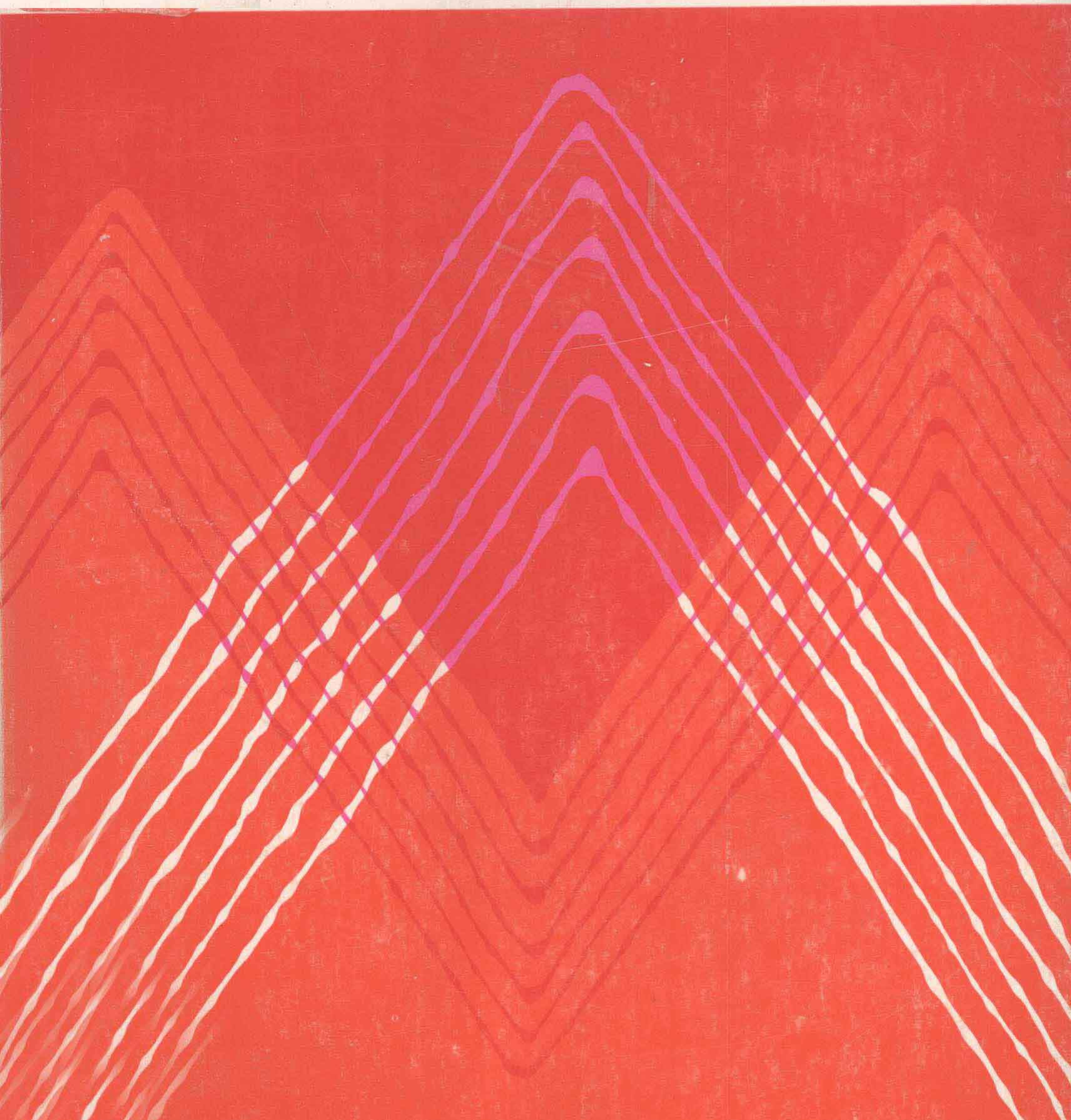
Twenty-five Years of Economic Development 1950 to 1975

David Morawetz



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David Morawetz

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Foreword

As the colonial era came to an end, development of the newly independent countries became a focus of world attention. The 1950s saw the establishment of targets for the economic growth of poor countries, the formulation of national development plans, and the emergence of the new field of development economics. Since then development programs have been adopted by practically all developing countries, and international organizations have regularly adopted global targets to guide efforts toward international cooperation.

After twenty-five years it is opportune to attempt a broad assessment of these efforts. To do so, Professor Morawetz has first reexamined the objectives of the developing countries and how they have changed over time. The difficulty of attempting social change and growth simultaneously in the conditions of the 1950s led to an emphasis on the acceleration of aggregate growth as a means of overcoming the "vicious circle of poverty," which led to an emphasis on increased GNP as a measure of success in development. This simple perception has now been replaced by a more complex statement of social objectives, which recognizes that economic growth is a necessary but not a sufficient condition for social progress and that more direct attention should be given to the welfare of the poorest groups.

Morawetz shows that although the developing countries have on balance been remarkably successful in achieving growth, the distribution of its benefits among and within countries has been much less satisfactory. Rapid growth has created a new set of distributional problems for the more successful countries, but for more than a billion people in more stagnant economies increasing production is still the main requirement for reducing poverty. Morawetz's assessment of a quarter century of experience shows that growth has been possible under a wide variety of circumstances, but he warns against concluding that poverty has been correspondingly alleviated.

The World Bank gives high priority in its research program to the evaluation of development experience, which is the foundation for improvements in analysis and policymaking. Professor Morawetz was invited by the Bank to undertake the present study, which makes extensive use of Bank materials as well as other sources. Although he has had extensive discussions with Bank staff members, the design of the study and the conclusions reached are entirely his own.

HOLLIS B. CHENERY
Vice President, Development Policy

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DAVID MORAWETZ

March 1977

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Introduction

WHAT HAS BEEN THE EXPERIENCE of developing countries with economic development over the past quarter of a century? Has development "succeeded" or "failed"? In either case, what lessons can be learned from the experience of the past, and what questions are raised for the future? The aim of this study is to take a first cut at assembling and evaluating some of the evidence bearing on these questions. The study does not attempt to survey the history of ideas about development,[1] nor does it try to identify patterns of development and structural change.[2]

"Developing countries" are defined throughout the study as including all of Asia (except Japan), Africa (except South Africa), and Latin America, but as excluding all of Europe (although several countries in eastern and southern Europe are often considered to be developing countries). Because of the lack of comparable data, Cuba, North Korea, and Mongolia are omitted throughout. At the regional level, figures for East Asia always exclude the People's Republic of China (hereinafter simply "China"), which, because of its size, is treated as a separate region. The detailed country-level data on which the summary text tables are based are presented in the tables in the Statistical Appendix.

1. On development ideas from Adam Smith to World War II, see Robbins [1968] and Arndt [1972]. On postwar developments, see Adler [1972], Adelman [1975], Ranis [1976], Yotopoulos and Nugent [1976], and Streeten [1977a].

2. See, for example, Kuznets [1965, 1967, and 1971], Chenery [1975 and 1976], and Chenery and Syrquin [1975].

Estimates of gross national product, or GNP, per capita in developing countries must be treated with caution. In particular, the use of exchange rates rather than purchasing-power parities [3] to convert estimates in national currencies to a single common denominator (usually U.S. dollars) seriously overstates the real income gap separating rich and poor nations. For example, the conventional statistics converted on the basis of exchange rates indicate that more than 1 billion people in the developing world (610 million in India alone) had an average per capita GNP of $140 or less in 1975.[4] Yet anyone who travels to work by public transport in North America or western Europe spends more than this sum each year in bus or train fares alone. If the per capita GNP figure is supposed to mean that Indians are consuming each year an amount of goods and services no larger than could be bought in the United States for $140, most Indians are so poor that they could not possibly survive, let alone increase their numbers. But if the per capita GNP figure does not mean this, it is not clear what it does mean.[5]

This example gives a first indication that the bias inherent in the conventional figures is indeed serious. The most recently available evidence on the subject indicates that, for the poorest countries, purchasing-power parity estimates of per capita incomes tend to be just over three times as great as conventional estimates [Kravis, Heston, and Summers 1977]. Thus, India's per capita income estimated on a basis of purchasing-power parities

3. The purchasing-power parity doctrine was first invoked in the period of the Napoleonic wars, it was christened by Cassel [1918] during World War I, and it has been resurrected at least twice since World War II. For references to the early literature, see Gilbert and Kravis [1954], Haberler [1961], and Balassa [1964a]. Some of the more recent writings on the subject are by Usher [1968], Clague and Tanzi [1972], Daly [1972], Balassa [1973], and Hulsman-Vejsová [1975]. Kravis and others [1975] and Kravis, Heston, and Summers [1977 and 1977a] present the preliminary results of an ongoing attempt to estimate purchasing-power parity GNPS for a large number of countries. On some other problems with using GNP as an indicator of welfare, see, for example, Baster [1972], Kuznets [1972a], Seers [1972], Tobin and Nordhaus [1972], and Barlow [1977].

4. All dollar figures in this book refer to U.S. dollars.

5. This formulation of the problem is similar to that of Usher [1968].

comes out at more than $450, instead of $140 as conventionally measured.[6]

Fortunately, it seems that this measurement problem may be less important when examining the growth of a particular country over time,[7] as is done in most parts of this study, than in comparisons among countries at a point in time, which is done mainly in the section on "The Gap." It would be a pity to throw out the baby with the bath water; the available data on GNP and its growth rate are better than nothing.[8] Nevertheless, to minimize distortions resulting from the use of conventional GNP measurements, an attempt is made in this study to complement the analysis of growth rates in GNP per capita with evaluations of progress on other, more tangible indicators such as supply of nutrition, life expectancy, and literacy wherever this is possible.

6. As the per capita income of the country rises, the conversion factor used to derive purchasing-power parity estimates from conventional estimates tends to fall. This is because the price of nontraded goods, mainly personal services, tends to be higher in rich countries than in poor ones, and it explains why the use of conventional estimates significantly overstates the size of the gap between rich and poor nations. For a fuller statement of this argument see, for example, Balassa [1964a] and Kravis, Heston, and Summers [1977].

7. In the absence of historical data on purchasing-power parity GNPS, it is not yet possible to be certain on this point. For some relevant theoretical considerations, see Bhagwati and Hansen [1972], Kravis, Heston, and Summers [1977 and 1977a], and Strout [1977].

8. Nothing, or close to nothing, is what in 1950 an investigator of "Twenty-five Years of Economic Development: 1925 to 1950" would have had as a data base.

1

The Changing Objectives of Development

AN ATTEMPT TO EVALUATE THE DEVELOPMENT EXPERIENCE since 1950 needs first to examine the objectives to which development efforts have been directed. Largely as a result of changes in perceptions in the developing countries themselves, since the early 1970s there has been a sharp shift in these objectives. It is now considered that maximization of GNP per capita is too narrow an aim and that other aims related to poverty reduction need to be considered as well: improving income distribution, increasing employment, fulfilling "basic needs."

Some observers have tended to regard this movement as just one more fashion in a fashion-prone discipline. I would argue, however, that the discovery of these additional objectives is in fact a rediscovery of issues that were quite central in the writing on economic development just after World War II. Seen in this historical context, the recent heightened concern with eradication of poverty is not likely to be just another fad. On the contrary, in the long term it is the narrow preoccupation of the late 1950s and 1960s with growth in average per capita income that, although it had its reasons and even its benefits, may turn out to be the passing fashion.

The early postwar concern with wider objectives than simply