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nought by rivalries, prestige considerations and uneconomic growth competition. Moreover, the postulate of a complementary division of labour in the industrial development of the developing countries makes demands on their planning potential which are probably far beyond the capacity of most of them. No country likes to commit itself to certain industries and run the risk of finding out in ten years' time that it has backed the wrong horse. In the interest of their own autonomy peripheral as well as industrialized countries will normally try to promote complementary developments on their own territory if these are at all justified by their capacity.

Capabilities of the Political Leadership

In our analysis we are constantly coming up against an essential premise of the policy of self-reliance: the will and ability of a country's political

leadership to define such a policy, to determine a network of priorities and sequences for the steps which must be taken. This is in principle a competence problem concerning the national government: it must have the will to act in the interest, not of a small ruling élite, but of the population at large; it must be willing to set standards by its own actions, e.g. by effective income distribution methods to alleviate incomes disparities in its own country and provide the masses with more purchasing power; it must be sufficiently independent also from foreign interests. This is likely to be very difficult, for small countries in particular. The government must finally have enough scope for action at home to enforce this policy, which can grip hard, against powerful interests in its own country. The central problem of a policy of collective self-reliance is the question whether and to what extent the developing countries are able to comply with these high demands.

Collective Self-Reliance as Development Strategy

by Peter T. Bauer, London *

In recent years collective self-reliance (CSR) has come to be much canvassed as instrument of Third World development strategy. The advocates of CSR envisaged it primarily as concerted action by Third World governments to restrict the supposedly damaging economic contacts between less developed countries (LDCs) and the West. At first hearing CSR seems attractive. The widespread attitude in LDCs that resources for economic improvement of oneself or one's family must come from somebody else, such as the state or one's superiors, is damaging to economic performance. CSR appears to go counter to this. It may also appear as a declaration of independence of external subsidies. But these attractive implications vanish on examination.

CSR is envisaged as a major instrument of the New International Economic Order (NIEO). But the NIEO proposals demand massive inter-governmental wealth transfers from the West to Third World governments. These transfers are advocated sometimes as restitution for past

wrongs; sometimes as a means for reducing international income differences; and sometimes as indispensable instruments for the economic development of the Third World. Such transfers do not accord with accepted meanings of self-reliance. The inconsistency suggests the need for a harder look at CSR.

No Meaningful Collectivity

The term CSR suggests a collectivity or community of persons and groups with similar characteristics, background or objectives. But the components of the less developed world, that is most of Asia, Africa and Latin America, do not form a community or even a collectivity in a meaningful sense. In economic and cultural achievement the peoples of the less developed world range from many millions of aborigines, pygmies and desert people to Chinese millionaires in South East Asia and rich Mexican and Brazilian industrialists, and from Stone Age people, as in Papua-New Guinea to representatives of ancient civilisations in Asia and the Middle East. They differ greatly even in levels of income and rates of progress.

* The London School of Economics and Political Science.

Some LDCs have progressed relatively little in recent decades, as for instance Burma. Others have progressed extremely rapidly, far faster than say the United States and Britain, for instance South Korea, Taiwan, Singapore, Malaysia, the Ivory Coast, Kenya and much of Latin America.

Nor is the less developed world a friendly community of nations. Even individual LDCs often consist of mutually antagonistic or even hostile ethnic, religious and tribal groups, as for instance Malaysia, Indonesia, Burma, Sri Lanka, Iraq, Lebanon, Burundi, Ethiopia, Kenya, Uganda, Zaire and Zambia to name only the most obvious examples. The discrimination against the Chinese in Malaysia and their maltreatment in Indonesia; the enforced exodus of Indians from Burma and Sri Lanka; the massacre and civil wars in Nigeria, Burundi, Pakistan, Ethiopia, Iraq and elsewhere; the killings in Zanzibar, Ethiopia and Zaire; the expulsion of Asians from Uganda and elsewhere in East and Central Africa; the fighting in the Lebanon — these are among the examples which expose the sham of a uniform or friendly Third World.

Paradoxical Views

CSR could be expected to mean living within one's means without external subsidies. This is not how it is interpreted by its supporters. The primary thrust of its advocacy is that market contacts with the West damage the economic interests of LDCs, or even largely account for their poverty and must therefore be restricted or even eliminated. These oft-expressed ideas are epitomised for instance in some passages in an article by Professor Fawsy Mansour of Ein Shams University, Cairo and the United Nations African Institute for Economic Development and Planning. He writes: "Under present conditions the IEO works mainly to the advantage of highly developed, and peripheral countries." And: "The strategy of self-reliant auto-centred development does imply a definite degree of keeping one's distance from the world economy, of 'delinking' from it, or if forced to do so, of opting out of it." This is needed "to close some of the channels through which surpluses, a great deal of which are usually unearned are syphoned off from Third World countries to metropolitan centres."¹

The policy proposals, when they can be identified behind a vague terminology, envisage restriction of economic contacts with the West, together with close state controls over those that remain, designed to protect LDCs from the vagaries of world markets and the operation of Western interests.

¹ Fawsy Mansour, *Economic Co-operation Among Third World Countries — Guidelines for a Charter*, in: *International Development Review*, 1970/2.

All this is paradoxical. External market contacts expand people's choices and opportunities, provide outlets for their products and serve as sources of supply for the satisfaction of their wants. They also serve as channels for human and material resources, skills and capital. And when the contacts are with more advanced societies, they serve as vehicles of new ideas, methods, crops and wants. They have often first suggested the idea of change and economic development to the local population, and have often brought about uncoerced erosion of attitudes and mores damaging to economic achievement.

Practically throughout the Third World the most prosperous societies and regions are those with the most numerous, diversified and extensive commercial contacts, as for instance the cash-crop producing areas and entrepôt ports of South East Asia, West Africa and Latin America, and the mineral producing areas of the Middle East and the Caribbean. Conversely, the poorest and most backward are those areas and societies with fewest external contacts, the aborigines being the limiting case. Over most of the Third World the level of economic achievement decreases as we move away from the impact of Western economic contact. The extreme material poverty of groups with few or no contacts with the West is especially significant. How can the poverty of say the aborigines or the pygmies or the desert peoples of the Sahara, or for that matter of countries such as Tibet, Sikkim or similar regions be attributable to Western private enterprise with which they have no contacts at all, or practically none.

Opportunities through External Commercial Contacts

These relationships are not surprising. The connection between peaceful commercial contacts and economic advance and the spread of economic development from more to less prosperous areas are commonplaces of economic history. Over the last 100 years or so, including the present, commercial contacts between the West and the Third World have offered much greater opportunities than in the more distant past, because these contacts now offer access to scientific and technical advances developed elsewhere, as well as to huge markets for exports and to extensive and diverse sources of imports. Third World governments have often adopted unsuitable technologies; and they have also prevented their people from benefiting from external opportunities by severe restrictions on commercial contacts, restrictions which would be intensified under CSR. But such policies do not affect the possibilities offered by commercial contacts with the West.

External commercial contacts have transformed people's lives in many Third World countries since the 1880s. For instance Malaysia was then a sparsely populated area of hamlets. By the 1930s it had become a country with populous cities, thriving commerce and an excellent system of roads, primarily as a result of the emergence of the rubber industry, brought there and developed by the British. Again, in the 1880s there was no cocoa in what is now Ghana and Nigeria, and no exports of groundnuts and cotton. These are now staple products of world commerce, all produced by Africans. But their establishment or extension was made possible by European activities. As a result of the rise of these commodities, large areas, which in the 19th century were still disease ridden regions in the grip of slavery and slave trading, have come to enjoy substantial peaceful commerce. In fact many political, social and economic problems of large areas of the Third World in the 20th century have not been those of stagnation, but those of the impact of rapid and uneven change, initiated by Western contacts. This is conspicuously so in South East Asia, West Africa, and parts of East Africa.

Exploitation by the West?

These simple and yet basic considerations about the effects of commercial contacts are often obscured by a spray of spurious argument. The primary argument is that the prosperity of the West and the poverty of the LDCs are evidence that the West has exploited the LDCs. This is a persistent theme of Third World politicians and their Western allies. It reflects the misconception that the prosperity of relatively well off people must be achieved at the expense of the relatively poor, that is that incomes are not earned or produced, but are somehow extracted from others. In fact incomes, other than subsidies, are normally earned. They are not secured by depriving others of what they had. This is obviously so in the present context. In what way can the prosperity of say North America, Switzerland, Sweden or Japan be said to have been achieved at the expense say of Tanzania, Ethiopia, Nepal or Tibet? It was obviously created by the people of the prosperous countries, not taken from these materially backward societies.

Most arguments about the allegedly damaging nature of external contacts are variants of the idea that incomes are somehow extracted rather than earned. Third World spokesmen and supporters take it for granted that foreign businesses and properous minority groups have generally exploited the local populations. In fact they have promoted economic advance and extended people's opportunities.

Another prominent allegation is that the powerful Western economies inflicted unfavourable and persistently deteriorating terms of trade on LDCs so that international trade damages them. However, the basic causes of Third World poverty have nothing to do with allegedly unfavourable terms of trade, as is obvious from the backwardness of the poorest Third World countries with few or no external contacts, and from the prosperity of those heavily dependent on foreign trade such as Hong Kong, Singapore and Malaysia. Even if the terms of trade of LDCs were unfavourable on some criterion or other, this would not mean that external economic relations damage them, but only that they do not benefit as much as they would have done if the terms of trade had been more favourable. Restriction of these contacts deprives people of choices and opportunities.

The prime determinants of economic achievement and progress are personal, social and political factors, notably people's attributes and attitudes; their motivations, mores and institutions; and their political arrangements. Natural resources and external market opportunities also play a part, but their utilisation depends on the personal, social and political factors just noted.

The terms of trade do to some extent affect the development and economic welfare of societies with appreciable actual or potential external trade. But what matters then is the amount of imports which can be bought with a specified amount of domestic resources. And except over very short periods this cannot be inferred simply from the ratio of import and export prices. In technical language, the concept relevant to economic welfare and development is not that of the crude commodity terms of trade, but the factorial and income terms of trade, which take into account changes in the cost of production of exports, the range and quality of imports and the volume of trade. Moreover, reference to unfavourable terms of trade is meaningless except in relation to a base period. As it happens by historical standards even the crude commodity terms of trade of Third World countries have been exceptionally favourable in recent years and decades. When we allow for changes in the cost of production of exports, the great improvement in the range and quality of imports, and the vast increase in the volume of trade, the external purchasing power of the Third World has in recent years been exceedingly favourable, almost certainly much more so than ever before.

The indebtedness of Third World governments is often cited in support of CSR as evidence both of exploitation by the West, and also as a major obstacle to Third World development because of

the cost of servicing the loans. But this indebtedness reflects resources supplied to the Third World. Moreover, much of it is a result of soft loans, even very soft loans, provided under aid agreements, soft loans often supplemented by outright grants. The worldwide inflation including the rise in Third World exports, has greatly reduced the cost even of these very soft loans. The difficulty of servicing these loans reflects wasteful use of resources, not external exploitation.

The fluctuations in the world market prices of primary products are often used to support policies to restrict commercial contacts. These price fluctuations are supposedly irrational, and are said to damage LDCs, especially by adding to the difficulties of planning and budgeting. But if price fluctuations were really so damaging, Third World governments could cushion their impact by fiscal and monetary policies to accumulate resources in prosperity and to draw on them in adversity, and also to cushion the impact of the fluctuations on the private sector. However the complaints about price fluctuations are usually no more than demands for higher prices, or spurious justifications for imposing state trading monopolies, especially export and import monopolies for taxing the rural population.

Disregard of Private Choice and Consumption

It is often argued that Western economic contacts encourage wasteful consumer habits in LDCs. This particular allegation exposes a major implication of CSR. According to this allegation Western consumer goods obstruct material progress by encouraging spending and discouraging saving. This suggestion disregards the level of consumption and the range of choice as criteria of development. It also ignores the role of external contacts and of imported consumer goods in promoting development by inducing improved economic performance such as more work, saving and investment and production for sale required to pay for the imported consumer goods, as was formerly recognised in the concept of incentive goods. Indeed commercial imports of both capital goods and consumer goods have transformed life in many LDCs. The distinction between the two categories is arbitrary because consumer goods often serve as incentive goods. Moreover, in LDCs many imports conventionally classed as consumer goods are akin to productive capital goods in their effects on economic progress, both because they serve as incentive goods, and because they increase the effectiveness of effort, maintain the health of people and of domestic animals or prevent the deterioration of crops and perishable goods — witness textiles, hardware (containers, bicycles, torches, sewing machines, tools) and insecticides and pesticides.

The role of imports in improving living standards and promoting development is familiar in European economic history and has been conspicuous in the relatively recent experience of Asia and Africa. It is because these goods satisfy people's wants expressed through the market that they are so often considered objectionable by many exponents of CSR, who regard economic activity as frivolous, unproductive and un conducive to development, if it is not undertaken by government or closely controlled by its agents. The role of external contacts and the resulting activities and products in expanding people's opportunities and transforming their lives is ignored because private choice and levels of consumption are disregarded in these discussions.

Disregard of general living standards is at times acknowledged in the literature of what has come to be misleadingly termed planning for development. For instance, Professor Myrdal wrote explicitly in *Development and Under-Development* (Cairo 1956) that central planning implies the utmost austerity for the masses. In other writings this disregard of mass living standards is clearly implicit without being stated so frankly.

Further Extension of State Controls

The objection to commercial imports, especially of consumer goods, explains a major strand in the advocacy of CSR, namely the replacement of what is left of the market system in LDCs by further extension of state economic controls in order to promote a system in which economic activity outside subsistence production is controlled by the government and its agents. Economic decisions are to be politicised and collectivised. Herein lies the basis of the objection to foreign commercial contacts which imply a measure of independence from the government.

CSR envisages extensive government direction and control of economic activity, with little or no regard to consumer choice and general living standards. Far reaching restriction of external commercial contacts is a standard policy prescription, often accompanied by proposals for state trading cooperations or monopolies such as those already operating in many LDCs. For instance, in much of Africa and South Asia the bulk of external trade is in the hands of state monopolies among which those over agricultural exports are especially significant. These provide governments with direct control over the livelihood of producers who must market their products through these monopolies, and are therefore at the mercy of the rulers.

CSR envisages replacement of imports by local production and promotion of trade within the

Third World. The activities to be encouraged normally involve higher costs than those they replace, as otherwise it would not be necessary to impose controls to promote them. This simple point is often overlooked, because output of an activity is considered as a net addition to production, income and welfare, without looking at the cost of the resources used, especially the cost of domestic resources. Such inward looking policies damage living standards by reducing access to markets and sources of supply, including consumer goods and simple forms of equipment. They also obstruct the spread of new methods of production, new activities and new ideas. Replacement of these contacts by close relations between LDCs is no substitute for contacts with the West. Cooperation among the poor, paupers or bankrupts does not create a prosperous society. The restrictions on external contacts tighten the grip of the rulers over their subjects, which is welcome to the former, but does not help the latter.

Neglect of Population Interests

The CSR proposals expand and reinforce familiar policies and practices of Third World governments. Disregard of the interests of the population, especially of the rural population, has been conspicuous in the development strategy of many or most Asian and African countries since the Second World War. The disregard is reflected in the extremely heavy taxation of the producers of cash crops by the many Asian and African state export monopolies which have severed the contact between farmers and world markets long before CSR was invented; and in the actions of many Third World governments in destroying the trading system on which the rural population depended for supplies and markets. The same attitude is reflected in Professor Myrdal's suggestion that economic planning means extreme austerity for the masses. The disregard of general living standards is evident again in the promotion of activities unrelated to people's wants and requirements.

This last point is well illustrated by the priorities of the Indian Second Five Year Plan. This was launched in 1956 and it has been widely acclaimed both in the West and the Third World where it was often regarded as a model for development strategy. Here are its priorities:

"The expansion of the iron and steel industry has obviously the highest priority since, more than any other industrial products, the levels of production in these materials determine the tempo of progress of the economy as a whole.

... Heavy engineering industries are a natural corollary of iron and steel works. The high priority

accorded to them arises both on this account and from the fact that they will provide from within the country a wide range of industrial machinery and capital equipment, such as locomotives for railways and power plants for the generation of electricity. In the absence of facilities for their manufacture, a developing economy has to depend on foreign sources of supply with attendant difficulties and uncertainties. To facilitate the production of a wide range of items going into the manufacture of plants intended to turn out a product like steel, diverse types of fabricating facilities have to be created in a large number of establishments. In other words, heavy engineering industries and workshops in the country have to be generally strengthened for undertaking such tasks as the construction of steel plants, fertilizer factories, etc. In this context the creation of basic facilities such as the establishment of heavy foundries, forges and structural shops is absolutely necessary. It is, therefore, proposed that the establishment of these facilities, which constitute an essential and primary phase of development for the manufacture of heavy industrial machinery in the country, should be undertaken at an early date. These developments have a priority second only to that of expansion of the steel industry."²

Provocation of Political Tensions

Close state economic controls have certain familiar results such as inefficient allocation of resources. Less familiar but possibly more important are the adverse repercussions of controls on the movement of people between places and jobs (geographic and occupational mobility). For reasons already suggested restrictions on external commercial contacts are especially damaging in LDCs.

CSR is the opposite of personal self reliance. The extension of state controls subordinates individuals to politicians, civil servants and their allies which reinforces the authoritarian tradition in the Third World.

CSR implies extensive politicisation of social and economic life. This provokes political and social tensions. When government closely controls people's economic lives and activities it becomes supremely important, even a matter of life and death, who has the government. In such a situation the energies and activities of able and enterprising people are diverted from economic activity to politics and state administration, sometimes from choice because this diversion is profitable, but quite often from necessity, because economic or often physical survival comes to depend on political developments and administrative de-

² Government of India, Second Five Year Plan, Delhi 1956, p. 394.

cisions. Such a situation immensely increases the stakes in the fight for political power and thus the intensity of the struggle for it. This in turn exacerbates political tensions, especially but not only, in multi racial or ethnic societies. This is often behind the literally murderous intensity of political struggle in many Third World countries. Groups which have lived together peaceably for generations or centuries have come to be set against each other. Recent events in the Lebanon are only the latest example of a long series of such developments — witness Indonesia, Malaysia, Nigeria, Pakistan, Uganda and Zaire. The politicisation implicit in CSR would make the situations even worse.

The poorest are especially likely to be harmed by CSR and the politicisation of life. Political power in Third World countries is in the hands of groups far removed from the poor, especially the rural poor. The rulers are professional politicians, army officers, civil servants, all with heavy urban bias. Their rule is likely to bear heavily on politically weak and unpopular groups, including the rural poor.

Western Responses Decisive

Suggestion of collaboration by groups of Third World countries to extract resources from the West, whether as straight cash aid or through monopolistic raising of commodity prices is another thrust of CSR. The feasibility of such policies depends on Western responses.

It is often said that unless Third World demands to the West are met the Third World will go over to the Soviet bloc. This is an empty threat. There is no united or uniform Third World. It is only the United Nations and its agencies which lend a pretence of spurious uniformity to the Third World. Moreover, the military or economic resources of most Third World countries are modest or even negligible, and it is only Western self-abasement, often fuelled by misguided guilt feeling, which endows LDCs or the Third World with a semblance of power.

Nor could poor countries mulct the West by means of commodity cartels. Such cartels usually require Western connivance or support because they depend on effective control of supply, including that of close substitutes. OPEC may be an exception. But even in this case it has been argued with some force that both the organisation and effectiveness of OPEC owe much to Western support. Of course commodity cartels do not help the population at large in most LDCs, and often damage their interests. For instance, they penalise potential producers who have to be excluded to restrict supply. These frustrated pro-

ducers are usually poorer, often much poorer, than are the beneficiaries. Moreover, exporters of primary products are not generally poor, let alone invariably so. They are usually relatively prosperous groups.

Large scale resource transfers to the Third World again benefit primarily governments and their allies. But even if the inflow percolated more widely, this would not promote sustained development, as this depends on domestic, personal, social and political factors and not on external donations, whether alms, or a blackmail money. External donations are demonstrably not necessary for development; if capital were the missing factor in development, this would be generated locally or secured from abroad on commercial terms, either by government or by business. This is evident both from the past history of now developed countries, and from the more recent history of many LDCs which progressed rapidly before foreign aid was heard of.

It is not certain whether on balance official aid promotes or retards development. It does represent an inflow of subsidised resources. But unlike manna from heaven, it sets up adverse repercussions which can easily off-set or more than off-set any beneficial effect of the inflow as such. For example, foreign aid promotes politicisation of life the adverse or even disastrous effects of which I have already noted. Official aid also encourages wasteful prestige projects and adoption of external prototypes in development strategy unsuitable to the needs of the country; it encourages restrictions on the inflow and deployment of private capital, as well as policies leading to balance of payments difficulties, as these serve as effective ground for appeals for aid. The significance of these repercussions is suggested for instance by the difficulties of foreign aid recipients to service even very soft loans granted under previous aid agreements.

CSR as currently envisaged must greatly damage both current and prospective living standards in poor countries. Its acceptance will not depend on the considerations outlined here, but on the play of political forces in the West. The West needs to be emphasised, both because of the paucity of the resources of LDCs, and also because the most influential expressions of anti-Western sentiment in LDCs in fact are derived from the West, and often also supported and financed with the help of the West. Much of the hostility to the market system and to the West which emanates from the less developed world in fact originates in the West. This is so in the advocacy of CSR. Its acceptance and interpretation will be shaped largely by Western forces and influences.