

THE CRISIS IN DEVELOPMENT STRATEGIES

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I have been asked to sum up the present crisis in the developing world in the span of the next 20 minutes or so. I regard this as a major crisis in itself since the developing world is so diverse and the crisis in development has been building up for so long that any summary treatment of it is likely to be challenged all around. Anyway, I am going to try, much against my own better judgement. One firm disclaimer before I start: I shall be expressing only my personal views on the subject which in no way should be attributed to the institution with which I am currently associated.

I believe that economic development is in serious trouble today. And the indications are many.

After two decades of development, the achievements are quite meagre. When you rip aside the confusing figures on growth rates, you find that for about two-thirds of humanity the increase in per capita income has been less than one dollar a year for the last 20 years.

Even this increase, miserable as it may seem, has been unevenly distributed, with the poorest 40% of the population hopelessly squeezed in its struggle for existence and sometimes getting even less than what it received 20 years ago.

Some successful cases of development have turned into development disasters - Pakistan and Nigeria among them.

There is "development weariness" in many developing countries today with strident voices asking for a social and economic revolution, and there is "aid weariness" in the developed countries today, with many voices asking for an end to a partnership which was never much of a partnership.

And to cap it all, many advocates of zero growth have sprung in the very societies where growth was always regarded as a sacred goddess and who preached to the developing countries the virtues of an undiluted commitment to growth objectives, underlining how serious the reaction really is against growth for the sake of growth.

What has really gone wrong? Why is there such a disillusionment about economic development? Where are the origins of the present crisis?

I believe that the developing countries have themselves to blame for much of the present sorry mess.

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Two decades ago, when the developing countries set out to accelerate their pace of economic development, they seemed to have made three basic decisions.

Dazzled by the high living standards of the developed countries and convinced that real life begins at \$1000 or thereabouts, they decided to go after high growth rates in GNP in their mad chase after certain magic figures of average per capita incomes.

They generally adopted 'mixed economy' as a style of development, convinced that they were smart enough to combine the best features of capitalism and socialism.

They turned to the developed countries for generous assistance, hoping that this will make possible the attainment of high growth rates and living standards over a manageable period of time.

All these three decisions turned out to be disastrous.

The chase of the Western living standards was illusory at best. After two decades, the evidence is painfully clear. The per capita income disparity between rich and poor nations has continued to widen in the last 20 years. Today, the average per capita income of the developed world is \$2400 compared to \$180 in the developing countries. The gap has widened to \$2220. It is expected to widen by another \$1100 by 1980. And all the present indications are that the gap will continue widening and the rich nations will continue becoming richer, despite all the liberalism that is generally expressed in forums like this. Just to underline how hopeless it is to expect the gap between rich and poor nations to narrow, let me mention just one comparison: the increase in the per capita GNP of the U.S. in one year equals the increase that India may be able to manage in about 100 years. Therefore, to conceive the objectives of development in terms of Western living standards or to focus on the widening income gap between the rich and the poor nations is not meaningful at all, except to make the rich nations feel ashamed of themselves from time to time. The developing countries have no choice but to turn inwards, much the same way as Communist China did 23 years ago, and to adopt a different style of life, seeking a consumption pattern more consistent with their own poverty - pots and pans and bicycles and simple consumption habits - without being seduced by the Tife styles of the rich. This requires a redefinition of economic and social objectives which is of truly staggering proportions, a liquidation of the privileged groups and vested interests which may well be impossible in many societies, a redistribution of political and economic power which may only be achieved through revolutions rather than through an evolutionary change.

This also means that the developing countries have to search for a new development strategy. The old strategy is based on the quiet assumption that poverty can be taken care of through high growth rates which will eventually filter down to the masses. In this strategy, high growth rates are always better than low growth rates and distribution can be taken care of after growth is achieved. Both these premises have proved bankrupt by now.

It is not true that high growth rates are invariably preferable to low growth rates since they enlarge society's options. It all depends on the structure of these growth rates. If a high growth rate is achieved through rising military expenditures, or through the production of luxury goods for the rich and the privileged, it is not necessarily better than a lower growth rate which is more evenly distributed. In other words, judgements about different levels of growth rates cannot be made independently

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of the income distribution implicit in them. It is not merely a question of how much is produced, but what is produced and how it is distributed. The GNP measurements, unfortunately, do not register social satisfaction.

Here the second part of the old strategy comes in which argues that income distribution is a subsequent consideration. If there are more material goods and services in the system, they can always be redistributed in such a way as to create more social satisfaction. This is simply not true. And it is important that this line of reasoning be rejected as it has done considerable damage already.

It is not true for at least the following three reasons:

Poor societies have often very poor means of redistributing incomes. The coverage of the fiscal systems is generally very limited. Even when income distribution is extremely skewed, it is difficult to reach through direct taxation. To illustrate, even if 60% of the income accrues to 20% of the population in India, this still implies an average per capita income level of \$300 for the "rich" which is below the income tax exemption limit of \$400. In other words, income transfers from one sector to the other can be arranged only to a very limited extent in poor societies through the taxation machinery.

Income flows are not financial: they are in the form of physical goods and services. They are influenced by the initial distribution of income. If the society has increased its income in the form of luxury housing and motor cars, how do you really convert it into low cost housing and public buses, short of their physical take over by the poor?

The institutions which create growth are not neutral as to its distribution. Thus if the growth institutions are characterised by wide disparities in land holdings and concentrations of industrial wealth, the process of growth will strengthen them further and they will resist and frustrate all future attempts to take away their powers and privileges through orderly reforms. This is essentially what happened in Pakistan in the 1960's.

The new development strategy, therefore, must reject the thesis that poverty can be attacked indirectly through the growth rates filtering down to the masses. It must be based on the premise that poverty must be attacked directly.

What are the elements in such a direct attack on mass poverty? It is difficult to say at this stage since the developing countries are only beginning to perceive this problem in a new perspective. But let me mention a few elements which are critical:

To start with, the focus should shift to the poorest 40-50% in society. Who are they? How numerous are they? How have their living standards behaved over time? Let us find out a little more, even at this late stage, about the problem we set out to tackle about 20 years ago.

In planning national production targets, the basic minimum needs of these poor should be taken into account, irrespective of whether they can express them in the market or not. In other words, market demand - which is so largely influenced by existing income distribution - should be rejected explicitly in favour of fixing national consumption and production targets on the basis of minimum human needs. We have been slaves of the concept of market demand for too long. But the concept of market demand mocks poverty or plainly ignores it as the poor have very little purchasing power.

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It follows that the problem of development must be redefined as a selective attack on the worst forms of poverty. Development goals should be expressed in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. Social indicators must be developed and progress of plans must be measured in terms of specific and quantitative goals in these fields, not in terms of average per capita income. We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty first as the GNP can take care of itself since it is only a convenient summation, and not a motivation, for human efforts.

It also follows that the concerns for more production and better distribution should be brought together and not treated separately. This invariably means that employment should be treated as a primary, not a secondary, objective of development, since it is the most powerful means of redistributing incomes in a poor society. Capital should not be concentrated in a small modern sector, enjoying high productivity and savings, but spread thinly over a wide segment of the economy - through public works programs, if necessary, and even at the risk of lowering the average productivity of labour and lowering the future rate of growth. The poor societies have to squarely face this choice. They have a limited amount of capital. They can either raise the productivity of a small part of the labour force quite high in the modern sector, while leaving a large part unemployed, or settle for a lower average productivity but full employment. Again, it appears to me that Communist China made the second choice and was, therefore, able to achieve full employment and equitable income distribution at a relatively low level of per capita income.

But can such a strategy of development be conceived and implemented in the present political and economic structures in the developing countries? And here we come to the second of the disastrous decisions: the choice of the mixed economy. In most cases, such a choice has combined the worst, not the best, features of capitalism and socialism. It has often prevented the developing countries from honest-to-goodness economic incentives and free functioning of the price system to achieve efficiency in a capitalistic framework, if not equity: in reality, there have been too many inefficient administrative controls and price distortions. At the same time, it has prevented these societies from pursuing their goals in a truly socialistic framework as mixed economy institutions were often more capitalistic than not. And the end result often is that they fall between two stools: combining weak economic incentives with bureaucratic socialism. Neither the ends of growth nor equity are served by such confusion in social and political objectives within the framework of a mixed economy.

My own feeling is that the days of the mixed economy are numbered. The developing countries will have to become either more frankly capitalistic or more genuinely socialist. The capitalistic alternative is workable only in those situations where the society is willing to accept income inequalities over a long period of time without exploding, or where extremely high growth rates (10 to 15%) can be financed with a generous inflow of resources from Western friends. Otherwise, the only alternative is a genuinely socialist system, based on a different ideology and a different pattern of society. But this does not mean bureaucratic socialism or post-box socialism, it means a major change in the political balance of power within these societies and drastic economic and social reforms. Whether the developing countries can manage such a change without violent revolutions is a critical question of our time.

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And now let me turn briefly to the third disastrous decision: the dependence on foreign assistance. Let me make it quite clear that I am one of those who has always believed in economic liberalism and in a genuine partnership between the developed and the developing countries. But the sorry record of foreign assistance in the last two decades is beginning to convince me, as it has convinced many of my liberal colleagues, that the developing world would have been better off without such assistance. Unfortunately, I do not have the time to go into the early origins of foreign assistance, its changing motivations and its present plight, but let me offer a few observations quite baldly without elaboration.

The level of foreign assistance that is required for a meaningful change in the developing countries over a short period of a decade or so through the growth rate route is at least 4 to 5 times the present level of \$7 billion. The developed countries have neither the will nor the imagination to offer such assistance.

The present levels of assistance are only of a marginal significance for the developing countries and come with so many project conditions, country tying, foreign consultants and technology, and irritating debt problems, that they sap up the initiative and freedom of action of the developing world.

The developing countries must regard foreign assistance as an undependable residual in their total planning effort and turn their energies to internal institutional changes that are required for creating a different economic and social order, based on egalitarianism and second-best standard of living.

In the international field, the developing countries should organise their "poor power" to wring major concessions from the rich nations and to arrange for a genuine transfer of resources. Since the rich nations are going to shrink in the next few decades to less than 10% of the total world population with over 70% of world income, the poor will be numerous enough and annoyed enough to organise such an effort.

One element in such a confrontation will be to serve notice to the developed nations that the developing countries cannot pay their present foreign debt of \$60 billion and the world community must make arrangements for its orderly cancellation.

Another element will be to exploit their collective bargaining power in their negotiations with the rich. Recently, oil negotiations under OPEC are expected to yield \$20 billion of additional revenues to the oil producing countries by 1980. Similarly, if the developing countries can exploit the current concern about depletion of non-renewable resources and agitate for a 10% tax on consumers of these minerals, they could collect as much as \$30 billion over this decade for a common international development fund. Again, they can stake their claim to the commonly-held resources of mankind, like oceans and space, and start demanding that 80% of the proceeds from the exploitation of such resources should go to them on the basis of world population.

What I am trying to convey here is the emerging mood in the developing countries rather than my own deeply held beliefs. I am not an apostle of confrontation, nor am I prepared to forsake my own liberalism. But I think it is important that we realise that liberalism cannot survive in an illiberal world. The developing countries are passing through a very dark

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and ugly mood. They are questioning all the assumptions on which they based their early development strategy. I cannot predict what may come out of this re-examination. But if I have to make any guesses today, I would expect that economic development in the next few years will be increasingly based on a new strategy embodying a direct attack on mass poverty, a genuine turn towards socialism, and a far greater degree of self-reliance. This is the new manifesto that most developing countries are trying to articulate. But there is a wide gap between articulation and implementation, between dim perception and real action. The future of the developing world will turn on how far this gap can be bridged without violent political explosions.

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