MYTHS ABOUT THE DEVELOPMENT PROCESS

1) False prophets and bad historians

> "Wealthy we do not think (Japan) will ever become; the advantages conferred by Nature, with the exception of the climate, and the love of indolence and pleasure of the people themselves forbid it. The Japanese are a happy race and being content with little are not likely to achieve much."[1]

*Misprophecies like this are often based on a failure to understand the history of the societies concerned. The first myth to examine, therefore, is that which holds that "the developing countries are in the process of being rescued from decades, possibly centuries of stagnation." Professor A. J. Youngson[2] comments:

This proposition is one of the classic examples of economist's myopia. Even the slightest acquaintance with the economic history of the nineteenth and twentieth centuries suffices to show that tea, coffee, sugar, tin, copper, rubber, mahogany, silk, rice and opium (to name only the most obvious commodities, and to say nothing of oil) were traded in vastly increased volume over a long period. And it is manifestly not the case that these commodities came from the areas of recent (Anglo-Saxon) settlement.

Perhaps economists do not read economic history; or, which is equally likely, perhaps they do not understand it. Nevertheless, they are known to visit developing countries. It might be supposed that they would observe, in a large number of these countries, railway lines, irrigation canals, harbours, docks, warehouses, government offices, paper money, and a general awareness of economic opportunities which it would be difficult to suppose were the result of activity extending back no further than 1950. But either they do not observe these things, or they fail to draw the obvious conclusion. Were they able to extend their field of vision they might notice such relics of the construction industry as the opera house at Manaos of the Shwedegon Pagoda. But in these perspectives they show virtually no interest.

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[1] Citation from The Japan Gazette, 1882, in G.C. Allen, A Short Economic History of Modern Japan, p. 46. The Editor is indebted to Dr. Richard Jolly for pointing out this quotation.

[2] Professor of Economics, University of Edinburgh

What then is their point of view? It is not altogether easy to be sure. As long as it was confidently maintained that industrialisation (meaning the spread of modern factory industry) was economic development, then it was tautological to say that the developing countries had not developed, i.e. were stagnant. Now, economists seem less sure that industrialisation and economic development are the same. They fall back, however, on the proposition that economic development means a growth of per capita income. For the decades before 1950 it is difficult to provee anything about per capita incomes, although it is not absurd to maintain that in most developing countries they altered slowly if at all.

But to define stagnation in either of these ways is a misuse of language. That output and population rose rapidly in many poor countries from, say, 1850 is beyond question. There was economic growth before 1850, too. Not only so, there is ample evidence that methods of organisation were changed appropriately. In many cases the capacity for organisation reached a very high level. Anyone contemplating the domes and palaces of Kyoto or Isfahan must realise that they are the product of, among other things, a high level of economic organisation in general and of fiscal policy in particular.

If a country's past is, in a legitimate sense, one of stagnation, then that country has no history. But the developing countries have an ample history of reorganisation, of struggle for power, of advance and retreat. If they appear to have no economic history, it is mostly because it has yet to be written. In any case, rise in per capita income was not their aim. They may now accept that as an objective. But we are not likely to help them very effectively to achieve it, if we assume that past acceptance of other objectives has meant that significant changes never took place before.

2) The Burden of Inequality

*Even when people admit that developing countries "have a history", they often conclude that the present pattern of international inequality shows a lack of some resource. For otherwise these countries would have gone through the classic stages of growth like European and American nations. But may it not be the very presence of these 'model' industrial states which is hampering those who come behind? To invert a well-known literary exchange (Scott Fitzgerald and Hemingway), the retort to the remark, "The poor are different from us", might be,

"Yes, they are poorer". Paul Streeten[1] suggests that, indeed, "he who weeps last weeps worst".

It is a widespread myth that international inequality reflects, but does not cause, differences in economic prospects and performance. Once this myth is planted, other myths sprout from it, such as the myth that each society goes through a number of comparable stages and that what was true of one country at a time when it did not coexist with much richer countries must also be true of another country which attempts to develop in a world of considerable international inequality.

In fact, coexistence of rich and poor alters crucially the development prospects of the poor. Some fairly obvious forces make for easier development. But the net balance of forces probably raises obstacles to development for the late-comer. This is not the result of exploitation (though both exploitation and genuine assistance are facts of history) but the result of the impact of rich on poor. Among the main difficulties raised for the poor by coexistence with the rich are the introduction of a modern death rate into societies with primitive birth rates; the transfer of ill-adapted and detrimental advanced technologies and social institutions (from parliamentary democracy to trade unions); the pull in the salary structure exercised by an international market in scarce skills; the attraction of capital to the industrial centres; the development of synthetic substitutes for many primary products exported by poor countries, national welfare policies of democratic industrial states, such as protection of agriculture and labour-intensive industries, restrictions on immigration of unskilled labour and restrictions on the international flow of capital; and the damaging impact of irrelevant economic doctrines, which generate the myth of the irrelevance of inequality.

3) The Imperative of Inequality

*Inequality between nations may have bad effects on the development of poor countries. But at least within such countries inequality of some kind is obviously one of the costs of development,

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[1] Warden of Queen Elizabeth House and Director of the Institute of Commonwealth Studies, University of Oxford.

particularly at an early stage. Is it, however, so obvious? Keith Griffin[1] asks: are equality and development incompatible?

The conventional answer to this question is "yes". In a remarkable pontifical statement before a Pakistani audience, Professor Harry Johnson, the high priest of neo-classical economics, solemnly declared that "the remedies for the main fault which can be found with the use of the market mechanism, its undesirable social effects, are luxuries which underdeveloped countries cannot afford to indulge in if they are really serious about attaining a high rate of development. In particular, there is likely to be a conflict between rapid growth and an equitable distribution of income; and a poor country anxious to develop would probably be well advised not to worry too much about the distribution of income." [2] (Alas, the hapless Pakistanis believed him.)

The attitudes reflected in Professor Johnson's statement - a bias in favour of private enterprise, the market mechanism and growth and antagonism toward socialism, planning and equality - merit an extended analysis. All that can be done here, however, is consider whether the conflict he poses exists. I shall argue that it does not: Professor Johnson has merely resurrected an ancient dogma in an attempt to defend the _status quo_.

The incompatibility of equality and development depends upon the assumption that a more equal distribution of income would lead to lower savings, fewer incentives, and slower growth. There is little evidence that one can find to support this view; indeed, the opposite could well be true.

If one compares the percentage of total income accruing to the top ten percent of income earners with the net domestic savings ratio one finds no positive association between inequality and thriftiness. For example, the upper ten per cent of income

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[1] Fellow of Magdalen College, Oxford.

[2] H.G. Johnson, "Planning and the Market in Economic Development," _Money, Trade and Economic Growth_, p. 153. The essay was originally published in the _Pakistan Economic Journal_, VIII, no. 2, June 1958.

earners in Chile, Colombia, Guatemala, and India receive, respectively, 47-49%, 48% 44% and 33-37% of total income, while the savings ratios in the same countries are about 3%, 6%, 4% and 10% respectively. India, the poorest and least inegalitarian of the four countries, has the highest savings ratio.

Similarly, if one examines individual countries it is not obvious that the rich save more than the poor. In Pakistan a pioneering study, no doubt using rather unreliable data, suggests that gross personal savings as a percent of gross personal income before taxes are 10.9% in the (poor) rural areas and 7.4% in the (rich) urban areas.[1] A study of twenty latifundistas in the Central Valley of Chile indicates that the mean proportion of disposable income consumed was 83.6% and the median 99%.[2] The poor could hardly save less.

Granted that inequality does not necessarily promote a high rate of savings and growth, is it possible that greater equality would stimulate development? I believe that it would.

The lack of internal demand for agricultural and industrial products, the high propensity to import, capital flight, and the weak incentives to innovate and establish new activities could all be ameliorated if national income were redistributed in a more equitable fashion. In addition, greater equality might lead to larger private savings (since the very rich probably save less than the middle classes and prosperous peasants), more productive investments (since the attractiveness of urban real estate would decline), and greater public savings (since tax evasion would diminish and the tax base would increase). Moreover, a redistribution of consumption in favour of the very poor might raise productivity, since greater consumption of some items (e.g. food) could lead to an increase in health, morale, physical and mental energy and output. Finally, in many countries, if a redistribution of income were accompanied by a redistribution of land, agricultural output would increase (since yields are greater on the small farms than on the large).

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[1] A. Bergan, "Personal Income Distribution and Personal Savings in Pakistan, 1963/64," Pakistan Development Review, Summer 1967, p. 185.

[2] M. J. Sternberg, Chilean Land Tenure and Land Reform, Ph. D. thesis, University of California, Berkeley, September 1962, Ch. IV.

Thus there need be no conflict between equality and development. A redistribution of income and wealth (partiuularly landed wealth) could have multiple benefits. It is fatuous to suggest that economic justice is a luxury the underdeveloped countries cannot afford. It the last analysis, as recent events in Pakistan demonstrate, it is inequality which is likely to be incompatible with both political stability and development.

4) The "population explosion" myth

*Supposing redistribution did lead to a rise in agricultural production, it would all be in vain because population growth constantly acts to prevent a rise in per capita incomes. But Colin Clark[1], at least, argues that countries with high rate of population growth do not in fact show significantly lower rates of increase in real product per capita:

A frequently stated "Development Myth" is to the effect that, while the developing countries may be making some progress in production, this is all being eaten up by the growth in population. This view is about on the same intellectual level as the Cargo Cult of the Melanesian islanders, who believe that desirable goods enter the world from some mysterious supernatural source, and do not have to be produced by the labours of the population. Despite its naïveté, it has been held by many economists who, in other fields, have shown themselves refined and sophisticated thinkers.

It is easy enough to test it. If there is any truth in it then, subject to some individual variations, developing countries with comparatively low rates of population growth on a statistical average show a higher rate of growth of real product per head than those with higher rates of population growth.

Information to test this theorem is conveniently to hand in National Accounts of Less Developed Countries compiled by O.E.C.D. (Paris, 1967):

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[1] Director, Institute for Research in Agricultural Economics, University of Oxford.

Population growth and increases in real product per head 1950-1965 in Asia, Africa and Latin America (all countries included for which information available)

Population growth under 2% per year		Population growth 2% to 2.9% per year		Population growth 3% per year or over	
	Increase in real product per head % per year		Increase in real product per head % per head		Increase in real product per head % per year
Algeria	1.8	Morocco	-0.3	Kenya	1.9
Tunisia	2.2	Egypt	3.1	Rhodesia	0.9
Nigeria	1.2	Ghana	2.4	Costa Rica	0.7
Tanzania	1.2	Sudan	3.0	Dominican Republic	2.3
Jamaica	5.1	Uganda	0.8	El Salvador	2.2
Antilles	-1.4	Haiti	-0.7	Guatemala	1.7
Argentine	1.2	Panama	3.0	Honduras	0.5
Bolivia	0.1	Trinidad	5.3	Mexico	2.7
		Chile	1.2	Nicaragua	2.7
		Columbia	1.7	Brazil	2.3
		Paraguay	0.8	Ecuador	1.5
		Peru	2.8	Venezuela	2.7
		Iraq	6.9	Israel	5.8
		Burma	2.9	Syria	0.7
		Ceylon	0.1	Cambodia	2.7
		India	1.5	Taiwan	3.9
		Pakistan	1.3	Philippines	2.1
		S. Korea	4.2		
		Thailand	3.0		
Average	1.4	Average	2.3	Average	2.2