

TRADE-OFF BETWEEN GROWTH AND SOCIAL JUSTICE OR EMPLOYMENT
IN THE THIRD WORLD ?

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"Those who take the meat from the table
Teach contentment.
Those for whom the taxes are destined
Demand sacrifice.
Those who eat their fill speak to the hungry
Of wonderful times to come.
Those who lead the country into the abyss
Call ruling too difficult
For ordinary folk."

Bertolt Brecht

Introduction

Much has been written on the subject of economic development in the Third World since World War II. Though elaborate economic theories, largely developed in the Western industrial countries, have contributed significantly towards understanding several of the special problems facing the emerging nations, the results, however, have not been satisfactory (Hahn; Matthews, 1964, pp. 1-124). Serious shortcomings have emerged on many crucial fronts; income disparities widened and unemployment increased.

Confronted with the above situation a number of scholars both in the developed and the developing countries have lately started to re-examine critically the hitherto prescribed models. This has been done to test the validity of the Western-oriented theory and practice of economic development as is being applied at present in the majority of the Third World countries¹⁾. In the pursuit of this

some experts have also turned their attention to the experience gained so far in the large socialist countries, particularly the Soviet Union, Poland, Yugoslavia and the People's Republic of China where difficult problems like social inequalities and unemployment have largely been tackled (Jalée, 1971, pp. 195-204; M.R.; Deleyne). This, however, brings out the all too frequent ideological differences between the goals and tools of economic theory as taught and practised in the capitalist and socialist countries.

This paper rejects the prescriptions which tolerate sharp inequalities and growing unemployment as a natural concomitant of early phases of development. It attempts to prove that there is no valid reason for a trade-off between growth and social justice or employment in the Third World²⁾.

The paper is divided into three parts, the first part deals with the overall theme, the second part attempts to explore possible new ways to set things right and the third part comes up with some reflections on the issue of trade-off between growth on the one hand, social justice and employment on the other.

Part I: Trade-Off Between Growth and Social Justice or Employment?

1. Too Much Emphasis on Capital

The role of 'capital' has been given too much importance. It is true, that the factor 'non-human' capital plays one of the key roles in the process of employment creation, but that does not mean that it alone can trigger

the whole process. Recent experience gained from the Green Revolution is a clear testimony to the fact that capital alone is not the only important factor in development. The amount of expenditure that went into this revolution mostly in countries such as India, Pakistan and the Philippines was no more than 20 million US dollars, while it generated additional quantities of wheat and rice worth hundreds of million dollars in recent years (Sufi, 1971, p.2). What is needed is not 'non-human' capital alone, but rather an appropriate factor combination. Developing countries lacking capital will have to devise a factor-mix which reflects the 'factor endowment' and fosters development which is socially acceptable.

Concepts such as the 'marginal rate of savings' can also be misleading. On this criterion, planners may perhaps be tempted to choose those projects which ensure the highest marginal rate of savings. But the tragedy inherent in this concept is that though the economy succeeds in generating the maximum savings from the amount invested, in the process, it by-passes important social goals and also neglects the mobilisation of the various factors of production.

The theoretical underpinnings of the above policy-mix stem from a Harrod-Domar-Lewis-Rostow view of development in which the driving force is capital accumulation, and the main problem is raising the proportion of savings in national income (Jolly, 1971, p.288). Harrod-Domar's model assumes that an economy has achieved a 'cumulative self-sustaining growth' if it can show a rate of investment of 10 to 12 per cent, with a capital-output ratio of 3:1 and the rate of population growth of two per cent per annum (Hahn; Matthews, 1965, pp.5-8).

2. Overdoing with the Inequality Rationale

Capital-oriented theories have led planners to believe that it is the factor 'non-human' capital which holds key to the development process. This is what Mahbub-ul-Haq, wrote in 1964 "... the planners must perforce choose sectoral allocations which encourage savings sectors in the economy." (p.117) The rationale behind Haq's saving-oriented policy was the concept of 'functional inequality' so faithfully followed by the Pakistani planners throughout the Sixties (till early 1969). Under this concept, the planners were strongly of the opinion, that a "high degree of inequality is necessary in order to promote savings and create entrepreneurial dynamism." (Maddison, 1971, p.136)

The practical consequence of the above thinking was that small 'islands' of development were created, while the larger agricultural sector, export or small scale industrial sub-sectors were neglected. It is obvious that such a policy generates very high productivity per worker, but it obliges the other mobilisable factors of production to remain out of the production cycle. Very often, under the above policy, growth has taken place at the expense of other enterprises (Wellisz 1971, p.128). Myint once explained this phenomenon of doling out capital and granting of all kinds of protections against imports to selected groups as a vivid reflection of the sharp inequalities existing in the social structures rather than the dictates of any economic rationale (1971, a, pp.315-347; see also, Singer, 1970, p.68). The higher rates of investment or marginal rates of savings earned in the "enclaves" have not always been achieved on criteria of efficiency, but very much on the "societal linkage" that

the entrepreneurial class enjoys with the existing government, the institutional network (f.i. banking) and even with foreign interests. Just one example from India would serve to expose the magnitude of unearned income reaped by certain entrepreneurs. One study alleged that import licenses have been instrumental in the generation of unearned income to the extent of 7500 million rupees (about 1000 million US dollars) during the period 1961-69. This seems clear when one knows that an import license with a face value of 100 rupees covering goods such as hydro-sulphate of soda, stainless steel and polyester fibres, was fetching the price of 500, 390 and 300 rupees respectively (Shenoy, 1971, pp.73-74).

An inequality-led development unfortunately fosters the production of those goods and services which, of course, fulfill the criterion of effective demand but which substantially underaccomodate the developmental requirement of a less developed country. Sideri offers an interesting explanation for this. In his view, the various import substitution industries in Latin American countries were encouraged not so much to step up the overall national development, but to meet the prevailing demand-structure (and venture pursuits) of the higher income brackets. This policy could also be partly interpreted as a wilful discrimination against domestic production of capital goods (1972, p.5). As higher incomes are only the privilege of the very few in many developing countries, the import substitution policy unless diverted to export at a later stage, suffers from lack of proper expansion. With few exceptions, such as the export of cotton textiles from India and Pakistan or a large variety of manufactures from South Korea and Taiwan (Mullick, 1971 b, pp.146-158)

the import substitution policy has not been too wisely conducted by the LDCs. Fels' studies reveal that the selection of import substitution industries was not well done; capital-intensive industries showing comparative disadvantage on national resource-endowment criteria, attracted the largest investment (1972, p.73). It seems apparent that the criterion behind this type of development of the majority of import substitution industries was not so much the fostering of national economic development, but more to allow the socially and politically powerful entrepreneurs the opportunity to earn easy profits. Expenditure on luxury goods, on the construction of bungalows and similar items is obviously not more than marginally beneficial for a development process.

Dudley Seers who led the Inter-Agency Team organized by the International Labour Office, Geneva, on Colombia's employment problems came to a similar conclusion. In his view, the availability (both domestic production and imports) of non-essential and luxury goods is directly related to the sharp inequalities in income in Colombia (1970, pp.386-387).

3. Underestimating the Need for Social Justice

Another important weakness in the present set of development policies in the majority of the Third World countries is the lack of adequate powerful social stimuli. Most of the poor countries' present economic ills are to be found in the unsuitable social structures existing in these countries. The power is held here by a few groups and no matter whether they belong to landed aristocracy, urban business and industrial obligarchy, military and civil elites, or foreign investors, the benefits of eco-

conomic development are very largely monopolized by them. Under these conditions, only a marginal residual filters down to the masses. Ralph Miliband made a pertinent remark while analysing the role of the state in a capitalist society. He writes: "... even if they (Latin American countries) were to receive wholly disinterested aid, which they do not, that aid would be stultified by the economic, social, political and administrative structures which dominate their existence, and which those who give the aid are indeed concerned to preserve ... These are often described as the inevitable limits imposed upon state action by a 'democratic' political system: much more accurately, they are limits imposed by property rights and unequal economic power, and which the state readily accepts and defends." (1969, pp.270-271)³⁾

Income disparities are very wide in the Latin American countries. It is estimated that at the beginning of the 1960's, about 20 per cent of the population had a per capita income of over \$ 1200, the next 30% received \$ 300 and the remaining half received \$ 100 (Sideri, 1972, p.13). In Brazil the data on income distribution reveals that despite GNP per capita growth of 2.5 per cent per annum over the last decade, the share of the national income received by the poorest 40 per cent of the population declined from 10 per cent in 1960 to 8 per cent in 1970. As against this, the share of the richest 5 per cent grew from 29 per cent to 38 during the same period. On national GNP per capita basis, the country did well, but on disaggregative criteria the poor became relatively poorer still (McNamara, April 14, 1972, p.792). No less dissimilar is the position in many of the Asian and African developing countries.

Though both Indian and Pakistani Plan documents set high goals of social equalities, in practice they did very little. This has been confirmed by the recent report "Poverty in India" (Dandekar; Rath, 1971) and the brief evaluation attempted in the Fourth Plan of Pakistan. The Dandekar and Rath report reveals that the consumption of the upper income groups has grown faster than the average, while at the other end of the income scale consumption per head has either declined (for the very poorest) or grown at a much slower pace (Shenoy, 1971, p.101). Barbara Skriver was therefore right when she commented: "India is quietly running her economy on purely capitalistic economic models. This side by side shouting of loud socialist election slogans" (1971, p.10). About Pakistan the Neue Zürcher Zeitung wrote: "There is no doubt that Pakistan's economy can easily show several positive results. This holds particularly true for a small section of the population which has been able to improve its material welfare substantially. On the contrary, however, the welfare level of the majority of the population, despite the rise in national average per capita income, has hardly improved" (March 1, 1968, c.f. Mullick, 1971 b, pp.7-9).

4. Neglect of Domestic Resource Endowments and the Emergence of Large-Scale Unemployment

Past evidence from many developing countries indicates that the hitherto 'enclave' biased and non-domestic resource endowments-adapted policy has failed to solve the problem of unemployment and under-employment. Meanwhile the situation has become so bad that, in some countries, even relatively higher growth rates have failed to absorb the increment in labour force not to speak of re-

ducing the enormous backlog⁴⁾. Just two examples:

- i) In Nigeria, about 60,000 persons leave school each year, while the number of new jobs created has averaged about 10,000 or 20,000.
- ii) The position in Latin America is not any better. Out of the 23 million new workers added to the urban labour force during 1925-1960, only 5 million were actually absorbed. The employment absorption ratio during the 1970's is expected to get worse. (Lindqvist, 1972, p.72)

The global picture is even gloomier. In the estimates of H.A.Turner, the magnitude of visible unemployment grew at an alarming rate of 8.5 per cent per annum in recent years in no less than fourteen Third World countries for which data were available (Jolly, 1971 b, p.4).

Dudley Seers quoting Trinidad's recent experience on the employment front asserts that "a rise in per capita income, ... can be accompanied by, and even cause unemployment" (1970 a, p.4). Further because of the capital bias of developmental activities, there are continuously fewer jobs for every dollar of investment over time. This is confirmed by the evidence in many countries. Studies undertaken by Ranis show that elasticity of employment relative to output in the industrial sector of many LDCs has been falling from .5 to .3 and below in some instances (1971, p.59)⁵⁾. Under the present conditions of surplus labour force and scarce supply of capital, developing countries will be able to show much better development if they succeed in introducing production functions that require more labour and less capital for every incremental unit of output (Stewart; Streeten, 1971, pp.159-160).

This of course is true so long as it is technologically feasible to substitute labour for capital.

It seems clear from the above that the present development-strategy mix as followed in most of the less developed countries unnecessarily favours scarce factors of production (capital and sophisticated skills) and this way it discriminates against the proper utilization of abundantly available factors, such as labour and rudimentary skills.

5. Development-Inimical Social Structures

The basic cause for the above described tragedy on the social front can reasonably be attributed to the present "early" capitalistic economic system thrust upon the majority of the Third World nations. There have been two factors responsible for this:

- i) The inability of the leadership to devise socially acceptable development systems, and
- ii) The use of "leverage" by the capitalist countries in promoting the emergence of powerful vested groups of capitalists or exploiters in the poor countries.⁶⁾

While addressing the Twelfth Meeting of the Board of Governors of the Inter-American Development Bank at Lima, Brigadier General Morales Bermudez explained the negative role of applying "leverage" by the richer nations: "... what has been termed "international cooperation" has been to date no more than collection of palliatives designed to alleviate some of the worst consequences of dependency without any intention of breaking the status quo of domination, on the contrary, seeking to perpetuate it by using

the need for financial aid as an instrument for applying pressure on the government of the recipient country" (I.A.D.B., 1971, p.97). These groups are now well established and enjoy sufficient strength to run a number of countries' economies on their terms, at least for one or two decades more.

Prebisch does not agree with those who blame the market mechanism for the present malaise but rather points to the prevailing social groups and the countervailing powers enjoyed by them (1970, p.186)⁷⁾. But as market is merely "an instrument of (the) existing institutions" (Magdoff, 1971, p.7), it can not do more than the role assigned to it.

It is apparent from the above discussion that fundamental changes either in income distribution or in job and entrepreneurial opportunities can not be carried out by making minor adjustments in the existing pattern of distorted market mechanism, but rather by changing the present social, economic and political structures.

Part II

Unlike the experience of the past decades during which development miserably failed on many fronts, particularly social justice and employment, the Third World is now in need of exploring new ways to meet the various challenges. One basic departure from the past prescriptions of development is the need to give development a more qualitative blend. It is only by doing so that planners will be able to step up and ensure both the rate of growth and equitable distribution of the development gains. It is true that Western development theories and practices

can offer some basic principles and tools for initiating development in the Third World, but as the realities of the recent past have shown, the emerging nations will have to evolve their own development-mix to suit the aspirations of their masses. Economists in the emerging nations - with the révolution of rising expectations going on in full swing - will hardly be able to afford advocacy of growth sans social justice; they will now be obliged to incorporate into their development models the social exigencies and the more qualitative aspects of life.

After having discussed in Part I the various factors affecting in one way or another the employment and social justice side of the development process, an attempt will now be made to find some new ways to bring necessary changes in the policy package of the developing countries. This must be accomplished with the idea to promote social justice side by side with maximum employment.

1. Western Development Experience: A Critique

While critically examining the various development theories of the Western World, one gets the impression that these theories and concepts do not seem to fit well into the peculiar conditions obtaining today in majority of the developing countries. An indication of the ineffectiveness of these theories can be observed from the failure on the part of many emerging nations to obtain:

- i) A socially acceptable distribution of the gains of development, and
- ii) A fuller utilization of available physical and human factor endowments.

One explanation for the failure of the Western eco-

conomic theories and practices seems to be their wrong premises in dealing with the economies of the Third World countries. Having grown out of Western countries' development experience, these theories and practices not only fail to recognize the fact that the economies of the LDCs differ a great deal from those of the developed nations, but also that they differ among themselves. The industrial countries' economies are run under democratic conditions, they enjoy a well developed market mechanism and are endowed with suitable socio-political and economic institutions. On the other hand, the developing countries suffer from social discriminations against non-capitalist sectors, imperfect market mechanisms, dictatorial or pseudo-democratic systems, external interferences⁸⁾ and last but not least, the prevalence of sharp income inequalities with their negative impact on output and broadspread consumption. This is manifested in living and working conditions and opportunities which point out the extreme contrast that exists between developing and developed countries.

The sharp differences in income and opportunities have a direct and much more unfavourable impact on production and employment in underdeveloped countries than in developed economies. In the affluent societies, individuals whether enjoying higher or lower income invariably reserve a certain percentage of their income for purposes of investment.

The mere fact that the present constellation of socio-economic and political forces are both the product and at the same time the defenders of an inequitable order, the new resources injected into the economies of these countries planned or unplanned, automatically begin to work in the light of the prevailing constellations. Press-free-

dom and other institutions which play an important role in minimizing inequalities or in suppressing the emergence of imperfect competition in the industrial countries are not always available to the developing countries. The unfortunate consequence of this phenomenon is that inequalities in income along with inequalities in opportunities, have become the order of the day in most of the developing countries. The above economic thinking, based, as it is, very much on the foundations of "disequalizing" forces, does not promote an efficient and well-spread development. On the contrary, it maximizes the wealth of the richer groups and this way strengthens their hold over the poor masses. In a nutshell "under-development" is not merely the backwardness of some in relation to the growth of others, but also the negative side of conditions under which the development of some receives support and which others must bear. In this sense, underdevelopment amounts essentially to social and economic imbalance at the national, regional, and international levels" (Bermúdez, 1971, p.91). Social tensions between the majority 'have nots' and the few 'haves' have also led to permanent flight of capital from the Third World into the industrial countries.⁹⁾

2. Net Aggregative but Well-Spread Growth

Mere achievement of a high statistical growth rate can not be taken to mean that the country has progressed. Similarly the mere production of more steel does not mean much for the real development of the economy, if it is largely used in the construction of luxury bungalows or military weapons (Baade, 1970, p.194, Table 9)¹⁰⁾ instead of in the manufacture of agricultural machinery or other reproductive goods. The tragedy with many countries has

been that merely to fulfil growth goals, huge funds have been wasted in spurious economic pursuits, while deserving economic projects capable of providing a real development base to the economy, though, perhaps not in the short run but surely in the long run, have been neglected.

The growth theories which overly emphasize aggregative criteria seem to have done the greatest damage to the younger nations. They promised progress but they delivered quantitative growth sans social justice. Contrary to Rostow's expectations that a good leadership devoted to achieving a maximum rate of investment would trigger a take-off or a self-sustaining growth, the Third World countries have fallen victim to the sweet pill of capitalism. The forces of struggle and social formations, which Rostow completely excluded in his treatise, are creating unaccountable difficulties for the younger nations.¹¹⁾ Though Rostow's model of development was well received, it failed to gain the place the author intended for it when he named it "A Second Manifesto". Perhaps one reason for this is that "Rostow thinks more in terms of steel and bricks than of men. Nationalism plus-imported cash (and the resources it will buy), plus-imported techniques, plus programming will do the job ..." (Wright, 1960, p.85). "The truth of the matter is that Rostow's main emphasis on the technical rather than the social aspects of growth has led him all unconsciously into a position of what, from the standpoint of history, can only be described as extreme shortsightedness and reaction." (Wright, 1960, pp.87-88)

3. Some New Ways and Criteria of Development

One way to foster economic development in the Third

World is to draw increasingly on the surplus resource "of raw labour". This resource is abundantly available in many of the developing countries and there is no reason why a number of development equations can not be formulated to show new ways to gradually substitute human labour for capital. This shift in development policy can not, however, take place under the prevailing economic power constellations (20 per cent of the population dominating both production and distribution). With the increasing use of raw labour, both production and distribution will have to be restructured. This will obviously involve demonopolization of the present "Twenty Percenters" dominated economy.

The above policy switch will have far-reaching consequences for the overall economy. Even the export sector will be affected. At present this sector is subject to the rules of the economic games which unfortunately do not serve very much the overall national aims, but the special interest of the "Twenty Percenters". Perhaps it was due to this strong "Twenty Percenters" linkage that Samir Amin felt justified to say that for many economies "it is integration into world markets that is the real obstacle to development" (1971, p.313). Countries such as India and Pakistan, can not develop on the basis of a "Twenty Percenters" led economy or for that matter on limited export trade, but must rather mobilize their hitherto unutilized resource endowments. It is this national orientation of the economy which is the sine qua non for any natural development. Though it is possible that such an orientation to national integration would during the early phase weaken the links with the world trade countries, there, however, is no denying the fact that

this policy if energetically followed would open new prospects for a well-spread and deep rooted development. It will, for instance, gradually reduce the present dominating role of the privileged modern sector and energetically encourage the national periphery centres. Once this process has begun, the utilization of the national resources, e.g. surplus labour power, traditional skills, and other resources, would soon begin gaining momentum. Under this situation the economy would no longer remain the hegemony of the "Twenty Percenters" but it will begin to take into its fold the rest of the "Eighty Percenters" as well. This new development will of course generate a different pattern of demand, consisting not of the usual expensive consumer goods and housing. It is indeed unfortunate to observe that the patterns of upper-class consumption and of government investment in many of the poor countries despite so much sloganing on the need to achieve quicker development, are still determined on criteria of prestige and "showmanship" rather than on economically desirable and socially acceptable "growthmanship".

Samir Amin forcefully rejects the world integration thesis on the plea that it generates dependence and does not invariably adequately compensate for the losses accruing therefrom to the national economy. In his own words "It is the outward-oriented nature of "underdeveloped" economies (their links to foreign trade) which is the basis of the systematic biases in their development that take the form of the dislocation of such economies and the accentuation of sectoral disparities in productivity" (1971, p.326). India provides a vivid example of how an "outward integrated" economy has led to the emergence of large-scale unemployment, side by side with wide-spread

social injustice, and only pockets of affluence here and there.

Another feature observed is the present large-scale migration of workers from the periphery centres into the metropolises. This is also a clear indication of the wrong development strategy mix being followed in most of the emerging less developed countries. It is indeed highly unfortunate that the LDCs planners have so far failed to make fuller and proper use of their resource number one, i.e. manpower. Somewhere, the industrial countries are also to be blamed for this situation. For example, Giersch points out that the industrial countries' could open markets for goods enjoying comparative production advantage in the Third World. (1971, pp.33 & 35)

In order to promote development along social lines, planners will have to change their traditional thinking a great deal. Hirschman too shares the view that by broad-basing the process of development, gradually removing the duality character now obtaining between the modern sector and the 'preindustrial sector', would set the stage for a unified development and in course of time lead to a more even and fuller development of the available resources (1966, pp.129-131). One important way will be to accept social justice as one of the most indispensable goals of development. Pajestka suggests the introduction of a new matrix in the methodology of planning. "It would be interesting", he says, "to develop a new ... matrix of development inter-relationships, the 'inputs' side of which would cover different economic factors, while the 'outputs' side would deal with the social effects of their various applications. These social effects would include the impact on employment, on income, on the qualifica-

tions of individuals, on health, on cultural development, etc." (1970, p.26). Unfortunately, however, development plans have so far placed too much emphasis on GNP targets while neglecting the far more important goals aimed at either increasing employment, social welfare or improvement in income distribution. Dudley Seers comes to almost the same conclusions. He proposes the inclusion of social criteria, including among others reduction of unemployment, poverty and (income) inequality (September, 1970, p.10). De Vries has come out recently for a still more transparent criterion. In his view, development should clearly show, on disaggregative basis, positive improvements made in the field of clothing, food consumption, houses, education, public utilities, etc. (1972, p.14).

There is no doubt that the above criteria are far better suited to promote maximum possible development and at the same time to generate adequate social justice among the broad toiling masses now leading a life of impoverishment and dejection in the wider emerging world.

4. Self-Reliance and New Institutional Network to Spearhead Development

The Third World countries do not seem to be poor in development conducive social structures etc. alone but they also suffer from several other constraints. First of all, they suffer from the will to help themselves. This is apparent if one looks at the lofty goals they set in development plans, and how little they realize in actual practice. There have been instances in which developing countries have had excess capacities in industry or agriculture, while leaders were running after foreign aid to establish new enterprises.¹²⁾ This takes place, not on the

criterion of economic efficiency (seen from national angle), but more to fleece the maximum profit. Because of over-valued currencies, subsidised interest rates, high depreciation allowances, and high investment premiums, it simply pays the entrepreneurs - of course only those enjoying special connections with the government and other developmental agencies - to go in for new ventures. Manufacturers of machinery and equipment in the industrial countries (the aid donors) also find it lucrative to do business by meeting the demand of entrepreneurs in the Third World, irrespective of the socio-economic justification of the new ventures. Western experts even occasionally succeed in persuading their own governments to associate themselves in these bargains. This association takes place in the form of subsidies on export credits and issuance of guarantees on their repayments. The above alliance between the well-connected entrepreneurs in the Third World and the pro-aid lobby-backed manufacturers in the Western Industrial countries facilitate the capital intensive machinery and techniques originally developed for labour scarce countries to find their way into surplus labour LDCs. Complaints against capital intensive technology have in recent times become frequent, also by United Nations Agencies, like the UNCTAD. Giersch stresses the importance of developing a new technology mix which can suitably serve the needs of small and medium sized firms in the labour-surplus developing countries (1971, pp.34-35). But can something be done to stop their inflow as long as the "Twenty Percenters" (entrepreneurs, and others) block any effective demand for desired labour intensive technology. It is too difficult to introduce the latter without changing the present too much capital-intensive linked entrepreneurial power structure. The story does not end here.

Some aid donor countries have found it more convenient to supply the food deficient countries with wheat though knowing too well that the beneficiary countries were able to produce it on their own farms by importing fertilizers worth one-tenth the cost of foreign exchange spent on the imported grains.

Other weaknesses generally observed in the developing countries are the development of industries such as oil in many of the Middle East countries, which form an integral part of the far off industrial countries (having large complexes of chemical and other oil based industries) thus remaining foreign to their host countries. It is no wonder that in this way the larger benefits from these industries escape to foreign lands. The situation in the oil-producing LDCs looks gloomier still if one considers that these countries are getting poorer every day by the simple process of gradual dispossession of their mineral wealth. Such a policy obviously goes counter to the dictates of national development strategy by which "current resources are used to increase the stock of resources in the future" (Johnson, 1968, p.17)

The inadequacy of an institutional network for research, training and education of the labour force is invariably also one of the serious missing links observed in the poor countries' development efforts. Education is spreading at a great tempo in many countries, but this again is not properly devotailed to meet the developmental needs. "Instead of providing the skills and determination needed to grasp any opportunities that exist of revolutionizing agriculture, schools become little more than agencies to provide passports to escape to the towns. And even then, instead of providing practical skills for

urban jobs, schools encourage a distaste of manual work and a preference for the academics (Jolly, a, 1970, p.209). It is indeed astonishing to see many countries lacking technical personnel on the one hand, facing surplus of educated people on the other hand. The problem of the brain drain is also connected with this phenomenon. As growth in modern sector is inadequate to absorb the growing number of professionals and people possessing intermediate skills, quite a large number of them try to migrate to industrial countries, like United Kingdom and West Germany. This flight of human capital is of course inevitable as long as the national economies of the Third World do not generate effective demand for these skills through broadening the base of economic development.

A country like China with its broad-based development and development-oriented educational policy does not, however, face either extreme excesses or shortages in the number of the personnel required.

As shown in this analysis, the root causes of present employment problems are not to be found or attributed solely to the shortage of capital, but to a variety of other social constraints as well. The chief among these constraints is the social discrimination often practised in a subtle manner against the non-capitalist sectors. One aspect of this discrimination is the government's failing to provide adequately essential facilities to small entrepreneurs e.g. research, training, credit and infrastructure. The present economic policies tend to encourage only selected groups or individuals at the cost of the masses, in certain instances. Unless these harmful practices are abandoned, there is not much hope of any large scale improvement in the employment situation.¹³⁾

Myint has come to a similar conclusion when he recently advocated the reduction of the economic dualism which in his view "discriminates in favour of large-scale economic units both in the 'modern' manufacturing industry and in 'modern' agriculture and against the small industries and peasant farmers" (1971 b, p.105).

Part III: Some Reflections

As development means "... the movement of the whole system upwards,"¹⁴⁾ the new order presented in this paper should and must aim at orienting the process of development in such a way that it ensures both efficient, and at the same time, equitable development. It is only in this way that the Third World can hope to eliminate sharp inequalities and enable the broad masses to play an increasingly active role in the development process. Development should be made to serve all. People are unemployed in the developing countries not because they are unwilling to work, but simply because they are kept out of the developmental wheel held in subjugation by the existing pressure groups¹⁵⁾: the general belief that social equality interferes with the achievement of high rates of economic development does not seem to be tenable. Maddison, who tried to check the role of 'functional inequality' in Pakistan's development performance did not find any casual relationship between inequality and 'growthmanship'. In his own words: "It is, of course, true that Pakistan's aggregative growth was reasonably rapid in the 1960's, but there is no real evidence that inequality has contributed to the growth process" (1971, p.137). It is perhaps the reverse which is more true" ... Pakistan's policy of putting growth before equity" (Maddison, 1971, p.163), as

everybody now knows, contributed greatly to the end of the Ayub regime.

The emerging nations are today confronted with great challenges on both employment and social fronts. Responses to these tasks, however, are not so easy. The task of economic theories under these circumstances is not to strengthen the status quo - the exploitative system - but to break it up: their job is to show ways to promote and ensure efficient production and equitable distribution of the fruits of human endeavour. Any economic goals short of these basic criteria, no matter how appealing they may look, still will keep man the target of exploitation instead of helping him to develop his talents and energies and achieve his rightful place in the society.

Granted that the people in the less developed countries need foreign aid to cover the foreign resource gap in their plan outlays. But how can they claim aid "as long as they are ruled by rich oligarchies, as long as they show sharp increasing inequalities, as long as land reforms remain as a sham and the opportunity for education remains undemocratic and therefore anti-developmental in its effects ..." (Myrdal, 1972, p.21). On purely moral considerations, aid would only be forthcoming of the Third World countries first demonstrated their strong determination to implement some of the long overdue internal reforms aiming at broad-basing the process of development.

The development during the last two decades has shown that many developing countries, among them, North Korea, North Vietnam, Cuba, Peru and Algeria which once belonged to the Western sphere of 'economic system' have largely moved to the socialist camp or trying to develop their own

system(s) of development. Politics aside, one of the pressing reasons behind this development was the Western economic system's inability to cope adequately with the particular problems of the emerging nations. Experts at home in Western economic theories and practices know for certain that there is a lot of wisdom associated with the Western system, but under the prevailing conditions in the developing countries, this 'basket of knowledge' can not be of much use. With the awakening of the masses in the new nations, a completely new 'spirit of emancipation' has emerged. This, whether one likes it or not, is not going to be satisfied with the age-old quantitative GNP-growth rates, or even employment figures, but demands both qualitative and equitably distributive development performance. Even in the Western countries the quantitative approach is facing severe criticism; people are now demanding cleaner environments and socially-tenable ownership of the means of production.

The advocates of GNP growth rates have failed: the achievement of more growth without development is to climb first a peak and then await a fall. The Third World, frustrated as it is with the 'capital' models, must seriously struggle to look for new models suited to meet both their social demands and their resource endowments. The analysis presented in this paper makes it amply clear that there is no valid trade-off between growth on the one hand, social justice and employment on the other. The truth in fact is: Unless the growth process looks after the social justice and the employment equation, it ceases to mean anything.

Footnotes

- 1) In our treatment of the problem of development, we have considered only those less-developed countries which follow more or less capitalist systems. Less-developed countries such as Cuba, North Korea and North Vietnam are kept outside our analysis.
- 2) de Vries says: "It is extremely unlikely that full employment policies would induce a deceleration of growth. How would improve utilization of human resources throughout society reduce output below the production levels of economies in which 30 per cent of urban labour is unemployed and needs public support, not to speak of the production impact of widespread rural underemployment? On the contrary, it can be expected that fuller utilization of human resources will produce far higher growth and investment rates than have been achieved in the past decade." (p.14)
- 3) Professor Jacoby (Stockholm) is very critical of foreign aid. In his view, both multilateral and bilateral aid programmes, have so far concentrated more on growth than on development. The consequence of this policy has been that social tensions have further increased in the underdeveloped countries ... Foreign credits do not promote the desired changes in the economic and social structures prevailing in the poor countries. On the contrary, these credits help to strengthen still further the hands of the already established classes. A typical example of this phenomenon is to be found in the Philippines. The Philippines received substantial foreign aid in the recent past. But unfortunately, these aid funds were made available to those selected groups who already owned large agricultural holdings of industrial enterprises. In this way, aid went to benefit only the few rich and not the broad masses who actually needed it (cf. Paper read at the Agromisa Symposium, Wageningen, Holland, May 1970).
- 4) In his book "One Hundred Countries - Two Billion People: The Dimensions of Development", McNamara writes "... by any reasonable definition - and making allowances for underemployment-unemployment approximates 20-25 per cent in most developing countries' ..." (1973, p.60, Pall Mall Press, London). Estimates by the International Labour Office, Geneva, are even higher.

- 5) See also Prebisch (1970, pp.3 and 280): Percentage of labour force engaged in industry in Latin America declined from 35.0 in 1950 to 31.8 in 1965.
- 6) There are various ways of applying this leverage. The most popular is through the instrumentation of aid. The granting of official aid "may ... help to create and sustain, within Third World countries, a class which is dependent on the continued existence of aid and foreign private investment" (Hayter, 1971, p.9)...., it may also facilitate the outflows of private profits and even flight of capital (c.f. Hayter, 1971, p.10). This ulterior motive of aid is also confirmed by Dudley Seers, when he says: "Aid often in effect leads ... to support or even help governments which oppose the redistribution of income and in other ways block development." (1970 a, p.2)
- 7) Dudley Seers (c.f. 1970 a, p.2).
- 8) Bermúdez too agrees with this when he says: "Conditions in our countries are not like those in most developed countries, where the systems and means of production make it possible to satisfy the requirements of well-being and leave a considerable part for investment. In this manner, they are able to achieve economic growth and offer their people ever-improving standards of living". (1971, p.92)
- 9) About 5 billion annually (Paech, 1969, p.116).
- 10) According to a survey of the Stockholm International Peace Research Institute (SIPRI), the flow of armaments from the rich to the poor countries amounted to the stupendous total of \$ 17.4 billion over the years since the end of WW II. (Myrdal, G., 1972, p.20)
- 11) Rostow wrote: "I would not wish to enter into a discussion of whether there is one or there are many roads to socialism. But there are many roads to economic growth. Coexistence demands that we leave the outcome of the ideological debate to the processes of history within each of these societies and permit them to solve problems in a setting where capital and technical assistance are made available to them without strings concerning their political and military orientation." (1960, p.82)

- 12) Gordon C. Winston found out that in West Pakistan in 1965-66 average industrial firm operated its equipment only 33% of the full capacity on twenty hours a day basis (1971, p.38). While announcing the decision to devalue the rupee, Dr. Mubashir Hasan, Pakistan's Minister for Finance, Development and Planning strongly criticized the hitherto policy of allowing liberal import of capital goods at the official rate of exchange (100 to 150 per cent lower than the open market price). This in his view was not justified as the capacity of the plants already installed in the industrial sector was considerably under-utilized. Quoting data from a capacity-survey for the year 1969-70, the Minister cited a number of industries running at a low rate of capacity utilization.

<u>Industry</u>	<u>Capacity Utilization in percentage</u>
Machine tools	11
Cables and wires	18
Diesel engines	19
Electric motors	21
Steel and non-ferrous castings	30
Buses and tractors	31
Bicycles	33
Paper	48
Ship-building and repair	53

Source: DAWN, Karachi, May 13, 1972, p.5

- 13) In his address to the UNCTAD at Santiago, Chile, Antonio Ortiz Mena said: "... our countries have been importing capital intensive technology that is not appropriate to our conditions and that involves excessively high social costs, particularly in the form of rising level of unemployment." (I.A.D.B., April 21, 1972, Washington, D.C., p.6) unpublished.
- 14) Myrdal, C. (see Pajestka, 1970, p.4)
- 15) von Hayek shares this view when he says: "Der viel beklagte Mangel an Unternehmungsgeist in manchen jungen Ländern scheint mir nicht eine unabänderliche Eigenschaft der einzelnen, sondern die Folge von Beschränkungen zu sein, die die herrschenden Anschauungen ihnen auferlegen." (1968, pp.15-16)

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