TWO INTERPRETATIONS OF UNDERDEVELOPMENT

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CHAPTER ONE

INTRODUCTION

The purpose of this paper is to present the major hypotheses and central arguments of conventional as well as heterodox thought on the matter of the political economy of underdevelopment and development. This presentation focuses on each intellectual framework's view of underdevelopment, what constitutes development, and the effects of international relations between the more developed countries (MDCs) and the less developed countries (LDCs) on the latter's development prospects. Conventional and heterodox thought essentially refer to ideal types which by no means represent any one author's writings nor the totality of thought on the matter. These ideal types are merely tools for interpretation.

In Chapter Two, I shall specify the type of LDCs discussed, and briefly outline the historical perspective of underdevelopment. This will serve as a background to the subsequent discussion of the literature. In Chapter Three, conventional thought on the subject matter is presented. In contrast to the conventional position, Chapter Four surveys the heterodox propositions and arguments. Chapter Five provides a summary.

CHAPTER TWO

THE HISTORICAL PERSPECTIVE OF UNDERDEVELOPMENT

The LDCs discussed here are the familiar ones frequently described in the classics of the literature and collectively referred to as the "Third World." In reference to the classification of the world's countries in three categories, Benjamin Cohen explains:

> "The First World is the metropolitan center of advanced capitalism-the United States and Canada, the countries of western Europe, and Japan. Generally the center is understood to include all of the non-communist countries of Europe, even the poorer ones along the area's Mediterranean littoral. In addition, Australia and New Zealand, as relatively high-income societies, are usually placed in this favored category. South Africa and Israel are sometimes also added, though as much for ideological as for economic reasons. The Second World is the world of communist states, understood to include not only the relatively more advanced economies of the Soviet Union and eastern Europe, but also the less advanced ones in Asia, Cuba, and Albania. Yugoslavia, similarly, is ordinarily classified among this group of countries.
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> This leaves all the rest, the nations of Latin America, Asia, and Africa, as well as the oceans in between-more than a hundred countries in all, populated by as many as half of the world's people and occupying more than a third of the globe's territory. This is the Third World, the periphery of poor countries..."[1]

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[1]Benjamin J. Cohen, The Question of Imperialism: the Political Economy of Dominance and Dependence (New York: Basic Books, Inc., Publishers, 1973), p. 149, 152.

It is these countries of the Third World that are considered to constitute the great majority of the unversal set of contemporary underdeveloped countries or LDCs.[2]

To be sure, each of these underdeveloped regions of the Third World possesses its unique and peculiar history. There is general agreement in the literature, however, that these regions share in their histories certain phenomena and events crucial to the understanding of their current situation. These historical phenomena and events form the empirical basis for historical interpretations and are generally assumed to interact in terms of broad cause-and-effect relationships with underdevelopment itself.

The standard "history" of underdevelopment outlined below, it is clear, includes only those crucial phenomena and events of common occurrence among the underdeveloped regions; and it extends over a somewhat long period of the LDCs' past, specifically, the colonial and post-colonial eras.

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[2]The terms underdeveloped countries and LDCs are used interchangeably in the literature. A distinction, however, exists. Underdevelopment refers to a pathological, social state characterized by malfunction of the social organization and economic stagnation or even regressiveness. Less development refers to the relative state of social or economic development, not necessarily pathological. This distinction is largely the contribution of radical thought and is by no means standard in the literature. In order to avoid misrepresentation, I shall continue to use both terms as synonyms in reference to the Third World.

Colonization and Contact

In general it can be said that the culture of those regions that were to be colonized later in history was traditional or primitive. Man's victories in his economic struggle over his physical environment were limited. Scientific knowledge was fragmentary, if existent. The indigenous social structure and organization were relatively simple and agrarian. Social, including economic, affairs were governed by religious laws, tribal and kinship considerations.

The first element of the standard history of underdevelopment is colonization. Although colonization refers to a heterogeneous phenomenon,[3] in all cases it means a situation where foreign colonizers, generally western from the North Atlantic region, conducted and managed the affairs of the colonized which were vitally related to the colonizers' economic, political, or strategic interest.

The significance, unanimously attributed to the colonial situation, is the considerable contact it brought between two culturally different groups. This contact, which was later perpetuated by the advent of mass communication and other relations between the metropolitan centers and the periphery, resulted in the operation of a demonstration effect in a broader sense of the term. In its narrower meaning, repercussions of the demonstration effect gave rise to demand for

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[3]For a detailed discussion of colonialism, see Benjamin Cohen, The Question of Imperialism, p. 20-24.

new commodities-largely manufactured ones-which existed in the metropolitan countries but were previously unknown in the colonized regions. In the broader sense, however, the demonstration effect caused the transfusion of ideologies and institutions. Important examples are the idea of human and national equality which directly emanated from the general culture of western civilization and the institution of a constitutional central government with extensive bureaucratic functions. The process of transfusion was limited in its early stages but was expansionary over time. Local elites in the LDCs invariably thrived on the situation and adopted a Western life style. In the nature of things, these limited groups became a propagating vehicle through subsequent demonstration effects.

The second element of the standard history of underdevelopment resulted from the LDCs' trade with the more industrially advanced countries. The latter specialized in the production of, and exported, capital intensive manufactured commodities to the LDCs. In return, the LDCs invariably specialized in the production of, and exported, labor intensive primary commodities to the more advanced metropolitan countries.

The third element of the standard history of underdevelopment is the low capital intensity of production and the virtual non-existence of machinery in the manufacturing sector of the LDCs. The necessary conditions for the erection of physical capital locally were non-existent. The movement of capital to the LDCs during the period of colonization was spotty in time and space. The little accumulation of physical capital which occurred in the LDCs over this period was largely the result of foreign investment. Such investment was usually located in the primary sector and went into productive facilities for export increase.[4]

Independence and Post-colonial Development

The main issue in the colonized areas at the turn of the century was the right of nations to self-determination. Almost all the colonies achieved political independence by the period that followed World War II. In all cases, independence mainly comprised the transfer of leadership and the functions of government to a national and somewhat more legitimate group from the point of view of the local community of the LDC:

> "Ralph Turner, the world historian, touring Asia and Africa in 1950, reported that these peoples already seethed with a new-found realization of worth and dignity. Increased market involvements and war itself brought comprehension of world inter-dependencies. Mass communications were offering viaducts for the emancipating ideologies of both the American and British brand, as well as the Soviet. And, at this point, a new, educated elite oriented to the revolutionary doctrines of the West was emerging. In much of the underdeveloped world, these conditions were ripe for the catalytic effects of the cold war in which technical aid and associated programs stimulated

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[4]Gunnar Myrdal, Economic Theory and Under-developed Regions (London: Gerald Duckworth & Co. Ltd., 1957), p. 53: and H.W. Singer, American Economic Review, Vol. XL, No. 2 (May 1950), p. 475.

> the impoverished economies, reduced death rates, and stirred aspirations.
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> Immediately following World War II, India freed herself of colonial rule, followed by Ceylon, Burma, Indonesia, and others. In China, a reactionary and pro-Western regime was liquidated, and a new era of self-determination and modernization was pressed through a Communist revolution. In all Africa as of 1945, there existed only four independent states (Melady). By the end of 1964, there were 37 independent African states. Through most of South America, there was massive unrest against traditional authoritarian and feudal type elites and the ascriptive social structures they stood for. There was also massive escape to presumed opportunities in the cities. The stresses of rapid urbanization and the very fact of urban development, particularly in Africa and in Latin America, served notice to alert leaders that rapid industrialization was crucial to the attainment of what the restive masses demanded in this 'revolution of rising expectation.'"[5]

National leadership in the new states embraced the national goals of development and economic growth along the precepts of modernization. These goals generally ran in terms close to what Gunnar Myrdal called the "modernization ideals" articulated by the intellectual elites of various Southeast Asian countries. The following is a list of those modernization ideals:[6]
a. Rationality b. Development and planning for development c. Rise of productivity d. Rise of levels of living e. Social and economic equalization f. Improved institutions and attitudes g. National consolidation h. National independence i. Political democracy j. Democracy at the grass roots. Gunnar Myrdal further notes that:

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[5]Bryce F. Ryan, Social and Cultural Change (New York: The Ronald Press Company, 1969), p. 403-404.

[6]Gunnar Myrdal, Asian Drama: An Inquiry into the Poverty of Nations Vol. I (New York: Pantheon, 1968), Chapter 2.

> "Even before independence, the modernization ideals were prominent in the programs of the liberation movements. Later they were often inscribed in the new constitutions. They now appear as the declared main goals in the development plans with which all the countries of the region are equipped and in the introductions to reports by public commissions and committees considering questions of major reform. The programs and general pronouncements of the various political parties regularly adhere to them, or at least avoid contradicting them. They are reiterated in speeches, in leading articles in the press, and in the textbooks for schools and universities. They have, indeed, infiltrated the vocabulary of public discussion."[7]

Notwithstanding the redundance and possible internal inconsistencies of the above specifications of the modernization ideals, their apparent homogeneity is evidently suggestive of popular opinion in the LDCs. In the elaboration of these specifications, emphasis and priority are given to increasing the capital intensity of production through a process of industrialization in order to bring about economic growth. Political independence as well as adoption of national goals as those outlined above are further important phenomena characteristic of the recent history of the Third World countries.

It is impossible to state in detail the specific content of the general goals of development. It is elementary, however, that they included increases in the material welfare of the population. A minimum provision of food and shelter was essential. In perspective of the colonial situation and the

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[7]Ibid., p. 54.

above modernization ideals, however, development programs of action undertaken in the LDCs explicitly or implicitly included a great deal of institutional change.

Conceptually, there exists two extreme approaches to development. The first is that where complete reliance for development is on the private institutions of the free enterprise market system. The second is that where complete reliance is on the public institutions of the central government. Although neither approach, in its extreme form, could exist, the approach actually adopted by most LDCs was along the continuum between the two extremes and generally closer to the second. This was mainly due to the weakness of the private enterprise system in those countries and the self-conscious haste and urgency which characterized their development efforts. In addition, the egualitarian ideals imposed a constraint-that of political stability-on the distribution of wealth as well as income which prohibited the operation of a private enterprise system at a level capable of producing desired changes.

CHAPTER THREE

CONVENTIONAL THOUGHT

There is a range of opinions and views about the phenomenon of underdevelopment. The literature, however, is composed of the writings of those who believe it is a problem in search of a solution. A solution, or what constitutes development, is largely a value empregnated exercise. Development is a synonym of betterment and progress.

There exists two intellectual frameworks for thinking about the process of development. The first, presented in this chapter, is the conventional or orthodox one. By conventional or orthodox, it is meant that which constitutes the basis of concerned official thought.

The Conventional View of Underdevelopment and What Constitutes Development

A common and elemental proposition of conventional thought on the matter of underdevelopment is that all nations were once underdeveloped. Professor Leibenstein states:

> "...We begin with a set of economies (or countries), each 'enjoying' an equally low standard of living at the outset...Over a relatively long period of time

> (say, a century or two) some of these countries increase their output per head considerably whereas others do not."[8]

Underdevelopment, as the word is used in conventional thought, is synonymous to traditionalism and poverty. On the other hand, advanced, modern, and rich are synonyms of development. Professor W. W. Rostow's book, The Stages of Economic Growth, provides an example of the conventional view. Rostow argues that all societies proceed through similar paths from underdevelopment to development, the similarity being with respect to certain changes in the social structure, institutions, and production techniques, as well as specific quantifiable variable. He divides the standard path into five stages. The first is that of "the traditional society" about which he notes:

> "...the central fact about the traditional society was that a ceiling existed on the level of attainable output per head. This ceiling resulted from the fact that the potentialities which flow from modern science and technology were either not available or not regularly and systematically applied."[9]

The second is that of "the preconditions for take-off." In this stage, a society moves from a predominantly agricultural setting "to a predominance for industry, communications, trade, and services." Wealth as well must pass from the hands of

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[8]H. Leibenstein, Economic Backwardness and Economic Growth (John Wiley and Sons, 1960), p. 4.

[9]W. W. Rostow, The Stages of Economic Growth: a Non-Communist Manifesto (Cambridge: Cambridge University Press, 1960), p. 4.

landlords to the hands of a more progressive group that will use it more productively. Also other changes occur in man's conception of himself and his physical environment allowing the systematic use of the sciences. With regards to the preconditions for take-off in the Third World countries, Rostow notes:

> "The more general case in modern history, however, saw the stage of preconditions arise not endogenously but from some external intrusion by more advanced societies. These invasions-literal or figurative-shocked the traditional society and began or hastened its undoing; but they also set in motion ideas and sentiments which initiated the process by which a modern society was constructed out of the old culture."[10]

The third and crucial stage where the revolutionary transformation takes place, is that of "the take-off." In this stage, the rate of savings and investment doubles from 5% to 10% and economic growth becomes normal. The fourth stage is that of "the drive to maturity" where the economy has the technological and entrepreneurial capacity to produce anything it chooses and adjustment to the international economy is achieved. The fifth stage is the "age of high mass-consumption." In this stage, the economy shifts towards the production of durable consumer goods and services. Per capita income rises to an extent which allows the consumption of a large portion of the population to transcend beyond the items of basic necessities.

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[10]Ibid., p. 6.

Another characteristic of this stage is the emergence of a welfare state.

According to conventional thought, a developed country is pictured as a contemporary industrially advanced one such as those that exist in western Europe, North America, Japan, or the Soviet Union. From this it follows that the main task of those who are concerned with the development of the remaining underdeveloped regions is to determine from their historical experience how today's developed countries escaped "the low level equilibrium trap" and to apply the lessons to those countries that lag behind.

The implication of this view on the content of the development process seemed obvious. The process was to include more than the transition to a state of sustainable prosperity in the strict sense of the term. Development in this view involves many aspects of the cultural and social organization of the LDCs. It involves transitions from non-economic to economic motivation; from political and religious dominance in social affairs to more rational concepts and measurements of goods-centered personal and social welfare; from simple to more complex structure of economic organizations such as a monetary economy with credit facilities and a capital market; from primitive techniques of production to more efficient ones already used elsewhere. These transitions are inevitably accompanied by complementary changes such as the accumulation of social overhead capital in the familiar form of roads, communication facilities, public works and utilities and the training and education of the labor force in the new skills of production, management and organization techniques.

Conventional Thought on the Matter of International Relations between MDCs and the LDCs

As presented above, the conventional view associates underdevelopment with causes lying within the traditional situation of the individual LDC. In this perspective, questions about the effects of international relations between the MDCs and the LDCs on the latter's development prospects occupy a subsidiary position. Where the questions arise, however, these effects are considered largely favorable.

At the outset, conventional thought is optimistic with regard to the effects of contact between MDCs and LDCs and the repercussions of the demonstration effect on the LDCs. Rostow in the above quotation on page 12 clearly views these contacts as stimuli to progress in the LDCs.

Similar optimism characterizes conventional thought about the effects of trade and direct foreign investment on the economic development of the LDCs. The argument which stresses the positive effects of trade is based on the static trade theory of the classical economists. Trade between two countries would allow each to specialize in the production of those items in which it has comparative advantage, and to exchange these products for what the other country could produce at a relatively lower cost. This insures that both countries would gain from a more efficient allocation of resources, a gain tantamount to an outward shift in their production possibility frontier raising their income and productivity.

The classical school also considered the dynamic effects of trade as an "engine of growth." Trade could stimulate development in the LDCs in three ways.[11] First, trade would increase savings through its initial impact of raising income and productivity and thereby allow a higher rate of capital accumulation. Second, specialization and division of labor would allow the further improvement of the production process in every market extension. They also enable the overcoming of technical indivisibility and the availing of economies of scale. Third, the vent-for-surplus theory of trade emphasized the fact that countries frequently had capacities in the production of certain items for which home demand was relatively weak. In this case, access to foreign markets provided a beneficial alternative to wastage and underemployment. In addition to this, John Stuart Mill notes another consideration:

> "...principally applicable to an early state of industrial advancement," it is that "a people may be in a quiescent, indolent, uncultivated state, with all their tastes either fully satisfied or entirely underdeveloped, and they may fail to put forth the whole of their productive energies for want of any sufficient object of desire. The opening of a foreign trade, by making them acquainted with new objects, or tempting them by the easier acquisition of things which they had not previously thought

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[11]Cohen, The Question of Imperialism, p. 165. See also Gerald M. Meier, The International Economics for Development: Theory and Policy (New York: Harper & Row, Publishers, 1968), Chapter 8.

> attainable, sometimes works a sort of industrial revolution in a country whose resources were previously underdeveloped for want of energy and ambition in the people: inducing those who were satisfied with scanty comforts and little work, to work harder for the gratification of their new tastes, and even to save, and accumulate capital, for the still more complete satisfaction of those tastes at a future time."[12]

Conventional thought is equally optimistic with regards to the effect of direct foreign investment by multi-national corporations (MNCs) on the process of development in the LDCs. It is argued that they provide a channel through which certain skills, factors or production, and production techniques, needed for development, are transmitted from the MDCs to the LDCs. It is also emphasized that this channel is superior to other channels of importation in as much as it provides a "package deal" that overcomes barriers, which would otherwise exist if each of the resources in the package were imported separately.[13] In addition, MNCs are considered potential contributors to financial inflows to the LDCs as they may bring forth foreign

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[12]John Stuart Mill, Principles of Political Economy, 9th ed., (London: Longmans, Green, & Co., 1886), p. 122. See also Meier, The International Economics of Development, p. 218.

[13]David Pryor, "The Contribution of Multi-national Corporations to the Economic Development of Less Developed Countries: The Radical View Considered" (Master's Report, Kansas State University, 1974), p. 10.

savings. Too, they may alleviate the balance of payment problems of LDCs in as much as they may add to their export capacity or import substitution.[14]

Although no argument as such was advanced in support of foreign aid to the LDCs, conventional thought was at the heart of the foreign aid concept and an argument is hardly needed to show the beneficial effects of aid. Conventional thought envisaged foreign aid as concessionary transfers of resources from MDCs to LDCs. Foreign aid in the form of money or in kind is transmitted by international agencies from the MDCs to the LDCs, in terms of loans or grants, specifically for the purpose of development.

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[14]Ronald Muller, "The Multinational Corporation and the Underdevelopment of the Third World" in The Political Economy of Development and Underdevelopment, ed: Charles K. Wilber (New York: Random House, 1973), p. 131.

CHAPTER FOUR

HETERODOX THOUGHT

The second intellectual framework for thinking about the development process, reviewed in this chapter, is the heterodox one. By heterodox, I refer to those unorthodox and radical writings which criticize conventional thought on the matter and attempt to provide alternative perspectives.

Radical thought revolves around a different view of underdevelopment and what constitutes development for the LDCs. Unlike conventional thought, the unorthodox view maintains that underdevelopment is not original to all societies but that it is peculiar to the historical experience of only some. They make clear that underdevelopment is neither a synonym of poverty or traditionality and that poverty is not a cause but a symptom of underdevelopment.[15] Nor is development a synonym of modernization. They reject the Marxian dictum that "the most industrially advanced country presents the less advanced country with the image of its future," apparently held by conventional thought and embodied in Rostow's stage theory for it attributes a history to those countries that have developed while denying any history or its importance to the LDCs.[16]

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[15] Keith Griffin, "Underdevelopment in History" in The Political Economy of Development and Underdevelopment, ed. Wilber, p. 71, 72. Reprinted from Griffin Underdevelopment in Spanish America (London: George, Allen, & Unwin, 1969).

[16] Ibid., p. 69.

Radical thought views underdevelopment as a product of the same historical process which brought development elsewhere. In the words of Paul Sweezy, "the underdevelopment of the Third World is the product of the very same historical process which resulted in the development of the advanced capitalist world. The two, development here and underdevelopment there, are the opposite sides of the very same coin."[17] Keith Griffin adds that "the history of the underdeveloped countries in the last five centuries is, in large part, the history of the consequences of European expansion...It is our belief that underdeveloped countries as we observe them today are a product of historical forces, especially of those forces released by European expansion and world ascendancy. Thus they are a relatively recent phenomenon. Europe did not 'discover' the underdeveloped countries; on the contrary, she created them. In many cases, in fact, the societies with which Europe came into contact were sophisticated, cultured and wealthy."[18]

It is clear that this radical position emphasizes that underdevelopment in some regions did not merely come about in the relative sense, due to the development in other regions, but in the absolute sense as in the actual creation of underdevelopment.[19] Keith Griffin provides casual evidence of

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[17]Paul Sweezy, Modern Capitalism and Other Essays (New York: Monthly Review Press, 1972), p. 18.

[18]Griffin, "Underdevelopment in History" in The Political Economy of Development and Underdevelopment, ed. Wilber, p. 69.

[19]It is in this connection that the distinction between the terms LDCs and underdeveloped countries is evident. See footnote #2 on page 3.

this. He notes that the average annual rice consumption per head in Java and Madura decreased from 114 kgs for the period 1856-70 to 81.4 in 1960; that the average real wage of agricultural labor in seven districts of India decreased by approximately a fourth in the last quarter of the 19th century; and that in Algeria, per capita output of cereals decreased from 1000 kgs in 1863 to 202 kgs in 1954, per capita output of sheep decreased from 4.5 heads to 0.7 heads for the same period, and that of cattle decreased from 0.2 in 1911 to 0.1 in 1954. He also cites historical cases where the coming of the European imperial powers caused the discontinuation of economic activity in those regions. Many cite the case where the local textile industry in India was forced out of existence due to competition from its more advanced counterpart in England and Andre Gunder Frank finds similar cases in the history of South America.[20]

By the nature of the radical view of underdevelopment, the focus of their main arguments is on the relationship between the LDCs and the MDCs; for as they see it, the contact and relations between the LDCs and the MDCs have been the cause of underdevelopment as well as its perpetuation.[21] Andre Gunder Frank rejects the dual economy or society thesis which states that within the LDCs, there generally exists two parts.

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[20]Andre Gunder Frank, "The Development of Underdevelopment" in <u>The Political Economy of Development and Underdevelopment</u>, ed. Wilber. Reprinted from <u>Monthly Review</u> Vol. 18, No. 4 (September 1966). See also Cohen, The Question of Imperialism, p. 157.

[21]Cohen, <u>The Question of Imperialism</u>, p. 153.

The first is relatively more developed than the second due to its more intimate contact with the already advanced countries.[22]

He adds that "historical research demonstrates that contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries."[23] The main feature of what Andre Gunder Frank identifies as the "metropolis-satellite" relationship between the MDCs and the LDCs is the dependence of the second on the first.[24] He advances the hypothesis that:

> "...the satellites experience their greatest economic development and especially their most classically capitalist industrial development if and when their ties to their metropolis are weakest. This hypothesis is almost diametrically opposed to the general accepted thesis that development in the underdeveloped countries follows from the greatest degree of contact

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[22]Andre Gunder Frank, "The Development of Underdevelopment" in The Political Economy of Development and Underdevelopment, ed. Wilber, p. 95.

[23]Ibid.

[24]Theotonio Dos Santos defines dependence as follows: By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development. Theotonio Dos Santos, "The Structure of Dependence" in The Political Economy of Development and Underdevelopment, ed. Wilber, p. 109. Reprinted from American Economic Review Vol. LX, No. 2 (May 1970). Theotonio Dos Santos quotes this definition from his La Crisis de la Teoria del Desarrollo y las Relaciones de Dependencia en America Latina, Boletin del CESCO, 3 (Santiago, Chile, 1968).

with and diffusion from the metropolitan developed countries. This hypothesis seems to be confirmed by two kinds of relative isolation that Latin America has experienced in the course of its history. One is the temporary isolation caused by the crises of war or depression in the world metropolis. Apart from minor ones, five periods of such major crises stand out and seem to confirm the hypothesis. These are: the European (and especially Spanish) Depression of the seventeenth century, the Napoleonic Wars, the First World War, the Depression of the 1930's, and the Second World War...

The other kind of isolation which tends to confirm the...hypothesis is the geographic and economic isolation of regions which at one time were relatively weakly tied to and poorly integrated into the mercantilist and capitalist system...

A corollary of the...hypothesis is that when the metropolis recovers from its crisis and re-establishes the trade and investment ties which fully reincorporate the satellites into the system, or when the metropolis expands to incorporate previously isolated regions into the world-wide system, the previous development and industrialization of these regions is choked off or channelled into directions which are not self-perpetuating and promising. This happened after each of the five crises cited above."[25]

At the outset, and unlike conventional thought, radical writers argue that contact, as well as economic and other relations, are deterents to the development of the LDCs. Mere contact and the operation of the demonstration effect that transmits to the poor countries the profile of preferences and desires of the rich ones, is considered detrimental for it is unsuited to the LDCs' economic realities. The tastes of the local community are gradually oriented away from home products to foreign ones which makes it that much more difficult for local infant industries to survive and ultimately inhibits the development of entrepreneurial talents and industrial skills.

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[25]Andre Gunder Frank, "The Development of Underdevelopment" in The Political Economy of Development and Underdevelopment, ed. Wilber, p. 99. 100.

The demonstration effects-it is alleged-may also give rise to a consumerist mentality which leads to a considerable reduction in the marginal propensity to save; hence, reducing the capacity to accumulate capital and retarding growth in the LDCs.[26]

A similarly negative argument about the effects of trade, capital movements, and immigration between the LDCs and the MDCs exists. Gunnar Myrdal advances the hypothesis that the free play of market forces will normally tend to increase the wealth of the MDCs and aggravate the poverty of the LDCs, thereby increasing rather than decreasing the gap of inequality in wealth between them.[27] This occurs through the backwash effects which result from the operation of a circular and communative process of causation in the fashion of a vicious circle. He explains the operation of this process as follows. If a primary or accidental change takes place in a region and if this change is sustained through a period of time and not cancelled out immediately in the stream of events, it will generate other changes in the same direction in a circular cumulative fashion. If the initial change is a favorable one, through the process of circular and cumulative causation, the other changes will be favorable. The opposite holds true for an unfavorable initial change. A clarifying example given by Gunnar Myrdal is that of the burning down of a factory which employed a large portion of the community where it existed.

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[26]Cohen, The Question of Imperialism, p. 160.

[27]Gunnar Myrdal, Economic Theory and Under-developed Regions (London: Gerald Duckworth & Co. Ltd., 1957), p. 26.

If this initial change is not immediately cancelled out by the rebuilding of the factory for instance, it will entail the shutdown of the firm and the unemployment of its workers. This will decrease income and demand. Decreases in income and demand will in turn cause decreases in the employment of workers in other industries. This in turn causes further decreases in income and demand, and so on; hence, a vicious cirlce is in operation.

In relation to other regions, that region will be less tempting to investments and workers from the outside. As the process gathers momentum, business and workers in that community will leave it for better opportunity elsewhere, furthering the effects of the vicious circle by cuasing an unfavorable change in the age structure of the community. On the other hand, if the initial change was a favorable one, such as the location of a new industry in the region, the same process of circular cumulative causation shall take place only in the opposite direction. This change will provide employment and thereby cause incomes and the level of aggregate demand to rise giving a spur to the general development of the region. In relation to other regions, the region which has experienced the favorable initial change, will attract labor capital and enterprise from the outside and will have backwash effects on them.

It is in this theoretical framework that Gunnar Myrdal views capital movements, migration, and trade as media through which the cumulative process evolves with backwash effects on the LDCs. "Capital will, on the whole, shun the underdeveloped countries, particularly as the advanced countries themselves are rapidly developing further and can offer to owners of capital both good profits and security."[28] Migration will also work similar to capital movements. Skilled workers will migrate from the LDCs to the MDCs increasing the inequality between them. Gunnar Myrdal, however, discounts the importance of migration at the international level due to the existence of legal and other barriers. In relation to trade, Gunnar Myrdal notes:

> "A widening of markets often strengthens in the first instance the rich and progressive countries whose manufacturing industries have the lead and are already fortified by the surrounding external economies, while the underdeveloped countries are in continuous danger of seeing even what they have of industry and, in particular, small-scale industry and handicrafts priced out by cheap imports from the industrial countries, if they do not protect them."[29]

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[28] Ibid., p. 53.

[29] Ibid., p. 51-52.

Another argument stresses the ill-effects of trade between MDCs and LDCs on the LDCs' development prospects. Celso Furtado brings trade and the specialization of LDCs in the production and export of primary goods to the heart of the concept of underdevelopment. He notes:

> "Underdevelopment was originally characteristic of economies in which an increase in productivity was largely the result of reallocation of resources aimed at obtaining static comparative advantages in international trade...
>
> Economic underdevelopment as a historical process can be summarized as follows: increased economic productivity, resulting from increased exports of raw materials, caused an increase in and a diversification of consumption of the well-off minority, which was geared to the cultural values of the central countries."[30]

The ill-effects of trade on the LDCs are generally viewed in the context of their specialization in primary production which uses mostly unskilled labor and allows little diffusion of technological progress relative to other sectors of production. Given their head start in industrialization and their considerably higher level of income, MDCs tend to dominate the supply and demand in the world market for both manufactured and primary products. Consequently, the LDCs face a global price structure that encourages their concentration on the production of one or a few primary outputs while it discourages home manufacturing industries. This results in a skewness in the

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[30] Celso Furtado, "The Concept of External Dependence in the Study of Underdevelopment" in The Political Economy of Development and Underdevelopment, ed. Wilber, p. 118, 119. Paper presented to the Union for Racial Political Economics, Washington, D.C. November 10, 1972.

resource allocation of the LDCs, hence, the label "one-dimensional states." Specialization in primary production, it is argued, is not in the long term dynamic competitive advantage of the LDCs even though it may be in their current comparative static benefits. With their capacity for primary production and abundant labor, they may be potentially capable of specializing in the production of manufactured goods quite efficiently.[31] Specialization in primary exports for development is also considered adverse because primary products usually face a great deal of price fluctuation in the international market as well as a low demand elasticity. A low demand elasticity, given the abundance of unskilled labor, transfers the benefit of greater production efficiency to the buyers. The demand trend for primary products, it is also said, is not rising rapidly.[32]

The radical view of direct foreign investment by MNCs in the LDCs is also negative. Where MNCs located their investment in the primary sector as they traditionally have, it is argued that they have aggravated the skewness in the resource allocation discussed above. In addition, profit repatriation and the fact that such investments tended to go into "enclaves" restricted the benefits from accruing to the economies of the LDCs.[33] Where MNCs have located their investment in the

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[31]Cohen, The Question of Imperialism, p. 155.

[32]Myrdal, Economic Theory and Underdeveloped Regions, p. 52.

[33]Cohen, The Question of Imperialism, p. 157. See also H. W. Singer, American Economic Review Vol. XL, No. 2 (May 1950).

manufacturing sector of the LDC as they have tended to in recent years, objections to their operation are in the context "big MNCs and small LDCs" which inevitably raises question about the political and economic power of the MNCs vis-a-vis national sovereignity and the possibility of anti-trust regulation. Ronald Muller writes:

> "...the bargaining power, or its equivalent, the oligopoly power of the multinational corporations, is a function of the institutional conditions and the economic structure of LDCs. As the term underdevelopment implies, the institutions of poor countries are either weak and outdated or largely non-existent. Thus, compared to the more developed countries, there is little countervailing power or 'check and balances' via government and organized labor to set limits on the power of the modern international corporation. The institutional conditions described refer basically to non-business institutions which, because of their malfunctioning and/or absence, make the MNC in a Third World country a different institutional force than need necessarily be the case when it operates in an advanced industrial society.
>
> If the non-business institutions of government and organized labor cannot act as a sufficient check on the power of the MNC in a Third World country, there still remains the check of other business institutions, namely, domestic competition. But the nature of the economic structure of underdevelopment exemplified in the technological and financial spheres, makes it highly unlikely that domestic business institutions will be able to perform this function, because most LDCs have embarked upon an industrialization process, highly similar to those of advanced industrialized nations, as the chief means of bringing about economic growth. Given this industrialization process and the nature of the techno-

> logical and financial needs to implement it, the result is a diminution in the power of domestic enterprises to compete and a further augumentation in the oligopoly power of MNCs."[34]

Ronald Muller also argues that MNCs have by no means fulfilled their expected positive contributions to the LDCs; in fact, the opposite has occurred; their effect has been malevolent. MNCs have not contributed employment in the opposite; "MNCs are eliminating many more jobs than they are creating." This is mainly due to their use of capital-using and labor-saving technology suited to the condition of advanced industrial nations, not the LDCs where labor is typically abundant. MNCs have also aggravated the problem of inequality in the income distribution of those LDCs. "It is a contribution to the richest 5, 10, 20% of these populations but an absolute dis-service to the human condition of the greater majority of the populations of LDCs."[35] With regards to what Ronald Muller calls the financial contribution, he notes:

> "Do the MNCs make a financial contribution to LDCs, that is, do they make a net addition to the supply of available local savings over time? The answer is no. Although we cannot make an exact quantitative estimate of this loss, from the magnitudes of the above indicators it is clear that there is a net decrease in the amount of local savings that are being utilized for the benefit of either indigent consumers or investors in the local economies of LDCs."[36]

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[34] Muller, "The Multinational Corporation and the Underdevelopment of the Third World" in The Political Economy of Development and Underdevelopment, ed. Wibler, p. 130-131.

[35] Ibid., p. 135.

[36] Ibid., p. 138-139.

In addition, Ronald Muller contends that the MNCs have aggravated the LDCs' balance of payment problem. MNCs overstate the value-in the form of transfer prices-of their technology and imports from the parent company or other branches thereof. This is in order to decrease the stated rate or return of their investment thereby evading taxation and charges of exploitation and excess profits as well as providing an illegal channel for the repatriation of profits. The outflows from the LDCs are, therefore, enlarged by import overpricing and inflated royalty payments. The inflows, on the other hand, are limited through restrictions on the use of MNCs' technology in export through patent licensing.

The last argument of radical thought surveyed here is that which points out the negative effect of foreign aid on the Third World countries. Teresa Hayter advances the hypothesis that foreign aid as it is administered by the major international agencies (World Bank, international monetary fund, and AID), serves the interest of the donor MDCs; and that contribution to the welfare of the recipient LDCs are incidental to its main purpose.[37]

She emphasizes the fact that foreign aid is only available to some LDCs depending on their compliance with certain criteria. These criteria are mainly about the LDCs' internal political arrangement, foreign policy alignment, debt servicing capacity, treatment of foreign investment, and export policy.

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[37] Teresa Hayter, Aid as Imperialism (Maryland: Penguin Books, Ltd., 1971), p. 15.

Where granted, foreign aid is never unconditional. It is usually tied to purchases of goods and services from the donor. Foreign aid is also frequently used as an instrument of leverage in order to influence the economic or political decision of the recipient government. It is argued that foreign aid normally works for the maintenance of the status quo; that it has often supported reactionary regimes and has usually been anti-reformist.

Teresa Hayter argues that the international agencies, in the case of various South American countries, for instance, have focused their attention on financial and monetary issues and the efforts to maintain financial and monetary stability designed to bring forth private investment. This, she emphasizes, occurs at the expense of real development by distracting attention from the real issues and sometimes by directly conflicing with them, and aggravating the problems of unemployment and inequality in the income distribution.[38]

Moreover, K. B. Griffin and J. L. Enos provide statistical extrapolations in support of the hypothesis that "in general, foreign assistance is not associated with progress and, indeed, may deter it. If the growth which a nation achieves, or fails to achieve, is related to the assistance it receives, one finds that there is not support for the view that aid encourages growth."[39] Using data for the period 1962-1965, they find that

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[38] Ibid., p. 155.

[39] K. B. Griffin and J. L. Enos, "Foreign Assistance: Objectives and Consequences," Economic Development and Cultural Change (April 1970), p. 317.

for 15 African and Asian countries, there is no close association between the amount of aid received and the rate of growth of GNP. They add, in reference to Latin America: "taking the average rate of growth of GNP over the years 1957-64 for the twelve countries for which figures are available, we find that it is inversely related to the ratio of foreign aid to GNP;"[40] and concluded that "in general, foreign assistance has neither accelerated growth nor helped to foster democratic political regimes. If anything, aid may have retarded development by leading to lower domestic savings, by distorting the composition of investment and thereby raising the capital-output ratio, by frustrating the emergence of an indigenous entrepreneurial class, and by inhibiting institutional reforms."[41]

Due to the radical interpretation of underdevelopment, their focus remains on the effects of international relations. What constitutes development in radical thought is mainly the direct elimination of mass poverty through the reduction of unemployment and inequality.

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[40]Ibid., p. 318.

[41]Ibid., p. 225-226.

CHAPTER FIVE

SUMMARY

The majority of the LDCs considered by the literature on the political economy of underdevelopment are those of the Third World. These LDCs share certain historical phenomena relevant to the understanding of their underdevelopment. In general, a portion of the population including the elites in these countries adopted the patterns of consumption as well as ideologies which existed in the metropolitan centers through the operation of the demonstration effect. In relation to international trade, they specialized in the production and export of primary goods. After achieving their political independence from colonial rule, and in view of the modernization ideals popular among their elites, the LDCs embarked on programs of industrial development and modernization in which the government played a very important role.

In the literature, there exists two intellectual frameworks for thinking about development in the Third World. The first is the conventional one. Conventional thought considers underdevelopment original to all societies and attributes it to the traditional social state, while it views development as a process of transformation leading to a social state analogous to that of the currently advanced countries. Although subsidiarily to its focus, conventional thought is optimistic about the effect of international relations between the LDCs and the MDCs and stresses its positive contributions to development in the Third World.

The second intellectual framework is the unorthodox or radical one. Radical thought views international relations between the LDCs and the MDCs as the cause of underdevelopment in the former as well as its perpetuation. Consequently, radical thought focuses its major arguments on the ill-effects of these international relations. Radical thought limits its view of what constitutes development to the direct elimination of poverty in the Third World.

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TWO INTERPRETATIONS OF UNDERDEVELOPMENT

by

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ABSTRACT OF MASTER'S REPORT

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ABSTRACT

The purpose of the paper is to present the major hypotheses and arguments of conventional and heterodox thought on the matter of the political economy of underdevelopment and development in the context of the Third World countries. The Third World countries are considered, in the literature, to constitute the great majority of contemporary less developed countries (LDCs).

The histories of these LDCs have in common certain phenomena important to the understanding of their underdevelopment. These crucial phenomena form the basis of historical interpretations and sometimes the definition of underdevelopment. These historical phenomena are: (1) the colonization of the LDCs by, and their considerable contact with the more advanced metropolitan countries; and the consequent operation of a demonstration effect which transfused to the LDCs the patterns of consumption, ideologies, and institutions which existed in the metropolitan centers (2) the specialization of the LDCs in the production and export of primary goods (3) the low capital intensity of the production process in the LDCs (4) the political independence of LDCs and the adoption of modernization ideals articulated by their politically active elites, and (5) the undertaking-in the LDCs-of programs of modernization and industrial development in which the governments carried the major role.

There exists in the literature two intellectual frameworks for thinking about the process of development in the LDCs of the Third World. The first is that of orthodox or conventional thought. Conventional thought views underdevelopment as original to all society in their traditional stage of social development. A developed country is pictured as a contemporary industrially advanced one. In consequence of this view the development programs in the LDCs are to include industrialization and institutional changes in the way of modernization.

Although subsidiary to its main focus, conventional thought considers the effects of contact as well as economic and other relations between the LDCs and the more developed countries (MDCs) on the development prospects of the former favorable. Contact and the operation of the demonstration effect, it is argued, stimulate progress in the LDCs. Trade between the LDCs and the MDCs insures gains to both and is certainly helpful to economic growth in the LDCs. And the positive contributions of direct foreign investment by multinational corporations (MNCs) in the LDCs to the latters' development are emphasized. Conventional thought also laid at the heart of the concept of foreign aid by MDCs to LDCs.

The second intellectual framework is that of heterodox or radical thought on the matter. Radical thought views contact and relations between the LDCs and the MDCs as the cause of underdevelopment as well as its perpetuation. Accordingly, the arguments of radical thought emphasize the distorting effects that the operation of the demonstration effect may have on the wants of the populations of the LDCs. It is also argued that trade between the MDCs and the LDCs as well as the investment by MNCs in the LDCs tend to be, and are, harmful to the development and growth prospects of the latter. Radical writers also argue that contrary to the accepted views, foreign aid has been a deterent rather than a support to the development of the LDCs.

Radical thought limits its view of what constitutes development in the LDCs to the direct elimination of their poverty.