

Economics of the Third World

S. K. Ray

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by Dr. S. K. Ray

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Introduction

At the very outset may I say that the author merits to be congratulated on the choice of subjects for his publications. He has been doing a trilogy on the socio-economic problems of the third world, the first in the series being his *ECONOMICS OF THE BLACK MARKET*, while the present treatise, *ECONOMICS OF THE THIRD WORLD*, covers some of the crucial issues relevant to economic growth of the vibrant south. I find that the author intends to cover the remaining subjects in his third and final volume, *NORTH SOUTH ECONOMICS*. Best wishes to him. Individually, his books are complete works of authority; together, they cover a panorama.

The socio-economic problems of the developing economies cannot be said to follow a common pattern, and these are in fact variegated. However, a tenor of uniformity does transcend the differences in many respects. As the author says : "These are the problems of a low-level or fundamental disequilibrium of the economy, with the attendant features of stilted economic growth, an adverse balance of payment, a low or even adverse net national product, a parallel economy, and finally an inequitous distribution of income and concentration of wealth."

One would also agree that 'economic growth has been rather illusory in the sense that, while some absolute growth was achieved from year to year', the GNP suffered from inequity in distribution, 'the multitude staggered under the continuing impact of the spiralling inflation', which together with an upward demographic curve, diluted the real content of the absolute economic growth.

Dr. Ray's treatise dwells on the basic issues affecting the economic development of the third world, issues which he had christened and discussed as the barriers to growth. These issues relating to the economics of growth in the third world are very real, and need to be tackled

pragmatically for optimisation of economic development in real terms. "Thus questions pertaining to economic emancipation, economic planning, economics of mobility and transportation, industrialisation, on the one hand, and inflation, disequilibrium, investment and growth, on the other, are highly relevant."

The purpose of Dr. Ray's research has been to look in-depth into these and allied economic phenomena, and to build up a socio-economic-political strategy for getting over the problems. I should unhesitatingly say that Dr. Ray has been able to achieve this with commendable insight, backed by substantial research and investigation.

His analysis on the relevance of the Keynesian concepts to the economic problems of the third world, and the increasing tendency in economic statecraft in such countries towards assumptory simplification of economic forces at play, may, understandably, raise a number of diehard eyebrows; but even those who may not promptly agree with his views, will certainly be compelled to ponder over his conclusions. One is inclined to endorse his view that in the entire third world there is an increasing trend to build economic strategies on presumptions and simplification of economic variables.

Again, the concluding chapter, The North-South Divide, is of topical interest. Dr. Ray has addressed himself to a denouement of the different concepts available in economic literature and as understood by the different world bodies and eminent persons, and has thereafter made an incisive analysis of the world-situation, in the context of the North-South economic development, with probity and foresight. He has also made a number of sound and pragmatic suggestions, which should receive serious consideration in the comity of nations.

I also believe that Dr. Ray's research has led to some original contribution to the thinking on the complex socio-economic problems of the developing economies. The economics of the third world, by itself, is a developing concept in economic literature, and we have not as yet heard the last words of wisdom on the subject. New issues are surfacing, along with fresh and unforeseen compulsions.

The purpose of Dr. Ray's thesis and the objectives of his research have both been adequately vindicated, inasmuch as his treatise attends to all these vital aspects of the emerging concepts in economics with clarity, consciousness and perspicacity. This book should, therefore, have utility for the scholar as much

as for the intelligent general reader, as it does make a contribution of its own to the study of economics of the third world.

DR. NAGENDRA SINGH

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NETHERLANDS.

August 1982.

Preface

The economic problems of the countries in the third world are not, in their totality, uniform. But their basic characteristics transcend the boundaries of individual countries. These are the problems of a low-level or fundamental disequilibrium of the economy, with the attendant features of stilted economic growth, an adverse balance of payment, a low or even adverse net national product, a parallel economy bedeviling the performance of the official economy, and finally an inequitous distribution of income and concentration of wealth.

In fact this has been the general picture in almost every individual country in the third world, throughout their period of colonial subjugation, and from the continued influence of which these economies are trying, with differing degrees of success, to salvage their economies.

As to the programme for salvation, again, the strategies adopted have not been identical. By and large all of them have taken to economic planning in varying patterns, but there has been evident a tenor of get-rich-quick endeavour as far as the absolute growth of the net national product is concerned. As I have said in course of the treatise itself, the nations of the third world exhibit the psychological impulses of nations in a hurry, after decades and sometimes even centuries of political and economic exploitation, to programme for cascading economic growth.

As indigenous resource-mobilisation has been, for economic reasons discussed at length in the thesis, by and large lean and inadequate, these countries took help of the two milch cows, deficit financing and national and international borrowing. As the development of the economy did not in all cases match the pumping of borrowed resources or created money, there was a simultaneous catapult in the upward-movement of the inflationary spiral and this has in many countries, together with an ascending demographic curve, substantially diluted the real content

of the economic growth achieved.

While this was the situation, as an overall pattern, most of the countries did not for some reason or the other enforce a system of even relative equity in the distribution of the net national product. As a result, while economic growth has been achieved in many of these countries at least in absolute terms, the dividend of such growth has not been spread out to the multitude, nor has this resulted in any perceptible betterment in the standard of living of the teeming millions. Resultantly, there has been an increasing concentration of wealth leading to greater distributional inequities.

As a result, economic growth has been rather illusory in the sense that, while some absolute growth was achieved from year to year, the accretion went mostly to anything between ten and twentyfive percent of the populace, and the remaining multitude staggered under the continuing impact of the spiralling inflation. And even when their wages increased, the sliding value of the legal tender corroded such increase and their real income actually dwindled.

The poverty divide in today's world is manifest not only between the north and the south, as it is called from the time Willy Brandt produced his famous report from a committee sponsored by the United Nations, now there is also manifest a similar divide inside each country of the third world itself. This divide is even more precipitate than the divide between the north and the south.

As a thumb rule, it is found on an analysis of a number of representative countries that in the third world about seventyfive percent of the wealth generated goes to around twentyfive percent of the population, while the remaining seventyfive percent have to make do with the remaining twentyfive percent of the produced wealth.

These, therefore, are the basic problems of the countries in the third world. The issues involve matters of stark reality. The problems of development require to be tackled with a pragmatic approach, and it has to be settled once for all as to whether there is any merit in absolute economic growth with a disproportionately minimal or even negative real growth. It has also to be settled as to whether there is any advantage in deploying seventyfive percent of the people for an economic-growth endeavour, the dividends of which would overwhelmingly go to only around twentyfive percent of the population.

These are issues pertaining not only to the economics of growth and development, but also to equity and distribution. Most of the countries in the third world have adopted, at the end of the colonial regimes, democracy of some sort or the other. These are sometimes called democratic socialism, sometimes mixed economy and often socialistic mixed economy, and very often just

socialism. Some of these countries profess to follow principles of the free-market economy under guided capitalism, with a growing superstructure and industrial development under the auspices of the state, sometimes being called the public sector, while a number of others are under autocratic or military regimentation.

There is however a growing over-emphasis on investment in these countries, and for such purpose, instead of a greater concentration on indigenous resource-mobilisation or indexing, many of these countries have preferred to go around the world with the mendicant's bowl. As a result, aids have been received with manifest or hidden strings, and international debts have been undertaken at astronomical levels.

The rate of growth of the economy however has not kept pace with the rate of growth in the resources invested and, as bulk of the investment came from national and international debt and deficit financing, inflation has oftentimes made a mockery of economic planning in many of the countries.

These issues relating to the economics of growth in the third world are vital and need to be adroitly tackled with finesse, understanding and imagination for optimisation of economic development in real terms. Thus questions pertaining to economic emancipation, economic planning, economics of mobility and transportation, industrialisation, on the one hand, and inflation, disequilibrium, investment and growth on the other, are highly relevant. In this treatise, I have, therefore, looked in-depth into these and allied economic phenomena.

During my research, I was struck by two vital ancillary issues. Firstly, I discovered the relevance of the Keynesian concepts to the economic problems of the third world, and secondly, the increasing tendency in economic statecraft in such countries towards assumptory simplification of economic forces at play. I, therefore, have devoted the first two chapters of the thesis to an explanation of the Keynesian relevance to the developing economies, and the liberal application of the use of the convenient principle of *ceteris paribus* in the formulation of economic policy in such countries.

I have devoted a complete chapter at the end to the north-south divide. In this chapter I also addressed myself to an appreciation of such concepts as under-developed or developing economies, the third world, and the south vis-a-vis the north. I have also made a study of the different reports of international commissions like the ones chaired by Lester Bowles Pearson and Willy Brandt, and have analysed the growth-perspective of the south, as seen by the different international agencies like the International Monetary Fund and the World Bank, and as charted by global conferences right up to the

Cancun Summit in October 1981, and also, as seen by me, in the background of a socio-political-economic analysis of the world situation, particularly with reference to the south.

While I have confined my study to the economics of the different third-world countries, analysis of certain economic phenomena in the advanced countries of the world also became necessary from the viewpoint of objectivity, comparison and relativity.

As for the third world itself, while the treatise has been attuned to a perspective-view of all the countries falling in the south, the different socio-political and economic problems in respect of fortyseven countries have been particularly studied at length, and, therefore, mention of their problems, analysis thereof and exploration of remedial strategy therefor, would recur during the course of the book.

For representative in-depth analysis of some vital economic phenomena, however, I have dwelt largely on the economies of eighteen selected countries.

I have dealt with some of the typical socio-economic problems of the developing economies in my earlier book, *ECONOMICS OF THE BLACK MARKET*, published in December 1981 by Westview Press, USA: problems relating to black market, parallel economy, misfeasance, smuggling, and corruption in public life.

In the present treatise, *ECONOMICS OF THE THIRD WORLD*, the fundamental economic problems relating to growth and development, and their solutions, in the denouement of economic concepts in the fields of development, planning, industrialisation, mobility, investment, inflation, equilibrium and growth among others, as relevant to the vibrant south, have been discussed, in a spirit of quest, analysis and growthmanship.

The remaining issues pertaining to agronomy, demography, poverty, income, energy, mining and oceanography, trade and commerce, distribution and such others are proposed to be handled in the third compendium volume, *NORTH SOUTH ECONOMICS*, as I found them too vast and panoramic to be covered adequately in this and the earlier treatises.

The method adopted in the research has been multipronged. The enormous background material produced by economists, thinkers, international agencies and commissions, as also administrators, planners and technocrats, has been extensively sifted, studied and made use of, not only in the development of a theoretical format, but also while considering a strategy for combating the different constraints and their adverse fallouts. But since the ramification of the conceptual and practical denouements of the thesis is entirely my

own, I must accept complete responsibility for the analyses, formulations and conclusions.

Whenever possible, references have been made to books and writings, as also to official and non-official documents and publications; in certain other cases, this has not been possible for apparent considerations.

A complete bibliography has been drawn up at the end of the thesis. Permission has been obtained in respect of references made to a plethora of treatises and journals during the course of the book, *except of course, some of those which should now form an integral part of the mainstream of knowledge; and in respect of these I take the opportunity of recording my sincere acknowledgement to the various sources of information.*

Information has been updated to the maximum extent practicable, even beyond the Cancun Summit of October 1981, to the middle of 1982. Except for certain conceptual ideations and behaviour-patterns of some socio-economic phenomena briefly referred to or summarised in subsequent chapters, to make the latter comprehensive, repetitions have been altogether avoided, even though the subject dealt with in one chapter in certain cases does overlap on the subject of another.

Finally, a note on the style of writing. As in my earlier book, *ECONOMICS OF THE BLACK MARKET*, I have adopted the style of an economic journalist, rather than that of a dour economic theorist or an econometrical fundamentalist, even though I have no intention of decrying their style in any way. I did this, as I thought *I should write not only for the economists by profession, but also the economists by preference, and would also include in my readership the student, the teacher, the planner, the administrator, the civil servant, the technocrat and the general reader.*

The use of small letters vis-a-vis capital is deliberate throughout the book. Thus I have used 'the third world', rather than 'The Third World' and 'the north-south divide' and not 'The North-South divide'. I have also been circumspect in the use of italics, even in the title of books or for Latin or French words and phrases, which have been absorbed in English. I have used no article before words like UK or IMF.

Before I conclude, I ought to mention that this research has been conducted in my personal capacity, without in any way affecting my official duties, and has absolutely nothing to do with my work as an executive of the Indian Railways.

S.K. Ray

New Delhi, India.

September 1982.

Acknowledgements

During the period I was writing my earlier book on applied economics (ECONOMICS OF THE BLACK MARKET, published by Westview Press, USA) in the late 'seventies, I had the occasion to participate in a programme of the Economic Development Institute of the World Bank at Washington D.C., USA and Montreal, Canada, and later, as a member of the Indian delegation, in a United Nations Conference of the Economic and Social Commission for Asia and the Pacific, at New Delhi, India. During these two international programmes I had the opportunity of conferring with the participants from many countries of the third world from South and South East Asia, New Africa and Latin America.

Interaction with friends and colleagues from all parts of the third world at these international forums, and the research undertaken for my earlier book, stimulated me to look in-depth at the third world, with fresh interest, as an economic archetype, notwithstanding significant differences in historical, economic, ethnic and sociological evolution. This is how the idea of writing a full-length treatise on the economics of the third world was conceived.

The research, however, could be commenced only after the first book was completed and sent to the publishers. Throughout 1979, 1980 and the greater part of 1981, I researched for material, both in India and abroad, in libraries, archives, planning commissions, UN organisations and a host of research-institutions and data-banks, too numerous to be individually catalogued. The entire book in its present form, based on such studies, researches and investigations, was written during 1981 and 1982.

I have benefited from discussions with a large number of scholars, journalists, editors, executives, professors and authors for giving me ideas on the subject, as also for valuable discussions with them and suggestions received from them.

Amongst them I should mention, first of all, the abiding interest taken in the project, from start to finish, by Mr. Leon H. Miller, a senior economist of the World Bank, Washington D.C., USA and Mr. B.R. Nanda, eminent author and biographer and National Fellow, Indian Council of Social Science Research, New Delhi, India. I acknowledge with gratitude their advice, counsel and friendship.

I am beholden to His Excellency Justice Dr. Nagendra Singh, an authority on international jurisprudence and social sciences, and a Judge of the International Court of Justice, The Hague, Netherlands, for writing the introduction. His exposition has increased the worth and prestige of the book. No simple words of acknowledgement can adequately repay my debt to this eminent thinker and man of letters.

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I have drawn considerably from my own papers and articles published in a large number of economic journals, periodicals and newspapers. I am grateful for the unhesitating permission to do so received from Dr. D.K. Rangnekar, Editor, Business Standard, Calcutta, Dr. Hannan Ezekiel, Editor, Economic Times, Bombay, Mr. C. P. Raghavan, Editor, Financial Express, New Delhi, Dr. A. N. Dutta, Editor, Management Accountant, Calcutta and Mr. Swaminathan S. Aiyar, Editor, Eastern Economist, New Delhi.

There are five annexures to the book. Annexure 1 is the Preface to the General Theory of Employment,

Interest and Money by Lord Keynes, and the permission to reprint the same has been given by Mrs. Jean Kennedy of Macmillan Ltd., London. Mrs. Kennedy was gracious enough to obtain the permission from the Royal Economic Society, London, the original copyright holders. Annexure 2 is the quintessence of my own book, *ECONOMICS OF THE BLACK MARKET*, and which itself appears as a chapter of that book. Permission to reprint this has been given by Ms. Lynne C. Reinner, Vice-President, Westview Press, USA.

Annexure 3 is a paper written by the world-renowned economist, Prof. Amlan Datta, in the *Journal of the Institute of Rail Transport*, January-March 1968, New Delhi, when I was its editor. This brilliant exposition, edited for this purpose in late 1981 by the author himself, has been reprinted with his kind permission. Annexure 4 is the Summary of Recommendations of the Report of the Brandt Commission. This has been reproduced with the permission of Mr. D.M.R. Kewley, Executive Director, Pan Books Limited, London.

The final annexure gives a global perspective of development, as seen by the World Bank; and this has been, even though briefly discussed during the course of the thesis, borrowed from the World Bank Annual Report 1980, with the permission of Mr. Goddard W. Winterbottom, Senior Editor, Publications Department, The World Bank, Washington DC, USA, and the publishers, Oxford University Press, New York, USA. I acknowledge my indebtedness to all of them.

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The complete typescript in camera-ready form has been checked, sometimes more than once, by Mr. Shanti Narain, Director, Fertiliser Industry Coordination Committee and Mr. M.L. Chatterjee, Joint Commissioner, Ministry of Agriculture, central government of India, New Delhi. Messrs P.C. Sharma and P.C. Joshi, both Joint Directors in the Indian Railway Board at New Delhi, have also checked a few chapters. I do deeply appreciate their assistance, in the midst of their busy schedules as government executives.

The entire art-work has been taken care of by Mr. Ram Prasad, a reputed calligraphist based at New Delhi, India, and I do believe that the readers will appreciate the finesse of his work. I am grateful to him.

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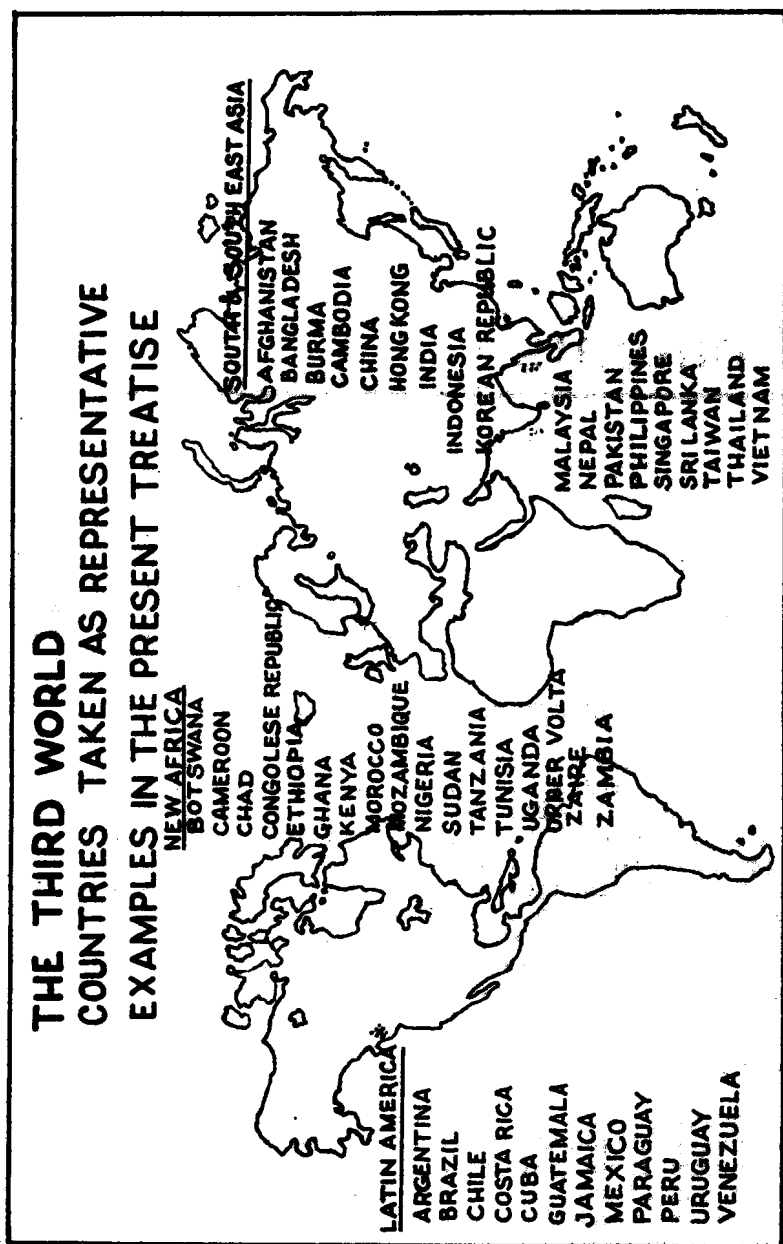
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*INCLUDING CENTRAL AMERICA AND WEST INDIES.