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ARTICLES

DEVELOPMENT STRATEGIES

Industrialisation in the "Third World"

by Dr Mieczysław Falkowski, Warsaw

The problem can be posed in the following form—**T**hich way should the developing countries go? Are they to remain agricultural countries and perform "l'art du possible" or rather "l'art d'impossible" in their actual conditions; or are they to seek some way of accelerating their development by policy of intensive industrialisation as their main motive force in getting out of underdevelopment?

Just a short time ago many prominent Western economists considered that economic factors, geographical and climatic milieu and natural resources ask for an agricultural character of development of these countries, in particular the Asian and African ones.

Now this attitude has changed and a considerable number of economists accept industrialisation. But what kind of industrialisation?

We should like to consider just these two problems—whether to industrialise, and if so in what way. We shall present the typical points of view of the socialist economists which form a logical and coherent whole, which does not mean at all that they have not undergone a significant evolution in confrontation with reality and trials of theoretical generalisations.

Accumulation for Productive Investment Purposes

Marxist economists motivate the need for industrialisation theoretically as well as by premises of economic policy.

Industrialisation in the narrow meaning of the term signifies systematic transformation of agricultural countries into industrial ones. For according to the supporters of industrialisation the industry plays a fundamental role in a general rise of the economy, in the creation of objective conditions of universal development of the productive forces. These authors start from the supposition that a lack of an industrial base, corresponding to the natural geographical, demographic and other conditions of a country, is the primary cause of low productivity of all the branches of the economy. This also effects the insufficiency of stimuli which would guarantee a fast rate of expanded reproduction. Thus industrialisation

ought to be a tool for systematic creation of means of accumulation for productive investment purposes. It should ensure an influx of internal and external sources co-ordinated with the needs of an expanding economy.

It is easy to notice that industrialisation understood in this way confers a wider meaning, and in fact industrialisation, in the wide meaning of the term, is somewhat synonymous to a certain economic strategy in which the industry is given a specific role in the whole process of growth.

Some economists consider the process of accumulation as downright synonymous with industrialisation. If economic development is to mean an increase in time of production of material goods then this increase cannot be achieved in a given phase of development of productive forces without implementation of industry. It is industry that ensures the highest productivity. This is due to the fact that the rate of increase of productivity is much more limited in agriculture than in industry and from a certain point even impossible without introducing mechanisation. If then industrialisation is the decisive factor for an increased rate of productivity per head and, consequently, for raising the standard of living above the average characteristic of agricultural countries, then this is a sufficient reason for industrialisation.

The Marxist economists are frequently reproached that they want industrialisation for industrialisation's sake, that in adopting a dogmatic attitude, detached from reality, they force industrialisation whilst neglecting agricultural development. The socialist economists retort, however, that the opponents of industrialisation do not pay any attention to the fact that the process of economic growth itself involves industrialisation.

M. Kalecki explains this rule in the following manner¹. First it is the acceleration of the rate of increase of the national income which determines a more rapid development of industry. In the process of growth the share of productive investment in the

¹ M. Kalecki, *Z zagadnień gospodarczo-społecznych Polski Ludowej* (Of the social and economic problems of Poland), Warsaw 1964, p. 64-65.

national income increases. Consequently the share of industry in the national income rises, too. Secondly in the process of economic growth there appear difficulties due to foreign trade. The problem of importation of ready made goods is the main barrier to growth and strains the balance of payments of a developing country. Thus an effort is made to replace importation of industrial goods with national production, and as it increases some of it is destined for exports. Thirdly the aim of economic growth is the rise of the living standard of the population. For this reason, as the target is being approached, the structure of consumption changes. The demand for industrial goods increases more and more and their consumption grows faster than that of food stuffs.

So it is not industrialisation that shapes the plan of development but the plan itself inevitably necessitates industrialisation, concludes Kalecki.

Accelerating the Manufacture of Producer Goods

A number of economists question the need for industrialisation putting forward the hypothesis of the limited character of the market in an underdeveloped country. In fact the industrialisation in a limited market cannot enclose all the branches of the economy. When the internal market is restrained, the problem of choosing the structure of production, depending on objective and subjective conditions of a given country, is the fundamental problem of industrialisation. If the choice affects certain branches of industry, then considering this choice, a certain type of economic strategy evolves, on which industrialisation depends. Just in this sense, and only in this sense, one can speak of the necessity to create "heavy" or basic industry the character of which will be adapted to the needs of the industrial branches being established. Thus the aim of the basic industries is to ensure the development of the economy in the long run and to form a basis for reproduction processes.

The centre of gravity of this conception of growth then consists of accelerating the department I in the long run (production of producer goods). One can suppose that by developing the key industries, the socialist economists want to effect a chain reaction which, during a long period of time, would stimulate the whole economy and influence its particular branches playing the role of the motive force of the whole economic mechanism. The increase of industry, the growing rate of accumulation, the acceleration of the department I in the long run, and the changing of the organic composition of capital are the premises of a fast acceleration of development.

It seems that such a conception of industrialisation does not provide the same solutions for every underdeveloped country. Linking up the elements of growth in the long and in the short run this conception aims to provide a concrete answer depending on the objective and subjective factors in the country. It

follows that there is no standard solution for industrialisation. For some countries the solution will lie in light industry, whilst for others it will be agriculture—as the starting point. In each case the problem will consist of proper appreciation of the needs and possibilities of the country in question. But in the course of industrialisation—depending on the original choice—the need for implementation of a basis to ensure an expanded reproduction and a growing production capacity of enterprises will be felt increasingly.

Harmonious Development of Industrial Sectors

It also follows that, in the opinion of a majority of Marxist economists, industrialisation does not at all mean concentrating on a favoured sphere determined by previous assumptions. To the contrary, from the beginning it necessitates a harmonious, co-ordinated and parallel development of the chosen branches of economy. The initial choice of the direction of development is just the first step followed by other activities which make industrialisation possible or downright stipulate the economic start. When the other fields of economic activity are neglected then industrialisation becomes an empty phrase and an ephemeral slogan. Industrialisation does not mean a complex development, a necessity for a constant preservation of mutual economic interdependences only. The principle of specialisation is to be added to this.

This specialisation is crystalised in the course of industrialisation and realisation of the programme to be achieved. It must be emphasised that the phenomenon of interdependence of various industries allows the socialist economists to argue for a planned economy with a strong public sector. They state that a lack of planned decisions can thwart an even most accurate decision if this decision is not followed by complementary ones. Here becomes apparent the superiority of planning in which the possibilities of co-ordination in time and in space are greater than in the case of private enterprises ruled by the principle of profitability. The account of profitability considered by a single enterprise neglects the social consequences for the economy as a whole and contradicts it.

Only economic planning passes the investment decisions from one isolated enterprise to the whole economy. Planning makes it possible to co-ordinate the investment decisions *ex ante* and not *ex post* as it is in the case of market economy².

As is generally known the majority of Western authors advance a hypothesis of industrialisation based solely on light industry. Usually they argue that such industrialisation corresponds better to the

² K. Łaski, *Warunki równowagi ogólnej między produkcją i spożyciem w gospodarce socjalistycznej* (Conditions for general equilibrium between production and consumption in the socialist economy) in the collection: *Zagadnienia ekonomii politycznej socjalizmu* (Problems of political economy of socialism), Warsaw, 1959, pp. 225-226.

structure of the productive factors and ensures better complementarity of agriculture and industry. They add that industrialisation understood in such a way would be based on less expensive technical equipment, on a low organic composition of capital and on an intensive utilisation of the labour force. As far as an investment policy is concerned they recommend short term investment so as to avoid the freezing of means. To ensure the efficacy of investment they recognise an important role for the state but only for a certain time, until the process of growth gets on the way, and the economic mechanism starts working³.

In socialist literature this theory is accused of proposing a too roundabout way of development. Even if, during the first phase, this industrialisation gives a certain acceleration to the economy, in the next phases it slows down because the reproduction process is not sufficiently secured. According to the adversaries of the conception of industrialisation limited to light industry, this solution sustains a low social productivity in comparison to the developed countries. For then the country would be obliged to change the goods of the department II (production of consumer goods) for producer goods which is unfavourable for the developing countries in the present situation in the world foreign trade⁴.

And, in fact, there would be a paradoxical situation created in which there will be an urgent need for importing machines and equipment so as to get a production started which will have no perspectives in the present export market. Of course, this production will satisfy the needs of the internal market but it must be born in mind that sooner or later, this economy will have to pay for its imports by exports. So if a developing country unilaterally favours light industry it is dependent on purchases in the world market and is condemned to a negative balance of payments.

The Theory of Development by Priorities

Disturbing the existing proportions the industrialisation process poses a problem of general economic equilibrium. It would be interesting to analyse the attitude adopted by the Marxist economists in face of the problem known in Western literature as the balanced growth theory advanced by other Western economists.

In the balanced growth theory there appears a lack of trust in the market mechanism. One can find in it the germs of the organised development idea and even of planning. One can advance from it the well

³ This point of view among others is supported by R. Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, New York, 1957; A. Lewis, *The Theory of Economic Growth*, London, 1956; S. H. Frankel, *The Economic Impact on Underdeveloped Societies—Essays on International Investment and Social Change*, Oxford, 1953.

⁴ N. Cobeljic, *Trzy podstawowe zagadnienia w teorii rozwoju krajów słabo rozwiniętych* (The three fundamental problems in the theory of growth of underdeveloped countries) in the collection: *Z prac ekonomistów jugosłowiańskich* (From the works of Yugoslav economists), Warsaw, 1953.

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founded rule of complementarity. Recommending the complex growth conception, assuming an active role of the state in the process of accumulation this theory resembles, in certain aspects, the Marxist method of industrialisation. Both take up an economic offensive to counteract the market difficulties and the traditional ways of private entrepreneurs which are ineffective for the case of developing countries. Both explore the obstacles to growth and, by new specialisation of the internal market, seek a new division of labour in the world market.

But this is as far as the analogies go. The socialist economists oppose the theory of balanced growth by the theory of development by priorities.⁵ The conception does not mean a generalised offensive but it means a choice dependent on different factors of production and in particular on the supply of capital. The idea of a choice based on hierarchy and priorities allows to concentrate investment on several branches chosen consciously, allows to shorten the cycle of industrialisation thus accelerating the rate of growth. Where the capital resources are limited fragmentation of investment is irrational and damaging.

⁵ N. Cobeljic, op. cit., p. 22. See also J. Kleer, *Z teorii rozwoju gospodarczego krajów słabo rozwiniętych* (From the theory of economic growth of underdeveloped countries) "Nowe Drogi" No 10.

According to the Socialist economists the principle of choice by priorities does not contradict the conception of complexity. The Marxist economy links both the principles to the idea of planning, i. e. to the need of preserving the economic and technical proportions. The principle of choice by priorities does not mean anything but the denouncement of fragmentation of the investment activity on too large a front.

As far as the principle of equilibrium is concerned, in Marxist economics, it is also subordinated to the planning. The principle is not treated as an end in itself but it is an important element in the economic strategy which allows to maximise the growth rate of the economy.

In the Marxist conception the ceiling of growth is determined by the department I. Although every effort of strategy seeks solutions which allow the economy to leap forward and allow sudden changes in the economic structure, one considers that an excessive remoteness of department I from department II decreases the rate of growth, and creates undesirable disproportions between particular sectors and branches.

Equilibrium is not a Major Aim

The idea that department I in the long run grows faster than the others determines not only the structure and the rate of investment but also defines conditions for states of equilibrium.

Designating the rate of growth and proportions between the sectors the planner foresees "... when the economy should reach equilibrium, when it should exceed it, up to which point it can depart from it, and in what intervals the equilibrium states should succeed one another".⁶

Equilibrium then is not a major aim of the economic strategy but it is one of the elements to be considered so as to save the society unnecessary losses and sacrifices. Equilibrium must be preserved so that its

⁶ N. Cobeljic, op. cit., p. 25.

absence would not hinder the realisation of the principal aim—maximisation of the rate of growth.

As long as the development of department I does not depart excessively from that of department II, and consequently does not decrease the rate of growth, the planner does not aim for the equilibrium state. Because the limit of development of department I is large and the investment in it is long term, the returns to the state of equilibrium appear in bigger intervals of time. They are regulated by the phases and cycles of investment. So the socialist conception subordinates the growth to the principles of balanced growth. Thus a state of ideal equilibrium is not expected but there should be harmonious economic development in which the temporarily existing proportions, consciously fixed and then disturbed, are re-established on a higher level. The period of dis-equilibrium depends on different factors inherent in the economy and, in particular, on the degree of its development, on its ability to resist states of dis-equilibrium without major perturbations. Generally, the need to establish equilibrium appears in critical moments when limiting factors like the freezing of resources, decline of stimuli for productivity of labour and for dynamics of consumption, not taking advantage of new productive capacities, etc.—lower the rate of growth. Just at that moment one should begin to restore equilibrium. One can counteract too violent disequilibria by stabilising the market, by opposing the inflationist tensions, etc. Economists attach particular importance to proper planning of the investment cycle and the interval between each particular state of equilibrium. But the re-establishment of equilibrium in a required time poses, as is well known, a difficult problem to the planner. In a backward economy, particularly during the first stages of industrialisation, there is a scarcity of stocks and the accumulation process sometimes takes place with harm to consumption.

To avoid perturbative tendencies which inhibit industrialisation one should bear in mind the problem of stocks and its role in the course of accelerated development.

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