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Stimulating Consumption – an Alternative?

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In view of the preponderant role investments play at present in any development policy, it may well be worthwhile examining whether it would not be advisable in drawing up future aid schemes to lay greater emphasis on the stimulation of consumption.

Industrialised countries wishing to help less fortunate countries of the Third World have at their disposal a whole range of political, economic, social and cultural measures with which to achieve their objectives. The particular objectives and possibilities of the donor country and circumstances in the country to be helped determine the "mix" of these measures and their intensity, depending, as a rule, on the multiplicity of the objectives to be achieved.

Dilemma of Present-day Development Policy

In addition to the heterogeneity of the various objectives development policy is intended to achieve, there is the fact that among theoreticians and practitioners opinions differ greatly as to which of the alternative means are best suited to attain the desired ends as regards specified development targets. A few of these means have been recognised as being entirely ineffective, while most of the others have not yet been proved to produce the desired permanent effects. This situation illustrates the real dilemma, which faces present-day development policy: on the one hand, there is general agreement on the need to develop the countries of the Third World; on the other hand, the urgency of the task leads to the hurried application of measures the effects of which have not yet been sufficiently studied, and this in turn means that in the final analysis development theory, insofar as it is based on practical experience, cannot advance as fast as one might wish.

Thus development concepts are still everywhere dominated by political experiences and, to some extent, also by expert opinions. The German Federal Minister for Economic Cooperation, Erhard Eppler, in issuing guidelines for development aid, had this to say on the subject: "Development aid means investment in a common future. This con-

cept seeks to make these investments as effective as possible, bearing in mind the aims and priorities of the LDCs"¹. Although the aim should be to apply a balanced combination of the available means – capital aid, technical assistance in the narrower sense, educational aid, help with the development of social structures as well as the provision of means of production and food² – the emphasis as far as public aid is concerned will continue to be on capital aid³. While the Federal Republic is endeavouring to use this instrument with discretion by giving special consideration to, say, the needs of small-scale businesses or the farming community, the recipient countries frequently prefer financial support for large prestige projects with a view to achieving what has come to be known as an "International Demonstration Effect." Projects undertaken for prestige reasons are frequently unsuitable as a short-term means of raising the living standards of the population at large. The reason for this is that the goods produced in such large factories are not the goods which the workers employed in their production want to buy with their wages (pig iron would be a case in point). In the absence of any direct link between output and wages generated, there is no circular flow of money and goods. An imbalance is created between the goods on offer and goods in demand, and this imbalance may even lead to enforced non-consumption. As to what effect non-consumption has on economic development is however a question on which economists differ in their opinions.

The discussion of this subject has been going on for a very long time, beginning, in fact, with a

¹ Eppler, Erhard: Preface to "Die entwicklungspolitische Konzeption der Bundesrepublik Deutschland und die internationale Strategie für die Zweite Entwicklungsdekade" (The development-political conception of the Federal Republic of Germany and the international strategy for the Second Development Decade), published by the Federal Ministry for Economic Cooperation, Bonn 1971, p. 3.

² Cf. *Ibid.*, p. 19.

³ Cf. *Ibid.*, p. 20.

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dogmatic quarrel between Malthus and Ricardo. Ricardo sustained the view that the accumulation of capital is a necessary and adequate condition for increased output and employment. In his opinion, the accumulation of capital should be brought about by restricting consumption. Malthus, on the other hand, while admitting that a country's prosperity could be raised by saving, argued that the savings required should not be the result of consumer abstention. Rather should they come out of the profits, which the entrepreneurs are able to make as a result of a rise in the demand for consumer goods⁴. Proceeding from these basic concepts and applying them to present-day development policy with its emphasis on capital investments, one may well ask whether stimulation of consumption should not be given a larger place in the strategical concepts of practical development policy, particularly as its short-term aims include certain social obligations such as for instance the elimination of starvation. In which way can measures to stimulate consumption be instrumental in achieving the objectives of development policy?

Consumption as Development Stimulus

It is still an open question whether the desire for a better standard of living is sufficiently strong to make people in the LDCs work harder, physically and mentally, in order to be able to translate their expectations into reality. In the southern, central and eastern parts of tropical Africa it was found for instance that many peasants, once having produced their allotted export quotas of certain crops, left part of their land untilled, considering such procedure to be perfectly normal⁵. This may mean that their needs are static and that higher yields and thus higher revenues simply result in a corresponding decrease of effort. Against this argumentation may be objected that in most of the cases recorded the additional output which the peasants failed to produce did not concern goods which would have been useful in raising their living standards and there just were no goods on offer, on which the potential additional income could have been spent⁶. Persistence in staying on a certain consumption level is an attitude, which people living in LDCs are certainly not incapable of overcoming, its cause lying rather in the "traditional society" and the behaviour patterns connected with it.

⁴ Cf. Smithies, A., "Rising Expectations and Economic Development", in: *The Economic Journal*, vol. LXXI, June 1961, p. 257.

⁵ Cf. Carson, David, "International Marketing, A Comparative Systems Approach", New York 1967, p. 110.

⁶ Cf. Iha, Shri L. K., "Consumption Policy in Developing Countries", in: *Reserve Bank of India Bulletin*, April 1969, pp. 512.

⁷ Cf. Röpke, Jochen, "Primitive Wirtschaft, Kulturwandel und Diffusion von Neuerungen" (Primitive Economy, Cultural Change and the Diffusion of Innovations), Tübingen 1970, p. 167.

On the other hand, it cannot be predicted with certainty whether a consumption-orientated development process would awaken in the indigenous population the desire to reach the same standard of efficiency as obtains in developed countries. The behaviour pattern, which the inhabitants of LDCs follow at present, can serve as no more than a rough guide for an examination of what is cause and what is effect in this complex matter. Any prediction of the probable results of certain structural, cultural or economic developments requires a preliminary causal analysis of all the factors involved⁷.

Malthus established that poverty is cause as well as effect of poverty, whereas prosperity creates desires and desires lead to prosperity. Assuming that certain desires or needs exist in LDCs, if only in latent form, then, according to Malthus, one of the basic conditions for prosperity obtains. But the strength of the motivation to satisfy those needs is also highly important. Proceeding from the analysis of a given situation to a dynamic consideration of the development process, one is faced with the question whether it is possible to strengthen the motivation in the course of the development process by stimulating consumption.

Relevance of Consumption to Development Policy

The wish to consume certain goods may spring from a number of different motives; they vary according to social climate, economic circumstances, the group to which a particular person belongs and the role he plays in that group as well as with the extent of his expectations and the consumption level he has already obtained. All these motives will have to be weighed up one by one. In the conditions of general undernourishment which are typical for most LDCs, the first priority must be the creation of a supply basis, on which a desire for more goods may subsequently grow. Before initiating measures designed to stimulate consumption, it is therefore necessary to introduce preliminary measures, aimed at improving the inhabitants' general state of health sufficiently to enable them to fit themselves into the working process. Only when this is done can further needs be expected to act as incentives⁸.

The awakening of desires for more goods and the direction of these desires into certain channels in accordance with an overall consumption plan present problems which are different in town and country. For, whereas in the country consumption habits are predominantly governed by tradition, the

⁸ Cf. Rogers, M., and Beal, George M., "Technischer Wandel, Industrialisierung und Urbanisation" (Technical Change, Industrialisation and Urbanisation), in: *Soziologie der Entwicklungsländer (Sociology of Developing Countries)*, published by Peter Heintz, Köln-Berlin, 1962, pp. 257.

poor part of the urban population is constantly in direct or indirect touch with modern consumer durables and consumer goods so that they need no additional stimulus to make them want to buy more. Concerning the country population, however, care must be taken not to subject them to too intensive a publicity campaign, to too much ideological pressure, so that a mass exodus from the country into large cities can be prevented.

Given the backward, tradition-bound state of mind of farming populations, it is highly probable that the psychological impact of progressive forces through personal contacts within conventionally minded groups is more effective than any general appeals to "anonymous masses". The progressive forces or "opinion leaders" within the ranks of the peasants may by such personal contacts quite possibly induce the static, conservative elements to change their consumption habits. In view of the pronounced group consciousness shown by rural communities, it is reasonable to expect that other members will likewise change their attitude towards consumption. Such changes should however be introduced by easy stages, taking account of the findings of anthropologists, behaviourists, particularly those supporting the learning theory, and those who have made cultural changes their special field of study⁹.

Aims of Consumption Stimulation

A higher standard of living can only be one of the desirable objectives of a consumption-orientated development policy. For using consumption as exclusive standard of value must inevitably generate in the individual an egotistical attitude. If however all social forces are to have an active share in the development process, such an egotistical attitude is unsuitable to provide a sound basis on which to erect an economic structure which will be stable and last.

The evolutionary processes, which developed countries have undergone, have shown that the dynamism generated by endogenous forces did not primarily spring from a desire to consume more, but rather from ideological movements like nationalism, socialism, the belief in progress, etc. Thus development must be inspired by some higher idea, capable of holding together and thereby strengthening all the forces participating in the development process. The individual and the society at large should therefore regard the raising of the consumption level as an objective secondary to the overriding idea.

Measures to stimulate consumption within the framework of development policy may originate from the LDCs' governments or from individual

businessmen, but they may also be started on the initiative of private or public institutions in the donor countries.

Because of the rapid population growth, the food problem is assuming ever-increasing significance. Essential preconditions for improvements in the present-day feeding standards in LDCs are: agricultural reforms, extension of the agricultural areas under cultivation, application of modern production techniques and the latest findings of agricultural research. In many cases the agricultural output in the LDCs themselves is insufficient to feed the indigenous population. This means that foodstuffs must be imported.

Home Production and Imports

Improvements in the supply of vital goods result in raising general health standards in the LDCs. In consequence, people may be expected to show greater vigour and increased readiness, when properly trained, to make greater mental and physical efforts. These efforts, provided they are suitably rewarded, should lead to increased productivity as existing jobs are being filled and new ones created¹⁰. On the other hand, consumption goods must be available during this phase of development — consumption goods which meet the growing needs of the population.

The increase in productivity will spread to all sectors of the economy, but the consumption goods sector should not be content with improving supplies at home, but should start as early as possible to look for markets abroad. The same applies to the agricultural sector, once essential needs at home have been satisfied. The foreign exchange proceeds from such sales abroad can then be used to pay for imports of capital goods. The consciousness of being able to shape their own future ("self sustained growth") will awake in the broad masses of the population an increased interest in their country's progress, thus inducing an endogenous dynamic force pushing in the direction of yet more development¹¹. This, in turn, may be expected to lead to greater efficiency and a more positive attitude towards work. The possibility of acquiring more material wealth will also strengthen the desire to earn more.

A possible alternative to the production of consumption goods at home would be to import them. However, imports produce important side-effects on the industrialisation process in the LDCs. For instance, imports open up markets into which the country's own producers can later penetrate. Ex-

¹⁰ Cf. Myrdal, Gunnar, "Politisches Manifest über die Armut in der Welt" (Political Manifesto about Poverty in the World), 1st Edition, Frankfurt a/M, 1970, p. 137.

¹¹ This endogenous dynamic is necessary if genuine changes are to be brought about: cf. Myrdal, G., "Political Manifesto . . .", op. cit., p. 137.

⁹ Cf. Røpke, J., op. cit., pp. 88.

amples like that of Mexico show that, as industrialisation proceeds, imports are frequently displaced by home-produced goods.

Increasing Efficiency of Distribution

In considering the stimulation of consumption as an instrument of development policy, one aspect frequently tends to be overlooked in the relevant literature, i.e. the distribution of the goods produced. And yet, this much neglected aspect is often as important for the success of a policy of promoting consumption as the production of goods itself. Researches into the distribution of goods with particular reference to the efficiency of the distributive trade and/or other media of distribution have so far been neglected, not only by the LDCs themselves, but also by foreign planners of development programmes ¹².

One of the reasons for the neglect of the trading factor in the economic policy of LDCs is to be found in its image, traders being widely regarded as mere "parasites". Moreover, in many of the countries trade, and especially wholesale trade, is dominated by ethnic minorities — for instance by Indians in East Africa, by Arabs in West Africa, by Chinese and foreigners from developed countries in Southeast Asia. Measures to help the trading sector would therefore be bound to raise political problems, too. Because of this negative attitude towards trade, LDCs frequently tend to underestimate its contribution to the national economy, although this contribution accounts in some cases for as much as 20 p.c. of the GNP — surely proof enough of its not inconsiderable importance ¹³.

By raising the standards of efficiency of the trade as part of a scheme to stimulate consumption, more is achieved than a mere improvement in the distributive system for existing commodities. Being close to the consumer and given a suitable marketing mentality, the trade is in a much better position than any of the LDCs' bureaucratic institutions to assume the functions of a "change agent" for the domestic economy. In the course of a consumer-orientated policy, a number of people are quite likely to rise from within the ranks of the trading community with the necessary abilities to become industrial entrepreneurs, willing to start small and medium-sized factories of their own. An essential precondition for such a development would be, however, that it is economically and culturally possible to transfer to them the functions, which be commonly group together under the name of marketing.

¹² Cf. Al-Ani, Awni, and Geschka, Horst, "Der Binnenhandel in Entwicklungsländern" (The Domestic Trade in Developing Countries), in: *Wirtschaftsdienst*, 48th year, No. 3/1967.

¹³ Ibid.

Any assessment of the potential importance of marketing for a policy aiming at stimulating consumption in LDCs must proceed from an inquiry into the general environmental conditions under which marketing is to take place. Among the factors are: ¹⁴ the geographical situation, biological and cultural factors, the prevailing ideology as well as the influence of the existing economic, social and governmental conditions.

These conditions frequently turn out to be obstacles in the way of an effective application of marketing methods. Thus changes in, say, motive-value orientation and communication density take a long time to operate. And yet, a marketing is probably one of the most important promoters of international acculturation. It generates the processes and phenomena "which become evident when cultural changes occur through (direct or indirect) contact with a different culture" ¹⁵. By putting peoples whose ways of life differ from each other in direct or indirect touch with each other, marketing helps them to make mutual adjustments. This process is nowadays accelerated by improved communications, tourism and the spread of international business concerns. Another factor working for acculturation is the growing exchange of goods and services on an international scale; this factor is exercising a particularly strong influence on traditional societies.

Marketing distinguishes itself from the system of "traders and merchants" in three essential ways ¹⁶:

- ☐ One of the functions of marketing is to establish what is in demand and to guide that demand into channels which will enable industry to operate at the highest possible level of productivity.
- ☐ Another is to influence production in such a manner as to make it satisfy demand in the best possible way.
- ☐ A third is to make sure that market-orientated entrepreneurial activities are rewarded.

If stimulation of consumption is the idea which may help to conceive a more balanced, more purposive and more effective development policy, marketing is the principle by which this idea can be realised. Various kinds of obstacles may have to be overcome, it is true — obstacles such as infrastructural limitations or difficulties in awakening a "consumption mentality" in the population, but it is at least a beginning which deserves serious discussion as an alternative to the present excessively investment-orientated policy.

¹⁴ Cf. Carson, D., op. cit., pp. 33.

¹⁵ Randolph, Wolfgang, "Kulturkontakt und Akkulturation (Stichwort)" (Cultural Contact and Mutual Cultural Adjustments — (key word), in: *Entwicklungspolitik, Handbuch und Lexikon*, Editors: Hans Besters and Ernst E. Boesch, p. 1326 segg.

¹⁶ Cf. Drucker, Peter F., "Marketing and Economic Development", in: *Journal of Marketing*, vol. XXI, January 1958, p. 252.