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Home Market Development and Self-Finance as Basic Elements of Development Policy

by Siegfried G. Schoppe, Hamburg*

At the close of the Second Development Decade, 1971-1980, the Third World was able to record significant achievements in industrialization and external trade. But the army of jobless has swollen further; the urban slums have grown larger; and famine has claimed more, not fewer victims. The current development trends make it imperative to keep the masses on the land and to prevent a grave situation growing even worse. Jobs have to be created in the countryside; those who till the land must ensure supplies for themselves and the population at large. This article shows how these objectives can be approached.

Under present conditions the Third World cannot hope even to safeguard subsistence level supplies without mobilizing its own potential and, taking off from this basis, letting large sections of the population participate in a self-sustained process of growth. In order to mobilize the dormant supply and demand potentialities of the backward regions, the Third World must – by an integrated thrust from the top and from the base – provide institutional prerequisites for higher allocatory efficiency of the goods-money-labour market and the agricultural land market.

In backward areas goods do not change hands in anonymous markets, nor are they made in conformity with the economics of mass production, and this implies that a division of labour and a money economy exist only to a very limited degree, that if goods are exchanged at all then only in kind, and that traditionally tight compact social groups engage in production and storage for their own needs. Land and labour are the crucial production factors; capital exists only in narrow limits and is formed directly. It is of course true that the conditions of land tenure which have evolved in many developing countries necessitate agricultural production over and above the producers' own requirements and the surrender of surpluses to the landlord. As the landlord is unable to consume himself what is handed over to him in kind, he gets in contact with the urban market and in this way obtains money; at the same time he procures in these markets goods to pass on to the families of the producers dependent upon him so that these may be able to increase their

production and surrender larger product quantities. The populace at large has thus little if any contact with organized goods markets.

Underdeveloped Money and Labour Markets

It is thus clear that the rural population is cut off from the money market, for what it hands over it hands over in kind and the few goods reaching it from urban markets are obtained by the landlord or trader in kind. Interest in kind and at an exorbitant rate is charged for deferred deliveries by the producers and goods supplied to them in advance ("Landlord-Trader-Moneylender"). The consequences for the evolution of a money market may be indicated briefly.

Hankel insists that Wicksell's mechanism for the permanent conversion of credits into investments followed by funding through organized money-saving cannot come into operation in developing countries¹: "What is much worse: it is not even possible to absorb the real capital potential which exists in even the most underdeveloped countries, namely the stores of goods lying around unbeknown. It may seem a paradox but as far as credit policy is concerned most developing countries are today still living below – and not above – their means. As in the Middle Ages credit and interest in kind is still the rule, with truly devastating effects on interest conditions and functions This

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¹ Wilhelm Hankel: Kapitalbildung in Entwicklungsländern – Probleme und Scheinprobleme (Capital formation in developing countries – Real and apparent problems), in: Hermann Priebe (ed.): Eigenfinanzierung der Entwicklung, Schriften des Vereins für Socialpolitik, Gesellschaft für Wirtschafts- und Sozialwissenschaften, New sequence, Vol. 84, Berlin 1975, pp. 9-28, cf. in particular p. 18 f.

interest in kind, which is far higher than Wicksell's natural rate, is devoid of almost all the economic characteristics of a correct rate of interest. It is a purely consumptive rate without any selective functions for the investment process. It provides the moneylender with an unearned income and keeps the peasant in a state of permanent debt and interest servitude from which he knows only one route of escape – flight to the urban freedom of the slums. This is one of the fundamental reasons for the agglomeration of large estates which, incidentally, is quite a novel phenomenon in many developing countries.”

If drawn by a normal “dualistic landlord”, the extracted ground rent would be used for economically productive capital formation, but this is mostly not the case; conspicuous consumption, unproductive but prestigious luxury investments (e. g. ostentatious buildings), speculative business deals and investments in foreign countries are usually given preference, and this hinders the accumulation of productive capital in the countryside as well as in industry.

The rural populace at large is hemmed in by monopoly rings² and has never been able to accumulate any significant capital resources of its own or to attract outside investment capital.

As the productivity of the factor labour cannot be increased without an adequate amount of accumulated human and real capital and improved work organization, it is clear from what has been said that such a development has not yet started in the rural areas and that there is no possibility of a viable labour market being established; for the country-dwellers who have initiative and special skills are most likely to flee from rural dependence to the towns, and those who stay behind are probably acting rationally, seeing how uncertain conditions are with ground rents in kind, when they do not produce any larger surpluses although their family needs have been reduced by migration to the urban areas.

The obstacles to the evolution of markets for goods, money and labour are neatly summed up in the “Landlord-Employer-Trader-Moneylender” formula.

Mobilizing the Factor “Land”

These interdependences and ramifications at the subsistence level could be eliminated with lasting effects (as could the market defects in the monetarized zone which shall not be elucidated here in detail) if there existed the resolution to mobilize the factor “land” by appropriate measures, thereby first of all

establishing a land market. The following basic assumptions may be made with respect to the situation in the Third World:

□ There exists a certain indigenous potential for capital accumulation in the rural population at large – in the form of money accumulation as well as in the form of potentialities for non-monetary capital formation.

□ Land reforms of all kinds mostly fail because of resistance from those affected and limitations of the existing state administrations as well as the lack of flanking measures. Successful land reforms – as in Taiwan – must be viewed as exceptional and attainable only in particular conjunctures of internal and external political circumstances.

□ Corresponding to the importance of the land as a value-creating factor, the ground rent occupies a truly decisive position in regard to agricultural and economic value creation in the Third World. This fact is generally masked only by the well-known defects of computing the national product on the basis of money flows.

□ Tax systems and tax administrations appear to be very inefficient because they are not geared to the problems specific to the developing countries. They are often vestiges of a colonial administration; in other cases the tax philosophy rests on standards which predominate only in money economies with their division of labour and are inconsistent with Third World conditions of tax assessment and collection. There is in particular a constant transfer of resources towards the modern sector which operates to the detriment of the traditional area.

□ An external orientation of economic development is normally out of the question, except in special cases such as small countries with raw material deposits and favourable port facilities, e. g. Kuwait.

Logical Route of Rural Development

Given these assumptions, the logical route of broad rural development may be plotted as follows:

□ The ground rent of agriculture has to be the financial starting point for autonomous development.

□ Organizational preparations have to be made to siphon off a major portion of the ground rent for a sufficiently long time, to guard this portion of the

² Cf. Ismail Duyumaz: Die Dualismusproblematik in Entwicklungsländern. Der entwicklungspolitische Beitrag des Staates zu ihrer Überwindung (Dualism problems in developing countries. The contribution of official development policy to overcoming them), Forschungsberichte, Studien über Entwicklungsländer, Vol. 2, University of Münster, Münster 1978, pp. 134 ff.

ground rent against inroads by the modern sector and to raise the productivity of the land at the same time in order to secure higher ground rents.

□ Part of the siphoned-off ground rents has to be set aside for the accumulation of a widely-dispersed starting-up capital for production, stock-keeping and market exploration in the agricultural sector (capacity effect).

□ Another part of the siphoned-off ground rents has to be used for income creation purposes in such a way that it stimulates the manpower reserves of the rural area and thus the productivity of labour (income effect). This creates additional non-monetary as well as monetary accumulation potentialities for the mass of the rural populace (capacity extension effect).

□ Wider income dispersal leads to higher purchasing power and thus to the evolvment of viable internal markets as the infrastructural prerequisites for production and marketing are created at the same time.

Development Fund Financing

An appropriate procedure could be organized as follows. (The figures, added here by way of illustration, vary of course from country to country. The following remarks apply mainly to Latin American conditions and not to those in Africa.)

The total agriculturally usable area of a country is mortgaged at 50 % of its market value at a fixed date. A newly established Development Fund is registered as the mortgagee. The registered land charge bears 3 % interest and is redeemed at 1 % per annum. At fixed annuity rates it will thus be redeemed in about 50 years. Payment will be made in quarterly instalments of about 1 % of the registered charge.

What amounts are involved may be illustrated by an example: If a piece of land has a market value of 100,000 units of money (MU), the mortgage will be MU 50,000 and the quarterly payment to the central development fund about MU 500.

What are the hoped-for effects of the establishment of such a fund? Large property-owners, e. g. the owners of large landed properties in Latin America, would be forced to raise the productivity of their lands and to cut down on spending that is of no benefit to the development of the country (investments abroad, conspicuous consumption, speculative investments inside the country) in order to cover the mortgage payments; at the very least they would have to play a partial role of "dualistic landlord". Lands which lay idle

or were not used to the best advantage would now be cultivated more intensively – partly by employment of more workers because labour-intensive adjustments could probably be introduced most quickly. Besides this desirable effect on employment land would be mobilized as intended, because a part of the areas not efficiently utilized would with certainty be let or sold for monetary compensation, and this, too, would probably have an employment effect on previously landless peasants. Most important of all, groups of persons who had not been able to acquire land could now enter the land market as buyers, because the 50 % mortgage halves the purchase price which has to be paid down; for the buyer it is an advantageous source of outside capital, and there may be another desirable effect: land mobilization may lead to lower market prices and make land available and affordable at a stroke for wide sections of the population. The increasing supply of leasehold land would bring down land rents; however, as soon as the rent charge drops below the annuity payment, more leasehold land would certainly be put up for sale on the market.

Stabilizing Effects

In such a situation there might be a chance for legislation on land tenancy barring rents in kind and favouring long leasehold contracts with money rentals, because both the lessor and the lessee would become more and more interested in such contracts as the process of monetarization advances. Taking one thing with another, it may be assumed that the abuses of land tenancy, including sharecropping in particular, and the resulting dependent relationship would be overcome for good if conditions in the credit markets were settled at the same time. Of this more later.

Smallholders, such as the Latin American farmers on "minifundia", would have a chance of adding to their landholdings, which are now too small, by purchase or lease to bring them to a viable size, because land would be on offer again. To give marginal operators a survival chance, at least in the long term, smallholdings below a certain size could be exempted from mandatory mortgaging. The unencumbered land of smallholdings would in that case be of relatively more value than other used lands – a result which may be wholly desirable. The development fund concept would certainly not trigger off any forced sales of smallholdings with undesirable mobilization effects on the factor "labour", that is to say, there would be no loss of jobs and livelihoods. Developing countries are often short of sound medium-sized farms. The enlargement of minifundia and reduction in size of

latifundia might well encourage efficient farm unit sizes and help to bring a stabilizing rural middle class into being.

In contrast to the distributions of lands under land reforms, it would be possible for farm unit sizes to become continually adapted to changing economic conditions. Moreover, the efficiency of high-performing large estates would not be impaired.

Developing a Credit Market

So far, we have been considering the revenue side of the central fund and its implications for the land market; let us complete the picture by looking at the expenditure side.

Development of the money and credit markets is the principal strategic aim of the expenditure policy. It must therefore be of such a nature that

- ☐ the funds raised by the rural population flow back into the rural areas and are not used to subsidize the modern sector,
- ☐ as wide sections of the population as possible are induced to take part in the money circulation process,
- ☐ financial incentives prompt economic behaviour conducive to rural development.

The fund should provide long-term loans to the smaller agricultural units for

- ☐ purchase of land and tangible assets for expandable units,
- ☐ purchase of live and dead stock by leaseholders,
- ☐ amelioration work, e. g. irrigation and drainage,
- ☐ rearrangement of the debts of persons in a dependent status through tenancies and borrowings serviced in kind – bearing in mind that, at least in the initial stage, it will prove impossible to discriminate between producer and consumer credits.

At the same time credits with convenient maturity dates would have to be extended to smaller agricultural units for

- ☐ purchase of fertilizers,
- ☐ purchase of seeds,
- ☐ purchase of breeding animals,
- ☐ erection of farm buildings and dwellings,
- ☐ infrastructural measures, e. g. road construction, electrification.

In order to achieve the greatest possible effect on

employment, moneys should not be advanced for mechanization. Farmers who want to mechanize could and should be advised to seek their own sources of finance.

The interest rates charged for credits should correspond to the customary terms for agricultural credits; interest rate subsidization should, if possible, be avoided to preclude credit misuse and to encourage business-like behaviour. Borrowers should not get the impression that loans from the fund are donations from the state; on the contrary, it has to be made clear that the fund facilities serve only one purpose: to organize a rural credit system and to open the credit market to circles which had previously no access to it. This will certainly not be sufficient to inure every borrower to the need for regular servicing of the debts, which however will be indispensable to make the credit market viable over the long term. From the point of view of development policy, defaults on debts could be viewed in a positive light in the sense that they give a fillip to demand in the goods markets. This effect, however, will be produced only once, in the initial stage.

An adequate Development Fund and a suitable credit system will guarantee a wide and lasting effect on rural development.

Organizing the Development Fund

Next to the raising of the funds (in connection with the mobilization of the land market) and the allocation of the funds (for the establishment of a rural money and credit market) it is of course the organization of the Development Fund in particular which is of the greatest importance (for the development of the goods and labour market).

A new organization, it has been pointed out, will have to be set up because the task is beyond the existing administrative structures which are usually too corrupt and inefficient. A state-controlled agency could undertake it but could probably not resist the temptation of diverting the funds to the modern sector. A cooperative organization, to be evolved from the top and the base at the same time, might be suitable, for cooperative organizations usually already exist in a rudimentary form and their basic methods are known. The central fund could be set up as a central credit cooperative or as a cooperative mortgage bank – under the supervision of auditors and trustees appointed by the state.

A cooperative training centre for credit and goods transactions would have to be affiliated from the outset to such a central cooperative, and personnel

would have to be brought in from abroad to help with its establishment.

Primary cooperatives could be started and operated on the local level in the following manner: Central credit cooperative loans to rural producers would be conditional on their joining cooperative societies. These credit and trading cooperatives would be entrusted with the quasi-official function of collecting the quarterly contributions to the fund on behalf of the central cooperative. Residents of rural areas would in this way be introduced to the money circulation system through the cooperatives' credit business, the discharge of payments through the cooperatives and also through their debit business, including for instance the acceptance of small savings deposits. This would put an end to the common hoarding of money.

In addition, the local cooperative societies would have the task of developing the channels for purchases and sales as far as in their power and in accordance with the local conditions and of trying to link up with regional centres.

The cooperatives could be helped by credits from the fund to promote the required market infrastructure including storage and collective transports to the nearest town, port or industrial zone. Cooperative impulses would in this way benefit the goods markets and the local employment situation.

When there is a dearth of work, the cooperatives would have the duty to promote infrastructure projects providing employment such as road work and waterways. The money needed for wages would have to come from the central fund; it would strengthen the purchasing power of the population.

Whole electricity grids can be laid by drawing on local labour and haulage; in Germany, for instance, part of the local electricity network was created by electrification cooperatives.

Some foreign personnel could be recruited for the local management of the cooperative to start with but should be replaced as soon as possible by native staff who have passed through the training centre.

Regional credit and purchase and sales cooperatives should be interposed between the centre and the local cooperatives; they would set up advice bureaux to assist the local societies with their manifold tasks.

Acting in a quasi-official capacity, the regional cooperatives could carry out infrastructural and other tasks in their respective areas with funds allotted to

them from the centre, and engage in other duties specific to their regions. To illustrate this point: The power stations needed for the electrification would have to be provided decentrally on a regional level; the decentral small hydroelectric stations in China may be studied as an example.

Advantages of the Ground Rent Fund Model

The Ground Rent Fund model as conceived here offers a number of macroeconomic-strategic advantages which too little attention has been paid to in most of the development planning carried out until now:

□ Particular value is attached to the long-term aspects of the development process, as return flows to the fund will continue for well over five decades. Appreciable development gains will, however, show up after a relatively short time.

□ The necessary horizontal effect is produced by letting the entire rural population participate in the money circulation as well as by creating job opportunities and purchasing power. Self-supply methods can be practised simultaneously in the meantime.

□ Siphoning off a ground rent (if only on a partial scale and for a limited time) will relatively quickly produce enough capital for the development process to generate a sufficiently strong initial development thrust to overcome obstacles to development (dependence on monopoly rings and chains) for a long time to come and to ensure decentral growth along a broad rural front.

□ The Ground Rent Fund model is probably greatly superior to land redistribution schemes (with or without compensation) in regard to political practicability, because the influential large landowners will certainly anticipate a further fast depreciation of money values. It is all the more important that these expectations should be disappointed during the programme implementation – perhaps through a simultaneous currency reform. A great advantage over statutory land redistribution schemes is the element of surprise inherent in the imposition of a debt “over night”; in land reforms – which tend to be complicated and protracted – the landowners usually manage to organize their opposition. In larger developing countries one could think of launching pilot projects in regions where they meet the least opposition. Here they could demonstrate that development is to everybody's benefit and thereby create the political preconditions for similar action in other parts of the countries.

□ The establishment of a special cooperative development organization improves the efficiency of the requisite practical measures and makes them less vulnerable to corruption.

If agriculture is enabled to perform its important function³ in the development process, the industrial sector and the national economy as a whole will also pursue what is in the long run the best development policy. Such a development policy embraces the integration and enlargement of the internal markets. It

³ Cf. Erik Boettcher: Die Funktion der Landwirtschaft in der entfalteten Konsumgesellschaft (The function of agriculture in the developed consumer society), in: Hohenheimer Hochschultag 1961, Reden und Abhandlungen der Landwirtschaftlichen Hochschule Hohenheim, No. 12, Stuttgart 1961, pp. 77 ff; Herman Priebe: Ziele und Aufgaben der landwirtschaftlichen Entwicklungshilfe (Aims and tasks of agricultural development aid), in: Agrarpolitik im Spannungsfeld der internationalen Entwicklungspolitik, Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e. V., Vol. 11, Munich-Berne-Vienna 1974, pp. 251-262, see p. 253 f; Ismail D u y m a z , op. cit., pp. 27 ff.

is reasonable to make greater use of foreign aid on the basis of such an integrated strategy of fundamental development and mobilization of the country's own potential in the development process. With such a basic strategy, it ought to be easier to open up external development aid sources and prevent the aggravation of dependence.

The industrialized countries would have to focus on a much more personnel-intensive development policy in order to help the presented model to achieve an organizational break-through.

Simultaneous organization of the credit and goods markets (on the sides of output and input) for the small rural producers by cooperatives which possess a sound financial foundation and the proper personnel resources would guarantee increased productivity and steady progress of the production units of their members.

DEVELOPMENT STRATEGY

Poverty – A Structural Problem of Developing Countries

by Gabriele Wülker, Bonn*

The contrast between industrialized and developing countries is often seen as one between two opposites: Rich countries – poor countries. But the poverty in the developing countries is by no means identical with the need for help as perceived in the industrialized societies. Poverty in the Third World is, as the following article shows, a structural problem.

The "social question" of the developing countries differs fundamentally from the one with which the industrialized countries are faced today. Late in the twentieth century social need is not met in the industrialized countries as a mass phenomenon but only as a predicament of individual human beings unable to help themselves. The social security system of the state combats poverty with the aid of social insurance and social assistance, possibly supported by the individual himself, for instance through private insurance.

In the Third World poverty is, in contrast, a mass phenomenon. It is often subdivided between absolute

and relative poverty. In the latter sense it relates the poverty to the society as a whole, mapping out – one might say – its social dimension. The absolute poverty is due to the incapacity of the persons concerned to mutate their resources, to make better use of them or to apply exogenous resources to their own purposes. Relative poverty affects only a limited section of the population; absolute poverty is dominant.

Poverty is often put on a par with marginality, the term which in sociology indicates association with a peripheral group of society. It derives from relative isolation within the given social system. In the developing countries the term marginality applies to population groups which neither participate actively in the development process – in the sense of exercising influence on its course – nor are affected by it

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