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The Machinery of Policy Making in LDCs

by Klaus M. Leisinger, Lörrach

At Nairobi, during this year's annual conference of the International Monetary Fund, the Fund's President, Mr Robert S. McNamara, called upon the LDCs to treat a more equitable distribution of personal incomes as a priority aim. However, the LDCs' machinery for making policy decisions makes it very difficult to pursue such an aim.

It is the case all-too frequently that people define the mere growth of the Gross National Product (GNP) as the sole indicator of "economic" development. However, focussing one's attention on "socio-economic" development, which must include "diminishing disparities between individual income and affluence", as well as "increased social justice, based on a higher standard of living for the masses", the conclusion will become inevitable that most LDCs, during the first "Development Decade", and since the beginning of the second one, have *not* shown any worthwhile development. True, GNPs were rising, but in most LDCs, this growth was accompanied by increasing distortions in the structure of incomes. Thus, President McNamara's observation that all international efforts and all the huge expenses of development aid have hardly touched this discrepancy was fully justified, unless LDCs themselves do much preparatory work on their own territory.

Need for a Strategy "from the Basis"

Such preparatory work for subjecting all development work to socio-economic objectives in favour of the broad masses, whose political leverage, however, is virtually nil, so as to include them in the economic and social policies of the countries concerned, requires a specific strategy, which might be defined as "coming from the basis": Such a strategy must be determined by the needs and requirements of the broad human basis in all LDCs — the poor masses of the population.

Yet the policy-making bodies in LDCs are recruited overwhelmingly from an elite — an elite whose privileged state may arise from their higher education, their wealth, and their traditional power: they have been trained at universities of industrialised countries, they arrange their life

styles according to "western" patterns of consumption¹, and they assess fundamental problems using "western" criteria. And this is the reason why policy-making machinery in LDCs mostly operates along lines, which render the use of a strategy working from the basis immensely difficult, if not impossible. This can be demonstrated through analysing the problem of widespread unemployment.

The Problem of Unemployment

H. Singer, for example, estimates that about 75 p.c. of the full potential labour force is unemployed or underemployed in LDCs². Other sources try to compute the effective labour potential and forecast, in the short and medium term, between 200 and 300 million unemployed persons³. Dynamic population growth inevitably also spells dynamic increases of unemployment. From this follows that the one and only rational strategy is a massive endeavour for making new places of work available.

One major feature of an employment strategy working from the basis must be the choice of technology, which will be used for industrialisation. At a first glance, the decision about what kind of technology to select is concentrated, however, in the hands of individual investors. Closer inspection, nevertheless, proves that political decision-makers in countries where investments are being made may wield a powerful influence, too, in determining choice of technology.

¹ Which means: geared to the kind of behaviour typical for western industrialised nations.

² Cf. Oxfam Special Report, "Unemployment — the Unnatural Disaster". Oxford, without year of publication; p. 2.

³ E.g., Barend A. de Vries, "Unemployment and Poverty — What Remedies are Feasible?"; in IMF (ed.), "Finance and Development", Vol. 9, No. 1, 1972; p. 11; also: Anand G. Chandavarkar, "More Growth — More Employment?"; in: IMF (ed.), "Finance and Development", Vol. 9, No. 2, 1972, p. 29.

By using rules and regulations, licensing systems, and the fiscal instruments of selective taxation, the scope for investors' choices can be severely narrowed.

Need for an Adapted Technology

All this goes to show that it is far from impossible to throw the switches towards an adapted technology through making strict mandatory regulations and through supporting them by fiscal incentives. Many LDCs, on the other hand, unfortunately plump for totally unsuitable technologies. "Grass-roots" and virtually fully-automated manufacturing plants are being given preference, because "development" is not only being mistaken for "economic growth" but also for "modernisation"⁴. Politicians, government officials, and technical consultants from the countries of the Third World will in most cases show preference to the very newest and most sophisticated equipment available at the time of decision, because only what is brand-new appears to them to guarantee progress and development. Any warning counsel to avoid buying such mere symbols, and to acquire seemingly obsolescent gear is arousing suspicion lest the higher-developed nations thereby intend to stabilise the LDCs' thralldom to their inferiority *vis-à-vis* industrialised countries forever⁵.

Unsuitable Technologies – and the Consequences

Choosing such unsuitable technologies, however, has effects which far transcend a minimum absorption of potential labour. Industrialised countries have to invest enormous sums in research and development for making highly sophisticated technologies viable. This is but a natural consequence of the typical factor ratio prevalent in industrialised countries (scarcity of labour but abundance of capital), yet it also presupposes a vast market capable of absorbing mass output, excellent maintenance and repair services, a richly endowed infrastructure, and (for the time being) ample energy supplies.

In LDCs, the typical factor-mix is almost the exact opposite of this: lack of capital, far too many potential workers, a narrow market unable to digest a vast output; maintenance and repair work have to be entrusted to foreign experts, and expenditure on infrastructure and available energy resources might yield a higher development effect in other sectors of the economy (e.g. farming). There are even industrial projects, which actually lead to a net disappearance of jobs,

because small local artisans who, in the past, used to produce the goods now made by machines, become uncompetitive and their livelihood is destroyed.

Demand for new imports, which arises as a side-effect of such investments, often remains higher, over many years, than the effect of import substitution or export promotion hoped-for from the new industries. And this increases – instead, as expected, to reduce – dependence on foreign countries⁶.

Although the adverse effects of unsuitable technologies are so obvious, efforts to introduce labour-intensive, simpler, and more adapted technologies in LDCs have remained the exception with regard to new investments there⁷.

Direct Investments No Help

Political support for unsuitable technologies is the darling of investors: they are obviously preferred because equipment needed for them can be freely bought in any industrial country, whereas suitable technologies would still have to be developed for most sectors of the economy. Two of the crucial sources of LDC industrialisation flow from industrialised countries: direct private investments of European and US interests, and national and international aid through official development aid institutions.

Direct private investment is motivated mainly by considerations of profitability and security – by long-term chances of marketing, opening-up of new marketing outlets, fiscal preferences, securing of raw material supplies, etc.⁸. External effects of such investments in the host countries, in the case under review: the absorption of potential labour, are only of secondary interest – if at all – to the private investor.

When a product programme has once been drawn up, and if technological flexibility might be possible, but would still have to be developed, no private investor would feel a strong incentive to sink uncertain amounts of good money in such a gamble – of building up untried methods and

⁴ Cf. Dudley Seers, "New Approaches Suggested by the Colombia Employment Programme"; in: ILO, "Essays on Employment", Geneva, 1971; p. 194.

⁵ Cf. Walter Galenson, "The Employment Problems of the Less-Development Countries"; in ILO, *Ibid.*, p. 9.

⁶ Even though the behaviour of the US automotive industry in Chile regarding supplies of spare parts for motor trucks may prove to have been a politically-motivated exception from the rule, the risk always remains great that urgently-needed supplies may lead to political pressures hostile to interior reform policies that may jeopardise foreign interests.

⁷ Suitable production techniques might, very probably, also affect the selection of product programmes, since also these are generally completely unfit to meet local needs, because they try to pander to the desires of a small but well-to-do minority.

⁸ Cf., for example, a survey commissioned by the Hamburg Chamber of Commerce, entitled "Deutsche Direktinvestitionen im Ausland" ("German Direct Investments Abroad"), Hamburg, 1969; p. 44 et seq.; also: a study of the Bremen Committee for Economic Research, "Wirtschaftliche Zusammenarbeit mit Entwicklungsländern auf Unternehmensebene" ("Economic Cooperation with LDCs on the Level of Private Enterprise"); Bremen, 1968, p. 76 et seq.; and other similar reports.

using them – instead of available and well-proven technologies available for the asking⁹.

Industrialisation through development aid also rarely introduces adapted technologies into LDCs, because the experts, who were appointed to act as consultants on behalf of national or international bodies, draw their practical experiences only from industries operating in developed countries, and their theoretical schooling has come from studies based on conditions prevailing in industrial surroundings.

There is thus an almost perfect identity of interests between investors and political decision makers in LDCs, whose adverse effects are felt only by those who have no vote in policy-making: the broad, pauperous masses¹⁰.

Mr McNamara has now called upon LDCs to do the "groundwork" for tackling the structural changes needed, so that international institutions may give more effective support to the start of development processes. And this means: *Present Machinery for Making Policy Decisions in LDCs must be transformed.*

The urgency of this becomes eminently conspicuous when we find that it will be essential to dismantle the twofold structure of income distribution: The various elites in whose hands policy-making is concentrated nowadays are far more interested in cementing their personal gains and their inherited privileges than in shouldering national responsibilities. They profiteer from a kind of internal colonialism, which – for the multitudes of the poor – has the same effect as historical, "external" colonialism of the past, which delegates of LDCs never tire to condemn with great eloquence at international meetings.

Which are the fundamental points of departure for rebuilding existing policy-making machinery in order to enable it to conceive a strategy orientated towards the basis? Such points of departure may be found both within LDCs and in industrial countries. There are, naturally, chances for direct changes that may be enforced in LDCs themselves, either by democratic reform or by revolution. Whether structural changes can be

initiated by democratic decisions can only be found through careful studies of specific national characteristics. In the short and medium term, there are, however, grounds for doubting the possibility for such a trend: Since the vast majority of the population whose votes alone could establish a viable democracy lives under the restrictions of underdevelopment, which engender fatalism and bar them from education, this body is neither capable of, nor willing to, making political decisions. On the other hand, those who know how to formulate political demands derive mainly from the groups that profit from today's socio-economic structure, which means that they are not interested in overthrowing it. The concentration of power in the hands of these elites is so strong that even after a process of political change of the social structure has already begun in favour of more equitable distribution of incomes, it can never be taken for granted that such a process of structural change will be allowed to run its full course. Recent events in Chile have shown that the resistance of the privileged groups may assume forms which cannot be fought by punctilious observation of the rules of democracy.

Interference by Foreign Interests

Conditions grow even more difficult if and when foreign interests draw profit from the political conditions obtaining before the process of change of political structures began. Such power groups are then highly committed to preservation of things as they are. Their commitment may take the form of trade restrictions, e.g. through refusing supplies of strategically important goods whose export or import determines the well-being of the LDC's population, but it also may take the extreme form of direct and powerful intervention in order to put the brake on a process of change that has started.

Yet not even revolution can give the take-off signal to changes in political structure because, flowing from the distribution of forces alluded to above, revolution often means only an exchange in the personnel of the ruling elites, neglecting the needed fundamental changes including the basis. In other words: the points of departure for remodelling the policy-making machinery can be found in industrialised countries only. There, we discern mainly two factors which can actively influence socio-economic reality in LDCs. In the first instance, they are concentrated in the agencies, authorities, etc., which have been charged with distributing development aid. They will have to make it a condition for their aid that it will be used to dismantle gradually the twofold income structures. This is equivalent to cutting the politi-

⁹ To be fair, there are exceptions, e.g. Philips in its "pilot plant" at Utrecht, which exists to adapt available technologies to the conditions prevalent in LDCs; and efforts of some British companies which cooperate with F. E. Schumacher's "Intermediate Technology Development Group" in London; but such praiseworthy efforts are rare.

¹⁰ This identity of interests also governs many other spheres, including investments for useless forms of training and much too academic learning at universities, which have been founded for the sake of national prestige only, nuclear research institutes, et al., misguided spending on infrastructure, like national airways corporations (operating almost empty planes), sports arenas, congress centres (at Santiago, Nairobi, etc.) and, last but not least, on high military expenditure. All the monies squandered in this way might have had high development effects if they had been spent near the basis, for example in running nationwide elementary schooling, campaigns for family planning, investing more capital in farmers' cooperatives, etc.

cal links with receiving governments and channelling aid into help for the needs and requirements of the pauper masses.

As to selection of technology to be applied, this means:

- ☐ Support for research and development work to hammer out suitable technologies in our universities and technical universities;
- ☐ Fiscal incentives (in the industrial countries) for industrial research into suitable technologies, and cutting-off of financial aid for all investments which do not use these technologies;
- ☐ Promotion of international exchange of experiences and liberal interpretation of patent protection in this field.

Promotion of Elementary Schooling

For the purposes of a general strategy, the salient factors which facilitate structural changes in the policy-making machinery of any LDC are educational efforts and investments in farmers' cooperatives. Massive support for elementary schooling is suitable for tearing the masses out of their secular slumber of unconsciousness, at the same time improving their employability. This is the most favourable link in the vicious circle of their perennial poverty, which can be broken when they awake from their lethargic illiteracy. The higher the level of their basic education rises, the better will be the incomes they can earn in employment. Higher educational status will also enable them to become politically more conscious, and this will increase their pressure leading to gradual changes of society.

Investments in farmers' cooperatives promote progress in rural areas, where poverty is worst. Though investments in cooperatives open up new sources of income, they will not make the differentials between income levels steeper, because they scatter new incomes widely and thus preclude growth of income distortions. Public sector development aid can easily be channelled into suitable paths, because its investment is not primarily tied to profitability considerations, to which commercial aid is subject: they are able to include in their calculations social expenses and social gains.

The second major factor which might influence deeply the socio-economic structure of LDCs are the activities of multinational corporations, which are domiciled in industrial countries. It is mainly their investment activity which largely determines the kind of economic development taking place in LDCs. However, the growth induced by their investments mainly profits again those minorities

whose wealth is proverbial already today, whilst the vast majority of people in LDCs remain poor and suffer from structural inflation, which makes basic foodstuffs more expensive and imposes more work on the workers for making ends meet. Moreover, the work that they need is not being created by industrial investments.

Investment for Training Facilities

Investments and other activities in LDCs therefore must be based on the specific socio-economic facts, and the initiative must be taken by the industrial countries. Industrial investors should always be forced to earmark part of their planned investments for educational and training facilities — facilities which transmit functional and practical training "on the job" — so as to create a basic body of skilled operators for industry. In the same way as in industrial countries, there should also be education which is not strictly tied to a job, so that the general level of education is made to rise.

Corporations which invest in LDCs might be given an incentive for such efforts because they themselves will, in the end, profit from the rise in purchasing power: more purchasing power would be generated by more jobs in production plants using labour-intensive techniques under suitable production programmes. The policy-making machinery of industry must be furnished with information and analyses, which prove the need for reshaping their investment policies, showing them the advantages that may arise to them from such a change.

Political Effects

Subjecting development policies of the public sector and the investment policies of the international corporations to a strategy starting at the basis, for their investments in LDCs, would, in the long run, also influence the policy-making machinery in the LDCs, which must not be underrated in its capacity for bringing about change.

Changes and the renewal of social structures, which will be gradually set up by such influences, will give rise to new changes and renewals of social structures in cumulative snowball fashion. Improving the standards of living both socially and economically will also result in pressures on the machinery of policy-making, which would make it impossible continually to neglect the interests of the mass basis, which increasingly will become aware of these interests. But the initial push leading to a start of such cumulative development has to originate in the industrialised countries.