ECONOMIC PROGRESS AND THE DEVELOPING WORLD

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Preface

A century and a half ago the lot of the average man in any part of the world was hard work and poverty. Virtually all countries were underdeveloped. But today the average American or Western European is incomparably better off materially than is his counterpart in Asia, Africa, or Latin America. He can look forward with confidence to a gradually improving living standard and even the gradual abolition of poverty. In contrast, the typical inhabitant of the less developed area is probably no richer than were his ancestors. For him the struggle for even a slight mitigation of his wretched life is endless and wearisome. Furthermore, the economic gap between him and his Western brother is widening almost daily.

Since some two thirds of the world's population live in such depressing conditions, the study of these underdeveloped regions and the economics for solving their problems have come to occupy an increasingly prominent role for policymakers, academicians, socially conscious citizens, and philanthropists. This is the subject matter of our book.

Our objective is two-fold. One is to introduce the subject and its problems, pointing out various possible solutions, as well as accompanying difficulties. The other hope is to convey a "feel" of the subject, indicating noneconomic as well as economic considerations. Where feasible, actual illustrations have been used, based on our visits to the areas—in particular, Tropical Africa. In this way we have attempted to picture the vastness and importance of the topic, and instill a desire for further study.

We are indebted to the following professors, who read and commented on the book in manuscript: Theodore Morgan, Richard C. Porter, and Bruce T. McKim.

Edward Marcus
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1 Economic Underdevelopment

Today, approximately two out of every three people live in underdeveloped parts of the world, including practically the whole of Asia, Africa, and Latin America. What is underdevelopment? Although there is a question of degree, generally underdevelopment connotes poverty, illiteracy, poor health, and a primarily rural society. More specifically, economic underdevelopment usually means an economy in which there is low industrial output and low productivity. For the people of such an economy, underdevelopment is probably best expressed in terms of a low standard of living.

If we examine Table 1-1, we can see the gap between developed and underdeveloped countries. About half of the world's population has a per capita output that is under \$100. Another 16.6 percent, or one-sixth of the world's population, has a per capita output of between \$100 and \$300. None of the countries of Africa and Latin America has a per capita output above \$1000.

The disparity between living standards in the developed and underdeveloped worlds is further illustrated if we consider the alternative to per capita output—average 1968 per capita GNP (1967 dollars). In the United States, average per capita GNP is nearly \$4200 as compared to about \$1700 in Western Europe (including Greece and Turkey). In Latin America, it is \$441, but in Asia it is \$200 (even though in South Asia it is less than \$100), and in Africa, average per capita GNP is approximately \$175.

Let us consider per capita GNP figures for countries within each region. In Western Europe, Switzerland has an average per capita

GNP of $2127, but Portugal's is only $370. In Asia, Japan's per capita income is $813, while India has a per capita income of only $92. Latin America has an average per capita income of $400, but it reaches $783 in Argentina and falls to $153 in Bolivia. Even these figures for each country are inexact indicators of the level of living, because such figures actually hide enormous differences in the distribution of wealth *within* each country.

In addition, it is difficult to make a meaningful comparison between incomes in a developed country, such as the United States,

TABLE 1-1 1966 Per Capita Output (Converted to U.S. Dollars)

$0–$100 (49.2% of the world's population)		
Africa	Africa	Asia and Middle East
Angola	Nigeria	Korea (North and South)
Botswana	Somalia	Laos
Chad	Sudan	Mongolia
Congo (Kinshasa)	Swaziland	Muscat and Oman
Dahomey	Tanzania	Nepal
Ethiopia	Togoland	Persian Gulf States
Gambia	Uganda	North Vietnam
Guinea	Upper Volta	Yemen
Kenya		
Lesotho	Asia and Middle East	Latin America
Malagasy Republic	Afghanistan	Haiti
Malawi	Burma	
Mali	China	Oceania
Mauritania	India	New Guinea
Niger	Indonesia	Papau
$101–$300 (16.6% of the world's population)		
Africa	Asia and Middle East	Asia and Middle East
Algeria	Cambodia	United Arab Republic
Cameroon	Ceylon	South Vietnam
Central African Republic	China (Taiwan)	
	Iran	Latin America
Congo (Brazzaville)	Iraq	Bolivia
Ghana	Jordan	Brazil
Ivory Coast	Lebanon	Colombia
Liberia	Malaysia (East and West)	Dominican Republic
Mozambique		Ecuador
Morocco	Pakistan	El Salvador
Rhodesia	Philippines	Guatemala
Senegal	Saudi Arabia	Guyana
Sierra Leone	Syria	Honduras
Tunisia	Thailand	Paraguay
Zambia	Turkey	Peru

$301–$1000 (19.6% of the world's population)

Africa	Europe	Latin America
Gabon	Greece	Barbados
Libya	Ireland	British Honduras
South Africa	Italy	Chile
Asia and Middle East	Malta	Costa Rica
Cyprus	Poland	Cuba
Hong Kong	Portugal	Jamaica
Japan	Rumania	Mexico
Singapore	Spain	Nicaragua
	U.S.S.R.	Panama
Europe	Yugoslavia	Surinam
Albania		Trinidad and Tobago
Bulgaria	Latin America	Uruguay
Finland	Argentina	Venezuela

$1001–$2000 (7% of the world's population)

Asia and Middle East	Europe	Europe
Brunei	Czechoslovakia	Norway
Israel	France	United Kingdom
	West Germany	
Europe	Hungary	Oceania
Austria	Luxembourg	Australia
Belgium	Netherlands	New Zealand

$2001 and above (7.6% of the world's population)

North America	Europe
Canada	Iceland
United States	Sweden
	Switzerland
Europe	
Denmark	Middle East
East Germany	Kuwait

Source: United Nations National Accounts Statistics Yearbooks.

and an underdeveloped country. The citizen of an underdeveloped country may live in a thatched hut built by the head of the family; perhaps he obtains his food by picking it off a nearby tree, and thus does not incur the expenses involved in processing, marketing, and selling food; he probably pays little or no tax and receives little from the government. How can this person's income be meaningfully compared to that of a person in the United States who lives in a commercially built suburban house, buys his food from a store, and pays numerous taxes to support various government services?

Furthermore, although average per capita figures illustrate the disparity between developed and underdeveloped countries, they do not adequately convey the poverty and backwardness of underdevelopment. In these areas, many of the goods and services that the Western world takes for granted are nonexistent, especially outside the major cities. For example, roads are often nothing more than muddy ruts, impassable in the rainy season. River flows are usually completely uncontrolled, and thus floods are frequent. Water is often undrinkable and sanitary drainage is unknown. Life expectancies are short, and doctors are few. Often, as much as 90 percent of an underdeveloped country may be illiterate. Teachers are scarce, and those that do exist may be poorly educated themselves. Individuals live at a minimum consumption, or subsistence, level. They provide for their own wants and needs, however limited these may be.

But most importantly, underdeveloped economies tend to be tradition bound. The major bases of social stability and emotional security are cultivation of the land, the primacy of the family and clan, and a deep religious sense which emphasizes taboos and alms giving. Beliefs revolve around the supernatural. For example, many believe infectious diseases are caused by the will of a god or by evil spirits, rather than by factors man can master. In general, people accept their respective lots in life, which usually means that they exist within a rigid social structure containing a caste system and a small ruling elite. Often the attitude toward work is one of apathy. There is little inducement to undertake new kinds of activities. A tendency to reject new things and a hesitancy to take any initiative for fear of trouble if tradition is not followed are prevalent.

This is only a summary view of underdevelopment. As we shall see, underdevelopment is a complex phenomenon. The reactions of the people to this condition range from absolute acceptance of the existing conditions to complete dissatisfaction, along with a desire for change and a growing ability to adapt to change. The norm is somewhere in between.

AN ATMOSPHERE FOR CHANGE

In order to escape from the conditions of underdevelopment, a country must develop. To develop is to advance, to promote growth, to make a country's resources usable. An undeveloped, underdeveloped, or less-developed economy can progress or grow *only* if changes are made from the way in which things were done in the past. A traditional society is not always able to progress over time, primarily because of its economic characteristics—a low level of efficiency and an inability to increase productivity—and a rigid social structure that inhibits change.

Nevertheless, in many traditional societies there is a strong desire for real change. Better transportation, expanding foreign trade, and increased communications with advanced Eastern and Western cultures have all significantly reinforced and intensified this desire to move forward. As a result, many old values and standards are being replaced and people are becoming increasingly aware that things can be better, particularly health, education, and living standards. In other words, there is a so-called "revolution of rising expectations." It is this desire for change that produces an atmosphere conducive to development.

Closely related to this desire for a better way of life is a growing push for progress, not only material progress, but progress in personal freedom and greater control over individual destiny. This hope for improvement has forged a particularly great desire to enlarge economic, political, and social opportunities for youth.

Unfortunately, these urgent desires for change and progress have led to the adoption of over-optimistic and unrealistic development goals. Although some change is occurring, thus far the change has not been sufficiently significant or noticeable in most countries. The idyllic ends of wealth and contentment have not been achieved, and the result is an atmosphere of growing impatience, dissatisfaction, and an increasing resentment of poverty. In other words, traditional societies have discarded their old values, but they have not adopted new standards that are adaptable to the changing needs and resources of developing economies.

The real change that a society needs in order to develop does not take place spontaneously or continuously, nor can it be delineated in a development plan. In fact, much of this change must take place before real economic growth can begin. For example, people must accept and value an individual for his ability, not his family connections. People must have faith in individual progress, so they will be willing to leave the often unproductive farms for urban jobs in which they can perform more efficiently and productively. Income earned above the minimum level should not be wasted on feasts and luxuries for the few. Instead, savings should be channeled into investment in industry, transportation, and communication. In addition, some part of savings must also be used for education, health programs, and for social overhead capital such as roads, railroads, ports, airports, and power stations. This atmosphere for change is the precondition for a rapid rate of economic growth which can perpetuate itself.

THE TAKE-OFF

W. W. Rostow, a well-known development economist, has devised an important, although somewhat mechanistic, theory of growth. Rostow envisions a nation passing through five stages of growth on its path toward what might be called the "American" standard of living. These stages are:

1. The traditional society, which is a reasonably stable, but primarily agricultural, society that is tied to traditional methods of production and has mainly subsistence-level incomes.
2. The transitional society, in which the preconditions for take-off occur.
3. The society in take-off, or the period during which an economy transforms itself so that economic growth becomes more or less automatic.
4. The maturing society, the period in which the people begin to experience the benefits of growth.
5. The mass-consumption society, such as the United States.

The central concept involved in Rostow's theory is the take-off stage. It is in this stage, which usually lasts two to three decades, that self-sustaining growth begins. According to Rostow, take-off is usually identified by the presence of three factors: (1) A decisive increase in the rate of investment from about 5 percent of net national product (NNP) to 10 percent or more (which is necessary to ensure a sustained increase in capital per head since, historically, the typical population growth rate is between 1 and 1.5 percent). (2) The establishment of substantial manufacturing sectors with high growth rates. (3) The development of political, social, and institutional frameworks which make growth possible.

Acceptance of Rostow's theory is not universal among economists. However, most economists would agree that the important aspect of development is to leave tradition behind and achieve a take-off. Thus we consider a take-off period essential if development is to take place. It is during this period of time that an economy makes the all-important transformation from an economy characterized by stagnation and subsistence-level incomes to an economy in which economic growth is self-reinforcing.

REQUIREMENTS FOR DEVELOPMENT

The central question in any development study is "How should the forces that will advance the economy be released?" Of great significance in determining a country's development potential are the kinds, extent, and value of its natural resources and the availability of skilled labor, management, power, and transportation facilities. In this regard, the size and density—both in urban and rural areas—of the population, the estimated growth rate, the existing or planned food supply, and health conditions must be taken into account. Further, the level of employment, the rate of unemployment, and the overall methods by which more productive work can be provided must be analyzed.

However, more than just economic calculations are necessary; substantial changes must also occur in the society and its culture. There must be an awareness of the need for development among people, and a greater acceptance of new attitudes, institutions, and methods of work. Actions and policies must be viewed in light of whether they can assist in propelling the country toward the point where it can dispense with outside help and still continue to grow.

To seek this somewhat utopian point of economic independence requires much of the people involved—greater skills and proficiency, increased technical competence, improved ability to transmit know-how to others, a capacity to communicate, and an ability to organize and manage jobs. Those able to attain these capabilities will provide maximum acceleration for the development process; they will become the new elite in a society that has achieved take-off.

Thus we consider the critical aspects in releasing the forces that will advance the economy to be investment, human factors, and planning.

Investment

In order to increase productivity and earning power, and thus raise living standards, investment must occur in an underdeveloped economy. Investment is both the acquisition of capital goods and the earmarking of funds for education and training designed to increase skill and know-how. The rate of investment that is needed within any given country depends upon the rate of population increase. If there is a population explosion within a country, and if, as is typical, the death rate simultaneously declines because of better sanitation and health standards, the effort required just to maintain current living standards is staggering.

It is difficult to explain the necessity for investment to the people of today's developing areas. It is no longer possible, as it was a hundred years ago, to stress the importance of decreased consumption (spending) in order to increase savings, which can then be used for investment in the capital equipment needed to increase productivity and ensure growth. People want better living standards *now*—which means increased spending, not increased savings.

In addition, some economists now believe that increased spending may be a greater stimulant to the economy than increased savings. These economists distinguish between the *average propensity to consume*—the percentage of total income that is consumed—and the *marginal propensity to consume*—the amount of extra consumption generated by an extra dollar of income. Generally, the maintenance of an average propensity to consume—that is, to spend a high portion of income—is favored in order to provide a broad market within a country. However, any increase in income creates a conflict as to how this increase should be used. The people of the underdeveloped areas usually have a high marginal propensity to consume. If these people are forced to save increased income, then these savings can be used for needed investment. Therefore, should a probable high marginal propensity to consume be curbed, and if so, how?

Developing nations can obtain the funds necessary for investment from various sources, including exports, foreign sources—both public and private—domestic savings, and inflationary policies. As we shall see, there are advantages and disadvantages associated with each source. For example, the result of any injection of foreign assistance may be only a temporary rise in well-being, while long-run stagnation continues. If foreign aid pushes the average annual per capita income in a country from $100 to $125, the people of this country will achieve a higher living standard; but if per capita income then remains at $125, the economy is still underdeveloped, still poor, and still far from realizing the goals envisioned by most development economists.

Some developing nations are particular about the source of investment funds. For example, some object to investment through private enterprise, either domestic or foreign, often because it is too slow, and sometimes because the countries have socialistic leanings. These countries may see public investment as the only answer and resort either to higher taxes or government deficit financing policies. However, in low-income countries such as India, it may take a century to raise the rate of domestic savings to the point where it is possible to finance the large-scale investments needed to raise living standards to the level desired by current ambitions.

In the long run, any country that wants to achieve continuous growth must have growing foreign-exchange receipts in order to finance needed imports. This necessitates a growth in exports, which may be supplemented by foreign private or public capital inflows, direct investment, other private investment, or loans. However, an inflow of foreign funds depends upon a developing country's capacity to service loans; that is, on a country's ability to pay the necessary interest or dividends to those who supplied the funds. Thus most imports of capital goods by underdeveloped countries must eventually be paid for by earnings from exports.

Human Factors

Capital alone will not cause a country to develop. The people must be able to use the capital efficiently and effectively. To do this requires a know-how that comes from education, technical training, and an attitude that is receptive to industrialization and change. In other words, although capital is the basic requisite for the construction of a factory, the success of the factory requires men who are motivated and trained to utilize machinery effectively.

In many developing economies, one of the most pressing problems is the lack of people possessing the necessary skills and experience to organize and manage the wide range of productive enterprises needed for development. Often there is great need for a project such as a small machine or repair shop, but because of a scarcity of technical skills and business ability no such shop can be established.