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Dogmatic Axioms in Development Strategies

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The Second United Nations' Conference on Trade and Development (UNCTAD), in general and particularly some basic statements put out by UNCTAD, bring back into memory a saying coined by the late Lord Keynes: "... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economists."¹

Ideas, Ideologies, and Axiomatic Sayings

It was Joseph Schumpeter who found the causes for the monumental and lasting influence exerted by Karl Marx's teachings much less in Marx's intellectual and analytical achievements (for which Schumpeter felt immense admiration), but in the specific and unique connection between strictly logical deductions, prophecy, and a demagogue's factiousness embodied in Karl Marx's doctrine.²

If Schumpeter was still alive, he would certainly not hesitate to elevate Señor Raoul Prebisch, UNCTAD's Secretary-General, to the rank of a prophet and able advocate for the interests of underdeveloped countries, but probably not to any higher qualification. In a deeply critical article³, Professor Bauer has highlighted a whole series of more or less obnoxious expedients which he claims to have unearthed mainly in an UNCTAD Report entitled "Towards a New Trade Policy for Development"⁴, whose author is Señor Prebisch.

However, what is interesting here consists of different elements: many of the assertions made during UNCTAD and UNIDO conferences, as well as many of the practical demands raised there, are based, specifically or by implication, on certain fundamental notions about economic relations which, for the most varied reasons, have assumed the character of almost unshakable dogma.

Many of these dogmatic axioms, and even more so the uses to which they are being put, operate with mythical single or basic causes for a deplored ill of

the world, and they foster, in close relationship with a pseudo-scientific mythology, an inclination to think along the lines of frivolously constructed analogies that are supported by a mode of expression highly charged with emotion.

The Wealthy Centres and the Poor Periphery

An example of this way of arguing, which is highly instructive in several respects, is provided by the paired notions of the Centre and the Periphery, a couple of metaphors which, through several steps of transference of meaning, have come to be accepted as highly plausible aids to understanding world economics, notwithstanding the underlying ideas being complete fallacies.

The original meaning of these metaphors came from the analysis of spatial distribution of economic activities. They indicated a certain dependency of the periphery on the centre (or centres) but disclosed nothing about the different levels of development which either the Centre or the Periphery, or both, might have reached at a given stage in time. The classical model of such a relationship was developed by the German economist, J. H. von Thünen, who called a town situated in the middle of farming land, a centre, and the surrounding farming area, the periphery (or circumference), but his model never implied that the centre or town will necessarily have reached a higher stage of development at any time, in the sense that town dwellers must always earn higher incomes, in real terms. This theorist only stated that the urban centre and the successive rings of circumference will each produce goods from different proportions of productive components (or factors), which not only implies different methods of production (e.g. "extensive" or "intensive") but different classes of products and different widths of diversified production "wave bands".

It has, however, become fashionable to set up an equation between the periphery (of the economic process) and the underdeveloped regions of the world. An original attempt to analyse spatial relationships in a given economy has thus been remoulded into a picture supposedly portraying the process of economic development, or its different stages. It is very likely that the reason for this transference of meaning is to be found in the empirical fact that underdeveloped regions, in the present-day context of the worldwide division of labour, cannot but ever fulfil any tasks but peripheral ones. Yet this does not make it permissible to stand this logical sequence

¹ J. M. Keynes, *The General Theory of Employment Interest and Money*, London 1936, p. 383.

² J. A. Schumpeter, *Capitalism, Socialism and Democracy*, London 1961 (ninth impression; first published 1943), p. 5 et seqq.

³ P. T. Bauer, "UNCTAD and Africa", in the magazine, *Afrika Spectrum*, No. 2, 1967, Hamburg (published by Deutsches Institut für Afrika-Forschung), p. 7-47.

⁴ Reprinted in: UN, *Proceedings of the United Nations Conference on Trade and Development*, Geneva, 23 March — 16 June 1964; Vol. II, *Policy Statements*, New York 1964, p. 5 et seq.

on its head, concluding that (geographically) peripheral regions, which mainly produce for a far-distant, centrally situated, market must needs be economically backward areas. The wheat-producing wide-open spaces of North America, or New Zealand whose economic "raison d'être" is the production of butter and wool for far-distant markets to which the country's exports are directed, or Iceland which catches fish and processes it for other countries, etc., all provide valid illustrations for the assertion that peripheral regions are fully capable of earning high personal incomes per head of their populations.

The Exploiters and the Exploited

And this is by far not the end of shifting meanings in an originally innocuous model of analytical thinking. Purely theoretical forms of thought have become the instruments of highly politicised economics, and finally of party-politics pure and simple, thus providing highly explosive ammunition for political propaganda: it is now argued that the impoverished masses (dwelling on the periphery of the world economy) have only become so poor because the rich (being dwellers in the dominant centres of the world economy) have appropriated their resources. "Exploitation" becomes the war-cry made acceptable by constant repetition. An immense exaggeration of the meaning of these opposites: life in the cities, and life in the countryside, asserting that these two opposites represent different classes engaged in a murderous class struggle, and that this struggle can only be resolved by violent political action, is found in the speech, whose text has long gained notoriety or even some sort of fame, of the Chinese Minister of Defence, Lin Piao. In this speech, the Chinese revolutionary appeals to the poor of this world (the eternal "country dwellers") to "encircle" the exploiters from the North American and European "cities", which are the centres of the world economy, in order to destroy and liquidate them.⁵ Whether Lin Piao has not overlooked the strange fact that his own country, typically, is fast growing into the most gigantic of all "world cities" or conurbations is highly questionable.

It has to be admitted that there are big chances in the attempt to inveigle people against alleged exploitation, since the functional exploitation argument—which is independent of accidental events—is often made more impressive and more heartrending by mixing it up with historical (and accidental) events of personal oppression and exploitation during the colonial period. And indeed, if one wishes to argue the case for the functional situation of exploitation, this argument badly needs reinforcement. It is, of course, incontestable that there have been periods of bad colonial exploitation, and even the present period still knows remnants of colonial oppression, but the assertion that there has been, and that there is and always will be, a typical form of relationship between exploiting (central) and exploited (periph-

eral) nations, which would be of greater interest for a global strategy of economic development, is much weaker.

Most convincing proof for such caution is provided by the biggest and richest centre of the world's economy: the United States. About 95 per cent of the entire Gross National Product (GNP) of the US is produced in the country and consumed within its frontiers.⁶ Only about one to two per cent of the National Income of all the citizens of the United States might be suspected of being derived from "exploitation".⁷ For this is about as much, or as little, as the United States are currently importing from developing countries, at the same time selling about the same quantity of goods to the underdeveloped regions of the world. Even if somebody succeeded in upvaluing US imports from developing countries, through using those questionable calculations about the allegedly adverse terms-of-trade about which UNCTAD makes great play, but which Professor Bauer criticises unmercifully⁸, it would only lead to grotesque fantasies if we tried to seek the underlying causes for the United States' immense wealth in its exploitation of the world's poor people, especially as figures involved would be completely out of proportion with the scale upon which American wealth must be calculated.⁹ It would make as little sense to try and find the cause for India's mass poverty from present-day exploitation through the "centres", for not only are at least 95 per cent of American wealth but equally 95 per cent of India's penury are produced inside the country affected by it. It has, however, to be admitted that it is, especially in the case of India, difficult to deal with the "functional" exploitation argument without thinking of the colonial exploitation argument.

It must be added, in this context, that even the basic notion of exploitation, as used in today's discussion about developing countries, has been distorted to such an extent that it is now far distant from everything that Marx may have meant by it. For it is at least one of Marx's fundamental assumptions that the product the property in which, or division of which, is being contested has been produced by capital and labour in their joint interaction, because only in this connection is it possible to paint the exploiter as an agent unjustly denying his co-producer part of the joint product. Should we then insist on questioning the mode of distribution of 95 per cent of the American GNP, which has been produced by Americans for Americans, our insistence can no longer be based on economic grounds but only on reasons of charity and good works. In other words: we would then no longer advocate a rational mode of distribu-

⁶ UN Statistical Yearbook 1966, New York, 1967, p. 560.

⁷ As only international exploitation is under discussion, the question of whether there may be exploitation inside a country is not treated here.

⁸ Cf. P. T. Bauer, l.c., pp. 15-25.

⁹ It is easy to understand that the UNCTAD-argumentation neglects the at least as topical question whether or not there is an exploitation of the "relatively rich" (Europe) by the "very rich" (USA), and that because other countries are prepared to finance the chronic deficits in the US balance of payments by keeping and increasing dollar reserves.

⁵ Lin Piao, *Long Live the Victory of People's War*. Peking (Foreign Languages Press) 1967, pp. 48/49.

tion, or a just division of overall income—we would then demand no less and no more than worldwide redistribution of income.

Primary Producing and Industrial Countries

These two descriptive terms also belong to the paired notions used for allegedly dividing up all the nations of the world—a so-called “statistical mass”—into clearly distinguishable types, tacitly accepting the assumption that there are no members of a distinct third-party group possible. Such paired notions are usually highly acceptable to the human mind, though they are in most cases faulty and risky, producing actual danger because they will lead to decisions based upon factual errors.

What, then, is a typical primary producing country? If we use the production structure of a given country for determining its economic “character”, what are we then to call the United States? This is a particularly interesting case, as everyday usage naturally speaks of the US as an industrialised country of the purest water. However, the US surpasses many other countries in the world in the value of its commodity production, both of foodstuffs and of other agricultural mass consumption goods, and of industrial raw materials. Shall we prefer to call the US a typical raw material producer? On the other hand, it is precisely the case of the US which provides the classical instance of the importance of a third group of production achievements: about sixty per cent of the United States’ GNP are neither commodities nor manufactured products of industry but services.¹⁰ It will probably not take long until somebody will discover the new type of “service industry countries”, which is an idea that cannot be described as more simple-minded than those of “typical” industrialised or commodity countries.

However, it often seems that economic writers do not base their assumptions on the composition of the GNP of a given country but on the structure of its foreign trade, especially that of its exports. Even leaving aside the absurdity of applying literally such a new black-and-white scheme, which would exclude all sorts of “mixed” national economies, a less strict interpretation still produces highly astonishing breakdowns according to the dominating role being played by “industrial” and “primary” goods in making up the exports of a given country: for overall exports of one of the “poorest” developing countries, those of India, include a share of no less than 47 per cent of the total made up by the products of manufacturing industries, whilst Australia, one of the “wealthiest” nations of the whole world, shows only an 18 per cent “industrial” share, and New Zealand, supposedly even “richer”, a bare five per cent of industrial goods, in the make up of their exports.¹¹ In spite of all this, people have no objection to us-

ing the terms “primary producing countries” and “underdeveloped countries”, as if they meant exactly the same things.

It is far from justified to understand this mistaken interpretation of the part played by various national economies as a venial linguistic misbehaviour, regrettable but intrinsically harmless. This slovenliness is anything but harmless because it leads to the faulty economic strategy of flatly identifying economic development with industrialisation, whatever industrialisation may mean.

Industrialisation and Diversification

People who demand “industrialisation” of the whole world, of a given continent, of an individual country, of a region, or of a city, and those who promote the creation of new industries, will be applauded and flattered, as a general rule. There is hardly another aim of development policy about which capitalists, rabid socialist extremists, and moderate pink advocates of “public sector growth” are more in agreement. If such people, and others, discuss industrialisation, the question mooted is generally only that of how to do it, not whether it should be done at all.

The irrationality of motivation is well known in this context. It is accepted almost everywhere that setting up a new steelworks must promote progress, more so than, say, to persuade recalcitrant peasants to cultivate their fields more efficiently. However, consideration of prestige is only the least serious of all the motives underlying the general longing for industrialisation, and it certainly does not play the decisive part in establishing the dogma seeking salvation in industrialisation. The “idée fixe” to believe that industry alone, or industry predominantly, creates economic values is nothing but a highly questionable “evolution” of the ancient physiocentric heresy, only transferred from the original “primary” basis of agriculture to the “secondary” one of industrial production. It is but one of the frequent instances of illogical thinking, to draw conclusions “post hoc, ergo propter hoc”: since high mass incomes frequently follow (in time) upon a high degree of industrialisation, they are erroneously believed to be the inescapable result of industrialisation, and of industrialisation only. With the same defective logic, it might be possible, according to Professor Bauer’s ironic remark, to conclude “that because there are more television sets or insurance companies or dental hospitals in rich countries than in poorer countries, promotion of these activities or facilities will serve to enrich a country”.¹²

Politicians that are “sold on” the ideology of industrialisation at any price must be excused for part of their errors since professional economists have done little or nothing to provide them with practicable “aids to decision-making”, and the few crumbs of such advice thrown to them were poisonous bait made to lure them into misinterpretations of economic

¹⁰ UN Statistical Yearbook, 1966, l.c., p. 579.

¹¹ UN Yearbook of International Trade Statistics, 1965, New York, 1967. Trade Returns of Individual Countries. The percentage figures quoted are averages for 1964 and 1965.

¹² P. T. Bauer, l.c., p. 34.

facts. It is not surprising that thought applied to the problems of industrialisation has made its appearance earliest and most extensively in those countries which have been successfully industrialised, and this might also mean that they were the countries which had been preordained to become industrial nations. In such countries, the various stages of industrialisation have necessarily coincided with the stages of general economic development.¹³ In their cases, it did make sense to concentrate attention on the question which might be the best methods to industrialise the economy. Even when a writer, like, for example, Professor Hirschman, intends to discuss the (general) strategy of economic development¹⁴, the way in which he argues and his selection of examples for illustrating his argument make it clear that he discusses chiefly the (special) strategy of industrial development. Similar criticism might be applied to the well-known theoretical concepts of "balanced growth" and of their specialised variety, the so-called "big-push".

Without doubt, such discussions may be interesting and useful for any country with a high density of population and a big absolute number of inhabitants, as this is at least one of the conditions (though not the only one) required for full industrialisation. There are, on the other hand, many "young" countries whose population density is so sparse that Hirschman's development strategy would be probably positively harmful to them. The idea to start off some sort of self-perpetuating process of "forward" and "backward linkages" (irradiating from a centre of industrial activity slap in the middle of the production pyramid) is impracticable in such countries because there would soon be a shortage of people capable of operating the machinery of production which never ceases to proliferate. These limitations are the first insurmountable barriers upon which all industrial "expansion in breadth" and "diversification" projects, so frequently postulated nowadays, founder ignominiously. Limitations of these processes, unfortunately, do not exist only on the side of demand, where we call them the narrowness of a given market, but also in the field of supply and production, where the existing labour market is too narrow. We cannot try

¹³ Cf. e.g., W. Hoffmann, *Stadien und Typen der Industrialisierung* (Stages and Types of Industrialisation), Jena, 1931.
¹⁴ Cf. A. O. Hirschman, *The Strategy of Economic Development*, New Haven, 1958.

to argue away this limit to expansion as easily as is frequently attempted by talking of hopes for an expanding production for export. Many developing countries with small populations, in relation to their geographical size, will experience this obstacle barring the way to full industrialisation.¹⁵

Naturally, all these objections do not apply to a form of industrialisation which means mainly large-scale mechanisation and automation of all the existing economic activities, inclusive of farming and cattle-raising, and against diversification of a type which does not simply mean widening the industrial basis of a given national economy but, in relation to production by such countries for the "world market", mainly extending the build-up of processing their specific base products directly to higher manufacturing skills. These were precisely the forms of economic progress adopted by the above-mentioned high-income peripheral countries. But apparently none of the developing countries possessing all the material conditions for this type of development seems to relish the prospect of becoming a new Australia, New Zealand, or Iceland notwithstanding their enormous wealth, because they see in this form of industrialisation one that is operating at half power only.

In spite of this resistance, it will be enormously important to fill that part of the world which is underdeveloped not only with new industrial regions of world importance but also with their structural counterparts that can make sense in combination with highly integrated industries. Which type of economic structure any region that is still underdeveloped today (and therefore a peripheral one) should choose for itself depends to a far from negligible extent on the number of its people and on the density of its own and the neighbouring populations.

Words Carry Power

In the field under review there are in circulation many more frequently-used terms, which run the risk of being misunderstood or not understood at all. One of the most telling examples is the popular use of the term "world trade", which makes little economic

¹⁵ It is a valuable eye-opener to look, with a view to such information, at a map showing distribution and varying densities of the populations of the world; cf. e.g., *The Economist Intelligence Unit, Oxford Economic Atlas of the World*. Oxford University Press, 1965, pp. 12/13.



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sense if we remember that this has to do more with legal formalities (the crossing of national frontiers by goods and services) than with economic fact. Many people have written much about this subject, and most of these writings are useless. No German economist who is used to his country, the Federal Republic of Germany, being admired as the "second-biggest trading nation of the world", ought to be surprised by the developing countries complaining about their small, and declining, share in world trade. One might possibly do the developing countries a favour if total intra-European trade would be defined as domestic trade (as in the case of the domestic trade of the USA and the Soviet Union). In any case the developing countries' share in total world exports would have amounted to 27 per cent instead of 20 per cent. The picture would even improve for the developing countries, if simultaneously trade between the Indian federal states would be declared to be foreign trade and with that world trade.

The list could be continued for a long time, for example by looking at such omnibus terms as integration, cooperation, or international division of labour. It is most remarkable that these terms are of surpassing generality and vagueness. Therefore it is certainly not a pure accident of chance that such terms as we have quoted usually do not hold sway in the seminars of professional economists, but among political economists and economic politicians, such as congregate at the UNCTAD II. Nor is it a pure accident that all these examples are aptly described by a passage from Le Bon's "Psychology of the Masses"¹⁶: "The power carried by words is tied to the pictures they evoke in the minds, but it is completely independent of these words' true meaning. Words whose sense is difficult to explain have frequently the most powerful effect."

¹⁶ Gustave Le Bon, *Psychologie der Massen*, Stuttgart, 1964 (first published in 1895 under the title "Psychologie des Foules") p. 72.

AGRICULTURAL POLICY

Agrarian Reform in Developing Countries

by Dr Mieczysław Falkowski, Warsaw

Marxist economists, unlike their Western colleagues, do not look upon agricultural development as the principal aim of overall economic growth and basis of economic reconstruction. Indeed, the past history of developing countries precludes the possibility of this type of growth. Moreover, their agriculture is often the most backward sector of the whole economy, showing low productivity, and it is difficult to believe that this sector—even if it were capable of real progress—could ever be able to urge on the overall growth rate of a national economy. History furnishes few examples of this kind of growth, except from Denmark and New Zealand.

Changes in the Agricultural Structure

Only modernisation can bring agriculture into the overall growth programme. This means the elimination of obstacles such as the structure of landowning, as well as cultivation methods and techniques, aimed at raising both the level of production and productivity. Obviously agricultural problems are present in different forms in different countries, and vary according to natural environment, the level of development in each country and the opportunities and potential of the country under consideration. However, essentially the general trend of marxist research is to discover the causes of stagnation in this sector and to indicate the means of overcoming them. Its aim is to build up solid reserves of food-stuffs and raw materials, which will facilitate the total of growth process, and, on the social level, do

away with anachronistic survivals, feudal or semi-feudal, which oppress the peasants, thus creating the conditions for a modern agricultural economy.

From the economic point of view, the transformation of the existing agricultural structure has two aims: to improve the position of the peasant, and, at the same time, to facilitate the development of the productive forces in agriculture. Its importance lies in its ability to bring about a change in land ownership, hence structural changes.

Agrarian reform includes, in principle, the abolition of the limitation of large-scale land ownership. It does away with many of the obligations of the peasantry; it cancels their debts, regulates the conditions of leases and of cultivation, and improvements of soil, and restores ownership to smallholders and owners of medium-sized properties. In brief, these are all methods of transforming existing social relations, restricting the development of productive forces in the countryside.

These methods, which were once used in capitalist countries to suppress feudalistic anachronisms have now become part of the arsenal of instruments used by developing countries and are often one of their first acts after becoming independent. Such changes in the ownership of land lead to new economies, and the small holder or medium-sized farmer, freed from debt and assisted by the State by various projects, e.g. for river regulation, irrigation and mechanisation,