Review Article

Conventional Economic Concepts Challenged Poor Countries Must Develop the Mass Sector

by

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"a state which dwarfs its men, in order that they may be more docile instruments in its hands, even for beneficial purposes— will find that with small men no great thing can really be accomplished". John Stuart Mill, On Liberty.

"*Development Reconsidered*" [6] is not just another addition to the numerous books already published on aid and development over the past two decades. It is something else. The authors try to develop a different approach to the whole process of social change. They do this by critically examining some of the myths and fictions attached to conventional economic concepts. In doing this they either draw heavily on their own personal observations or if that is not sufficient, they try to dig out relevant findings from the writings of other scholars.

The book is divided into nine chapters. The subjects treated include, development reconsidered, efficient use of manpower, modernising agriculture and industry, and the significance of nonformal education. There is also one full chapter devoted to the role of the United States in the development of the Third World.

The main thesis of the book as I understand is "Hitherto development has promoted a dualistic economic pattern in which only the privileged few have fattened themselves and the rest continue to suffer", This "oasis in the desert" development pattern as the authors call it is not development inducing, but development retarding.

Foreign aid too has largely gone the wrong way. "As our [USA's] foreign aid programmes have become identified with elitist governments and

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programmes that favour the rich, they only widen the gap and deepen the discontent with the people we want most to help". (p. xiii)

What is development after all? It is nothing but the proper and fuller utilization of the resources available in a country. But this is not what is happening in the majority of the Third World countries. Poor countries have been led to believe that development begins with modernisation, or that it starts when income inequalities, for the sake of more savings, are allowed to widen. Perhaps the above rationale of development was not out of place in an economy which had already passed through the 'long-march', but surely not for one which has just or only recently embarked upon economic development.

Pinpointing some of the negative features of modernisation, the authors, pick up the import substitution industries. "The new industries employed modern technologies brought in from the West. They required a lot of capital but provided few jobs. ..There were few linkages to the rest of the economy: the new industries did not increase the demand for indigenous small-scale industrial products; indeed they often served as substitutes". pp. 31-32. Because of the restricted linkage, these industries remained confined to a few urban areas and this way the whole network of infrastructure did not develop beyond the metropolitan areas. No wonder therefore that many poor countries are today the victim of the urban 'pull' and the rural 'push'. Although some will argue that both the 'pull' and the 'push' are healthy signs for development, but whose development or welfare one may ask? Surely not of the have nots.

The 'new' dual economy has further perpetuated the earlier colonialist pattern of 'the centre and the periphery [4] operating at the international level into "centre and periphery", transplanted at the national level as well. A clear example of this is Pakistan where concentration of industries in a few centres, such as Karachi, have left many areas, like Chitral, completely untouched by development. The rationale behind the selection of a development site is not always economics, but there are pulls of the urban industrialists who along with bureaucrats are there to keep the wheels of industry installed closer to their own sphere of operation. So what happens: Areas like Chitral are allowed to serve as producers of primary goods, like hides and skins, wool, timber etc., but they do not get the chance to process, or even semi-process, their own raw materials. It is indeed highly important to observe that planners would tolerate the large-scale migration of people from these underdeveloped areas to industrial centres, but would be reluctant to come up with a solution suitable to the resource—endowment or aspirations of the people living in their own regions. As it is only the latter activity of 'added value' which generates all other development, physical, financial, or, for that matter social infrastructure, an organic development just ceases to take place. Factories are continuously installed far away from resources zones.

After describing the main weaknesses in the dual economy pattern, the authors now come forward with specific suggestions to improve economic viability of villages. In their view "... the individual village does not have enough children for a school system, nor enough patients to support a doctor, nor enough nonagricultural labour for manufacturing and service industries. There are not enough consumers to support an efficient retailing system, nor is there enough economic activity to justify certain types of technology, such as trucks, or certain essential institutions, such as banks": (p.39) a good reason to enlarge the size of a village unit.

While touching upon the issue of manpower, the authors say: "... poor countries should make intensive use of their most abundant resource, labour, while husbanding carefully their scarce resources of land and capital. In practice, however, dual societv countries have neglected this principle, to the detriment of broad-based development". (p. 56) Whose fault is this? "Westerners as well as Western-trained planners in the poor countries have been taught to think of small-scale, labour-intensive operations as inefficient, as a type of investment that retards economic growth". (p. 57)

The sub-chapter on 'Jobs in Industry' is most revealing. "The proponents of traditional economic theory often argue that... capital intensive industrialization means more output for a given amount of investment and consequently more funds will be available for new investment." (p. 64) This thesis is perhaps valid in a labour scarce and developed country, but certainly not in a labour surplus and developing economy. The evidence collected by Owens et al show that 'under a reasonable price structure, small-scale factories [especially for products like clothing, furniture, many metal products etc.] can produce more output per additional dollar of investment than large-scale factories". (p. 65)

The other important point emerging from this "sub-chapter" is one dealing with the myth attached to income inequality. Mahbub-ul-Haq supported inequality when he wrote in 1963 "The underdeveloped countries must consciously accept a philosophy of growth and shelve for the distant future all ideas of equitable distribution and welfare state" [3, p. 30]. This thesis has however, lost its currency among many experts [5,7] on aid and development. On the contrary they are of the opinion that inequality leads to wastage of resources, disinvestment in education and health, and worst still it limits the effective demand for mass consumption goods.

As far as profit rates, and therefore marginal rates of savings, are concerned, they too could be even higher in smaller enterprises. This holds very much true for many labour and skill—intensive industries, especially during the early stages of development. (c.f. p. 65) This broad-basing, besides profit considerations, have also other advantages to the society. "There are two points involved, both almost self-evident. Many of the poor are small producers —farmers or businessmen. By investing in themselves they cannot only improve their own lot in life, but raise their country's total investment as well. The second point is that as the incomes of the poor rise it becomes possible to build a mass market, based primarily on labour—intensive goods." (p. 66) Still another important point emerging from the book is as follows: "... personal savings among the rich may not be as high as classical economic theory suggests. When the mass demand for new products is low, thus limiting the opportunities for profitable investment, the rich may either spend their money on consumer goods and land or transfer their savings abroad rather than invest it in productive ventures at home." (p. 66)

There is no end to challenging the conventional economic concepts. The authors challenge the generally held view that it is the larger farmers who are progressive and who are able to produce more. Why, the authors ask rhetorically? "It is (because) the larger farmers... have access to the market, and credit, to production inputs and technical information." (p. 71). Given these facilities, the smaller farmers would appear with a still larger basket of produce: see for example the farmers in Taiwan, in Korea and in Egypt. (c.f.p.73)

Gresham's Law, 'Bad money drives out good', is assumed by the authors: "It may be there is a Gresham's Law of farm size and system, namely: large-farm extensive and small-farm intensive farming cannot coexist in the same country, the larger will drive out the smaller". This Law is not, in the opinion of the reviewer, fully applicable to the conditions now obtaining in countries where the Green Revolution is taking place. I know, of course, that many large owner farmers who used to let out their land in the past have recently started resorting to self-cultivation by driving out their old tenants and there have also been cases in India around Lucknow where businessmen have used their 'black money' in buying large chunks of agricultural land, but one cannot subscribe to the general conclusion as presented by the authors that large-farm extensive farming is going to prevail. Experts who are well aware of the agricultural conditions in India and Pakistan know that the operation of the Gresham's Law could not be more than marginal. On the contrary, the recent emancipation and awakening amongst the peasantry in many of the emergent countries is going to prove a threat to any possible development in land holdings along the lines of Gresham's Law. There is also another point worth mentioning here. As the authors have themselves suggested: even smaller farmers can prove efficient, provided of course, they are not deprived of the essential 'inputs': it is too difficult to lend credence to the hypothesis presented in the "Development Reconsidered". Needless to say however that the pressure of unemployment in the rural areas would also thwart the application of the Gresham's Law. In the reviewer's view, the present set-up of farm holdings, both large and small farm holdings, will continue to coexist.

The book repeatedly mentions the importance of 'nonformal' education in the developing countries. This is advocated on the ground that it is with the help of 'On the Job Training' and vocational education, that the developing countries can promote progress in the 'mass sector' consisting of smaller farms and non-farm enterprises. Some of the progressive countries, such as Taiwan, Korea, Hong Kong and Egypt are doing a great deal to train their farmers in the art of scientific farming. This holds equally important for Pakistan, more particularly now that the use of high-yielding varieties of wheat and rice have generated a kind of 'green revolution' in the country side.

In the last chapter, "The United States and the Developing Countries", the authors make a forceful plea for a qualitative improvement in the existing aid package. Contrary to the dismay shared by many United States citizens as to the wisdom of granting of aid to the poor countries "vastly different from (their) own in culture, religion, and custom", the authors consider aid as necessary. It is necessary, in their view both "to help the less fortunate nations and at the same time to protect national self-interest of the United States. Just an example: "The developed countries bought $33 billion worth of imports from the (developing) countries in 1968, essential commodities, such as oil, metals, agricultural products, and low price manufactures that help keep down the cost of living." (p. 147).

Throughout the book, Owens et al stress the importance of local initiative. What the United States can do is not to use aid as a weapon in their foreign policy aims, but "in the future we should be more selective in responding to requests for assistance. When governments are willing to institute modernizing policies, then we can help... with some confidence that a more humane society will gradually evolve. Where development is concentrated among the few we should not feel constrained to help, even in the name of anticommunism". (p. 159)

Owens et al have done full justice to the theme chosen for the book. Right from the beginning till the end, there is only one major message contained in the book: "Emerging countries anxious to develop must look for ways to break the traditional 'oasis in a desert' economy pattern, and do everything possible to broad-base development in the mass sector. It is only through this switchover that they can at all aspire to break perpetual stagnation, fight unemployment and worst of all stop discrimination of the 'silent' majority by the 'active' minority.

There is one serious gap in "Development Reconsidered". It gives a good account of the existing dualistic societal pattern in the Third World, but it is not bold enough to suggest radical means, even when they are necessary. For instance, though the authors point out in fair detail the present problems facing a small farmer in the improvement of his farming operations, when it comes to suggesting land reforms they take a rather milder view: "We conclude... that land redistribution, though obviously desirable, is not actually, essential." (p. 89).

The other point missing in the book is the need to introduce planning at the grass roots. The fault of the present metropolitan concentration does not lie only in the presence of powerful business and industrial magnates and bureaucrats, but equally because the urban orientation of the planners themselves. If the mass sector development is to be the future aim of planning, then the Third World will have to establish planning cells and agencies right in the heart and soul of rural landscape. Metropolitan planning unfortunately has produced only sophisticated plans, well written and giving an air of scholarliness, but very much empty as far as the validity of the basic data is concerned. It is indeed highly unfortunate to see large plan documents of many developing countries, giving so much information as to the need for removing unemployment and underemployment, but knowing nothing about the actual statistical state of affairs in the employment sector. The data are not there. This holds true for so many other indicators of development, such as education, health and physical infrastructure. It is not enough to know simply the descriptive position of these 'sub-sectors' but their actual relationship in both social change and economic development of the emerging Third World societies, as well.

On the whole, there is not much to criticise except that the authors have too often drawn on quotations, many statements are repetiting and chapter eight provides a rather unusual treatment of the relationship between population and exports.

Let me conclude in Owens' own words: "What these marginal people have taught me is this: if we Westerners are to be able to help solve the problem of development we cannot think as we do at home. We must, instead, learn how to think like the illiterate and hungry in the villages and shanty towns of the Third World". (p. xv)

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