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A Performance Analysis of the Third World

by Axel J. Halbach, Munich*

The dispute between the proponents of the market-economy road to development for the countries of the Third World and the advocates of the socialist road is an old one. Too often have the arguments been based on ideology rather than on facts. The recent publication by the World Bank of comprehensive and comparable data for almost all the countries of the Third World makes it possible to compare the achievements of these two alternative roads on the basis of empirical evidence.

In the discussion on the best way for the Third World to overcome poverty and underdevelopment two schools of thought have for many years been engaged in fierce dispute. The incompatible alternatives facing one another are those of a predominantly market-economy strategy (Behrendt, Myint, Bauer, etc.) and of a largely state socialist development strategy (Nurkse, Myrdal, etc.), the latter supplemented by the concept of autocratic development (Senghaas). While the champions of market-economy principles cite a number of countries as examples supporting their thesis, the development theorists of the opposing view frequently provide no direct empirical evidence, describing the examples produced by the other side as unrepresentative, short-term exceptions and attempting to compensate for their own lack of empirical examples by predominantly ideological arguments.

Since we are dealing here with long-term considerations and since, naturally, conditions vary from one country to another, it will never be possible to settle this dispute entirely. However, following the publication of comprehensive and comparable data and indicators for nearly all the countries of the Third World in the *World Development Report* of the World Bank we now seem to have at least the possibility of examining empirically and statistically the issue as to the better development strategy for the period covered by the report¹. The criterion for the validity of any such statistical comparison is of course the choice of the countries assigned to the two groups of countries; these would have to have pursued as uniform a policy as possible during the period under examination; distortions due to disruptive events (e.g. civil war) or

atypical situations (e.g. the oil countries' wealth of foreign exchange) would have to be avoided; and comparable data, finally, would have to be available in sufficient quantity. Some of the countries to be included in the socialist group are particularly poorly documented in this respect so that the number of comparable countries is correspondingly reduced. In the final result one was left with a selection of 27 countries to be regarded as market-economy countries and 12 to be regarded as socialist; these were regionally distributed among the various continents as follows:

	Africa	Asia	Latin America	Europe
Market-economy	9	8	9	1
Socialist	6	5	—	1

These countries² served the group comparison of market-economy and socialist countries, while in conclusion a further 8 examples were chosen from the group of countries with a change of policy, which rendered possible a performance comparison of two periods with different economic policies in one and the same country.

Until now categorisations of this kind have scarcely ever been made in the literature. One exception is

¹ The subsequent analysis is based on the "Indicators of World Development" contained in the World Development Report 1980 of the World Bank, covering chiefly the period 1960-1978, but in part as far as 1980.

² The group averages are based on individual data from the following countries: Market-economy developing countries: Argentina, Bolivia, Brazil, Cameroon, Colombia, Dominican Republic, Greece, Hong Kong, India, Ivory Coast, Kenya, Korea, Malawi, Malaysia, Mexico, Morocco, Nicaragua, Nigeria, Paraguay, Philippines, Senegal, Sierra Leone, Singapore, Taiwan, Thailand, Togo, Venezuela. Socialist developing countries: Algeria, Burma, Congo PR, Guinea, Iraq, Mali, Sri Lanka, Syria, Tanzania, Yemen PR, Yugoslavia, Zambia.

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Bohnet³ who, though he formed slightly different groups, nevertheless closely approaches our own assignment of countries, which may be taken as a confirmation of the categorisation of countries performed here. The subsequent statistical analysis of the two groups of countries compares general economic indicators, indicators on international economic integration and social indicators.

General Economic Indicators

A number of important indicators are available for the assessment of national economic development. Besides the growth rate of the gross domestic product (GDP), use was also made of the rate of inflation in order to establish whether increased growth might also have been associated with a faster deterioration of the value of money with its frequently negative social consequences. Comparison of sectoral growth rates served for structural aspects: the development of agriculture as the basis for the nutrition of the native population, industry as an indication of successful modernisation, and, finally, services. A further performance indicator is the investment ratio, showing as it does the amount of consumption which had to be foregone in order to achieve overall economic growth.

Other statistical indicators for the increase in prosperity achieved by economic growth are, finally, per capita income and its average annual growth rate.

Table 1 juxtaposes the average values achieved by the two groups of countries on the general economic indicators. The first point to emerge is that the market-economy developing countries (MEDC) with an average of 6 % achieved an appreciably higher rate of economic growth than the socialist group of countries (SDC) with their 4.6 %⁴. This higher growth rate, which was not – except for Brazil and Argentina – accompanied by excessive inflation (both groups of countries achieved identical values with an inflation rate of 7.3 % p.a.) was, moreover, achieved with a slightly lower average investment ratio (20.5 % compared with 22.7 %), which means that the macro-economic profitability of the sums invested was higher in the market-economy developing countries than in the state-economy ones.

The further indicators show clearly that the greater economic growth of the market-economy developing countries is due mainly to the greater dynamism of their manufacturing industry and services. In the agricultural sector there is no difference between the two groups of countries with a growth rate of 3.2 % p.a. in both cases. In the industrial sector in the wider sense (including mining, construction, energy and water supply) a similar growth rate (7.4 % p.a.) and a similar proportion of GDP in 1978 (30 % and 32 %) are recorded. The picture, however, looks different if one considers manufacturing industry alone; here the MEDCs with 7.9 % register a substantially more vigorous expansion than the SDCs with 5.8 %; the figures also support the conclusion that in the socialist group of countries the primary sectors of agriculture and mining still possess a greater weight than in the MEDCs. This structure, however, is subject to certain changes which suggest some approximation between the two groups in the manufacturing industry. While over the past few years the importance of the raw materials sector within GDP increased in the MEDCs, the proportion occupied by manufacturing industry increased in the SDCs (doubling of the proportion in the period from 1960 to 1978, while in the market-economy countries of the Third World it rose by only 40 %).

Since the industrial sector in the wider sense, as well as the agricultural sector, revealed only slight

Table 1
Comparison of General Economic Indicators

Indicators	Market-economy developing countries	Socialist developing countries
Average annual growth rate 1960-1978		
Total GDP	6.0 %	4.6 %
Agriculture (1970-78) ^a	3.5 % (3.2 %)	3.2 % (3.2 %)
Industry (1970-78) ^a	8.4 % (7.4 %)	7.1 % (7.4 %)
Manufactures (1970-78) ^a	8.5 % (7.9 %)	6.0 % (5.8 %)
Services (1970-78) ^a	6.5 %	4.2 %
Average rate of inflation (1960-78)	7.3 % ^b	7.3 %
Changes in percentage of GDP 1978 : 1960^c		
Industry	1.35 ^d	1.32
Average percentage of GDP 1978	30 %	32 %
Manufactures	1.41	1.98
Average percentage of GDP 1978	19 %	14 %
Services	1.03	1.07
Average percentage of GDP 1978	47 %	41 %
Average investment ratio 1960-78	20.5 %	22.7 %
Average per capita income 1978 in US dollars	1,110	730
Average growth of per capita income 1960-78	3.5 %	2.3 %

^aMore representative because relating to a greater number of countries;

^bdisregarding the two extreme cases of Argentina and Brazil;

^cthe more the value exceeds 1 the more the GDP share has increased;

^dexcluding the oil countries Nigeria and Venezuela in order to make the figures comparable.

³ Cf. Michael Bohnet: Kapitalbildung und Wirtschaftsordnung (Capital Formation and the Economic Order), in: Eigenfinanzierung und Entwicklung, Schriften des Vereins für Socialpolitik, New Series, Vol. 84, 1975, p. 121 f.

⁴ Overall economic growth rates are available also for North Korea, Albania, Cuba and Mongolia. These four countries together achieved a very similar average value with 4.7 % p. a.

differences, if any, the difference in the overall rate of economic growth between the two groups of countries must show up above all in the tertiary or services sector. This, as Table 1 shows, is in fact the case; during the period from 1970 to 1978 the MEDCs here achieved a clear growth rate lead with 6.5 % as against 4.2 % p.a., a lead which is very probably due chiefly to the much greater international economic integration of this group of countries.

Comparative data on income distribution will be discussed below. If for the present purpose we take the average magnitude and the average growth of per capita income as rather crude indicators of the economic situation of the population, the following picture emerges: in 1978 the average per capita income in the MEDCs, with US \$ 1,110, was conspicuously above that of the SDCs with US \$ 730, even though among the latter group Yugoslavia in particular ensured a massive raising of this average. This present state is due not only to higher starting levels but also to an, on the average, faster growth of per capita income in the market-economy group of countries (3.5 % compared with 2.3 % p. a.).

International Economic Integration

For the assessment of international economic integration a total of 7 indicators has been used (cf. Table 2). The percentage of GDP represented by exports and imports reflects the degree of direct integration with the world economy; the average growth of exports and imports characterises the dynamics of this integration. A rough analysis of exports according to raw materials and fuel on the one hand and manufactured goods on the other is designed to reveal the extent to which the volume and growth of exports are due solely to the exploitation of deposits of raw materials or to – rather more difficult to achieve – success in the export of manufactured goods. Finally, the indicator “debt service as a percentage of exports” reflects the extent to which development efforts so far have been financed by indigenous or by foreign resources (loans).

As might have been expected, the market-economy countries show a substantially more dynamic development of foreign trade by comparison with the socialist developing countries. The foreign trade growth rate (exports 6.4 % as against 2.7 % p. a., imports 7.1 % as against 3.2 % p. a.) as well as foreign trade as a percentage of GDP in 1978 (exports 34 % as against

Table 2
Comparison of Indicators of International Economic Integration

Indicators	Market-economy developing countries	Socialist developing countries
Change in percentage of GDP		
Exports	1.36 ^a	0.92
Imports	1.42 ^a	1.15
Average growth rate 1960-1978		
Exports	6.4%	2.7 %
Imports	7.1%	3.2 %
Percentage of GDP 1978		
Exports	34 %	23 %
Imports	40 %	31 %
Changes in percentage of total exports 1960-1977		
Raw materials and fuel	0.83	0.95
Manufactures	4.18	1.53
Percentage of total exports 1977		
Raw materials and fuel	74 %	88 % ^b
Manufactures	26 %	12 % ^c
Changes in debt service as a percentage of exports 1970-78		
	1.98 ^d	2.22
Debt service as a percentage of exports 1978		
	14%	11%

^aDisregarding the extreme values for Korea which would have raised this average to 2.08; ^bwithout the extreme value for Yugoslavia this proportion would increase to 93%; ^cwithout the extreme value for Yugoslavia this proportion would decrease to 7%; ^dwithout the extreme value for Bolivia this figure drops to 1.88.

23 %, imports 40 % as against 31 %) are clearly higher for the MEDCs than for the Third World countries with a state-oriented economy. Imports showed a greater increase in both groups of countries than exports, i. e. the balance of trade is negative on average for all countries; however, in the socialist developing countries imports rose more rapidly in relation to exports than they did in the market-economy countries, so that the deterioration in their foreign trade position, which has occurred in both groups of countries, is more marked in the socialist-oriented Third World countries than it is in the market-economy developing countries with their greater integration in the international economy. In consequence the debt service rose more rapidly in relation to exports in the former group (in the period 1970-1978 by 122 % in the SDCs as against 98 % for the MEDCs), although the absolute magnitude of the debt service as a percentage of exports was higher in 1978 in the MEDCs, at 14 %, than it was in the SDCs at 11 %⁵.

Analysis of the pattern of exports and its development reveals that the market-economy developing countries were able to diversify their exports on a substantially greater scale; their exports of industrial manufactures reached a greater percentage of their total exports than is the case for the socialist-oriented countries. If one

⁵ The table does not show the extent of the external debt in relation to GDP of each country; this amounted in 1978 to 38 % for the socialist developing countries as against only 23 % for the market-economy developing countries.

considers the change in the percentage of exports represented by raw materials and fuels (including foodstuffs) since 1960 one finds in the MEDCs a decline of 17 % to 83 % (1960 = 100) up to 1977, while the SDCs with a decline to 95 % reflect a considerably smaller change of pattern. The picture is similar for a comparison of the percentage occupied by raw materials and fuels in the final year 1977. This was very much greater for the SDCs with 88 % than for the MEDCs with 74 %. If in the former group of countries one disregards the extreme value for Yugoslavia, the proportion of that commodity group for the socialist countries increases to as much as 93 %. Hence the exports of the SDCs are characterised by traditional raw material exports to a conspicuously higher degree than are those of the MEDCs.

The pattern of exports of manufactures⁶ inevitably shows a trend in the opposite direction. In this area the market-economy developing countries were able to quadruple the share of exports since 1960, whereas the socialist developing countries only achieved a 50 % increase. Whereas in the market-economy developing countries industrial manufactures in 1977 achieved an average of 26 % of exports, the figure for the socialist group of countries was only 12 % or, if Yugoslavia is disregarded, a mere 7 %.

Social Indicators

A total of 13 criteria has been used for assessing social development in the market-economy and the socialist group of countries. The indicators chosen for the state of food supplies were the development of foodstuff production per head of population and the average daily calorie supply per head. Four indicators were used for medical care of the population: the trend of life expectancy and of infant mortality, as well as the number of inhabitants per doctor and per health service employee. The educational field was covered by the development of rates of entrance into primary schooling and into secondary schooling, as well as the literacy of the adult population. Regional aspects were taken into account by the degree and increment of urbanisation, while personal income distribution was the only possible yardstick of distribution. The appropriate values for the two groups of countries are set out in Table 3. An analysis of the figures leads to the following conclusions:

⁶ In calculating the rates of increase for industrial exports those countries whose corresponding exports in the initial year of 1960 amounted to only slightly more than zero and which therefore register abnormally high percentage increases were disregarded since such extreme values would have altered the average in a rather unrepresentative manner.

Table 3
Comparison of Social Indicators

Indicators	Market-economy developing countries	Socialist developing countries
Development of per capita foodstuff production 1978 : 1971 ^a	104	97
Daily per capita supply of calories 1977	2,446	2,283
Increase in life expectancy 1960-1978, in years	7.9	8.1
Average life expectancy 1978, in years	58.3	52.8
Decline in infant mortality 1960-1978	0.52	0.58
Average infant mortality 1978 (per 1,000)	13.1	19.5
Decline in number of inhabitants		
per doctor 1960-1977	0.70	0.63
per nurse 1960-1977	0.46	0.44
Average number of inhabitants		
per doctor 1977	7,597	8,540
per nurse 1977	2,046	2,372
Increase in rate of school entrance		
primary schools 1960-1977	1.34	2.32
secondary schools 1960-1977	3.50 ^b	3.56 ^b
Average school entrance rate		
primary school 1977	94 %	89 %
secondary school 1977	36 %	34 %
Increase in adult literacy rate 1960-1975	1.51	2.72
literacy 1975	60 %	51 %
average growth of urban population 1960-1980	4.5%	4.9%
urban population in % of total population 1980	42% ^c	37%
proportion of urban inhabitants of biggest city	37 %	38 %
personal income distribution (c. 1968-1973)	12.5 : 32.4 : 55.1 ^d	14.9 : 33.4 : 51.7

^aDisregarding, among the MEDCs, Hong Kong (negative extreme value) and, among the SDCs, Syria (positive extreme value); ^bdisregarding the extreme values for Togo (MEDCs) and Congo PR (SDCs); ^cdisregarding the city states of Hong Kong and Singapore; ^dproportions of income of bottom 40%, middle 40% and top 20%.

During the period under review, from 1971 to 1978, the market-economy developing countries were able to increase their per capita foodstuff production slightly to 104 (1969/71 = 100), while in the socialist developing countries it declined to 97 during the same period; it therefore deteriorated not only relatively but also in absolute terms. This result might also have been derived from the general economic analysis which showed, for the market-economy developing countries, an increase in agricultural production slightly above the population growth rate whereas for the socialist developing countries it showed a figure slightly below it.

A striking feature in this comparison is the fact that, independently of the group of countries in question, the African states with very few exceptions belong to those countries where per capita foodstuff production has, in

some cases drastically, declined, whereas the positive results in both groups of countries refer to the countries in Latin America, Asia and Europe.

The average calorie supply per head per day is likewise slightly higher in the market-economy developing countries; at 2,446 calories it is a good 7 % above the figure of 2,283 calories for the socialist developing countries.

The superior result in the domestic production of foodstuffs is thus directly reflected in the population's food supplies. The decline in domestic production observed in the socialist developing countries was evidently only partially offset by higher foodstuff imports.

Another important social indicator is the population's supply of medical facilities, expressed in the present case by the number of inhabitants per doctor or per health service employee. Progress in medical provision is therefore statistically expressed in a diminution of the number of inhabitants per doctor or nurse. Generally speaking, comparison of the two groups of countries revealed only insignificant differences in this field. In the market-economy developing countries the number of inhabitants per doctor decreased over the period under review (1960 to 1977) by 30 %; in the socialist developing countries it decreased by 37 %. However, the number of inhabitants per doctor in the final year of 1977 was still approximately 1,000 or 12 % higher in the latter group of countries than it was in the market-economy developing countries, testifying to a not insignificantly lower level of provision of medical care. Admittedly the initial situation in the base year of 1960 was also more unfavourable in the socialist developing countries than it was in the market-economy countries.

In terms of nursing staff, on the other hand, there are scarcely any differences to be observed between the two groups of countries. In both cases the number of inhabitants per health service employee had been reduced since 1960 by about 55 %; even so the average number of inhabitants per nurse was still a good 300 higher in the socialist developing countries than in the market-economy group of countries.

What effect have these only slightly divergent changes had on what is probably the most comprehensive yardstick of basic needs satisfaction – life expectancy and infant mortality?

The increase in the average life expectancy by 7.9 years in the market-economy developing countries and 8.1 years in the socialist developing countries over the period from 1960 to 1978 reveals no significant difference. The slightly higher figure for the socialist

developing countries may stem from the fact that in those countries the average life expectancy at birth was 52.8 years in 1978, which means that in spite of a slightly higher growth rate it was still markedly lower than in the market-economy group of countries, where it was 58.3 years. It is obvious that, if only for biological reasons, the rate of increment must be the less the higher the starting level was in the base year; even with a further improvement in the quality of medical care and social welfare only minimal improvements in life expectancy are possible above a certain limit. This situation applied in a greater measure in the market-economy developing countries than in the socialist developing countries; on balance, therefore, one may assume a practically identical development in both groups of countries.

Average child mortality (per 1,000 children between 1 and 4) decreased considerably in all countries during the period under review (1960 to 1978). Assuming the base year 1960 = 100, it declined by 48 % in the MEDCs and by 42 % in the SDCs; this slightly more favourable development in the market-economy developing countries corresponds to a very marked difference in actual child mortality in 1978, when it was still 19.5 per 1,000 in the socialist developing countries, or 50 % higher than in the market-economy countries with 13 per 1,000. This is not only due to the fact that child mortality in the SDCs declined more slowly over the past years than in the MEDCs but above all to the considerably higher initial level of 31 per 1,000 in 1960, compared with 22 per 1,000 in the market-economy developing countries. This means that in the base year of 1960 the average living conditions in what is today the socialist group of countries must have been substantially worse than in what today are the market-economy developing countries.

Education

The development of school entrance rates and the decline of adult illiteracy serve as indicators for the level of education. An initial comparison of the rate of increase of school entrance rates during the period from 1960 to 1977 reveals a clearly higher figure for the socialist developing countries in primary schooling, while secondary schooling shows a growth rate largely identical to that of the market-economy developing countries⁷. Whereas the market-economy developing countries were only able to increase primary school attendance during the period under review by a total of 34 % (related to the number of children in the appropriate age group), the socialist developing

⁷ In computing the average, one particularly crass extreme case was left out of account in each of the two groups (MEDCs and SDCs).

countries succeeded in more than doubling their rate with a figure of 132 %. It should, however, be borne in mind, when these figures are contemplated, that the MEDCs, in spite of their relatively smaller improvement, still had an effective school entrance rate of 94 % in 1977, which was 5 % higher than that of the SDCs with 89 %⁸. Given their lower initial figures (1960 = 49 % as against 74 %) the SDCs were bound, given equal absolute increases in the number of pupils, to achieve substantially higher growth rates.

By contrast, both groups of countries showed a broadly similar development in secondary schooling. They succeeded in more than tripling the school entrance rates of the base year of 1960, with the SDCs enjoying a minimal lead. With regard to the average school entrance rates for 1977 the two groups of countries are likewise virtually abreast with 36 and 34 % respectively.

In the achievement of adult literacy the socialist developing countries have indisputably been more successful. While they succeeded, during the period under review from 1960 to 1975, in increasing the proportion of adults able to read and write by an average of 170 %, the market-economy group of countries achieved an increase of only just over 50 %. It should, however, be remembered, that here, too, the starting level in the socialist developing countries was substantially lower, and that this was bound to have a positive effect on the magnitude of the growth rate. A base figure of 48 % for the market-economy group of countries was matched in the socialist developing countries by a figure of only 31 %. In the final year of 1975 these two literacy rates were improved to an average of 60 % and 51 % respectively; the socialist developing countries thus succeeded, by means of their more rapid increase, in halving their lag.

Generally speaking the data for education testify to a somewhat better performance by the socialist compared with the market-economy group of countries. On the other hand, the socialist developing countries started from a lower initial level with regard to many social indicators, and this favoured the achievement of higher growth rates.

The calculation of average values on personal income distribution had to be based on data from 18 market-economy and 6 socialist countries only. The figures, moreover, refer only to the final year of the survey period; no information was available on changes

in income distribution over a certain period of time. It was found that for the bottom 40 % of income recipients the socialist developing countries come out better by 2.4 percentage points – in the sense of a more equitable distribution; for the middle 40 % this lead is reduced to 1 percentage point, while for the top 20 % income concentration is 3.4 % lower. Taken all in all these differences are not very striking, especially as in both groups of countries the bottom 40 % of the population attain only a fraction of the income that would correspond to their proportion of the population, while the top 20 % in both groups receive more than one-half of total national income.

Indicators of urbanisation trends provide information on the present state of, and changes in, regional population concentration, which invariably also entails social consequences. While the indicators shown in Table 3 reveal a somewhat higher growth rate of the urban population in the SDCs, at 4.9 % p. a., than in the MEDCs with 4.5 %, the current degree of urbanisation is still lower in the socialist countries, at 37 %, than in the market-economy group of countries, where it has already reached 42 %. The proportion of the urban population in the metropolises in both groups is virtually identical at 37 % and 38 % respectively. It can therefore be stated that there are scarcely any differences between the two groups of countries with regard to urbanisation trends; such slight differences as may still exist are tending to even out.

To summarise briefly, comparison of all three aspects examined – general economic development, integration in the world economy, social development – leads to the following conclusions:

The group of market-economy countries records higher economic growth than the socialist countries; this is due to a lesser extent to a higher growth rate in the agricultural sector and mainly to the greater dynamism in manufacturing industry and services. Moreover, this growth was achieved with a relatively lower input of capital. The same is true of the development of this group of countries' foreign trade: they managed to integrate to a greater extent and in a structurally more favourable manner in the international economy. In the social sphere, on the other hand, most parameters reveal a similar development without greatly marked differences. Thus the market-economy road to development has resulted not in an absolute but at most in a relative disregard of the social sphere, in the sense that the market-economy developing countries have assigned a relatively lesser share of their more rapidly growing national product to social services and have

⁸ In countries with a comprehensive primary education the gross school attendance figures will exceed 100 whenever a certain number of pupils is either below or above the official primary school age limits.

nevertheless largely achieved the same final result as the socialist developing countries which have had to assign a comparatively larger part of their GNP to social purposes.

Countries with a Change of Policy

A final statistical comparison is concerned with the performance analysis of countries which, since achieving their independence, have made a clear switch in economic policy and in which the phases of market economy and state economy have been long enough to justify a comparison. 1970 was chosen as basis year for the reorientation of economic policy – in line with available World Bank data and the necessity of a sufficiently long period of observation. The actual switches of policy, needless to say, reflect certain deviations from this ideal year. Among the countries which have changed from a socialist to a more market-economy course are Egypt (policy turn 1970), Indonesia (1968) and Tunisia (1970); the reverse road, from market economy to a more socialist economic order, was traversed by Peru (change in 1968), Pakistan (1971; but since 1977 once more increasingly market-economy), as well as Benin, Jamaica and Madagascar (change in each case not until 1973/74; unfortunately there were no examples fitting better into the time scale).

Regrettably it is only possible to compare economic indicators since the data base is lacking for social criteria. It should finally be borne in mind in connection with the quite unambiguous results set out below that

the choice of countries was necessarily very limited and accidental, and for that reason cannot be entirely representative. Nevertheless the findings should have some general validity at least as being indicative of a trend.

The average data set out in Table 4 support the following conclusions:

□ Countries which changed from the socialist to the market-economy system without exception revealed clearly higher economic growth rates during their market-economy period; these reached almost double the figure for the preceding period (7.8 % as against 4.2 %). This higher growth rate is reflected in all economic sectors, but with particular clarity in the industrial sphere and in the tertiary (services) sector. These statements apply not only to the groups of countries collectively but also to each individual country.

□ A striking contrast to the above was provided by the development in those countries which – at first oriented on a market-economy – subsequently turned to socialism. There the overall economic growth rate declined by more than one-half from 4.4 % to a mere 2.0 % on average, this decline applying to all sectors, though most markedly to manufacturing industry and services. In a comparison of individual countries the (somewhat incomplete) data in certain cases even revealed a drastic change from positive to negative growth rates.

□ The average investment ratio increased without exception in the countries which changed to a market-economy system, while in the countries which performed the opposite switch of policy it declined slightly on average. Here once again – and a lot more strikingly than in the preceding comparison between the groups of countries – the comparison with the economic growth rate reveals the higher productivity of capital in the market-economy developing countries.

□ As was to be expected the change of policy is reflected with particular clarity in the foreign-trade indicators. While the countries which switched to a market economy were able to more than double their export growth rate – though admittedly their imports increased even more vigorously – exactly the reverse took place in the countries which switched to a socialist policy. There the previously positive export growth rates became negative, while the growth rate of imports declined to a mere 1 % on average.

□ The countries which switched to socialism record a lesser external public debt (in % of GNP) in 1978 than the countries which changed course in the opposite

Table 4
Comparison of Economic Performance Indicators
for Countries with Change of Policy

Indicator	Average (3 countries) ¹ for change from socialist to market economy		Average (5 countries) ² for change from market economy to socialist economy	
	1960-70 (soc.)	1970-78 (m.e.)	1960-70 (m.e.)	1970-78 (soc.)
Real growth in % p.a.				
gross domestic product	4.2	7.8	4.4	2.0
agriculture	2.5	4.2	2.8	0.9
industry incl. mining	6.4	8.8	7.0	2.1
manufactures	5.2	10.3	7.4	1.6
services	5.8	9.8	6.0	2.1
Average rate of investment in % of GDP	15.8	20.8	18.5	17.6
Average growth in % p.a.				
exports	3.6	8.7	5.0	-4.5
imports	1.1	20.9	5.5	1.2
Debt service in % of exports 1970-78	17.7	15.8	8.3	14.2
External public debt in % of GDP 1970-78	29.9	46.5	16.6	32.9

¹Egypt, Indonesia, Tunisia. – ²Benin, Jamaica, Madagascar, Peru, Pakistan.

direction, even though the ratio of indebtedness of the former effectively doubled during the period from 1970 to 1978. The picture is somewhat different if one regards the development of debt servicing (in % of exports). The countries which switched to the market-economy system register a slight decline of this ratio thanks to the more favourable development of their exports. Thus in 1978 this ratio was only slightly higher than the debt servicing relation of the countries which are now socialist-oriented. On the other hand, because of the poorer development of their foreign trade, the debt service ratio, which originally was very low, has almost doubled in these countries during the period under review.

This result, which is unexpectedly clear, is largely in line with the results of the earlier analysis of country groups. It appears that low economic growth rates in spite of a similarly high rate of investment, with the appropriate consequences for foreign trade and

indebtedness, are the automatic result – at least in the initial situation in which the countries of the Third World find themselves – of a socialist economic system. Insofar as social indicators were available these have not, on the other hand, revealed a clearly better performance on the part of the socialist countries but rather an equal position of both groups of countries. It should of course be remembered that it has not been possible to test the satisfaction of basic needs or to compare personal income distribution in a similarly representative form as was done for other indicators.

Summing up, it may be stated that the choice of an economic system which offers private initiative scope for development, which mobilises it and corrects it by means of indirectly operating instruments in conformity with free market principles, would clearly open up a considerable additional, and so far largely untapped, development potential for many countries of the Third World.

FOOD AID

The Development of International Food Aid Policy

by John Cathie, Cambridge*

The European Community is to spend ECU 680 million on food aid in 1982 – an increase of 13.3 % over 1981. Is this a sign of growing humanitarianism on the part of the EC or merely the side-product of a policy of agricultural protectionism which in the long run is harmful to the economies of both the donors and recipients of food aid? A look at the historical development of international food aid may help to provide an answer to this question.

The giving of food aid by Northern countries is an area of their economic and foreign policy that has a deep emotional appeal. On the surface it seems reasonable that food which cannot be used in North America or Europe should be given to feed the hungry of the Third World. Food aid has in the post war period represented some 15 per cent of Development Assistance Committee (OECD) aid, which is a considerable proportion. The giving of aid in kind is now an accepted and permanent feature of the rich countries' gift relationship with the poor countries. Recently the Brandt Commission has joined the long list of countries and institutions endorsing the Food Aid Convention's 10

million metric ton target for food aid donations in the 1980s.

Food aid policy, like other economic policy instruments, does not operate in isolation or without contradiction in the pursuit of its intended goals. While the feeding of hungry people is a commendable aim in itself, using food aid for the furtherance of economic and social development is a much wider and less clear goal to achieve¹. The use of food as aid is constrained by the effects of food aid policy on commercial agricultural trading interests. Food aid policy can involve

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¹ For a detailed discussion of this issue see J. Cathie: *The Political Economy of Food Aid*, Aldershot, to be published in May 1982.