THE POSTWAR ECONOMIC EXPERIENCE OF THE THIRD WORLD

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> The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face his real conditions of life, and his relations with his kind. (Karl Marx and Friederich Engels, Manifesto of the Communist Party, 1848)

> To the crude conditions of capitalistic production and the crude class conditions corresponded crude theories. The solution of the social problems, which as yet lay hidden in undeveloped economic conditions, the Utopians attempted to evolve out of the human brain. Society presented nothing but wrongs; to remove these was the task of reason. It was necessary, then, to discover a new and more perfect system of social order and to impose this upon society from without by propaganda, and wherever it was possible, by the example of model experiments. These new social systems were foredoomed as Utopian; the more completely they were worked out in detail, the more they could not avoid drifting off into pure phantasies. (Friederich Engels, Socialism: Utopian and Scientific)

I INTRODUCTION

A widespread view prevails that the postwar record of economic development in the Third World has been one of failure, of failure moreover developing inexorably towards catastrophe in some versions. The major components of this view can be summarised straightforwardly.[2]

(i) In terms of material advance, as measured by the (formerly) standard indicator of GNP per capita, the record of the LDCs (less developed countries) has been disappointingly poor, in some cases negative, resulting among other things in a growing absolute and relative gap between developed and underdeveloped countries.

(ii) More importantly, the absolute rise in GNP per capita of the LDCs has not been reflected in rising absolute standards of welfare for the mass of the populations of the LDCs as a result of a range of causes[3] among the most important of which have been increasingly regressive income distribution and patterns of output irrelevant to basic social needs, as well as types of economic development

tending towards an increasing marginalisation of growing sections of the population. On the contrary, Third World postwar economic development has been characterised by negligible improvement or even increasing material misery for the majority, with only a small minority benefiting from development.

(iii) Even where (or if) material standards have improved, the result is "growth without development", i.e. a process whereby average purchasing power over goods and services increases but without an improvement, and perhaps a decline in the quality of life for the majority. Thus growth without development entails unjust income distribution, the shattering of traditional values and communities without any worthwhile alternatives, growing crime rates, the loss of human dignity resulting from growing unemployment and underemployment, and in general the imposition of unsuitable Western modern capitalist industrial culture including consumption patterns on Third World societies.[4]

(iv) In any case such material progress as has been achieved, disappointingly small as it may be, is likely to be ephemeral, threatened as it is by the spectres of starvation, ever-growing mass unemployment and dwindling resources.[5]

(v) Starvation threatens as a result of rapidly accelerating population growth, the pattern of international trade which favours cash crop production by the LDCs and the dominance in the political system of privileged elites whose interests and consumption patterns are not directed towards the development of domestic food production. The reality of this threat is evidenced by the failure of Third World agriculture in the postwar period to date.

(vi) Mass unemployment, including large-scale urban and rural underemployment, is already characteristic of Third World countries on a scale never before witnessed since the localised experience of the advanced capitalist countries in the 1930s; and currently accelerating rates of population growth, the capital intensive character of modern industry, together with a host of other factors, not least of which has been uneven income distribution, makes it a near certainty[6] that by 1990 Third World overall unemployment rates will total anywhere between 58 percent and 73 percent.[7]

(vii) Dwindling resources post a threat to the whole of mankind unless a fundamental change takes place in the way of life of the rich minority who live in the advanced industrial countries. Currently known and estimated reserves of a range of commonly used and indispensable raw materials are, at current prospective rates of consumption, likely to last for only a comparatively short period. The threat posed by this problem is greatest for the LDCs since the superior political, military and economic power of the Western countries gives them a powerful advantage in securing the greatest share of these dwindling resources. Moreover, in view of the consequent need for a change in life-style it becomes all the more imperative that the LDCs should not continue on the path of growth without development on which they have already (been persuaded to?) set foot.

(viii) Internationally, the old pattern of direct colonial rule has given way to one of increasing indirect dependence based on the monopoly of advanced technology by the industrial West. The international division of labour has changed, but not in a fashion which permits autonomous Third World development; on the contrary, in a fashion which perpetuates and pulls even tighter the ties of dependence and which accentuates the immoral and potentially politically disruptive division between rich and poor nations.

Insofar as it can be distinguished from this radical-liberal view, the specifically Marxist or neo-Marxist version of this outlook[8] emphasises that the alleged failure of postwar Third World development is evidence of the socially retrogressive character of capitalist development in the age of imperialism and the consequent inability of such development to accomplish even the material successes which early, non-imperialist capitalism in the West accomplished. One conceptualization of this neo-Marxist approach is Gunder Frank's "development of

underdevelopment" which postulates that underdevelopment is not simply a failure to develop as compared with the economically more advanced continents of Europe, North America, Australasia and Japan, but is a state sui generis of distorted development caused by Western imperialism. A corollary of the Marxist view is that capitalism in Third World countries, being an externally introduced (and generally forcibly imposed) system has no healthy internal roots or vigorous autonomous dynamic of its own.

In what follows we shall argue that the empirical data bely this picture and that in the Third World the postwar period has witnessed substantial, accelerating and historically unprecedented improvements in the growth of productive capacity[9] and of the material welfare of the mass of the population. The developing capitalist societies of Asia, Africa and Latin America have, moreover, proved themselves increasingly capable of generating powerful internal sources of economic expansion and of achieving an increasingly independent status in the world, economically and politically. This progress has been extremely uneven as between states, classes, regions and ethnic groups and has been accompanied by new and varied tensions, individually and within and between societies and social groups.[10] This latter point touches on a range of phenomena both favourable and detrimental to human progress and is beyond the scope of this essay. The fact of markedly uneven development, however, together with the immense heterogeneity of the societies of the Third World,[11] a heterogeneity far greater than that of the advanced capitalist countries taken as a group, poses the question of the appositeness of treating these societies in aggregate, and of the related conceptual division of the world into developed and underdeveloped countries. So rapid and fundamental has been postwar international economic change that the core of truth in the division of the world into developed and underdeveloped is rapidly crumbling as the situation gives way to one which could more appropriately be conceptualized as a spectrum of varying levels, rates and structures of economic development — and a spectrum in which the location of individual countries is constantly shifting. Nevertheless, the core of truth yet remains substantial[12] and justifies an aggregative treatment provided the elements of change qualifying such a treatment are duly taken into account.[13]

II MATERIAL PROGRESS — GNP PER CAPITA

Cross-national comparisons of the poor countries with the rich in terms of GNP per capita, or infant mortality, or access to running water, or caloric intake per capita, etc., are only too frequently used to argue or suggest poor performance or failure of Third World development efforts.[14] Yet such comparisons throw no light on the performance of the poor countries in attempting to change this condition, to develop, since it takes no account of the state of affairs before the effort to improve began, nor of the time span which has since elapsed. Indeed such cross-country comparisons, presented as evidence of the failure of Third World development, are all the more absurd in view of the comparatively[15] cheerful picture painted by the relevant data relating to progress over time.

In terms of the standard measure of economic progress, GNP per capita,[16] it must be stated unequivocally that the record of the Third World postwar has been reasonably and perhaps outstandingly successful as compared either with their pre-World War II twentieth century record or with whatever past period one cares to take as relevant for comparison in the now developed market economies (DMEs). Any argument that the economic growth of the LDCs postwar has been a relative or absolute failure must rest on other grounds.[17]

Comparison of postwar Third World economic growth with prewar (twentieth century) growth is necessarily based on scanty evidence but is fairly conclusive: postwar economic growth in terms of GDP per capita has in general been faster than prewar economic growth for the LDCs. Kuznets' summary of the evidence for seven

underdeveloped countries for which long-term records are available is given in Table 1. Of the four (or perhaps five) countries for which the data permit pre/post-war comparisons (Jamaica, Philippines, United Arab Republic, India and perhaps Ghana), all show markedly accelerated growth rates of real product per capita post-war as compared with prewar, with the possible exception of Ghana where there was probably very little change on average. Aggregate data for Latin America for a more limited period show the same postwar acceleration. According to the Economic Commission for Latin America, GNP for the Latin American countries increased at 4.2 percent per annum from 1935 to 1953 and GNP per capita at 2 percent per annum, while in the period 1945 to 1955 total output increased at an annual rate of about 4.9 percent and output per head by 2.4 percent. These results are all the more impressive in that the pre- and post-World War II comparisons show an acceleration as compared to a period (c. 1900-1945) which itself witnessed, as far as the scattered evidence goes, unprecedented growth rates as compared with any earlier period in the history of the LDCs.[19]

TABLE 1

Country		Period (No. of years in brackets)	Rates of growth of product per capita per decade
Argentina	1.	1900-04 to 1925-29 (25)	12.0
	2.	1925-29 to 1963-67 (38)	8.9
	3.	Lines 1-2 (63)	10.1
Mexico	4.	1895-99 to 1925-29 (30)	13.3
	5.	1925-29 to 1963-67 (38)	22.3 (38-3)[1]
	6.	Lines 4-5 (68)	18.2 (26.8)[1]
Jamaica	7.	1832 to 1930 (98)	0.0
	8.	1929-31 to 1950-52 (21)	8.9
	9.	1950-52 to 1963-66 (13.5)	77.7
Ghana	10.	1891 to 1911 (20)	20.0
	11.	1911 to 1950-54 (41)	13.9
	12.	1950-54 to 1963-67 (13)	14.2
	13.	Lines 10-12 (74)	15.6
Philippines	14.	1902 to 1938 (36)	9.6
	15.	1938 to 1950-54 (14)	- 3.9
	16.	1950-54 to 1963-67 (13)	30.0
	17.	Lines 14-16 (63)	10.3
United Arab Republic (Egypt)	18.	1895 to 1945-49 (50)	- 2.2
	19.	1945-49 to 1963-66 (17.5)	29.8
India	20.	1861-69 to 1881-89 (20)	13.1
	21.	1881-89 to 1901-09 (20)	- 3.1
	22.	1901-09 to 1952-58 (50)	6.3
	23.	1952-58(F) to 1963-67(F)[2] (10)	12.2
	24.	Lines 20-23 (100)	6.2

[1]Alternative estimate

[2]Fiscal year beginning April 1st

Source: Simon Kuznets, Economic Growth of Nations: Total Output and Production Statistics (Harvard University Press, 1971), pp. 30-31.

Comparison of the recent developmental experience of the Third World with that of the now developed capitalist economies at an earlier stage of the latter's economic growth, generally the period of their industrialisation, is not a comparison of like with like since the industrialisation of the now developed countries was the culmination of a process of modern socio-economic change stretching over several centuries covering the rise of capitalism within the long period of the dissolution of feudalism. Since most of the LDCs start or have started the development process from a position in this respect far more primitive than the developed capitalist countries, then if other things were equal (see below) the comparison would be bound to minimise such achievements as the LDCs could demonstrate. Nevertheless, despite this, the LDCs come out of such a comparison rather well. Their postwar growth rates of product per head have in general been higher than those of the industrialising capitalist countries of the eighteenth and nineteenth centuries. Summarising the evidence for all the non-communist developed countries for which there are long-term records, and excluding very small countries with a population of less than two million, Kuznets notes that the rate of growth of per capita product for the long period covering the modern economic growth of the fourteen countries concerned ranges from 1.0 to 1.2 percent per annum[20] for Australia, The Netherlands and Great Britain-United Kingdom, to 2.9 to 3.2 percent for Sweden and Japan, with the rates for the remaining nine countries[21] clustering between 1.4 and 2.3 percent per annum.[22] This compares with average postwar per capita growth rates in the Third World ranging from 2.4 percent per annum in the 1950s to 2.5 percent per annum in the 1960s and 3.8 percent per annum in the 1970s,[23] averaging 2.8 per annum in the years 1963 to 1973.[24] Limited indeed as is the value of these comparisons, they serve to suggest the extent to which in fact other things were not equal (see above) as regards the capacity for material advance and in particular the extent to which new elements have improved the prospects of material advance at a faster rate and generally from a considerably less appropriate base than was the case with the countries of Western centuries. In a broad perspective "the advantages of backwardness" thesis appears to have much more relevance to current Third World economic growth than has often been supposed — both as regards technology and the increased opportunities and stimuli opened out by the expansion of the world market.[25]

Bearing in mind still the much more inappropriate technological, economic, institutional and cultural base for modern economic development from which today's LDCs start, the comparison of their current growth rates of per capita product with those of the developed world clearly has limited value as a measure of economic achievement or performance of the former owing to its unhistorical perspective. Quite a substantial divergence in favour of the latter would not by itself suggest a poor performance of the former, particularly in view of the differences in population growth rates. Nevertheless, such an alleged divergence has been taken to be a reasonable criterion of performance and quite specific economic and political conclusions have been drawn from it.[26] Without in any way subscribing to this approach, we may nevertheless note that in the 1970s reverse "depolarisation" occurred with per capita growth rates of LDCs rising faster than those in DMEs (Table 2), a development which started in the late 1960s (Table 3).

More fundamentally, however, the notion of a "growing gap" or rich world-poor world polarisation implies both a marked discontinuity in the total range of growth rates and the grouping of all or most of the countries commonly classed as less developed at the lower end of the range with most of the developed market economies bracketed at the upper end of the range. If this is not the case, and particularly if the second condition is not fulfilled, then the growing polarisation thesis must be discarded. There is in fact a continuous spectrum of growth rates with no marked discontinuities (Table 4). Further, although the greater proportion of the LDCs are bunched in the lower ranges of the growth spectrum for the period 1960-73, one quarter and one third were to be found in the upper and middle ranges.[27] Only about one quarter of the developed marked countries are to be found in the higher growth rate ranges, the vast majority of them being in the

TABLE 2
Annual Percentage Growth Rates of per capita GDP 1960-74,
Developed and Developing Market Economies

	1950-60	1960-70	1970-74
Developed market economies	2.8	4.1	3.2
Developing market economies	2.4	2.6	3.8

Source: UNCTAD, Handbook (1976), p. 341.

TABLE 3
Index of per capita GDP 1960-74,
Developed and Developing Market Economies

1970 = 100

Year	Developed market economies	Developing market economies
1960	69	76
1961	72	78
1962	74	78
1963	77	81
1964	81	84
1965	84	85
1966	88	86
1967	91	89
1968	95	92
1969	98	96
1970	100	100
1971	103	103
1972	107	106
1973	113	112
1974	112	116

Source: Yearbook of National Accounts Statistics 1975, vol. III, International Tables (UN Department of Economic and Social Affairs, New York, 1976), pp. 244-245.

middle range with a few in the lower ranges. While all this indicates uneven development and continuing polarisation at least up to the late 1960s, it certainly does not indicate either economic stagnation or growing polarisation.

III MATERIAL PROGRESS — GROWING INEQUALITY

Has this rapid expansion of output been nullified in terms of material welfare by growing inequality and marginalisation — so that the mass of the population, or the lowest 20 percent,[28] is worse off than before? Is it the case that the "type of growth" so far pursued in most LDCs has itself been a cause of growing inequality?

TABLE 4

Growth in GNP per capita over years 1960-73 of countries with over one million inhabitants

Country	Annual growth rate in real terms of GNP per capita (%)	Population (million)
Libyan Arab Republic	10.5	2.16
Japan	9.4	108.35
Saudi Arabia	8.7	7.75
Portugal	7.4	8.99
Greece	7.3	8.93
Singapore	7.1	2.19
Republic of Korea	7.1	32.91
Hong Kong	7.0	4.16
Republic of China	6.9	15.42
Iran	6.4	32.14
Spain	5.8	34.74
Puerto Rico	5.7	2.95
Israel	5.6	3.21
Thailand	4.8	39.40
France	4.7	52.16
Papua, New Guinea	4.6	2.60
Finland	4.5	4.66
Austria	4.4	7.53
Panama	4.4	1.57
Togo	4.4	2.12
Belgium	4.3	9.76
Italy	4.3	54.89
Netherlands	4.1	13.43
Mauritania	4.1	1.26
Norway	4.0	3.96
Denmark	3.9	5.02
Turkey	3.9	37.93
Malaysia	3.9	11.30
Angola	3.8	5.72
Syrian Arab Republic	3.8	6.95
Lesotho	3.8	1.17
Canada	3.7	22.13
Federal Republic of Germany	3.7	61.97
Ireland	3.6	3.03
Jamaica	3.6	1.97
Brazil	3.6	101.95
Nigeria	3.6	71.26
Malawi	3.5	4.83
Pakistan	3.4	66.23
Mexico	3.3	56.05
Nicaragua	3.3	1.97
Guatemala	3.3	5.18
Mozambique	3.3	8.28
Cameroon	3.2	6.21
USA	3.1	210.40
Australia	3.1	13.13
Ivory Coast	3.1	5.89
Kenya	3.1	12.48
Switzerland	3.0	6.43
Sweden	3.0	8.14
Lebanon	3.0	2.98
Iraq	2.9	10.41
Tanzania Mainland	2.8	13.97
Argentina	2.7	24.28
Costa Rica	2.7	1.87
Dominican Republic	2.7	4.43
Zaire	2.6	23.44
Bolivia	2.5	5.33
United Kingdom	2.4	56.00
Colombia	2.4	22.50
Indonesia	2.4	124.42
Ethiopia	2.4	26.55
Philippines	2.3	40.22

TABLE 4 (continued)
Growth in GNP per capita over years 1960-73 of countries with over one million inhabitants

Country	Annual growth rate in real terms of GNP per capita (%)	Population (million)
New Zealand	2.3	2.96
Liberia	2.2	1.45
Trinidad and Tobago	2.1	1.06
Peru	2.1	14.53
Uganda	2.1	10.83
Venezuela	2.0	11.28
Sri Lanka	2.0	13.18
Paraguay	1.9	2.42
Ecuador	1.9	6.79
El Salvador	1.9	3.77
Laos	1.9	3.18
Chile	1.7	10.23
Algeria	1.7	14.70
Zambia	1.7	4.65
Rhodesia	1.7	5.90
People's Republic of Congo	1.7	1.20
Morocco	1.6	15.90
Sierra Leone	1.6	2.79
Egypt	1.5	35.62
Jordan	1.3	2.54
Honduras	1.3	2.78
India	1.3	581.91
Burundi	1.3	3.58
People's Republic of Benin	1.0	2.95
Mali	1.0	5.37
Burma	0.7	29.51
South Vietnam	0.6	19.87
Central African Republic	0.4	1.71
Nepal	0.4	12.02
Malagasy Republic	0.3	8.30
Afghanistan	0.3	16.63
Bwanda	0.3	3.98
Guinea	0.1	5.24
Ghana	0.0	9.31
Uruguay	- 0.2	3.00
Bangladesh	- 0.2	74.00
Somalia	- 0.2	3.04
Haiti	- 0.3	4.45
Bhutan	- 0.3	1.12
Upper Volta	- 0.4	5.71
Sudan	- 0.9	17.05
Senegal	- 1.8	4.07
Cambodia	- 1.8	7.57
Niger	- 1.9	4.36
Chad	- 2.1	3.87

NOTE: The centrally planned economies and South Africa have been omitted.

The widespread belief that the rapid Third World economic progress of the postwar period has been generally associated with growing aggregate inequality is not borne out by either the (extremely scanty and unreliable) time series data or by the more plentiful cross-section data. Summarising time series data for eighteen countries on a graph relating the annual growth rate of income of the lowest 40 percent against the rate of growth of GNP, Ahluwalia notes that "the scatter suggests considerable diversity of country experience in terms of relative equality. Several countries show a deterioration in relative equality but there are others showing improvement."[29] Ahluwalia's cross-section evidence covering sixty-six countries is used to examine the statistical relationship between distribution and per capita income and between distribution and growth of GDP at given levels of per capita income,[30] the former being taken as an indicator of the secular influence of growth on distribution over long periods and the latter as an indicator of the short-term impact of economic growth on income distribution. Concerning the secular relationship of economic growth to inequality, Ahluwalia finds that "there is some confirmation that income inequality first increases and then decreases with development".[31] Elsewhere, discussing the same data he points out

> ...that there is no strong pattern relating changes in the distribution of income to the rate of growth of GNP. In both high-growth and low-growth countries there are some which have experienced improvements and others that have experienced deteriorations in relative equality. The absence of any marked relationship between income growth and changes in income shares is important for policy purposes. It suggests that there is little firm empirical basis for the view that higher rates of growth inevitably generate greater inequality (p. 13).

There is now a considerable body of cross-sectional evidence supporting the view that the earlier stages of growth are likely to be characterised by increasing inequality, with the trend being reversed as higher levels of development are reached. The turning point towards the emergence of substantial middle income groups and the stabilisation and improvement of the lower quartiles appears to occur at about the $500 level (Table 5). It is of interest to note that of the eighty-odd LDCs shown in Table 4 well over one quarter had already passed that level in 1973.[32]

TABLE 5
Distribution of Income for Countries grouped by level of GDP per capita

Gross domestic product per capita	No. of countries	Income shares received by quintiles of recipients (percentages)					Gini coefficient
$		Q.1	Q.2	Q.3	Q.4	Q.5(top)	
Below 100	9	7.0	10.0	13.1	50.5	29.1	0.42
101-200	8	5.3	8.6	12.0	56.5	24.9	0.47
201-300	11	4.8	8.0	11.3	57.7	32.0	0.50
301-500	9	4.5	7.9	12.3	57.4	30.0	0.49
501-1,000	6	5.1	8.9	13.9	50.1	25.4	0.44
1,001-2,000	10	4.7	10.5	15.9	46.6	20.9	0.40
2,000 and above	3	5.0	10.9	17.3	42.7	16.4	0.36

Source: UN, 1974 Report on the World Social Situation, p. 14, based on Felix Paukert, "Income Distribution at Different Levels of Development: A Survey of Evidence", International Labour Review (August-September 1973), p. 118.

Furthermore, concerning the short-term relationship between growth and distribution "the cross-section evidence does not support the view that a high rate of economic growth has an adverse effect upon relative equality. Quite the contrary, the rate of growth of GDP in our sample was positively related to the share of the lowest 40 percent suggesting that the objectives of growth and equity may not be in conflict" (Ahluwalia, p. 17).

The evidence then clearly does not support the hypothesis: income distribution in all or most countries starts getting more equal as soon as modern growth commences and continues to do so uninterruptedly thereafter. Nor, more specifically, does it suggest that of the majority of Third World countries which have achieved economic growth postwar (there are a few which may have registered negative growth rates during the last three decades) the great majority have in this period witnessed steady and substantially increasing equality throughout. But who ever thought either of these things actually had happened or would happen in market economies? The overall picture in this respect certainly does not correspond to the Utopian itinerary which many of "the community of development economists" (Irma Adelman's felicitously chummy phrase) allegedly expected.[33] On the other hand, it is extraordinarily difficult to know whence came the evidence stimulating the current intense concern about the upper income groups engrossing all the gains from growth (and more) since in the first place solid evidence is almost non-existent and in the second place such evidence as does exist, as we have seen, shows no clear trend, and most certainly nothing to suggest generalised widespread and disastrously large deteriorations of income distribution. Indeed the outlook for the future on the basis of past performance may reasonably be said to be at least mildly hopeful if we regard more equal income distribution in a favourable light.[34]

The secular scenario of initially growing inequality followed by declining inequality as growth proceeds is not only hopeful in itself, but, when allied with the postwar tendency for growth to accelerate in Third World countries implies that to the extent that this continues (or existing rates of growth are maintained) then the turning point to stable and eventually improved distribution is likely to take place sooner than in the past (of the now developed countries). In other words the sequential development of initially rising and subsequently falling income concentration, which in Ahluwalia's scenario is produced by counteracting aspects of modern development operating first one way and then the other[35] is likely to become compressed so that the initial period of rising inequality will become foreshortened. In some cases, e.g. perhaps postwar Taiwan, it may well be that the equalising aspects of modern development are strong enough almost from the start to outweigh the initial concentration aspects so that the sequential <u>aggregate</u> development of income redistribution does not take place and there is no initial concentration of overall distribution.[36] This kind of compression would explain Ahluwalia's at first sight somewhat contradictory findings that early development (considered secularly) shows initially rising concentration, while rates of economic growth in the short term correlate positively with shares of the bottom 40 percent postwar.[37]

This latter paradox may also be partly related to the fact that the enormous heterogeneity both within and between these societies is bound to reduce the value of cross-sectional correlations as indicators of change over time, particularly in the earlier stages of growth when societies are most heterogeneous. In societies with fragmented social structures, changes in the Gini coefficient may be the net result of changes within disparate social groups within the same national territory together with changes in the relative importance within society (in income terms and in terms of numbers) of these component social groups — all this aggravated by the incomparability of purchasing power of groups having radically different ways of life although living in the same country. In effect, these considerations would be liable to render the initial phase of <u>overall</u> increasing concentration a less certain outcome while not invalidating the secular

tendency towards stabilisation and a measure of reduction of income inequalities. We must repeat, however, that there is no implication here of general, widespread, early and even "improvements" in distribution as economic growth proceeds. On the contrary, it is extremely likely that there will be traumatic disruptions in previously accepted relative incomes within and between sectors (whether these previous relativities were "good" or "bad") and particularly marked development of social differentiation in agriculture as commercialisation penetrates it further, although in some cases, of course, this will not lead to increased concentration but to the replacement of one type of social differentiation by another.[38]

Nevertheless, the rejection of a Panglossian approach should not blur the logical implications of the empirical data discussed above. And these are that far from curtailing growth to improve income distribution (the "basic needs" approach), growth ought to be speeded up to bring more rapidly into play the economic and institutional[39] forces which tend to ensure that the more economically advanced societies are also the more economically egalitarian, and the more egalitarian at higher absolute standards of living.[40]

It has been argued or implied that since the evidence does not show rapid growth to be incompatible with more equal income distribution this justifies extensive egalitarian policy measures.[41] But this ignores the fact that the move towards more equal income distribution is in the general case the by-product of high levels of economic achievement and of measures to promote economic growth *per se* rather than the reverse, especially the extensive development of relevant education.[42] The partial exception to this statement is land reform which, however, promotes economic growth mainly to the extent that it is aimed at economic growth rather than equality. Mexico may be an exception in this respect. A recent study relating to Latin America suggests that as capitalist development increasingly pervades agriculture, so that latifundistas become more akin to large-scale commercial farmers (Lenin's "Russian way"), the economic relevance of land reform is declining if not becoming negative. (David Lehmann, *A Theory of Agrarian Structure: Typology and Paths of Transformation in Latin America*, Working Paper no. 25 [Centre of Latin American Studies, University of Cambridge]) Of course, distribution is much less unequal in Asia and Africa, where redistribution is therefore all the more likely to have damaging effects on output and where in fact increased concentration may be expected to be the condition of rapidly expanding output, as many studies of the Green Revolution suggest.

The view of growing inequality as detrimental to material welfare is rooted in neo-classical assumptions of declining marginal utility of consumption with given tastes (so that the transference of income from the rich to the poor leads to an absolute rise in total utility). Such a static analysis can provide, in a growing economy, no presumption of declining welfare with growing inequality, especially as not only are tastes changing rapidly but we are not in a zero sum game situation. This is a consumption-oriented analysis only. It ignores the effects of differences in income or anticipated differences in income on the growth of output via incentives to both capital and labour and the crucial role of such differences for resource re-allocation during periods of rapid structural change with considerable barriers to mobility of labour and capital.[43]

Changing and probably increasing income differences are therefore likely to contribute to economic growth in the following ways: by promoting the necessary diversification of skills and occupations; by mobilising latent energies previously relatively dormant in non- or only partly-commercialised sectors of the economy where previously custom and habit have prevailed; in particular by mobilising for economic activity scarce or underutilised *entrepreneurial* talents; and by promoting rapid changes in resource allocation at minimum cost (as compared with bureaucratic methods). These unequalising aspects of economic growth are likely to be strongest in the earliest stages of growth as the expansion of the nascent, high-productivity modern sector creates sectoral inequalities; while within sectors commercialisation of agriculture and the development of the urban

informal sector produces increasing inequality as social differentiation proceeds and as entrepreneurs emerge. Within the modern sector, too, there may be increasing initial differentiation as new skills and industries develop, while trade unions have not yet developed sufficiently to counteract this trend. Such processes, while increasing income inequality, are likely to expand material welfare for the majority,[44] eventually, or perhaps immediately, creating conditions for raising the standards of those who have failed to acquire new skills, or failed to respond to new opportunities or have not initially had new opportunities to respond to.[45] These unequalising forces will tend to decline as the proportion of the labour force in the modern sector rises, as productivity levels in the agricultural and urban informal sectors rise in relative terms, as trade unions become stronger and as barriers to resource mobility become weaker. This highly stylised picture is lent support not only by the cross-sectional evidence but by the evidence relating to causes of income differences which show such differences to be highly correlated particularly with geographical location,[46] sectoral location[47] and education.

None of these points depend on the thesis that the wealthy save a higher proportion of their income than other groups — on which the evidence is not clear and which even if it were so would still leave the direction of causation an open question. Where savings and investment decisions are highly interdependent then the presence of savings signified by high incomes will be far less important to the growth of output than the inducement both to save and invest encouraged by the emergence of prospective differential rewards as commercialisation opens up new opportunities, which mobilises latent savings.[48]

It is certainly true that not all income differences or growing income differences serve to promote economic growth. Even in the case of self-made men their offspring will inherit advantages not necessarily related to their own ability to contribute comparably to the exchange economy. But the business and professional classes necessary for non-communist economic development will also hand down from generation to generation experience, traditions and cultural traits appropriate to their calling and socio-economic locations in competitive societies which, especially in the case of businessmen, demand that they keep advancing as a necessary condition of at least maintaining their positions. In the longer term, the stabilisation of a substantial capitalist class promotes the institutionalisation of economic innovation and accumulation on a continuous and cumulative basis.[49] Thus, it does not strengthen the equation of growing inequality with declining welfare to narrow down the relevant concept of inequality to that arising from ownership structures or structures of political authority (classes and elites) since the development of ownership and power structures in a capitalist society is inseparable from the acquisition of new skills and behavioural traits adapted to the requirements of this type of economy. Even where economic inequalities arise from morally unjust and/or economically irrelevant factors the attempt to discriminate closely between such inequalities and those arising from economically functional income differences may be very difficult in practice, in some respects impossible, and where possible is likely to mean an immense strain on weak administrative apparatuses and an enormous cost in terms of alternative uses of such administrative apparatuses and especially of wastefully used skilled manpower. In general, this consumption-oriented egalitarian approach ignores the economic costs of egalitarian policies,[50] both direct and indirect. These costs are likely to be very high if some of the policies now being advocated are attempted.[51]

Moreover, the pursuit of income equality *per se* is both unjust and undemocratic. It is unjust in the sense that it would tend to reward equally in material terms different groups and individuals with different value judgements about consumption, leisure, intensity of work, acquisition of new skills and of the desirability of changing long-held customs and beliefs.[52] The separation of reward from individual effort in societies characterised by extreme poverty would unjustly prevent the individual from fulfilling his social and personal obligations (e.g. towards his family). It is undemocratic in the sense that it is exceedingly

unlikely that the current preoccupation of development economists with equality reflects the value judgements of the majority of the Third World currently emerging into or adapting to the exchange economy. An aspiration to keep up with the Joneses or even to prevent oneself from starving neither logically implies a desire for an egalitarian economic policy, nor particularly the desire for equality for those worse off than oneself.[53] Yet increased "participation" by the population at large in government is illogically assumed to be consistent with egalitarian policies.[54]

In sum, such increasing income inequalities as have been developing in the Third World postwar — and the evidence does not support the view that they dominate over trends towards greater equality — cannot be assumed to be detrimental to the poorest sections of the community,[55] except in an arithmetical sense (i.e. the top 5 percent have gained "at the expense of" the bottom 40 percent), since there are strong grounds for arguing that, analogously to the historically unprecedented economic achievement of the Western world in the eighteenth and nineteenth centuries, these inequalities are as much a cause as a consequence of economic growth and therefore of an absolute improvement in the living standards of those relatively worse off.

IV MATERIAL PROGRESS — MARGINALISATION

Marginalisation appears to imply that an increasing proportion of the labour force is becoming unemployed or underemployed[56] either in the sense of working short hours (or a small number of working days in the year) or in the sense of being engaged in comparatively unproductive or low-paying occupations.[57] This latter conception of underemployment is often inaccurately confused with a situation in which an increasing proportion of the labour force is regarded as being engaged in activities such as crime or beggary which effectively amount to obtaining a share of the productively earned income obtained by the rest of the labour force. In a descriptive sense an increasing proportion of the total potential workforce is becoming marginal to the national economy and thus decreasingly able to share meaningfully in its material or cultural progress (if any).

Concerning open unemployment proper, a misleading impression has been given of extremely high and currently rising rates especially for urban areas, often based on the use of employment exchange statistics. The only worthwhile evidence is that based on census or sample survey data for the great majority of LDCs and this evidence actually shows that open unemployment in urban areas is considerably less than has generally been supposed, often comparable to rates in DMEs.

The latest ILO estimate of aggregate Third World open unemployment (based on such "hard" data) as at 1976 puts the figures as low as 5 percent,[58] a figure consistent with a number of studies which have revealed unexpectedly low rates in individual countries.[59] The lack of hard data of this type means that trends over time for the poor countries as a whole are difficult to establish but the limited evidence available lends no support to the view that unemployment rates have been rising and instead rather suggests the contrary (Table 6). The FAO Report on the State of Food and Agriculture 1973 noted that of the thirteen LDCs which carried out regular labour force sample surveys in the 1960s, five showed a downward trend of the rate of open unemployment, one an upward trend and the trend for the remainder was unclear (p. 133). It does not seem likely that this can be principally explained by changing participation rates (as the potential job-seekers withdrew from or failed to enter the labour market[60]) since the decline in crude participation rates which actually occurred in developing market economies in the 1960s was mainly due to a reduction in the proportion of the population of working age, together with a widespread tendency towards decreasing activity rates for males in the youngest and oldest brackets. There was little variation in activity rates of men in the central age groups who provide most of the labour supply in most countries.[61]

TABLE 6
Labour Force Surveys for Nine Underdeveloped Countries, 1960-1970

Country	Rate of unemployment — Percentage										
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Argentina				5.7	5.3	5.6	6.4	5.0	4.3		4.3
Chile	7.4	6.7	5.3	5.1	5.3	5.4	5.4	6.1	6.0	6.2	6.8
Panama				5.8	7.4	7.6	5.1	6.2	6.9	-	-
Trinidad and Tobago						14.0	14.0	15.0	15.0	-	-
Taiwan				5.3	4.4	3.4	3.1	2.3	1.7	1.9	-
South Korea			8.4	8.1	7.7	7.4	7.1	6.2	5.1	4.8	6.2
Philippines	6.3	7.5	8.0	6.3	6.4	7.2	7.3	8.0	7.8	6.7	-
Ryukyu	1.0	0.8	0.7	0.7	0.5	0.7	0.5	0.5	0.5	0.5	-
Syria		8.5	6.0	10.6	11.4	7.4	5.5	5.3	7.4	-	-

Source: ILO Yearbook of Statistics 1975.

The case for such remarkable prophecies as those of Singer cited earlier (unemployment rates of up to 50 percent by 1980) must rest then upon underemployment within urban and/or rural areas. If we take the short-hours approach to underemployment — the only non-tautological and measurable approach for the urban labour force — a survey of the available evidence shows that average hours worked by the total urban labour force tend to be high, that those wishing to work longer hours are frequently already doing so and there is no particular relationship between time worked and extra time wanted, that estimates of the extra work demanded as an equivalent percentage of full-time unemployment tends to be only about 2-3 percent and that those working short hours tend to be concentrated at the extremes of the age range of the labour force. Moreover, average hours worked are high despite genuine short-time working and despite the fact that some groups such as teachers have short working hours by agreement.[62] Turnham advances the important suggestion that since the gap between "hours worked" and hours "available for work" does not appear to be particularly wide, especially among those working few hours, then the application of conventional unemployment methodology (as in the developed economies) may be quite appropriate to the LDCs.[63] This, of course, would enhance the significance of the comparatively low and probably declining unemployment rates we have earlier seen to prevail.

Attention has accordingly been increasingly directed towards poverty (low income absolute or relative) or low productivity approaches to the measurement of underemployment since at all costs the emotional resonance of the term "unemployment", with all its overtones of the 1930s must not be lost, quite often the simple assumption being that that part of the urban labour force not employed in the "modern" sector must be substantially underemployed. However, since poverty and low productivity have many causes other than unemployment or involuntarily short hours they are only measures of underemployment by definition and as such cannot in themselves indicate a large marginal population unless the activities engaged in in the urban informal sector are shown by some criterion other than productivity or income to be "marginal".

It is now clear from recent research that it cannot simply be assumed that urban informal sector activities are predominantly of a time-filling, redistributive (e.g. beggars and thieves)[64] or duplicatory (e.g. hawkers) character.[65] The relative importance of such parasitic activities is unknown but at the least it can

be said that in most of the large cities of the Third World a wide variety of essential goods and services are provided economically to a substantial proportion of the population by the informal sector.[66] There is disagreement as to whether the informal sector is basically of a residual and stagnant character or whether it incorporates significant elements of internal dynamism in terms of innovation, accumulation and the upward expansion of the more successful operators.[67] A strong case can be made out for the latter view,[68] which implies the existence and expansion of a wage labour force in the informal sector[69] and suggests that the formal-informal sector dichotomy may be excessively rigid. A wide range of service activities, which are often taken as prima facie evidence of underemployment, appear to be functional to the general growth of the urban economy, many of them directly linked to the needs and growth of the secondary sector.[70] The multiplication of trades of various types has been convincingly argued to be an economically efficient adaptation to the structure of the economy.[71] Modern, as well as traditional, occupations are undertaken involving the use of modern technologies, from photography and cab-driving to small-scale engineering[72] and profit maximisation is found even among the self-employed traders and craftsmen.[73] Thriving indigenous "informal" apprenticeship systems testify indirectly to the non-ephemeral, productive and expansive character of some important informal sector activities.[74] Scattered but increasing evidence of a spectrum of earnings, numbers employed and productivity are suggestive of dynamic processes leading to the emergence and growth of the more efficient entrepreneurs.[75] It thus remains to be established that those working in the informal sector are marginal except in the tautological sense that underemployment is defined as relatively low levels of productivity or income.[76] The view that the existence of the informal sector reflects widespread underemployment appears, in the present state of knowledge to be a distorted reflection of the fact that the range of productivity and earnings levels within and between occupations and industries is much greater in LDCs than in DMEs.

It is widely held that underemployment in the Third World is growing as the urban work forces of the Third World expand faster than formal sector employment and that this implies a secular trend towards declining average levels of productivity and renumeration. But it is not clear either that the informal sector labour force is increasing proportionately to the urban labour force over time or that productivity in the informal sector is declining over time. The UN 1974 Report on the World Social Situation points out, for example, for Latin America, the birthplace of "marginalisation", "the available occupational statistics do not indicate a disproportionate relative increase in those forms of self-employment and tertiary-sector labour which are most likely to contain disguised unemployment and poverty..." (p. 40, fn. 29). Table 7 illustrates these points as well as the comparatively small proportion of the urban labour force accounted for by the self-employed and own account and family labour. Little or nothing is known about productivity and real earnings trends in the urban informal sector but it has been rather generally found that per capita renumeration there is higher than that for the openings available in the rural sector[77] so that the possibility of obtaining a formal sector job is not the only economic rationale for rural-urban migration. However, this leaves open the possibility of declining average informal urban sector earnings over time if average earnings are declining in the rural sector. As to the trend of real earnings in agriculture as well as other rural activities, very little is known and generalisation about the Third World as a whole even more dubious than other generalisations about the Third World as a whole. There is a slight presumption that average real earnings in agriculture will have tended to rise somewhat throughout the Third World postwar in view of the fact that both overall agriculture output per head of the population and food output her head of the population have risen slightly, while the proportion of the total labour force in agriculture has substantially declined from 73.3 percent in 1950 to 60 percent in 1970[78] (P. Bairoch, The Economic Development of the Third World Since 1900 [London 1975], p. 160). Moreover, discussing the employment situation in agriculture, Turnham in surveying the evidence remarks on the lack of empirical basis for

TABLE 7
Latin America — Distribution of the Economically Active Population in Selected Countries by Occupational Strata, 1960-1973 (percentage)

	National coverage						Urban coverage					
	Brazil		Chile		Venezuela		Costa Rica		Ecuador		Uruguay	
	1960	1972	1960	1972	1960	1973	1963	1970	1962	1968	1963	1970
I. Middle and upper strata (other than primary sector)	*15.0*	*23.3*	*20.3*	*27.8*	*23.9*	*36.8*	*33.6*	*46.2*	*25.0*	*39.8*	*50.9*	*45.8*
a) Employers	1.9	4.1	1.5	2.4	1.8	3.6	3.0	6.0	1.7	4.1	8.4	5.6
b) Self-employed with own commercial establishment	0.2	1.6	3.7	4.9	5.4	7.0	4.4	3.1	9.1	12.1	3.0	3.8
c) Independent professionals and semi-professionals	0.7	0.5	0.6	0.6	0.4	0.6	0.5	0.3	0.7	1.3	2.5	1.5
d) Dependent professionals	2.6	4.3	4.0	6.2	4.8	8.2	9.4	11.0	5.3	7.2	7.5	7.3
e) Managerial personnel	2.6	12.8	1.4	1.2	1.0	1.3	1.9	3.4	0.4	1.1	1.3	0.8
f) Clerks, sales personnel and other employees	7.0		9.2	12.5	10.5	16.1	14.4	22.4	7.8	14.0	28.2	26.8
II. Lower strata (secondary sector)	*22.7*	*20.1*	*32.4*	*31.3*	*26.0*	*30.2*	*32.4*	*31.3*	*38.2*	*34.7*	*30.1*	*36.1*
a) Wage workers	15.2	14.6	26.1	25.2	19.3	22.5	25.1	26.1	19.2	22.5	25.0	29.5
b) Own account and unpaid family workers	7.5	5.5	6.3	6.1	6.7	7.7	7.3	5.2	19.0	12.2	5.1	6.6
III. Lower strata (tertiary sector)	*7.1*	*7.9*	*13.4*	*12.0*	*11.4*	*12.6*	*16.5*	*15.7*	*14.8*	*17.7*	*14.9*	*14.3*
a) Wage workers	6.7	6.5	12.3	10.9	10.0	10.7	15.2	15.0	12.4	13.9	13.9	12.7
b) Own account, etc.	0.4	1.4	1.1	1.1	1.4	1.9	1.3	0.7	2.4	3.9	1.0	1.6
IV. Middle and upper (Primary sector)	*0.0*	*0.1*	*0.5*	*0.8*	*0.9*	*1.0*	*1.3*	*1.1*	*1.2*	*1.0*	*0.3*	*0.6*
Employers in agriculture and extraction	0.0	0.1	0.5	0.8	0.9	1.0	1.3	1.1	1.2	1.0	0.3	0.6

TABLE 7 (continued)
Latin America — Distribution of the Economically Active Population in Selected Countries by Occupational Strata, 1960-1973 (percentage)

	National coverage						Urban coverage					
	Brazil		Chile		Venezuela		Costa Rica		Ecuador		Uruguay	
	1960	1972	1960	1972	1960	1973	1963	1970	1962	1968	1963	1970
V. Lower Strata (primary sector)	*50.9*	*40.2*	*29.9*	*24.4*	*32.7*	*19.1*	*12.6*	*4.8*	*18.9*	*6.1*	*0.5*	*1.4*
a) Rural wage workers	14.2	11.8	21.7	16.5	11.6	7.1	8.3	3.9	10.6	3.9	0.4	0.5
b) Own account, etc.	36.7	28.4	8.2	7.9	21.1	12.0	4.3	0.9	8.3	2.2	0.1	0.9
VI. Unclassified	*4.3*	*8.4*	*3.5*	*3.7*	*5.1*	*0.3*	*4.9*	*2.0*	*3.1*	*1.7*	*3.6*	*2.4*

Source: UN, 1974 Report on the World Social Situation, p. 53.

the widely-held opinions about the prevalence of unemployment and underemployment in agriculture, particularly the widely-held view that labour has little to do for four to six months of the year in the rural sector (op. cit., p. 62). But changing terms of trade between manufactures and agricultural products, changing income distribution in the countryside, government fiscal policies will all have affected the situation as well as the fact that in particular cases there will be no alternative openings in agriculture, i.e. there will be open unemployment. A pertinent point here, however, is that the spectrum of earnings within the informal sector and the overlap between formal and informal sector earnings[79] together with the fact that length of residence tends to be positively correlated with the urban immigrants' average earnings[80] imply an upward mobility which would ensure that the informal sector average earnings would not be rigidly tied to rural income levels' trends.

To interpret growing urban underemployment over time from previously more highly productive and remunerative occupations to less remunerative, less productive occupations is consistent with the concept of "disguised unemployment" from which the underemployment approach originated.[81] In the original conception this move from higher to lower productivity occupations was due to a decline in effective demand. It is more likely that what is called underemployment in the Third World, at least in the urban areas, is the result of a process of moving from less to more remunerative occupations, at least for the bulk of rural-urban immigrants and the principal basis for characterising them as "underemployed" is that they fall below some arbitrary dividing line which falls below that of the productivity or earnings of the rest of the urban labour force even if their remuneration has actually improved over time.

The concept of marginalisation implies the effective disruption or weakening of the linkages of a significant and growing number of the (generally urban) population with the central activities of the economy. As is common in development economics a term which has started life with a valid descriptive function (describing shanty towns on the outskirts of Third World cities) has acquired an immense, sophisticated, conceptual superstructure erected on its shaky base.[82] In fact, so-called "marginalisation" is a way of referring to the anarchic, chaotic, unplanned and sometimes brutal but nevertheless vigorous fashion in which urbanisation expands the market, stimulates commercialisation of the whole of society especially the agricultural sector and thereby increases the division of labour and thus the integration of society as Adam Smith long ago noted. The process is exactly the opposite of what is implied by the word. It is a process of increasing integration. The shanty towns are not, like slums, the result of deterioration. They are improvements as compared with rural conditions[83] and many are improved over time.[84] The rural-urban migration, together with the return flows to the villages is a progressive force in breaking up subsistence activities and institutions and attitudes which held up material progress so that rural life generally and agricultural practice in particular are transformed. In place of relatively self-sufficient communities the growth of towns leads to specialisation and reintegration of separate economic activities through the market breaking down the economic isolation characteristic of pre-capitalist societies.[85]

V MATERIAL PROGRESS — OUTPUT, CONSUMPTION AND WELFARE

A dimension of the marginalisation approach and a major source of some development economists' dissatisfaction with the First Development Decade which touches upon the most important question of material welfare has been the feeling that the increasing volume of goods and services made available by Third World postwar economic development has not in general been oriented towards the "basic needs" of the majority of the population (i.e. food, health care, housing and education). The proportion is often put in terms of "distortions" usually from some unstated "norms" which has seldom (if ever) historically existed, or alternatively from consumption patterns which would have existed but for the artificial wants created by advertising-cum-Western-type-consumption-demonstration effects.[86]

This argument is closely related to the point that GNP per capita is an inadequate proxy for "welfare" or "development" if those concepts are regarded as meaningful only to the extent that they refer in some sense to the needs of the great majority of the population rather than the privileged few. Uneven distribution alone ensures that GNP per capita is a value loaded proxy, insofar as the market valuations are inherently biassed to give greater weighting to consumption by the rich. Moreover, the very incomplete development of the market in LDCs and the high degree of market imperfections there weaken the value of GNP calculations even on their own terms, quite apart from important defects in and problems of market valuation common to all market economies. Finally, of course, the statistical base of such calculations in many, perhaps most, LDCs is so weak as to render measures of levels of GNP per capita liable to errors of several hundred percent.

These points are all valid[87] but they leave open the problem of the extent to which GNP per capita figures give a misleading impression as to the level and pace of development and welfare over time and as between countries.

As regards the large element of statistical error, however, this point is far less serious for rates of change than for absolute levels of GNP per capita so that relative progress over time by this measure is liable to be much more adequately assessed than cross-national differences at a point in time. More fundamentally, however, composite measures of development or welfare based on physical indicators show a high degree of association between per capita GNP and the level of living index or the development index. A 1966 study by the United Nations Research Institute for Social Development,[88] covering twenty countries[89] round about 1960 based principally on physical indicators was designed, then appropriately weighted to show "the level of satisfaction of the needs of the population assured by the flow of goods and services enjoyed in a unit of time" (p. 1). The seven components of the index consisted of six physical indicators covering nutrition, education, housing, leisure and recreation, health and security, together with a monetary indicator for surplus, covering higher needs. A distributional component was incorporated in the index. Spearman rank coefficient correlation of the level of living indices for per capita consumption expenditures and for per capita GNP were (with sliding weights) 0.889 and 0.923 respectively (p. 63). Product-moment coefficients of the level of living index on consumption per capita and GNP per capita with sliding weights were 0.919 and 0.930 (p. 64). The authors remark, after examining divergences in relative positions for individual countries as given by the level of living index and the per capita GNP index that these divergences are sufficiently large to justify the use of the former or some similar measure in judging the pace of development as superior to per capita GNP (p. 65). This view is acceptable but the fact remains that the high correlations between GNP per capita and the level of living index must imply that, insofar as the former does provide a trustworthy indication of welfare, then so also to a large extent does GNP per capita on average.

Subsequently, UNRISD has produced a more ambitious Development Index.[90] This index related to 1959/61 and covered fifty-eight countries, twenty-seven of them underdeveloped countries. It differs from the 1966 Level of Living Index in that the former was basically a normative index whereas the latter specifically eschews any attempt to measure the level of culture, civilisation, human welfare, happiness or the "better life". It is essentially a measure of those characteristics that distinguish more developed from less developed countries insofar as those are interdependent components of the development process, i.e. which are both outputs and inputs of development.[91] It is based on eighteen core physical indicators[92] of both levels of living and structural features associated with development which are not in themselves welfare components or proxies for welfare components. No distributive component is explicitly incorporated but a number of the indicators reflect the general level of living (and the authors argue that in the broadest sense income distribution means distribution of levels of living), e.g. percentage of children in school, literacy rate, percentage of dwellings with electricity and life expectation rates which all reflect the spread of socially favourable

conditions in society and can be contrasted with the piling up of benefits where benefits are already high.[93] Similar results emerge as in the level of living index despite the differences between them. Differences between the development index and per capita GNP for individual countries appear to be sufficient, together with judgement based on other criteria to justify use of the former instead of the latter as a measure of development as defined.[94] The correlation of the two indices is high for all fifty-eight countries — .86 — but lower for the LDCs taken alone — .67[95] (although still respectable). The Level of Living Index and the Development Index (compared with the GNP per capita index) for the individual countries are given in Tables 8 and 9 and it is worthy of note that the range of the two former indices is very much lower than of the per capita GNP range which is consistent with the recent ILO re-estimates of the DME/LDC per capita GNP gap the effect of which is to reduce average income differences between rich and poor countries from about 13:1 to 4:1.[96] These results must be regarded as extremely tentative, especially the level of living index results, as the authors emphasise, but they at least suggest that GNP per capita, although liable to produce wild results for individual countries, may not be so bad a guide after all in assessing the pace of development[97] for LDCs in general as has been widely supposed. The smaller range of the development and level of living indices than the per capita GNP index, together with the ILO re-estimates of rich-poor per capita income gaps may imply faster development of LDCs relative to DMEs than generally supposed. Although the development index is specifically not a normative index, insofar as it does reflect progress of LDCs

TABLE 8
Level of Living Index and GNP per capita for Twenty Countries c.1960

	Level of Living Index (sliding weights)		GNP per capita (US$)	
Country	Value	Rank	Value	Rank
Ghana	38.1	19	290	14
Mauritius	61.1	11	410	13
Morocco	39.4	17	230	17
United Arab Republic	47.9	14	240	16
Uganda	37.3	20	120	20
Argentina	83.9	7	860	5
Chile	69.5	10	750	6
Ecuador	44.7	15	250	15
Jamaica	50.2	13	510	11
USA	171.3	1	2,790	1
Venezuela	52.7	12	570	9
India	42.0	16	160	19
Israel	126.6	4	950	4
Japan	85.3	5	700	7
Thailand	39.0	18	200	18
Belgium	129.7	3	1,690	3
Denmark	130.4	2	1,760	2
Greece	84.1	6	620	8
Spain	75.9	9	540	10
Yugoslavia	80.6	8	480	12

Notes: (i) GDP for Uganda
(ii) Mauritius GNP figure is for 1961
(iii) GNP figure for Yugoslavia is for 1962

Source: UNRISD, The Level of Living Index (1966), p. 70.

TABLE 9
Development Index and per capita GNP for 1960 for Fifty-eight Countries

Country	Development Index	Per capita GNP for 1959/61 (US$)	Country	Development Index	Per capita GNP for 1959/61 (US$)
USA	111	2,828	Portugal	52	300
United Kingdom	104	1,369	Yugoslavia	51	-
Canada	103	2,092	Costa Rica	50	352
New Zealand	103	1,515	Panama	48	385
Sweden	103	1,696	Taiwan	46	249
Australia	98	1,542	Colombia	46	253
Norway	98	1,274	Jamaica	45	396
Belgium	96	1,247	Maxico	44	348
Netherlands	96	965	Brazil	38	267
Switzerland	96	1,591	Peru	37	198
Denmark	95	1,300	United Arab Republic	34	158
West Germany	94	1,327	El Salvador	32	321
France	88	1,303	Jordan	32	196
Austria	86	867	Nicaragua	32	238
Finland	85	1,085	Syria	32	-
Israel	81	1,220	Ecuador	31	202
Hungary	75	-	Dominican Republic	30	228
Hong Kong	74	-	Libya	29	283
Ireland	74	653	Paraguay	29	160
Japan	74	463	Turkey	27	202
Uruguay	74	494	Iran	26	210
Argentina	73	551	Morocco	26	154
Poland	73	-	South Korea	25	149
Italy	71	684	Philippines	24	206
Venezuela	63	958	Honduras	23	209
South Africa	62	453	Guatemala	21	269
Chile	61	604	Ceylon	18	139
Spain	58	344	Ghana	16	195
Greece	52	432	Thailand	10	96

Source: UNRISD 1970, p. 141.

towards the characteristics of the already developed countries it necessarily incorporates progress towards the removal of poverty, unemployment and inequality, the basic normative elements of development as defined, e.g. by Dudley Seers,[98] values which are widely accepted by development economists. The onus lies with the critics to show that advances in monetary per capita GNP do not have at least a rough and ready positive correlation with welfare and development.[99]

Changes in various individual fundamental indicators of welfare in recent years are also consistent with the view that there has been considerable progress in material welfare for the population as a whole and not just a privileged few. Thus kilocalories intake as a percentage of requirements in developing market economies taken as a whole increased from 93 percent in 1961 to 97 percent in 1969-71,[100] following a much steeper improvement in the previous period 1948-52 to 1957-58.[101]

Truly remarkable advances were achieved in education especially primary education but also secondary education.[102] Equally spectacular results have been achieved in the field of health — the two most significant indicators of infant mortality and life expectation at birth showing marked improvements.[103] Data on changes in housing conditions are rather limited. However, housing indicators also reflect improvements between 1960 and 1970. This is true, with only five partial exceptions, of all the LDCs for which much data are available from the UNSRID data bank.[104]

The improvement in general welfare suggested by the physical indices for nutrition, health, housing and education (and strongly suggested by the correlation of level of living and development indices with GNP per capita) is further supported for the period 1963-72 by the ILO estimates of those classed by the ILO as "poor", "seriously poor" and "destitute" which show decreases in all these categories in the percentages of total population accounted for by them for developing market economies taken in aggregate and for Asia, Africa and Latin America separately (Table 10) except for the highest poverty line in Asia, who remained within the group and who swelled its absolute numbers. The rise in absolute numbers below the highest poverty (estimated as 208 million) in any case is itself a product of past general welfare improvements insofar as the increasing numbers are associated with increasing expectation of life at birth which in turn is the best single indicator of health available. Since health is affected by such factors as literacy, housing, food

TABLE 10
The Poor, the Seriously Poor and the Destitute by Regions, 1963 and 1973

	Percentages					
	Poor		Seriously poor		Destitute	
	1963	1972	1963	1972	1963	1972
Asia	88	88	76	71	46	42
Africa	88	69	77	69	46	39
Latin America	73	43	55	43	33	27

Source: Peter Richards, "Poverty, Unemployment and Underemployment", Background Papers, Tripartite World Conference on Employment, Income Distribution and Social Progress and the Distribution of Labour (Geneva, 1976), vol. I, tables II and IV, pp. 3-4.

consumption, water supply and personal income as much as or more than direct health services and also in turn affects all these variables there is a high correlation between both expectation of life at birth and the infant mortality rate and forty-one other selected development indicators.[105] This indicates a strong causal link from rising general welfare to rapid population growth, the latter implying the former, and the relevant indicators relatively free of distributional bias. Thus, so far from basic needs being neglected, the accelerating population growth which is registered by many as the fundamental cause of underdevelopment arises solely from increasing attention to basic needs in the most basic sense of the work "basic".

On the other hand, the relative neglect of agriculture and indeed the promotion of policies the effect of which has often been to mitigate against a growth of agricultural output adequate to the needs of the expanding economies of Africa, Asia and Latin America has caused relative food prices to rise in recent years and has left significant proportions of the Third World population at risk of starvation should there be a conjuncture of unfavourable circumstances. The improvements in calorie consumption intake per capita which took place throughout the 1950s and 1960s were in part dependent on increasing gross food imports which grew at a rate of 3.5 percent per annum for the LDCs as a whole from 1961-63 to 1972. On the other hand, this represents a slackening over the period 1955-66 when such inputs almost doubled and indeed between 1966 and 1969-71 the number of food surplus countries in the developing world rose from twenty to thirty-eight while the number of food deficit countries fell from seventy-two to fifty-five.[106]

By itself, of course, such food imports are no indication of economic inefficiency since they may reflect a comparative advantage in exporting minerals, non-food cash-crops and manufactures and importing food. But other considerations such as the rise in relative food prices, strongly suggest that there have been major misallocations of resources and other mistaken policies which have held back agricultural production and productivity growth to a very slow rate, especially in the 1960s so that the agricultural sector has acted as a serious drag on the overall development of Third World economies. This is not to deny the validity of the increasingly widely-held view that the comparative advantage of LDCs lies and will increasingly lie in exports of manufactures. But, an inadequate growth of agricultural output and productivity will prejudice the growth of manufactured exports as it pushes up costs to industry.

As is well known, however, the growth of the manufacturing sector has been very vigorous and increasingly diversified, extending to a wide range of intermediate and producer goods and creating substantial capital goods industries in some LDCs. It is, however, argued that much if not most of this industrial growth is oriented towards providing for the consumption needs of wealthy elites whose politico-economic stranglehold over the nation ensures the continuation of this pattern of growth which becomes self-reinforcing as the nature of their consumption requirements is such as to make for greater capital intensity which in turn raises unemployment and keeps wages depressed.[107] The argument is plainly incorrect for the Third World countries which account for the vast majority of the population in Africa and Asia where the market for "luxury goods" is too small to sustain profitable production and where the manufacturing sector has been built up on the basis of a mass market catering to lower and middle income consumers.[108]

In some countries, however, with relatively high average per capita income levels and a substantial degree of industrialisation, production of durable consumer goods has been growing rather rapidly,[109] especially in Latin America. However, a very important and detailed study of consumption patterns in Brazil, as revealed by household expenditure surveys,[110] has seriously undermined the conventional picture of demand profiles for durable consumer goods in a country which has come to be regarded as the outstanding example of "distorted" income distribution. This shows that for a wide range of durable consumer goods the diffusion of a modern style of consumption was not confined to a small minority — the market extended to include at least 60 percent of all Brazilian households. Although

there is a fairly marked discontinuity in the profile of demand such as to exclude households in the rural sector and the poorer regions, there was no such discontinuity for urban households even in the poorer northeastern cities — and Brazil is now predominantly an urbanised country as are, to an even greater extent, all the other major countries of Latin America. A very wide market diffusion of durable consumer goods[111] was found, reaching well down to the lower income urban groups proceeding much further down the income scale than the middle income groups. In the late 1960s the household goods and appliances sector grew rapidly despite the redistribution which occurred in favour of the rich owing to the saturation of the market represented by rich households, to the large average size of the Brazilian household, to the relatively limited proportion of consumption devoted to public consumption and to the ability of the financial system to ensure that the savings of the rich help finance the purchases of the poor. Wells concludes, "Provided the process of urbanization continues there appear to be few limits to the process of market-deepening. The data reviewed are not consistent with the pessimistic views of writers, such as Furtado, concerning the possibility of generalising this pattern of consumption."[112]

If this kind of demand profile for durable consumer goods is characteristic of other LDCs as their industrial sector grows (and there have been too few studies to permit any judgement on the matter), then we must account the growth of the durable consumer goods industry as likely to benefit substantially increasing sections of the lower-income groups and not merely a small elite plus limited sections of the middle income groups.[113]

The fact that purchase of consumer durables by low income households is to some extent at the expense of public and perhaps other forms of consumption may be regarded as a distortion of resource allocation due to Western influence. But when did the poor even know what was good for them? Would they actually choose more collective (public) consumption if given the choice? No one knows — but it cannot be denied that most durable consumer goods such as bicycles, sewing machines, motorbikes, radios, even television and refrigerators, etc., add immensely to the quality of life of the poor households. It is only those who have such goods in abundance who feel it appropriate to suggest that it is not desirable for others to have them, i.e. the well-off middle classes of Europe and America.[114]

VI DEPENDENCE AND STRUCTURAL CHANGE

Among the non-material achievements of the countries of the Third World must be counted, for many of them, their political independence. Paradoxically, the failure to recognise the magnitude of this achievement, a failure symbolised by the popularity of "neo-colonialist" and "dependence" theories, has itself promoted a psychological slavery to the past characterised by international beggary, moral hypocrisy and the use of foreign scapegoats to excuse domestic failures on a massive scale. Moreover, the effect of such theories on the working class and socialist movements has been to subordinate them to ideologies of nationalist, anti-imperialist unity, prevent their independent political development and subordinate them to undemocratic regimes. The doctrines of dependence and neo-colonialism have also had directly detrimental effects on economic policy which would, however, have been far more serious had governments prominent in denouncing those foreign economic contacts really believed what they were saying and acted accordingly (e.g. Nkrumah's Ghana). Does the postwar independence experience bear out the neo-colonial thesis, viz. that political independence has meant only marginal changes in the economic ties between ex-colonies and their former imperial masters or that such non-marginal changes as have taken place have merely changed the form of dependence of the former upon the latter — with the result that the Third World non-communist countries have not yet been able to build genuinely national economies?

Whatever kind of evidence may be adduced, the view that economic relations between rich and poor countries have changed only marginally since independence[115] must be rejected and the case for dependence must rest on the grounds of a new type

or form of dependence relationship. The ex-colonial countries have, for example, significantly diversified their market outlets and sources of supply in remarkably short time since independence,[116] thus reducing monopolistic and monopsonistic market elements operating to their disadvantage. They have to a substantial degree diversified their exports into manufactured goods — now more than 25 percent of the value of their exports. They have exercised increasing control over foreign-owned or controlled economic activity within their borders, up to and including rather widespread nationalisation,[117] especially but not solely of resource-based enterprises.[118] Among the more positive effects of this control have been improved division of rent (i.e. gross profits, interest charges, royalties and licence fees) especially from resource-based industries[119] by taxation and other means; already substantial and steadily increasing training of indigenous personnel; a continuing increase in the local content of non-labour (as well as labour) inputs, which is rapidly reducing "enclave" characteristics of foreign-owned or controlled manufacturing enterprises,[120] a process which has gone very far in Latin America (Table 11) which, in this respect merely illustrates in an advanced degree a process already well under way in all industrialising Third World states[121]; the spread of the habit of shareholding and investment in manufacturing enterprise in countries previously inexperienced in these activities[122]; the expansion of exports of manufactures[123]; and the transfer of modern technology. Many if not most of these beneficial effects are in part the result of the operation of economic processes per se but in the present context it is important to note that all have been strengthened and their advance accelerated by deliberate policy.

TABLE 11
Payments of U.S.-controlled Manufacturing Subsidiaries in Latin America, 1957

Payments	Amount ($ million)	Percentage of total sales
Local payments[1]	*1,868*	*81.7*
of which		
Materials,[2] supplies, services	1,212	53.0
Wages and salaries	354	15.5
Income taxes	149	6.5
Other local payments	153	6.7
Foreign payments	*308*	*13.5*
of which		
Materials and services	246	10.8
Remitted profits	62	2.7

[1]The sum of local payments and foreign payments is less than total sales because of the exclusion of retained earnings and depreciation from payments.

[2]Local payments for materials are not invariably payments for locally produced materials. Nevertheless, as Vernon notes, the figures are suggestive of heavy involvement of these enterprises in the local economies.

Source: Department of Commerce censuses and Council for Latin America Inc., The Effects of United States and Other Foreign Investment in Latin America (New York, 1970), cited in Vernon, op. cit., p. 14.

National control over foreign enterprise has been most important with respect to increased rent share for resource-based enterprises and with respect to linkages with the rest of the economy as regards foreign manufacturing enterprises. But, there has nevertheless been considerable progress in improving the linkages forward as well as backward of resource-based enterprises, as processing of minerals and the development of refineries and petroleum-based industries become increasingly widespread. The lack of any noticeably strong tendency for a reduction in profit shares of expatriate manufacturing enterprise is the result of a rational desire to obtain the benefits of advanced technology and organisation and reflects the fact that the governments of LDCs are hardheaded enough not to take seriously the ridiculous notion that because the outflow of profits and dividends exceeds the original investment, the host country has thereby lost.[124] In any case, since the secular trend is towards stiffening competition of manufacturing multi-nationals in LDCs[125], the problems of monopoly rent encountered in the past with resource-based enterprises[126] are largely non-existent with regard to manufacturing.[127] Furthermore, since total GNP (i.e. as distinct from GNP per capita) of the LDCs is increasing considerably faster than that of the DMEs[128] then the LDCs will eventually grow in relative importance as markets and forward-looking multi-national manufacturers will be prepared to put up with various initial risks, inconveniences and even losses to establish a stake in the future. For this reason alone, most of the negative effects of increasing LDC control over foreign enterprise resulting from nationalistic excesses or primitive economics and tending to reduce the flow of foreign private investment will have only a relatively minor impact and the net effect of the increasing ability of LDCs to control foreign enterprise in their territories is likely to be in the main distinctly favourable.

It is implicit in the above discussion that private foreign investment in LDCs is in itself economically beneficial to them, to some extent irrespective of measures of government control. This should come as no surprise to Marxists, since Lenin attempted to get foreign investment in the early years of the Soviet Republic, since communist Vietnam is currently welcoming foreign investment[129] and since it is an elementary principle of Marxism that under capitalism exploitation presupposes the advance of the productive forces. Insofar, therefore, as political independence exists, private foreign investment must normally be regarded not as a cause of dependence but rather as a means of strengthening and diversifying the economies of the host countries and thereby reducing "dependence".

Substantial economic relationships with the large capitalist countries in respect of trade and investment[130] are widely held to increase dependence of the LDCs on these countries, most generally by preventing such structural change as a truly independent economy requires and, relatedly, by causing constant balance of payments deficits and mounting and mountainous debt.

That the trade and investment relationships of developed to underdeveloped countries inherently tend to cause permanent balance of payments and debt problems for the latter, especially if they aim for rapid economic development, is in principle incorrect,[131] in practice has frequently been disproven[132] and for the countries which have been meeting recurrent payments problems can be shown to be due to specific (incorrect) policies rather than inherent tendencies. It is now widely recognised that the trade policies pursued by many LDCs were not only not dictated by inherent features of their relationship with the developed countries but were harmful in some respects to the interests of the developed countries as well as themselves — particularly policies the effect of which was to reduce potential production and/or raise the relative prices of some primary products for various countries.[133] The neglect of agricultural export production in many cases was in part the result of the mistaken belief that there has been a secular tendency towards an unfavourable movement in the terms of trade of primary products relative to manufactures.[134] The rapid global development of manufactures exports by the Third World despite its relatively high concentration in a relatively small number of countries, together with the bias against such a development until recently is strongly suggestive of an unrealised potential the realisation of which has been held back by

policy. The same holds true for the contribution to payments problems caused by increasing food imports where policy again has played a crucial role as regards the related problems of overall resource allocation and incentives to producers.

Notwithstanding these, now widely recognised, policy mistakes, the 1960s, the fastest decade of economic growth of the LDCs in this century, was a period of improvement in the payments performance of the LDCs taken as a whole, with the real purchasing power of their exports rising at the same rate as their real GDP — 5.5 percent per annum[135] (with approximately stable terms of trade); and a remarkable improvement in the growth of exports relatively to imports as compared with the 1950s, the former growing faster than the latter in the 1960s[136]; so that the trade balance, the payments balance and the reserves improved, especially in the second half of the 1960s.[137] These favourable trends have continued into the 1970s.[138]

The quadrupling of oil prices in less than a year after late 1973 has, of course, improved, for LDCs as a statistical aggregate, the payments position. It is widely argued, however, that in assessing the trade and payment performance and prospects of LDCs, as well as their growth rates, the petroleum exporting countries should be treated as a separate group and in effect their successes be ignored. This is an illogical procedure for those who accept the growing polarisation thesis. It amounts to saying that the LDCs are all doing badly except for those that are doing well. For those who do not accept the growing polarisation thesis (the present writer included) it signifies merely a dramatic demonstration of the rapidly disintegrating and inherently transitory validity of the polarisation perspective which was in any case already abundantly clear from other developments. In any case, the improvement for the LDCs as a global aggregate of trade and payments and reserves was proceeding rather remarkably well before the oil price increase. And the oil price increase benefitted the inhabitants not only of a handful of desert sheikdoms with tiny populations but of states the total population of which amounted in 1978 to over 250 million. In what sense other than the most superficial is it valid to detach Indonesia and Nigeria from other LDCs and put them in a special, presumably "privileged" group? If typological distinctions are to be made within the less developed world there are far more significant criteria available than membership of OPEC.

Nor can the dependence thesis be sustained by reference to an alleged new type of dependence based on technological superiority of the West or on a new international division of labour which permits the Western multi-nationals to utilise the cheap labour of the LDCs for assembly industries or the manufacture of components. Third World exports of manufactures may indeed by primarily a means whereby multinationals locate their activities in LDCs to avoid rising domestic labour costs but if so then the dependence is two-way, i.e. is interdependence.[139] If not, then Third World exporters of manufactures are only dependent in the unexciting sense that any seller is dependent in some sense of a market somewhere at some time and the DMEs are the largest markets.

Dependence on Western technology is a logical concomitant of a perfectly sensible desire to make use of that technology (just as dependence on an instructor is a logical concomitant of a desire to learn to swim) and the amazing growth achievements of some of the LDCs in the twentieth century are inconceivable without this technological transfer. It is, of course, open to any LDC to cease to be dependent on Western technology by doing without it but a moment's contemplation of the implications of this in terms of massively increased death rates[140] alone is sufficient to illustrate the distorted outlook of the many development economists who refer to the advanced technological development of the industrialised nations almost as if it were a disaster for the Third World. However, the same point applies here as elsewhere — that dependence is two-way. Technology can be purchased and competition between the sellers ensures that the only serious restrictions on its availability to the LDCs are their capacities to utilise it. Such capacities improve semi-autonomously and irreversibly as an integral dimension of the advance of commercialisation and industrialisation, as well as the mushrooming expansion of

education and the acquisition of experience including bargaining experience. The allegedly peculiar character of "know-how", i.e. that its heavy costs to the purchaser[141] reflect various forms of monopoly power rather than real costs to a much greater extent than is the case with other commodities, is misleading as it omits from consideration the corresponding benefits. Further, to the extent that the costs of purchase of "know-how" do include elements of monopoly rent this implies that with the improving bargaining power of the LDCs this element in cost[142] is likely to be reduced in future. Perhaps even more important, much "know-how" is embodied or in other forms (.e.g human skills) which involve external economies and the benefits cannot be solely appropriated by those who have incurred the costs of its production, a point which is particularly obvious and important in a long-run context. It is never very clear exactly what is meant by indigenous technology (which is often considered essential for independent development), but the crucial point here is not to lose sight of the time dimension since, as the Japanese case shows, initial large-scale acquisition of foreign technology can lead eventually (without undue subordination) to great economic power,[143] itself the basis for substantial independent technological innovation. Western technology has already been the means for bringing about substantial economic achievement in Africa, Asia and Latin America so that economic power is already becoming much more internationally diversified. It is only in a static perspective that the process of "borrowing" technology can be regarded as creating dependence.

Dependence has been supposed to be the outcome of a non-diversified economic structure, especially characterised by the limited development of manufacturing industry particularly of capital goods,[144] and reliance for foreign exchange needs on primary products. No doubt there is an element of truth in this, although its validity was substantially related to lack of sovereignty since a politically independent state might very well increase its reliance on a single commodity to improve exchange earnings as a necessary preliminary to subsequent diversification. In any event major diversification of the economic structure has been taking place in the Third World, especially in respect of industrialisation. Growth rates of manufacturing output of the non-communist underdeveloped world as a whole have ranged between 6 percent and 12 percent per annum from the 1950s through to the early years of the 1970s (as compared with rates of about 5 percent per annum for the DMEs),[145] and were accelerating sharply in the 1970s, until the world recession. Consequent fundamental changes in the structure of output took place with GDP from manufacturing rising substantially as a percentage of total GDP (Table 12) while that attributable to agriculture declined[146] together with a corresponding, although less marked, shift in the distribution of the labour force (Table 13). Moreover the growth rate of output between 1960 and 1972 was significantly higher for heavy than for light industries in Asia and Latin America.[147]

The concept of dependence has always been imprecise and such significance as it has relates almost entirely to situations involving <u>political</u> control of one society by another.[148] Insofar as national economies and their changing fortunes are becoming ever more <u>interdependent</u> the meaning of dependence becomes ever more elusive, not to say mystical.[149] Indeed, what can dependence mean when Europe is clearly dependent on the Middle East for oil to keep its industries and transport running? Or that the LDCs account for 28.6 percent and 43.5 percent respectively of the exports of the US and Japan?[150] Every multi-national with a branch plant or subsidiary established in an underdeveloped country is dependent on the continued goodwill (including economic reasoning as an element of that goodwill) of that country to ensure that its investment pays off or possibly to ensure that it establishes an early stake in a potentially large and rapidly expanding market. The host country may be dependent on the firm for the organisational skills and technology to establish a new industry. If the multi-nationals as a group or the advanced capitalist countries as a group acted in concert no doubt their bargaining power would be superior to that of the LDCs taken singly or as a group but they do not, and thus their superior economic power (as individual economies or firms

TABLE 12
GDP in Purchasers' Values derived from Manufacturing as % of Total GDP[1] — Some Developing Market Countries, 1960-1970[2]

Country	1960	1970	Country	1960	1970
Kenya	10.00	12.00	Colombia	17.00	19.00
Nigeria	3.00	7.00	Ecuador	15.00	17.00
Uganda	7.00	9.00	Paraguay	15.00	17.00
Egypt	21.00	21.00	Peru	16.00	20.00
Morocco	12.00	12.00	Uruguay	23.00	23.00
Costa Rica	16.00	19.00	Venezuela	15.00	17.00
El Salvador	16.00	19.00	Iraq	11.00	10.00
Guatemala	13.00	16.00	Jordan	5.00	8.00
Honduras	12.00	14.00	Syria	19.00	20.00
Jamaica	13.00	14.00	Turkey	10.00	16.00
Mexico	19.00	23.00	India	12.00	14.00
Nicaragua	13.00	19.00	Indonesia	8.00	9.00
Panama	12.00	16.00	South Korea	11.00	22.00
Puerto Rico	20.00	23.00	Malaysia	10.00	15.00
Argentina	27.00	31.00	Pakistan	13.00	16.00
Bolivia	12.00	14.00	Philippines	18.00	20.00
Brazil	23.00	25.00	Singapore	9.00	20.00
Chile	26.00	28.00	Sri Lanka	5.00	10.00
			Thailand	12.00	16.00

[1]Data for all available developing countries are given except South Africa and Israel.

[2]1960-1970 comparability described as moderate.

Source: UNRISD, Development Indicators, 1960-70, Comparisons, p. 86.

TABLE 13
Changes in the Structure of the Active Population in Less Developed Countries, 1950-70

	Percentages		
	1950	1960	1970
Agriculture	73.3	70.7	66.0
Extractive industries	0.6	0.6	
Manufacturing industries	7.6	8.9	13.0
Construction	1.8	2.0	
Trade, banking	5.8	5.9	
Transfers, communications	2.0	2.2	21.0
Services	8.9	9.6	

Source: Bauroch, op. cit., p. 160.

compared to less developed economies or indigenous businesses) often serves to tip the scales against one another.[151]

This is not all. In general LDCs are neither particularly trade dependent or dependent on foreign investment.[152] But more important, the more trade or investment-dependent they are the more prosperous they tend to be. The cross-sectional relationship between trade dependence and income per head in the Third World is positive and the wealthier Third World countries are those most dependent on foreign investment.[153] This does not mean that dependence is the price that must be paid for prosperity. What it does mean is that the concept of dependence in present world circumstances is totally misleading because unhistorical and static in its approach to international economic relationships. Increasing genuine equality of interdependent economies is to a large extent premised on increasingly fruitful economic contact of the poor with the rich countries — fruitful for both but especially the former. As with technology it is only in a static perspective that reliance on foreign trade, foreign capital, foreign skills and foreign example can be regarded as creating dependence. If they do so it can only be if the trade and investment are poorly utilised.

It can, however, with reason, be argued that diversification in terms of inter-sectoral change is a less significant desideratum of relatively balanced and independent economic growth than the modernisation of agriculture, since the laggardliness of this sector has not only directly retarded the developing independence of these countries by contributing substantially towards balance of payments problems,[154] but has indirectly done so by acting as a drag on the whole economy by limiting the growth of markets and of complementary inputs for the non-agricultural sectors. Agriculture has failed not only by the standard of an inadequate response relative to the needs of the rest of the economy but also relative to its technical-economic potentialities. Every sector lags behind its potentialities in this respect to some degree in all times and in all countries, but the gap[155] for much of Third World agriculture in this respect is not only relatively much wider to a significantly greater degree than with other sectors but, more importantly, is narrowing far more slowly. Moreover, the slow growth of agricultural output relative to population growth and rising incomes characteristic of earlier decades persisted into the first half of the 1970s.

A principal reason for the relative failure of agriculture is that it is much easier to erect a modern industrial structure on a backward rural base than to transform the rural base itself. But an underlying and gradual social revolution has been taking place in agriculture which is steadily creating an appropriate social framework within which the already advanced technical revolution can realise its potentialities. This social revolution consists in the displacement and/or transformation of subsistence and semi-commercial small-scale family farming by capitalist farming[156] and growing social differentiation within capitalist farming tending to benefit the richer farmers. Many studies of the Green Revolution have illustrated abundantly the positive two-way relationship between the advance of capitalist social relations in agriculture and the fuller realisation of the technical potentialities available. The point at which this social revolution becomes sufficiently widespread to produce a self-sustaining acceleration of the growth of agricultural output and production cannot be guessed but the combination of immense, growing and relatively easily utilised technical potentialities with a major shift towards capitalist farming is bound to have permanent favourable effects on the growth of agricultural productivity.

A number of more immediate, specific and prosaic factors also point to a not unfavourable prospect for agricultural progress. Agricultural relative failure is not inherent (even though it is more difficult to change the rural sector than to graft onto it a modern industrial sector), but is largely the result of mistaken policy, of a lack of suitable incentives and relatedly insufficient resources allocated to agriculture. These policy errors are now in the process of being rectified. Development plans are allotting increasing proportions of valuable resources

to agriculture. International financial support for agricultural projects has increased greatly.[157] The fertiliser situation for Third World countries is expected to ease significantly in the next few years[158] and the volume of research devoted to the solution of agricultural problems in developing countries has expanded remarkably in recent years. It is expected that in the period immediately ahead the area of arable land will increase by about 1.5 percent a year and the area under irrigation by about 6 percent a year. And the scope for improvement in yields by the further use of higher-yield cereals on a commercial scale remains enormous.[159] These short and medium-term factors are likely to have significant effects in accelerating the trend towards capitalist (and increasingly large-scale) farming thus in turn increasing the effectiveness of individual policies.

It does not appear therefore that either long-term institutional and social trends or technical limitations or the general direction of policy or the availability of cultivable land need or is likely to hold back an improvement in agricultural performance except perhaps in the rather short term and not necessarily even then. But what of the threat to mankind, not from famine, but from the exhaustion of non-renewable resources? It is impossible to deal with this enormous question in this already impressionistic survey of the postwar economic record of the Third World and it is in any case beyond this paper's terms of reference. But its relevance is obviously considerable and a pessimistic outlook on Third World economic progress is often closely connected, especially insofar as future prospects are concerned, with a pessimistic outlook in this field also. A bald statement of the writer's position is, however, felt to be justified if only to give the fundamentally optimistic outlook of this paper a formal coherence. I do not consider the problem of the exhaustion of non-renewable resources to be any more important now than it has ever been.[160] First, it has always been true that non-renewable resources were being exhausted. This was so for coal for known and estimated reserves from the first moment anyone burned a lump. What must be proven is that some critical point is being reached. The evidence of relative prices, abstracting from effects of producer cartels and other similar factors is that there is no clear trend.[161] Secondly, resources are not fixed but are a function of changing technology and economic efficiency so that as innovation proceeds resources become available where none previously existed. At one time neither oil nor uranium were resources. Consequently, the sum total of physical resources[162] is always expanding. Thirdly, historical perspective suggests that it is highly unlikely that the innovatory-economic capacity to remove specific supply bottlenecks will lessen. In the past, indeed, innovation and its incorporation into economic processes has been growing at an accelerating pace, often well ahead of specific bottlenecks as innovation becomes much more an autonomous process. If there has been a good deal of technical inefficiency in the use of fuel and materials this is because it was not economic to devote real resources to reducing such inefficiency — it was not an inefficiency in economic terms. There is no clear evidence that it has even yet become more economic than before to devote more resources to economising on exhaustible resources (perhaps by developing new ones).[163] But, if the necessity does arise to a greater extent, there is no warrant in historical experience to suggest that modern industrial society would be unable to respond accordingly. Quite the contrary, man's capacity to tackle such problems has nearly always surpassed his expectations. The conventional wisdom of yesterday remains wisdom today. Man's capacity to master himself and his own society is the problem — not his ability to master nature.

VII CONCLUDING REMARKS — THE SPREAD OF CAPITALISM

Of necessity, the preceding survey could not but be impressionistic. But it seems justifiable to draw the following conclusions.

(i) In conventional terms economic progress as measured by GNP per capita was rather fast and fairly generalised throughout the Third World in the postwar period (although very uneven as between countries), as compared with the prewar

period for the same group of countries, as compared with the now fully industrialised countries during their period of industrialisation in the eighteenth and nineteenth centuries and even to a lesser extent compared with the DMEs today.

(ii) There are at least prima facie grounds for believing that GNP per capita, although a highly imperfect measure of progress towards greater all-round material welfare for the majority of the population or for development as conceived in terms of movement towards the present dominant characteristics of the now developed countries, is nevertheless a closer rough and ready approximation than has been widely considered. Moreover, movement towards the present main characteristics of present economically advanced countries does imply a measure of progress towards such widely accepted normative aims as greater equality, reduction of poverty and of unemployment.

(iii) This last point, together with scattered and patchy evidence of physical indicators of fulfilment of the basic needs of the Third World population relating to health, education, nutrition and housing, and with fairly definite aggregate evidence of substantial declines in the proportions of those falling below various poverty lines, all point to a strong presumption that there have been major advances in the material welfare of the population of the Third World postwar, advances which have been uneven in their incidence as between economic groups but which have nevertheless reached deep down to the lower income groups. Moreover, there is some evidence that the rapid growth in some countries, especially of Latin America, of production of durable consumer goods by no means simply benefits the wealthy or the middle classes but again penetrates downwards to the market formed by the lower income groups in the urban areas which include the majority of the population of Latin America.

(iv) The widespread belief that economic progress in terms of improvement in the average availability of goods and services per capita has been completely or in large part nullified for the poor majority of the Third World by a general tendency towards more uneven income distribution is not borne out by the admittedly scanty time series or cross-section data. Tendencies towards more even income distribution as far as the evidence goes have been at least equally important, certainly more important in the long run and just possibly becoming slightly more important in the short run as growth in GNP per capita accelerates. The increase in income inequality is as much a cause as a consequence of growth and thereby benefits absolutely, if not relatively, the poorest sections of the population.

(v) An important dimension of the view that per capita income growth has not contributed substantially to general welfare is encapsulated in the concept of "marginalisation". However, the relevant measurable indicators (which are not tautological), i.e. open unemployment rates and underemployment as measured by "short hours" show very little evidence of marginalisation, practically none in the case of short hours and possibly declining unemployment rates for the majority of countries, although the evidence here is slender. Underemployment as measured in terms of relatively low average productivity or average levels of remuneration is a tautological concept and cannot be itself presume deterioration over time in either of these respects. For such deterioration over time there is in any case no direct evidence one way or the other. Nor is there definite evidence that the proportionate rise of the informal sector is increasing significantly as a proportion of the urban population. However, the informal or unenumerated sector, which is generally taken to include the bulk of the underemployed, is now generally, although not universally, considered on the basis of scanty, although accumulating information to provide a wide range of necessary goods and services for a substantial section of the urban population and moreover to have within it not insignificant dynamic features making for improvement and the advance of accumulation, innovation, productivity, earnings and entrepreneurship. The underemployment concept appears to be a misnomer expressing the important fact of very wide ranges of productivity and remuneration levels as between and within sectors as compared to the developed countries, particularly at the lower end of the scale.

Evidence for underemployment in agriculture is even more imperfect but seems to show that it is not as great as has been generally assumed.

More generally, it can be argued that looked at on a broad canvas, the apparent "marginalisation" in urban areas is in reality a progressive phenomenon representing the fuller integration of the population into the market economy as the market widens and economic activities become more interdependent through increasing specialisation.

(vi) Empirically, it is the case that, whatever the position considered statistically, all the normal indicators of "dependence" of the poor upon the rich countries point to increasingly equal economic relations over time as regards trade diversification, geographically or by commodities, control of foreign investment, structural change in inter-sectoral terms and in intra-sectoral terms or balance of payments problems. Dependence of the poor countries on the rich as regards technology remains, but in postwar increasingly competitive world conditions this should be regarded in a dynamic context as a necessary if not sufficient condition for greater "independence". As a result, the distribution of world economic power is becoming less concentrated and more dispersed and the countries of Asia, Africa and Latin America are playing increasingly independent roles both economically and politically.

(vii) Thus, contrary to widespread liberal-radical opinion, stagnation, relative or absolute, has not been characteristic of the Third World postwar and on the contrary significant progress in material welfare and the development of the productive forces has taken place, representing an acceleration of prewar trends. This also runs against the grain of current Marxist outlooks which have stressed the impossibility of vigorous national development for the Third World within a capitalist framework — or alternatively have argued that the development of capitalism in the Third World is itself impossible except as a distorted and feeble caricature of Western capitalism, without any indigenous roots or significant internal dynamic. This outlook is a corollary of the Leninist theory of the degenerate character of monopoly capitalism as compared with its earlier progressive stage. Originally applied to the West, the view that the era of monopoly capital marked the end of any progressive function, economic or otherwise, that capitalism had historically performed or could perform was by a natural if illogical process[164] extended to cover capitalism anywhere in the age of imperialism, including Africa, Asia and Latin America. Yet the social conditions of most of the countries in these continents were and are such that prior to colonial rule even late European feudalism would have represented a significant economic and cultural advance as compared to them, with but few exceptions.[165] Both Marx and Engels explicitly recognised that the logic of their analysis of the dynamic economic and cultural character of capitalism and its historical contribution to human progress implied the progressive character of its expansion into non-capitalist areas, as witness their comments on India, Algeria and Mexico. Furthermore, Lenin's theory of monopoly capitalism as a distinct and degenerate stage of capitalism corresponded neither to the facts of competition, innovation and economic growth in the advanced twentieth century capitalist economies,[166] nor to the anti-under-consumptionist logic of Marx's own analysis of the realisation problem (the problem of effective demand). Indeed, Lenin's adoption of Hobson's under-consumptionist analysis of imperialism was in flat contradiction to his own earlier polemics against the under-consumptionist views of the Narodniks, most notably in The Development of Capitalism in Russia.

The period we have been discussing has witnessed titanic strides forward in the establishment, consolidation and growth of capitalism economically in the Third World, with corresponding advances in material welfare and the development of the productive forces. The development has been highly uneven, as is entirely characteristic of capitalism and perhaps every type of human development, and many countries at the beginning of our period were still predominantly subsistence while others, such as Argentina and Uruguay were already largely capitalist. Although the capitalist system was initially largely externally introduced, and often by force, its underlying superior dynamic, as compared with pre-capitalist societies,

is even more marked now than it was for Europe and Japan when capitalism there succeeded feudalism. The result is that what is initially an external force quickly develops deep internal roots and a continuing and deepening internal momentum. The reality of this picture of a vigorous, irreversible, "grass-roots" development of capitalism is testified by the abundant evidence of rapidly growing commercialisation and resulting social differentiation (especially in the rural areas of Asia and Africa), coupled with the relative expansion of the wage labour force[167] at the expense of family or self-employment (including feudal type tenurial relationships) throughout our period (Table 14). The focussing of attention on the growth or failure to grow of manufacturing industry (especially heavy industry) and the role of foreign capital therein has detracted attention from the underlying force of the spread of capitalism from below,[168] quite apart from the fact that the growth of modern industry and especially heavy industry has been remarkably vigorous and moreover shows every sign of continuing to become increasingly integrated into the national economies of the LDCs. The attention now correctly being focussed on agriculture's relatively poor performance should not distract attention from the profound underlying changes in agrarian social structure gradually gathering momentum which will sooner or later result in major advances as agrarian capitalism becomes sufficiently developed to utilise more productive methods, and inputs.

Table 14
Salaried and Wage Earners as per cent of the Economically Active Population — Some Developing Market Economies[1] — 1960-1970[2]

Country	1960	1970
Ghana	18.10	22.50
Morocco	34.70	37.20
Dominican Republic	44.10	38.20
El Salvador	50.00	51.70
Mexico	64.10	62.30
Panama	42.50	55.30
Puerto Rico	80.20	84.50
Argentina	69.20	70.80
Brazil	48.00	54.80
Chile	72.80	70.20
Syria	49.10	41.70
Turkey	18.80	25.80
Hong Kong	79.00	83.00
India	12.80	17.00
South Korea	21.30	38.00
Philippines	27.20	39.90
Thailand	11.80	15.60

[1]All market LDCs covered except Israel for which data available.
[2]1960-1970 comparison "relatively good".

Source: UNRISD, Development Indicators, 1960-1970, Comparisons, p. 102.

In retrospect, the enormous wastes of postwar economic development and the many major policy blunders have signally failed to halt the gathering momentum of capitalist advance and associated material progress. Many of these blunders are now widely recognised by all schools of thought (including those ideological trends

in development economics which promoted them in the first place), blunders such as the neglect of agriculture in favour of industrialisation and the pessimistic bias against development of an exporting manufacturing sector and the over-valuation of exchange rates. The character of these errors (and their origin) suggests the nature of the underlying problem. Development economics in the 1950s and 1960s had within it conflicting trends, of which that favouring rapid industrialisation primarily for the home market as a first priority (Prebisch became extremely influential as was Mahalanobis). This approach was strongly influenced by the Soviet example of development by rapid industrialisation, by Western liberal-egalitarian ideals, and by an anti-imperialist approach related to both Leninism and liberalism (of the Hobson variety) which tended to regard underdevelopment as in large part caused by the character of international economic relations between wealthy capitalist countries and the countries of Latin America, Asia and Africa. For obvious reasons this liberal-radical trend in development economics has met with considerable response from governments of underdeveloped states.

But the main problem with the liberal-radical approach which its proponents did not always squarely face was that the economies they were concerned with were developing in a capitalist direction, and in most cases if not all, irreversibly so, short of a communist revolution. An explicit recognition of this fact would have permitted the promotion of a more efficient and more humane capitalist development as distinct from the inappropriate imposition of a welfare approach plus the Soviet model on countries which have neither the advanced economic basis required for the one nor the communist leadership required for the other.

Failure to recognise that the social realities in relation to which policy was formulated were the realities of capitalist development had caused neglect of the elementary requirements of promoting such development especially the expansion of commercialisation in agriculture so crucial both to the spread of growth-conducive attitudes and habits and to the expansion of the agricultural surplus itself essential for successful industrialisation. The continued relative slowness of economic advance in South Asia abundantly testifies to the crucial importance of failure in this respect of the liberal-radical school of development economics[169] which has undoubtedly had serious adverse effects on potential welfare. Indeed development virtually throughout the Third World has been held below its potential by the failure to promote adequately rural commercialisation and the consequent enlargement of the agricultural surplus. Nor is this all. The garbled liberal-radical outlook is still dominant in development economics and it is clear that a new set of blunders is rapidly becoming or has already become, part of development orthodoxy: an excessive and impractical emphasis on equal income distribution, the retardation of economic growth for employment reasons and counter-productive proposals for debt cancellation or some euphemism for some degree of default. Whatever is to be the new world being created in Latin America, Asia and Africa nothing is to be gained from a refusal to recognise the existence of the developing capitalisms already there.

[1]This discussion concerns the countries of the non-communist Third World only. I wish to thank for their help and intellectual stimulus Dr. Shauvanagh Madavan, Mike Safier, Peter Ayre, Dr. Richard Jeffries and Professor Dudley Seers. I am particularly grateful for the help and critical comments of Biplap das Gupta. The United Nations Research Institute for Social Development (UNRISD) was particularly helpful in supplying me with materials from their data bank.

[2]Infinite variations, elaborations and combinations exist. There is a risk of conflating differing approaches. But the general feeling of disappointment and failure about Third World development cannot be doubted.

[3]These causes interrelate and overlap in a logically unsatisfactory fashion but they suffice to draw attention to some of the principal arguments of the proponents of this view.

[4]This argument is often supplemented by the view that modern Western capitalist culture has not proved itself very appropriate to Western societies themselves.

[5]The fourth horseman of the Apocalypse is, of course, war. The other disasters, together with the rich world-poor world gap may be confidently expected to bring this in their train.

[6]That is, excepting the possibility of a fundamental change in everything (and anything).

[7]Cf. Hans Singer, "Brief Note on Unemployment Rates in Developing Countries", Manpower and Unemployment Research in Africa (April 1970), p. 2. The likely range for 1980 is given as between 34 percent and 52 percent.

[8]The present writer is a Marxist and does not consider the dominant current tendency of most Marxist thinking in this field to be in the scientific tradition of Marxism.

[9]Understood in the widest sense, to include human attitudes, skills, etc.

[10]This relates to the view that there has been a decline in the quality of life (point iii above).

[11]A heterogeneity which is also frequently to be found within national boundaries.

[12]Above all, it should be recollected that despite the heterogeneity referred to, all LDCs, without exception, have in the postwar period, been part of the great upsurge combining nationalism and the demand for a better life which is bringing the great majority of mankind formerly quiescent into the forefront of history and into the modern world.

[13]As we shall see, they must be when the rich world-poor world polarisation thesis is considered (below p. 10).

[14]It has become obligatory in United Nations documents to follow any reasonably cheerful statement of fact about progress in any dimension of Third World social or economic life, be it concerned with nutrition, education, life expectancy, etc., with hasty caveats to the effect that the gap between the rich and poor countries remains enormous and that the average obscures (!) the fact that many millions are below the average or have not improved as fast as the average.

[15]Compared to the past.

[16]We shall argue below (p. 23 et seq.) that despite the undoubted defects of this measure as an indicator of material welfare, the cross-temporal picture it suggests is broadly accurate.

[17]Other grounds may of course exist. We shall consider these below.

[18]United Nations, Department of Economic and Social Affairs, Analyses and Projections of Economic Development, 1. An Introduction to the Technique of Programming (New York, 1955), p. 10; and United Nations, Department of Economic and Social Affairs, Economic Survey of Latin America 1955 (New York, 1956), p. 3, cited in P.T. Bauer, Dissent on Development, student edition (London, 1976), p. 34.

[19]Bauer discusses some of the abundant but scattered evidence for this, especially in connection with West Africa and Southeast Asia (ibid., pp. 35-37). This growth was, of course, patchy. It was only as the economic contact of the poor countries with the advanced capitalist world became generalised in the twentieth century and especially after World War II that Third World economic growth too became generalised.

[20]Kuznets gives the figures as growth rates per decade, op. cit., p. 22.

[21]France, Belgium, Germany, Switzerland, Denmark, Norway, Italy, Canada and Australia.

[22]Utilisation of the long-term rates of increase of per capita product is appropriate since for the periods after modern economic growth began no significant acceleration or deceleration is found and, specifically, Kuznets' data provide no support for Rostow's "take-off" theory of an initial acceleration of the growth rate of per capita product followed by constant sustained growth at a high rate. Ibid., p. 41.

[23]UNCTAD, Handbook of International Trade and Development Statistics (New York, 1976), p. 341.

[24]United Nations, Department of Economic and Social Affairs, 1974 Report on the World Social Situation (New York, 1975), p. 6.

[25]On the other hand, the combination of a comparatively late start and extremely rapid growth of modern economic activities, often with a comparatively unsuitable cultural environment, may create tensions of a highly ambiguous character at once contributing to forward-looking change and simultaneously raising anew spectres of irrationalism, especially of xenophobic nationalism, following Europe's own catastrophic example.

[26]In particular it has been concluded that the Third World has been becoming more and more economically subordinate to and dependent on the developed capitalist world and that politically the result has been the growing importance of international economic polarisation as the greatest single menace to world peace and harmonious international political relations generally. Of course, growing polarisation is not the sole basis for these conclusions, but it is an important element.

[27]The range of growth rates of GNP per capita for all market economies (developed and undeveloped together) was from +10.5 percent per annum to -2.1 percent per annum, i.e. 12.6 percentage points. Taking five equal percentage intervals between the lowest and highest growth rates and allotting the countries into their appropriate range, we get the crude results above. Weighting of the countries according to population would tend to suggest greater polarisation owing to the relatively slow growth of some of the largest LDCs. On the other hand, Israel and the Southern European countries (Greece, Spain and Portugal) have been counted as DMEs, which rather minimises the suggestion of depolarisation. Turkey has been counted among the LDCs.

[28]The majority or the poorest X percent are often treated as interchangeable. In fact the majority may be getting better off relative to the upper income classes while the poorest 20 percent may not — or vice versa. Moreover, policies to improve the relative position of the poorest 20 percent may conflict with policies to improve the relative position of the mass of the population (perhaps the poorest 60 percent). This is quite likely to be the case since poverty is highly correlated with location (especially in isolated, rural areas) and recent empirical evidence supports the view that increasing urbanisation is more economically efficient than a more even urban/rural allocation of resources subject to the constraint that agricultural output growth is not neglected. A summary of the evidence on this point is given by Keichi Mera, "On the Urban Agglomeration and Economic Efficiency", Economic Development and Cultural Change (January 1973). Further, the fact that the poorest quartile is getting statistically relatively worse off may be no indication of the deterioration of a particular poor group ("under-privileged" suggests that those concerned ought to be privileged) since the constituent individual or household membership or social composition of the lowest 20 percent may be changing significantly over a comparatively brief time period, as is likely to be the case in periods of rapid overall socio-economic change and particularly when commercialisation and industrialisation are making an impact on predominantly agrarian societies where social demarcations are not

rigid and kinship and patron-client relationships are important, as in much of Asia and Africa. This obvious and indeed crucial aspect of modernisation is generally overlooked in the literature of "redistribution with growth".

Individual time series studies of income distribution to hand also show no clear pattern. Tanzania appears to have reduced income inequality between 1967 and 1972 but the sources of data and methods of estimation are unclear (Reginald H. Green, "Tanzania", in H. Cheney et al., Redistribution with Growth (Oxford Press, 1974), pp. 268-275. Sri Lanka witnessed substantial equalising redistribution between 1953 and 1973 (Sal Jayawardana, "Sri Lanka", ibid., pp. 273-280). South Korea witnessed apparently a substantial decline in income inequality throughout the postwar period as a whole although the data are fragmentary (Irma Adelman, "South Korea", ibid., pp. 280-285). There appears to have been a substantial reduction in inequality in Taiwan between 1950 and 1970 although here again the evidence is shaky. It does appear fairly certain, however, that whether substantial or not some sort of decline in inequality did take place (Gustav Ranis, "Taiwan", ibid., pp. 285-290). Between 1950 and 1970, in Mexico, income distribution became increasingly unequal over time as measured by the Gini coefficient for the years 1950, 1958, 1963, 1968 and 1969 according to Gunter van Ginneken (Mexican Income Distribution within and between Rural and Urban Areas, World Employment Programme Research, Working Papers [ILO, Geneva, 1974], pp. 98-99). On the other hand, Richard Weiskoff's study ("Income Distribution and Economic Growth in Puerto Rico, Argentina and Mexico", in Alejandro Foxley [ed.], Income Distribution in Latin America [Cambridge University Press, 1976]) of changes in Mexico between the years 1950, 1957 and 1963 shows the Gini coefficient declining from 1950 to 1957 and rising only from 1957 to 1963. His coefficient of variation suggests that distribution grew more equal throughout the period while the moments of logs of income show that despite the decline in skewness, the variance increased during the entire period. Size distribution of personal income (income shares received by deciles of families) indicates that the "middle classes" have gained at the expense of the top 5 percent and the bottom 60 percent. Almost exactly the same picture holds for Puerto Rico between 1953 and 1963 where the different measures show contradictory results; although the Gini coefficient is unequivocally rising, the ordinal shares again show the middle groups gaining as compared to the top 5 percent and the bottom 60 percent. The picture for Argentina for the years 1953 and 1961 is of rising inequality, leaving, according to all measures except the coefficient of variation, income more unevenly distributed in 1961 than 1953. In Brazil income inequality has risen between 1960 and 1970 as measured by the Gini coefficient (Albert Fishlow, "Brazilian Size Distribution of Income", in Foxley [ed.], Income Distribution in Latin America). In Peru, the redistributive effect of the reforms between 1968 and 1972 appears to have been minimal (about 3-4 percent of national income all within the wealthiest quartile of the population) (Adolfo Figueroa, "The Impact of Current Reforms on Income Distribution in Peru", ibid.). In Western Malaysia between 1957 and 1970 (with observations also for 1960 and 1967) the Gini coefficient rises from 1957 to 1960, falling thereafter through 1967 to 1970 but with income still more unequal than in 1957 (Lim Lin Lean, The Pattern of Income Distribution in West Malaysia 1957-70, World Employment Programme Research [ILO, Geneva, 1976]). For Ghana between 1956 and 1968 all measures of changes in inequality of monetary income distribution agree (coefficient of variation, standard deviation of log of income, Pareto coefficient, the Gini coefficient ratio and the Gini coefficient) and show growing inequality (Kodwo Ewusi, The Distribution of Monetary Incomes in Ghana, Technical Publication Series no. 18 [Institute of Statistical, Social and Economic Research, University of Ghana, Legon, 1971]). Non-monetary incomes are extremely unlikely to affect this result. In India the size distribution of income appears to have widened over the period 1951-1960 (Subramamian Swamy, "Structural Changes and the Distribution of Income by Size: the Case of India", Review of Income and Wealth [June 1967]). If we exclude the countries for which the different measures give conflicting results (Puerto Rico, Mexico and Argentina) and which in fact by

cross-national comparisons with other LDCs already have relatively equal income distribution, no obvious general predominance of decreasing or increasing inequality is discernible.

[29] M.S. Ahluwalia, "Income Inequality: Some Dimensions of the Problem", in H. Cheney et al., op. cit., p. 13. Thirteen of the countries are underdeveloped countries, i.e. Taiwan, South Korea, Sri Lanka, Mexico, Brazil, India, Venezuela, Peru, Panama, El Salvador, Colombia, Iran and the Philippines. The exclusion of the five non-Third World countries does not affect the validity of Ahluwalia's conclusions. Ahluwalia's work is the most comprehensive reliable summary of the evidence on the relationship of postwar redistribution of growth to date. Its general findings may be taken as definitive of the current state of knowledge on the subject. The implications of this are potentially damaging to the efficiency, logic and morality of the redistribution approach.

[30] As measured by per capita GNP at factor cost in constant 1971 US dollars.

[31] Ibid., p. 17. These statistical findings are regarded by Ahluwalia as providing some confirmation for the following scenario.

> On the one hand, the process of development gives economic impetus to the modern high-income sectors and dislocates traditional low-income sectors, thus promoting relative inequality and perhaps even absolute impoverishment. On the other hand, development also promotes the demand for skilled labour, raising real wages and employment levels in the modern sector, thus enabling low-income groups to share in the benefits of growth. Under some optimistic assumptions about the trend in wage share, this may lead to a reduction in relative inequality. These conflicting influences are usually reconciled by treating them as sequential, i.e. income inequality increases in the early stages of development but then declines as development continues (ibid., p. 27).

H.T. Oshima presents evidence to the same effect for several Asian countries in "The International Comparison of Size Distributions of Family Incomes with Special Reference to Asia", Review of Economics and Statistics, 44 (1962). Kuznets argued that inequality probably first increased and then declined in the now developed countries, Britain, Germany and the United States, in "Economic Growth and Income Inequality", American Economic Review (March 1955). Adelman and Morris come to the conclusion from their cross-sectional evidence that "the results do not support the hypothesis that economic growth raises the share of income of the poorest segments of the population. On the contrary..." (I. Adelman and C.T. Morris, Economic Growth and Social Equity in Developing Countries [Stanford University Press, California, 1973], pp. 160-161). But, their judgement is dependent on an idiosyncratic system of classification and not, like Ahluwalia's, a non-selective approach. The alleged disappointing (to development economists) performance of the First Development Decade of the 1960s appears to have resulted from a retrospective change in expectations rather than a poor economic performance.

[Editors' note: We regret that notes 32-40 were not with the manuscript when it reached us. Efforts are being made to locate them. In the hope that they may be discovered we have left the author's sequence of footnote numbers undisturbed. JAPE 4 will include further information which becomes available.]

[41] Report of the Director-General to the Tripartite World Conference on Employment, Income Distribution and Social Progress and the International Division of Labour (Geneva, 1976).

[42] Outstanding postwar examples are Taiwan, South Korea and Singapore. There are, of course, equally outstanding exceptions to this statement, e.g. Sri Lanka.

[43] I am indebted to Peter Ayre for this latter point.

[44]The establishment of a railway system in the Sudan created a relatively well-paid group of railway workers and benefitted well-off contractors and traders while increasing absolute rewards to poor, former subsistence farmers now able to sell food to the towns and to low-paid casual labour in cotton picking (by increasing their mobility).

[45]Locational differences combined with the inefficiency of allocating scarce complementary resources (to human labour) too thinly inevitably mean that the spread of opportunities is an uneven process.

[46]E.g. distance from towns and railheads or cash-crop producing areas.

[47]E.g. whether one is a subsistence farmer or a car assembly worker.

[48]Hirschman noted the relevance of this point for LDCs years ago (The Strategy of Economic Development [Yale University Press, 1958], twelfth printing 1958, p. 32ff.), but its crucial implications have been largely ignored in both the development literature and in development planning.

[49]The separation of ownership from direction and management implicit in this process eventually begins to create one of the major conditions which make appropriate a change towards a socialist system. But this is another story which in any case relates to an advanced stage of economic and cultural development.

[50]It should not be forgotten that several decades of civil war were necessary for the establishment of an egalitarian regime in China with all that implied in terms of economic loss. This implies no suggestion that the Chinese communist struggle was unjust or its outcome undesirable, but it does call attention to the glibness of those who call for similar egalitarian results in breathlessly short time periods and without experienced and realistic communist political leaderships available.

[51]Thus Charles Elliott looks with disfavour on the market selection and allocation of resources to Zambian farmers on the basis of their economic efficiency as an unfortunate case of increasing inequality ("Income Distribution and Social Stratification", Baster, op. cit., p. 43), while C.L.G. Bell and John D. Dulay solemnly discuss how to restrict (!) the spillover benefits of rural feeder roads so that they do not also benefit richer farmers, traders and contractors, but only the poor farmers.

[52]Such as eating beefsteak or bacon, depending on which religious taboo is considered more important than protein deficiency.

[53]There is a relevant discussion relating to this point in W.G. Runciman, Relative Deprivation and Social Justice (Penguin Books, 1973), part 1. Of course, the fact that a policy of income equality may not be generally accepted is no reason not to attempt to gain its acceptance. But it is unrealistic to assume that it is widely accepted.

[54]Anybody conversant with Nigeria would quickly see the point.

[55]Although they may be so in particular cases.

[56]Or an increasing proportion of those employed are becoming more underemployed than before.

[57]The various definitions of underemployment in agriculture centring around zero marginal productivity or real incomes in excess of marginal productivity are irrelevant to the urban informal sector since it must operate to market criteria. Frequently stated views to the effect this sector has little connection with the market ignore the fact that unlike its rural counterpart, it cannot provide subsistence and its practitioners must buy to live.

[58]Report of the Director-General, op. cit.

[59]For example, J. Krishnamurty found an open unemployment rate, from National Sample Survey data of only 2.6 percent for all India for 1966-67 ("Some Aspects of Unemployment in Urban India", Journal of Development Studies [January 1975], p. 13), while Adolfo Figueroa notes that in Peru the 1961 Census gave a national open unemployment percentage of only 2.8 percent while the 1967 survey of Lima's labour market gave a figure of 4.2 percent ("Income Distribution, Demand Structure and Employment: The Case of Peru", The Journal of Development Studies [January 1975], p. 21).

[60]Although this does appear to have happened in individual cases at certain times, e.g. in Egypt and India (United Nations, Department of Economic and Social Affairs, The Determinants and Consequences of Population Trends, vol. I [1973], pp. 309-310.

[61]Ibid., pp. 295-296, p. 315.

[62]David Turnham and Ingelies Jaeger, The Employment Problem in Less Developed Countries: A Review of Evidence (OECD, Paris, 1971), p. 59.

[63]Ibid., p. 60. Unfortunately, Turnham then fudges his point by advocating the poverty approach to underemployment.

[64]For example, Employment and Equality: A Strategy for Increasing Productive Employment in Kenya (ILO, Geneva, 1972), ch. 13; C.J. Fapohunda, Development of Urban Infrastructure in Greater Lagos, World Employment Programme Research (ILO, Geneva, 1974), p. 54; J. Weeks, "Introduction", Manpower and Unemployment Research in Africa (November 1973), p. 5 (on Ghana); Kalmann Schaefer and Cheywa R. Spindel, Urban Development and Employment in Sao Paulo, World Employment Programme Research (ILO, Geneva, 1974), pp. 4-5; S.V. Sethuraman, Urbanisation and Employment in Jakarta, World Employment Programme Research (ILO, Geneva, 1974), ch. 7; Heather Joshi, Harold Lubell and Jean Mouly, Urban Development and Employment in Abidjan, World Employment Programme Research (ILO, Geneva, 1974), ch. 4; Dr. A.N. Bose, The Informal Sector in the Calcutta Metropolitan Economy, World Employment Programme Research (ILO, Geneva, 1974).

[65]Biplap das Gupta's analysis of the informal sector in Calcutta constitutes an exception. He concludes that the Calcutta urban informal sector makes little contribution to the national economy and creates innumerable economic and social problems which cannot be easily solved. "Calcutta's Informal Sector", Institute of Development Studies Bulletin (October 1973), pp. 72-73.

[66]One observer has argued that "the majority of the urban population in black Africa obtains its housing, transport, services, fuel, food and clothing through the non-enumerated sector". John Weeks, "An Exploration into the Nature of the Problem of Urban Imbalance in Africa", Manpower and Unemployment Research in Africa (November 1973), p. 17.

[67]Cf. Louis Emmerij, "A New Look at Some Strategies for Increasing Productive Employment in Africa", International Labour Review (September 1974).

[68]Particularly positive verdicts on the economic contribution of the informal sector are given in ILO Employment and Equality, op. cit., in Fapohunda, op. cit., in Weeks, "Introduction", and in Schaefer and Spindel (op. cit.) and in Joshi, Lubell and Mouly (op. cit., p. 418) for Kenya, Ghana, Sao Paulo (Brazil) and Abidjan (Ivory Coast) respectively. See also K.C. Zachariah, "Bombay Migration Study: A Pilot Analysis of Migration to an Asian Metropolis", in Demography (1966).

[69]All the studies cited in n. 64 except the ILO Kenya study give evidence of the importance of wage labour in the informal sector, with in addition many transitional forms between self-employment and wage employment. The ILO Kenya Report's characterisation of the informal sector as consisting primarily of self-employed has been strongly contested.

[70]It is estimated, for example, that jobs in the production services subsector of Sao Paulo account for about 50 percent of total services jobs. The growth of

such activities is a direct function of the economic development of the area and covers such activities as merchandising, wholesale and retail trade, transport, communications, real estate and banking services. Productivity levels are probably comparable with those in the secondary sector. Schaefer and Spindel, op. cit., p. 4.

[71]Due to the economies of breaking bulk arising from the character of the market, consisting as it does of large numbers of very low-income purchasers, and from the credit economies thereby attained, cf. P.T. Bauer, West African Trade (London, 1963 edition), ch. 2, and Barry Lamont Isaac, Traders in Pendembu, Sierra Léone, A Case Study in Entrepreneurship, Ph.D. thesis (University of Oregon, 1969), cited in Weeks, "Urban Imbalance", p. 17.

[72]Weeks' path-breaking discussion ("Urban Imbalance") is excellent on this point but tends to over-emphasise self-employment and the competitive as opposed to the complementary relationship of the formal and informal sectors. A good description of their complementary characteristics on the supply side is given in Kenneth King, "Skill Acquisition in the Informal Sector of an African Economy:. The Kenya Case", Journal of Development Studies (January 1975). Complementarity on the demand side needs no argument for the informal sector in general but competitive relations may be more important in specific cases.

[73]See references cited in Weeks, "Urban Imbalance", p. 17.

[74]E.g. see for Ghana, Planungsgruppe Ritter (Koenigstein, F.R. of Germany), Project on Urbanisation, Employment and Development in Ghana, Report on Two Surveys, World Employment Programme Research (ILO, Geneva, 1974), pp. 52ff., and for Kenya, Kenneth King, op. cit. Examples could be multiplied.

[75]E.g. W.J. Steel, "Empirical Measurement of the Relative Size and Productivity of Intermediate Sector Employment: Some Estimates from Ghana", MURA (April 1976), pp. 23-31; A. Peace, "The Lagos Proletariat: Labour Aristocrats or Populist Militants", in The Development of an African Working Class, R. Sandbrook and R. Cohen (London, 1975), pp. 281-302. Stuart W. Sinclair draws attention to the dynamic implications of these studies for processes of capital accumulation in the informal sector, "The Intermediate Sector in the Economy", MURA (November 1976).

[76]The integrated character of the urban economy (which indeed is what defines it) is such that relatively low productivity or income cannot define marginal activity in any accepted sense of the term "marginal". Night-soil removers or petty traders, although by conventional measurement with low productivity or remuneration are likely to be essential to the effective functioning of the economy.

[77]See for example for Sao Paulo, Schaefer and Spindel, op. cit., pp. 4-5; for Jakarta, Sethuraman, op. cit., pp. 6.31 and 6.39; for Abidjan, Joshi, Lubell and Mouly, op. cit., p. 4.15; for Kenya, ILO, Employment Incomes and Equality, p. 5.

[78]See below and see also the estimates for thirty-six countries during the 1960s by the FAO which also suggest on the basis of indirect data a slow rise in rural average productivity, FAO, State of Food and Agriculture 1970, p. 135.

[79]This point is brought out in most of the World Employment Programme Research studies.

[80]For example, Sethuraman on Jakarta, op. cit., p. 6.31.

[81]J. Robinson, Essays in the Theory of Employment (1937), p. 84.

[82]Analogous to "dependence" and "under-employment", not to mention "underdevelopment" itself.

[83]Although there are also, of course, slums of the traditional type in the Third World, i.e. decayed urban areas. The UN 1974 World Social Situation Report distinguishes between slums and squatter settlements and notes that comparisons between rural and urban areas almost always show more overcrowding in the former than the latter (pp. 235-236).

[84] Ibid., p. 233.

[85] Cf. Zachariah, op. cit.; also J.C. Caldwell, African Rural Urban Migration (1969). The empirical basis of the "over-urbanisation" case has recently been seriously questioned, e.g. Koichi Mera, op. cit.

[86] All consumption patterns are partly culturally determined and cultural contact between different civilisations has in general been regarded as an enriching element in human society and is an important stimulus to human progress. Can it be assumed that Third World consumers are acting irrationally or in a vulgar, grossly materialist fashion in emulating Western consumption patterns? Such assumptions would not only be condescending but if incorporated in policy aims, undemocratic. From a purely economic point of view such attempted emulation need not necessarily result in excessive consumption. It may encourage greater production to obtain the desired goods (on "luxury" consumption, see below, p. 27 et seq.).

[87] It should be noted, however, that the fact that monetary GNP is a value-loaded indicator does not make it a subjective indicator insofar as it reflects the objectively-effective values in the society concerned. Knowledge of the fact does not, of course, imply moral or political acceptance of it but neither does moral rejection by itself make it any less a fact.

[88] UNRISD, The Level of Living Index, by Jan Drewnowski and Wolf Scott (Geneva, 1966).

[89] Ghana, Mauritius, Morocco, UAR, Uganda, Argentina, Chile, Ecuador, Jamaica, USA, India, Israel, Japan, Thailand, Belgium, Denmark, Greece, Spain and Yugoslavia (p. 59).

[90] UNRISD, Contents and Measurement of Socio-Economic Development: An Empirical Enquiry, prepared by D. McGranahan, C. Richard-Proust, N.V. Sovani, M. Subramamian, Report no. 70.10 (Geneva, 1970).

[91] Ibid., p. 143.

[92] I.e. expectation of life at birth; population in localities of 20,000 persons and over as a proportion of the total population; consumption of animal proteins per capita per day; combined primary and secondary enrolment as a percentage of the 5-19 age group; vocational enrolment as a percentage of the 15-19 age group; average number of persons per room; circulation of daily newspapers of general interest per 1,000 of the population; telephones per 1,000 of the population; radio receivers per 1,000 of the population; percentage of the economically active population in electricity, gas, water, sanitary services, transport, storage and communications; production per male agricultural worker in 1960 US dollars; adult male labour in agriculture as a percentage of the total male labour force; electricity consumption in kwh per capita; steel consumption in kg per capita; energy consumption in kg of coal per capita; GDP derived from manufacturing as a percentage of total GDP; foreign trade (sum of imports and exports) per capita in 1960 US dollars; and salaried and wage-earners as a percentage of the total economically active population.

[93] Ibid., p. 15.

[94] The Development Index is also more highly correlated with the individual indicators than is per capita GNP, ibid., p. 41.

[95] Ibid., Tables 14 and 15.

[96] Report of the Director-General (1976), op. cit.

[97] In the sense in which it is distinguished from growth.

[98] Dudley Seers, op. cit., pp. 22-24.

[99] Seers remarks that "Egalitarians like myself face a theoretical paradox. If we argue that the national income is an appropriate measure of a nation's development

we weaken the significance of a growing per capita income 'gap' between rich nations and poor" (ibid., p. 34). Actually we have here not a theoretical paradox but a classic example of wishing to have one's cake and eat it.

[100]FAO, The State of Food and Agriculture 1975 (Rome 1976), p. 76.

[101]Figure 111.3 in FAO, The State of Food and Agriculture 1970.

[102]Compare UN, Report on the World Social Situation 1963, p. 64, with UN, Report on the World Social Situation 1974, p. 225.

[103]See UNRISD, Report No. 73/3, Research Bank of Development Indicators, vol. III, 1960-70 Comparisons, pp. 8 and 12. Of the sixteen countries in Table 13, only Argentina and Turkey showed a rise in infant mortality. With the exceptions of Pakistan, Colombia and Guatemala the improvements in the remaining countries were impressive. Only one of sixteen countries experienced a decline in life expectance at birth, El Salvador.

[104]Ibid. For all five exceptions the remaining two of the three indicators used show improvement. It must be noted however that Africa is scarcely represented and the only evidence for the South Asia region, that for number of persons per dwelling in India, shows a deterioration.

[105]Donald McGranahan, "Development Indicators and Development Models", in Baster, op. cit., p. 94. The correlations 0.72 for infant mortality rate and 0.77 for expectation of life at birth.

[106]FAO, State of Food and Agriculture 1974, pp. 100, 101, 105.

[107]Cf. Samir Amin, Accumulation on a World Scale (Monthly Review Press, 1974).

[108]I.e. the higher range of durable consumer goods. (Amin simply equates luxury goods with all durable consumer goods.) This is notably the case for West Africa and North Africa, the two regions in which Amin specialises. Cf. for West Africa, Anthony Hopkins, An Economic History of West Africa and IMF, Surveys of African Economics, vol. VI (Washington, D.C., 1975). The same is the case for India. South Asia, including India, it should be noted is one of the areas with a comparatively low degree of inequality and great poverty yet it accounts for 55 percent of the total non-communist Third World population (Ahluwalia, op. cit., p. 7). This situation clearly favours manufacturing based on a mass market and producer and intermediate goods, especially where the non-integrated character of the market limits the potential demand of the wealthier classes.

[109]Unfortunately UNIDO statistics conflate producer goods and durable consumer goods.

[110]J.R. Wells, Consumption, Market Size and Expenditure Patterns in Brazil, Working Papers no. 24 (Centre of Latin American Studies, University of Cambridge, 1976).

[111]Including sewing machines, refrigerators, televisions, gas and electric stoves, electric irons, table radios, portable radios, gramophones, fans, liquifiers, cake-mixers, floor-polishers, vacuum cleaners, washing machines, air conditioners, motor cars, bicycles and motor cycles, ibid., p. 13.

[112]Ibid., pp. 51-53.

[113]The much despised "trickle-down" theory has something to it after all. Newton was right.

[114]Wilfred Beckerman has made this point in connection with the propaganda about pollution in In Defence of Economic Growth.

[115]Most of the following points have relevance to Latin America, although their independence was achieved much earlier, as is obviously reflected in most of the indicators of structural change and welfare. However, the international economic and political changes of the post-World War II period, including rising

nationalism and mass social pressures for change have produced similar developments in Latin America.

[116]On the basis of cross-sectional estimates, Kleiman concludes that "the effects of colonialism were quite rapid: the metropolitan shares in trade in countries independent for four to six years were about one third lower than in the colonies. And in those independent for some two decades, they amounted to about one quarter of their colonial level. The indices suggest that the metropolitan share declines exponentially, at an annual rate of nearly 8 percent in exports and 6.5 percent in imports." On the basis of time series estimates the annual rate of decline of the metropolitan share of ex-colonies trade tends to be somewhat less than for the cross-section estimates but still substantial at about 5 - 5.5 percent for exports and 3 percent for imports. E. Kleiman, "Trade and the Decline of Colonialism", Economic Journal (September 1976), pp. 471-472.

[117]Or reservation of specific areas of economic activity for local enterprise, e.g. in Ghana and Nigeria.

[118]Examples are so numerous and well-known that it would be idle to cite them. Where nationalisation, especially of resource-based industries has not taken place this is in the general case not a reflection of "dependence" but of the rational calculation of a government with the power to do so that it has more to gain than lose by refraining: of course rational calculations can be mistaken. But that is a different case from irrationally-based decisions.

[119]E.g. the LDCs have raised their share of profits on crude oil from 10-15 percent in the 1920s to about 85 percent in the early 1970s (before the OPEC price increase of 1973 which represented a vast gain to the oil exporting countries mainly at the expense of the oil consumers rather than the companies), UNCTAD, Restrictive Business Practices: The Operations of United States Enterprises in Developing Countries: Their Role in Trade and Development, by Raymond Vernon (UN, New York, 1972), p. 11. Similarly for copper, the second most important field for US foreign resource investment. In Chile, taxes paid by the large copper companies increased from well under 10 percent of the value of the product in the 1920s to about 30 percent in 1964. Taxes imposed on the Zambian copper industry in 1965 have significantly reduced the net outflow of factor payments and by the late 1960s domestic factor payments were about 80 percent of the international value of the product, R. Mikesell (ed.), Foreign Investment in the Petroleum and Mineral Industries (Baltimore, 1971), p. 7, and UN, World Economic Survey 1969-70; The Developing Countries in the 1960s: The Problem of Appraising Progress (UN, New York, 1971), pp. 14-15. Summing up the findings of several case studies of individual resource industries in a number of countries (petroleum in Argentina, Venezuela, Saudi Arabia and Iran, sulphur in Mexico, iron ore in Venezuela and Brazil, copper in Chile and manganese in Brazil), Mikesell concludes that, for most of the studies, retained value — i.e. the direct contribution of the foreign companies to the host country, tax-payments and local expenditures for goods and services, or net foreign exchange contributions — is about 60-70 percent of export value of the product in recent years: with 50-75 percent of this usually in various forms of payments to the host governments (op. cit., p. 428). This represents a very remarkable change since the early days which demonstrates the remarkable lack of perspective or elementary empirical grounding of the growing dependence thesis.

[120]Enclave characteristics refer mainly to the lack of backward linkages in the local economy, to minimal multiplier-accelerator effects and to small or even negative external economies (e.g. the diffusion of skills and stimulus to new methods by example).

[121]It should be noted that the remarkably high proportions of locally purchased imports recorded in Table 16 refers to the situation two decades ago. Progress in this respect both in Latin America and elsewhere in industrialising countries since then must have been considerable.

[122]E.g. currently Nigeria and Ghana. The mobilisation of local capital by foreign-owned or controlled enterprises is not necessarily, or even probably, a diversion of resources from local enterprise since what is involved is often the mobilisation of latent savings which would otherwise have remained in limbo. This is an aspect of the interdependence of savings and investment decisions referred to above and is in principle distinct from direct backward and forward linkages.

[123]In retrospect, it can be seen that whatever the wastes involved in the process of import substitution in many countries, it has nevertheless served as a preparation for expansion of export manufacturing notably in Brazil but also elsewhere.

[124]If the outflow of rent, interest and profits did not exceed the original investment, resources both of the host country and the investing firm would have been wasted and further investment would be prejudiced.

[125]UN, Economic Survey of Latin America 1970 (New York, 1972), Part Two, Special Studies, ch. 1, "The Expansion of International Enterprises and Their Influence on Development in Latin America", pp. 30-34.

[126]Internationally, oligopolistic concentration and restrictions on competition were and are much more important for fuel and minerals than for manufacturing enterprises.

[127]Although the problem is present also for manufacturing in small economies with highly protected domestic markets.

[128]Average annual increase of GDP for LDCs for 1961-65 and 1966-70 and 1971-75 was 5 percent, 5.8 percent and 5.5 percent. The respective figures for the same periods for the DMEs were 5.2 percent, 4.6 percent and 2.8 percent, World Economic Survey 1975 (UN, New York, 1976), p. 42. GNP growth rates would not be very different in aggregate.

[129]Financial Times, 14th December 1976.

[130]Aid is frequently cited also as a major device for increasing dependence. Cf. Teresa Hayter, Aid as Imperialism (Penguin Books, 1971). Since, however, the real value of aid has risen very little and declined as a proportion of the national income of donors (I.M.D. Little, "Economic Relations with the Third World — Old Myths and New Prospects", Scottish Journal of Political Economy [November 1975], p. 223), opponents of dependence may sleep a little more peacefully.

[131]Cf. Little, ibid., pp. 227-228. The two-gap model which provides a theoretical basis for this view amounts to saying that if the state concerned is not prepared to undertake the necessary policies to ensure appropriate exchange rates, relative costs of specific exports and import-competing goods, money income flows and mobility of resources then rapid development means a foreign exchange gap. No doubt this is so but it does not follow that rapid development must mean a foreign exchange gap. When used as a justification for aid the two-gap model at the very least implies the possibility that the aid will be obtained at the cost of the more fundamental policy and structural changes necessary. This is not to say that aid is harmful.

[132]E.g. Nigeria, the Gold Coast, Malaya and many others at various periods.

[133]Low producer prices (compared to the price level of producer purchases and costs) for palm products in Nigeria and Ghana, initial neglect of sugar in communist Cuba are striking examples of the harmful effects of such policies.

[134]This view has been refuted time and again but has behind it a mighty edifice of vested interest, including in a sense the entire personnel of UNCTAD. For one of the latest refutations, see Bairoch, op. cit., ch. 6.

[135]Little, op. cit., p. 223.

[136]In the 1960s the value of exports grew at 7.2 percent per annum while the value of imports per annum growth rates was 6.4 percent. In the 1950s the corresponding figures has been exports 2.9 percent, imports 4.1 percent, UNCTAD, Handbook of Trade and Development Statistics (Geneva, 1972), pp. 22 and 26.

[137]Although globally, the Third World still has an overall visible trade deficit in 1970, it had been declining, IMF, 1971 Annual Report, p. 20, and Table 5.1 of UNCTAD 1972 Handbook, p. 221. Balance of payments figures are given in IMF, Annual Report 1970 (Washington, D.C.), p. 105, IMF, Annual Report 1971, p. 71. Figures for reserves are given in UN, Statistical Yearbook 1972 (New York, 1973), p. 40.

[138]UNCTAD, Handbook 1976.

[139]In any case, the empirical evidence is now quite clear that industries which start off as assembly industries or simply component manufactures tend, before long, to develop further stages in the manufacture of the final article as well as developing strong backward linkages to other industries, .e.g in Taiwan and South Korea.

[140]The example provided by the banning of DDT under conservational influence, in Ceylon, is instructive. The result was a rapid rise in the death rate from malaria which had previously been almost eliminated, Wilfred Beckerman, In Defence of Economic Growth (London, 1974), p. 116.

[141]See S.J. Patel, "Transfer of Technology and Developing Countries", Foreign Trade Review, Annual Number (January-March 1972), Indian Institute of Foreign Trade.

[142]The heavy costs of research and development prima facie leave this an open question.

[143]Certainly, the borrowed technology was modified but the qualification granted this still significantly undermines the generalisation as to the alleged necessity of independent technology for non-dependent development.

[144]Cf. Bob Sutcliffe, "Imperialism and Industrialisation in the Third World", in Roger Owen and Bob Sutcliffe (eds), Studies in the Theory of Imperialism (London, 1972).

[145]UNIDO, Industrial Development Survey: Special Issue for the Second General Conference of UNIDO (UN, New York, 1974), p. 10.

[146]For LDCs as a whole the proportion of GDP derived from manufacturing rose from 14.5 percent in 1950-54 to 17.9 percent in 1960-64, UNIDO, Industrial Development Survey 1969, p. 19.

[147]The heavy industry growth rates per annum for Asia and Latin America were 9.5 percent and 8.6 percent respectively, the corresponding figures for light industry being 4.6 percent and 5 percent. Comparable data are not available for Africa.

[148]Although borderline cases occur where informal political control can be exercised (as in some prewar Latin American countries by the US) this is not the same as informal economic control which is largely impossible in postwar circumstances of intense political and economic competition, as indeed is also now the case with informal political control.

[149]And the trend towards interdependence has been accelerating postwar with, for most countries, developed and underdeveloped alike, the value of foreign trade rising faster than that of GDP.

[150]UNCTAD, Handbook, 1976, pp. 130 and 136. Figures are for 1975.

[151]Cf. UN, Survey of Latin America 1970, p. 304.

A first effect of this increased competition between subsidiaries of international companies may possibly be to weaken the position of the individual

companies in the countries in which they wish to operate. Up to now, the market for foreign investment has been characterised by the fact that international enterprises could take their pick of the countries, selecting whichever offered them the greatest tax incentives while governments vied with each other in furnishing ways of attracting more foreign investment. Because of the growing need for firms to invest abroad, the consolidation of regional groupings in which efforts are made to equalise conditions for entry of foreign capital, and the governments' increasing concern about the gradual takeover of their industries (by US concerns), it may well be that the balance in the foreign capital market will gradually incline in favour of the governments of the countries in which the enterprises operate. The strengthening of the countries' bargaining position would force firms to adopt a more and more flexible attitude to the terms imposed by countries or regional groupings. There are already signs of greater flexibility among the international enterprises in both the extractive and the manufacturing sectors. Firms are agreeing to being minority share-holders and to much more restrictive conditions than in the past. They are entering into associations with public, semi-public and private enterprises in countries with different economic systems...This means that firms are more and more willing to fulfil the positions that the countries assign them according to the development model they have adopted.

[152]Little notes that Third World countries are much less trade-dependent than the developed market economies. Only a quarter of LDCs have trade dependence (measured in terms of exports as a proportion of GDP in 1972) greater than 30 percent. The corresponding figure for DMEs is 40 percent. Not much more than 10 percent of the Third World's population live in countries with trade dependence greater than 20 percent; the corresponding figure for DMEs being 30 percent. About 90 percent of the population of LDCs in 1967 lived in countries whose foreign-owned assets per head were less than $40 (Little, op. cit., p. 226).

[153]Ibid., p. 226.

[154]Especially via rising food imports and needlessly slow export growth.

[155]The gap between potential and actual agricultural performance is impossible to quantify. Crude proxies are available such as cross-national comparisons of yields per acre for various crops or agricultural product per man-year.

[156]On this point, the growth of wage labour in agriculture is a reliable indicator. For the growth of capitalist farming in India see Biplap das Gupta, Agrarian Change and the New Technology in India (UNRISD, 1976), ch. VI. Many partial studies show the same trend in African countries, often with many transitional forms including, of course, migrant labour, e.g. in cocoa in West Africa and cotton in the Sudan.

[157]Lending by the IBRD and the IDA, for example, rose from $0.4 billion in 1971/71 to over $0.9 billion in 1973/74 and nearly $2 billion in 1975. World Economic Survey 1975, p. 128.

[158]Ibid., pp. 130-131.

[159]Ibid., p. 127.

[160]The following brief points are merely a statement of the writer's position and do not pretend to amount to a serious discussion.

[161]Little, op. cit., p. 231. If there were secular trends of rising relative prices for minerals this would in any case presumably improve the terms of trade for LDCs.

[162]Natural elements which are not used as elements in the productive processes cannot be considered resources.

[163]Although there may be strategic reasons for doing so.

[164]This process was encouraged by the defensive needs of the young Soviet state in appealing to the growing nationalism of the peoples of Africa and Asia against the West.

[165]China was probably one such exception.

[166]In this respect, Schumpeter's vision of advanced capitalism as a "process of creative destruction" (which he might as well have called a "process of destructive creation") was much closer to Marx than was Lenin.

[167]The fact that, initially at least, a sizeable proportion of the wage labour force is employed in the state sector does not contract the fundamentally capitalist character of the development since the overall orientation is generally towards an increasingly market economy; since initial development of the state sector is often a historical interlude serving to stimulate the private sector (Turkey is the classic case); and since the relative importance of state sector wage employment is generally much exaggerated as the figures almost invariably understate the extensive development, especially in agriculture, of a wide variety of transitional forms of wage labour (including various types of migrant and seasonal labour) which although frequently neglected in the literature because of statistical difficulties arising from incomplete specialisation, are nevertheless economically vital and indicate even further the extent and intensity of the capitalist transformation of society at the most fundamental levels.

[168]Partly because the growth of manufacturing has generally owed a good deal to foreign enterprise and government, the impression has been given that capitalism is still very much a mode of production the advance of which depends on external action "from above" rather than any internal dynamic from below.

[169]It is significant that an explicitly pro-capitalist development economist, P.T. Bauer, early on was able to identify precisely this fundamental weakness in Indian planning. He emphasised not only the neglect of agriculture in resource allocation but also other crucial obstacles to the spread of commercialisation such as excessive neglect of road building and elementary education as well as restricted internal mobility.