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TROPICAL EXPORTS AND ECONOMIC DEVELOPMENT

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New Perspectives on Producer Response in Three Low-Income Countries

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Preface

The subject-matter of this book is the application of economic theory to the historical experience of those Third World countries where peasants' own production of cash crops for export has been a significant factor in the development process. In common with many students of this subject my interest was aroused initially by Hla Myint's revival of classical 'vent for surplus' in relation to the peasant export economies. The basic theme of the present study is to suggest that many of the developments and applications of vent for surplus which have followed in the wake of Myint's work have generally not been in the spirit of the classical tradition which he revived, and have not been altogether helpful to an understanding of the inducements and constraints operating on the attitudes and behaviour of peasant producers. To elaborate on this theme, and to develop an alternative framework of analysis, the book draws mainly on the Ghana (Gold Coast) experience in the late nineteenth and early twentieth centuries, with Nigeria and New Guinea introduced for comparative purposes. It is, however, a highly selective piece of applied economics and does not set out to offer an economic history of West Africa or any other region during this period.

In the early stages of writing I owed a great debt to the late John Knapp and his particular historical understanding. I hope that he would have approved of the final version. Walter Elkan has provided help and encouragement over a long period. Bob Millward read the final draft of the book and provided helpful criticisms and suggestions particularly on my treatment of the neo-classical tradition. Thanks are due finally to my colleagues at the University of Salford for useful comments on many of the ideas put forward in the book.

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1 Peasants' Exports and Economic Theory

For world trade the 1870s marked the beginnings of a spectacular rise in exports from tropical areas (Table 1.1). Demand for raw materials to be used in manufacturing industry came from the growing and prospering urban populations of North America and Europe, and tropical products such as palm oil, sisal, rubber and groundnuts were all essential ingredients of the industrial process in the late nineteenth century. Mineral exports, particularly gold and diamonds, foodstuffs such as coffee, tea and cocoa, all these rose rapidly prior to World War I. They were supported by new and improved forms of oceanic and internal transport, and by the special economic and political circumstances defined in the policies of imperialist expansion pursued by European governments. Now whereas much was written about the role of tropical products in Western industrial growth, it is only comparatively recently that people have come to pay much attention to the effects of these exports on the tropical economies which generated them. Before 1945, perhaps even until 1955, there were few notable works on the organisation and functioning of the export sector, and its wider repercussions on the tropical economy itself. It is in consequence of what is quite recent work by historians, economists, anthropologists and geographers, that we are now much better informed than earlier generations on the ways in which the tropical exporting economies functioned.[1] Important gaps no doubt remain. But for the better-researched areas it is now possible to provide some sort of empirically-based answers to important questions about these economies.

The present study looks primarily at the historical experience of cocoa exports from Ghana (the Gold Coast), which date from the last decade of the nineteenth century. In later chapters the study is broadened to include, for comparative purposes, peasants' exports of cocoa from Nigeria and New Guinea. A number of references are also made at various points in the text to the experience of other tropical exports such as palm produce and rubber.

West African cocoa was one of a number of tropical exports which depended almost entirely on local enterprise and initiative. Not only was it grown on peasant holdings (rather than on foreign-owned plantations) but the collection, distribution, and general organisation of the trade was largely in local hands. Other tropical exports which can be similarly described include rice from S.E. Asia, rubber from Malaysia, and palm products and rubber from West Africa. This is the type of commodity export on which the present study focuses, viz. peasants' own exports of agricultural products. The choice of Ghana was dictated by the relatively large amount of empirical material available on early cocoa production. Alan McPhee's *Economic Revolution in British West Africa* (London, 1926) was a significant early work which appreciated the importance of the changes taking place in the local economy under the export stimulus, though he told the story very much from an official standpoint. There were also a few outstanding pre-war anthropological studies. One might mention here M. J. Field's work which anticipated in some important respects Polly Hill's later and better known work on the Ghana (Gold Coast) cocoa farmers.[2]

The sort of questions which economists and economic historians operating within an orthodox (i.e. non-Marxist) framework of analysis might ask about the development of peasants' exports, could be listed as follows: Did tropical exports in the late nineteenth and early twentieth centuries represent a decisive break with earlier patterns of economic activity? What was the stimulus to increased export activity in the indigenous economy? Was it, for instance, the possibility of acquiring novel imported consumer goods through trade with more developed economies? Or did relative price changes such as improved commodity terms of trade hold the centre of the stage? What were the sources of the additional factor inputs required for the increase in exports? Were labour inputs diverted from other productive activities? Did they come instead from previously idle labour? Was the availability of idle land a necessary condition for increased exports of agricultural products? Finally, is it possible to generalise about the effects of increased exports on local economies? What were their effects on agriculture, on manufacturing and on the infrastructure? Were there any significant social and economic effects? Did the impact of exports on the domestic economy differ depending on the type of export? For example, in comparing exports of agricultural products with exports of minerals, did the repercussions differ significantly? Or did the impact of exports depend in any marked degree on differences in the ownership and organisation of production, in this instance exports deriving from local

TABLE 1.1 Exports from selected tropical countries

	Per head ($), 1913	*Growth rate, 1883–1913 (% per annum)*
Africa		
Egypt	12·9	3·1
British West Africa	3·2	5·7
Rest of Africa	1·4	4·0
America		
Cuba	69·3	2·9
Brazil	12·6	4·5
Colombia	7·3	4·1
Venezuela	10·5	1·3
Mexico	8·4	4·3
Ecuador	8·0	5·1
Asia		
Ceylon	7·1	5·7
Indonesia	5·6	3·8
India	2·5	3·0
Thailand	5·1	5·6

Growth rates of tropical trade (% per annum)

	1883–99	*1899–1913*
All exports	3·4	4·1
Agricultural exports	3·0	3·4

Source: W. A. Lewis, *Growth and Fluctuations 1870–1913* (London, 1978) pp. 174, 203.

enterprise being compared with those originating in foreign-owned mines and plantations?

The object of this study is to draw on a variety of empirical sources to provide answers to these fundamental questions. The questions are important because they lie at the heart of a much broader issue in economics and economic history, viz. the extent to which the empirical evidence on tropical exports is reconcilable with expectations deriving from theories of growth and change. The case of Ghana cocoa exports is a real-world phenomenon which should lend itself to analysis in terms of the theoretical constructs of economics. If orthodox economic theory cannot clarify the issues involved in such experiences, and offer some explanation of the important causes and effects, then its claim of relevance is open to question.

In recent literature the first attempt to apply some sort of systematic economic analysis to the growth of tropical exports was in Hla Myint's now famous paper 'The "Classical Theory" of International Trade and the Underdeveloped Countries', in which he set out to show how the neglected dynamic aspects of *classical* economics, traceable to Adam Smith and J. S. Mill, were nearer in spirit to the realities of nineteenth-century international trade and expansion than were the postulates of neo-classical trade theory based on the Ricardian concepts of comparative costs.[3] Myint's 1958 article was instrumental in drawing a distinction between two leading ideas in Smith's analysis of the dynamic benefits of trade. Firstly, that 'international trade overcomes the narrowness of the home market and provides an outlet for surplus above domestic requirements. This develops into what may be called the "vent for surplus" theory of international trade'. Secondly, that 'by widening the extent of the market, international trade also improves the division of labour and raises the general level of productivity within the country. This develops into what may be called the "productivity theory".'

It was the first of these ideas, the suggestion that trade could provide demand for resources which would have remained unused in the absence of trade, that Myint found particularly helpful in trying to explain peasants' own exports of primary products. In modern usage, vent for surplus theory seeks to explain how and why peasants' own exports of primary products from certain parts of Africa and S.E. Asia during the nineteenth and early twentieth centuries should have increased with such rapidity given that there was apparently,

(*a*) no significant inflow of capital, labour and enterprise from outside the domestic economy (the contrast here is with the migration of European capital and labour into the 'newly-settled' agricultural exporting regions of North America and Australasia);
(*b*) no significant productivity changes within the agricultural sector, techniques of production employed in domestic agriculture being carried over into export activities;
(*c*) no significant reductions in the output of agriculture for domestic consumption;
(*d*) no significant increase in the rate of growth of the population.

The supposition of the vent for surplus theory is that before the increase in exports, the economy was characterised by some unused land and labour resources. It thus became possible under sufficient stimuli for the economy to realise a rapid increase in agricultural exports without the necessity for a switch of resources from output for domestic consumption.

Because the orthodox economic approach is to deny the possibility of a long-run under-utilisation of the productive potential of an economy, it becomes a point of some analytical significance as to why these tropical economies should have been characterised by unused resources. In his 1958 paper, Myint put forward the hypothesis that the low level of economic development was itself the important underlying reason for the long-run persistence of surplus capacity. He gave examples of how this might come about:

(i) *An imperfectly developed price-mechanism and monetary system in a poor and isolated economy.* When orthodox theory postulates that surplus capacity will be removed by appropriate price adjustments, it is assuming a highly developed price mechanism and level of economic organisation. This assumption will scarcely be valid for the underdeveloped economy where large sections of economic life can be outside the modern market system altogether.

(ii) *The lack of a good internal transport system.* Adam Smith himself recognised the critical role of internal transport in determining the going extent of the market. In the poor rural economy suitable investment opportunities may be few in number because of high internal transport costs. This is especially so if small and widely scattered populations are to be supplied with bulky commodities such as foodstuffs which have a low value per unit of weight. Each peasant household may then choose not to produce a surplus for market because the costs of getting the product to its destination outweigh potential returns.

The hypothesis that the low level of economic development itself may be the proximate cause of surplus capacity through certain endogenous institutional constraints is not something which is normally associated with the classical theory. But it is to be noted that 'the market' still holds the centre of the stage as the mechanism which, if properly developed, can be relied upon to bring capacity to fuller utilisation. The capacity of the economy grows in the classical manner through capital accumulation, population growth, changing tastes and preferences, all of which are encouraged by the growth of international trade. As the physical production frontier is pushed outwards, the more fully developed market mechanism brings actual output closer to the physical production possibility curve. Growth – i.e. outward shifts in the production *possibility* curve – are determined by *exogenous* factors. But fuller utilisation of capacity, which shifts the production *feasibility* curve outwards, can be regarded as largely *endogenous* in character.

The dynamic classical character of Myint's version of vent for surplus is brought out in comparisons with a number of recent contributions on vent for surplus, which have set the approach within neo-classical microeconomics and a framework of comparative statics.[4] Fundamental to this latter approach is an interpretation of pre-existing surplus resources which focuses on their *voluntary* character – i.e. a high proportion of the peasant farmer's working day taken in the form of leisure – and associated with this a significant amount of under-utilised land. In Szereszeswki's model, which will be considered in more detail in Chapter 2, the economy is assumed to be *already open* to trade. Resources are left idle because the *terms* on which imports can be acquired (the sacrifice of leisure required) are not sufficiently attractive. The terms of trade between imported consumer goods and leisure have to improve in order to bring about a substitution of imported consumer goods for leisure. A later modification within a neo-classical framework has been the introduction of a low productivity handicrafts sector into the static-equilibrium of the peasant economy (Hymer and Resnick, 1969; Findlay, 1970). This applies to an economy *previously isolated from trade*. Although one can accept that an isolated economy might be sated with foodstuffs, it is more difficult to accept that such an economy would also be sated with things like handicrafts and services. What is there to prevent this type of sector growing up in an isolated economy and absorbing surplus labour? The resolution runs thus: Poor economies with rudimentary capital equipment have low labour productivity in handicrafts. This results in highly unfavourable terms of trade between foodstuffs and handicrafts. Production of foodstuffs for exchange with handicrafts is discouraged because of the very small quantity of handicrafts which can be obtained for a unit of food. This results in a certain amount of unused resources in the economy, idle land plus labour time taken as leisure. When the country is opened up to trade, the peasants are able to obtain significantly more of those imported manufactures which substitute for domestic handicrafts, for each unit of food they produce. The terms of trade between foodstuffs and manufactures (handicrafts) have thus improved, raising in turn the opportunity cost of leisure. The result is increased supplies of work inputs into the production of foodstuffs for export, which also has the effect of absorbing the surplus land. Trade has thus provided a 'vent' for the unused land and voluntarily under-employed labour by shifting the terms of trade between foodstuffs and handicrafts.

Formulated in the neo-classical way, vent for surplus has been correctly characterised as no more than an extreme case of comparative costs with zero opportunity cost for exports. But neo-classical versions of vent for surplus are not in the spirit of the dynamic version revived by Myint in the 1950s on the basis of ideas to be found in Smith. Thus static optimisation posits unchanging preferences and relies on changes in relative prices to call forth greater effort from a high leisure society. But novel imported consumer goods could operate to overcome the constraint of consumer preferences on the level of economic activity. This is clearly the way in which Myint envisaged the impact of imported consumer goods:

> . . . in the early phase of international trade imports were not merely a cheaper way of satisfying the existing wants of the peasants. Many of them were novelties hitherto unknown in the subsistence economy. By stimulating new wants among the peasants, the expansion of imports was a major dynamic force facilitating the expansion of exports.[5]

Changing preferences, however, is a dynamic force associated with the classical approach. Further to this point, there is something more fundamental to Myint's premise of pre-existing surplus capacity than is captured in the high leisure preference of the neo-classical economy. This comes over clearly in Williams' 1929 article, which Myint acknowledged as pointing the way back to the classical vent for surplus.[6] Williams demolished the basic assumption of the pure theory of trade – that there is a fixed quantum of resources in existence and fully employed – with a brilliant account of the diverse internal constraints which prevent the full realisation and utilisation of potential. Myint clearly drew heavily on that passage in Williams' article, which deals with the comparative internal and external geographic mobility of productive factors in countries of unequal economic advancement. 'Inferior organisation of capital and labour in the more backward country, inferior domestic banking, inferior internal means of communication, inferior perception of economic opportunity' are the same endogenous institutional constraints which are central to the 1950s version of vent for surplus.

A significant amount of empirical work is nominally associated with vent for surplus, especially its neo-classical version. A list of countries to which it has been explicitly applied by economists and economic historians would include New Guinea (Fisk, 1964), Ghana (Szereszewski, 1965), Nigeria (Helleiner, 1967), Malaysia (Drake, 1972), and West Africa (Hopkins, 1973). But the question of whether the sequence as described by Myint, or by Findlay and the other neo-classical writers, is a valid representation of the historical experience, still remains an open one. This is true to some degree for the preliminary supposition of the model, i.e. the existence of unused resources. The increase of exports itself, without prima facie any compensatory reduction in output elsewhere, is usually the main evidence put forward. For the neo-classical version there is also little attempt to give empirical validity to the notion of preferred idleness, or indeed to the particular character of the 'growth mechanism' on which the model hinges, viz. relative price changes for domestic foodstuffs, domestic and imported handicrafts and leisure. In fact much of the empirical work cited in respect of vent for surplus has been directed towards investigating the hypothesis of export-led growth in a general sense, rather than testing the specific properties of vent for surplus in either its classical or neo-classical version. The following chapter then sets out to explore the empirical evidence relevant to the testing of a neo-classical interpretation of the growth of cocoa exports in the Ghana case. The point of reference is Robert Szereszewski's account of developments in the Ghana economy between 1891 and 1911, which probably represents the best theoretical and empirical treatment of trade and growth within a neo-classical vent for surplus context. The main focus of interest for present purposes is his Chapter 5 where the formal neo-classical model is set out and illustrated by casual references of an empirical kind. The remaining chapters of his book cover the Ghana case in an historical way, and it is recognisable in these chapters that the implicit theoretical framework is not altogether consistent with that set out in Chapter 5. In particular, there is in these historical chapters an awareness of the importance of the entrepreneurial factor and the associated process of capital formation, the endogenous character of the growth process especially in terms of induced investment and finally the significance of the spatial dimension in economic activity, all of which are necessarily subsumed in the mechanics of his formal equilibrium model.

2 The Ghana Case – Testing a Neo-classical Version

I HISTORICAL BACKGROUND

Until comparatively recently it was a commonly held view that West Africa in the pre-colonial period was a stagnant economy with a subsistence type of primitive agriculture totally dominating the pattern of output.[1] Recent research has revealed instead that innovation and some technical change, extensive internal and external trade flows, and even an indigenous monetary system using local currencies with some of the attributes of 'modern' moneys, featured in pre-colonial West Africa.[2] The forest regions of the south participated in long-distance trade even before the coming of the Europeans in the sixteenth century. Mande merchants from the Sudan were arriving to buy gold-dust and kola nuts as early as 1300. In exchange they provided the types of goods – horses, cattle, cutlasses, cloth and beads – which appealed to the rulers of the powerful kingdoms in the south, for long-distance trade at this time was essentially a 'royal enterprise' and most of the gold and kola nuts had been received by the chiefs in the form of tributes.

European influence in West Africa dates from the late fifteenth century with the arrival of the Portuguese who were seeking gold from West Africa.

In the seventeenth and eighteenth centuries Portuguese merchants were ousted by their Dutch, French and British rivals, and the slave trade superseded in value terms the trade in gold. This was not a complete break with tradition for slave labour had featured in West Africa from ancient times. Slaves were exported in large numbers from West Africa to North Africa and the Middle East during the late Middle Ages, to be employed as soldiers by the rapidly expanding Arab powers. In a much reduced form, this north-bound slave traffic survived to the late nineteenth century;[3] and though the Atlantic slave trade from West Africa was officially abolished in 1807, slaves were still being exported from there to North America and the Caribbean as late as the mid-