IFIC INTERNATIONAL SEMINAR REPORT 1990-03

ECONOMIC POLICY AND PLANNING

LECTURES
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SEP. 12, 1990 – JAN. 9, 1991, Tokyo

INSTITUTE FOR INTERNATIONAL COOPERATION (IFIC)
JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

ECONOMIC POLICY AND PLANNING

Contents

Introduction to Lectures

This book presents the texts of a series of 14 lectures on special issues related to economic policy and planning that were presented by Dr. W.D. Lakshman at the Institute for International Cooperation from September 1990 to January 1991. The lectures were designed to point out some of the important economic issues that must be addressed now and in the future.

Dr. Lakshman is a professor of economics from the University of Colombo who specializes in the economies of developing countries. The Japan International Cooperation Agency (JICA) invited Dr. Lakshman to contribute to its research and training activities. Among those attending the seminars were participants not only from JICA but also from the Overseas Economic Cooperation Fund (OECF).

I hope this report will prove useful for the staff of aid agencies, overseas advisors, volunteers, consultants, researchers, and others involved in development assistance.

Finally I wish to express my sincere gratitude to Dr. Lakshman for his outstanding contribution to JICA's activities and international cooperation.

Akira Kasai
Managing Director,
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Session 1

Scope and Coverage of Development Economics

Mainstream Economics: A Brief Introduction

Beginnings in the British classical tradition:. Smith, Ricardo, Malthus, Marx, Mill etc. The classical tradition was essentially an inquiry into long term growth and development within a capitalist framework. They worked within a basically a labour theory of value or a cost of production theory of value. This tradition was later (Jevon's work in marginal utility theory) bifurcated into: Neo-classical theory and Marxist theory.

One part of current mainstream economic theory is to be found in this so-called neo-classical theory. The main elements of neo-classical methodology may be summarized into the following:

* Basic unit of analysis is individual
* Short term/static analysis
* Concerned basically with allocative efficiency
* Maximization (utility; profit) and marginal analysis
* Basically an ahistorical analysis
* Fundamental tools of analysis: demand and supply and market mechanism

Following Adam Smith neo-classical theory postulates that: individual action is dominated by private interest; it operates through markets (goods and factor services) where consumers, producers and factor owners interact and determine resource allocation patterns; the market mechanism converts these actions, based on private interest, into patterns of behaviour conducive to also the best social interest, as if guided by an "INVISIBLE HAND". The primary assumption here is that there is competition in the sense of no single producer or consumer or factor owner is able to influence market prices on their own.

Neo classical economics as it developed ignored some of the basic dynamic issues raised by classical writers pertaining to the economic system as a whole. Neo classical economics developed a well integrated theoretical structure to analyse the behaviour of individual consumers and producers. What we know as micro-economics today includes the core of the neo-classical analysis developed over the years.

The other part of modern mainstream economics is to be found in the area known as macro-economics. Beginnings of "modern" macro economics are traced to Keynes and his 1936 *General Theory*. This was the reaction to the demands made on economics by the conditions of widespread unemployment and low level of economic activity found in the Great Depression of the late 1920s and the early 1930s. Keynes criticized some basic assumptions behind neo-classical economic theory (eg. the assumptions of automatic tendency to full employment, fully flexible prices and pure competition). He filled a gap that was there in neo classical economics, namely the lack of an analytical framework to understand and explain the working of a capitalist market economy taken as a whole. In his *General Theory* framework he explained how a market economy works using a few important conceptual tools which have now become part of not only academic economics but perhaps also journalistic discourse:

* Aggregate demand or effective demand
* Consumption function; Average and Marginal
* Propensities to Consume
* Savings function; Average and Marginal Propensities to Save
* Marginal Efficiency of Capital
* Investment Multiplier
* Liquidity Preference

Work done subsequently by others on the basis of the basic Keynesian framework added two other sets of analytical tools:

* IS-LM analysis
* Aggregate demand (AD) and aggregate supply (AS)

The last one has brought the analytical tools in macro economics to correspond closely with those in micro economics. There is much controversy about the validity of Keynesian macro economics. But macro economics, with its major elements coming from a somewhat revised Keynesianism, can now be considered an integral part of mainstream economics.

Thus the mainstream economics has micro economics and macro economics as integral parts with various sub disciplines, which use the analytical techniques developed in the former two to analyse problems within their respective interest areas: international economics, monetary economics, public finance, industrial economics and so on. Development economics has been one of the newest, and most challenging sub disciplines in economics after the Second World War.

Scope of Development Economics

Let us begin with an obvious statement, which is simultaneously both simple and complex: Development Economics deals with economic problems/issues and policies in and pertaining to developing/ underdeveloped countries or the Third World. One obvious area of enquiry - economic issues of developed/advanced countries -is clearly excluded from the scope of development economics. except to the extent that such issues have a relevance to developing country problems. From this the simplicity of the above statement ends and many complex questions start coming up in regard to the scope of the subject. What are these developing countries? What are these "economic" issues development economics is supposed to be inquiring into? Let us assume that we can demarcate, in some way, economic from non economic factors in human life - an extremely difficult task. Even if we can demarcate them, can we keep the economic isolated from non-economic issues in analysing human behaviour and is it right to do so? This is a general problem whether the subject of inquiry is developed or underdeveloped countries, but it takes a particularly sharp relevance in respect of the latter. Though artificial, there are some lines of demarcation between economics and other social sciences. These have been developed through more than two centuries of practice and convention. Given the short time of existence of development economics, demarcation lines between it and other sub disciplines of economics as well as other social sciences are still debated subjects. In fact the question itself of whether there should be a separate development economics (as we will see later) is being debated. But those who believe that there is a need for such a separate sub discipline of economics far outnumber those who question the rationale for it. There is some agreement among these about subjects that are normally discussed in it.

* What is underdevelopment and what are the characteristics of underdeveloped/ developing countries?
* How did these countries come to contain these characteristics (history of underdevelopment)?
* What do we mean by development?
* What are the problems hampering development - in general and in specific sectors and areas? What role external factors play in this respect?
* How should these problems be handled - to eliminate them or to reduce their potency?
* What are the strategies (general and specific) to be adopted and with what prioritisation? What role does the global economy have in this respect?
* What role should be assigned to various agents/ players in the development drama: markets, private enterprise, the state and so on?

These are some questions addressed in development economics. How some of these are formulated in specific reference to topics under consideration may be seen later on.

Methodology of Development Economics

The very idea of a unique methodology for a subject area like development economics is, as things stand today, is meaningless. (For that matter even economics as a social science does not have one unique methodology, different schools having different methodological premises). There is a wide variety of written material falling into development economics following quite different approaches (To be discussed later). It is difficult to believe that one dominant methodological paradigm will emerge and furthermore such methodological uniformity is anyway neither necessary nor desirable.

Occasionally one hears the voice of skeptics that there is no need for a separate sub discipline called development economics within economics and that mainstream economics is good enough even to analyse developing country problems. But the widespread opinion accepts the need for such a sub discipline. The Nobel Prize for economics in 1979 had gone to Sir Arthur Lewis and Prof

Theodore Schultz essentially for their work in development economics. There is no question about the general acceptance of its existence as a respectable discipline.

As things are its basic methodological elements have come from three areas:

(a) mainstream economics,
(b) political economy and
(c) other social sciences like anthropology, sociology, demography, political science, history and so on.

Although quite frequently one hears of a multi-disciplinary discipline of "development studies", no such thing has in fact developed. What we have are distinct sub disciplines within established disciplines, like "development economics" within economics, "development sociology" within sociology and so on. Development Studies is a combination of such a multiplicity of sub disciplines dealing with developing countries.

Why a Separate Development Economics

Given the Eurocentricity (or now America centred) of the development of science, the environmental basis for the analytical core of science has been provided by the developed capitalist country situation. When it comes to social science this implies that certain institutional and political structures are taken for granted eg.:

* private property
* individualistic values
* product and factor markets
* various other basic economic institutions
* democratic political institutions and practices
* nation state
* the value system

The established social sciences take these things to be granted. Development economics came up because the established social sciences in general and economics in particular were unable to deal with developing country problems satisfactorily. The institutional structures and value systems in developing countries are often basically different from those of the developed countries and this led to the widespread belief that established social sciences were suitable only for the "special case of developed economies and societies". The idea that present day developing countries are not in stages the developed countries have passed through at some stage but passing through a different sort of development path (they are not "undeveloped" but "under developed") also may be noted here.

Compared to advanced market economies and societies, developing economies and societies have clear differences in respect of certain important areas. These differences make economics as currently stands in the mainstream tradition or the Marxist tradition hopelessly irrelevant for developing countries.

(Whether, with all its known abstractions, economics has been all that relevant even in advanced countries is another question). Some areas where these differences are clearly visible may be noted with special emphasis:

* the nature and the extent of prevalence of markets: fragmented nature of markets; traditional/modern ways of doing things; the markets that exist too are not competitive
* peculiar institutional/political structures
* different value systems, different attitudes to life, different laws, symbols, ideas etc.
* tribal, ethnic, religious, caste differences: some of these countries have been "made" countries and "nation states" before they "became" nations through a natural process
* political mechanism becoming an over determining allocation mechanism

Many such special features can be discussed and if economic enquiry is to be relevant in these societies it must be rooted in the prevailing institutional, social, cultural and political contexts. This is what hopefully development economics tries to do.

Deductive reasoning in any social theorizing requires that certain abstraction from reality are made. Even in developing a development theory this is unavoidable. But the important point is that the abstractions made in developing a theory to suit a certain social system should not be adopted wholesale in an uncritical manner in theorizing about a different social system. Development theory requires to be thus very careful in not abstracting from some key behavioural characteristics found in developing societies which happen to be either absent or not significant in developed societies.

The application of economic theorizing without taking into account the important environmental and behavioural differences gives rise to either wrong or irrelevant conclusions and policy guidelines. When the unique elements in an underlying system are taken into consideration, one would be asking different questions and even when the same questions are asked, different answers would be given to them. Mainstream economics would not care to make the question "why hunger and famines" important in its inquiry[1] but development economics must do so. Even if that question is raised in mainstream economics it would treat it as one of inadequate supply. But hunger and famines often prevail in developing countries in the midst of adequate "total availability", thus showing that certain important institutional mechanisms, taken for granted in developed countries, are lacking in the developing countries (the distribution mechanisms). There

[1] Occasionally you may find an economics text book talking about poverty but these discussions would not constitute the core of the book.

is the necessary framework in developed countries to take benefits of growth to all including those in the lower social strata but the developing countries are yet to have those mechanisms soundly established. Thus "development" have to be seen differently from "growth". The means of increasing production in any area of economic activity, according to mainstream economics would be to raise the relative prices in the sector concerned. But the effectiveness of this measure would depend on the underlying structural/institutional conditions (consider the agricultural sector and institutional conditions in the agricultural/rural sector in developing countries). Similarly about the necessary conditions to make a country gain from international trade. Problems of primary exporting countries in the Third World and questions of the reform of the international economic order ("New International Economic Order") become important issues in development economics, though such issues are not generally raised in mainstream economic theorizing.

Development Economics and Values

No social science, including mainstream economics can be value free. The idea of an objective or positive social science is a myth. Development economics, as it developed since the end of the Second World War, deals with its subject matter on certain explicit value judgements: elimination of poverty, equality, rising levels of living, universal education, national independence, self reliance, grass roots democracy and so on. All these become important in dealing with developing countries though some of these things need not be made explicit in dealing with advanced societies as they are taken for granted.

Thus development economics would explicitly take the following to be the objectives of the relevant societies: GNP growth, equity, poverty elimination and remunerative employment opportunities for all. As some of these are taken care of automatically in developed countries through the existing social institutional mechanisms (unemployment is a problem and full employment is an objective everywhere but the problem takes a totally different shape in developing societies because they lack any social insurance schemes). In analyzing how societies move towards these multiple objectives, development economics has to adopt a social system approach in which interdependent relationships among economic factors as conventionally understood and a whole gamut of non economic factors are considered.

> "Economic": commodity prices, factor prices, factor productivities, savings, investment, foreign exchange rates and so on.
>
> "Non-economic": attitudes to life, to working and to authority, patterns of kinship, religion and cultural traditions, systems of land tenure, authority and integrity of government agencies, degree of popular participation, flexibility or rigidity of various social classes.

Along with these, which are presumably "domestic" factors in a large sense, various ramifications of the existing international systems (international organizations, the rules of the game in international economic relationships) have to be brought into the analysis taking the peculiarity of the developing country position (the system of dominance- dependence in the existing structure of global interdependence). All this involves drawing heavily from all existing knowledge to build up a credible discipline of development economics.

Session 2

The Developing World: Commonality among Diversity?

<u>What is Common</u>

Of some 160 odd United Nations member countries or nations in the world, 143 or so are called "developing" or "underdeveloped" or "less developed" and constitute what is called the Third World. This is an extremely heterogeneous collection of countries and societies. Yet they are considered to share certain characteristics in common - of course, in varying degrees. It is largely because of this conception of "uniformity (or commonality) in diversity" that people talk of developing countries as a group and different disciplines like development economics or development sociology have emerged to deal with these countries.

Let us first try to see what are considered to be these common characteristics. One approach to identify commonalities among developing countries is to look through various quantifiable and quantified variables across developing and developed countries. This is what often is done by various international agencies to work out easily applicable classification criteria to put a country in one or the other pre defined category. There is, however, a difficulty with this approach. Every time we come out with a "common" characteristic, we may be struck, on the one hand, by the extent of divergence among different developing countries in respect of that particular characteristic. On the other hand, we may observe the existence of the same characteristic, in varying degrees, even among countries outside the conventional Third World boundary. See, for example, Todaro's six categories of common characteristics:

* low levels of living (in terms of per capita income, growth rates, income distribution, absolute poverty, health and education indicators)

* low levels of productivity

* high rates of population growth and "dependency" burdens

* high and rising levels of unemployment and underemployment

* significant dependence on agricultural production and primary product exports

* dominance, dependence and vulnerability in international relations

In all this Thodaro is talking about statistical categories. It is true the above characteristics are present in most of the developing countries to a very great extent. Though to a smaller extent, they can also be found in developed countries (DC). Though of a different sort and to a different extent, there are people in poverty and low living standards also in DCs. Productivity varies from sector to sector, enterprise to enterprise even in DCs and sometimes they may have enterprises with lower productivity than would be found in certain enterprises in UDCs. High dependency ratios in population, of course of a different category, characterize DCs as much as UDCs. A DC can depend on agriculture and primary export as much as a UDC or there may be UDCs which, statistically are less dependent on these than some DCs. Vulnerability to international developments (eg. consider the present oil crisis) is not restricted to LDCs though their vulnerability is greater and more constantly present. Thus if uniformity can be seen among developing countries on the basis of such statistical categories then it will have to be on some <u>relative</u> basis. None of these are <u>absolute</u> and <u>exclusive</u> features. If they are relative then there is always the vexing problem of determining <u>boundary lines</u>. And the boundaries determined will always be subject to controversy.

It is good to be talking in terms of measurable things but all important things are not amenable to measurement. Moreover any one or a number of such quantified categories cannot be used to identify a useful "conceptual" or "analytical" category called a developing or underdeveloped (UDC) or less developed (LDC) society. Looking at various so called "common" statistical features of LDCs can be, no doubt, very illuminating. Through that we can learn a lot about their measurable economic conditions. But the point is that we cannot arrive at a useful "analytical" category through this means. To find such a category one has to try to find whether there are peculiarities in the behavioural patterns in these so called underdeveloped societies which distinguish them from other societies. In trying to do that two things must be kept in mind:

A. the identified behavioural traits will not be common to all the social strata or groups in a society under examination. So, we may have to look for behavioural traits which characterize the bulk of the society concerned.

B. Whatever behavioural characteristics we use to distinguish an underdeveloped society from a non-underdeveloped society we must remember that these are constantly changing over time and space.

I feel strongly against using statistical types to identify a "conceptual" category called "developing society". I do not however feel so strongly about an alternative methodology that can be used here. I have no objection to being somewhat eclectic in this regard. We may be able to learn from different schools of thought: Marxist, Weberian and so on. Even the dualistic and dependency approaches may be helpful here.

As behavioural traits, the following may be stressed as common to UDCs, but always keeping in mind the points (A) and

(B) above:

* These are all pre capitalist societies in terms of their dominant modes and relations of production (Marxian analysis).

    - *"commodity" production is not all pervasive*

    - though there has been some primitive accumulation, there *has not* been the *evolution* of a class of industrial or agricultural capitalists, committed to a continuing process of accumulation.

    - there is no class of industrial proletariat, subject to the well known condition of the divorce of labour power from ownership of means of production.

* If ideas are borrowed from Max Weber we may think of these societies as largely traditional bound by anti modernization values, behavioural patterns and attitudes to life.

* There is an important historical factor which is often extensively raised in the dependency literature. Except for a few (Thailand, Nepal) all UDCs were colonial territories at one time or another in their histories. The colonial rulers came from Europe, America or *Japan*. UDCs are a group of countries which, due to colonial past, lost the chance of any autonomous development.

* There is also a factor emerging from the current position of the UDCs in the international economic order. This is *the dependency relationship they have with DCs through an* unequal exchange in trade, capital flows and technology flows and operation of various demonstration effects.

* Another characteristic which is gaining wide recognition is that these countries were "made" nations before they became so in a process of evolution. Theoretically and, for international diplomatic purposes, they are treated as nation states. As the current situation in many of these countries shows, they are however, in a state of flux as nation states. And they operate in a widely open world economy and society, subject to (from their development point of view) both favourable and unfavourable influences.

<u>The Diversity</u>

There is diversity in terms of the above characteristics too. But here let me concentrate on diversity seen in various features which have been measured and quantified thanks mostly to the efforts of many concerned international organizations. Chapter 2 of Todaro's text and the accompanying statistical tables are able to clearly indicate the nature and extent of the diversity found among these LDCs. Some aspects where one can see this diversity are noted below. You may note that the aspects Todaro refers to as elements of commonality also can be used to indicate diversity.

* geographical size, size of population and national product
* nature of state (ethnicity, religion, language, race, tribe, caste etc. divisions)
* economic growth rates
* physical and human resource endowments
* relative importance of private and public sectors
* economic structure
* dependence on external economic and political forces
* institutional and political structures
* human development indicators (social indicators)

Handling this extreme heterogeneity of the developing world, for purposes of analysis as well as of international policy, is obviously rather difficult and complicated. A practice of classifying them into groups has therefore developed, particularly in international organizations. There are different classification systems in vogue (United Nations, IBRD, UNDP etc). These are sometimes used in defining responsibilities of and benefits to various countries in the implementation of international agreements. Policies of certain international organizations (eg. IMF and GATT schemes) are made to operate differently for different groups of countries. In these classifications, the most commonly used criterion has been per capita GNP expressed in a common currency like the US dollar or the SDR. Various criticisms have been made of this practice:

- statistical weaknesses of the GNP data;
- inability of these data to indicate welfare levels or their growth;
- the existence of wide differences internationally in consumption patterns which make conclusions derived from a comparison of GNP data distorted;
- weaknesses of exchange rate based comparisons and so on.

Many alternative criteria (purchasing power adjusted GNP data, social indicators, PQLI etc.) have been proposed. The latest international attempt on these lines is the *Human Development Report, 1990* of the UNDP. The classification system the World Bank uses basically on the basis of GNP data is quite well known. On the basis of a new Human Development Index (HDI), the above UNDP report presents an alternative classification. The attached statistical data include these two classification systems. Reading through these numbers, one must indeed be struck by the enormous diversity of the group of countries studied in Development Economics.

This diversity has important implications for analysis, problem diagnosis and policy prescriptions in regard to developing countries. Except on very broad lines, there cannot be any uniform analysis, problem diagnosis or policy prescription valid for all developing countries. For any country, developed or underdeveloped, this is clearly the case. The enormous diversity in the Third World makes this a particularly important thing to bear in mind. Single cause analyses of underdevelopment have to be viewed with great suspicion. When you find a group of countries which will fit well with one of these mono-causal explanations, you might find a much larger group which falls quite outside that explanation. A particular policy which may have worked in one group of countries may lead to disastrous results in another group of countries. Even where that policy worked satisfactorily, one may never know whether it was due to intervention of certain extraneous factors. When it is used elsewhere it may fail either due to its own irrelevance or as a result again of extraneous factors. So the area of policy recommendation for development is constantly being found to be rather treacherous to travel. Over at least a forty year period of evolution anyway development economics has accumulated through careful study an interesting body of conceptual and empirical knowledge about this extreme diversity. If one carefully studies this wide literature one need not be misled by simple diagnoses and solutions to the problem of underdevelopment.

Table 1. Basic indicators

	Population (millions) mid-1987	Area (thousands of square kilometers)	GNP per capita[a] Dollars 1987	GNP per capita[a] Average annual growth rate (percent) 1965-87	Average annual rate of inflation[a] (percent) 1965-80	Average annual rate of inflation[a] (percent) 1980-87	Life expectancy at birth (years) 1987
Low-income economies	2,822.9 t	37,015 t	290 w	3.1 w	8.9 w	8.6 w	61 w
China and India	1,866.1 t	12,849 t	300 w	3.9 w	2.9 w	5.5 w	65 w
Other low-income	956.9 t	24,166 t	280 w	1.5 w	18.2 w	13.3 w	54 w
1 Ethiopia	44.8	1,222	130	0.1	3.4	2.6	47
2 Bhutan	1.3	47	150	..	..	..	48
3 Chad	5.3	1,284	150	- 2.0	6.3	5.3	46
4 Zaire	32.6	2,345	150	- 2.4	24.7	53.5	52
5 Bangladesh	106.1	144	160	0.3	14.9	11.1	51
6 Malawi	7.9	118	160	1.4	7.0	12.4	46
7 Nepal	17.6	141	160	0.5	7.8	8.8	51
8 Lao PDR	3.8	237	170	..	..	46.5	48
9 Mozambique	14.6	802	170	..	..	26.9	48
10 Tanzania	23.9	945	180	- 0.4	9.9	24.9	53
11 Burkina Faso	8.3	274	190	1.6	6.2	4.4	47
12 Madagascar	10.9	587	210	- 1.8	7.9	17.4	54
13 Mali	7.8	1,240	210	..	..	4.2	47
14 Burundi	5.0	28	250	1.6	8.5	7.5	49
15 Zambia	7.2	753	250	- 2.1	6.4	28.7	53
16 Niger	6.8	1,267	260	- 2.2	7.5	4.1	45
17 Uganda	15.7	236	260	- 2.7	21.2	95.2	48
18 China	1,068.5	9,561	290	5.2	0.0	4.2	69
19 Somalia	5.7	638	290	0.3	10.5	37.8	47
20 Togo	3.2	57	290	0.0	6.9	6.6	53
21 India	797.5	3,288	300	1.8	7.6	7.7	58
22 Rwanda	6.4	26	300	1.6	12.4	4.5	49
23 Sierra Leone	3.8	72	300	0.2	8.0	50.0	41
24 Benin	4.3	113	310	0.2	7.4	8.2	50
25 Central African Rep.	2.7	623	330	- 0.3	8.5	7.9	50
26 Kenya	22.1	583	330	1.9	7.3	10.3	58
27 Sudan	23.1	2,506	330	- 0.5	11.5	31.7	50
28 Pakistan	102.5	796	350	2.5	10.3	7.3	55
29 Haiti	6.1	28	360	0.5	7.3	7.9	55
30 Lesotho	1.6	30	370	4.7	8.0	12.3	56
31 Nigeria	106.6	924	370	1.1	13.7	10.1	51
32 Ghana	13.6	239	390	- 1.6	22.8	48.3	54
33 Sri Lanka	16.4	66	400	3.0	9.4	11.8	70
34 Yemen.PDR	2.3	333	420	..	..	5.0	51
35 Mauritania	1.9	1,031	440	- 0.4	7.7	9.8	46
36 Indonesia	171.4	1,905	450	4.5	34.2	8.5	60
37 Liberia	2.3	111	450	- 1.6	6.3	1.5	54
38 *Afghanistan*	..	648	..	..	4.9	..	..
39 *Burma*	39.3	677	..	..	..	..	60
40 *Guinea*	6.5	246	..	..	2.9	..	42
41 *Kampuchea, Dem.*	..	181	..	..	..	..	..
42 *Viet Nam*	65.0	330	..	..	..	..	66
Middle-income economies	1,038.5 t	36,118 t	1,810 w	2.5 w	20.4 w	62.3 w	65 w
Lower-middle-income	609.6 t	16,781 t	1,200 w	2.2 w	16.9 w	36.7 w	64 w
43 Senegal	7.0	196	520	- 0.6	6.5	9.1	48
44 Bolivia	6.7	1,099	580	- 0.5	15.7	601.8	53
45 Zimbabwe	9.0	391	580	0.9	6.4	12.4	58
46 Philippines	58.4	300	590	1.7	11.7	16.7	63
47 Yemen Arab Rep.	8.5	195	590	..	..	11.4	51
48 Morocco	23.3	447	610	1.8	6.1	7.3	61
49 Egypt, Arab Rep.	50.1	1,002	680	3.5	7.3	9.2	61
50 Papua New Guinea	3.7	462	700	0.8	7.5	4.4	54
51 Dominican Rep.	6.7	49	730	2.3	6.8	16.3	66
52 Côte d'Ivoire	11.1	322	740	1.0	9.5	4.4	52
53 Honduras	4.7	112	810	0.7	5.6	4.9	64
54 Nicaragua	3.5	130	830	- 2.5	8.9	86.6	63
55 Thailand	53.6	514	850	3.9	6.3	2.8	64
56 El Salvador	4.9	21	860	- 0.4	7.0	16.5	62
57 Congo. People's Rep.	2.0	342	870	4.2	6.6	1.8	59
58 Jamaica	2.4	11	940	- 1.5	12.8	19.4	74
59 Guatemala	8.4	109	950	1.2	7.1	12.7	62
60 Cameroon	10.9	475	970	3.8	8.9	8.1	56
61 Paraguay	3.9	407	990	3.4	9.4	21.0	67
62 Ecuador	9.9	284	1,040	3.2	10.9	29.5	65
63 Botswana	1.1	582	1,050	8.9	8.1	8.4	59
64 Tunisia	7.6	164	1,180	3.6	6.7	8.2	65
65 Turkey	52.6	781	1,210	2.6	20.7	37.4	64
66 Colombia	29.5	1,139	1,240	2.7	17.4	23.7	66
67 Chile	12.5	757	1,310	0.2	129.9	20.6	72

Note: For data comparability and coverage, see the technical notes. Figures in italics are for years other than those specified.

	Population (millions) mid-1987	Area (thousands of square kilometers)	GNP per capita[a]: Dollars 1987	GNP per capita[a]: Average annual growth rate (percent) 1965-87	Average annual rate of inflation[a] (percent): 1965-80	Average annual rate of inflation[a] (percent): 1980-87	Life expectancy at birth(years) 1987
68 Peru	20.2	1,285	1,470	0.2	20.5	101.5	61
69 Mauritius	1.0	2	1,490	3.2	11.4	8.1	67
70 Jordan	3.8	98	1,560	..	..	2.8	66
71 Costa Rica	2.6	51	1,610	1.5	11.3	28.6	74
72 Syrian Arab Rep.	11.2	185	1,640	3.3	8.3	11.0	65
73 Malaysia	16.5	330	1,810	4.1	4.9	1.1	70
74 Mexico	81.9	1,973	1,830	2.5	13.0	68.9	69
75 South Africa	33.1	1,221	1,890	0.6	10.0	13.8	60
76 Poland	37.7	313	1,930	..	..	29.2	71
77 *Lebanon*	..	10	..	..	9.3	..	..
Upper-middle-income	432.5 t	20,272 t	2,710 w	2.9 w	23.2 w	86.8 w	67 w
78 Brazil	141.4	8,512	2,020	4.1	31.3	166.3	65
79 Uruguay	3.0	176	2,190	1.4	57.8	54.5	71
80 Hungary	10.6	93	2,240	3.8	2.6	5.7	70
81 Panama	2.3	77	2,240	2.4	5.4	3.3	72
82 Argentina	31.1	2,767	2,390	0.1	78.2	298.7	71
83 Yugoslavia	23.4	256	2,480	3.7	15.3	57.2	71
84 Algeria	23.1	2,382	2,680	3.2	9.8	5.6	63
85 Korea.Rep.	42.1	98	2,690	6.4	18.8	5.0	69
86 Gabon	1.1	268	2,700	1.1	12.7	2.6	52
87 Portugal	10.2	92	2,830	3.2	11.5	20.8	73
88 Venezuela	18.3	912	3,230	- 0.9	10.4	11.4	70
89 Greece	10.0	132	4,020	3.1	10.5	19.7	76
90 Trinidad and Tobago	1.2	5	4,210	1.3	14.0	6.2	70
91 Libya	4.1	1,760	5,460	- 2.3	15.4	0.1	61
92 Oman	1.3	212	5,810	8.0	17.6	- 6.5	55
93 *Iran, Islamic Rep.*	47.0	1,648	..	..	15.6	..	63
94 *Iraq*	17.1	435	..	..	..	..	64
95 *Romania*	22.9	238	..	..	..	..	70
Low-and middle-income	3,861.4 t	73,133 t	700 w	2.7 w	16.5 w	43.9 w	62 w
Sub-Saharan Africa	441.7 t	20,999 t	330 w	0.6 w	12.3 w	15.2 w	51 w
East Asia	1,512.7 t	14,019 t	470 w	5.1 w	8.8 w	5.4 w	68 w
South Asia	1,080.9 t	5,158 t	290 w	1.8 w	8.4 w	7.8 w	57 w
Europe, M.East,& N.Africa	389.6 t	11,430 t	1,940 w	2.5 w	13.1 w	23.7 w	64 w
Latin America & Caribbean	403.5 t	20,306 t	1,790 w	2.1 w	29.3 w	109.1 w	66 w
17 highly indebted	582.5 t	21,213 t	1,430 w	2.0 w	26.0 w	91.2 w	63 w
High-income economies	777.2 t	33,757 t	14,430 w	2.3 w	7.9 w	5.2 w	76 w
OECD members	746.6 t	31,085 t	14,670 w	2.3 w	7.6 w	5.0 w	76 w
† Other	30.6 t	2,673 t	7,880 w	3.5 w	15.9 w	13.3 w	70 w
96 *Spain*	38.8	505	6,010	2.3	12.3	10.7	77
97 Ireland	3.6	70	6,120	2.0	12.0	10.2	74
98 †Saudi Arabia	12.6	2,150	6,200	4.0	17.2	- 2.8	63
99 †Israel	4.4	21	6,800	2.5	25.2	159.0	75
100 New Zealand	3.3	269	7,750	0.9	10.2	11.5	75
101 †Singapore	2.6	1	7,940	7.2	4.9	1.3	73
102 Hong Kong	5.6	1	8,070[b]	6.2[b]	8.1	6.7	76
103 Italy	57.4	301	10,350	2.7	11.2	11.5	77
104 United Kingdom	56.9	245	10,420	1.7	11.2	5.7	75
105 Australia	16.2	7,687	11,100	1.8	9.2	7.8	76
106 Belgium	9.9	31	11,480	2.6	6.7	5.1	75
107 Netherlands	14.7	37	11,860	2.1	7.3	2.3	77
108 Austria	7.6	84	11,980	3.1	5.8	4.3	74
109 France	55.6	547	12,790	2.7	6.0	7.7	77
110 Germany, Fed. Rep.	61.2	249	14,400	2.5	5.2	2.9	75
111 Finland	4.9	337	14,470	3.2	10.5	7.2	76
112 †Kuwait	1.9	18	14,610	- 4.0	16.3	- 4.6	73
113 Denmark	5.1	43	14,930	1.9	9.3	6.8	75
114 Canada	25.9	9,976	15,160	2.7	7.1	5.0	77
115 Sweden	8.4	450	15,550	1.8	8.0	7.9	77
116 Japan	122.1	378	15,760	4.2	7.8	1.4	78
117 †United Arab Emirates	1.5	84	15,830	..	..	- 0.3	71
118 Norway	4.2	324	17,190	3.5	7.7	6.1	77
119 *United States*	243.8	9,373	18,530	1.5	6.5	4.3	75
120 Switzerland	6.5	41	21,330	1.4	5.3	3.9	77
Total reporting economies	4,638.6 t	106,890 t	3,010 w	1.5 w	9.8 w	13.7 w	65 w
Oil exporters	578.4 t	17,303 t	1,520 w	2.1 w	15.0 w	20.1 w	61 w
Nonreporting nonmembers	371.5 t	26,645 t	..	..	..	..	69 w

Note: For countries with populations of less than 1 million, see Box A.1. † Economies classified by the United Nations or otherwise regarded by thier authorities as developing. a. See the technical notes. b. GNP data refer to GDP.

	Life expectancy at birth (years) 1987	Adult literacy rate (%) 1985	Real GDP per capita (PPP $) Actual 1987	Real GDP per capita (PPP $) Log 1987	Deprivation: Life expectancy	Deprivation: Literacy	Deprivation: North minimum purchasing power	Deprivation: Average of the three	Human development index	GNP per capita rank 1987	HDI rank minus GNP rank
Low human development											
1 Niger	45	14	452	2.66	0.90	0.98	0.77	0.884	0.116	20	- 19
2 Mali	45	17	543	2.73	0.92	0.94	0.71	0.857	0.143	15	- 13
3 Burkina Faso	48	14	500	2.70	0.83	0.99	0.73	0.850	0.150	13	- 10
4 Sierra Leone	42	30	480	2.68	1.00	0.80	0.75	0.850	0.150	27	- 23
5 Chad	46	26	400	2.60	0.88	0.85	0.81	0.843	0.157	4	1
6 Guinea	43	29	500	2.70	0.97	0.81	0.73	0.838	0.162	31	- 25
7 Somalia	46	12	1,000	3.00	0.89	1.00	0.51	0.800	0.200	23	- 16
8 Mauritania	47	17	840	2.92	0.86	0.95	0.57	0.792	0.208	40	- 32
9 Afghanistan	42	24	1,000	3.00	0.99	0.87	0.51	0.788	0.212	17	- 8
10 Benin	47	27	665	2.82	0.85	0.84	0.64	0.776	0.224	28	- 18
11 Burundi	50	35	450	2.65	0.78	0.74	0.77	0.765	0.235	18	- 7
12 Bhutan	49	25	700	2.85	0.81	0.86	0.63	0.764	0.236	3	9
13 Mozambique	47	39	500	2.70	0.85	0.70	0.73	0.761	0.239	10	3
14 Malawi	48	42	476	2.68	0.84	0.66	0.75	0.750	0.250	7	7
15 Sudan	51	23	750	2.88	0.76	0.87	0.60	0.745	0.255	32	- 17
16 Central African Rep.	46	41	591	2.77	0.88	0.67	0.68	0.742	0.258	29	- 13
17 Nepal	52	26	722	2.86	0.72	0.84	0.62	0.727	0.273	8	9
18 Senegal	47	28	1,068	3.03	0.87	0.82	0.49	0.726	0.274	43	- 25
19 Ethiopia	42	66	454	2.66	1.00	0.39	0.77	0.718	0.282	1	18
20 Zaire	53	62	220	2.34	0.69	0.43	1.00	0.706	0.294	5	15
21 Rwanda	49	47	571	2.76	0.80	0.60	0.69	0.696	0.304	26	- 5
22 Angola	45	41	1,000	3.00	0.90	0.67	0.51	0.696	0.304	58	- 36
23 Bangladesh	52	33	883	2.95	0.73	0.76	0.55	0.682	0.318	6	17
24 Nigeria	51	43	668	2.82	0.74	0.65	0.64	0.678	0.322	36	- 12
25 Yemen Arab Rep.	52	25	1,250	3.10	0.72	0.86	0.44	0.672	0.328	47	- 22
26 Liberia	55	35	696	2.84	0.63	0.74	0.63	0.667	0.333	42	- 16
27 Togo	54	41	670	2.83	0.67	0.68	0.64	0.663	0.337	24	3
28 Uganda	52	58	511	2.71	0.73	0.48	0.73	0.646	0.354	21	7
29 Haiti	55	38	775	2.89	0.63	0.71	0.59	0.644	0.356	34	- 5
30 Ghana	55	54	481	2.68	0.64	0.53	0.75	0.640	0.360	37	- 7
31 Yemen,PDR	52	42	1,000	3.00	0.73	0.66	0.51	0.631	0.369	39	- 8
32 Côte d'Ivoire	53	42	1,123	3.05	0.69	0.66	0.47	0.607	0.393	52	- 20
33 Congo	49	63	756	2.88	0.80	0.42	0.60	0.605	0.395	59	- 26
34 Namibia	56	30	1,500	3.18	0.61	0.80	0.38	0.596	0.404	60	- 26
35 Tanzania, United Rep.	54	75	405	2.61	0.67	0.29	0.80	0.587	0.413	12	23
36 Pakistan	58	30	1,585	3.20	0.57	0.80	0.36	0.577	0.423	33	3
37 India	59	43	1,053	3.02	0.53	0.66	0.49	0.561	0.439	25	12
38 Madagascar	54	68	634	2.80	0.66	0.36	0.66	0.560	0.440	14	24
39 Papua New Guinea	55	45	1,843	3.27	0.64	0.63	0.31	0.529	0.471	50	- 11
40 Kampuchea, Dem.	49	75	1,000	3.00	0.79	0.28	0.51	0.529	0.471	2	38
41 Cameroon	52	61	1,381	3.14	0.73	0.44	0.41	0.526	0.474	64	- 23
42 Kenya	59	60	794	2.90	0.52	0.46	0.58	0.519	0.481	30	12
43 Zambia	54	76	717	2.86	0.66	0.28	0.62	0.519	0.481	19	24
44 Morocco	62	34	1,761	3.25	0.46	0.75	0.33	0.511	0.489	48	- 4
Medium human developmentb											
45 Egypt	62	45	1,357	3.13	0.46	0.63	0.41	0.499	0.501	49	- 4
46 Lao PDR	49	84	1,000	3.00	0.79	0.18	0.51	0.494	0.506	9	37
47 Gabon	52	62	2,068	3.32	0.71	0.44	0.27	0.475	0.525	93	- 46
48 Oman	57	30	7,750	3.89	0.60	0.80	0.00	0.465	0.535	104	- 56
49 Bolivia	54	75	1,380	3.14	0.66	0.29	0.41	0.452	0.548	44	5
50 Myanmar	61	79	752	2.88	0.48	0.24	0.60	0.439	0.561	11	39
51 Honduras	65	59	1,119	3.05	0.37	0.46	0.47	0.437	0.563	53	- 2
52 Zimbabwe	59	74	1,184	3.07	0.52	0.30	0.45	0.424	0.576	45	7
53 Lesotho	57	73	1,585	3.20	0.59	0.31	0.36	0.420	0.580	35	18
54 Indonesia	57	74	1,660	3.22	0.59	0.30	0.35	0.409	0.591	41	13
55 Guatemala	63	55	1,957	3.29	0.42	0.51	0.29	0.408	0.592	63	- 8
56 Viet Nam	62	80	1,000	3.00	0.44	0.23	0.51	0.392	0.608	16	40
57 Algeria	63	50	2,633	3.42	0.41	0.57	0.20	0.391	0.609	91	- 34
58 Botswana	59	71	2,496	3.40	0.52	0.33	0.21	0.354	0.646	69	- 11
59 El Salvador	64	72	1,733	3.24	0.40	0.32	0.33	0.349	0.651	56	3
60 Tunisia	66	55	2,741	3.44	0.33	0.51	0.18	0.343	0.657	70	- 10
61 Iran, Islamic Rep.	66	51	3,300	3.52	0.34	0.56	0.12	0.340	0.660	97	- 36
62 Syrian Arab Rep.	66	60	3,250	3.51	0.34	0.46	0.13	0.309	0.691	79	- 17
63 Dominican Rep.	67	78	1,750	3.24	0.32	0.25	0.33	0.301	0.699	51	12
64 Saudi Arabia	64	55	8,320	3.92	0.38	0.51	0.00	0.298	0.702	107	- 43
65 Philippines	64	86	1,878	3.27	0.39	0.16	0.31	0.286	0.714	46	19
66 China	70	69	2,124	3.33	0.23	0.36	0.27	0.284	0.716	22	44

	Life expectancy at birth (years) 1987	Adult literacy rate (%) 1985	Real GDP per capita (PPP $) Actual 1987	Real GDP per capita (PPP $) Log 1987	Deprivation: Life expectancy	Deprivation: Literacy	Deprivation: North minimum purchasing power	Deprivation: Average of the three	Human development index	GNP per capita rank 1987	HDI rank minus GNP rank
67 Libyan Arab Jamahiriya	62	66	7,250	3.86	0.46	0.39	0.00	0.281	0.719	103	-36
68 South Africa	61	70	4,981	3.70	0.46	0.34	0.00	0.269	0.731	82	-14
69 Lebanon	68	78	2,250	3.35	0.30	0.25	0.25	0.265	0.735	78	-9
70 Mongolia	64	90	2,000	3.30	0.39	0.11	0.29	0.263	0.737	57	13
71 Nicaragua	64	88	2,209	3.34	0.38	0.14	0.25	0.257	0.743	54	17
72 Turkey	65	74	3,781	3.58	0.37	0.30	0.08	0.249	0.751	71	1
73 Jordan	67	75	3,161	3.50	0.32	0.29	0.14	0.248	0.752	76	-3
74 Peru	63	85	3,129	3.50	0.43	0.17	0.14	0.247	0.753	74	0
75 Ecuador	66	83	2,687	3.43	0.34	0.19	0.19	0.242	0.758	68	7
76 Iraq	65	89	2,400	3.38	0.37	0.13	0.23	0.241	0.759	96	-20
77 United Arab Emirates	71	60	12,191	4.09	0.20	0.46	0.00	0.218	0.782	127	-50
78 Thailand	66	91	2,576	3.41	0.34	0.10	0.20	0.217	0.783	55	23
79 Paraguay	67	88	2,603	3.42	0.31	0.14	0.20	0.216	0.784	65	14
80 Brazil	65	78	4,307	3.63	0.35	0.26	0.04	0.216	0.784	85	-5
81 Mauritius	69	83	2,617	3.42	0.24	0.19	0.20	0.212	0.788	75	6
82 Korea, Dem. Rep.	70	90	2,000	3.30	0.23	0.11	0.29	0.211	0.789	67	15
83 Sri Lanka	71	87	2,053	3.31	0.21	0.15	0.28	0.211	0.789	38	45
84 Albania	72	85	2,000	3.30	0.17	0.17	0.29	0.210	0.790	61	23
High human development											
85 Malaysia	70	74	3,849	3.59	0.23	0.30	0.07	0.200	0.800	80	5
86 Colombia	65	88	3,524	3.55	0.36	0.14	0.10	0.199	0.801	72	14
87 Jamaica	74	82	2,506	3.40	0.11	0.21	0.21	0.176	0.824	62	25
88 Kuwait	73	70	13,843	4.14	0.14	0.34	0.00	0.161	0.839	122	-34
89 Venezuela	70	87	4,306	3.63	0.23	0.15	0.04	0.139	0.861	95	-6
90 Romania	71	96	3,000	3.48	0.21	0.05	0.15	0.137	0.863	84	6
91 Mexico	69	90	4,624	3.67	0.24	0.11	0.01	0.124	0.876	81	10
92 Cuba	74	96	2,500	3.40	0.11	0.05	0.21	0.123	0.877	66	26
93 Panama	72	89	4,009	3.60	0.17	0.13	0.06	0.117	0.883	88	5
94 Trinidad and Tobago	71	96	3,664	3.56	0.21	0.05	0.09	0.115	0.885	100	-6
95 Portugal	74	85	5,597	3.75	0.13	0.17	0.00	0.101	0.899	94	1
96 Singapore	73	86	12,790	4.11	0.14	0.16	0.00	0.101	0.899	110	-14
97 Korea, Rep.	70	95	4,832	3.68	0.23	0.06	0.00	0.097	0.903	92	5
98 Poland	72	98	4,000	3.60	0.19	0.02	0.06	0.090	0.910	83	15
99 Argentina	71	96	4,647	3.67	0.21	0.05	0.01	0.090	0.910	89	10
100 Yugoslavia	72	92	5,000	3.70	0.16	0.10	0.00	0.087	0.913	90	10
101 Hungary	71	98	4,500	3.65	0.21	0.02	0.02	0.085	0.915	87	14
102 Uruguay	71	95	5,063	3.70	0.20	0.06	0.00	0.084	0.916	86	16
103 Costa Rica	75	93	3,760	3.58	0.10	0.07	0.08	0.084	0.916	77	26
104 Bulgaria	72	93	4,750	3.68	0.16	0.08	0.01	0.082	0.918	99	5
105 USSR	70	99	6,000	3.78	0.23	0.01	0.00	0.080	0.920	101	4
106 Czechoslovakia	72	98	7,750	3.89	0.19	0.02	0.00	0.069	0.931	102	4
107 Chile	72	98	4,862	3.69	0.18	0.02	0.00	0.069	0.931	73	34
108 Hong Kong	76	88	13,906	4.14	0.05	0.14	0.00	0.064	0.936	111	-3
109 Greece	76	93	5,500	3.74	0.07	0.08	0.00	0.051	0.949	98	11
110 German Dem. Rep.	74	99	8,000	3.90	0.13	0.01	0.00	0.047	0.953	115	-5
111 Israel	76	95	9,182	3.96	0.07	0.06	0.00	0.043	0.957	108	3
112 USA	76	96	17,615	4.25	0.07	0.05	0.00	0.039	0.961	129	-17
113 Austria	74	99	12,386	4.09	0.11	0.01	0.00	0.039	0.961	118	-5
114 Ireland	74	99	8,566	3.93	0.11	0.01	0.00	0.039	0.961	106	8
115 Spain	77	95	8,989	3.95	0.04	0.06	0.00	0.035	0.965	105	10
116 Belgium	75	99	13,140	4.12	0.09	0.01	0.00	0.034	0.966	116	0
117 Italy	76	97	10,682	4.03	0.07	0.03	0.00	0.034	0.966	112	5
118 New Zealand	75	99	10,541	4.02	0.09	0.01	0.00	0.034	0.966	109	9
119 Germany, Fed. Rep.	75	99	14,730	4.17	0.09	0.01	0.00	0.033	0.967	120	-1
120 Finland	75	99	12,795	4.11	0.09	0.01	0.00	0.033	0.967	121	-1
121 United Kingdom	76	99	12,270	4.09	0.08	0.01	0.00	0.030	0.970	113	8
122 Denmark	76	99	15,119	4.18	0.07	0.01	0.00	0.029	0.971	123	-1
123 France	76	99	13,961	4.14	0.07	0.01	0.00	0.026	0.974	119	4
124 Australia	76	99	11,782	4.07	0.06	0.01	0.00	0.022	0.978	114	10
125 Norway	77	99	15,940	4.20	0.04	0.01	0.00	0.017	0.983	128	-3
126 Canada	77	99	16,375	4.21	0.04	0.01	0.00	0.017	0.983	124	2
127 Netherlands	77	99	12,661	4.10	0.04	0.01	0.00	0.016	0.984	117	10
128 Switzerland	77	99	15,403	4.19	0.03	0.01	0.00	0.014	0.986	130	-2
129 Sweden	77	99	13,780	4.14	0.03	0.01	0.00	0.013	0.987	125	4
130 Japan	78	99	13,135	4.12	0.00	0.01	0.00	0.004	0.996	126	4

Profile of human development

	Life expectancy at birth (years) 1987	Population with access to health services (%) 1985 – 87	Population with access to safe water (%) 1985 – 87	Population with access to sanitation (%) 1985 – 87	Daily calorie supply (as % of requirements) 1984 – 86	Adult literacy rate (%) 1985	GNP per capita (US $) 1987	Real GDP per capita (PPP $) 1987
Low human development	55	47	48	14	95	41	300	970
Excluding India	52	..	39	22	91	40	300	880
1 Niger	45	41	47	..	100	14	260	450
2 Mali	45	15	17	19	86	17	210	540
3 Burkina Faso	48	49	67	9	86	14	190	..
4 Sierra Leone	42	..	25	25	81	30	300	480
5 Chad	46	30	..	..	69	26	150	..
6 Guinea	43	32	19	..	77	29	..	..
7 Somalia	46	27	34	18	90	12	290	..
8 Mauritania	47	30	..	..	92	17	440	840
9 Afghanistan	42	29	21	..	94	24	..	..
10 Benin	47	18	52	35	95	27	310	670
11 Burundi	50	61	26	58	97	35	250	450
12 Bhutan	49	65	..	..	..	..	150	..
13 Mozambique	47	39	16	21	69	39	170	..
14 Malawi	48	80	56	..	102	42	160	480
15 Sudan	51	51	21	..	88	23	330	750
16 Central African Rep.	46	45	..	..	86	41	330	590
17 Nepal	52	..	29	2	93	26	160	720
18 Senegal	47	40	53	..	99	28	520	1,070
19 Ethiopia	42	46	16	..	71	66	130	450
20 Zaire	53	26	33	..	98	62	160	220
21 Rwanda	49	27	50	57	81	47	300	570
22 Angola	45	30	30	19	82	41	470	..
23 Bangladesh	52	45	46	6	83	33	160	880
24 Nigeria	51	40	46	..	90	43	370	670
25 Yemen Arab Rep.	52	35	42	..	94	25	590	..
26 Liberia	55	39	55	..	102	35	450	700
27 Togo	54	61	55	14	97	41	290	670
28 Uganda	52	61	20	30	95	58	260	510
29 Haiti	55	70	38	21	84	38	360	780
30 Ghana	55	60	56	30	76	54	390	480
31 Yemen,PDR	52	30	54	..	96	42	420	..
32 Côte d'Ivoire	53	30	19	..	110	42	740	1,120
33 Congo	49	83	21	..	117	63	870	760
34 Namibia	56	..	..	..	..	..	..	..
35 Tanzania, United Rep.	54	76	56	68	96	..	180	410
36 Pakistan	58	55	44	20	97	30	350	1,590
37 India	59	..	57	10	100	43	300	1,050
38 Madagascar	54	56	32	..	106	68	210	630
39 Papua New Guinea	55	..	27	45	96	45	700	1,840
40 Kampuchea, Dem.	49	53	3	..	98	75	..	..
41 Cameroon	52	41	33	46	88	..	970	1,380
42 Kenya	59	..	30	..	92	60	330	790
43 Zambia	54	75	59	56	92	76	250	720
44 Morocco	62	70	60	..	118	34	610	1,760
Medium human development	67	75	59	50	113	71	690	2,370
Excluding China	63	..	..	..	115	73	1,250	2,730
45 Egypt	62	..	73	..	132	45	680	1,360
46 Lao PDR	49	67	21	..	104	84	170	..
47 Gabon	52	90	92	..	107	62	2,700	2,070
48 Oman	57	91	53	31	..	30	5,810	..
49 Bolivia	54	63	44	21	89	75	580	1,380
50 Myanmar	61	33	27	24	119	..	200	750
51 Honduras	65	73	50	30	92	59	810	1,120
52 Zimbabwe	59	71	..	..	89	74	580	1,180
53 Lesotho	57	80	36	15	101	73	370	1,590
54 Indonesia	57	80	38	37	116	74	450	1,660
55 Guatemala	63	34	38	24	105	55	950	1,960
56 Viet Nam	62	80	46	..	105	..	..	..
57 Algeria	63	88	68	57	112	50	2,680	2,630
58 Botswana	59	89	54	42	96	71	1,050	2,500
59 El Salvador	64	56	52	60	94	72	860	1,730
60 Tunisia	66	90	68	52	123	55	1,180	2,740
61 Iran, Islamic Rep.	66	78	76	..	138	51	..	..
62 Syrian Arab Rep.	66	76	76	..	131	60	1,640	..
63 Dominican Rep.	67	80	63	28	109	78	730	..
64 Saudi Arabia	64	97	97	..	125	..	6,200	8,320
65 Philippines	64	..	52	67	104	86	590	1,880
66 China	70	..	..	..	111	69	290	2,120

		Life expectancy at birth (years) 1987	Population with access to health services (%) 1985 – 87	Population with access to safe water (%) 1985 – 87	Population with access to sanitation (%) 1985 – 87	Daily calorie supply (as % of requirements) 1984 – 86	Adult literacy rate (%) 1985	GNP per capita (US $) 1987	Real GDP per capita (PPP $) 1987
67	Libyan Arab Jamahiriya	62	..	97	..	153	66	5,460	..
68	South Africa	61	..	..	..	120	..	1,890	4,980
69	Lebanon	68	..	93	..	125	78	..	..
70	Mongolia	64	..	..	..	116	..	..	..
71	Nicaragua	64	83	49	27	110	88	830	2,210
72	Turkey	65	..	78	..	125	74	1,210	3,780
73	Jordan	67	97	96	61	121	75	1,560	3,160
74	Peru	63	76	55	50	93	85	1,470	3,130
75	Ecuador	66	62	58	67	89	83	1,040	2,690
76	Iraq	65	93	87	75	124	89	3,020	..
77	United Arab Emirates	71	90	..	..	..	..	15,830	12,190
78	Thailand	66	70	64	53	105	91	850	2,580
79	Paraguay	67	61	29	86	123	88	990	2,600
80	Brazil	65	..	78	64	111	78	2,020	4,310
81	Mauritius	69	100	100	92	121	83	1,490	2,620
82	Korea, Dem. Rep.	70	..	..	..	135	..	..	..
83	Sri Lanka	71	93	40	45	110	87	400	2,050
84	Albania	72	..	..	..	114	..	..	..
High human development		73	..	..	..	131	..	9,250	11,860
85	Malaysia	70	..	84	76	121	74	1,810	3,850
86	Colombia	65	60	92	70	110	..	1,240	3,520
87	Jamaica	74	90	96	91	116	..	940	2,510
88	Kuwait	73	100	..	..	..	70	14,610	13,840
89	Venezuela	70	..	90	51	102	87	3,230	4,310
90	Romania	71	..	..	..	127	..	2,560	..
91	Mexico	69	..	77	58	135	90	1,830	4,620
92	Cuba	74	..	..	..	135	96	..	..
93	Panama	72	80	83	81	107	89	2,240	4,010
94	Trinidad and Tobago	71	99	98	98	126	96	4,210	3,660
95	Portugal	74	..	..	..	128	85	2,830	5,600
96	Singapore	73	100	100	99	124	86	7,940	12,790
97	Korea, Rep.	70	93	77	100	122	..	2,690	4,830
98	Poland	72	..	..	..	126	..	2,070	..
99	Argentina	71	71	56	69	136	96	2,390	4,650
100	Yugoslavia	72	..	..	..	139	92	2,480	..
101	Hungary	71	..	..	..	135	..	2,240	..
102	Uruguay	71	82	85	59	100	95	2,190	5,060
103	Costa Rica	75	80	91	94	124	93	1,610	3,760
104	Bulgaria	72	..	..	..	145	..	4,150	..
105	USSR	70	..	..	..	133	..	4,550	..
106	Czechoslovakia	72	..	..	..	141	..	5,820	..
107	Chile	72	97	94	85	106	98	1,310	4,860
108	Hong Kong	76	..	..	..	121	88	8,070	13,910
109	Greece	76	..	..	..	147	93	4,020	..
110	German Dem. Rep.	74	..	..	..	145	..	7,180	..
111	Israel	76	..	..	..	118	95	6,800	9,180
112	USA	76	..	..	..	138	96	18,530	17,620
113	Austria	74	..	..	..	130	..	11,980	12,390
114	Ireland	74	..	..	..	146	..	6,120	8,570
115	Spain	77	..	..	..	137	95	6,010	8,990
116	Belgium	75	..	..	..	146	..	11,480	13,140
117	Italy	76	..	..	..	139	97	10,350	10,680
118	New Zealand	75	..	..	..	129	..	7,750	10,540
119	Germany, Fed. Rep.	75	..	..	..	130	..	14,400	14,730
120	Finland	75	..	..	..	113	..	14,470	12,800
121	United Kingdom	76	..	..	..	128	..	10,420	12,270
122	Denmark	76	..	..	..	131	..	14,930	15,120
123	France	76	..	..	..	130	..	12,790	13,960
124	Australia	76	..	..	..	125	..	11,100	11,780
125	Norway	77	..	..	..	120	..	17,190	15,940
126	Canada	77	..	..	..	129	..	15,160	16,380
127	Netherlands	77	..	..	..	121	..	11,860	12,660
128	Switzerland	77	..	..	..	128	..	21,330	15,400
129	Sweden	77	..	..	..	113	..	15,550	13,780
130	Japan	78	..	..	..	122	..	15,760	13,140
All developing countries		62	61	55	32	107	60	650	1,970
Least developed countries		50	46	35	20	89	37	210	690
Sub-Saharan Africa		51	45	37	..	91	48	440	990
Industrial countries		74	..	..	..	132	..	10,760	14,260
World		65	..	..	..	113	..	3,100	4,110

Note: Summary data for regional and income groups are given in tables 23 and 24.

Profile of human deprivation

	Millions						
	Without access to health services 1985-87	Without access to safe water 1985-87	Without access to adequate sanitation 1985-87	Malnourished (underweight) children 1980-88	Illiterate adults 1985	Out-of-school children 1986-88	Population below poverty line 1977-86
Low human development	775 T	750 T	1,300 T	90 T	500 T	140 T	700 T
Excluding India	..	..	..	..	..	..	..
1 Niger	4.0	3.6	..	0.6	3.1	1.7	1.9 r
2 Mali	7.5	7.3	7.1	0.5	3.9	2.2	3.9
3 Burkina Faso	4.3	2.8	7.7	..	4.2	1.9	..
4 Sierra Leone	..	2.9	2.9	0.2	1.6	0.7	1.8 r
5 Chad	3.8	..	..	..	2.3	1.1	2.6
6 Guinea	4.4	5.3	..	..	2.6	1.5	..
7 Somalia	5.2	4.7	5.8	..	3.3	1.8	4.2
8 Mauritania	1.3	..	..	0.1	0.9	0.4	..
9 Afghanistan	11.0	12.0	..	..	7.0	3.4	1.2 u
10 Benin	3.6	2.1	2.9	..	1.7	0.7	1.8 r
11 Burundi	2.0	3.8	2.1	0.3	1.8	1.1	4.3
12 Bhutan	0.5	..	..	..	..	0.3	..
13 Mozambique	9.0	12.0	12.0	..	5.1	2.8	..
14 Malawi	1.6	3.5	..	0.4	2.5	1.2	6.1
15 Sudan	12.0	19.0	..	..	10.0	4.5	16.0 r
16 Central African Rep.	1.5	..	..	..	0.9	0.5	1.4 r
17 Nepal	..	13.0	18.0	2.1	7.8	2.2	11.0
18 Senegal	4.2	3.3	..	0.3	2.8	1.2	..
19 Ethiopia	24.0	38.0	..	2.9	8.3	10.0	29.0
20 Zaire	25.0	23.0	..	1.8	6.9	4.8	17.0 r
21 Rwanda	5.0	3.4	2.9	0.4	1.8	1.2	5.8
22 Angola	6.7	6.7	7.7	..	3.1	1.4	..
23 Bangladesh	60.0	59.0	103.0	11.0	41.0	19.0	94.0
24 Nigeria	63.0	57.0	..	..	31.0	11.0	..
25 Yemen Arab Rep.	4.9	4.4	..	0.9	2.9	0.9	..
26 Liberia	1.5	1.1	..	0.1	0.9	0.5	0.3 r
27 Togo	1.2	1.4	2.8	0.2	1.1	0.3	0.3 u
28 Uganda	6.7	14.0	12.0	0.3	3.8	2.8	..
29 Haiti	1.9	3.9	5.0	0.3	2.4	0.7	4.7
30 Ghana	5.6	6.2	9.9	0.7	3.6	1.8	6.2
31 Yemen, PDR	1.6	1.1	..	0.1	0.7	0.3	0.3 r
32 Côte d'Ivoire	8.1	9.4	..	0.3	3.4	1.9	3.2
33 Congo	0.3	1.5	..	0.1	0.4	..	..
34 Namibia	..	..	..	..	..	..	..
35 Tanzania, United Rep.	6.1	11.0	8.1	2.5	..	4.2	..
36 Pakistan	52.0	64.0	92.0	11.0	44.0	23.0	34.0
37 India	..	352.0	737.0	46.0	297.0	10.0	394.0
38 Madagascar	4.9	7.6	..	0.7	2.0	0.9	5.6
39 Papua New Guinea	..	2.8	2.1	0.2	1.2	0.6	2.5
40 Kampuchea, Dem.	3.7	7.7	..	..	1.3	..	..
41 Cameroon	6.3	7.2	5.8	0.3	..	0.9	3.0
42 Kenya	..	16.0	..	..	4.5	..	10.0
43 Zambia	2.0	3.2	3.5	..	1.0	0.7	1.1 u
44 Morocco	7.2	9.6	..	0.6	9.3	3.2	8.9
Medium human development	475 T	750 T	1,100 T	55 T	370 T	100 T	450 T
Excluding China	..	..	..	..	..	..	..
45 Egypt	..	14.0	..	1.3	17.0	2.7	12.0
46 Lao PDR	1.3	3.0	..	0.3	0.4	0.3	..
47 Gabon	0.1	0.1	..	..	0.3	..	..
48 Oman	0.1	0.7	1.0	..	0.5	0.1	..
49 Bolivia	2.6	3.9	5.5	0.2	1.0	0.5	2.9 r
50 Myanmar	27.0	29.0	30.0	2.1	..	4.2	16.0
51 Honduras	1.3	2.4	3.4	0.2	1.1	0.4	1.8
52 Zimbabwe	2.6	..	..	0.2	1.3	0.2	..
53 Lesotho	0.3	1.1	1.4	..	0.3	0.1	0.9
54 Indonesia	35.0	109.0	110.0	11.0	29.0	17.0	68.0
55 Guatemala	3.7	5.4	6.6	0.5	2.1	1.3	6.2
56 Viet Nam	13.0	35.0	..	4.7	..	5.5	3.0 r
57 Algeria	2.9	7.6	10.0	..	6.6	1.7	2.1 u
58 Botswana	0.1	0.6	0.7	0.0	0.2	0.1	0.6
59 El Salvador	2.2	2.4	2.0	..	0.8	0.5	1.4
60 Tunisia	0.8	2.5	3.7	0.2	2.2	0.5	1.4
61 Iran, Islamic Rep.	12.0	13.0	..	4.1	15.0	2.5	..
62 Syrian Arab Rep.	2.8	2.8	..	..	2.4	0.5	..
63 Dominican Rep.	1.4	2.6	5.0	0.1	0.9	0.1	3.0
64 Saudi Arabia	0.4	0.4	..	..	..	1.5	..
65 Philippines	..	29.0	20.0	2.9	5.0	1.5	35.0
66 China	..	..	..	..	251.0	40.0	87.0 r

	Millions						
	Without access to health services 1985-87	Without access to safe water 1985-87	Without access to adequate sanitation 1985-87	Malnourished (underweight) children 1980-88	Illiterate adults 1985	Out-of-school children 1986-88	Population below poverty line 1977-86
67 Libyan Arab Jamahiriya	..	0.1	..	..	0.8	..	..
68 South Africa	..	..	..	..	..	..	..
69 Lebanon	..	0.2	..	0.1	0.4	0.1	..
70 Mongolia	..	..	..	..	..	0.0	..
71 Nicaragua	0.6	1.8	2.6	0.1	0.2	0.3	0.7
72 Turkey	..	12.0	..	..	9.1	2.9	..
73 Jordan	0.1	0.2	1.5	..	0.5	0.0	0.6
74 Peru	5.3	9.6	11.0	0.4	1.9	0.1	7.2 u
75 Ecuador	3.9	4.3	3.4	0.3	1.0	0.3	5.2
76 Iraq	1.2	2.3	4.4	..	1.0	1.2	..
77 United Arab Emirates	0.2	..	..	..	..	0.1	0.0 r
78 Thailand	16.0	19.0	25.0	1.5	3.2	5.2	16.0
79 Paraguay	1.6	2.8	0.6	..	0.3	0.4	1.4
80 Brazil	..	32.0	52.0	2.4	21.0	5.0	..
81 Mauritius	0.0	0.0	0.1	0.0	0.1	0.0	0.1
82 Korea, Dem, Rep.	..	..	..	..	..	1.5	..
83 Sri Lanka	1.2	10.0	9.2	0.7	1.5	0.6	..
84 Albania	..	..	..	..	..	0.1	..
High human development	..	..	..	..	..	..	..
85 Malaysia	..	2.7	4.0	..	2.7	0.9	4.6
86 Colombia	12.0	2.4	9.2	0.5	..	1.3	13.0
87 Jamaica	0.2	0.1	0.2	0.0	..	0.1	1.0 r
88 Kuwait	0.0	..	..	0.0	0.4	0.1	..
89 Venezuela	..	1.9	9.2	0.3	1.5	0.8	..
90 Romania	..	..	..	..	..	0.3	..
91 Mexico	..	20.0	36.0	..	5.2	3.5	..
92 Cuba	..	..	..	..	0.3	0.1	..
93 Panama	0.5	0.4	0.4	0.0	0.2	0.1	0.6
94 Trinidad and Tobago	0.0	0.0	0.0	0.0	0.0	0.0	0.2 r
95 Portugal	..	..	..	..	1.2	0.2	..
96 Singapore	0.0	0.0	0.0	0.0	0.3	0.0	..
97 Korea, Rep.	3.0	9.8	0.0	..	..	0.2	6.8
98 Poland	..	..	..	..	..	0.4	..
99 Argentina	9.1	14.0	9.8	..	1.0	0.3	..
100 Yugoslavia	..	..	..	..	1.5	0.6	..
101 Hungary	..	..	..	..	..	0.2	..
102 Uruguay	0.6	0.5	1.3	..	0.1	0.0	0.6 u
103 Costa Rica	0.6	0.3	0.2	0.0	0.1	0.2	..
104 Bulgaria	..	..	..	..	..	0.1	..
105 USSR	..	..	..	..	..	0.0	..
106 Czechoslovakia	..	..	..	..	..	0.6	..
107 Chile	0.4	0.8	1.9	0.0	0.2	0.2	..
108 Hong Kong	..	..	..	..	0.5	0.1	..
109 Greece	..	..	..	..	0.6	0.0	..
110 German Gem, Rep.	..	..	..	..	..	0.3	..
111 Israel	..	..	..	..	0.2	0.0	..
112 USA	..	..	..	..	..	0.0	..
113 Austria	..	..	..	..	..	0.1	..
114 Ireland	..	..	..	..	..	0.2	..
115 Spain	..	..	..	..	1.7	0.0	..
116 Belgium	..	..	..	..	..	0.0	..
117 Italy	..	..	..	..	1.4	0.7	..
118 New Zealand	..	..	..	..	..	0.0	..
119 Germany, Fed. Rep.	..	..	..	..	..	0.3	..
120 Finland	..	..	..	..	..	0.0	..
121 United Kingdom	..	..	..	..	..	0.5	..
122 Denmark	..	..	..	..	..	0.0	..
123 France	..	..	..	..	..	0.0	..
124 Australia	..	..	..	..	..	0.0	..
125 Norway	..	..	..	..	..	0.0	..
126 Canada	..	..	..	..	..	0.0	..
127 Netherlands	..	..	..	..	..	0.0	..
128 Switzerland	..	..	..	..	..	0.0	..
129 Sweden	..	..	..	..	..	0.1	..
130 Japan	..	..	..	..	..	0.0	..
All developing countries	1,500 T	1750 T	2,800 T	150 T	870 T	240 T	1,150 T
Least developed countries	225 T	250 T	350 T	35 T	150 T	70 T	250 T
Sub-Saharan Africa	..	..	..	..	..	..	..
Industrial countries	..	..	..	..	..	..	..
World	..	..	..	..	..	..	..

Note: Summary data for regional and income groups are given in tables 23 and 24.

Session 3

Different Approaches to the Study of Development

I. Development in General

Before coming to questions of "economic" development - the focus of "development economics" - it is good to remember that the concept of development can be and has been used in a much broader sense. There are many alternative methods in which "development" in such a broad sense has been conceptualized. The following is a useful classification of approaches to the analysis of development: (Reference: A. Hugene Havens, "Methodological Issues in the Study of Development", *Sociologia Ruralis, Proceedings of the 3rd World Congress of Rural Sociology*, 1972).

1. Psychodynamic analysis: The major assumption is that personality (and so behaviour) of adult people is largely determined in early childhood socialization (cultural socialization). Development of a society, it is assumed, depends on individual personality development. Social development goes through new socialization patterns arising out of generational change.

2. Behavioural analysis: The major assumption is that personality (and so behaviour) can be changed at any time. Here too development of a society is considered to be dependent on individual personality. Then, development of a society proceeds through learning experiences (adult education). This approach allows for intra-generational change of personality while the psychodynamic analysis permits only the possibility of inter-generational change.

3. Diffusionist analysis: The major assumption is that development of a society is dependent on productivity based on the degree of utilization of modern technology. Therefore, development proceeds through capital investment and adoption of modern technological inputs.

4. Structural non-Marxian analysis: The major assumptions are that the rate of social change depends upon intensity and violence of class conflict, and that parties representing class interests can seek new equilibrium in the power structure. Class formation is not related to the mode of production, but rather to interests based on the functional power structure.

5. Marxian analysis: The major assumptions are that the social structure is basically determined by the mode

of production (economic structure), and that in the modern capitalist system, the inter-class contradiction depends on the relations between the management principle of profit maximization by capitalists and the socialization of labor based on factory forms of production. A modern capitalist society essentially involves a class conflict. This class conflict will lead to changes in the mode of production and the social system.

The first three share the basic assumption of an equilibrium approach to social analysis and the other two that of an approach to social change based on conflict. Based on these common characteristics, additional differences among these five analytical approaches can be found.

The above categorization might be useful for the evaluation of theories. However, the important thing is that no theory can be put exclusively into any single one of the above categories. Some have compound/overlapping characteristics (eg. the structural non-Marxian approach and the Marxian approach overlap). Theories should be plotted somewhere in the range between poles: the psychodynamic approach and the Marxian approach.

The equilibrium approach may have greater validity in micro applications and in short-term analyses, and also in the analyses of societies which have only narrow social gaps. On the other hand, the approach based on an assumption of conflict may have greater validity in macro, long-term analysis, and in the analysis of societies with wide social gaps.

II. Theories of Economic Development

The above conceptualization of the general theories of development is useful to understand various strands of thought found in development economics too. A convenient way of looking at various theories found in the literature of development economics is to analyse them according to the following criteria:

* What is the basic unit of analysis: individual, social groups (like classes) or nations?

* How does a theory view the social processes: as non-contentional or contentional processes (conflict as against harmony)?

* What is its perspective on the outcomes of these social processes: equilibrium (state of rest) or disequilibrium (continuous change)?

* How does a theory treat the institutional structures of the society it tries to analyse: treat them as "a given" or specifically consider the implications of different institutional structures?

* What role does the history of the society being analysed play in the theoretical formulations: is it integral to analysis or just merely being referred to in passing? And how does the theory concerned analyse the historical processes?

* What are the implicit or explicit value judgements behind a theory?

Various writers may classify current theories of economic development in different ways on the basis of the above criteria. The following is one such possible classifications:

(a) (orthodox) linear growth theories;
(b) neoclassical theories;
(c) structural theories;
(d) dependency theories and
(e) neo-Marxist theories.

A brief discussion of some elements of these various theories is given below. Though classical theory was, in essence, concerned with long term development, it is not covered in what follows. The focus is on post-war literature on UDCs.

Linear Growth Theories

Some of these are historical in presentation, taking the analytical position of a non-contentional process of historical development (eg. Rostow's stages of economic growth). Some linear theories are analytical again taking the position of a non-contentional process of social change but not taking actual historical processes into consideration (eg. the adoption of the famous Harrod Domar model for purposes of planning economic development in developing countries). Ideologically, these theories are oriented to maintain the status quo (or considers a capitalist market economy the highest stage of human development and suggests the desirability of promoting such a system in developing economies for their modernisation and development). The individual/firm (often the "rational" individual/firm) is the focus of analysis and "economic" variables like savings, investment, production and consumption play a major role in the analysis. It is not possible to discuss these theories in full here for lack of time. An attempt can be made to only give some idea about these theories:

Rostow's Stages: An attempt was made in W.W.Rostow's book: *Stages of Economic Growth: A Non-Marxist Manifesto,* to describe the process of growth and development of a society as going linearly from one stage to the next higher stage across five stages. The main forces influencing this process were seen as capital accumulation/saving and technological development. The five stages are as follows (analogy of an aircraft in flight):

* Traditional Society

* Preconditions for take-off
* Take off into self sustained growth
* Drive to Maturity and
* Age of mass consumption

Harrod-Domar Model: This model is attributed to a British economist (Roy Harrod) and an American economist (Evesy Domar) who, on independent work, produced the model by extending the work of Keynes to cover dynamic situations. Stated in very simple terms (note that simple statements are often incomplete and can sometimes be even misleading) this model considers economic growth as determined by savings/investment and the productivity of investments. The model is expressed in terms of three ratios:

* Growth rate: per cent increase in real output or income (G)

* Marginal rate of saving (marginal propensity to save): the proportion of an increment to income that is saved (s)

* Incremental capital output ratio (k) or output capital ratio (1/k) which indicates the productivity of capital in an incremental sense.

The Harrod-Domar formula derived using these three ratios is quite well known:

$$G = s/k$$

This model was not developed at all with the intention of explaining growth or lack of it in developing countries. But in the immediate post war period, it has been utilised widely in trying to explain the conditions necessary for growth in these countries as well as to plan strategies to achieve such growth. The theoretical skeleton of many LDC plans was provided by this model. The idea of capital formation being the stimulator of production growth is an old one but the Harrod-Domar model has given it a sophisticated look. The model has further given the theoretical basis for widespread use of capital constraint or savings constraint models to explain underdevelopment and to plan development.

Neo-Classical Theories

The well known elements of neo classical economic analysis - particularly those found in the so called micro economics - are found here. Actually there is not much of a "special" neo classical theory for UDCs. As theories, these neo classical ideas were developed with DCs in mind and as we have seen earlier, development economics evolved basically due to the presumed irrelevance of these neo classical theories to UDCs. What is referred to in this discussion as "neo classical theories of development" is therefore the extensive literature on problems of underdevelopment and development of UDCs from the usual neo classical micro and macro economic perspective. Many are the writers involved (eg. I.M.D.Little, Harry Johnson, J. Bhagwati to mention just a few; One of the most extreme writers in this category is Deepak Lal, *Poverty of Development Economics*). Most of this literature shares the following major characteristics of neo classical analysis:

* individual as the unit of analysis
* social processes analysed as non-contentional; competition between consumers and businesses and among themselves assumed to lead to harmony of interest for all
* equilibrium analysis based on premises of utility/profit maximization (marginal analysis); demand supply analysis
* peculiarities of institutional structures not taken seriously and assumed to change gradually through market forces (may be, helped by some policy action)
* ahistorical analysis
* value judgement: capitalist development; growth of output given emphasis (trickle down hypothesis).

Particularly important is the fact that the neo classical paradigm is dominant (particularly when it comes to dealing with developing countries) in important international financial institutions like the IMF and the World Bank with extensive powers of "persuading" UDC governments to follow policies recommended by them (loan conditionality). Thus many countries in Asia, Africa and Latin America are in fact "experimenting" with what may be called basically neo classical strategies, often marginally diluted to take account of special political and social imperatives in different countries.

Among writers on development issues within the neo classical paradigm, there are some who have given a particular focus on "structural change" - the structural transformation from a dominance of traditional subsistence agriculture to a more modern, more urbanized and more industrially diverse structure. They use tools of price and resource allocation theory and modern econometrics to describe how this transformation takes place. This part of development literature may be called "Neo classical Structural Change Models" and must be considered separately from the structuralist theories discussed in the next section. These are called neo classical because the same mechanisms like the private interest, demand-supply forces, price mechanism and so on are used here to explain structural change. They are structural because they proceed on the basis of an explicit recognition that different sectors are subject to the same forces and mechanisms in different ways. The word "structural adjustment" appears now very frequently to refer to some policies advocated by the IMF and the World Bank but the development theory underlying these packages is neo classical and very different from structuralist theories discussed in the next section.

The most famous as well as the earliest neo classical structural change models is the dualistic models a la Arthur Lewis, Gustav Ranis etc. These models discuss the mechanisms by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on a traditional/ pre capitalist (subsistence dominant agricultural) sector to a more modern, more urbanized and more industrially diverse structure. These dualistic models are basically theoretical/analytical in orientation. Some neo classical structural presentations, however, have a strong empirical bias (eg. patterns of development studies of Hollis Chenery).

Structuralist Theories

There is a very large category of writings which are broadly described as structuralist (note the word: structuralist and not structural). It is probably true to say that their origins can be seen mostly in Latin America. These structuralist writers focus on structural/institutional impediments to growth and development.

* structural characteristics of export sector of most UDCs: the dominance of primary products in exports, which are subject to a secular tendency of terms of trade deterioration vis a vis manufactures (different demand elasticities)
* rigidity in agricultural production arising from peculiar institutional characteristics in that sector, including land tenure patterns, structure of middlemen in rural economy and so on
* structural peculiarities in the financial sector
* structural and institutional characteristics of the business and landlord classes and generally rich classes (demonstration effects on consumption, saving and investment patterns)

These structuralist writers have been rather eclectic in the choice of analytical tools used (borrowing from neoclassical, Keynesian, historical and Marxist analyses). Some widely cited names of writers belonging to this school are Oswaldo Sunkal, Raul Prebisch, Celso Furtado and Dudley Seers. There are also writers like Gunnar Myrdal or Albert Hirschman who may not always be put in the same category, yet present similar theoretical postures. They too give a central position in their analyses to relationships among different parts of a LDC economy (eg. Myrdal's 'circular causation', backwash effects and spread effects; Hirschman's backward and forward linkages). One of the major policy conclusions which comes from the structuralist type of analysis is the need to have a closed door policy (import substitution) and the need for an activist government involvement in the economy with planning. To conclude this section we may also note that there are theories focussing on structures/ patterns also in the Marxian school (eg. theories of uneven development).

Dependency Theories

There is a widely varying set of ideas normally included among what is called "dependency theories". Writers of a wide variety are considered to belong to the dependency tradition of analysis - Paul Baran, Gunder Frank, Samir Amin, Emmanuel Wallerstein, Aghiri Emmanuel, Theotonio Dos Santos to name just a few. Some common ideas found in dependency theories:

* Underdevelopment is not a natural condition though a state of being "undeveloped" is so;

* Underdevelopment is caused by a certain type of structural relationship which UDCs are forced to enter into with DCs (development in one part of the world economy leading to underdevelopment in the other part: a conditioning relationship called dependence);

* The basic mechanism through which world capitalism in the colonial and neo colonial eras has produced and reproduced underdevelopment is the transfer of surplus from "centre" to "periphery";

* Solution: to sever links with the world capitalist system (autarky).

Using the criteria on pp. 2-3, the following comments can be made about dependency writings:

* Basic unit of analysis is the nation state (Hence the criticism of a neo Marxist writer - Bill Warren - that dependency theory is "nationlist mythology)
* Social processes are viewed as contentional: conflicts between classes and other social groups
* It is disequilibrium analysis.
* The analysis is backed up by historical analysis.
* The explicit value judgement is anti capitalist.

These ideas have been widely criticized both by the right and the left of the ideological spectrum. Though Marxian jargon is widely used in dependency writings (surplus, exploitation, class conflict), those writers (next category) who try to use classical Marxian way of analysis do not consider dependency writers Marxian.

Neo-Marxist Theories

This is a group of writers - Bill Warren, Ernesto Laclau, Hugo Radice using the *New Left Review* as their main organ - who, largely through their critique of dependency theory, attempt to adopt classical Marxian positions and methodology in the analysis of UDCs. The classical Marxist position is that capitalist mode of production is a progressive social force, which, breaking down pre capitalist elements, will bring about a more developed social system. The message of the dependency theory, that under conditions of imperialism and neo colonialism capitalism ceased to become a progressive force, is discarded by the neo Marxist writers. Empirical studies carried out by some of them show that even in the post war neo colonial period, the capitalist system has acted in countries like Korea and Taiwan, as a progressive influence taking the forces of production forward. Perhaps their message in this regard is (though it is not explicitly stated) that for development in UDCs, capitalist mode of production must be allowed to flourish and may be actively promoted, perhaps with the intention of building up a stage of human development higher than capitalism later.

Methodologically they try to understand the nature of a social system by examining its mode of production, rather than examining it at the level of exchange - what they criticise to be the main objection to dependency analysis. The unit of their analysis of social change, following Marx, is the class defined in relation to one's relationship to means of production.

III. A Concluding Note

As one can see in the brief survey above, development economics literature is quite vast and because of varying methodological standpoints, is quite complex and may be, even confusing. There is no text book which deals with all the different aspects of economic development theory paying adequate attention to all its parts. No single writer probably can in fact write such a comprehensive textbook. A given writer is either trained in only one of these traditions or is ideologically not willing to believe in the messages contained in part of the relevant literature.

Five groups of writers or of schools of thought have been identified above. Still there might be important contributors to the development economics literature who may not easily find a place in this classification. So it is worth noting that the above classification is not an all inclusive classification.

Every one has his/her ideological preconceptions and values. Yet if one can suppress these to some extent, all the different schools of development theory may have something to contribute towards understanding the problems of UDCs and working out suitable strategies to alleviate their problems.

Session 4

The Concept of Development: Economic Growth vs. Human Development

At the early stages of evolution of development economics, "development" has been viewed as equivalent to growth of "production" and "modernization" (to become like the developed West). Though the concept of modernization is a rather broad one, in most of economic development literature the economic aspect of modernization has been stressed: Growth of output measured by GDP or GNP at constant prices; sometimes corrected for population growth (ie. GNP/GDP per capita), sometimes not so corrected. An increase in production (as measured by GNP/GDP) was identified with an increase in "social welfare" (on the basis that the so called "trickle down" will work satisfactorily). "Growth rate" has often been taken as the indicator of a society's economic "performance" and economic success. Many writers would now agree that these are misconceived views about "development" and that the quantitative measures used often give a distorted picture of reality in respect of a society's progress. But these misconceptions prevailed for a considerable length of time and were allowed to guide development policy in many countries. It is now widely accepted that economic growth by itself cannot solve problems (even "economic" problems) of developing countries, although still there are certain quarters where this quantitative bias continues.

Why do such aggregative quantitative measures like GNP/GDP and growth rate have serious limitations as indicators of "development"? The question can be answered by first looking at the very nature of some of these aggregative measures.

I. National Product Measures: A Brief Discription and a Critique

The measures of GDP/GNP and the growth rate are derived from a set of "national accounts" - a systematic and internally consistent set of accounts describing for a country or a nation, the flow of newly produced goods and services during a specified period of time, normally one year. Four major accounts: Production account, consumption (income and outlay) account, accumulation (capital finance) account and external account[1]. The following concepts to be briefly explained (if necessary):

* Product-income-expenditure sides of national product estimation
* Value added
* GDP and GNP measures (at current prices)

[1] Details about these and other matters pertaining to national accounting practices can be obtained from: United Nations, 1974, A System of National Accounts, New York.

* GDP and GNP measures in real terms (or at constant prices) and growth rate

National product data are now widely used (a) in international (*inter country*) comparisons, (b) to obtain a notion about the availability of things for use by a society and (c) in inter-temporal comparisons within given countries and societies.

Many weaknesses in national accounting statistics have been pointed out, particularly as measures of the level and the rate of development of social welfare. These weaknesses are sometimes related to purely practical difficulties of collecting nation wide statistics. Some of these weaknesses arise out of certain inherent problems in the very national accounting conventions. Problems of the latter type is in a sense rather theoretical and conceptual.

(i) The exclusion of non-marketed production: As measures of production, their coverage is only partial, as they neglect the non-market production of households and government. Households not only produce for sale in the market but also produce for their own use - production of goods and services by members of the household for the use of members of the household. This output is largely unrecognized in the national income accounts. [eg. Services rendered by housewives/mothers (housekeeping; cooking; washing; child-rearing; other services); house repairs by household members; teaching school lessons to own children; consumption of own farm output; backyard production]. This becomes a serious problem particularly when certain social changes like the increases in labour force participation rates of women (one of the major trends of the last two decades) are taking place.

(ii) Problems of valuing government services: In contrast with private enterprises, governments engage in the production of services but sell these to the people without realizing a profit (eg. education services; health care services; housing services; environment conservation activities; community development programs). The value of such production is recorded in the national income accounts mainly as the value of corresponding wage payments to employees. Thus valuing systems are different between what government provides and what private sector supplies. Exclusion of the profit component from estimates of government services may thus be taken as amounting to an understatement of the national income. Another question here is whether wage/salary payments to public servants can be treated as a reasonable measure of the <u>value</u> of public services.

(iii) The misclassification of intermediate inputs: There are government activities that at present are classified as final outputs but are in fact intermediate inputs necessary to the production of final outputs (sometimes called "regrettable necessities" these would include things like police services and national defense programmes). The classification of regrettable inputs as final outputs in the national income accounts overstates society's final output.

(iv) The fact that no deduction is made for deleterious environmental effects of economic activities in measuring their value added. Most production and consumption activities generate harmful effects on the environment and create disamenities to community life. To reduce or eliminate them entails the expenditure of huge amounts of public and private resources. Industrial production exhausts natural resources, pollutes the atmosphere and the natural water systems, and otherwise disrupts the ecological balance. Yet these costs to society are not reflected in the national income accounts. (Also consider discomforts, wastes, and other "disamenities" to social life like traffic congestions, traffic hazards, traffic accidents etc of the "consumption" of motor vehicles). These negative "externalities" are currently not subtracted from the national income accounts (eg. the discounted future income lost due to the exhaustion of natural resources; the cost of abating environmental degradation; the social cost of air, water and atmospheric pollution; the social costs of traffic congestion).

(v) Misclassification of consumption and accumulation: There are items of expenditures that now are classified as consumption expenditures of households and of government but might be classified more properly under accumulation. These are expenditures not on current consumption but for the enhancement of "human capital" and "social productivity", i.e., *investments for generation of higher future income* (eg. current government expenditure on infrastructure; *public housing; education; health care and maintenance;* research and development).

(vi) The system of weighting as embodied in national product statistics is biased. There are two types of problems here: (1) The price weights in adding up the values added in different economic activities covered. (2) There are also problems arising out of giving equal weight to different income strata in the society. This makes the "growth rate" often a biased measure of welfare growth:

$$G = w_1 g_1 + w_2 g_2 + w_3 g3 + w_4 g_4 + w_5 g_5$$

where: G = weighted index of welfare growth

w_i = welfare weight for *i*th quintile (in available growth rate figures these would correspond to *income shares* of the quintiles)

g_i = *growth rate of income* of the *i*th quintile.

Growth can register very high rates even *if* there is *no* income growth of first 3 quintiles but rapid growth in the top 2. Eg. G = 0.05(0) + 0.09(0) + 0.13(0) + 0.22(0.10) + 0.51(0.10) = 0.073. A poverty weighted index would give completely different results. Consider what happens even if equal weight is given to each quintile (ie. w_i =20%).

II. Other Problems in the Equation of Growth with Development

Even if most of the problems connected with GNP statistics are corrected, still there are some important areas affecting social welfare which will be ignored or given inadequate attention to in a growth dominated development theory and practice. These are the problems of poverty, unemployment and underemployment, unequal income distribution and environmental deterioration. If there are:

(a) historically very high growth rates and that also
(b) over a sustained long period of time

general living conditions of the masses might (might because there is no full certainty) improve within a fairly short period of time. But these two conditions were rare even in the post war "high growth" periods. The bulk of the developing world could not experience anything but very modest growth and that also subject to discontinuities. Thus in spite of most developing countries experiencing some "growth" in this period (and the average has often been higher than for developed countries), the incidence of poverty, malnutrition, environmental degradation, unemployment and underemployment in the Third World have all increased. Hence the disillusion with the "growth" = "development" equation.

Poverty, Inequality, Unemployment and Underemployment

These topics will be discussed later in detail. Here only a brief discussion is adequate. Absolute poverty is defined often in terms of income levels that are insufficient to provide adequate standards of living. Numbers in poverty are considered to have increased in developing countries in spite of post war growth. Almost 40 percent of the population of the developing countries are thought to be in absolute poverty. The bulk of them are in the poorest countries: in South Asia, Indonesia, and sub-Saharan Africa.

Two types of views are found regarding the relationship between growth and absolute poverty:

(a) Optimistic view: Poor do participate in economic growth and thus absolute poverty is reduced when there is growth. It is also believed in the same circles that poverty is more apt to decline the more rapid the pace of economic growth is.

(b) Pessimistic view: That the poor do not participate in economic growth and are thus excluded from the benefits of growth.

It is the "character" of economic growth (how it is achieved, who participates, which sector receives priority, what institutional arrangements are designed, what character of state intervention etc.) that determines the degree to which growth is or is not reflected in improved living standards of the very poor. It is not rapid growth *per se* that determines who receives growth benefits. In most countries the "character" and "structure" of growth were such that there has been no automatic "tickle down"; rather there has been a "tickle up" in favour of the small middle class and especially the very rich.

Growth - poverty relationship is generally decided by what happens to distribution of income, wealth and opportunities in the process of growth. There are different concepts of distribution which we will discuss in detail later. Three types of distribution are of particular interest in a discussion of the question of growth and equity: (a) "personal" or "size" distribution of income; (b) "functional" distribution of income or distribution by "distributive factor share" and (c) Spatial distribution.

Inequality in developing countries is often greater than in developed capitalist countries. Though distribution of wealth and opportunities is perhaps more important, usually the data are available only on income distribution of incomes. Socialist countries generally show the greatest degree of equality. Lack of equalizing mechanisms like income transfers in developing countries makes their pattern of income distribution generally very unequal. Among these countries, however, there is significant variation. There seems to be no apparent relationship between level of per capita income (level of economic growth) and the degree of income concentration, despite the widely held Kuznets' inverted U-hypothesis. There is also no empirical evidence to show that inequality systematically increases with economic growth[2]. Again on this point, the significance of the "character of growth" and the nature of intervention must be noted. "Economic structure, not level or rate of economic growth, is the basic determinant of pattern of income distribution"[3]

Processes of growth and modernization in many developing countries from their colonial pasts, and particularly in more recent times, led to high degrees of spatial inequality. These have favoured certain geographic areas ("backwash effects" overpowering "spread effects"). These tendencies have been more marked in some economic systems (dependent capitalist countries)

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[2] Gary S. Fields, 1989, "Changes in Poverty and Inequality in Developing Countries", *The World Bank Research Observer*, July, pp. 167-84

[3] Irma Adelman & Cyntha Morris, 1973, *Economic Growth and Social Equity in Developing Countries*, Stanford University Press.

than in others (socialist developing nations). This is also affected by the nature of state intervention. Population tends to be spatially concentrated (migrations: rural -> urban; declining areas -> dynamic areas; small cities -> large cities) but these tendencies could be ameliorated through suitable intervention. This process of spatial concentration accentuates regional income & welfare differentials.

Problems of unemployment and underemployment too also have been found continuing in these countries in spite of economic "growth". Unemployed include all persons who have no work but are seeking work for pay or profit. Numbers unemployed and the rates of unemployment (unemployed/ labour force), on strict application of the internationally accepted criteria, are often found rather small in many developing countries. Such small unemployment rates are really a reflection of the unsuitability of the internationally recommended criteria for unemployment and are meaningless as indications of the extent of the "employment problem" in these countries. To understand this problem fully we have to go beyond numbers recorded as unemployed and look into the problem of underemployment (rural and urban "informal sector"). Under-employment may imply a number of things:

(a) that earnings are abnormally low;

(b) that the jobs do not permit full use of capacities or skills of the workers; and

(c) that employment may be in an establishment/ economic unit where productivity is abnormally low.

Very rapid and sustained growth in a very few countries has managed to produce a significant dent in their employment problems but the more usual type of growth found in the bulk of the developing world, was found to coexist with increasing unemployment and underemployment.

<u>Environmental Issues</u>

The conflict between production growth and environment protection is now a factor accepted without any serious contest. The notion that production should be increased in order to expand the scope for environmental measures is widespread but this is wrong because environmental deterioration is precisely a consequence of production growth. The stimulation of GNP growth whether in developed or in developing countries, encroaches upon limited energy and other reserves and the limited carrying capacity of the environment. Growth of GNP and safeguarding resources and environment are conflicting ends. Collective survival requires a shift in priority from increasing GNP to saving environment - not a "stop production growth" idea (particularly in developing countries) but a call for a shift in production and consumer activities to environmentally more acceptable directions.

The drive to promote production/employment without due regard paid to environment (among other welfare affecting variables), is constantly (eg. what happens daily in the form of urban deterioration with heavy traffic, air, water and noise pollution, slums, poor sanitation and sewage facilities etc) leading to environmental degradation and resulting human suffering. The "greenhouse effect", for example, is now an issue attracting enormous policy level attention. "Green" parties are becoming more and more powerful in developed countries. Along with this constant, gradual environmental effects of misplaced production growth drive, one occasionally comes across catastrophic disasters which contribute to the growing environmental concerns (eg. Minamata disease episode in Japan, Bopal incident in India). Mere travel in say, the capital city of a fast "growing" country (eg. Bangkok now or Tokyo in the 1960s) would indicate the pressures such growth creates on the environment.

A shift in human activities in order to reduce the burden on environment and resources can be achieved in two ways: by dictating environment saving measures for productive and consumer activities and by directly changing the production and consumption patterns. The latter preventive means is clearly the better option.

III. Economic Growth vs. Human Development

Development economists raised the above issues widely in the 1960s and the 1970s. And now there is a widely held view separating "economic growth" from "development". Some have spoken of a "dethronement of GNP" but it is as yet an overstatement. Perhaps for most developing countries such a discarding of growth totally is no option at all. But there is no controversy any more that "development" covers a broader social process than mere production growth. The following argument of Dudley Seers in one of his much quoted articles is perhaps today the orthodoxy among all development economists[4]:

> The questions to ask about a country's development are ...: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development' even if per capita income doubled.

Development is, in addition, viewed as a multi-dimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration

[4] Dudley Seers, 1969, "The Meaning of Development", *Eleventh World Conference of the Society for International Development*, New Delhi

of economic growth, the reduction of inequality and the eradication of absolute poverty - the sustained elevation of an entire society and social system towards a better and more humane life. What constitutes good life is a question as old as philosophy or humankind. Three core values of development:

(a) life sustenance: ability to provide basic needs (food, shelter, health, education and protection).

(b) self-esteem: to be a person (other words used to mean self-esteem: identity, dignity, respect, honour, recognition).

(c) freedom from servitude: to be able to choose (in addition to the political sense: freedom or emancipation from alienating material conditions of life and social servitude to nature, ignorance, other people, misery, institutions and dogmatic beliefs).

The point that need to be stressed is that people's level of living is influenced by a variety of factors: economic, social, cultural, political and environmental. Thus the multi dimensional nature of the process of development. There were since the 1960s many "movements" to define, measure and plan/execute development from a broad perspective . The attempts to develop "social indicators" have absorbed the efforts of many writers since the 1960s. These have been developed and measured using nutrition conditions, health conditions, housing and educational conditions and so on. Then there was the World Bank sponsored "basic needs" approach to development. In the 1970s, a Swedish Foundation was promoting an idea of "another development". Also in the 1970s, at the level of measurement, there was the construction of the PQLI index. The latest in this respect is the UNDP's "human development index". All these signify an attempt to place the people rather than commodities in the centre of development.

What role is there in all this for economic growth or expansion of output? Low productivity, low incomes, low levels of living (poverty), and low social standing are often mutually reinforcing phenomena. Then obviously the achievement of the above development values may require growth (increase in production and productivity). It is possible to make an improvement in people's living conditions to some extent even without growth through redistribution - particularly in very highly unequal societies. But without an expansion in the total "cake" that is available for distribution, redistribution alone cannot ensure long term sustainable improvement of human conditions in a society.

The principal lesson from all the above work on the definition and measurement of economic development is to focus attention on the fact that growth is not enough. Certain types and structures of growth receive approval while certain other types and structures do not. Most importantly the relevant debate was able to show that certain types of state intervention are desirable if benefits of growth are to trickle down to the lower levels in a society.

Session 5

International Framework and Developing Countries

The purpose of this session is to discuss the main elements of the international institutional environment within which developing countries work and to examine the advantageous and disadvantageous influences emanating from that international environment in respect of development policies they adopt and the implementation thereof.

Institutional Framework

The present day global economy, viewed particularly from a developing country point of view, may be seen as constituting an interlocking system of countries, international institutions and, business ventures with a global reach. The following categories are particularly noteworthy:

A. Nation states:
   * First World
   * Second World
   * Third World

B. Multinational/transnational companies in industry, commerce and banking

C. International organizations: the nature, composition and functions of the following organizations are of particular interest.

   * The UN system or family: this includes global bodies dealing with either general or specific subjects and certain regional bodies
   * IMF
   * IBRD
   * GATT
   * Regional Banks (like ADB)

D. Regional groupings:

   * Commodity cartels (OPEC)
   * Regional country associations (EEC, ASEAN, SAARC)

In what follows the impact of these different institutional categories on development efforts of developing countries is briefly discussed.

MNCs and Developing Countries

A point often made is that isolated "national" development is not possible in the current global framework, particularly because of the advanced stage of development in communications. In this connection the operations of the MNCs are often referred to as very important. It is sometimes argued that even the very concept of nation state has lost its meaning and relevance because of the inter connections among different parts of the global economy in general and the multinational operations of the global firm in particular. Regarding MNC influences on LDCs the following points are worth being given particular consideration.

* relative size of multinational firms (in relation to their host developing countries

* pattern of global production ("new international division of labour"); export oriented production sites in developing countries facilitated by (a) communications revolution and (b) developments in manufacturing technologies facilitating the break up of a production process into clearly definable stages which can then be located in different places.

* "sovereignty at bay" not only economically but sometimes also politically; multinational firms' influence on their own country governments and also on governments of other countries where they have significant production sites.

* matters concerning technology ownership and transfer to developing countries; questions of the costs and other matters pertaining to such technology transfers

Overall there are different views on the impact of global firms on developing countries:

* That on the whole, MNCs have a net favourable impact, helping developing countries (or offering them a short cut) to achieve industrialization and modernization - a view shared by orthodox mainstream writers as well as some Marxist writers

* That they produce a very unfavourable net impact through exploitation of developing countries (appropriation and expropriation of surplus) through mechanisms like transfer of technology (excessive prices for various items involved including machinery, equipment, intermediate products etc and various conditions included in technology agreements) and transfer price manipulations (higher prices for what MNC supplies to partner firms and paying lower than market prices for latter's exports to the multinational parent)

* A carefully presented mid way view: there are both disadvantages and advantages to developing countries in their dealings with MNCs; the greater the bargaining strength of these countries the less will be the disadvantages and more the advantages; through careful monitoring of MNC activities the developing countries might be able to gain net benefits

Whatever is the extent of divergence in views, there is enormous and perhaps excessive competition among developing countries to entice MNCs into their territories. This competition principally in the form of competitive offer of various incentives is totally uncoordinated. Who ultimately gains from this developing country competition to attract MNCs therefore would be an interesting question to probe into.

Inter State Relationships

Connected with politics of international relations, different developing countries are viewed, rightly or wrongly as affiliated to one bloc or the other. In the 1990s, along with the break up of the socialist bloc and the apparent ending of the cold war, the implications of these various affiliations for developing countries may become less important. Yet old affiliations are not totally forgotten, and what implications the developments within the socialist bloc will have for developing countries is yet to be seen. One of the implications of the recent dramatic changes in the socialist bloc of countries often being discussed is the possible loss of foreign aid resources to developing countries because of their likely diversion to the former.

Until the beginning of the 1990s, however, the global bloc affiliations, whether they were real or imaginary, sometimes had significant impacts. The words "real or imaginary" are used above because formal treaties or agreements were not always necessary for a country to be branded "socialist bloc country" or "Western bloc country". Often there was a tendency for some (though not all) countries in the "non-aligned movement" which deliberately promoted a philosophy of non-alignment, to be treated as friendlier and closer to "socialist bloc" countries.

In terms of resources for economic development and the pattern of management of development efforts, these affiliations mattered. Countries in the Western bloc or those friendly to that bloc generally received more official aid and they tended to be predominantly market oriented and private enterprise based (not necessarily in a laissez faire manner but in terms of state-private capital partnerships as in South Korea or Singapore). As the aid flows emanate largely from the First World, countries affiliated with it or close to it received large volumes of official assistance combined also with large flows of military aid. There are instances, on the other hand, of certain developing countries which had to undergo disruptive cuts in foreign aid, trade embargoes and such retaliatory action from the First World countries as a result of taking policy measures which were disapproved of by these countries or were harmful to their interests, however relevant and meaningful such policy action was from the said developing countries' own point of view. Countries which were considered members or friends of the socialist bloc have received assistance (economic and military) from leading countries in that bloc but the magnitudes of such assistance were considerably smaller than those made available by the Western bloc to developing countries within its orbit. I have heard an interesting observation being made in a recent meeting by a developing country bureaucrat to the effect that no country which was not on the side of the USA could achieve "development" in the post war world. I do not place much significance on the empirical content of this statement but it clearly shows how thinking at practical policy making level is shaped.

International Organizations

Many are the influences, positive and negative, coming from various international institutions. The UN system with its multi institution framework (General Assembly, Security Council, Economic and Social Council, UNICEF, UNIDO, UNCTAD, UNESCO, WHO, FAO, various Regional Bodies and many other institutions):

* has given developing countries a "voice" in international affairs. As the number of these countries is large their "voice" has often been loud, but because of the lack of necessary financial or military clout, the impact of this voice has been rather weak and ineffective in real terms.

* has provided through its constant efforts a wealth of comparable information about these countries which was useful to planners and development managers within those countries as well as outside researchers, aid agencies and generally every one interested in their development.

* raised world awareness about the problems of developing countries. Though not very effective in practical terms, numerous resolutions passed in the UN system could address some of the pressing problems faced by these countries, at the same time proposing various ways of handling those problems [eg. the New International Economic Order (NIEO) resolution of 1974 and the UNCTAD work on the Common Fund in the 1970s and 1980s]. Some agencies of the UN system like the UNCTAD have in fact played the role of spokesperson for the developing countries.

These were no doubt major achievements but the UN system's power to implement what it decided on majority vote was extremely limited. There were occasions when powerful countries like the USA, irritated by certain actions of certain UN agencies, threatened to withdraw their financial support to them thereby muting the strength of this valuable institutional system.

There are three other global institutions whose position and power are, at a practical level, greater than those of the institutions of the UN family: IMF, World Bank and GATT. Of them, the GATT, dealing with trade and tariff matters, has been more relevant in reorganizing and rationalizing the trade and tariff relationships among advanced countries. Though considered an international institution, its work has been conducted at the level of bilateral negotiations. Yet certain principles like the Most Favoured Nation Principle which the GATT upholds appear to have had wider influence in trade matters going beyond even the boundaries of the advanced countries. Moreover its work in respect of relationships among advanced countries has affected developing countries in various indirect ways.

The influence of the IMF and the World Bank on developing countries, on the whole have been rather extensive and some times quite direct, particularly in the following areas:

* balance of payments assistance (IMF) and long term development assistance (WB)

* information collection and study of development problems

* policy advice, often connected with loan conditionality

The greater power these institutions have had on developing countries has been largely due to the command over financial resources they have (a) directly and (b) indirectly. The indirect influence emerged from the fact that the advanced countries having financial resources to offer for development have gradually begun to de guided by the advice offered by these institutions, placing their faith on technical competence on development matters they have begun to claim. In understanding the work of these institutions in development matters, it is well to remember their composition, the make up of its voting structure, the sources of their funds, their ideologies and philosophies and the composition of their officer cadres.

Regional Blocs

Of the existing world regional blocs, the EEC is perhaps the oldest and the most powerful. Its example had something to do with the trend among developing countries to form themselves into regional blocs in the post war period. Yet none of the available regional blocs have come anywhere near what the EEC has over the years developed itself into.

The OPEC is not a regional bloc in the traditional sense, but only has certain characteristics of such a bloc. Basically a country association, it has evolved itself into a commodity cartel of great importance. Since the first oil shocks of the early 1970s, it has had significant influence in the world economy. By raising petroleum prices through joint action, it tried to correct some of the wrongs done by colonial powers to resource rich poor countries. Because of subsequent divisions among member countries its power declined in the 1980s. Yet OPEC probably stands up as one important institution which tried to correct some of the imbalances in the world community of peoples through co-operation among a few weaker members of that community. Its example was seen promising by many primary exporting countries but as other primary commodities do not have the same characteristics as petroleum no country grouping could so far do for any other primary commodity what OPEC did in respect of petroleum.

Concluding Note

The above note shows the complexity of the institutional framework and the resulting system of political, ideological and other influences operating on developing countries and their attempts at development today. Some influences coming through this system are advantageous from a development point of view:

* knowledge and technology from those who have already achieved development

* the ability to exploit the virtually limitless (ie. from the point of view of an individual developing nation) world market for export as well as to import necessary things

* possibility for joint action among developing countries themselves and to learn from one another's achievements and mistakes

* support (financial, technological and so on) from developed countries, and international agencies and the ability to use the profit making desires of MNCs to their benefit

Along with these, there are many disadvantageous and disruptive influences too:

* difficulty to be selective (eg. be selective in the nature and degree of openness) so that good influences are admitted and bad ones shut out: international demonstration effects on consumption (conspicuous consumption affecting savings) and production (eg.trying to produce in the most modern way though what is modern may not be appropriate)

* the influence of ideologically motivated policy advice (eg. IMF and WB trying to apply more or less the same package of policies everywhere disregarding unique social features) and the inability of developing countries (due to their financial and other needs) to stand up to the pressures of these institutions

* disruptive influences coming from multinational business and banking community (MNCs: export of health hazards, destruction of forests and environment in developing countries etc.; MNBs: facilities for developing country capital to move out of those countries)

* problems created by growing aspirations of developing country people fuelled by easy access to knowledge and information: growing aspirations are by themselves not bad but in developing countries with resource constraints it creates demands for more rapid development than can be managed with available resources even within the most egalitarian of possible management systems (people becoming too impatient); this sometimes aggravates social tensions and sometimes creates a narcotic addiction to foreign aid on the part of developing country regimes which for that purpose probably cease to independently

think of what is the best for their social systems.

Session 6

Absolute Poverty and Relative Distribution (Equity)

I. Poverty

These two topics are important in the study of development economics as what happens to them over time, along with growth of output determines the quality of development a country achieves. As we discussed earlier, economic growth can take place without any reduction in the numbers of people in poverty and with a worsening of relative distribution of incomes and opportunities. It would be very awkward indeed to call a country as developed if, despite growth of its output, it has come to include more poor people than before, the conditions of the poor have worsened and the growing incomes have concentrated in the hands of a few making the society concerned more inequitable than before. The discussions of the above topic must look into (a) what we mean by these concepts and how they are measured, (b) the implications of changes in them for a society's development and (c) the relationships between income growth on the one hand and poverty and income distribution on the other.

Poverty: Identification and Measurement

There is no difficulty to recognize poverty when one sees it, particularly the worst forms of poverty. But everything about poverty is not so simple. Even identification of the poor and the diagnosis of poverty can become far from obvious when one moves away from extreme and raw forms of poverty. A study of poverty requires looking into a number of aspects:

* different approaches to poverty identification and definition (ie. criteria to be used in identifying the poor: eg. biological inadequacy, relative deprivation).
* the technical issues to be solved within each approach including the determination of poverty lines or thresholds.
* questions of aggregation to provide an aggregate profile based on characteristics of those identified as poor.
* questions of the causation and effects of poverty.

Poverty, in a rather fundamental sense, is a relative and also a subjective phenomenon. Multi-faceted as it is, poverty may be perceived, defined and analyzed by different people on different criteria - material, cultural, spiritual and so on. Though relativities are important, discussions on poverty are usually made on the basis of a concept of absolute poverty: an irreducible core of absolute deprivation, which translates reports of starvation, malnutrition and visible hardship into a diagnosis of poverty without having to ascertain first the relative picture.

In the relevant general literature, two basic types of absolute poverty measurements and various derivations using these and other measures like the Gini concentration ratio are discussed:

(a) The head-count measure given by the proportion of the total population that is identified as poor: q/n where q stands for the number identified as poor and n for total number in the community; and

(b) The poverty gap measure (or income gap measure) given by the aggregate shortfall of income of all the poor from the specified poverty line. The index is normalized by expressing it as the percentage short-fall of the average income of the poor from the poverty line. This income gap ratio is given by: g/qp where g is the sum of the income gaps of all poor people from the poverty line p and q stands for the number of the poor.

While the former is intended to show the extent of prevalence (or incidence) of poverty, the latter is intended to show the intensity (or depth) of existing poverty.

Identification Criteria: To work out these measures one has to adopt a criterion to identify the poor. There are a number of approaches adopted for the purpose:

* biological approach: based on a concept of minimum necessities for the maintenance of body and soul together and of mere physical efficiency (minimum nutritional requirements). Problems in the use of this approach are many and it has therefor been widely criticized:
   (a) effect of variations of physical features, climatic conditions and work habits;
   (b) how to translate minimum nutritional requirements into minimum food requirements is problematic;
   (c) difficulties of specifying minimum requirements in respect of non-food essentials.

In spite of these and other problems, the biological approach is widely adopted in poverty measurement exercises. This is usually done by using the intermediary of income or expenditure but it need not necessarily be so.

A second approach is the inequality approach, ie. to view the lowest 10 or 20 or any other per cent of the population in terms of income or expenditure as the poor in a society. Inequality and poverty are not unrelated but neither concept subsumes the other.

In inter country studies, sometimes poverty is measured by taking arbitrary income levels as poverty lines and estimating the numbers or proportion of population below such poverty lines (see the Table reproduced from Hollis Chenery et al., Redistribution with Growth). This method has its obvious limitations, particularly because of differences in consumption patterns from country to country. But as a rule of thumb method to have some idea of the extent of the problem involved it has its uses.

Aggregation: The question whether the individual or the family should be used in aggregation is important. (because of economies of large scale in consumption). The often adopted solution here is to convert each family into a certain number of "equivalent adults" or "equivalent households" by the use of some equivalence scale. There is no doubt much arbitrariness in such conversion. There is the further question of weighting families of different size.

Poverty in Developing Countries

A recent conclusion pertaining to the incidence of poverty in the world:

> "Almost 40 percent of the population of the developing countries live in absolute poverty defined in terms of income levels that are insufficient to provide adequate nutrition. The bulk of the poor are in the poorest countries: in South Asia, Indonesia, and sub-Saharan Africa. These countries account for two-thirds of the total (world) population and well over three-fourths of the population in poverty. The incidence of poverty is 60 per cent or more in countries having the lowest level of real GNP."[1]

Some more data on the extent of poverty can be obtained from the appended statistical Tables - the data are unfortunately somewhat old.

Characteristics of Poverty

Here the important question is who are the poor groups in a society and why they remain so poor. In developing countries the rural sector and urban informal sector appear to hold the bulk of the poor. This has been due to urban bias and modern industry bias of development processes - due to such policy biases or due to natural tendencies in capitalist growth. The bulk or all of the unemployed and often also the bulk of the self employed workers may belong to the absolutely poor.

There are also various other social groups who are affected by poverty more than others: women, children, certain ethnic or religious minorities etc.

Growth-Poverty Relationship

Regarding the relationship between growth and absolute poverty:

Optimistic view: Poor do participate in economic growth and thus absolute poverty is thus reduced. A position favoured

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[1] M.S. Ahluwalia, N. Carter & H. Chenery, 1979 "Growth and Poverty in Developing Countries" Journal of Development Economics, September.

by many economists now, particularly those from quarters like the World Bank.[2] It is also believed in the same circles that poverty is more apt to decline the more rapid is economic growth.

Pessimistic view: That the poor do not participate in economic growth. As Adelman and Morris argues in the early 1970s: "Development is accompanied by an absolute as well as a relative decline in the average income of the poor"[3]. This view was widely criticized and there is now very few who would strongly subscribe to this pessimistic view in cross section type of studies.

It is the "character" of economic growth (how it is achieved, who participates, which sector one gives priority to, what institutional arrangements are designed, what character of state intervention etc.) that determines the degree to which growth is or is not reflected in the improved living standards of the very poor. It is not the mere fact of rapid growth per se that determines who receives growth benefits. According to Adelman & Morris no automatic "tickle down"; rather a "tickle up" in favour of the small middle class and especially the very rich. "Economic structure, not level or rate of economic growth, is the basic determinant of pattern of income distribution"[4]

II. Distribution

Relative Income Distribution (Degree of Relative Poverty)

Two measures widely discussed: (a) "personal" or "size" distribution of income and (b) "functional" distribution of income or distribution by "distributive factor share". In addition there is the question of spacial distribution of incomes and other opportunities.

The Lorenze curve technique is perhaps the most widely method of analyzing size distribution of income:

(a) comparison of percent income shares of, say, deciles of income recipients arranged by income size.

(b) Lorenze curves (Conrad Lorenz, American statistician, 1905). Using cumulative percentages of income

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[2] Gary S. Fields, 1989, "Changes in Poverty and Inequality in Developing Countries", The World Bank Research Observer, July, pp. 167-84

[3] Irma Adelman and Cynthia T. Morris, 1973, Economic Growth and Social Equity in Developing Countries, Stanford University Press

[4] Irma Adelman & Cynthia Morris, 1973, op.cit.

recipients on horizontal axis and of income on the vertical).

(c) "Area" between the diagonal and the Lorenze curve divided by the total area of the half-square in which the curve lies: called Gini Concentration Ratio or simply Gini Coefficient (C. Gini, Italian statistician, 1912)

(d) Sometimes merely the income shares of the top 20%, bottom 40% etc are compared (eg. Chenery _et al._, _op.cit._. Further the ratio of the income share of top 20% to income share of bottom 40% compared across countries to determine the extent of inequality.

Some data on relative income distribution are available in the appended Tables. One conclusion widely cited is that (a) the socialist countries have highest degree of equality, (b) advanced capitalist countries are in a medium position and (c) developing countries have the highest degree of inequality. This situation in developing countries is due to the lack of equalizing mechanisms like income transfers in developing countries. While on average these conclusions are supported by data, one must remember that there are inter country variations within each category of these countries and within the developing country group these inter country variations are probably very significant.

Functional Distribution

In the functional distribution studies factor shares are analyzed. [Often labour's share, separated from other (rent, interest and profit) forms of income]. There is a sizable theoretical literature on the subject but the relevance of the functional distribution theory is greatly diminished by its failure to take into account the important role and interference of non-market forces such as power in determining factor prices (trade union power, power of landowners and industrial conglomerates etc).

Spacial Distribution

Two aspects of the spacial problem of distribution is important: (a) changes in the pattern of income distribution in favour of urban as against rural and estate sectors and (b) changes in distribution in favour of certain identifiable regional entities.

Inequality and Growth

There seems to be no apparent relationship between levels of per capita income (level of development) and the degree of income concentration despite the widely held Kuznets' inverted U-hypothesis. There is also no empirical evidence to show that inequality <u>systematically</u> increases with economic growth[5]. Where this happened, at least in early stages of growth, it was because increases of output came disproportionately from relatively small modern sectors of primary production and manufacturing, which absorbed a high proportion of total investment and had relatively high rates of productivity. These patterns would be strengthened by limited access to land, credit, education and modern sector employment. They might be reinforced also by government fiscal and trade policies as well as the distribution of public expenditures. Anyway no generalizations about the growth equity relationships are not possible. Again, the significance of the "character of growth", the disabilities faced by certain groups who ultimately fail to benefit from growth (lack of physical and human capital, land ownership and tenure patterns and lack of access) and the nature of intervention must be noted.

III. Policy Issues

Experience shows that non-intervention (ie. to allow market forces to determine growth patterns freely) is unlikely to eliminate poverty and extreme forms of inequality in short periods demanded by the societies concerned. There are a few possible strategies:

* maximizing GNP growth (raise savings and investment and allocate resources efficiently; hoping that benefits will go to all)
* redirect investment to poverty groups in the form of education, access to credit, public facilities etc. and change growth priorities (giving growth policies a rural or agricultural bias)
* redistributing income (or consumption) to poverty groups through the fiscal system or through direct allocation of consumer goods;
* transfer of existing assets to poverty groups as in land reform.

There are possible constraints in the implementation of most of these policies: political constraints; general and tax administration problems; effects of population growth.

The areas in which intervention is possible and necessary are as follows:

* factor markets
* ownership and control of assets
* taxation of personal incomes wealth
* provision of public consumption goods
* commodity markets
* state of technology and technology transfer processes

In Sri Lanka there is a new form of poverty alleviation programme being implemented as from 1988 which would perhaps be interesting to note by way of conclusion.This poverty alleviation

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[5] Fields,1989, <u>op.cit.</u>

programme has come to be called the *Jana Saviya* programme, the two Sinhala words meaning literally "people's strength". Arguing that this programme is not one of doling out money to the poor or one of just poor relief, an official document lists the following as its unique characteristics: (a) it is a people-based programme, putting the people - particularly the poor - first; (b) it considers human beings as the primary resource; (c) it depends on development of their self reliance to take them out of poverty and on a bottom up (rather than top down) approach to development; (d) the programme is culturally harmonious and (e) can realize truly country wide results.

The following are the elements of the proposed programme:

(a) the poor who are selected to benefit from it will be paid a monthly income of Rs. 2500 for a period of two years. This allowance will be paid in two portions: (i) a consumption component of Rs 1458 paid in the form of two "coupons" of Rs 1000 and Rs 458 and (ii) an investment component of Rs. 1042 to be deposited in National Savings Bank accounts in favour of the recipients. They are to be encouraged to also save the Rs 458 coupon and also if possible even a part of the Rs 1000 coupon. The consumption component of the scheme - intended to raise consumption levels of the people concerned - is often called the "small" or "short term" *Jana Saviya*.

(b) a procedure for selecting beneficiaries: begin from "food stamp" receivers, then through verification by a "support team" of five people selected and trained from each village involved, finally eliminate from the list of beneficiaries those who are not genuinely poor.

(c) each family in the scheme will thus have a total saving of at least Rs. 25,000 at the end of the two years, this saving expected to be used by the family concerned in a profitable enterprise - may be further supported by cheap bank finance (the two State Banks, Bank of Ceylon and the People's Bank along with one new private bank, Sampath Bank are said to be gearing up their loan activities to help further the objectives of the JS scheme). This programme of promoting self employment or small enterprise activities is often called the "larger" or "long term" *Jana Saviya*.

(d) training schemes to help them begin such enterprises or self employment activities are envisaged.

Detailed case studies are required to evaluate the real results obtained so far in this programme. And it might be too early as yet to do this. It is implemented as yet in a small segment of the society and covering substantially less number of families than was envisaged and promised at the beginning.

Taken as an idea and the fundamental thrust of a policy package, *Jana Saviya* programme is innovative and worth serious consideration particularly because of the many failures in large numbers of top-down development policies implemented so far in Sri Lanka (as well as elsewhere) to effectively deal with poverty issues. There are however, a number of theoretical and practical problem areas worth inquiring into before firm conclusions are arrived at in respect of its chances of success.

1. There is a vision here - a vision about how the poor can be helped on a sustainable basis - but this vision is as yet not backed by adequate hard data from Sri Lanka or precedents from elsewhere in the world. There were some attempts earlier at development of small enterprises and people's participation but with little long term lasting impact.

2. One can raise questions, partly theoretical and partly empirical, about the possibilities of expanding self employment opportunities or small enterprise activities on the large scale envisaged - what has been originally envisaged was one of about half the working population of the country to fall into this category. What kind of life is envisaged for the people involved? Do they want that kind of life or are most of them not demanding more regular jobs in public or private sectors where they can earn regular incomes? What kind of support will these small enterprises receive from organized private and public production firms (say as sub-contractors)? Where would they get the markets on a regular basis? What are the chances of most people trying to do the same things so that the limited available market will soon be exhausted? What are the chances of these enterprises going for export markets? If they are going to depend largely on domestic market will they get the necessary support from the trade policy front? How successfully would the necessary training in management and technology matters be imparted? How do the authorities envisage dealing with large numbers of bankruptcies that are unavoidable?

3. The very high financial implications of the implementation of the programme in the short run, particularly at a time when the government has many budgetary problems (related to military as well as other expenditures and to the extensive use of tax incentives for private sector investment promotion). It is also doubtful whether a programme like this would be paying its way through by means of increasing revenues in the time to come. The fact that the support for the programme from the donor community is as yet rather doubtful has made the financial implications of its implementation rather disastrous (particularly inflation). It is basically because of these problems that the JS has been implemented so far in a very restrictive manner. But there are immense political problems if the regime fails to expand it as promised to cover the rest of the eligible population.

4. There are many practical political problems at the level of implementation which someone familiar with the Sri Lankan political system in the recent past can envisage. How these affect its limited operation today requires to be examined independently at the ground level. If the implementation is carried out in a strictly just and fair manner without undue political intervention then the programme might have good chances

of success in spite of the large number of awesome questions raised above. Everything would depend on how the people would view the programme (their confidence) and how committed they would be to work for their own advancement (willingness to work). After all people are the most valuable resource.

Table 6.1 : Estimates of Population below Poverty Line in 1969

Country	1969 GNP Per Capita	1969 Population (millions)	Population below $ 50		Population below $ 75	
			Millions	% of Total Population	Millions	% of Total Population
LATIN AMERICA						
Ecuador	264	5.9	2.2	37.0	3.5	58.5
Honduras	265	2.5	0.7	28.0	1.0	38.0
El Salvador	295	3.4	0.5	13.5	0.6	18.4
Dominican Republic	323	4.2	0.5	11.0	0.7	15.9
Colombia	347	20.6	3.2	15.4	5.6	27.0
Brazil	347	90.8	12.7	14.0	18.2	20.0
Jamaica	640	2.0	0.2	10.0	0.3	15.4
Guyana	390	0.7	0.1	9.0	0.1	15.1
Peru	480	13.1	2.5	18.9	3.3	25.5
Costa Rica	512	1.7	..	2.3	0.1	8.5
Mexico	645	48.9	3.8	7.8	8.7	17.8
Uruguay	649	2.9	0.1	2.5	0.2	5.5
Panama	692	1.4	0.1	3.5	0.2	11.0
Chile	751	9.6	..	..	..	..
Venezuela	974	10.0	..	..	..	..
Argentina	1054	24.0	..	..	..	..
Puerto Rico	1600	2.8	..	..	..	..
Total	545	244.5	26.6	10.8	42.5	17.4
ASIA						
Burma	72	27.0	14.5	53.6	19.2	71.0
Sri Lanka	95	12.2	4.0	33.0	7.8	63.5
India	100	537.0	239.0	44.5	359.3	66.9
Pakistan (E & W)	100	111.8	36.3	32.5	64.7	57.9
Thailand	173	34.7	9.3	26.8	15.4	44.3
Korea	224	13.3	0.7	5.5	2.3	17.0
Philippines	233	37.2	4.8	13.0	11.2	30.0
Turkey	290	34.5	4.1	12.0	8.2	23.7
Iraq	316	9.4	2.3	24.0	3.1	33.3
Taiwan	317	13.8	1.5	10.7	2.0	14.3
Malaysia	323	10.6	1.2	11.0	1.6	15.5
Iran	350	27.9	2.3	8.5	4.2	15.0
Lebanon	570	2.6	..	1.0	0.1	5.0
Total	132	872.0	320.0	36.7	499.1	57.2
AFRICA						
Chad	75	3.5	1.5	43.1	2.7	77.5
Dahomey	90	2.6	1.1	41.6	2.3	90.1
Tanzania	92	12.8	7.4	57.9	9.3	72.9
Niger	94	3.9	1.3	33.0	2.3	59.9
Madagascar	119	6.7	3.6	53.8	4.7	69.6
Uganda	128	8.3	1.8	21.3	4.1	49.8
Sierra Leone	165	2.5	1.1	43.5	1.5	61.5
Senegal	229	3.8	0.9	22.3	1.3	35.3
Ivory Coast	237	4.8	0.3	7.0	1.4	28.5
Tunisia	241	4.9	1.1	22.5	1.6	32.1
Rhodesia	274	5.1	0.9	17.4	1.9	37.4
Zambia	340	4.2	0.3	6.3	0.3	7.5
Gabon	547	0.5	0.1	15.7	0.1	23.0
South Africa	729	20.2	2.4	12.0	3.1	15.5
Total	303	83.8	23.8	28.4	36.6	43.6
Grand Total	228	1200.3	370.4	30.9	578.2	48.2

Note : ..negligible.
Source : Same as for Table 6.2

Table 6.2 : Cross-classification of Countries by Income Level and Equality

Income	HIGH INEQUALITY Share of Lowest 40% less than 12%					MODERATE INEQUALITY Share of Lowest 40% between 12% and 17%					LOW INEQUALITY Share of Lowest 40%, 17% and above				
	Country (year)	Per Capita GNP US $	Lowest 40%	Middle 40%	Top 20%	Country (year)	Per Capita GNP US $	Lowest 40%	Middle 40%	Top 20%	Country (year)	Per Capita GNP US $	Lowest 40%	Middle 40%	Top 20%
Income up to U.S. $ 300	Kenya (1969)	136	10.0	22.0	68.0	El Salvador (1969)	295	11.2	36.4	52.4	Chad (1958)	78	18.0	39.0	43.0
	Sierra Leone (1968)	159	9.6	22.4	68.0	Turkey (1968)	282	9.3	29.9	60.8	Sri Lanka (1969)	95	17.0	37.0	46.0
	Philippines (1971)	239	11.6	34.6	53.8	Burma (1958)	82	16.5	38.7	44.8	Niger (1960)	97	18.0	40.0	42.0
	Iraq (1956)	200	6.8	25.2	68.0	Dahomey (1959)	87	15.5	34.5	50.0	Pakistan (1964)	100	17.5	37.5	30.0
	Senegal (1960)	245	10.0	26.0	64.0	Tanzania (1967)	89	13.0	26.0	61.0	Uganda (1970)	126	17.1	35.8	47.1
	Ivory Coast (1970)	247	10.8	32.1	57.1	India (1964)	99	16.0	32.0	52.0	Thailand (1970)	180	17.0	37.5	45.5
	Rhodesia (1968)	252	8.2	22.8	69.0	Madagascar (1960)	120	13.5	25.5	61.0	Korea (1970)	235	18.0	37.0	45.0
	Tunisia (1970)	255	11.4	53.6	55.0	Zambia (1959)	230	14.5	28.5	57.0	Taiwan (1964)	241	20.4	39.5	40.1
	Honduras (1968)	265	6.5	28.5	65.0										
	Ecuador (1970)	277	6.5	20.0	73.5										
Income U.S. $ 300-$ 750	Malaysia (1970)	330	11.6	32.4	56.0	Dominican Republic (1969)	323	12.2	30.3	57.5	Surinam (1962)	394	21.7	35.7	42.6
	Colombia (1970)	358	9.0	30.0	61.0	Iran (1968)	332	12.5	33.0	54.5	Greece (1957)	500	21.0	29.5	49.5
	Brazil (1970)	390	10.0	28.4	61.5	Guyana (1956)	550	14.0	40.3	45.7	Yugoslavia (1968)	529	18.5	40.0	41.5
	Peru (1971)	480	6.5	33.5	60.0	Lebanon (1960)	508	13.0	26.0	61.0	Bulgaria (1962)	530	26.8	40.0	33.2
	Gabon (1968)	497	8.8	23.7	67.5	Uruguay (1968)	618	16.5	35.5	48.0	Spain (1965)	750	17.6	36.7	45.7
	Jamaica (1958)	510	8.2	30.3	61.5	Chile (1968)	744	13.0	30.2	56.8					
	Costa Rica (1971)	521	11.5	30.0	58.5										
	Mexico (1969)	645	10.5	25.5	64.0										
	South Africa (1965)	669	6.2	35.8	58.0										
	Panama (1969)	692	9.4	31.2	59.4										
Income Above U.S. $ 750	Venezuela (1970)	1004	7.9	27.1	65.0	Argentina (1970)	1079	16.5	36.1	47.4	Poland (1964)	850	23.4	40.6	36.0
	Finland (1962)	1599	11.1	39.6	49.3	Puerto Rico (1968)	1100	13.7	35.7	50.6	Japan (1963)	950	20.7	39.3	40.0
	France (1962)	1913	9.5	36.8	53.7	Netherlands (1967)	1990	13.6	37.9	48.5	United Kingdom (1968)	2015	18.8	42.2	39.0
						Norway (1968)	2010	16.6	42.9	40.5	Hungary (1969)	1140	24.0	42.5	33.5
						Germany, Fed. Rep. (1964)	2144	15.4	31.7	52.9	Czechoslovakia (1964)	1150	27.6	41.4	31.0
						Denmark (1968)	2563	13.6	38.8	47.6	Australia (1968)	2509	20.0	41.2	38.8
						New Zealand (1969)	2859	15.5	42.5	42.0	Canada (1965)	2920	20.0	39.8	40.2
						Sweden (1963)	2949	14.0	42.0	44.0	United States (1970)	4850	19.7	41.5	38.8

Note : Sources for these data are listed in the Appendix to Chapter I. The income shares of each percentile group were read off a free-hand Lorenz curve fitted to observed points in the cumulative distribution. The distributions are for pretax income. Per capita GNP figures are taken from the World Bank data files and refer to GNP at factor cost for the year indicated in constant 1971 U.S. dollars.

Source : H.Chenery, M.S.Ahluwalia, G.L.G.Bell, J.H.Duloy & R.Jolly, *Redistribution with Growth*, Oxford University Press, 1974.

Table 6.3 : Classification of Countries by Income Levels and Inequality

	High inequality Gini > 0.50					Moderate inequality Gini = 0.40 – 0.50					Low inequality Gini < 0.40				
	Country*	Year	Per Capita Income†	Ratio‡	Gini	Country*	Year	Per capita income†	Ratio‡	Gini	Coutry*	Year	Per capita income†	Ratio‡	Gini
Low income < U.S.$ 300	Brazil §	1970	231	6.5/66.7	0.61	Dahomey §	1959	65	15.5/50.0	0.44	Ceylon	1969-70	155	17.0/46.0	0.37
	Colombia §	1970	251	9.4/61.5	0.54	El Salvador §	1969	248	12.7/52.0	0.45	Taiwan	1964	201	20.4/40.1	0.32
	Ecuador §	1970	272	6.4/73.5	0.66	Guyana	1955-56	272	14.0/45.7	0.40	Chad	1958	63	18.0/43.0	0.35
	Gabon §	1968	261	6.0/71.0	0.65	India	1961-64	84	14.0/54.0	0.46	Ivory Coast	1959	139	17.5/55.0	0.43
	Honduras §	1967-68	224	7.3/67.5	0.61	Philippines	1965	150	11.6/55.4	0.50	South Korea	1970	180	18.0/45.0	0.36
	Iraq §	1956	172	6.8/68.0	0.61	Sudan	1963	91	14.2/50.3	0.43	Libya	1962	220	23.5/37.0	0.26
	Madagascar §	1960	93	13.5/61.0	0.52	Tanzania	1967	70	14.0/57.0	0.48	Malaysia	1957-58	208	17.7/43.9	0.36
	Peru	1970-71	237	6.5/60.0	0.57	Thailand	1962	92	12.9/57.7	0.50	Niger §	1960	73	18.0/42.0	0.36
	Rhodesia §	1968	214	8.2/60.0	0.62	Tunisia §	1961	156	10.5/55.0	0.50	Pakistan (E/W)	1963-64	83	17.5/45.0	0.37
	Senegal §	1960	171	10.0/64.0	0.58	Zambia	1959	150	14.6/57.0	0.49	Uganda §	1969-70	110	17.1/47.1	0.38
Middle income U.S.$ 300 – 750	Jamaica	1958	398	8.2/61.5	0.56	Argentina	1961	681	17.3/52.0	0.42	Bulgaria §	1962	407	26.8/33.2	0.21
	Lebanon	1955-60	464	13.0/61.0	0.52	Chile	1968	427	13.0/56.8	0.49	Greece §	1957	341	21.0/49.5	0.37
	Mexico	1968	464	10.2/65.8	0.58	Costa Rica	1971	423	14.7/50.6	0.43	Israel §	1957	686	20.2/39.4	0.30
	Panama §	1969	590	9.4/60.3	0.54	Uruguay	1967	460	14.3/47.4	0.42	Poland §	1964	649	23.4/36.0	0.25
	South Africa §	1965	630	6.2/58.0	0.56						Spain	1964-65	572	17.0/45.2	0.38
	Venezuela	1962	750	9.7/58.0	0.52						Surinam	1962	311	21.7/42.6	0.31
											Yugoslavia	1968	451	18.5/41.5	0.33
High income > U.S.$ 750						Denmark	1968	1,838	13.6/47.6	0.42	Canada	1965	2,057	20.0/40.2	0.32
						Finland	1962	1,193	11.1/49.3	0.45	Czechoslovakia §	1964	880	27.6/31.0	0.18
						France	1962	1,373	9.5/53.7	0.50	Hungary §	1969	870	24.0/33.5	0.24
						West Germany §	1964	1,614	15.4/52.9	0.45	Japan	1963	780	20.7/40.0	0.31
						Netherlands §	1967	1,437	13.6/48.5	0.43	New Zealand §	1968-69	1,800	15.5/42.0	0.37
						Puerto Rico	1963	988	13.7/50.6	0.44	Norway §	1963	1,609	16.6/40.5	0.35
											Sweden §	1963	2,220	14.0/44.0	0.39
											United Kingdom	1968	1,599	18.8/39.0	0.32
											United States §	1970	3,603	19.7/38.8	0.31

* The data on countries without the section mark is based on household size distribution.
† Per capita income is in 1964 U.S.$ to the closest 2 years.
‡ Ratios are ratio of bottom 40% to top 20%.
§ The data is based on active workers income distribution.
Source : Montek Ahluwalia, "Dimensions of the problem," in H.Chenery, Duloy, and Jolly (eds.), Redistribution with Growth : *An Approach to Policy* (Washington, D.C. : IBRD, 1973) (mimeo), Reprinted by permission of The World Bank and Oxford University Press.

Table 6.4 : Income Growth and Poverty in 36 Developing Countries, 1975 and 2000 (projected)

Country	1975 GNP per capita	GNP growth rates 1960 – 1975	GNP growth rates 1975 – 2000	Share of lowest 40% 1975 estimate	Share of lowest 40% 2000 projection	Percentage of population in poverty, 1975	Number of people in poverty (million) 1975 estimate	Number of people in poverty (million) 2000 projection
Group A (under $ 150)								
Bangladesh	72	2.4	4.6	20.1	17.4	60	52	56
Ethiopia	81	4.3	4.1	16.8	15.0	62	19	25
Burma	88	3.2	2.5	15.7	15.2	56	20	29
Indonesia	90	5.2	5.5	16.1	12.7	62	76	30
Uganda	115	4.0	3.2	14.4	14.0	45	6	12
Zaire	105	4.3	4.8	14.6	12.7	49	11	13
Sudan	112	3.0	6.0	14.5	12.0	47	10	8
Tanzania	118	6.8	5.4	14.3	12.3	46	8	9
Pakistan	121	5.6	5.2	16.5	14.5	34	32	26
India	108	3.6	4.5	17.0	14.6	46	277	167
Subtotal	99	3.8	4.7	16.7	13.9	49	510	375
Group B ($ 150 – $ 325)								
Kenya	168	7.0	5.9	8.9	7.7	48	7	11
Nigeria	176	7.1	5.2	13.0	11.8	27	27	30
Philippines	182	5.6	7.3	11.6	10.3	29	14	6
Sri Lanka	185	4.2	3.8	19.3	18.2	10	2	2
Senegal	227	1.5	4.0	9.6	8.9	29	1	2
Egypt	238	4.2	6.1	13.9	13.5	14	7	5
Thailand	237	7.5	6.7	11.5	10.9	23	13	4
Ghana	255	2.7	2.1	11.2	11.9	19	2	6
Morocco	266	4.4	6.2	13.3	10.9	16	4	2
Ivory Coast	325	7.7	5.8	10.4	10.4	14	1	1
Subtotal	209	5.5	5.8	12.0	10.1	24	81	70
Group C ($ 325 – $ 1,300)								
South Korea	325	9.3	8.1	16.9	19.1	6	3	1
Chile	386	2.3	6.0	13.1	14.3	9	1	1
Zambia	363	3.4	4.9	13.0	12.9	7	0	1
Colombia	352	5.6	7.4	9.9	11.5	14	5	2
Turkey	379	6.4	6.3	9.3	10.4	11	6	4
Tunisia	425	6.1	7.5	11.1	13.3	9	1	0
Malaysia	471	6.7	6.7	11.1	13.3	8	1	1
Taiwan	499	9.1	6.2	22.3	24.4	4	1	0
Guatemala	497	6.1	6.0	11.3	12.4	9	1	1
Brazil	509	7.2	7.0	9.1	11.9	8	16	7
Peru	503	5.7	6.3	7.3	8.8	15	3	2
Iran	572	9.5	7.2	8.2	11.0	8	5	2
Mexico	758	6.8	6.8	8.2	10.8	10	8	6
Yugoslavia	828	5.8	6.1	18.8	23.9	4	1	0
Argentina	1,097	4.0	4.5	15.1	18.5	3	1	1
Venezuela	1,288	5.8	6.8	8.5	12.9	5	1	1
Subtotal	577	6.4	6.9	9.9	10.0	8	54	30
Total	237	5.4	6.2	9.8	6.5	35	644	475

SOURCE : M. S. Ahluwalia, N. Carter, and H.Chenery, "Growth and poverty in developing coutries," *Journal of Development Economics* 6 (September 1979), Tables 1 and 2.

Table 6.5 : Income Distribution and Growth

		I. Income growth			II. Annual increase in welfare		
Coutry	Period	*Upper 20%*	*Middle 40%*	*Lowest 40%*	*(A) GNP weights*	*(B) Equal weights*	*(C) Poverty weights*
South Korea	1964 – 1970	12.4	9.5	11.0	11.0	10.7	10.5
Panama	1960 – 1969	8.8	9.2	3.2	8.2	6.7	5.2
Mexico	1963 – 1968	8.8	5.8	6.0	7.8	6.5	5.9
Taiwan	1953 – 1961	4.5	9.1	12.1	6.8	9.4	11.1
Costa Rica	1961 – 1971	4.5	9.3	7.0	6.3	7.4	7.8
Canada	1961 – 1965	7.0	5.3	6.5	6.2	6.1	6.1
Colombia	1964 – 1970	5.2	7.9	7.8	6.2	7.3	7.8
El Salvador	1961 – 1969	3.5	9.5	6.4	5.7	7.1	7.4
Philippines	1961 – 1965	5.0	6.7	4.4	5.5	5.4	5.2
Brazil	1960 – 1970	6.7	3.1	3.7	5.2	4.1	3.5
United States	1960 – 1966	5.6	5.2	4.1	5.2	4.8	4.5
Finland	1952 – 1962	6.0	5.0	2.1	5.1	4.0	3.1
Sri Lanka	1963 – 1970	3.1	6.3	8.3	5.0	6.5	7.6
Yugoslavia	1963 – 1968	5.0	5.0	4.3	4.9	4.7	4.5
France	1956 – 1962	5.6	4.5	1.4	4.8	3.5	2.4
Peru	1961 – 1971	3.9	6.7	2.4	4.6	4.4	3.8
India	1954 – 1963	5.3	3.5	2.0	4.2	3.3	2.5

SOURCE : M. Ahluwalia and H. Chenery, "A conceptual framework for economic analysis," in H. Chenery, Duloy, and Jolly, *Redistribution with Growth: An Approach to Policy* (Washington, D. C. : IBRD, 1973), (3), p. 5. Reprinted by permission of The World Bank and Oxford University Press.

Session 7

The Employment Problem in Developing Countries

I. Nature of the Problem

Compared to developed countries, the employment "problem" in developing countries has certain peculiarities. Compared to any employment problem in developed countries, when and where such a problem exists, the employment problem in developing countries has many more dimensions and has a much broader set of causal factors:

* Open unemployment there is not a total lack of work but lack of particular types of work. The employment problem is very substantially one of underemployment of different types.

* The numbers and percentages involved are of much larger size than what developed countries of experienced even during their worst period of unemployment on record namely the Great Depression of the 1930s.

* It is not a cyclical phenomenon but a chronic one. An issue related to this is that it is not a case of "inadequate demand" but a structural one

    - mismatches between opportunities and aspirations
    - inadequate institutions
    - market distortions of both domestic and foreign origin
    - land ownership and tenure patterns
    - access to other resources: capital, water, technological knowledge
    - marketing problems: weaknesses in transport systems
    - terms of trade problems

* Concentration of the problem among the young and the relatively more educated[1].

* The employment problem is sometimes thought of as perhaps a less serious personal problem than in a developed

[1] As D. Turner shows in The Employment Problem in Less Developed Countries, OECD, Paris (1970), in terms of available data from various country surveys there are some jobs (though not full time formal wage jobs) in the rural sector but the young and the relatively more educated prefer to wait rather than take them because the differentials in wages and working conditions between these jobs and formal sector jobs make them feel that it is worth that waiting. This type of behaviour has certain implications for education planning too as education imparted seems to put unreasonable expectations into the minds of the young.

society because of possible family support during the period of unemployment or underemployment. This is however an argument of dubious reality as long periods of unemployment affects a person psychologically and socially everywhere, and in a developing country, without social welfare cover, it could become as bad a personal problem as in a developed country. The family support used to be available in former societies for such employed people but with slow yet gradual modernization this too situation is surely changing.

* There are certain peculiarities in the employment situation in the informal sector which incidentally provides employment to more people than in developed countries.

According to ILO, Towards Full Employment: A Programme for Colombia, Geneva (1970), there are three distinct but related dimensions to the employment problem in developing countries:

1 Many people are frustrated by lack of employment opportunities, including both those without work and those who have jobs but want to work longer or more intensively.

2 A large fraction of the labour force, both urban and rural, lack a source of income both reliable and adequate for the basic needs of themselves and their dependents[2].

3 A considerable volume of unutilized or under-utilized labour forms a potential productive resource, which ought to be brought into use.

Sometimes it is argued that (J.Weeks, Manpower and Unemployment Research in Africa, Centre for Developing Area Studies, Montreal, 1971, Vol 4 No 1) there is a misplaced emphasis given to unemployment in discussions about problems of developing countries[3]. What is worth emphasizing is poverty in these

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[2] Streeten in "A Critique of Development Concepts", European Journal of Sociology, 1970. makes a useful break up (in the form of an identity) of income per head of population (income/population) into four components. Income per head accordingly can be considered to be the product of four other ratios:

Hourly productivity (production/hours worked)
Working time rate (hours worked/labour force)
Participation rate (labour force/people of working age)
Demographic ratio of people of working age/population

[3] He makes three points in his discussion here:

1. It has not been established that 'unemployment' is a serious general problem in ldcs. Concept has little value here as the

societies. Viewed this way, one would see the ultimate object of policy not as providing more jobs, but as providing work which is socially productive and yields enough income for a reasonable standard of living.

II. Measurements

Most of modern population censuses include a variety of questions on social and economic characteristics of the persons to be enumerated. Above all, economic characteristics of the population covering type of activity, occupation, industry and employment status (as employer, employee, etc.) are normally regarded as one of the most essential items of information to be included in a population census. In fact, population censuses constitute one of the major sources of manpower and employment statistics both in developed and developing countries. It should be noted that there are some difficult problems involved in the international comparison of the data of this kind from national sources as there are various complexities in these sources of national data on economic activities and economic characteristics of the population.

Basic Concepts and Definitions of Labour Force Characteristics

Questions on economic activity of the population in a census or a household survey normally consist of a series of questions on the type of activity engaged by each person in the household. The type of activity here is not always limited to economic activity. But actually in most cases those questions are meant to find out the relationship of each individual to economic activity at the time of inquiry. Thus the data derived from these questions are designed mainly to reflect economic characteristics of the population as represented by working population or economically active population in the household.

The diversity of the minimum limit of "working age" creates

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vast majority of people is not obliged to sell its labour to others on a regular basis.

2. While there is a serious international crisis resulting from the relative impoverishment of the Third World, it is misleading and of negative instrumental value to define this crisis as one of growing unemployment. The problem is poverty.

3. When the problem is defined as one of unemployment, the solution may appear as an increase of the dependence of developing countries on the developed (MNCs providing this kind of employment). It is exactly this kind of dependence which fostered relative impoverishment of the Third World -it is the problem itself.

a difficult problem in the comparability of data so derived. International recommendation in this regard is that any tabulations of economic characteristics not cross-classified by detailed age should at least distinguish between persons under 15 years of age and those 15 years of age and over.

There is the need to distinguish between "economically active population" and "economically inactive population". There is little problem about those persons who are usually working on a full-time basis, such as most of adult males. But problems arise when it comes to such groups of persons whose working status is not always clear, for example, unpaid family workers, housewives or students working rather irregularly or only occasionally on a part-time basis, or young persons seeking work for the first time, and so forth.

For the operation of actual field work in a census or a survey, somewhat arbitrary rules are established in order to make a clear-cut distinction between economically active and inactive persons. One of the important criteria is a specific time-reference. International Labour Organization in this regard recommends that the time-reference period should be not longer than one week. This reflects the idea of recording the number of persons actually at work or seeking work during some particular period of time; the method is known as the <u>labour force approach</u>.

The labour force approach is most appropriate for labour force surveys conducted on a repetitive basis at a brief interval as monthly or quarterly. But when applied to a population census, this approach has a drawback because the results do not reflect year-round activities and hence might be affected by incidental fluctuations in employment. Especially in those countries where agricultural activities are predominant, this causes a serious problem since such activities are highly seasonal. It is, therefore, considered useful to collect information also on the basis of a longer time-reference period, say, one year, where appropriate.

Working with such a longer time-reference period is almost similar to the method known as the <u>gainful worker approach</u> (sometimes referred to as the gainfully occupied worker approach) that does not take account of a specific period of time when the work was done. Obviously the length of time-reference period plays an important role in distinguishing the labour force approach and the gainful worker approach. When the time-reference period becomes longer, the derived data on economic activity become more remote to the labour force concept and closer to the gainful worker concept. Some surveys may inquire into a person's usual or customary activities without referring to any exact time period.

In many developing countries where agricultural activities are predominant, the activity status of each person does not change so frequently, but the work itself actually engaged may be different by season. Under such circumstances, the notion of gainful worker seems to be more appropriate.

In more industrialized communities where salaried workers and wage labourers are predominant and hence the status and periods of employment can be easily defined and exactly measured, the labour force approach is definitely more suitable and effective in many respects. Especially in those communities, where organized groups of employees are predominant, the labour force approach is rather inevitable because the magnitude of unemployment is measurable only by such a method.

Anyway the following definitions in this field are widely used and when applied to developing country conditions their weaknesses can easily be seen:

> Economically active population: all persons of either sex who furnish the supply of labour for the production of economic goods and services during the time-reference period chosen for the investigation.
>
> Civilian labour force: persons employed and unemployed during the time-reference period.
>
> Employed: all persons, including family workers, who worked during the time-reference period established for data on economic characteristics or who had a job at which they had already worked but from which they were temporarily absent because of illness or injury, industrial dispute, vacation or other leave of absence, absence without leave or temporary disorganization of work due to such reasons as bad weather or mechanical breakdown. The former group of persons is termed employed at work and the latter group of persons employed not at work.
>
> Unemployed: all persons who, during the reference period, were not working but who were seeking work for pay or profit, including those who never worked before. Also included are persons who, during the reference period, were not seeking work because of temporary illness, because they had made arrangements to start a new job subsequent to the reference period or because they were on temporary or indefinite lay-off without pay.
>
> Economically inactive population: persons who are not in the labour force and hence do not contribute directly to the production of economic goods and services. This group of persons comprise home-makers, students and others who are not economically active. It should be noted that the classification of type of activity gives priority to participation in economic activity. Thus those persons who have already been categorized in the economically active group, will not be included in the economically inactive group, even though they may also be home-makers or students, for example.

Various ratios are estimated and analyzed using the above type of data:

- crude activity rate or labour force participation rate (economically active population/total population)
- general activity rate or refined activity rate (economically active population of age 15+/ population of age 15+).
- sex/age specific activity rates
- unemployment rate (unemployed/labour force) and so on.

Various forms of classification of the employed [by industry, by employment status (employer, own-account worker, employee etc)] are used in analyzing the economic structure, structural change and similar subjects.

Unemployment and Underemployment

Among employment related statistics, particular social significance is attached to numbers pertaining to unemployment (or open unemployment). The internationally recommended definition of unemployment includes the following in this category:

* workers available for employment whose contract of employment had been terminated or temporarily suspended and who are without a job and seeking work for pay or profit;

* persons available for work (except for minor illness) and were seeking work for pay or profit, who were never previously employed or whose most recent status was other than employee or who had been in retirement;

* persons without a job and currently available for work who had arrangements to start a new job at a date subsequent to the specified period; and

* persons on temporary or indefinite lay-offs without pay.

Numbers counted as (openly) unemployed in developing countries, even on strict application of these conventional statistical criteria, are rather large by comparison to developed country conditions. Yet, these numbers do in fact indicate only a small part of the "employment problem" in these countries. To understand this problem fully we have to go beyond numbers recorded as unemployed.

Hence the importance of looking into the nature and extent of under-employment in these societies. Underemployment has a "visible" component (concerned with hours employed) and an "invisible" component (concerned with the skill wise under-utilization and misallocation of labour resources). In respect of the definition of under-employment the following points are usually noted as of importance:

(a) that earnings are abnormally low;

(b) that the job done does not permit full use of capacities or skills of the workers; and

(c) that the employment may be in an establishment/economic unit where productivity is abnormally low.

Though attempts are made to measure under-employment, there are aspects in it which are rather difficult to measure objectively (duration of work, low income question and mismatch of occupations and education/skill levels). Need for non-census surveys (eg. household surveys) to collect more reliable and meaningful information on the subject[4].

One very important aspect of the general pattern of under employment is the question of the employment in what is now known as the informal sector. There are objections to this term and differences of opinion about what exactly this is. But the word has gained popularity in the development literature since the 1960s. Some may say that by the very nature of the sector, the informal sector is undefinable. The ILO mission to Kenya, focussing on enterprises, identified the following as characteristics of the informal sector:

- ease of entry
- dependence on indigenous resources and are family owned;
- small-scale nature;
- operating in unregulated competitive markets;
- requires skills acquired outside the formal school systems.

The enterprise-focussed definition often would ignore large numbers doing personal services (domestic services) and other odd jobs. Therefore other definitions are presented, focussing on a "protected"/ "unprotected" dichotomy. While most informal sector workers are earning low incomes, there could be some whose incomes could be quite high (may be even more than formal sector incomes).

The presence of a significant urban (or even rural) informal sector has certain very important implications for:

- available employment statistics
- planning and policy making for employment generation and generally economic and social development.

Problems in Employment, Unemployment & Under-employment Data in LDCs

As argued by P.P. Streeten, "A Critique of Development Concepts", European Journal of Sociology (1970) (among others), conventional concepts of employment and unemployment have many weaknesses when applied in the environment of a developing

[4] See P.M.Hauser 1974, "The Measurement of labour Utilization", The Malayan Economic Review, April, pp. 1-15

society:

* Intensity of work, skills, organization, health, labour markets, transport, information etc are assumed given in conventional concepts so that demand and equipment become the only variables. Developing society environments are not of this type and therefore the application of conventional employment and unemployment concepts there will provide misleading measures.

* In conventional concepts there is the assumption of unemployment and underemployment being involuntary ("seeking work" characteristic which means positive action on the part of the enumerated to find work and it implicitly assumes that there is machinery through which placement for work could be made) but without employment exchanges and similar arrangements there is no way to test this.

* It is against standards of working hours per day and working days per week that unemployment and underemployment can be defined but there are no such standards in most parts of developing societies.

III. Analytical Models

A number of formal analytical models are found in the literature of development economics trying to "explain" the problem of unemployment in developing societies. A few of the more well known of these are briefly described below:

1 Lewis-Fei-Ranis type of model where development is viewed as one of transfer of labour from rural (subsistence) to urban (modern) sectors; the rate of this happening depending on capital accumulation in industry which in turn will be based on the excess of profits over wages. These models are based on assumptions like: (i) capitalists generally reinvest all their profits and (ii) constant wage levels will remain until excess labour in subsistence sector is eliminated. The problem with this type of model is that empirical data show:

   * that there is no full employment in modern sector and no general surplus of labour in rural areas;

   * that there is usually a pattern of rising (not constant) wages in urban sectors due to various pressures, in spite of open unemployment.

   These surplus labour models have been extended by Todaro to build a model of labour migration. He treats individual decisions to migrate as a function of the expected gains from migration. Expected gains measured by the difference in real incomes between rural and urban work and the probability of a new migrant obtaining an urban job. The assumption of a simple and exclusively economic motivation for migration in this model has been criticized.

2 Employment models developed as an out-growth of Harrod Domar type of growth model, taking employment rather than output as the variable to be explained. Employment growth is related to output growth either by assuming constant labour output coefficients or by incorporating productivity assumptions in which the output labour coefficient increases often steadily and usually exogenously over time. The growth of employment then is essentially a function of the level and the change in productivity, the rate of savings and the capital output ratio. Weaknesses: assumption of fixed capital output ratio; exogenous treatment of productivity; failure to distinguish between different sectors in often fragmented developing country economies.

3 Models focussing on implications of factor price disequilibria on resource allocation and employment (eg. Eckaus, American Economic Review, 1955). Eckaus analyzed how the effects of factor price disequilibrium or limited possibilities for efficiently substituting labour for capital or both, lead to a failure of the labour market to clear itself resulting in open unemployment.

None of these theoretical models can provide a full explanation. Yet each one of them has something to tell us about the employment problem in developing countries.

IV. Empirical Work

On the employment issue, in addition to these theoretical models, there are large numbers of empirical studies. Obviously there is some theoretical basis behind each one of them but not formally and explicitly like in the theoretical models referred to earlier. These empirical studies teach us a number of valuable lessons:

* That there are important differences in the experience of the employment problem and its causes from country to country. That the employment situation can be presented as one of a range of possibilities from one extreme of full employment to the other extreme of full unemployment.

* Some important causal factors have been identified:
    - rapid rise in labour force numbers
    - the rapid increase in job aspirations though this is not easy to measure
    - tremendous importance of structural factors (sector differences, nature of export dependence, type of land tenure, size and characteristics of government and service sectors, nature of agriculture and industry, extent of foreign control)
    - rural sector studies showing that instead of general

surplus there are seasonal labour shortages in rural areas (thus pointing out the weaknesses of models which talk of possibilities of labour migration without loss of output). These studies also show the significance of various structural characteristics in rural economy preventing it from increasing output and employment there.

- two edged nature of technology in rural areas (while evening out labour demand throughout the year thereby increasing the demand in slack times, it also led to a reduction in labour demand through labour saving technology). In the urban setting too, technology played a similar role
- changes in income distribution patterns having their impact on the pattern of demand in the goods markets (demand for luxury goods, imported goods, capital intensive types of products etc increasing along with widening income disparities)
- factor price distortions (upward pressures on wages, subsidized capital, inappropriate exchange rates, downward pressure on agricultural prices) having led to under-utilization of labour and excessive demand for capital and imports.
- showing us the wide ranging influence of various international influences (dependency analyses included here)

V. Employment Problem and Some Related Issues

Poverty and Income Distribution

The unemployed are also poor. Almost everywhere in the Third World rural poverty is greater and more acute than urban poverty though in the latter it is more visible. In rural areas the absence of productive opportunities during much of the year produces this poverty. The social institutions of peasant life are supposed to alleviate the extreme forms of poverty but these institutions have been breaking down gradually making the results of unemployment worse.

It is also increasingly realized that changes in income distribution towards greater equality are a means of achieving other objectives like expanding employment. Effects of the pattern of income distribution on employment work through the following mechanisms:

1 Through differences in the import content of expenditures of the rich and the poor

2 Through differences also in the direct labour content of the expenditures of the two groups

When income distribution is unequal its impact on employment, working through the above channels, is generally unfavourable.

While agreeing with the view that it is the case in the short run, some people may often argue that unequal income distribution is good for employment creation in the long run (because of its favourable impact on savings and investment). But often things work differently (the ILO report on Colombia argues so at least for that country and this argument is correct for other cases too): Rich people's savings may not be all that high (conspicuous consumption). Even if they are high they may be invested outside the country. Also more unequal the distribution, the more will be social unrest leading more strongly to this flight of capital. Another argument in favour of having a high degree of income inequality is that it is necessary to maintain incentives. It is doubtful, however, whether inequality to the extent found in many developing countries is required for this purpose. At least in developed countries at their earlier stages of development, incentives are said not to have required that much of inequality. There are anyway more recent cases of successful growth with widespread employment benefits achieved under conditions of much lower levels of inequality (Japan, South Korea, Taiwan).

Unemployment and Factor Price Distortions

A successfully growing developing economy generally moves from a land intensive to a labour and ultimately a skill and capital intensive phase of development. The transition from one phase to the other is facilitated if the signals reflecting changes in factor endowment over time are permitted to be transmitted to the decision making units in society. Here to let the exchange rate, interest rate and wage rate reflect the respective true values is important. Also important is not to manipulate the terms of trade between agriculture and industry to artificially benefit one or the other sector. The above (a) is good advice whatever the social system a society has decided to adopt and (b) should not mean that the government should take its hands off and go back to a textbook model of laissez faire.

Unemployment and Education

The unemployment of the educated is a much emphasized and particularly important part of the wider problem of general unemployment. The groups involved among the educated unemployed vary from country to country but the phenomenon is important because of their position as an articulate and politically conscious group. The problem cannot be treated as a part of the general employment problem but has to be taken up separately within a proper structural analysis.

A number of elements are important in trying to understand and grapple with the problem of the educated unemployment:

* Disparities in the growth of the supply of and the demand for educated manpower.
* Lags in the speed at which wages and salaries of educated persons adjust to clear the market.
* Prejudices in the attitudes of the educated against taking certain types of jobs.

Anyway the problem involved cannot be tackled by taking educational reforms in an isolated manner. The problem is one of rates and patterns of output and employment growth combined with the nature of education that is being imparted.

Agriculture-Industry Priority in Development Policy

Explanations for the rural employment problem faced by many developing countries may be found in the patterns of development adopted in respect of agriculture and undue and premature policy emphasis on industrialization and urbanization. As the achievement of the desirable rates and patterns of industrialization was prevented by various problems, an additional massive urban employment problem emerged on top of the problems of rural unemployment and underemployment. In this pattern of development it was not an integrated system which emerged but a fragmented system. Policies to improve labour absorptive capacity of agriculture are required: eg. among others, (a) reorganization of agrarian structures through land reforms, (b) increase in the labour inputs as well as output per unit of land through changes in the types of inputs and methods used ("green revolution"), (c) deal with special problems of dual systems having plantation types of organization along with small farmer systems.

Quite in contrast to expectations, industrialization failed to become the force and engine of growth and employment creation. As doubts about the employment potential of modern industry arose, more and more attention came to be given to the potential of services and construction. The question of industrial employment is closely interwoven with technology issues (use of capital intensive technology in modern industry reducing its employment contribution; though labour intensive techniques may increase this contribution such technologies are simply not available[5]) discussed in the next sub section. A related matter which is receiving a lot of attention nowadays is the importance of small industry and export oriented industry in an employment oriented industrialization policy.

Technology and Choice of Techniques

This is a wide subject area having its impact on many issues discussed above. Modern technology is too capital intensive for developing country factor endowments. This is not surprising

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[5] As argued by W.Baer and M.E. Herve, "Employment and Industrialization in Developing Countries", Quarterly Journal of Economics, Vol 80, No 1, pp. 88-107, though labour intensive techniques may give higher direct employment in industry, the overall employment effects of the use of more capital-intensive techniques in industry (where industry output effects will be higher) along with larger volumes of indirect employment created in tertiary service sector, might be higher.

given the location of R & D activity today. Questions about choice of techniques in these conditions will involve a number of aspects:

* Importance of product mix (with greater emphasis on more labour intensive product types) if more labour intensive techniques are to be widely adopted; this gives rise to various questions of income distribution.

* Need for a change in the international division of labour whereby developing countries will specialize in labour intensive products which they can exchange for capital intensive products from developed countries.

* Direct transfer of technology from developed countries is inappropriate because (a) capital is dearer and labour cheaper in developing countries, (b) large scale production needed for technology imported from developed countries is often inefficient in developing country conditions and (c) advanced technology may reduce both employment and real incomes (by destroying more labour intensive domestic industry).

* Matters concerning appropriate technologies and science and technology policy matters. Need to build up indigenous technological capability. China's walking on two legs policy.

Inter Country Migration

Push factors operating at home (unemployment, low incomes etc) and pull factors from abroad (higher income possibilities basically) have increased inter country job oriented migration in the recent past. Migration to Middle East countries after the oil shocks of the 1970s constituted probably one of the most important human migration waves after the second World War. Migration of highly educated people (brain drain) from developing countries to developed countries was going on for some time but this did not acquire the quantitative significance of the migration to the Middle East. The latter included mostly migration of skilled and unskilled labour. Now there is increasing trends for similar type of labour to migrate to also developed countries.

This is a development with both favourable as well as unfavourable effects on the developing countries. Favourable: the alleviation of their employment problem, enhancement of their foreign exchange earnings etc. Unfavourable: loss of valuable manpower which is indispensable if the countries concerned were to embark on a path of their own self sustained development.

VI. Policy Making for Employment and Growth-Employment Relationship

On the one hand, there is the observed fact that in many developing countries, there has been a worsening of the employment problem in spite of some satisfactory economic growth. On the other hand, given the very seriousness of the employment problem, employment oriented planning and policy making must necessarily be considered significant. On both issues growth employment relationship (the question of whether there are inevitable trade offs) acquires importance.

Many writers have discussed the conflicting nature of the objectives of maximum output growth and maximum employment growth and relevant trade offs. But there are various ambiguities even in defining the question at issue:

(a) What is the output that has to be maximized? The question is important because (i) output at any time consists of a heterogeneous collection of goods and (ii) it occurs over time. So there is the question of commodity and time wise weighting.
(b) Same type of questions arise in respect of the employment objective too.

The question of the conflict between these two objectives can be sorted out by adopting suitable systems of weighting for different commodities (income distribution) and adopting suitable valuations for time (ie. between the present and future: should a country go for less production and more employment now to gain more production later or should it go for less employment and more production now to have more employment later).

The question of trade off between output growth and employment can be discussed as if there are single indices of output and employment and posing the question as one of maximizing the present value of the entire streams of output and employment over time. This is how the question is mostly discussed, i.e. without bringing the question of weighting explicitly into the discussion. If the issue is pertaining to the growth and employment effects of new equipment to be installed,then there can be a conflict between the two objectives basically because total funds available for new investment are limited. The type of production methods which will maximize output growth may not be consistent with those which will maximize employment and the same limited volume of funds cannot be invested in both systems simultaneously. As technology development takes place over time, more capital intensive methods of production (introduced to replace more labour intensive methods of an earlier vintage) will involve <u>less capital per unit of output</u> (eg. because of economies of scale). Labour intensive methods of an earlier vintage may have a lower capital-labour ratio or a lower cost per work place but it may involve more capital per unit of output than the capital intensive method. A conflict between maximum output and maximum employment may thus be inevitable. In that situation, there are however, some who suggest the desirability of sacrificing some output for greater employment.

There are many problems, not only economic, but also socio-political, in adopting and implementing a full employment policy in developing countries. Such a strategy involves changing people's attitudes to agriculture, to manual work, to modernization. Changes among decision makers are necessary. It may hurt some interest groups who will do everything in their power to sabotage actions taken towards that end.

In addition there are problem created by the existing international framework, specially the nature of relationship between the rich and poor countries (trade, aid, transfer of technology, private investment and international liquidity).

Session 8

Economic Development: The Spatial Issue

Almost all countries, even very small ones, have a "regional problem" (or an intra country "North-South problem" as it is sometimes called), in the sense that there are great and lasting differences between different areas within each country. Within economics, the rather recent branch called Regional Economics deals with this regional question in general terms. As far as the regional problem of development in developing countries is concerned, it is development economics, learning from the general field of regional economics and other disciplines like geography and sociology, which has to analyze the spatial issue of development. The spatial issue here may be seen as having two important aspects: urban rural differentiation and other regional differences.

Definition of a Region

The urban rural distinction may depend on administrative definitions: for example, the type of local administration (a municipality, village council etc). Strictly speaking however, the distinction must be made on the basis of infrastructural and other facilities available and people's attitudes to life.

When it comes to delineating different regions, people take into consideration information about things like factor mobility, commodity mobility and political boundaries. Using this type of information, three different approaches are adopted in defining regions: (a) homogeneity with respect to one or combination of physical, economic, social or other characteristics; (b) nodality or polarization characteristic, i.e polarization around some central urban place; and (c) policy oriented definitions to keep identity with political institutions. These are of course not mutually exclusive categories. Usually regional definitions in practice often represent some compromise among these.

Measuring and Analyzing Spatial Inequality

Often income differentials across space [measures in absolute (absolute income differentials between rich and poor regions) or relative terms (income per capita in each region as per cent of national average)] are used to measure rural-urban or regional inequalities within a country. But when these do not present much of a sharp differentiation (as in the case of different regions in developed countries) the following measures may be adopted:

* differences in unemployment across space
* differences in the rates of growth of income per head
* rate of net migration

Two types of problems ought to be analyzed: (a) the spatial differences at a point of time; and (b) what happens to them over time. Once the extent of rural urban or other regional differences are established the question arises as to why these differences have come about and why they persist over time. Of particular interest is to consider what happens to urban rural and regional inequality along with national economic development. Finally there are various policy issues to be examined: should there be intervention and if so how?

Extent of Spatial Inequality

Not much global level data are available on the regional differences in incomes, unemployment etc. within the world's developing countries in easily accessible publications like those of various international organizations[1]. Regionally classified socio economic data from developing countries are not easy to come by. Even when available, they might be of rather dubious reliability. Yet the fact that there are enormous differences and inequalities among regions in developing countries is quite well known. It has been argued by some that at earlier stages of economic development, not only income inequality by social class but also regional inequality increases but when higher stages of development are reached these differences tend to go down.

Quite a lot of data and much analysis is available however, on one aspect of regional inequality in developing countries, namely the pattern of urban rural distribution. An analysis of these available data (see Todaro, chap 9 for some of these data) shows that:

* developing countries have some very large urban concentrations of population (urban agglomeration)

* these urban populations are growing very fast, usually more rapidly than total populations of the countries concerned

* large proportions of urban populations are living in slums under very poor living conditions [poor housing and other amenities; urban informal sector conditions where there is excess labour; human degradation (begging, prostitution); child labour] in spite of the fact that they have moved there hoping to better their living conditions:

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[1] Those interested may find an interesting analysis of regional inequality in a number of developed and developing countries using the data for the 1950s in J.G. Williamson, "Regional Inequality and the Process of National Development: A Description of the Patterns", Economic Development and Cultural Change, Vol 13, 1965 (Reprinted L.Needleman [ed.], Regional Analysis, Penguin, 1968. A very accessible journal on the subject is Regional Development Dialogue published by the UN Centre for Regional Development in Nagoya. Other international journals dealing explicitly with regional analyses include Regional Studies and International Journal of Urban and Regional Research.

and this urban poverty is highly visible and can also be socially very explosive. Poor living conditions in urban areas are worsened by urban environmental problems.

* usually unemployment and underemployment rates in urban areas are high (quite in contrast to full employment assumption for urban modern sector in early dualistic development models) and are found often to be higher than among rural populations.

* incomes are highly concentrated in urban areas, particularly among high income urban households; as compared to rural wages, urban wages are in general also higher despite high levels of unemployment and underemployment; among wage and salary owners too extreme inequalities may be found in the urban sector.

Why Large Regional Inequalities?

Historical patterns of growth and development are important to understand why the present scale of inequalities (ie. much higher than in developed countries) at the spatial level persists in developing countries. The colonial pattern of development in many of these countries resulted in a focus on certain areas to the neglect of others (plantations, mining, trade and finance). The development of transport and other communication facilities was also centre focussed. Even after political independence in formerly colonized countries, under policies of modernization and industrialization (Fordist mass production systems and tendency for industry concentration) the urban centred and certain lead-region centred development continued. The neglect of agriculture in general, and failure to carry out necessary agrarian reforms, in particular, resulted in an extreme urban bias in development and continuous migration of people from rural to urban areas. Once the physical and social (communications, transport, education, health facilities etc) networks developed around certain cities and regions, location of new economic activities was naturally guided by those networks leading to more and more concentration.

The importance of colonial expansion on the development of cities in today's developing countries (creation of new cities, generation of new urban forms & destruction of the then existing urban cultures). Urban form is a direct outcome of the ways in which different societies are arranged. Unequal world leads to unequal cities. And development favours certain geographic areas. Tendency more marked in some economic systems: dependent capitalist countries exhibiting wider regional disparities than do poor socialist nations. This is also affected by the nature of state intervention.

Population migration patterns have buttressed these patterns of development. Along with spatial disparity emerging from economic expansion, population tends to be more spatially concentrated. As perceived income levels and other aspects of living conditions are better in more developed regions and there too in more urban areas, people tend to move into those areas from other less developed ones thereby aggravating conditions of regional inequalities (rural -> urban; declining areas -> dynamic areas; small cities -> large cities). As the migrants are the more energetic and entrepreneurial, younger and more educated this process of spatial concentration produces backwash effects more than spread effects (using the jargon of Myrdal) and accentuates regional income & welfare differentials.

<u>Relationship Between Development and Regional Inequality</u>

There is the view that regional inequalities will gradually be eliminated through internal factor mobility - inter-regionally factor movements are considered to be stronger than internationally. So regional inequality of large proportions could be a temporary phase in development (not like growing gap between developed and developing countries). The mechanisms which will bring about greater regional equality at higher levels of economic development are: labour migration; capital migration and interregional linkages; government regional policies. Any one of these factors or a combination of them may cause regional inequality to diminish. Once the process of regional convergence or depolarization begins it is likely to become cumulative, with forces tending towards regional equality mutually strengthening each other contributing to a more rapid speed of adjustment.

The above view is contested by many writers who take the position that internal factor flows are non-equilibrating: Myrdal's backwash effects; Hirschman's concern about dualism and polarization.

(a) Inter-regional labour migration: There are many problems which weaken the process (or make it a process of <u>selective</u> migration): (i) prohibitive money costs of migration; (ii) traditional inertia. Thus migrants may be the vigorous and the entrepreneurial - and this makes the backward regions lose from out-migration. Thus migration will hardly be a process of bringing about a regional equilibrium.

(b) Inter regional capital migration also can be perverse due to external economies for the capital invested in richer, more developed regions. So capital may migrate from the South to the North rather than the other way around. The role of banks in these transfers has to be highlighted. Such transfers take place from rural to urban areas and from agricultural to industrial activities through the mediation of banking institutions.

(c) Other relevant factors: Government policy - overt or unconscious - to maximize national growth may accentuate regional inequality. Also effects of government policy on terms of trade between regions or external terms of trade against the South (say a protective tariff policy and its impact on industry). Also lack of interregional linkages so that spread effects of technological change, social change and income multipliers are minimized.

Policy Issues

In spite of the existence of a significant regional problem, there is no consensus regarding whether the government should intervene to produce an alternative pattern. Critics of intervention argue that such intervention is not necessary as the market forces are capable of restoring equilibrium on their own. Given the regional inequalities in general and the massive urban rural inequalities in particular, in developing countries this market argument is unlikely to have many believers. There seems to be a few important elements in a regional policy:

* Agricultural and rural development policy to create an appropriate rural-urban balance: The main thrust here ought to be on an integrated development of the rural sector, spread of small scale rural agro based industries throughout the countryside and the reorientation of economic activity and social investments towards the rural areas.

* Changes in industrial policy: expansion of small scale labour intensive industries (through government incentives and indirectly through changes in income distribution patterns more in favour of rural areas which are more likely to generate demands for labour intensive types of industrial goods than urban areas). Such a policy must be pursued with proper and strong linkages with big enterprises being built up (subcontracting) if small industries promoted were to survive. Such a strategy must also benefit from changes in industrial structure and technology that are taking place in developed countries enabling the development of more flexible types of (non-Fordist) industrial organization and the location of facilities by TNCs to produce labour intensive manufactures for export in developing countries.

* Elements of specifically regional policies: incentives for industrial firms to relocate in backward areas and in non metropolitan areas; infrastructure (physical and social) development in such areas; measures to promote reverse labour migrations.

* Reforms aimed at correcting the existing factor price distortions (elimination of subsidies on capital; restrictions on the growth of urban wages). The extent of effectiveness of these policies and the time they will take to produce tangible results however, are uncertain.

* Development of suitable science and technology policies to guide technology transfer, develop local technological capability and develop appropriate technologies.

* Reforms in the educational systems to suit chnages that are being introduced in other policy areas.

* Population policies (specially for the long term).

Session 9

Agricultural and Rural Development: Problems and Policies

Imperative of Agricultural Development

In almost the whole of development economics literature today, the imperative of giving priority to agriculture within development strategies of developing countries is stressed. This is based on the knowledge of the process of development in the present day developed countries as well as more successful development experiences of certain developing countries themselves. In the 1950s and the 1960s, much emphasis was placed on industrial development and there is widespread feeling today that it was either misplaced or premature. World development effort so far clearly shows that national development requires either the achievement of agricultural growth first to be followed by industrial development or a simultaneous development in both areas. In situations where resources for investment are limited, as in most developing countries, a balanced growth of both agricultural and industrial development may be found rather difficult to achieve. For them, earmarking the limited resources first for development and modernization of agriculture, prior to attempting industrialization might prove to be, not only what is feasible, but also very desirable.

Development of agriculture along with rural development, in fact, would be able to achieve most of the development objectives even if industrialization is postponed. This is because the vast majority of the world's poorest (may be about 70%) live in rural areas. Problems of poverty, growing inequality, rapid population growth and rising unemployment and underemployment are problems which have their origins in agricultural and rural underdevelopment and these are problems which can be easily tackled through a strategy focussing on agricultural development.

Traditionally, the role of agriculture in economic development was viewed as largely passive and supportive: food and raw materials, manpower and savings supply to industrial sector, the demand for its products and also a source of valuable foreign exchange. There is increasing tendency today to view the role of agriculture in economic development as, on its own, a dynamic and important one. Agricultural growth is often shown as a <u>sine qua non</u> of overall development.

The above argument is perfectly compatible with historically proven law of development, namely that economic growth and development of a nation will be invariably accompanied by a declining share of agriculture in total output, income and employment. It is known that this result is produced by two main forces:

1. There are limits imposed on agricultural growth by the growth of demand for its output due to Engel's law in the case of food items, and competition from synthetic substitutes in the case of non-food items. (On the whole low income elasticities of demand). Moreover when farmers get more and more removed from consumers, a given pure agricultural output give rise to a large (perhaps larger) value added in transport, processing and packaging to take that output to the final consumers.

2. Increased agricultural productivity made possible by technological innovations and accumulated public and private investment leads naturally to declines in the proportion of labour force within agriculture.

The historical truth of "growth leading to a decline in the share of agriculture" does not mean that such a pattern can be established by promoting industry and service activities, leaving agriculture under developed. Stagnation of agriculture and the resulting poverty of the bulk of rural population will result in that sector failing to perform its vital role to promote other sectors, namely the provision of expanding markets for the products of these other sectors. The most important point of entry in any viable development strategy will be agriculture or more broadly the primary sector.

Agricultural Stagnation:
Its Nature and Why?

Since the Second World War, in spite of all the development effort food production and total agricultural production in per capita terms increased less in developing countries than in developed countries (though there were regional variations: eg. in the 1970s both per capita agricultural output and food output grew more rapidly in developing countries in Southern Europe and in Southeast Asia than in industrial market economies: Source: World Development Report, 1982). This was in spite of generally very high proportions of the labour force in developing countries engaged in agricultural activity: in South Asia, East Asia (including China) and Africa (all countries in the regions put together) have over 60 per cent of labour force in agriculture with the relevant ratio for Latin America being around 40 per cent. But the ratio of output from agriculture, forestry and fishing in the former regions are less than 40 per cent with the ratio for Latin America at about 25 per cent. Stagnation and underdevelopment of agriculture are behind the poor living conditions in the bulk of the Third World - not only in the rural areas but also in urban areas. The urban problems of unemployment, squalor, over-crowdedness etc. created by increasing migration into urban areas also can be traced, at least indirectly to rural underdevelopment.

In very broad and rather loose terms one can talk of two kinds of agriculture in the world: (a) a very highly efficient and productive developed country agriculture and (b) a very inefficient and low productivity developing country agriculture. This is the impression one gets in comparing labour force and GNP proportions in agriculture in the two types of countries. Per capita agricultural production (in dollars) in 1980 was estimated at 1660 in developed countries and 63 in developing countries. In this sort of comparison, however, one has to be very careful as there can be various complications arising out of prices used in the valuation of output. Anyway, the practice of agriculture in developing countries should not be described uniformly inefficient and unproductive. There are, interspersed with that form of inefficient agriculture, which of course is the dominant form, there are certain pockets of efficient agricultural business even in developing countries: efficiently run plantations (all plantations need not be considered equally efficient), small scale market gardening, agribusinesses run by multinational agricultural companies, by themselves or in collaboration with local firms, "new" agricultural export businesses etc. When one talks of problems of agricultural under-development in developing countries, one is really concerned with not such pockets of efficient agricultural undertakings but with the bulk of agricultural sectors in these countries which are unproductive and inefficient. In a way the question of agricultural development could be viewed as one of making such efficient agribusiness ventures, now scattered here and there, a more widespread phenomenon throughout developing societies, thus transforming the lives of the bulk of the rural populations.

Many are the reasons for the poor conditions in agriculture in developing countries and its poor performance in the recent past as discussed above: some historical, and others, pertaining to certain current features. As in the case of many other subject areas pertaining to developing countries, the conditions created by European colonial rule - the destruction of traditional socio-economic structures within the rural economy without adequate replacements, general neglect of the agricultural sector except for commercial crops and more generally the prevention of these economies to find their own independent paths to development. Even after independence of these countries, their agricultural sectors were neglected in the development priorities of the governments concerned basically because the poor rural population lacked the political power and understanding (even if they had the power of the vote). In addition, during the early post war period there was the misplaced emphasis on rapid industrialization.

The income and productivity conditions in small farms in many countries remain poor. In the case of family owned farms, subsistence based production is carried out on holdings which are often of inadequate size for efficient cultivation and providing decent living standards to the farm family. Those farmers who work for others receive sub standard wages. There are no effective systems of social security, unemployment insurance or minimum wage regulations. It is these conditions which policies of agricultural and rural development are expected to eliminate.

Structures of Agricultural Production

One of the major aspects that need to be examined in this respect, which also explains to a large extent why conditions in agriculture are what they are, is the land ownership and tenure structure. An analysis of land tenure patterns is difficult as "pure types" are difficult to find in this subject area. But in rather broad and general terms land tenure systems can be classified into following types: (a) owner cultivator; (b) landlord tenant system; (c) plantation system; (d) co-operative farms; (e) communal systems and (f) state farms.

Land ownership and tenure systems have to be examined separately for the three continents of the developing world. If centrally planned economic systems are excluded, then this discussion will deal with basically the first three types in the above classification. There are clearly differences from country to country within a given continent but there are sufficient similarities also among non socialist countries of a given continent to justify such a continent-wise treatment.

Latin America: The latifundio-minifundio system defines the land ownership pattern in Latin America. This system and the resource under-utilization it leads to, help explain the agricultural problem in that continent to a great deal. Less than 2 per cent of land owners are said to hold about 70 per cent of all cultivated land. The situation differs in countries which have carried out extensive land reforms like Mexico, Bolivia and Cuba but in the rest of Latin America a small number of latifundios[1] control the bulk of agricultural land and the vast numbers of minifundios[2] must scratch a survival existence on meager extents of agricultural land they cultivate for their own use, while also having to provide unpaid seasonal labour to the latifundios. Between these two types there are "family farms" (providing employment for 2 to 4 people) and "medium sized" or "multi family" farms (employing 4-12). These intermediate forms are important in terms of production and employment in Argentina, Brazil and Colombia.

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[1] A latifundio is defined as a farm large enough to provide employment for over 12 people.

[2] Minifundios are farms too small to provide employment for a single family (2 workers) with the typical incomes, markets and levels of technology and capital prevailing in each country or region.

Latifundios are widely shown to be managed with a great deal of productive inefficiency. Contrary to what arguments about scale economies tell us, minifundios have been found in empirical studies to yield more output per hectare than latifundios. But farm resources are subject to poor utilization in latifundios from a productivity sense. A considerable portion of their arable land is left idle and capital investment on production by latifundios is lower. A redistribution of land will definitely result in greater output but such a programme is resisted and rendered infeasible by the feudal social system where the landowners and small farmers maintain a kind of patron-client relationship with the former having enormous power over the latter. The landowners often value their large land holdings for the considerable power and prestige they bring more than for benefits in terms of production and income they can generate.

Asia: Here the problem is fragmentation and continuing subdivision of land rather than the Latin American type of landlordism - a question of too many people crowded on to too little land. Some reasons for the current land use pattern and problems of land fragmentation in Asia:

* intervention of European rule (property rights, monetization, plantations breaking down the traditional informal structure of rights and obligations)

* Progressive introduction of monetized transactions and the rise in the power of the moneylender

* Rapid rate of population growth in Asia

The existing patterns have the inefficient system of absentee landowners who get their land cultivated by share croppers and tenant farmers. Owner cultivators are made to cultivate holdings which are becoming smaller in size over time and there is growing landlessness also among the rural population. Often the production may be even below subsistence levels and there is widespread and increasing poverty. There seems to be some pattern in the transformation of these societies: from small owner cultivators to tenant farmers and share croppers, then landless rural labourers, then jobless vagrants and finally migrant slum dwellers on the fringes of urban areas. Or if they somehow manage to retain their small land holdings they would become marginalized, not necessarily being proletarianized.

Africa: Agricultural systems in this continent are characterized by three major features:

* the importance of subsistence farming in the village community;

* existence of land in excess of immediate requirements. This permits the general practice of shifting cultivation and diminishes the value of land ownership as an instrument of economic and political power.

* rights of each family (both nuclear and extended) in a village to have access to land and water in the immediate territorial vicinity. Those families that do not belong to the community even though they may be of the same tribe are excluded from such access by the same traditions.

The operation of the above in African countries results in low productivity agriculture:

* Use of traditional technology and primitive tools with low capacity, limits the area cultivated in spite of having potentially cultivable land.

* The small areas which families cultivate tend to be intensively cultivated, resulting in rapidly diminishing returns, giving rise to the need for the very inefficient system of shifting cultivation. There are, however, certain forces leading to the break down of the system of shifting cultivation, eg. due to population growth.

* The effects of the above on agricultural productivity are worsened by the scarcity of labour during the busiest parts of agricultural seasons (ie. planting and weeding times) which are determined by the onset of rains.

Of course with population growth and the expansion in monetization, purely subsistence agricultural practices are becoming non-viable and fully or partly commercial farming seems to be coming up.

<u>Transition from Subsistence to Specialized Farming</u>

When people talk of the problems of agricultural development in developing countries, they tend to characterize Third World agriculture as subsistence farming. But all farming even outside the plantations sector, is not of subsistence type. The question of transforming Third World agriculture can be discussed, however, using "subsistence farming" as a pure type and arguing that agricultural modernization involves a change over from subsistence farming to commercial specialized farming. In this process of transition three <u>stages</u> are identified:

(a) Pure low productivity subsistence farming system characterized by:

* one or two staple crops;
* minimal capital investment;

* low output and productivity;
* risk and uncertainty (failure of rain, loss of land to money lender etc.)
* maximization not of income but family's chances of survival
* underemployed labour.

The environment such a system produces is harsh and static. Technological limitations, rigid social institutions, fragmented markets and inadequate communication networks tend to discourage higher levels of production.

(b) Mixed and diversified farming where the staple crop will be grown along with new cash crops and simple animal husbandry operations. Success of efforts at such transformations would depend on:

* farmer's ability and commitment;
* reform of social, commercial and institutional conditions (eg. access to credit, fertilizer, water, crop information and marketing facilities; a fair market price)

Depending on the degree of success achieved here the farmers may be persuaded to go to the next stage.

(c) Modern specialized commercial farming. The general increases in living standards, biological and technical progress affecting agricultural operations and expansion of national and international markets would provide the main impetus to the emergence and growth of this type of farming. Here the objective would be pure commercial profit and maximization of yields; use of man made resources (irrigation, fertilizer, pesticides, hybrid seeds) will take root. Specialized farms would vary in both size and function. The involvement of large agribusiness multinationals in the promotion of this type of farming, sometimes within the small farm sector may be noted.

Towards a Strategy of Integrated Agricultural and Rural Development

The above type of transition from low productivity to high productivity agriculture, will take an enormously long time to achieve if allowed to emerge purely through the working of market forces. The people concerned are not in a mood to wait for generations to achieve such a development. So various forms of intervention is required to expedite the process. This requires a an <u>integrated</u> strategy of agricultural and rural development. An integrated strategy is needed here as we are dealing not with changing just a production system but entire systems of life. Some of the grave failures in some of the old agricultural development strategies may be traced to the lack of understanding about the need for such an integrated approach covering both agricultural and rural development[3].

Production Side: What is required is a strategy to enhance agricultural productivity. Policies carried out in many countries in the past in this respect included investments in irrigation and land development, and promotion of the use of better capital and current inputs (like mechanical equipment, chemical inputs like fertilizers and pesticides and HYVs) and improved cultural practices (eg. transplanting). If agricultural production activities which these measures were aimed at were being carried out under experimental conditions (or in a social vacuum) then these would have without difficulty raised production and productivity levels in agriculture. But these measures had to in fact operate within a social and institutional system. And that this social and institutional system prevented the achievement of the full capacity of these policy measures is now recorded knowledge. Green Revolution technology is scale neutral but the complementary inputs required for its success (irrigation, fertilizer, pesticides, credit and agricultural extension) are not scale neutral in terms of their availability to farmers (big farmers likely to benefit at the cost of small farmers). Thus the need for proper institutional policies to make green revolution a success from the point of view of small farmers has come to be realized.

Social and Institutional Reforms: That the above production related measures, in order to produce the desired results, have to be backed up by various social and institutional reforms is also now common knowledge, although not many countries were able to produce those necessary reforms. In addition, proper pricing of agricultural commodities and agricultural inputs is required.

(a) Central role of reforms in land ownership and tenure patterns (reform of landlord tenant relationships; land to the tiller programmes; if socially acceptable creation of co-operative or collective or state farms).

(b) Various government support systems and institution building (e.g. credit facilities; marketing institutions). Creation of institutional sources of finance to which small farmers could have easy access has posed many problems (special problems of rural credit where the demarcation between production and consumption credit is blurred; credit from moneylenders as an instrument of oppression, problems of defaulting, need to combine credit with other services like

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[3] There are international policy issues that have to be discussed in relation to producing a congenial international atmosphere for the development of Third World agriculture (eg the issue of agricultural protectionism in developed countries) but these questions are not discussed here at all though they are undoubtedly very important.

extension, monitoring of performance etc.).

(c) Pricing/subsidy policies covering outputs and inputs and related problems. One of the major problem areas here is to devise these policies without giving the impression to the beneficiaries that the measures introduced will be permanent. What is required is the build up of a self reliant farming community.

Institution Building Among Farmers: It is a simple rule of life that small entities which are weak by themselves can, when combined, achieve tremendous strength. Whatever social organizations which existed among rural farmers traditionally have gone out of existence with the onset of modernization. Even if they were there, they would not have been enough to meet the needs of the modern era. So there is the urgent need to form organizations (genuinely co-operative institutions) among the rural farming communities without which agricultural development policies in the Third World are likely to be very slow in producing the desired results.

Integrated Rural Development Measures: Measures to improve conditions of agriculture as a productive activity must be a part of an integrated package where improvement of rural life as a whole becomes the objective. Improvement of incomes, employment opportunities, conditions of nutrition, education, health and housing facilities and other social services in rural areas is required to keep the talented and risk taking[4] youth in villages so that the production related measures will produce results. In addition there have to be policies towards the reduction in inequalities, lessening of rural urban imbalances and the improvement of the capacity of the rural sector to sustain and accelerate the pace of its development.

A Final Note

The achievement of agricultural development in the Third World (or any other development anywhere else) has to work through people. They must have the incentive to adopt the behavioural practices which will achieve the desired improvement and development. In rural agriculture this incentive creation cannot be achieved through price and market signals alone. Hence the need for an integrated package. In regard to incentives three points are worth noting in particular respect to Third World agriculture:

* There has to be the desire on the part of the people concerned for increased material welfare (not a feeling of

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[4] There are many risks in adopting the improved methods and inputs in cultivation: technical risks, weather related risks, price risks etc.

being resigned to their "fate"). The change of attitudes required here is promoted by political processes, improved education and health facilities etc.

* If certain changes are suggested as required for improvement of material well being, then there has to be a clear expectation on the part of those who have to make the changes that the suggested changes will in fact increase production, incomes and wealth (a clear belief in the likelihood of such a result). Education facilities, extension services etc must be able to produce and disseminate this knowledge among the farmers.

* There has to be also the expectation on the part of people that if they successfully participate in the innovation and change, they themselves (and not somebody else like their landlords or moneylenders) will benefit from increased production, incomes and wealth. This is where all the institutional reforms stressed above become important.

Session 10

Industrial Development: Problems and Policies

The word industry has a broad definition including manufacturing, construction, mining and public utilities and also a narrow definition including only manufacturing. In defining industrialization and an industrial economy both definitions are often used in combination.

Although there is wide agreement today that developing countries must give preference to agricultural modernization and development before embarking on ambitious programmes of industrialization, there is also no dispute about the more dynamic role industry has to play in their continued and sustained development. It is a historical fact that in every country which achieved some development, the proportion of industry in national output increased and agriculture share declined. The features of agriculture which make it incapable of sustaining a process of development are well known (particularly the low income elasticities of demand for agricultural commodities).

Industrialization and Structural Change

In relation to rates achieved currently or historically by the developed countries, the developing countries since about 1960 have achieved faster rates of industrial growth. Industry in the centrally planned economies as a group appear to have grown faster than both other groups indicated in Table 1 which provides comparative data on per cent annual industrial growth rates for two recent decades:

Table 1

	1963-73	1973-83
Developing Countries	8.0	4.9
Developed Countries	5.5	1.4
Centrally planned economies	9.8	5.2

Along with industrial growth there has been structural change in developing countries, in the sense of changes in the composition of their output and employment. Table 2 indicates how the sectoral composition of GDP changed (under AGRI column, within brackets, are given the ratio of labour force in agriculture in % terms). Depending on data availability, information about the industrial composition of GDP and the labour force percentages in agriculture respectively is, however, given for different years. Substantial structural change can be seen in all developing country groupings shown, when taken as groups, with relatively more developed, intermediate level, country groups showing more substantial change. Structural change appears to have been lowest in low income as well as high income groups (the latter including, among others oil rich countries). Anyway, changes in sector percentages (eg the increase in industry share in GDP) cannot go on changing indefinitely in one direction.

Table 2

		AGRI	MINING	MANU	SERVICES
All Developing Countries					
1. All :	1963	28.4	11.6	15.2	39.3
	1980	17.4	10.9	19.2	44.3
2. Low income:	1963	47.4	1.2	12.5	32.9
	1960	(77)			
	1980	38.0	1.4	15.1	41.1
	1980	(70)			
3. Lower Middle Income	1963	40.4	6.1	12.0	36.4
	1960	(71)			
	1980	27.4	8.7	15.9	41.1
	1984	(55)			
4. Upper Middle Income	1963	16.2	11.2	19.6	46.2
	1960	(49)			
	1980	9.5	6.9	24.6	50.5
	1984	(29)			
5. High income	1963	9.2	32.0	16.7	37.3
	1960	(62)			
	1980	5.1	28.1	18.6	39.8
	1984	(36)			
Developed Market Economies	1963	6.5	2.7	26.6	54.0
	1960	(18)			
	1980	4.3	2.1	27.5	56.9
	1984	(7)			

Table 3 present data pertaining to the composition of manufacturing output:

Table 3

	Developing Countries 1963	1980	Developed Market Economies 1963	1980
By Factor Intensity				
Light Industry	56.9	42.9	37.9	32.3
Heavy Industry	43.1	57.1	62.1	67.7
	1963	1979	1963	1979
By End use				
Consumer Non-durable	51.9	37.6	37.0	30.8
Industrial Interme.	27.3	31.2	19.4	23.7
Capital goods and consumer durables	20.8	31.2	43.6	45.5

Other characteristics of structural change related to manufacturing growth: (a) Growth of exports of manufacturing products from developing countries (more rapid than the rate of growth of total world merchandise trade) (b) As a result, the share of manufactures in developing country exports grew: 13% in 1960 to 53% in 1982. (c) Growth of exports of manufactures occurred over a range of products (not only textiles but also consumer electronics, chemicals, iron and steel, machinery and transport equipment.

Part of the increase in manufactured exports from developing countries reflects the emergence of a "new international division of labour" under conditions of "internationalization of capital".

Uneven Industrial Development Among Developing Countries

Income inequality among developing countries has increased since 1960, as poorer countries registered lower growth of income and manufacturing. As a result of unequal growth rates, the two low income groups' share in total manufacturing value added (out of all developing countries) fell from 31% in 1963 to 20% in 1980. Of the 1973-80 increase in developing country manufacturing value added, 70% came from 10 countries with about 55% of population of all relevant countries. Of the ten also, five (Brazil, Mexico, South Korea & India) provided 50% of additional manufacturing value added.

Along with growth of industrial production there was as noted a growth of manufactured exports also from developing countries. Even in countries highly dependent on primary commodity exports, there was some diversification in commodity exports. The increase in manufacturing exports from developing countries too was, like overall industrial growth itself, highly concentrated - in mid 1970s the above ten countries accounting for 75% of the total and the "Four Little Tigers" for 45%.

Table 4

Income Group	Annual Growth of Manufacturing Value Added (%)	Group Share in Population of Developing Countries in 1980(%)	Number of Countries in Group
Low	4.9	50.7	28
Lower Middle	7.3	18.2	21
Intermediate	8.6	15.7	24
Upper Middle	8.5	12.3	11
High	5.8	3.1	11

Different Paths to Industrialization

In the literature on industrialization four major aspects of policy are given particular attention:

* treatment of foreign trade; particularly policies of protection
* use of direct controls (investment licenses, price controls) to influence resource allocation both within industry and between industry and other sectors.
* degree of reliance on direct foreign investment
* relative roles attributed to public and private sectors.

Different writers focus on these aspects and analyze the good and bad effects of each approach according to their theoretical and ideological perspectives (Structuralist, Dependent and Neo Classical analyses for example).

Depending on policies adopted and how industrial progress moved forward, partly in reaction to these policies and partly independently, industrial development paths (and industrialization policies themselves) are sometimes classified as follows (eg. in John Weiss, *Industry in Developing Countries: Theory Policy and Evidence*, Routledge, 1988):

* "Inward looking" (IL) vs. "outward looking" (OL)
* "distortionary" vs "non-distortionary" policies

* "dependent" vs "non-dependent" industrialization
* "capitalist" vs "socialist" path to industrialization.

These are simple distinctions and complex policy packages cannot generally be classified into such simple categories. Yet such categorizations are quite commonly used in the literature.

A. The first distinction is also referred to as that between import substitution industrialization (ISI) and export oriented industrialization (EOI) strategies[1]. The former refers to industrial strategies where the focus is on industries which produce domestically, goods obtained previously from imports. Import substitution (in respect of say a commodity category) is defined and measured as a decline in the ratio of imports in the total supply of that commodity category available within a country over time. The latter (export promotion strategy) refers to a strategy where export oriented industries are promoted in preference to domestic market oriented ones.

According to definitions often used, an inward looking economy is one where aggregate sales in the domestic market receive a higher rate of incentive than do sales for exports. In such an economy, therefore, on average, the proportionate rise in the domestic price of importables relative to their world prices will be greater than the proportionate rise for exportables. For formal definitions see Anne Krueger, *Liberalization Attempts and Consequences*, Ballinger, Cambridge, Mass., 1978.

Outward looking economies on the other hand are those where the bias against exports is removed and in the aggregate net incentives to domestic sales and exports are equal (a neutral trade regime). This would not necessarily imply free trade but economies identified as outward looking have low tariffs and rely much less on direct import controls than inward looking ones.

Attempts have been made to classify countries into these categories but this involves a number of problems:

(a) Outward orientation of industry promotion can be achieved without removing import protection. Of the four countries cited as most outward oriented - South Korea, Taiwan, Hong Kong and Singapore - only Hong Kong has been a free trade economy. Furthermore, a country defined as outward oriented, may see import substitution actually taking place there, though policies are not biased towards inward orientation.

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[1] There is an extensive treatment of the subject of the relationship between international trade and industrialization from the World Bank point of view in the *World Development Report* of 1987.

(b) A sharp distinction between IL and OL would ignore shifts in policy over time. Over time, within a country, IL could be the launching pad for export oriented industry growth.

(c) The terminology OL should not imply that, for countries considered to be so, exports form a major proportion of manufacturing output. This IL-OL classification can often ignore the empirically proven fact that internal demand (through import substitution and domestic income growth), as opposed to external demand, is a key factor as a source of manufacturing growth[2].

B. A major theme in the neoclassical literature on industrialization is that various "distortions" are behind their poor industrial performance (ie. the forces which distort market prices from what are economically rational levels as determined by opportunity costs). Six markets are considered important here: foreign exchange, labour, capital, manufactured goods, agricultural goods, and public utilities. Using various short cut methods - some of which are of rather dubious validity - to measure "economic prices" and comparing them with actual prices, rates of distortion have been measured in these markets and a composite distortions index computed. World Bank's *World Development Report*, 1983, pp. 60-62 presents data for a sample of countries and on that basis divided the sample into low, medium and high distortion countries. The argument has been that higher the distortion the greater would be the adverse impact on growth in general and industrial growth in particular. This is however an interpretation which has been subjected to varying degrees of criticism.

C. The distinction between Dependent and Non dependent industrial policy follows directly from the dependency analysis, where the degree of a country's dependence is seen as a major barrier to its growth and development. The concept of dependence is both ambiguous and controversial and can have both economic and non economic dimensions. Information about penetration of MNC capital, technology procurement methods, location of export markets, primary export specialization, "unequal" trade relationships etc are often referred to in discussions of the degree of dependence of a country. Of these, dependence measured on the basis of the extent of direct foreign investment and MNC penetration and the relationship between that and growth have been subjected to intensive empirical investigation in recent times.

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[2] About the relative importance of these different sources of growth for a country's industrial growth see: Hollis Chenery, *Structural Change and Development Policy*, Oxford University Press, 1979; R.Ballance, J.Ansari and H.Singer, *International Economy and Industrial Development:Impact of Trade and Investment on the Third World*, Wheatsheaf, 1982

Both from the dependency point of view and others, the relationships between DFI and MNCs on the one hand, and various aspects of developing country industrial development, on the other, have been examined by various writers. Some conclusions from this work may be cited here:

(a) DFI flow into manufacturing has been very uneven among different developing countries, with a clear tendency for those with a higher level of development to receive disproportionately higher shares. DFI seems to be attracted into countries which have undergone a process of prior growth.

(b) The extent of "foreign" involvement varies substantially among even relatively fast growing developing countries for which data are available. Except for a rare case like Singapore, the share of gross value of industrial production or sales contributed by foreign firms is not very significant even in countries where there is significant foreign firm presence.

(c) DFI is normally concentrated in either technologically sophisticated capital intensive branches or those where the production process can be readily sub divided to allow "sourcing" investments.

(d) Though in some developing countries foreign firms contribute a large proportion of industrial exports, in many others, their share in industrial exports is not so important - again Singapore coming out with an unusually very large percentage (93% in 1980). In India this percentage (1970) was as low as 5%.

(e) In some empirical researches a negative relationship has been found between foreign penetration and economic growth[3] although the relationship (short term) between inflows of DFI and growth was found positive.

(f) A process which appears to run counter to the logic of the dependency argument is the emergence of transnationals from certain Third World countries (basically from the NICs).

D. In the forth type in the classification of industrial strategies noted above also there are definitional problems, particularly in respect of what is meant by "socialist". Some are even talking of "intermediate regimes" in this respect, the definition of which is even more difficult.

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[3] V. Bornschier and C. Chase-Dunn, *Transnational Corporations and Underdevelopment*, Praeger, 1985

Anyway when one talks of socialist industrial policies one is most probably tempted to think that it is something like Soviet industrialization policy of the 1920s and 1930s - inward looking under conditions of autarky and public sector dominance. In the developing world too, socialist industrialization policy would mean these but there have been changes to meet certain problems created by the traditional socialist model: selectively opening up to market forces as in China, Vietnam and North Korea (some trade liberalization, more open policy on foreign technology and investment and a shift towards greater use of markets). Also countries like Yugoslavia (considered a NIC) show that socialist strategies have not always been inward looking. Anyway, in spite of the far reaching changes in the industrially more developed parts of the socialist world, the socialist countries in the developing world seems determined to retain their socialist structures with only minor revisions. Problems of the two groups of countries in the socialist group referred to above appear to be having different problems requiring solutions.

Industrial Policy Issues

Industrial policy refers to government intervention, using both price and non-price policy instruments, to influence the size, composition and activities of the industrial sector (resource allocation in industry covering both resources for infrastructure development and for industrial growth proper; measures to build up an industrial class) and the nature and character of industrial organization (consolidation of firms, industrial restructuring, restriction of monopoly, and measures to affect relationships among small, medium and large industrial units). Industrial policy in this sense is, and will remain for a considerable period of time to come, a major area of policy interest in developing countries. Following areas will continue to come under industrial policy influence: foreign trade and industry relationship, industrial finance and credit, structure and behaviour of industry, technology for industry, DFI and MNCs.

Through extensive research carried out by individual researchers and institutions, we know a lot more than three-four decades ago about the processes of industrial growth and problems hampering such growth in developing countries. Yet there are a few issues which are likely to remain lively in the debates on and the practice of industrial policy in these countries in the time to come and some of these problem areas are briefly discussed below. The problem is that the areas we are considering below are as affected by ideologies and value judgements as objective facts. The moment one policy approach is presented as suitable, there is bound to be objections from different political and ideological positions, whatever the strength of the available empirical knowledge[4]. A few such controversial areas are reviewed below.

A. One such area of controversy concerns the direct role of government (or state capital) in industrialization of developing countries. The balance between government involvement (as entrepreneur) and private initiative will depend on a number of factors, not all of them being economic[5]:

* political commitment to public ownership as against privatization;
* nature and extent of available private capital, entrepreneurship and managerial talent; and their strength and influence;
* availability of competent and capable managerial talent within the government sector (not necessarily only in the bureaucracy);
* satisfactory resolution of the basic problems of motivation in respect of public sector managers;
* role of foreign capital - both private and public ("foreign aid") - and the nature of influence wielded by agencies and institutions representing such capital;
* resources available to economy at large and to government.

Once the basis of a "mixed economy" is recognized politically, there will also be the question of what role should the state be playing in industrialization. There are models of Japan, South Korea and Taiwan shown as showpieces. The private sector - state sector collaboration worked out in these countries, operating through the market rather than through superceding the market. But there could be other effective models of state in basically private sector economies.

B. Another area which, despite extensive research on it, remains problematic concerns the relationship between foreign trade and industrial policy. Few today would advocate "old style" ISI based on rigorous unselective protection through import controls

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[4] There is of course the fact that empirical research findings would obviously depend on the questions raised by the researchers concerned, whatever methodologies they have adopted in finding answers to those questions. What questions have asked and what questions have been left out from investigation are also determined to a large extent on ideology and value judgements.

[5] Some of these factors are also important in determining also the effectiveness of government intervention in a mixed economy. Here also important are the following: extent of understanding about reasons for industrial underdevelopment and political will to act on that understanding and administrative competence of government bureaucracy (capability to manage development).

and other forms of direct intervention. But there remain significant doubts about the possible roles of "domestic markets" and "export markets" as sources of growth for third world industry. ISI and EOI distinctions are too simplistic. There are perhaps two areas where "protection" is justified even in the presence of all the evidence against the type of ISI policies of the 1950s and 1960s:

* Infant industry protection: there is the need however to be selective on the basis of long term potential of different industries. And also the need to constantly review and monitor progress of "infants", encouraging them to reduce costs and promoting them to export, must be stressed. The threat of elimination of protection must be exercised to "reform" those continuing to be infants. The problem in this sort of policy, of course, is the difficulty of removing protection once accorded (interest group pressures) and how to "pick the winners" for protection and nurturing.

* There is the need to protect important generators of jobs and incomes in the industrial sector, though they would not qualify to become infant industries on rigorous criteria, on grounds of difficulties to be encountered in restructuring adjustment. If they are left to be destroyed by competition, resources released may not go, as easily as economic theory suggests, to alternative productive areas thus causing serious adjustment problems. There are important questions in this respect pertaining to the number of industries to be so protected (blanket protection, as argued, clearly should not be the objective) and how new types of activities with better long term prospects could be promoted.

The above defense of a new typé of ISI does not mean that possibilities in the export market should be neglected. So explicit export incentives and elimination of some distortions with the objective of export promotion are clearly desirable (along with other export promotion policies in marketing, product design and quality and selective approaches toward MNCs). Proper selection of a package to promote ISI may, in fact, with the passage of time, help in EOI. But there is a certain degree of unreality in some of the current push to promote EOI in developing countries.

Particularly noteworthy is "the fallacy of composition": what was possible for a few countries cannot be equally so for all developing countries together (in the context of growing protectionism in developed country markets, particularly non trade barriers - NTBs) although with structural change in the world economy there is still probably quite substantial room for EOI (NICs moving on to higher technology areas leaving the field of export of labour intensive products to countries lower in the growth ladder). An export orientation will remain part of an industrial planning strategy, but one whose importance will vary between manufacturing branches and between countries.

C. The other important branch of industrial policy which seems likely to continue to be a debating ground is the role of MNCs (both from developed and developing worlds) and DFI in Third World industrialization. One can think of many questions that will continue to arise in developing countries hoping to utilize DFI flows for domestic industrial growth. DFI comes usually in the form of a package and questions will remain as to whether developing countries should non-selectively adopt such packages as offered in negotiations or should try to unpackage it and obtain only what is necessary. In the latter case, will the MNCs involved be interested? DFI can be a progressive force in terms of industry promotion but it requires a domestic base (some physical and social infrastructure and a reasonably capable domestic capitalist class)to be attracted into a country. So the priority should be to develop that domestic base. And DFI should be selected so as to complement and not to weaken the domestic industrial activity. What sectors and branches should be opened up for DFI? How should DFI activities be monitored in respect of particularly its social impacts? How could terms be negotiated with DFI so as to get the best for national development - terms and conditions about tax incentives and protection to be offered, linkages with local suppliers and the numbers of foreign personnel to be employed? How could DFI be made use of to expand exports and how could their financing policies be monitored so that foreign firms do not preempt domestic firms from limited domestic finances through borrowing from local banks? How should free trade zone type of DFI locations be developed and utilized for domestic industrialization? Finally there is a wider question - what are the impacts of various developing countries competitively offering facilities and incentives to foreign firms on such host country development prospects?

A Concluding Note

There cannot be a blueprint for industrial policy which will be valid for all developing countries for all times. The appropriateness of industrial policy will vary from country to country and from time to time. What has proved correct and effective in one place may not prove to be so elsewhere. Pragmatism should be allowed and it is important that developing countries should not be used as guinea pigs for experimentation in this or any other respect as what is involved is the lives of millions of people. More important than short term and static comparative advantages is the pattern of dynamic comparative advantages of these countries.

Session 11

International Trade, Balance of Payments and Problems of Foreign Debt

Foreign trade has played a strategic role in the historical development of Asia, Africa and Latin America, although views differ as to whether this role has been good or bad from the point of view of long term development of the countries concerned. Exports form large shares of various aggregates like GDP (in oil exporting countries sometimes as high as 70%, in other primary exporting countries 25-40% share may not be rare), total employment, and total foreign exchange earnings. Imports (consumer, intermediate and capital goods) constitute a large part of domestic expenditure and imports and exports together provide a large share of government revenues. Historically, the present day developing countries were brought into the structure of foreign trade as part of the European imperial expansion. Benefits of this were probably gained by both the colonizers and the colonized (whether there were any net gains to the colonies is however disputed) but the distribution of gains were not at all equitable. Though international transactions are not limited to merchandise export and import, they are generally the most important. And it is often the different rates of expansion of these two flows (exports and imports of goods) which are behind most balance of payments difficulties faced by developing countries, thus leading to the debt crisis which has come to attract much attention in the 1980s.

Trade and Growth

In mainstream economics, matters dealing with international trade are dealt with within the theory of "comparative advantages". It is basically a static theory concerned with efficient utilization of given resources. The Ricardian type of formulation is by far the easiest way to understand the basic elements of the theory of comparative advantages (sometimes also called the comparative costs theory). Differences in comparative costs of production are considered here as the basis for foreign trade among countries and specialization and international trade are shown to benefit all parties. In later refinements of this theory, differences in factor endowments of different countries and different factor intensities in the production of different commodities have been used to explain why the above comparative cost differences exist among different countries. International trade among countries with such different factor endowments is also argued to help bring about greater international and domestic equality through a factor price equalization. The normative conclusion the theory of comparative advantages derives is that "some trade is better than no trade".

Extending the comparative advantages theory to cover dynamic aspects, the mainstream economic theory argues that (a) trade is an important stimulator of growth ("an engine of growth"/ "a handmaiden of growth") and (b) to promote growth there must be an outward looking economic policy. An important variant of this mainstream argument hypothesizes that opening of world markets to the produce of a backward economy creates a "vent for surplus" (ie. not through any reallocation of resources but through bringing into profitable productive activity the so far unemployed or under employed resources). In the "trade as an engine of growth" theory, dynamic "learning effects" are also emphasized which lead to greater productivity of already employed resources too. The empirical basis for these arguments are provided from historical experiences of present day developed countries as well as recent "outward looking" successes among developing countries themselves.

These ideas are not universally accepted however. Historical experiences of developing countries which became involved in trade through the colonial route are full of negative effects on genuine development of the countries concerned. Export growth promoted within export enclaves produced its "backwash effects" on the rest of the economy (effects of export bias on infrastructure, destruction of indigenous industries, undesirable demonstration effects, over-rapid exhaustion of natural resources, loss of the chance of finding their independent development path). There is also the arguments concerning the lack of "backward" and "forward" linkages in export sectors which developed under colonial international division of labour. At the empirical level, these critical views have been supported by evidence concerning the prospects of primary commodities in international trade: slow rates of growth of demand for them, also sharp ups and downs in demand and supply giving rise to undesirable fluctuations in commodity prices in international trade[1]. In the 1950s and 1960s, there was a widely held "export pessimism". Many believed that the terms of trade (Px/Pm) of primary products vis a vis manufactured goods in international exchange are subject to a tendency of secular deterioration. This view, sometimes called Prebisch-Singer thesis going by the names of two writers who initiated work on the idea, generated a lot of controversy among economists. Work has been done even in the 1980s on this hypothesized terms of trade deterioration and there is some evidence today to show that there is a certain systematic tendency for the terms of trade of non-oil primary commodities to deteriorate against manufactured goods over time.

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[1] Demand factors which led to what are commonly called commodity problems include the following: (low income elasticities of demand for agricultural raw materials, foodstuffs and tropical beverages; (b) low rates of population growth in principal markets; (c) low price elasticities of demand; (d) technological change producing cheap and often superior synthetic substitutes for natural products; (e) agricultural protectionism in advanced countries.

At country level, the problem of deteriorating terms of trade is a real issue for developing countries, particularly non-oil exporting ones. Any tendency for a country's terms of trade to worsen systematically over time, in spite of various possibilities of counteracting its impact, usually produce various adverse economic impacts on its growth and stability.

There are various concepts of terms of trade. Three important ones among these are Commodity Terms of Trade (Px/Pm), Income Terms of Trade (Px/Pm*Qx) and Single Factoral Terms of Trade (Px/Pm*Ex)[2]. The arguments about the deteriorating terms of trade refer to the commodity terms of trade. The other terms could improve in spite of a fall in commodity terms of trade. Yet problems of economic management could be much easier if there is no systematic tendency for commodity terms of trade to decline.

What are the factors which would influence the domestic impact of export growth or its impact on the economy wide developments?

* the extent to which the incomes earned accrue to the nationals of the host country (this would influence domestic demand, patterns of further accumulation etc)

* characteristics of the income distribution within the country concerned (large firms producing for export and small firms or farms producing for export)

* factor intensity of production in the export sector

* linkage effects

* patterns of infrastructural development following the development of the export activity.

In respect of the above, certain patterns have developed within the historical episodes of export growth in poor colonial countries almost entirely through some form of operation of demand supply factors. But in the post war world, many independent national governments could be seen trying to promote exports; on the basis of experience in some of these countries, one is made to believe that certain types of deliberate intervention by the state (ie. the types of intervention which produced a harmony of interest with private sector) could produce more desirable patterns in respect of export led growth than free markets could, for example, in colonial times.

Since about the middle of the 1960s, a pattern of export led

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[2] The notations within brackets refer to: Px = price index for exports; Pm = price index for imports; Qx = quantity index for exports; Ex = an index of productivity in the export sectors.

development was taking place in some developing countries which was different from the old colonial pattern of export led development. This pattern has been called a "new international division of labour" to distinguish it from the "old international division of labour". The characteristic feature of this new pattern is the growth of exports of various manufactured goods from developing countries. The factors which contributed to the development of these new export activities included the following:

* technological developments facilitating the break up of a manufacturing production process into different stages which could be carried out in different locations.

* communications revolution and improvements in transport facilities.

* changes in the management practices and the vast increases in the international presence of multinational manufacturing corporations supported by the expansion of multinational banks.

* various incentives offered by developing countries to attract multinational business into their territories along with the development of various infrastructural facilities for that purpose among which "free trade zones" take a particularly important place.

* the very rapid growth of the world economy and world exports in the 1970s.

Thus the "export pessimism" of the 1950s and the early 1960s was gradually replaced in the 1970s by a widespread "export optimism" based on the experience of a fairly large number of NICs (NIEs). On the basis of this experience many developing countries are trying to, and are being promoted by various international agencies to, adopt export-led industrialization policies.

The conditions in the world economy in the 1980s however have substantially changed and the growth of international trade has become sluggish. The export led industrialization strategy of developing countries depended basically on advanced country markets in North America, Europe and Japan. The 1980s was a decade (sometimes called a "lost decade for development") when the advanced countries faced crisis after crisis and their markets were not growing as fast as they did in the preceding decade. Increasing penetration of these markets by certain labour intensive products from the developing countries created immense adjustment problems there. Displaced labour agitated for protectionism. Thus on top of agriculture sector protection in these countries, a "new protectionism" against labour intensive manufactures from developing countries has gradually emerged where basically Non Tariff Barriers (NTB) are increasingly resorted to. As Arthur Lewis argued in his Nobel Prize lecture the trade engine for industrialization of developing countries was running out of steam or fuel - the fuel being the demand from the advanced country markets[3]. Thus nowadays the advice of export led growth based on export of labour intensive manufactures from developing countries is coming against increasing criticism that it is subject to an error of composition - what is true for one or a few cannot necessarily be true for the whole. Yet many countries are continuing to try to achieve this. There is however no single case yet of successful development led by export of labour intensive manufactured products achieved in the 1980s.

The views on the relationship between international trade and economic growth are thus varied and quite controversial. Policy prescriptions arising out of these also naturally are quite different and tend to generate controversy. At one extreme there are the "free traders" supported by neoclassical economists, international institutions like the IMF, World Bank and GATT and most developed country establishments. At the other extreme are those for varying degrees of autarchy intended to break out of over-dependence on a few primary commodities, a few foreign markets and foreign sources of expertise and capital. A total autarchy is not generally proposed. What is advocated is a situation where opportunities to trade are selectively utilized. On a pragmatic basis, what is required is to select from both groups of ideas and work out a strategy which will be suitable for particular country conditions.

Balance of Payments Problems

A brief description of the structure of a country's balance of payments to explain the following concepts:

* balance of trade
* balance on goods and services account
* current account balance
* basic balance
* overall balance

A payments problem arises basically from a faster rate of growth of payments as compared to the rate of growth of receipts, particularly those in the current account of the balance of payments. Among the receipts the major item is export of goods and services (supported in the case of some countries by the transfer receipts from their workers abroad). Among payments the major item is import of goods and services. In economics, the reasons for a

[3] His suggestion was to depend more and more on developing country markets themselves to achieve EOI but the proportion of markets supplied by developing countries to their own manufactures are still very limited.

balance of payments problem are variously analyzed. Some economists may argue that payments difficulties are basically a reflection of more rapid relative inflation in the affected country leading to the conclusion that these are therefor monetary phenomena. Others adopting a structuralist explanation may argue that these are primarily caused by weaknesses in the economy's structure of production, consumption, investment and trade.

When there is a payments problem it requires basic adjustment measures to get over it. To produce a lasting solution to a chronic payments problem, long term structural change involving production, income distribution (lasting changes in production structures and consumption habits), exports and imports is required. This can be achieved through a judicious combination of direct and indirect measures which take a long time to bear results. Neoclassical economics with its strong faith in market forces and price mechanism however is against using direct measures in dealing with payments problems. Instead various macro economic policies are suggested to get over a payments problem through the market mechanism: currency depreciation, restriction of domestic aggregate demand by mostly fiscal measures and various supply side measures. These policies even if effectively implemented, take time to produce results. As the social and political side effects of these policies can be rather disastrous to a regime adopting them, it would be rather exceptional if a regime would implement a package of such policies fully. In the case of an incompletely implemented policy package, the time required to produce results (if it can at all produce results) would be even longer. In the intervening period between taking policy action and the improvement of the payments situation which may result from it, existing deficits have to be financed.

Balance of Payments Finance
and the Debt Problem

Short term balance of payments finance and long term development finance can be theoretically distinguished from one another but in practice the latter will help in financing payments deficits and the former in promoting development. These two type of finance are available to developing countries from various sources: IMF, World Bank and their various loan schemes, other multi lateral banks, donor countries offering foreign aid often under aid consortia organized under World Bank auspices and private banks in advanced countries. If the measures adopted to eliminate payments deficits work satisfactorily, balance of payments finance obtained from these various sources may be repaid in time without difficulties. But this was not the case when the Third World debt crisis appeared suddenly in 1982 along with Mexico's difficulties in servicing its accumulated debt. The problem was gradually growing but as necessary corrective measures were not taken in time it suddenly took crisis proportions and spread widely. This situation resulted from the changes that took place in international lending in the 1970s, which altered the volume and pattern of loan flows. Guided by the optimism based on the rapid growth of world economy and trade flows in the 1970s, international banks have increased their lending to developing countries substantially. Many developing countries too increased their reliance on foreign resource inflows without giving much regard to repayment capacities. Developing country debt grew at an annual rate of 21% from $85 billion in 1970 to $580 billion in 1980. Debt to GNP ratio of developing countries rose from 18 to 28 per cent. Net transfers to debtor countries reached a peak in 1978 at $31.6 billion but were clearly in decline by 1980 but gross new borrowing and debt service ratios continued to rise rapidly. There were high proportions of debts owed to commercial lenders at short term maturity (40% of Latin American debt was due for repayment within 12 months and 70% within 3 years). By 1982, the process of financing development had become unhealthy dependent on the debtors' ability to obtain new loans to service the old. With deflation coming in 1980 bankers and other creditors became reluctant to extend new loans. The large increases in interest rates, weakened outlook for international trade, and bleak prospects for commodity prices all added to the debtor countries' ability to service the debts and enhanced creditors' reluctance to lend ever increasing amounts. The situation became bad not only to individual debtor countries but also to the banks themselves and the international financial system. These were the conditions which created the 1982 debt crisis.

The Third World debt crisis, leading to a collapse of the world financial system was averted by action taken by the IMF, the Bank for International Settlements and the US Treasury along with major Central Banks of the world (mainly the supply of bridging finance to major debtor countries against pledges of policy adjustments). There were various measures of adjustment carried out by these debtor countries. The collective current account deficit of developing countries declined from the high levels of over $ 100 billion in 1981 and 1982. For the highly indebted countries, the combined current account deficit of $ 16.7 billion in 1981, turned into a surplus of $ 19.5 billion in 1983. This created a lot of hardship for all these countries because of the required import contraction. There were hopes generated by the recovery of the world economy in 1984 that these hardships would be temporary. This optimism was ill founded as the industrial country growth went down in 1985 and after. There was no lasting improvement of the current account position of developing countries in general and that of those in the "highly indebted" category. Banks also continued to treat lending to developing countries risky and did not increase their finance to these countries. As the World Bank in its <u>World Debt Tables</u> argued towards the end of the 1980s, the debt crisis remained without a basis sustainable solution as the decade came towards an end.

Session 12

Role of Foreign Aid and Direct Foreign Investments

Most developing countries are compelled to run current account deficits due to various structural and other reasons. Along the path of economic development current payments abroad have a tendency to outstrip current receipts from abroad. A continuous net inflow of foreign financial resources is thus required as an important ingredient of long term development strategies as well as short term stabilization purposes. These flows take a number of different forms:

A. Long Term Capital Flows

(a) Official development assistance (ie government to government or international agency to government). These can broadly be divided into: (i) grants and (ii) loans. These two sub categories are further classified into project aid, programme aid and commodity aid.

(b) Private capital flows motivated by private self interest: (a) portfolio capital; (b) direct investments and (c) long term finance capital from international private banks

(c) Capital flows from NGOs: These are, in a sense, non official and therefore private, but they are motivated generally by purely humanitarian concerns.

B. Short Term Capital Flows for Balance of Payments Finance.

The distinction between (A) and (B) may often be blurred but it is useful to have that distinction. These short term flows would include IMF credits and various bank credits obtained by developing country governments or developing country banks and private businesses.

I. Foreign aid

There are various problems in defining and measuring foreign aid. Any real resource transfer from a country to another under some sort of concessionary terms must be included in foreign aid but usually various disguised resource transfers are not included in available measures of foreign aid (eg. preferential tariffs for developing country exports). In the usually adopted definitions four points are considered important:

(i) non-commercial objective;
(ii) official nature;
(iii) non-military character; and
(iv) "concessionary" terms in respect of repayment period and interest rates.

But when it comes to measurement there are many problems in identifying the capital flows which satisfy all these criteria. Most foreign aid flows have overt or covert commercial objectives. At present increasing amounts are flowing to developing countries with no "official" or "government" involvement (NGOs) but available data do not cover all these. Since money is a fungible asset, resources transferred overtly for non-military purposes (or other resources thereby released) can be used in fact for military purposes. Though given under concessionary terms, loans in the total foreign aid may not qualify to be called "aid" in the normal sense of the term. The interest and repayment burden of this component of "aid" is of particular importance today because of the widespread "debt crisis". The statistical Table attached (copied from the OECD report on Development Co-operation in the 1990s provides the available global data (subject to all the above difficulties) on foreign aid (and other capital) flows to developing countries.

Foreign Aid: Some Widely Raised Issues

(i) Why donors give aid: geo-political motivations, commercial motivations in addition to humanitarian motivations; donors' self interest vs humanitarianism; foreign aid as "conscience money" given by previous colonial rulers to compensate for previous "exploitation".

(ii) Why recipients expect and search for foreign aid: what economic analysis considers important (savings gap; foreign exchange gap; absorptive capacity constraints) but aid is searched for and accepted not always to solve these problems as analyzed by economists; poverty may be shown as a reason why a certain developing country must be aided but aid may not always be utilized to benefit the poor; short term political motivations (say to win elections; to somehow remain in power); foreign aid becoming a narcotic type of addiction.

(iii) Foreign aid and "conditionality": ideological biases in determining conditionality; is aid always given to those countries "which can help themselves"; who decides what is best for a recipient country.

(iv) Problems in the methods adopted in the grant of aid: tying (source tying and project tying) vs untying of aid and implications; increasing loan component; absence of proper supervision in the utilization of funds and hence wastes and unduly high expenses.

(v) Controversy on the effects of aid: those who argue that it helped growth and development and those who argue that it may have retarded growth by substituting for rather than supplementing domestic savings and investment.

(vi) Exacerbation of the current account deficits and the debt crisis.

A Case Study: Some Comments on Sri Lanka

As a case study some points may be discussed in relation to Sri Lanka in the recent past where there has been an increasing dependence on foreign aid on the part of government and also a very favorable response to the government's search for increasing volumes of foreign aid on the part of the donor community. Foreign aid needs arose in the recent past out of (a) a serious balance of payments problem, (b) large government budget deficits and (c) a large savings gap (obviously the payments, fiscal and savings gaps were all closely inter linked). These large volumes of foreign aid received had both favourable and unfavourable impacts from the point of view of long term self reliant development of the Sri Lanka economy.

Favourable: infrastructure build up; no consumer goods scarcities; elimination of production bottlenecks (raw material and intermediate goods imports); technical assistance and manpower development

Unfavourable: continuing dependence on foreign aid (as just one aspect of it note that the foreign aid to imports ratio remained unchanged); unduly high expenditure to create infrastructure facilities (high cost estimates, wastages and other leakages); discouragement of the search for domestic materials and intermediate goods; perhaps some discouragement of domestic savings; inappropriate transfer of technology promoted by foreign aid; benefits often restricted to elite sections or more well to do sections of society. And there emerged a growing debt problem:

	1984	1985	1986	1987	1988
External debt/GDP %	53.5	56.8	62.7	67.3	71.9
External debt/exports %	220.3	256.1	330.9	322.0	341.6
Debt service/GDP	5.1	5.8	6.4	7.4	7.9
Debt service/Cur.Ac.Receipts	14.7	17.9	21.7	23.1	24.9
Debt ser./Exp. Goods & Services*		21.0	26.4	27.7	28.7
Non Concessionary Debt/Total Debt	30.6	29.2	26.6	27.3	24.6
Short Term/Total debt	7.2	6.6	5.7	7.3	6.2

*In 1989 this ratio was 24.4%

Like in many other countries in Sri Lanka too, there are certain important development related questions pertaining to the role of foreign aid.

* Is the creation of infrastructure enough? Without an adequately developed class of capitalists going for productive activities, how are these facilities and also technical assistance going to be used? Can't foreign aid be utilized may be along with private foreign capital to initiate directly productive activities? Because of growing debt problem this issue becomes more and more important.

* How can foreign aid be made to directly benefit the poor?

* How could capital, made available through foreign aid, be utilized carefully, productively and in a thrifty manner, particularly in relation to domestic cost structures?

* How could big construction projects funded with foreign aid, generally carried out by foreign contractors, leave behind knowledge and capability to carry out such projects in future domestically by domestic firms (need to build up technological self reliance)?

II. Direct Foreign Investments.

In this descriptive term, the word "direct" is important. What is referred to here is not just a capital transfer. It is a capital transfer to set up business in a different country by private capital. The distinguishing characteristic of DFI is that here capital goes along with "managerial involvement" and therefore the money transferred is expected to be utilized most productively and profitably. Although individual businessmen too will directly invest capital in other countries, alone or jointly with domestic capital of host country, the most important vehicle through which DFI takes place today is the multinational (transnational) corporation (MNC or TNC). Traditionally the MNC institution is connected up with advanced capitalist countries but in recent times there has been a tendency for MNCs to develop from among developing country business firms too, the so called Third World multinationals. Capital invested by these MNCs or private businessmen may be transferred to foreign countries either as equity capital or as loan capital. So the banks have become extremely important in the case of DFI flows.

In the early 1970s there was a growing disillusion of the international community about the performance of foreign aid in promoting development - the so called "crisis of foreign aid". An increasing reliance thus came to be placed on DFI to effectively and efficiently transfer the most needed capital resources to developing countries.

Role in Development

In this respect there are two important issues: (1) what kinds of preconditions are necessary for a country to be able to attract large and diversified volumes of DFI? (2) What would be the growth and development impact of DFI in a developing country which has been able to attract such large and diversified flows of DFI? Most of the relevant literature is on the second issue ie about the relationships between on the one hand, DFI inflows or foreign capital stocks or the degree of MNC penetration, and on the other hand, the real GNP growth. Previous cross national studies have seen, sometimes, positive and sometimes, negative, relationships between these variables[1]. Countries where direct foreign capital was invested in large volumes have been found to have performed, in terms of output growth, differently from other countries where not so much of MNC capital was invested. Despite the ambiguities pertaining to these relationships, particularly when questions of causality are involved, much emphasis is placed on the promotion of DFI as a means of accelerating growth of developing countries.

How realistic such a policy is for a developing country depends, basically, on whether the country concerned has the necessary prerequisites to attract such investments in a large enough volume (Issue 1 above). The nature of impacts such investments would produce within a developing country is probably immaterial if a policy of MNC promotion is incapable of enticing many MNCs into the country.

MNCs and DFI of different types and patterns have been observed in the history of foreign investment in the present day Third World. The earliest among them included the foreign "enclave" investments made in the colonial past of these countries in mining and plantation activities. These have been made in restricted areas - geographically and in terms of economic activities. Their impacts on agricultural modernization or on industrialization were limited at best to very narrow segments of the economies concerned. Backward and forward linkages they generated were marginal and the bulk of the societies where such mining or plantation investments were made, remained largely untouched by their presence. Similar enclave type investments were made also in the manufacturing sectors of some of these countries under colonial rule as well as under self government conditions. These made often by large multinational industrial firms created again restricted areas of influence, producing privileged conditions for the fortunate few who happened to find employment therein. These are the "traditional" type of multinationals which have been criticized for the "labour aristocracies" they have created. More recently, the export processing zone or the free trade zone (FTZ) has become the principal vehicle through which another enclave type of DFI is promoted in developing countries.

Those who argue that DFI could be an effective engine of growth today are thinking mostly of a different category of foreign investments, which can gradually generate wider economic and social impacts in host countries than the above enclave type of DFI could in the past. It is generally the developing countries with a large and widespread presence of foreign private capital which are presented as examples of successful growth through MNCs and DFI. Most such countries also have the FTZs but

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[1] Those who are interested will find in the following book a useful survey of the relevant literature: Bornschier, Volker and Christopher Chase-Dunn, 1985, *Transnational Corporations and Underdevelopment*, New York: Praeger.

not as isolated enclaves for foreign investment; they seem to complement and support a wider network of domestic and foreign business ventures in the countries concerned. What seems probable, as shown in the experiences of countries like South Korea, Taiwan, Thailand and so on, is that private foreign capital has followed rather than led national economic growth. Private foreign capital for direct investment, on a scale which will have widespread and diffused repercussions, is attracted to a country only when the nation concerned, with its own capital, private and state, has initiated a sustainable process of accumulation leading to growth of production and productivity. Once such private foreign capital begins to be invested, often in partnership with local capital, it undoubtedly contributes to growth of production and productivity through imparting the benefits which are commonly attributed to DFI: transfer and diffusion of modern production technology and advanced management systems, and providing access to global marketing networks and scarce investible capital funds (through equity or loans). The point stressed here, however, is that the initial barriers to the germination of the seeds of diffused and sustained accumulation and growth are normally overcome by domestic effort. DFI comes into play (depending of course on national attitudes to it) at a later stage when accumulation and growth processes are well established but are coming up increasingly against types of barriers which MNCs and DFI are perhaps better equipped to eliminate.

On this issue the following points are important:

(a) The bulk of world DFI flows is going into developed countries.

(b) The stock of direct foreign capital invested in developing countries, irrespective of the source country, is also very unevenly distributed, with more developed countries among them attracting larger amounts of it, because of the more attractive "investment climate" the latter is able to provide because of their higher levels of development.

(c) The importance of the availability of local partners for foreign investors and the importance of a prior process of accumulation in this respect. Such prior accumulation and growth are also required if DFI were to produce widely diffused results through backward and forward linkages, for the development of such linkages requires the presence of either an already established and reasonably expanded industrial structure within the country concerned or a domestic capitalist class of reasonable size and capability which can gradually develop such an inter-linked industrial structure by setting up industries supportive of and complementary to DFI.

(d) Finally, there is the all important socio-political stability needed to provide the overall investment climate. This also becomes available usually in a country where, generally through domestic effort, accumulation and growth, and not stagnation, have become the normal pattern. However much repressive a regime is, it would not be able to contain public protest for long, if the system is failing to provide jobs and opportunities in sufficient numbers and variety, to a society which will be growing in size as well as in aspirations.

The next issue concerns the role of multinational corporations (MNCs) and direct foreign investments (DFI) in promoting economic growth and development in host countries if the latter succeeds in attracting large volumes of DFI. This issue is viewed differently by writers of different persuasions. It is perhaps in respect of underdeveloped countries that the question of the "role of MNCs and DFI in economic development" is most intensely debated. Very strong views have been expressed both in favour of (mainstream economics) and against ("dependency theory") DFI and MNCs as possible engines of growth and development in the Third world.

The arguments are not to do solely with economic matters and get entangled with social and political issues. As some MNCs are rather big and powerful in comparison to some small developing countries questions of bargaining power and undue political influences usually cannot be totally ruled out here. Here is an area where much of economists' competitive equilibrium analysis breaks down. In these discussions about the development role of MNCs and DFI, various things they "contribute" are differently analyzed so that conclusions arrived at are quite contradictory to one another. In fact there is a lot of ideological bias in these arguments. The following will invariably be discussed but depending on the writers' ideologically positions, they will be "interpreted" differently:

* DFI and the provision of scarce capital for investment
* DFI and modern industrial and other forms of technology
* DFI and foreign markets for export oriented industry.
* DFI and managerial capabilities
* DFI and scarce foreign exchange resources
* DFI and MNCs and political influence
* DFI and domestic entrepreneurship
* DFI and domestic consumption patterns
* DFI and employment

III. Some Comments

1. The political influences in respect of the inflows of both foreign aid and DFI. The tendency on the part of donor agencies and countries to think that only a particular type of economic policy is good for economic development. Also the question of the clash of interests of the parties involved: donor agencies and countries as against recipient countries in the case of foreign aid; investing companies as against their domestic partners and host countries in the case of DFI.

2. What is most important for a developing country is self reliant development. To what extent and at what speed do foreign aid and DFI promote such self reliance in a developing country? Can dependent development, to begin with, gradually lead to self reliance?

3. In respect of DFI, in order to attract more of it and in a widely diversified manner, a country may be well advised to first focus on the development of its domestic entrepreneurship. The stronger the domestic entrepreneurs the more favourable they would be able to make the eventual impact of DFI and MNCs.

4. It is important to have in mind a clear distinction between growth and development. Growth of output and productivity does not necessarily produce a broad based development where the social living conditions of the average masses of people consistently improve within a desired short period. Foreign aid has often been found to help thin strata of societies in developing countries who have power and necessary "connection". Profit seeking foreign investors are found in recent times to move into selected developing countries to avoid problems of rising wages and tightening environmental regulations in their own home countries. There is sufficient evidence to show that a large proportion of foreign firms in most developing countries are maintaining low-wage-low-working-condition "sweatshops" in their factories, that they are destructive of the environment and that industries relocated by them in these countries amounted to an "export of health hazards". Whether this would lead to development in its desired broad sense, automatically through a process of "trickle down" and, how soon, are important questions to which answers seem to depend on a complex set of factors. The available limited experience from the post-war period seems to suggest that automatic "trickle down" is somewhat of a myth and that active and deliberate state action is required to promote desirable development objectives. When a government makes such active interventions in the market process it is often called "socialist" and boycotted by the donor community and also the international investing community. So we are back to the very first point I noted, namely the political overtones in aid giving as well as in direct investments.

Basic Aid Data

Table 1. LONG-TERM TRENDS IN AID FROM ALL SOURCES

	Volume of ODA (net) ($ million at 1987 prices and exch. rates)				Share of world ODA				ODA as percent of GNP			
	1970-71	75-76	80-81	87-88	1970-71	75-76	80-81	87-88	1970-71	75-76	80-81	87-88
United States	8006	7997	8480	9376	25.8	18.1	16.3	18.3	0.31	0.26	0.27	0.20
EEC members combined*	10749	12508	16574	19617	34.7	28.3	31.9	38.2	0.42	0.45	0.39	0.49
EEC members excl. DOM-TOM	9384	11343	14453	17592	30.3	25.7	27.8	34.2	0.38	0.40	0.34	0.44
of which : France (incl. DOM-TOM)	3779	4101	5257	6572	12.2	9.3	10.1	12.8	0.66	0.62	0.52	0.73
France (excl. DOM-TOM)	2414	2936	3136	4547	7.8	6.7	6.0	8.9	0.46	0.38	0.31	0.51
Germany	2620	3345	4598	4473	8.5	7.6	8.8	8.7	0.33	0.38	0.45	0.39
Italy	658	524	1036	2827	2.1	1.2	2.0	5.5	0.17	0.12	0.16	0.37
Netherlands	863	1300	2005	2118	2.8	2.9	3.9	4.1	0.60	0.79	0.80	0.98
United Kingdom	2076	2156	2305	2077	6.7	4.9	4.4	4.0	0.42	0.39	0.39	0.30
Denmark	278	418	619	864	0.9	0.9	1.2	1.7	0.40	0.57	0.59	0.88
Belgium	475	644	714	634	1.5	1.5	1.4	1.2	0.48	0.55	0.38	0.44
Ireland	-	20	40	52	-	x	x	0.1	-	0.14	0.15	0.20
Japan	2677	3062	5463	7700	8.6	6.9	10.5	15.0	0.23	0.22	0.30	0.31
Canada	936	1425	1407	1986	3.0	3.2	2.7	3.9	0.41	0.50	0.50	0.48
Sweden	436	1041	1105	1381	1.4	2.4	2.1	2.7	0.41	0.82	0.60	0.88
Norway	146	376	567	906	0.5	0.9	1.1	1.8	0.33	0.68	0.76	1.10
Australia	638	685	675	764	2.1	1.6	1.3	1.5	0.59	0.53	0.46	0.41
Switzerland	187	280	380	568	0.6	0.6	0.7	1.1	0.13	0.19	0.22	0.32
Finland	44	104	176	489	0.1	0.2	0.3	1.0	0.09	0.17	0.22	0.55
Austria	56	151	300	246	0.2	0.3	0.6	0.5	0.07	0.17	0.24	0.21
New Zealand	54	130	93	87	0.2	0.3	0.2	0.2	0.23	0.47	0.26	0.27
Total DAC	23929	27758	35220	43120	77.2	62.9	67.7	84.1	0.34	0.35	0.34	0.35
Spain	(17)	(78)	269	198	(0.1)	(0.2)	0.5	0.4	(0.01)	0.04	0.11	0.07
Greece	-	-	3	30	-	-	x	0.1	-	-	-	0.06
Portugal	(250)	-	7	(54)	(0.8)	-	x	(0.1)	1.05	-	0.03	(0.14)
Luxembourg	(7)	8	7	16	x	x	x	x	(0.17)	0.12	0.12	0.27
Iceland	-	-	3	2	-	-	x	x	(-)	(0.03)	0.06	0.03
Total non-DAC OECD	(274)	(86)	289	300	(0.9)	(0.2)	0.5	(0.6)	(0.16)	(0.03)	0.08	(0.07)
Arab donors												
SaudiArabia	685	5660	7534	2423	2.2	12.8	14.5	4.7	5.25	6.66	4.05	3.27
Kuwait	451	1669	1650	209	1.5	3.8	3.0	0.4	4.57	5.81	3.58	0.83
UAE	99	2017	1290	12	0.3	4.6	2.5	x	3.98	9.58	3.34	0.05
Other	231	1338	1580	95	0.7	3.0	3.0	0.2	0.53	1.42	1.02	0.07
Total Arab donors	1466	10684	11954	2739	4.7	24.2	23.0	(5.3)	2.13	4.68	2.83	1.05
CMEA countries												
USSR	(2858)	2476	3101	4208	(9.2)	5.6	5.9	8.2	0.15	0.16	0.25	..
GDR	(156)	135	245	184	(0.5)	0.3	0.5	0.4	0.13	0.10	0.20	..
Eastern Europe, other	(649)	394	454	300	(2.1)	0.9	0.9	0.6	0.15	0.09	0.12	..
Total CMEA	(3663)	3005	3800	4692	(11.8)	6.8	7.3	9.1	0.15	0.14	0.20	..
LDC donors												
China	..	699	324	192	..	1.6	0.6	0.4	..	0.11	0.09	0.07
India	..	136	226	134	..	0.3	0.4	0.3	..	0.08	0.11	0.06
Venezuela	-	144	153	35	-	0.3	0.3	0.1	-	0.23	0.19	0.07
Iran	11	1438	- 144	- 5	x	3.3	- 0.3	- x	0.03	1.20	- 0.11	- 0.01
Other	..	(176)	214	90	..	(0.4)	(0.4)	0.2	..	..	..	..
Total non-Arab LDC Donors	(1654)	(2593)	773	446	(5.3)	(5.9)	(1.5)	(0.9)	..	..	..	..
TOTAL WORLD	(30986)	44126	52036	51297	100.0	100.0	100.0	100.0	..	..	..	..

a) Excluding Greece, Luxembourg, Portugal and Spain.
Source : OECD, *Development Co-operation in the 1990s*, Paris 1989.

Table 2. TOTAL NET RESOURCE FLOWS[a] TO DEVELOPING COUNTRIES[b] BY TYPE OF FLOW

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1980	1985	1988
	Current $ billion									Per cent of total		
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	45.6	45.6	44.3	42.4	47.7	49.0	56.1	61.7	65.7	35.5	58.5	64.7
1. Official development assistance (ODA)	37.8	36.9	34.0	33.9	35.0	37.4	44.3	48.4	51.3	29.5	44.6	50.5
of which: Bilateral disbursements	30.0	29.0	26.4	26.3	27.2	28.9	34.8	38.3	40.0	23.4	34.5	39.4
Multilateral disbursements	7.8	7.9	7.6	7.6	7.8	8.5	9.5	10.1	11.3	6.1	10.1	11.1
2. Other ODF	7.8	8.7	10.3	8.5	12.7	11.6	11.8	13.3	14.4	6.1	13.8	14.2
of which: Bilateral disbursements	3.0	3.0	3.7	1.3	4.5	3.7	4.0	6.6	8.0	2.3	4.4	7.9
Multilateral disbursements	4.8	5.7	6.6	7.2	8.2	7.9	7.8	6.7	6.4	3.7	9.4	6.3
II. TOTAL EXPORT CREDITS	16.5	17.6	13.7	4.6	6.2	4.0	−0.6	−0.7	3.0	12.9	4.8	2.9
1. DAC countries	15.4	16.2	12.7	3.9	5.2	3.4	−0.8	−1.0	2.6	12.0	4.1	2.6
of which: Medium and long-term	13.6	13.3	9.7	7.4	4.9	0.2	−3.8	−5.1	−1.0			
Short-term	1.8	2.9	3.0	−3.5	0.3	3.2	3.0	4.1	3.6			
2. Other countries	1.1	1.4	1.0	0.7	1.0	0.6	0.2	0.3	0.4	0.9	0.7	0.4
III. PRIVATE FLOWS	66.2	74.5	58.3	48.1	31.7	30.8	28.2	35.6	32.9	51.6	36.8	32.4
1. Direct investment (OECD)	11.2	17.2	12.8	9.3	11.3	6.6	11.3	20.2	19.0	8.7	7.9	18.7
of which: Offshore centres	3.0	4.1	4.1	3.7	3.8	3.7	6.8	12.0	..			
2. International bank lending	49.0	52.0	37.6	34.7	16.4	13.6	5.0	5.6	4.7	38.2	16.2	4.6
of which: Short-term	28.0	22.0	15.0	−25.0	−6.0	12.0	−4.0	5.0	..			
3. Total bond lending	1.6	1.5	5.0	1.2	0.3	4.8	3.3	1.0	1.6	1.2	5.7	1.6
4. Other private	2.0	1.8	0.6	0.6	1.1	2.9	5.3	5.5	4.0	1.6	3.5	3.9
5. Grants by non-governmental organisations	2.4	2.0	2.3	2.3	2.6	2.9	3.3	3.3	3.6	1.9	3.5	3.5
TOTAL NET RESOURCE FLOWS (I+II+III)	128.3	137.7	116.3	95.1	85.6	83.8	83.7	96.6	101.6	100.0	100.0	100.0
Related data:												
Use of IMF credit, net	2.6	6.1	6.3	12.5	5.4	0.8	−1.4	−4.7	−4.3			
Interest and dividends paid by LDCs, gross	63.6	86.4	94.0	80.6	86.8	88.7	76.2	74.7	86.0			
	At 1987 prices and exchange rates											
Total net resource flows	169.4	188.9	163.5	134.1	123.4	119.4	96.3	96.6	94.8			
Total official development finance	60.2	62.6	62.3	59.8	68.8	69.8	64.5	62.0	61.3			
Total ODA receipts from all sources	49.9	50.6	47.8	47.8	50.4	53.3	51.0	48.4	47.9			
Private flows	87.4	102.2	82.0	67.8	45.7	43.9	32.4	35.6	30.7			
Total DAC ODA (bilateral and multilateral)	36.0	35.1	39.1	38.9	41.4	41.9	42.2	41.5	44.8			

a) Flows from all sources, i.e. including DAC, CMEA, Arab and other LDC donors.
b) Excluding Taiwan.
Source : OECD, *Development Co-operation in the 1990s*, Paris 1989.

Session 13

Issues in Stabilization and Adjustment

Although it need not necessarily be so, these two words - stabilization and adjustment - are today very closely connected with the relationships of the IMF and the World Bank with developing countries. The well known stabilization and adjustment programmes implemented in developing countries on advice of the IMF and the World Bank normally form part of conditionality attached to loans granted to such countries by those institutions directly, as well as through aid consortia organized by the latter institution. Often even the bilateral aid commitments of donor countries in these aid consortia depend on whether the developing countries concerned have agreed with these financial institutions to adopt such stabilization and adjustment programmes.

Of the two words, the first which came to be closely linked to these two institutions is "stabilization" usually in expressions like "IMF stabilization packages". Under normal conditions, one can talk of stabilization in respect of many things: general price level, production, export and import prices, employment and so on. And there are many ways of achieving the desired stabilization objectives. In the so called IMF stabilization programmes, however, the basic concern has been with two related aggregates: the balance of payments and the general price level. In the IMF (and generally the monetarist) interpretation, balance of payments difficulties are a reflection of relatively rapid inflation at home and therefore the stabilization programmes recommended in respect of the two items mentioned were in fact intended to correct one basic disequilibrium. Even to stabilize the balance of payments and the general price level, one can adopt different kinds of policy packages. But the IMF stabilization packages, taking a monetarist approach to inflation and balance of payments analysis, have usually included one particular type of strategy in this respect: correct excess aggregate demand through monetary and fiscal policy and exchange rate management.

The IMF prescriptions for stabilization have been based on (a) a monetarist explanation of balance of payments disequilibria; (b) belief in the effectiveness of the exchange rate; and (c) a short term approach based on performance criteria defined in respect of a few aggregate indicators like the money supply and credit ceilings and a few policy instruments (particularly market policy instruments) manipulated to produce sharp shocks. The IMF seems to have had a perception of its global role as that of handling international disequilibrium through deflation and competitive devaluation[1] although the purpose of the Bretton Woods conference which brought the IMF into existence was to avoid the very same things which plagued the world economy in the inter war years. These demand side measures for stabilization have had a notorious history in most countries they were adopted, ending in social and political disruptions (the so called "IMF riots") and eventually the abandonment of the package by the countries concerned. Their effects were particularly hard on the poor and vulnerable (eg. the children) sections of the societies concerned.

Perhaps as a result of numerous criticisms of these stabilization packages, an increasing attention has come to given since the early 1980s to what has come to be called "structural adjustment" measures ("Extended Fund Facility" and "Structural Adjustment Facility" of the IMF and "Structural Adjustment Loans" of the World Bank). This concept of "structural adjustment" as adopted by the World Bank and the IMF appears different in content from the concept of "structural change" as adopted in historical and other studies into the process of change within an economic system. Structural adjustment policies as understood by these institutions were intended to create conditions conducive to improvement in supply of resources and broadening of the productive base. Another distinction often made is that while the "stabilization measures" focussed on the "demand side", the "structural adjustment measures" focussed on the "supply side". How the two sides in the market equation could be separated of course would be a very difficult problem indeed in this sort of presentation.

There is another aspect discussed. It is sometimes mentioned that "stabilization" should precede "structural adjustment". But it is questionable whether these things can be sequential like this in terms of time as stabilization and structural adjustment must be viewed as continuous processes.

Though the distinction is made between stabilization (demand side) measures and structural adjustment (supply side) measures practically it is not possible to make a strict classification of policy measures into the two categories. The full package of policies for stabilization and structural adjustment has been worked out on a strong belief in the efficacy and efficiency of private enterprise and market mechanism without taking seriously into account special problems of developing countries. Elimination of "distortions" in prices would thus be the prime motive behind these policies. The following is a brief enumeration of policies

[1] One must however add that its power to implement such policies are restricted to the developing world and in advanced countries, sometimes very strangely, policies going against the textbook models the IMF uses are being practiced but the IMF does not seem even raising serious objections to them.

and measures which are included in a programme of "stabilization" and "structural adjustment":

(a) Liberalization of most imports and exchange payments;

(b) Abolition of price controls allowing freedom for market forces;

(c) Reduction of budgetary expenditure particularly on various consumer subsidies so that budget deficits would be reduced;

(d) Restrictive monetary measures: high interest rates and credit restrictions;

(e) Currency devaluation or depreciation;

(f) Restraint on wage increases particularly of unskilled workers.

(g) Making increasing volumes of foreign aid and other foreign finance available to countries carrying out the relevant policy reforms;

(h) Promotion of private enterprise, including foreign direct investments through a wide array of fiscal, infrastructural and another incentives;

(i) Use the government capital budget to build up and develop infrastructural facilities to promote private enterprise in the directly productive activities;

(j) Privatization of public sector productive ventures (or public enterprises);

(k) Necessary price adjustments like the increase in procurement price of agricultural products to increase production;

(i) Measures to promote economic activities earning foreign exchange, particularly export-oriented industry, on the basis of a strong belief in a strategy of export-led-growth;

These are the basic elements which could be found in most stabilization cum structural adjustment packages the IMF and the World Bank have implemented in various developing countries. Certain other elements would also be included to suit special conditions in a given country but the above are rather fundamental and follows the textbook models of a free enterprise market economy.

Some comments

The IMF and World Bank are significance to poor countries because they cannot place their public debt in private capital markets. In such a situation, conditionality inevitable as these are not international Santa Clauses. Of suitable policy measures to meet a crisis, a country has a choice among different analytical frameworks and different combinations of policies but no chance is given to choose independently. Growing dependence on foreign aid inflows, foreign direct investment and the consequent intensification of external debt burdens have been significant elements of the widespread adoption of these stabilization and adjustment packages.

For the policy maker the market is a useful servant but a poor master. Improved incentives may be necessary but they are not sufficient for improved performance. A move to a regime of high nominal interest rates combined with floating or crawling exchange rates would imply an acceptance of inflation as an endemic characteristic (particularly in condition where imported inflation is significant). It is not at all evident whether price incentives can achieve the necessary improvement in performance of parastatals. And often when it comes to dealing with these, the objective seems to be the ideological one of privatization rather than to look seriously for ways and means of improving their efficiency.

As it happened so often, when the sources of imbalance are essentially external, adjustment processes emphasizing restraint on demand, though they could adjust the balance of payments, it was done at heavy deflationary cost. When requirements for structural adjustment over the longer term involves significant shifts between sectors and institutional changes, it may be doubted that a limited number of macro-tools can do the trick. The time horizon for structural adjustment of the kind required in the many developing countries is likely to be considerably longer than that needed to correct a balance of payments disequilibrium resulting primarily from failures in domestic demand management.

In many developing countries, balance of payments problems are structural ones, often resulting from adverse impacts of world price movements on both imports and exports (terms of trade changes), increases in short term credits and rising debt service obligations. In these conditions the neglect of institutional factors and the doctrinal over emphasis on the market and against subsidies have been criticized. Often the magnitude of movement of key variables required is so great that bring about those required changes a much wider package of instruments than are used in stabilization and structural adjustment packages of the IMF and the World Bank is needed. These packages often try to achieve adjustments very speedily but critics have pointed out the need for a more gradual approach

The internal coherence of the package would depend on the accuracy of these underlying premises: (i) that economic decisions are best dictated by market forces; (ii) that these prices will always correctly show up comparative advantage patterns and their changes over time and (iii) that supply responses (particularly in export and other agricultural crops) are high.

As shown increasingly in the research pertaining to NICs the role of the state in their rapid development has not been as negligible as presumed ("developmental states"). Objective to reduce intervention and allow market forces has often been pursued rather dogmatically.

It is more or less accepted that these stabilization and structural adjustment packages have imposed disproportionately heavy burdens on poor and vulnerable groups of society. Their living standards often deteriorated, generally in relative terms and also sometimes even in absolute terms. .

Stabilization is often defined as "removing untenable macro economic imbalances". Even on the terms of many stabilization packages, for example in Africa, they have generally succeeded. As noted it is claimed that stabilization is necessary for structural adjustment and renewed growth. But it seems that the causality *may* run in the opposite direction: it could be that without an early renewal of growth neither structural adjustment not stabilization prove to be sustainable.

Prices do matter but lags are almost always under estimated in stabilization and structural adjustment programmes. Assumptions in the underlying model:

- speedy response to price changes;
- 3 sub assumptions:
    - presence of nationally integrated, and relatively efficient markets
    - material conditions allowing a supply response to nominal incentives before subsequent price changes wipe them out;
    - ability to shift resources easily among sectors (from home market production to export production, from consumption to investment & from non tradeables to tradeables.)

These assumptions often neglect reality: rigid production structures; poor prospects for traditional primary exports; resource constraints preventing eg. the utilization of under-utilized capacity; various production bottlenecks; labour market constraints (reduction in real labour incomes eg. impeding recovery by crippling consumer demand). There are also significant non-price issues. Price changes are at most necessary conditions which by themselves can rarely be sufficient. Human factor is no part of these programmes as they often shown an ahuman lack of concern or for the people, particularly the poor who are adversely affected. How prices affect the poor depended on which prices and in which the matter is discussed. Significance of politics: in order to derive locally appropriate policy reforms.

Session 14

The Role of the State, Economic Planning and Privatization

Role of the State

The role of the State in promoting accumulation and growth, and full employment within a capitalist market economy is an issue surrounded by considerable controversy. Economics has a long history of a strongly *laissez faire* policy position. In recent times this position has been strongly presented in the so called supply-side economics and monetarism. This ideology has come to guide economic policy in the United States and the United Kingdom since Reagan and Thatcher respectively and to attract a strong following in the establishments of most other advanced capitalist countries. Through their influence, particularly the influence exerted via the IMF and the World Bank this policy posture has become very influential also in underdeveloped capitalist countries.

There is currently a revival of neo-classicism at the theoretical level of analysis of developing countries. The idea that the neo-classical paradigm is unrealistic and irrelevant for the special case of developing countries and its corollary that a "special" development economics is required which, among other things, would assign a more significant and a more crucial role to the State than neo-classical theory would, has until quite recently been the accepted orthodoxy among the economists working on these countries. This case for treating developing countries as a "special" category has come increasingly under attack at a theoretical level.

Simultaneously, at the empirical level, one observes a growing number of Third Word countries becoming free market oriented in the recent past, more through external pressures emanating from institutions like the International Monetary Fund(IMF) and the World Bank(WB), than through their own free volition. The trust placed in the "invisible hand" of free markets and price mechanism has been a distinguishing characteristic of IMF ideology since its inception; this also applies to the WB for a considerable period of its existence. The influence of their free market ideology has been particularly strong in their transactions with the developing world making them adopt policies towards: reliance on market forces, structural adjustments to eliminate market "distortions", elimination of trade and exchange controls, reduction of tariff barriers, privatization, reduction of government expenditures, elimination of budget deficits and generally the reduction of the size of government, promotion of private enterprise in general and direct foreign investments in particular and so on (the so called "stabilization-adjustment" packages).

The basic premise in laissez faire ideology, following Adam Smith, is that there lies, behind human behaviour, two contradictory motives, self-interest (selfishness) and fellow feeling (altruism). It was believed that society unconsciously evolves mechanisms to reconcile these two contradictory forces which guide human behaviour. This assumption of the basically non- contentious and harmonious nature of social behaviour lies behind all versions of mainstream economic theorizing and forms the essential basis of the doctrine that for social welfare the State should be assigned only a minimal role. This minimal role according to Adam Smith is one of providing for the environment and the infrastructure conducive to vigorous private sector accumulation. Thus the State was expected: (a) to protect the citizens from foreign aggression; (b) to maintain law and order within the country; and (c) to maintain services and institutions which are for the benefit of all.

The other theoretical foundations behind the classical views of the desirability of only minimal State intervention are: (a) the so-called Say's law of markets (1803) which says that "supply creates its own demand" predicting an automatic process towards full employment and (b) the Ricardian doctrine of comparative costs formulated to explain international trade and to provide the theoretical foundation for free trade.

The capitalist mode of production, supported by the *laissez faire* State, created in the early phases of its evolution almost everywhere conditions of enormous misery for the lower strata of society. In order to prevent social upheaval in reaction to this resulting in a collapse of the capitalist social order, the bourgeois State gradually came to interfere in the workings of the market so that the extreme forms of impoverishment of the masses under capitalism could be eliminated. The interventionist role of the State under capitalism (the so called "welfare state") had gradually expanded to prompt some writers to formulate even a "law of increasing government activity".

The theory of automatic, full employment equilibrium and the *laissez faire* bias which it had given to State policy have become, by the 1930s, an anachronism. This change of view was caused by the Great Depression which was unprecedented in terms of its severity and persistence and was associated with widespread and heavy unemployment. Thus came the so called Keynesian Revolution. Its impact on State economic policy has been very strong till monetarism emerged strongly in the West. Monetarism more or less coincides with free market conservatism and *laissez faire* economics. It argues against any wide use of fiscal policy as a contra-cyclical instrument saying that this leads to "crowding out" and other effects of government intervention. Tax incentives, privatization and so on are advocated as means of stimulating work effort and efficiency and thereby pushing up the natural levels of output and employment and also creating favourable impacts on inflation rates. In essence, the monetarists view the inherent character of a capitalist economy as reasonably stable in the absence of attempts to manage the economy by activist monetary and fiscal policies. It is argued that such activist policies have generated periodic bouts of inflation and unemployment. It is thus argued that the best approach is to let the free markets rule resource allocation, accumulation and growth processes in capitalism. They advocate a constant money supply growth rate rule, insisting on a rate of money growth roughly equal to the non-inflationary growth potential of the economy.

All along the development of economic theory, there was a role carved out for the State: (a) to clear the market of "distortions" in a bid to promote conditions of perfect competition and to eliminate monopoly elements and (b) to take care of "externalities". All this has been considered the proper domain of the capitalist State, in addition, of course, to the roles of national defense, law and order, adjudication and enforcement of the rules of the game and provision of "public goods". As long as the system operated with some normalcy and without serious and politically explosive disruptions, mainstream writers were happy to leave allocation, accumulation and distribution matters generally to the market but seriously disruptive situations like wars, severe depressions and heavy unemployment made mainstream economics call for corrective State action.

Guided by changing objective conditions, social, economic and political, State activity has expanded within capitalist economies uninterruptedly over the last two centuries, irrespective of and notwithstanding all the various theoretical and ideological currents which ran through political economy and economics. In this historical expansion, the State under capitalism took upon itself various activities falling outside the functions described in the foregoing paragraph. It is mostly the contra-cyclical activities and redistributive "welfare state" type of activities giving rise to high levels of taxation and cumbersome regulations which have today become the predominant target of attack from those opposing extensive government involvement in a capitalist economy.

There are a few important points of special significance which have to be raised in a discussion of the relevance of a *laissez faire* policy posture for underdeveloped countries. By way of recapitulation let us present the arguments for a minimum State in a manner that would help us focus more clearly on developing country situations. At a rather fundamental level, the case for free markets is built up on the following basic propositions:

(a) that the key to lack of economic growth and to less than full employment is the inadequate expansion in the stock of machinery and other productive equipment (the capital shortage argument);

(b) that profits are the most effective variable in guiding the capitalist class to undertake increasing volumes of investment (the principle of profit-led growth);

(c) that market prices and their variations are capable of effectively and efficiently guiding resource allocation patterns to facilitate growth (the principle of market based allocation);

(d) that there should be a redistribution of power and income away from labour and other low income groups and toward capital in order to stimulate savings, investment, growth and employment (the savings argument).

Getting government "off the backs of the people" would, it is argued, unleash a torrent of hard work, entrepreneurial energy and saving, which would in turn, increase productivity and aggregate output almost immediately. Tax cuts, deregulation and reduction of government expenditures would increase private profits, liberate market forces and reduce crowding out and therefore would work directly towards promoting investment and growth. The empirical validity of these principles and arguments is subject to doubt even in the case of advanced capitalism. In underdeveloped capitalist structures, these anti- government arguments lose their validity probably much more than in advanced capitalist countries.

(i) *Problems of Accumulation and the State :* Market forces allowed to operate freely in current objective international conditions do not produce in developing countries the necessary preconditions for the transformation of available mercantile capital into production (agricultural and industrial) capital or for that transformation to take place at an adequately rapid pace. There is a number of things a bourgeois State can do to facilitate these developments: (a) a certain selective isolation of the economy concerned from disruptively competitive international economic forces; (b) various promotional activities to assist private capital; (c) directly filling gaps left by the inadequacy of private capital, through direct investment in productive ventures.

(ii) *Product and Factor Markets and Income Distribution*: (a) Domestic markets in most developing countries are inadequately developed on capitalist lines and there are peculiar structural characteristics in many segments of whatever markets that are available (eg. small scale, subsistence producers and long chains of intermediaries between these producers on one side and consumers and input suppliers on the other). The problems here are much more than mere "price distortions". (b) How justifiable is the concentration of incomes, wealth and power in the hands of capital with no intervention to smooth out the inequalities? Wages have a dual role to play, one as a factor payment (from the viewpoint of entrepreneurs) and the other as a major income form. Low wages, viewed from one angle, may help producers by making a major factor input at cheap prices but viewed from two other angles they will also have adverse production effects: (i) the adverse effects low wages will have on the workers' incentive to work and (ii) the restrictive effects a low wage policy will have on markets for what is produced. This so-called "knife edge problem" of wages management would make a strictly market oriented strategy of growth and employment fail. One often notices a mismatch of demand and production patterns in developing countries and the correction of these mismatches more often than not, requires interventionist policies. (c) To counter the above argument concerning restrictive demand effects of a low wage policy, opportunities available to make use of export markets (the export-led growth) is often noted. But it is very doubtful whether what was feasible for a few isolated countries would also be feasible for the whole Third World (the fallacy of composition). Growing "new protectionism" in the advanced countries and inadequate progress made in intra-developing country trade should raise very real doubts about the feasibility of export-led growth in the entire Third World. This again raises the importance of maintaining domestic markets at adequate levels to achieve sustainable growth and the doubtful feasibility of a low wage policy in the long term. (d) From a social justice point of view, a low wage policy in an already subsistence wage economy is bound to be seen as intolerable and will be opposed, sooner or later, by a public outcry led by the working masses. This clearly explains why extreme free market policy packages have almost everywhere been coupled with repressive political regimes. Even with repressive political machineries, the extent of achievement of such policy packages for self-sustaining growth and development is rather doubtful.

(iii) *"Crowding Out" and Incentives*: The essence of the crowding out argument is that government expenditure leads to a diversion of funds from the private sector to the government, which, if left in the private sector, would be invested by it in productive activities. This argument implies that: (a) government expenditure is unproductive and wasteful; and (b) left in the hands of private sector the funds which go to make government revenue will invariably be invested. Both these elements of the crowding out argument are concerned with empirically verifiable phenomena and may vary from one national situation to another (private sector having funds not utilized for productive investment, the income raising effects of government expenditure, the indispensability of infrastructural facilities provided generally by the State to raise the productivity of private sector investments, educational and health expenditures and even subsidies on essential consumer items and their contribution to the development of human capital).

(iv) *Taxation, Savings and Incentives*: The relationships between taxation and investor incentives requires empirical study. There is a complex mechanism behind investor incentives. The level of taxation is only one factor, perhaps not a very significant factor, in this complex mechanism. In a typical underdeveloped society, a tax cut would presumably affect only a small segment of the population and could lead more to an expansion of consumption rather than investment. For investment incentives to remain high, the size and the conditions of the market and the degree of development of the accumulation habit would often appear more important than lowering the level of taxation. Similarly the effectiveness of tax cuts and various other tax incentives (fiscal incentives) as instruments in investment promotion policies also requires careful empirical analysis. A system of progressive taxation, by reducing income inequalities and differentials, might even improve worker incentives more than a programme of tax cuts which would normally bring about greater benefits to the rich classes.

Experiences gained from the application of the IMF and WB stabilization-adjustment policies in many underdeveloped countries clearly show that excessively free market strategies, on the one hand, require repressive, often totalitarian, regimes to implement them and on the other hand, they eventually lead to political turmoil and rebellion. Political stability is a *sine qua non* for accumulation and growth in any society and from the point of view of such stability, government intervention to smooth out the extreme elements of inequality and poverty which invariably arises from the operation of market forces is clearly more suitable to promote even capitalist growth than a *laissez faire* regime.

A point worth making by way of conclusion is that the above arguments in favour of government intervention in developing countries pursuing a capitalist path are in fact arguments in favour of *selective* intervention which is *efficient* and *enlightened*.

Public Enterprises and Privatization

As already noted, the crowding out argument is often raised also in respect of the budgetary transfers necessitated by the losses of public enterprises in operation in underdeveloped countries. The history of public enterprises in the world, even in the underdeveloped world, brings out enough instances of efficient management and resource use showing that efficiency in public enterprises is not an impossible dream. On the other hand, inefficiency is clearly not the preserve of government. It is not at all difficult to find inefficiently run private ventures, both small and big. What is important is to have an effective mechanism to eliminate inefficient organizations or to bring such organizations up to a satisfactory level of efficiency. While the market, guided by considerations of profitability, provides this necessary mechanism in the case of private enterprise, an alternative mechanism or a modified version of the market mechanism itself could, with ingenuity, be worked out to deal with the State enterprise sector. If the State has to initiate production when the market fails and if these State enterprises are managed well, then the State could become the source of a whole process of accumulation until a dynamic capitalist class develops. There are recorded instances where this happened and if these instances are studied objectively, suitable mechanisms to improve efficiency of State enterprises could be worked out thereby making them become rich sources of accumulation rather than "crowding out" agents.

In underdeveloped societies one often comes across promising, yet unexplored productive activities into which private capital is not attracted for either the mere lack of it or unwillingness of whatever capital there is to move into those activities. To pioneer the development of such new productive activities has generally been the task of the State in many countries at their early stages of capitalist development. This was done sometimes with, and sometimes without, the intention of divesting such State sponsored projects to private hands subsequently[1].

The question of inefficiency, particularly financial inefficiency, of public enterprises in their use of State capital and the consequent drain on the government budget -- one variety of "crowding out" argument -- is quite well known. It is a widely accepted fact that efficiency/competence or otherwise of public enterprises varies according to time, place and the circumstances of a particular sector or industry within an economy. Inefficiency anyway of public enterprises is not at all a rarity. Wherever it exists, it produces resource wastage and as a result, the society in general and the consumers in particular are made to suffer. Objectively this is an argument for elimination of the causes of such inefficiency. There is, however, a rather dogmatic view among free market ideologues that public enterprises are synonymous with inefficiency. The recommended solution therefore is privatization, and not the elimination of factors causing such inefficiency. It is often ignored that there are often as significant private sector failures ("market failures") as those of the State sector[2]. Often State capital has come into the picture because of a lack of private capital and if the former is considered a failure then there is no reason to believe that the latter is available now to replace the former. Even if some capital is available in private hands to purchase State investments, that limited capital may not be readily invested to

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[1] Pointing out the lack of private investment capital or the unwillingness of private capital that is available to carry out the needed investments, by no means, necessarily leads to the conclusion that the State can and should fill in the gap. The point is that the room the State has to become a pioneer investor should be kept open for use wherever necessary.

[2] Government failure is not just a matter of bureaucratic inertia or empire-building, it is the outcome of creating organizations to regulate economic activity in the public interest which are then systematically frustrated by the political power of the interests which they have been set up to regulate. The proposition that market failures are small, but government failures are enormous, can make a powerful slogan. But as a piece of economic and political analysis, it is wholly inadequate in understanding the two-way interaction between market and government failures.

purchase the losing ventures of State capital. In many countries State capital had developed new ventures and handed them over to private capital thereby performing a valuable pioneering role in capitalist development but here the ventures were at a reasonable level of efficiency when they moved hands.

Economic Planning

Importance of the "structuralist view of development" (1940s to 1960s): emphasis on various social and institutional rigidities, supply inelasticities, and the need for intervention for modernization and development; emphasis on quantities rather than prices. The developing countries taken on the whole as a special case (Some arguments below in favour of planning of course are valid also for advanced countries).

Planning implies the acceptance of a few premises: (i) that something is wrong (ie. there is a problem); (ii) that it need not remain so (ie. the problem is soluble); and (iii) that it will remain so unless remedial action is planned and implemented.

(i) Market failure argument: distortions in factor and product prices (they are a poor reflection of the 'real' cost to society of these goods, services and resources) leading to disparities between social and private valuations of alternative investment projects; market therefore leading to misallocation of resources in the absence of intervention.

(ii) resource mobilization and allocation argument: need to take an overall view given the limited investment resources (decisions cannot be taken merely on the basis of partial productivity criteria); need to choose where the productivity is the highest; socially high priority areas.

(iii) attitudinal or psychological argument: to rally the people and to mobilize popular support.

(iv) foreign aid argument: a necessary condition for the receipt of bilateral and multilateral aid (a 'shopping list' of projects).

A number of activities are involved in economy wide planning:

1 politics-- define policy objectives
2 a strategy to achieve those objectives
3 a centrally co-ordinated, initially consistent set of principles and policies.
4 try and understand the working of the whole economy -- comprehensive as against 'public sector' planning
5 a more or less formalized macroeconomic model
6 a long term perspective plan (say 10 years) -- medium term plan (say 5 years) -- annual plans

GNP per head as major target variable, whose rate of growth is to be maximized. There are of course widespread objections to the use of this measure.

> Rate of growth of exports and investment/GNP ratio taken as the two major growth constraints (two gap approach); inadequacy of restricting attention to these two constraints: performance of agricultural sector, investment in human resources, problems connected with the very behaviour of government

> Lack of analysis of government expenditure as an integral element of the plan; Criticisms of the separation of government budgeting from planning and the need that the budget has to become the operational core of any serious plan.

> Use of input output tables with fixed coefficients for estimating inter-industry relationships; theoretical and practical objections to the use of IO tables.

There are various criticisms about planning and different views are expressed about what holds for planning in future in developing countries. (a) An expansionist view: more planning and better planning; and (b) a contractionist view: let planning be just a government think tank analyzing political options and showing low cost methods of achieving objectives, and under no compulsion to publish its results. The most likely path: to the latter with focus on government investment and expenditure planning within a very broadly indicative national framework.

The planning approach (sometimes described as 'top-down' approach) considers economic system as a whole and derives investment requirements of each sector. Strong enthusiasm in developing countries for comprehensive planning in the 1950s and 1960s. There have been more than 300 plans in these countries[3], varying widely from those with heavy emphasis on physical quantities and on centralized control (socialist economies and some Asian countries) to indicative plans doing little more than forecasting the future state of the economy as a guide to investment choices. Planning in East Asia (Japan, Korea, Taiwan & Singapore) has developed their own brand of planning which the above World Bank publication describes as comprehensive co-operative planning.

Comprehensive planning owes more to macroeconomic models than to conventional partial equilibrium microeconomic models. The USSR experience and the wartime experience of European countries & the USA have often guided such planning activities. There was additional impetus from donor agencies, helped by the development of computers, modelling and programming techniques.

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[3] Warren C. Baum & Stokes M. Tolbert, 1985, Investing in Development: Lessons of World Bank Experience, World Bank, Oxford University Press.

Vicissitudes of detailed and comprehensive economic planning in developing countries since about the end of the Second World War: (a) poor implementation and limited accomplishments; (b) Overambitious nature favouring large public sector projects and guidance of private sector by fiat; (c) neither analytical techniques nor administrative apparatus proving adequate to cope with the complexity of economic change; and (d) lack of data. Thus there was gradually a move away from central directive planning to mere indicative planning or mere programming of public sector investment activities. This was promoted by the growing strength of neoclassicism as against structuralism (World Bank and IMF pressures). Yet there is gradually a growing awareness of a need to combine structural and neoclassical approaches, while greater emphasis, of course, is being placed on what prices and markets can do. There is also much emphasis nowadays on (a) consultation, (b) flexibility; (c) selectivity; (d) policy co-ordination; (e) information and monitoring

Planning, whether in the traditional "fixed time period" form or in the "rolling plan" form, requires a movement from the aggregate to project level. For the overall economy, the plan will set out its time path over a period of years. This depends on (a) objectives to be achieved, (b) strategies to be adopted, and (c) overall growth model used, which relates various components of the economy to one another (inter-industry or input output models). At the lowest level in the planning process is the selection and formulation of projects. The achievement of plan objectives requires choice of correct projects, at the correct time, their proper formulation and implementation. A great variety of activities are subsumed under the term "project" with no universally accepted definition. Many activities like capital investment, provision of services for design and construction, institution strengthening, and improvement in policies (pricing, subsidies etc) may be considered as "projects".

Project approach, sometimes called a 'bottom-up' approach, involves in each stage of project cycle, analysis of a number dimensions:

(a) Technical analysis: Issues of technical design (size, location,timing, technological package etc), cost estimates (physical contingencies and price contingencies), implementation schedules, and scientific and technological developments the project permits

(b) Economic Analysis: This is based on microeconomic models. Cost Benefit Approach (CBA) has been an area of active research and study since the early 1960s. Point of departure: that the objective of policy is maximization of social welfare.

(c) Financial Analysis: Areas falling under this are: funding, cost recovery (economic efficiency, income distribution, revenue generation), implementation issues, financial performance (rate of return), financial statements.

(d) Social analysis: Relationships between people and development (people as beneficiaries, producers, consumers, and victims) will be analyzed here. The need for projects to be people oriented is stressed. Socio cultural and demographic characteristics of the project population, way they organize themselves to carry out production activities (structure of households, availability of labour, ownership of land), project's cultural acceptability, strategy necessary to elicit commitment from the project population and to ensure their sustained participation, role of women in development etc. are some subjects requiring analysis and action here.

(e) Institutional analysis: The problems facing project institutions, public sector management problems, planning management and staff development form the subject matter in this type of analysis.

(f) Environmental analysis: The following are some of the issues involved: public health and occupational safety; control of air, water and land pollution; sound management of renewable resources; efficient use of natural resources through multiple use, recycling and erosion control; cultural preservation. Objectives of environmental analysis are to avoid environmental damage and to reduce it to an acceptable minimum without slowing the pace of development.

The seminar on "Economic Policy and Planning" was held from 12 September, 1990 to 9 January, 1991 at the Institute for International Cooperation of JICA.

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