multifaceted crises that are confronting South Asia, but also provides a harder and systematic critique of the dominant development framework which has guided a major intervention into the lives of the people of South Asia. From this analysis of poverty reproducing itself, deeper insights into critical elements in an alternative methodology for reversing some of these processes have been identified. A number of peoples movements and experiments in South Asia which have matured in the 1980's have also provided the further basis for the generalisations. These movements and experiments demonstrate both the potential for damage limitation and reversing past processes, as

well as, possibilities for initiating positive sustainable development actions with the participation of the poor and vulnerable.

The four studies taken together make an important contribution to understanding the larger crises in South Asia and identifies a culturally relevant point of departure for moving systematically towards poverty alleviation and sustainable development. The following sections set out the main lessons learned.

Lesson No. 1

The emerging contradictions and need for seeking an alternative driving force for accumulation

In the first of the studies, the South Asia Scholars contended that the development intervention that took place when South Asian countries emerged from colonial rule ignored a fundamental issue. South Asia was predominantly rural society, yet the dominant "development model" adopted was both indifferent and inimical to rural development. The chosen model had three major components: central planning, control, and coordination as a top down process; industrialization and expansion of the modern sector as a means of rapid economic growth and take off; and assistance from development countries to bridge the savings, foreign exchange and technological gap. It was assumed that rural South Asia would be carried on the back of a modern urban industrial sector, until a new society was created. With the benefit of hindsight, it is now evident that the working of the model has not only failed in its own terms, but has also caused fundamental damage to the possibility of these new nations mobilizing their own resources – people, natural and financial – to sustain the process.

From the failure of the "model" of development (even in its own terms) to benefit the large numbers, these Scholars concluded that the South Asian region was confronted by a world historical framework in which the ideological driving force for accumulation pertaining to the economically advanced societies no longer offered a viable road to accumulation itself for the former. Therefore, the compulsion for seeking an alternative driving force for accumulation, even in its narrower conception was mounting.

In this search, they further felt that the definition of development in narrow economic terms was insufficient and adopted an alternative perspective on development itself. The concept of development they presented in the late 1970's was in terms of fundamental humanistic values and was people centered, rather than narrowly techno-economic, as in the old model. The core of the concept was the de-alienation of man vis-a-vis the material forces of production and society and a purposeful growth of the human personality. The study further sought to understand

how the creative initiative of the people of South Asia may be released and mobilized for the all round development of their lives.

Attention was then focussed on how to redirect this social effort. The process of mobilizing people, they argued, must be the primary mechanism for accumulation in the South Asian context. The insights gained in this pioneering intellectual effort were systematized into what may be seen as the beginning of a theory of rural development in the South Asian context, and for that matter, a theory of development for predominantly rural South Asia.

In deepening the elements in the theory, the authors focused on an analysis of the basic unit in South Asia – the village – to gain insights in evolving principles of micro-level development in consonance with the perspective developed above. The specifics of various village situations and experiments in peoples participation were then generalized to identify strategies of micro-level development and the principles underlying the design and evaluation of rural development projects with peoples participation, the use of local resources and local knowledge.

By way of a summary two visual representations of the principles of participatory project design and evaluation identified by the South Asian scholars are set out below.

Figure I See page 24

What the diagram above (Figure I) indicates is that typically South Asian villages are not homogeneous economic and social entities. The contradictions at the village level distort a purely technical thrust that is planned and delivered bureaucratically from the top, without the involvement and participation of the poor and marginalised as subjects in the process. This creates further contradictions and polarisation. Any positive strategy under these circumstances must separate the poor from the rich, work on their minds to actualise cooperative values and initiate group actions, in a staged manner, according to the felt needs of the people. This process does not always get initiated spontaneously and an outside initiator or animator may be required to catalyse the process. As the process gathers momentum the peoples knowledge system, which is an integral part of the culture, comes into play and new people's organisations, including village level savings funds, are set up to sustain the process economically.

Figure II See page 24

Figure II indicates that for the process to evolve and be sustained, a continuous process of self evaluation and internal correctives is required. Evaluation then becomes part of the internal dynamics of the process. Thus, design and evaluation become two sides of the same coin. The values or criteria used are not always

narrowly economic or quantifiable. A number of values, however, may be perceived by the people as being of strategic importance and one can measure the qualitative changes in the overall situation through them. Even though much of economic benefits, attitudinal changes and self management are measurable in a variety of ways, in the final analysis, what is important is the raising of consciousness of the people and enhancing of the political power of those who are hitherto marginalized. Initially this may take the form of building countervailing power. The methodology of participatory development thus identified, informs much of the innovative approaches to poverty alleviation even today.

To test the approach and methodology, the group initiated an action research programme jointly with the activists of the Bhoomi Sena Movement, landless labour movement in Maharashtra in India. This partnership between committed scholars and landless peasants, from a methodological point of view, provided for the intersection of perceptions and knowledge generated from two different life streams, interacting with each other to create new knowledge about reality, jointly. This was a further breakthrough in methodology which went beyond conventional social science research. This new method of dialogical research helped to bring out the perceptions of people who are involved in the struggle for survival. In the process, the accumulated experience from their life and struggle, their consideration of options and rationale for action, the institutions they build are also revealed. This experience laid the foundation for what was to become known as Participatory Action Research (PAR).

With this Study, the first phase of an attempt by a group of South Asian Scholars to understand mass poverty in South Asia, even in a rudimentary fashion, was completed. The Study started with a macro-development perspective, probed the micro and then moved again through this concrete analysis to an enriched understanding of the macro. The Study was not intended to be comprehensive. Questions like the interdependence between the rural and modern urban sectors and foreign trade were not analyzed nor was the nature of state structures in South Asia examined. It also did not cover the wider crises which have since emerged more sharply.

Lesson No. 2: The multifaceted crisis and the need for a more complex culturally relevant economic and social response.

The second study was undertaken in the 1980's and began to systematically uncover the multi-faceted crises that had emerged in South Asia, which was not only further marginalizing large numbers of people (in economic and political terms) and creating a crisis of survival for them, but was also destroying the environmental and their

natural resource base, generating a reverse flow of resources from the region and creating violent unmanageable social conflicts which could lead the societal collapse and anarchy. Politically, these consequences were paralleled by the erosion of democracy and a growing militarization of the regimes. The ideas in this study build on and reinforces the search for alternative pathways to development and social change in South Asia, initiated in "Towards a Theory of Rural Development". It also added several new dimensions and categories of thinking to the earlier effort.

The authors surveyed the development strategies adopted in each country and highlighted the fact that:

- (a) In the four decades since Independence national income has increased without significantly alleviating poverty and that agricultural growth has increased food output without affecting the nutritional status of the poor; and
- (b) Foreign aid dependence is increasing, while there is a continued reverse flow of resources from South Asia to the rich industrialized countries.
- (c) The Strategies pursued were not culturally relevant nor sustainable.

In sum, as a result of uncritical continuation of past development strategies, development (even in its own narrow economic terms) was being undermined. Poverty within these countries is reproducing itself and economic disparities are increasing. They are nowhere near "take off" to catch up with the rich countries. This analysis was combined with proposals for an alternative approach which takes people rather than growth, and participation rather than highly centralised planning, as a starting point. This involves both new institutions and use of the knowledge system to be specified in greater detail. A refined methodology to reverse past processes through peoples praxis, i.e. the action-reflection-action process was identified. The essence of this methodology, also called Participatory Action Research (PAR), is that when people participate as subjects in the development process, it is also possible to achieve a balance between growth and accumulation, natural resource use, equity and self reliance. The peoples knowledge system also becomes a critical lever in reversing the process and empowers people to bring about a change in their reality.

Further, this study examined the crisis of State Power in South Asia and the problems and prospects of Regional Cooperation. The crisis that was sparked by the acute inequities resulting from the development process has its impact internally on the political process and democracy. Political power increasingly becomes centralized. Significant sections of the peoples are denied participation. Minorities are tyrannized and political power is

increasingly wielded by military bureaucratic oligarchies. The tendency for growing militarization and fragmentation of states along ethnic, linguistic or religious lines creates internal conditions for further external intervention. The crisis of the State thereby assumes an international dimension and inhibits bringing out the full potential of Regional Cooperation, which is in time necessary for reinforcing the path of sustainable development and democracy.

The question whether there are elements in the cultural traditions of South Asia which would constitute the ideological basis of the political alternative which is now on the historical agenda of South Asia is also addressed. It is argued that there is a major contribution of the cultural dimension towards building democratic states in South Asia. The potential in the folk consciousness of Islam for containing ethnic conflict within the dialectic of unity in diversity was examined. Hindu ideology was probed to ascertain the role of women in Hindu society. The class character of militant groups in an ethnic conflict is another new cultural dimension that is analysed.

In relation to Regional Cooperation, the study attempted to enunciate the strong compulsions for cooperation in South Asia. It further argued that the inherent asymmetry, can be turned into a supportive factor in the promotion of development and democracy in the Region. The study concluded on the note that this perception should guide future intellectual efforts, now that SAARC, the first manifestation of Regional Cooperation has come to stay. If countries individually do not have the political will to systematically alleviate poverty a collective approach under SAARC auspices is proposed.

Lesson No. 3

The double burden of gender and equity - some innovative approaches

Within the United Nations University South Asia Network, parallel to the earlier works, a special study was initiated in collaboration with a number of institutions working with poor women, to understand in depth the relationship between gender and equity issues. The study was a pioneering effort to look at the question of the double burden poor women face within the dominant development paradigm. Over the past decade the women's movements in South Asia had helped to focus unambiguously on the important role poor women play in development and the various factors that prevent them from benefiting from the process. Secondly, it highlighted the continued adverse effects on poor women as the dominant development model unfolds, accompanied by the conventional "delivery" of inputs process, with the further marginalization of poor women and even erosion of their capacity to survive. Thirdly, it brought out the new energy that was represented by releasing the creativity of poor women and their empowerment.

Using this context, as the starting point, this study attempted to look at the role of poor women in an alternative development strategy. It examined several experiments in South Asia where poor women as subjects in the process had organized themselves primarily in informal sector activities for micro-level development actions and gone beyond survival, to building new organizations and savings systems to sustainable development. These experiments ranged from the Working Womens Forum and SEWA in India, to the Grameen Bank and BRAC in Bangladesh, to experiments in Nepal, Pakistan and Sri Lanka. In most cases, this change in their economic and social conditions was brought about through the methodology of participatory action research, using their creative energies, local resources and local knowledge. Where there was a sensitive support system involving a Government Agency, an NGO, a Bank or a Donor, these experiments have been able to go to scale. The process which was identified was very different from poor women being the objects of the process and merely receiving "delivered" credit and other inputs from outside in the name of Women in Development programmes. Both the development perspective and the methodology are further refined in these people-oriented development experiences under varying socio-political circumstances.

From the selective survey in South Asia where this innovative approach to poverty alleviation by poor women and their empowerment has gone beyond experimentation, it was possible to identify the essential elements in the total process which contributed to sustainable development by poor women. It was also found that the methodology, processes and organisations with appropriate adaption could be used for initiating, expanding or multiplying similar processes in Africa and Latin America.

From Lessons to Concepts and Methodology of Participatory Development

The preceding sections have briefly indicated the backdrop of empirical and conceptual work, within which South Asian Scholars have attempted in a fourth study to deepen the critique of the dominant development paradigm, and their understanding of South Asian reality. From this, the network of South Asian Scholars and activities in a partnership have attempted to refine further the methodology for not only partially reversing past processes, but also to initiating the transition to a new strategy of development. The approach taken in the study "Participatory Development: Learning from South Asia" builds further on the earlier positive lessons of the innovative participatory development experiences on the ground, which have matured and are proving to be sustainable in South Asia.

This study, as mentioned, serves a four fold purpose. First, it highlights the multifaceted crisis that is already upon South Asia, albeit in varying degrees of intensity and inter-relatedness in the different countries, which makes it imperative for these countries to adopt a different development pathway. Secondly, it provides a critique of the dominant development paradigm that has been adopted and show that neither in its own narrow ideological and socio-economic terms nor as a response to the wider crisis is it sufficient. Thirdly, it articulates in an unambiguous manner elements in a strategy based on participatory development at the micro level which can both limit some of the damage of past strategies, as well as go a long way towards alleviating the worst forms of poverty and de-humanisation in South Asia. This process at the same time, once initiated at the micro-level, can provide a transition to sustainable development. Finally, it helps refine some of the methodological and analytical tools which are indispensable for re-inforcing these alternative processes already underway.

It is increasingly clear that the crises that South Asian countries face, is no longer merely the poverty crisis, but is now taking the form of the ecological crisis, ethnic violence, gender conflict, militarisation and external destabilisation. These are not isolated phenomena, but are inter-related both to each other and to the fundamental development intervention that was initiated after de-colonisation. Taken together they have deep consequences for the fragile democratic processes at work and the task of nation building.

This study does not pretend to substitute an alternative theory as such to the conventional dominant theory that has influenced development thinking and action in the past forty years in South Asia. Rather it proposes that the methodology of Praxis and the instrumentality of Participatory Action Research (PAR) that goes with it can help in moving the development intervention at the micro-level towards sustainable development. This requires a new conceptual framework and interdisciplinary analytical tools on the one hand and the collective reconceptualisation by those engaged in social praxis on the other. Social praxis can be achieved by releasing the creative energies of the people in South Asia, who are now being marginalised and mobilising them, alongwith local resources and knowledge, for the all around development of their lives. Participation of the poor and vulnerable will entail building new peoples organisations not only to enable them to participate effectively, but also to multiply and sustain the process. It is axiomatic that without their participation as subjects in the process no sustainable development can take place, because people and their creativity is South Asia's greatest asset. With the majority being poor and vulnerable the process has to start with them.

In a pioneering effort, this group of South Asian scholars have located the methodology of Praxis and the PAR instrumentality unambiguously in the context of the development of development theory and practice. For the past fifteen years, after the methodology was first identified in the contemporary South Asian context it had been considered a maverick methodology by the development establishment. The rhetoric of "participation" has been used both in theory and practice, without making explicit its methodological basis or its point of departure from existing development theory. Today, with the mounting crisis of development, the crisis of the State and Civil society, past attempts at development theory are also in disarray. It may be timely therefore, to restate the new premises for development thinking and action, as they are manifested in the positive experience of participatory micro-level development.

To move to the new premises for development it is essential that first a critique of the dominant development paradigm both in its own terms and in terms of the new values be attempted, so that there is no ambiguity between the old and the new. The critique of the old paradigm was attempted in this study along three points of departure:

- (a) An examination of the fundamental concepts of the mainstream economic development paradigm, showing that the very design of this paradigm precludes comprehension of the fundamental relationships between people, nature and growth. As such it is incapable of formulating a sustainable relationship between them.
- (b) Demonstrating how the dominant economic theory called neo-classical theory has itself evolved into its present highly refined version, in its historical cultural context. The purpose of examining this historical evolution of the current paradigm is primarily to clarify the theoretical and ideological basis for evaluating the outward-oriented development strategy now being imposed on South Asian countries, through "structural adjustment programmes", and its relevance to the South Asian reality.
- (c) At a third level, the critique is intended to examine the actual effects of past-development practice in the South Asian region in the post colonial period. A wide range of data is brought to bear to show that the particular form of economic growth that is in operation in South Asia is such that it is not only perpetuating poverty of the majority of people, but is also eroding the natural, human and financial resource base on which a new beginning could be made. This in turn contributes to destabilising the fragile democratic structures as also leading to heightened violence and societal collapse in South Asia. It is the stark facts, at the end of the

multi-level critique of existing development theory and practice, that has given a sense of urgency for finding a focal point for reversal of past processes.

This critique is also being made not from narrow ideological orientations or a priori theorising but from the perspective of an alternative possibility which is emerging, though still in a nascent form. However, there is a material basis of sufficient scale and geographical coverage to indicate the broad outlines of the methodology that is implicit in this experience.

From the critique, the study thus moves to new premises of action. Those people who were impoverished and marginalized by current growth processes are seen as the prime movers of history in future. The scholars then attempt to generalise on possible ways, on the basis of action, that has been taken. If the release of the creative energies of the people is a critical factor, the question then is needed to initiate a process to enable them to use their full creativity and realise their true self-worth. Once this is done the further task of building organisations to sustain and multiply the process could be left to the internal dynamics of the process itself. The essence of the process is the mobilisation, conscientisation and organisation of the people, in that order. This process could proceed from being a countervailing factor to ensuring social justice and equality for all.

There is now a growing body of experience in South Asia where the methodology Peoples Praxis (i.e. the cycle of an action-reflection-action process) and Participatory Action Research (PAR) can be observed. This experience, as has been mentioned, provides the material basis for the generalisations relating to the process, that follow. A considerable literature also exists on new social movements in South Asia that go beyond conventional trade unions and the co-operative movement which have run out of steam or been distorted or co-opted. In any event these only addressed limited issues relating to peoples' lives. Likewise, illustrative case studies are available on these experiments, which show how people in this cultural milieu view their lives holistically and respond to real life situations by using local knowledge systems and resources. Sensitised catalysts and animators are instrumentalities to initiate or reinforce social praxis. From this experience generalisations can be made on how to re-focus the methodology of Praxis and PAR as an effective step in moving to the next transition.

Part-III of the study specifically relates to refocussing praxis and initiating participatory action research for releasing the creative energies of the people. Apart from elaborating on participation and the action research process two critical instrumentalities are highlighted and discussed as they are at the core of the methodology. One is the knowledge system inherent in

SCANNER I
UN Sees Global Growth Falling to 2.2%

Courtesy - Herald Tribune
Global economic growth is expected to slow to 2.2 percent this year from 3.1 percent in 1989, with the Soviet Union and other East European countries acting as the main drag on output, the United Nations said recently

The UN World Economic Survey for 1990 said developed market economies pressed ahead with their long-running expansion in 1989, when their economic output grew by 3.5 percent.

This was lower than the 4.3 percent of the year before but more vigorous than had been expected. The 1990 forecast for developed economies is 2.7 percent, with a rise to 3.1 percent projected for 1991, just above expected global growth of 3 percent.

In the Soviet Union and Eastern Europe, the UN said economic growth fell sharply from 4.1 percent in 1988 to only 1.2 percent last year. The forecast for 1990 is negative growth of 1.2 percent, followed by minuscule positive growth of 0.2 percent next year.

Developing countries experienced a slowdown in growth last year, dropping from 4.5 percent in 1988 to 3.4 percent, with 3.1 projected for this year and a return to 4.5 percent in 1991.

But performance among developing nations varied widely. The growth rates for south and east Asia dropped from 8.2 percent in 1988 to 6.2 in 1989. The forecast for 1990 is 5.5 percent and 6 percent for 1991.

China's growth rate plunged between 1988 and 1989 from 11.4 percent to 3.9 percent, with 5 percent forecast for both this year and next.

African countries' growth increased by 2.8 percent in 1989, compared with 2.4 percent the year before. But since this was less than the rate of population

increase it meant another fall in per-capita output. Growth of 3 percent is forecast for 1990 and 1991.

Oil consumption, which has been increasing steadily in recent years, reached 51.9 million barrels a day in 1989, excluding Eastern Europe and the Soviet Union.

This was the highest level since the 1979 figure of 52.4 million and is expected to reach 52.9 million in 1990.

At the same time, crude oil production has grown only among members of the Organization of Petroleum Exporting Countries, from 19.65 million barrels per day in 1988 to 22.05 million last year, and to a lesser extent in non-OPEC oil-exporting developing countries.

In the developed market countries, it dropped by about 700,000 barrels a day, mainly due to a fall in U.S. production from 8.17 million barrels per day in 1988 to 7.68 million in 1989, the lowest level since 1963. U.S. crude production this year is expected to fall below 7 million barrels per day, the survey said.

SCANNER II
Here Comes the Next Financial Shock

By David D. Hale

The economic costs of rebuilding East Germany in the early 1990s, and Eastern Europe later in the decade, are likely to be the third great financial shock in the world economy since the end of the Vietnam War. The first shock was OPEC's decision to quadruple oil prices in 1973-74. The second was the Reagan economic program of the early 1980s. Both events set in motion upheavals in global capital flows, currency values and trade patterns that dominated the world's economy for nearly a decade.

In the 1980s, Reaganomics turned the United States into the world economy's borrower and spender of last resort - while West Germany and Japan emerged as the great lenders. Although West Germany did not play as direct a role in financing America's external deficits as Japan, it was possible for British companies to purchase nearly \$100 billion of U.S. assets during the late 1980s because of London's ability to attract funds from Frankfurt. Now, as German excess savings are diverted from Paris, London and New York to rebuilding the East, interest rates are likely to rise around the world, not just in Germany.

The magnitude of the upward pressure on world interest rates will depend upon how Germany decides to finance unification. Will it raise taxes or increase its public borrowing? Will the Bundesbank attempt to restrain inflationary pressures by increasing interest rates? Will there be a revaluation

of the Deutsche mark comparable to the large rise that occurred in the dollar during the Reagan years?

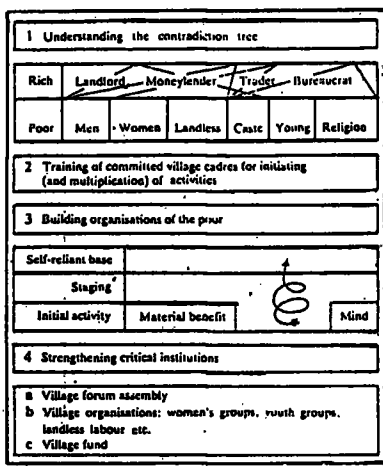
At the moment, a further rise in German interest rates in 1990 and 1991 seems the most likely outcome. Mr. Kohl is promising the German people that he will not raise taxes in order to pay for the costs of reunification. And the European Monetary System will prevent Germany from letting the Deutsche mark appreciate as dramatically and indiscriminately as the dollar did under the Reagan administration. What remains to be seen, though, is whether Western leaders, including President George Bush, will ask Mr. Kohl to rescind his tax pledge in order to lessen upward pressure on world interest rates.

The writer, chief economist of Kemper Financial Services, contributed this to The Washington Post.

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(Figure 1)

AN APPROACH TO MICRO-LEVEL DEVELOPMENT



(Figure 11)

EVALUATING THE PROCESS

