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A Model of Development For the Middle Level Country

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Prime Minister Edward Seaga with Dr. Geraldine Woods, chairman of the Howard University Board of Trustees, and Dr. Roger Estep (far right) vice president for Development and University Relations.

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By Edward Seaga

The following was excerpted from the Mordecai Wyatt Johnson Memorial Lecture by the Prime Minister of Jamaica, October 7, 1982. The lecture series, now in its fifth year, is presented annually in honor of the 13th President of Howard University. Ed.

I am delighted to be back with you—particularly so because of the special ties this distinguished university has developed with Jamaica and Jamaicans over many years. A great many of our sons and daughters have received and are receiving their professional education here, and I dare say that at least 90% of our dentists have been trained at your world-famous dental school. Indeed, one of your graduates is minister of agriculture in the Cabinet of my administration, another is in the Senate, and a third is in the House of Representatives on the majority side.

I am conscious of the honor you have done me by inviting me to deliver the Fifth Mordecai Wyatt Johnson Memorial Lecture. I know in what esteem you hold the memory of Dr. Johnson — we are surrounded by many symbols of that esteem. I believe the principles and traditions which he stood for—his championing of the free expression of ideas, the ground he broke as the first Black president of this great institution in bridging worlds and advancing understanding between peoples and races—that these are the prescriptions for the survival of the civilized world.

In the final analysis all democratic governments are committed to improving the quality of life and range of opportunity of the people they represent. But to do so, to achieve those goals of broad humanitarian development to which wisdom and compassion compel us, we must examine with detachment the strategies which give us the greatest chance of successfully reaching them.

I wish to talk to you about the strategy which I believe can best attain a quality of life for the peoples of middle level countries of the developing world.

The jargon of today's media easily disposes of the geo-political differences among countries by a simplified classification which labels these differences as part of the "East-West struggle," the "North-South dialogue," or both. While this simplification is convenient, it represents an insufficiency of insight into the nature of the political and economic space between opposite poles.

Within this space is, in fact, a number of quite distinct types of socio-economic models reflecting transitional stages of development. I wish to draw attention to a category of countries which is emerging as a group, with its own character and international significance in the world community.

We live in a world of mass communication, which deals in containerized categories, and to establish a separate identity entails being significant enough to get your own container.

This is the predicament of identity definition confronting a group of countries merged within the broad span of Third World nations. I refer to them as middle level countries, but I have seen other names attached as they gradually attain international recognition.

While it is true that this group also occupies the middle income strata among nations and could be identified by per capita income criteria, a better identification can be made in terms of geographical spread and economic structure.

The miracle growth countries of southeast Asia—the Republic of Korea, Singapore, Taiwan, Malaya—are the front runners of the group, and its most successful achievers. But other middle level countries abound in the Caribbean — Barbados, Bahamas, Trinidad and Tobago, Jamaica—indeed, most of the Caribbean islands. There are others in Oceania, in the southern Pacific, as well as in Latin America.

As a group, these countries stand mid-way on the ladder of development. Up to two decades ago, that was "no-man's land": Too high up the ladder to receive full treatment in the bounty of aid flows; too low down to attract serious attention from external private investment resources.

But it is the peculiar structure of their economies that most clearly sets this group apart. In the same society and the same economy, different tiers of development exist side-by-side. Being midway on the development ladder brings with it an internal as well as an external dynamic which has the effect of producing in the same country some sectors which show the sophistication and complexity of first world development while others remain underdeveloped.

Observation readily establishes the dual nature of such economies — the bustling urban industrial sector with modern facilities and amenities, on the one hand, the less responsive, sometimes even dormant, rural agricultural sector, on the other.

"The system must devise policies to continue to stimulate rapid urban growth... generate greater response from the rural sector."

This sectoral inequity has been identified by writers interested in the disparities of economic growth, and is perhaps most vividly and succinctly described as "the gap between the haves and the have-nots."

Characteristically, middle level countries feature this gap as an inevitable spread between the faster growing modern sector and the less responsive traditional counterpart.

The distinctive features of this model, in turn, present a number of challenges that require special strategies. The system must devise policies to continue to stimulate rapid urban growth; likewise, it must generate greater response from the rural sector. Finally, it must develop strategies to contain the problems which flow from the disparity of development between the fast and slow growth sectors while attempting to narrow the gap.

Many countries in which this model is typified recognize that the disparity of development internally can prejudice the gains of rapid growth to narrow the gap.

At one extreme, some countries attempt to artificially distribute resources on a welfare basis to compensate for underdevelopment, only to find that the resource base dries up since a new product is not being created.

At the other extreme, some attempt (dictatorially) to suppress dissension in the low growth sector to allow the fast growth area to continue to thrive. Sooner or later this strategy ends in national strife, instability, or revolutionary attack on the system.

If these were the only choices of strategy, there would be few survivors. In fact, the survival of those which constitute the broadening band of successful middle level countries, with growing records of achievement, can be attributed to a strategy of enlightened pragmatism that eschews extremes: Creating the climate to promote rapid *private sector* development of the modern industrial part of the economy and improving buoyancy and the revenues, on the one hand, while utilizing these revenues through *public sector* projects to stimulate rural growth, narrow the gap, and reduce inequities, on the other.

In other words, a mix of strategies is involved, which cuts across East-West and North-South compartments and the capitalist-socialist labels too easily associated with them.

This interdigitation of strategies may sound like the compromise of a "mixed economy," except that there are many types of "mixed economies" some of which, by virtue of the incompatibility of the mix, create "mixed-up economies." The world abounds in "mixed economies" which fail to stimulate either the private sector component or to generate a public sector thrust.

In such areas, the reasons for the failure are not difficult to find. They are a lack of definition of the boundaries within which state intervention begins and ends; even worse, a policy of state intervention which is negative in direction.

Unknown boundaries in state interventionist policies leave an atmosphere that can cloud and befog the climate for growth, inhibiting confidence in the future.

A contraction of confidence in the future will create a contraction of commitment to the present. Initiative disappears and motivation stagnates; the prevailing instinct is to carry on as usual with little venture and investment. People play safe and avoid risk; the energy that drives entrepreneurial endeavor dries up and the engine of growth stalls.

"Overreliance on industrial development and heavy inputs into the modern sector does distort the benefits of the development process."

Worse yet, a policy of negative intervention by the state generates irreversible flight and panic. The policy I refer to here is one which sees the narrowing of the gap between fast and slow growing sectors as a "pulling down" process by which the surplus from above is deliberately redistributed to the needy below. Recent history is replete with the failure of this approach. With the contraction of the productive sector in the "pulling down" process the cake fails to grow and the slices get thinner as the distribution gets wider. At the end of the line, poverty—not wealth—is distributed.

The antithesis, of course, is a "pulling up" process, deliberate policies to promote development at the bottom, to generate growth from the bottom up.

This has the dual effect of both stimulating new growth and narrowing the gap. The "pulling down" process, on the other hand, only narrows the gap; it fails to create new growth.

The cynics, of course, dismiss any model which attempts to reduce the disparities in economic development by a strategy of generating growth as a "trickle-down" theory. They argue that growth in GDP is not in itself a good thing if that growth injects input only at the top, for the best that can be hoped for is that some benefits will "trickle down."

The criticism is not to be dismissed lightly if, in fact, investment is based on heavy concentration on urban industrial development. Overreliance on industrial development and heavy inputs into the modern sector does distort the benefits of the development process.

But the critics can be confounded by a specific and deliberate policy to boost investment in the lower levels of the economy, to generate additional growth and development capable of pulling the traditional sector into the mainstream of development.

None of this, however, can be effective as instrument of policy without a mechanism of implementation.

Too often countries with dual economies fail to give the necessary thrust to both levels, flying only on one wing as it were. A deliberate policy must be backed by a deliberate mechanism to ensure completion.

The Jamaican Example

It is appropriate at this stage to interject the Jamaican example as a case in point.

The effort to re-build our shattered economy demanded an approach which would lead to the quickest path to recovery. The logical strategy was to generate heavy investment and contain inflation; to induce real growth and employment with prudent financial management; to reduce deficits on both fiscal and external accounts.

All this has been done with remarkable results. In 1981 we achieved:

- Positive growth for the first time in nine years;
- A 26% increase in capital formation after an average of 6% (per annum) over the previous eight years;

Dr. Carl Anderson, Vice President for Student Affairs with Prime Minister Edward Seaga

- 100 new investment starts in one year, compared with very few new investments over the previous eight years;
- A balance of payment surplus in 1981-82 fiscal year, the first in seven years;
- Marginal reduction in unemployment;
- A dramatic fall in inflation from an eight-year annual average of 23% to 4.7% in one year.

The strategy which produced this turnaround must continue to be a major factor in our recovery program.

But by itself, it cannot ultimately produce the result of narrowing the sectoral gap unless it is supplemented by other measures to induce investment at the lower level of the economy as well as to give effect to the pulling up process.

To implement this policy, we have this year (1982) introduced a unique concept of stimulating growth in the informal economy.

The informal sector encompasses petty trading, low level skills, cottage industries, and the small farm agricultural area of the economy. It lacks both investment and skills.

"A special institution has been created . . . to close the gap. . . ."

Our government's deliberate policy is to provide both. Heavy injections of available credit resources are being provided through specially structured institutions.

Given available resources, the mechanisms required were not too difficult to fashion to provide significant credit to those sectors.

The real challenges emerged in the creation of a mechanism for training in low level skills, both for employment and self-employment, the rationale being the need to convert surplus unskilled and unemployable persons to skilled members of the labor force capable of finding employment or generating self-employment. Only in this way can the development process ensure meaningful participation in job creation at this level.

To effect this, a special institution has been created with the acronym H.E.A.R.T. — Human Employment And Resource Training. Its purpose is to recruit and train enough persons, mainly youth, to close the gap for skills training in categories required in the informal economy over the next five years.

In fact, this challenge was met by the shifting of a part of the training to the private sector. To ensure this, a 3% payroll tax was levied on employers on the basis that this tax could be avoided by spending the equivalent to train young school-leavers for one year in any area of operation undertaken by the participating enterprise.

The program is structured for three years, with tax credits in excess of 75% to the employers for continued training in years two and three.

Other aspects of the program involve residential training in youth camps (operated by the government) covering a range of vocational skills.

One expected effect of the H.E.A.R.T. program is the recovery of precious human resources which would have been bypassed in any development strategy not aimed directly at the informal economy.

But the ultimate result will be a creation of additional growth, generation of new employment and the conversion of wasted talent into creative activity, and a more effective strategy for balanced and equitable growth.

To balance growth with distribution objectives has been a long sought formula for harmonious development. Generally, one is at the expense of the other with the dire consequence that exclusion of either further deprives the underprivileged.

It is true that this problem of growth and gaps is a middle level country phenomenon, and the strategy of redress as outlined here will have impact on this group of countries.

But this is not to be underplayed. A special characteristic of middle level countries is that they occupy the hierarchical position next to achieving self-sustaining status. They are the next graduates in the system from the ranks of the poor.

"A model for development is as good as what it does to enhance the opportunity and welfare of the people."

This strategy which I have outlined assists the development process toward a point of take-offs ensuring that the development stage is not transfixed.

To be sure, the middle level countries themselves have different levels of achievement and still many problems they have not yet solved.

No comparative collective assessment can overlook the positive gains in greater measure, which can be made in addressing economic wants and social needs through balanced economic strategies for jobs, treat the sick, tend the poor, teach the young, harvest the crops, build the homes, stock the shops, install the machines — without running out of resources, opportunity, or hope.

Some economic systems can spectacularly allocate and distribute resources to do all of these things until the resource base dries up.

The balanced strategy of which I speak, the countries of which I speak, have best demonstrated in the developing world how to build on opportunity, to create more, to preserve gain, to distribute more, so that people may derive more.

In the final analysis, this is the bottom line: A model for development is as good as what it does to enhance the opportunity and welfare of the people. The final test of any strategy is, and will continue to be, whether it is a more efficient way of reducing poverty, unemployment, malnutrition and illiteracy — all those ills that plague the developing world and assault the consciences of us all, and tempt many a politician to let frustration lead to rhetoric without understanding that it is the rhetoric of performance that will finally speak loudest. □