1967

Rich and the poor a comparative study in international business

Rauf A. Khan
The University of Montana

THE RICH AND THE POOR

A COMPARATIVE STUDY IN INTERNATIONAL BUSINESS

By

Rauf Ahmed Khan

B.S., Montana State University, 1958

Presented in partial fulfillment of the requirements for the degree of

Master of Business Administration

UNIVERSITY OF MONTANA

1967

Approved by:

Chairman, Board of Examiners

Dean, Graduate School

-25

Date

"FOR UNTO EVERY ONE THAT HATH
SHALL BE GIVEN, AND HE SHALL
HAVE ABUNDANCE; BUT FROM HIM
THAT HATH NOT SHALL BE TAKEN
AWAY THAT WHICH HE HATH."

St. Matthew, XXV, 29

ACKNOWLEDGMENT

The writer's chief acknowledgment goes to Dr. Glenn R. Barth for the scholarly guidance and assistance in the preparation of this paper from its formative stages. Special appreciation is due Mr. Hubert R. Breuninger and Dr. Lawrence J. Hunt for their helpful advice.

I am deeply indebted to Dr. William Alumkal of DuPont Research and Dr. M. Menon, Professor of Business Economics, University of Bombay, India, who offered valuable suggestions and provided reference material, without which this study would not have been possible.

July 27, 1967 Rauf A. Khan

TABLE OF CONTENTS

INTRODUCTION

The world grows smaller each day. The economic lives of all the countries are drawn closer to form one world economy. There is an increased realization that economic, social and political development in one country can drastically affect all the nations of the world. There seems to be a sort of socio-econo-political revolution in most parts of the world giving rise to a generosity on the part of the "Rich" and a sense of urgency to develop on the part of the "Poor." In spite of this general economic uprising, the state of most of mankind can be described in one word--Poverty.

About one-eighth of the earth's inhabitants live in comfort. Three-eighths are poor, but live at or about the subsistence level,[1] and the remaining half live at a level of grinding poverty.

The economic distress of the underdeveloped countries is not of recent origin. It is centuries old. What is new is that many people in these countries have become painfully aware of their poverty and as a result are urgently demanding an improvement in their way of life. They are no longer willing to accept poverty as their natural fate.

---

[1]Philip Wernette, The Future of American Prosperity (New York: The MacMillan Company, 1955), p. 7.

According to Henry George, "This association of poverty with progress is the great enigma of our times. It is the central fact from which springs industrial, social and political difficulties that perplex the world, . . . it is the riddle which the Sphinx of Fate puts to our civilization, and which not to answer is to be destroyed."[1]

It is more than a riddle, and it could well be a threat to the peace of the world. The survival of peace and democracy may very well depend "to a significant degree upon the economic and political systems adopted by the underdeveloped and newly independent nations, where most of the world's people live."[2]

The aim of this study is not to propose a theory of development, or to expose the moral and social implications of poverty; it is simply to show that the poor will remain poor and will continue to travel down the spiral of poverty. Given the prevailing economic and business conditions, the hypothesis of this study can be stated as "the rich get richer and the poor, poorer."

Chapter I surveys the literature and analyzes the definitions of rich and poor, presenting a picture of both.

The underdeveloped have to contend with various difficulties in their march towards economic progress. Chapter II examines the nature of the problems which have led these countries into a spiral of poverty.

---

[1]Henry George, Progress and Poverty (Garden City, New York: Doubleday, Doran and Company, Inc., 1928), p. 10.

[2]Herbert V. Prochnow, World Economic Problems and Policies (New York: Harper and Row Publishers, 1965), p. 15.

Will the poor ever get rich? An attempt is made to answer this question and further support the hypothesis in Chapter III.

The Big Push theory is advanced by many of the contemporary economists as a cure-all for backwardness. Chapter IV presents this theory in its entirety and critically analyzes its failures.

Government intervention leading to a wave of development plans has swept the poor nations since the end of World War II. Case studies of Indonesia (a novice at planning) and India (an expert at planning) are presented in Chapter V to show that the progress of these countries through their planning has been nil.

Concluding remarks form the body of Chapter VI.

CHAPTER I

DEVELOPED AND UNDERDEVELOPED

EXTANT CONCEPTS

In spite of the massive literature on the subject of developed and underdeveloped countries, an explicit definition of the basic terms is still lacking. The purpose of this chapter is to analyze these terms and arrive at a working definition.

Many writers call an area underdeveloped because it has a low ratio of population to area. This implies that development is feasible and desirable, and overrates the importance of mere space. As Jacob Viner points out, just empty spaces, such as the Sahara Desert, "are not properly to be regarded as underdeveloped areas unless 'underdeveloped' is to be used as synonymous with indeveloped."[1]

Underdevelopment is considered prevalent where there is a scarcity of capital evidenced by high interest rates. This may be because of: 1) risk, 2) high elasticity of capital, and 3) capital has been available only for urgent projects.

A commonly used criterion of underdevelopment is the ratio of industrial output to total output, or of industrial population to total population. This definition tends to lead to further confusion by the introduction of "nonindustrialization," which in turn is not synonymous with underdevelopment

---

[1]Jacob Viner, International Trade and Economic Development (Oxford: Clarendon Press, 1953), p. 10

Some tend to identify underdevelopment with age, calling them "young countries." "There are no satisfactory criteria for the age of the country. . . . Time brings all things, but not to the same country. To some it brings prosperity, to others poverty."[1]

Another concept of the word underdeveloped seems to imply that a country is poor in comparison to richer nations, and that country, given its economic potential, is capable of achieving a higher level of economic well-being.[2] Here the word underdeveloped suggests a capacity for economic improvement. Professor Viner states somewhat the same idea when he defines an underdeveloped country as "a country which has good potential prospects for using more capital, more labor or more available natural resources, or all of these, to support its present population on a higher level of living, or . . ., support a larger population on a not lower level of living."[3] If this definition is applied, the basic criterion for distinguishing between developed and underdeveloped economies becomes the size of the gap between a country's economic potential and its current state of achievement. Given this criterion, the United States, despite its high affluence, could be called an underdeveloped country because of the large gap between economic potential and realized economic activity.

---

[1] Ibid., p. 12

[2] Walter Krause, Economic Development (San Francisco: Wadsworth Publishing Company, 1961), p. 6.

[3] Jacob Viner, "The Economics of Development," in A. N. Agrawala and S. P. Sugh, Editors, The Economics of Underdevelopment (London: Oxford University Press, 1963), p. 13.

It would be of great value to have a series measuring the size of this gap for each country, since this would provide a measure of a country's economic development based on its own, and not on some other country's maximum development. As one writer has noted, the current definition in terms of international comparisons of levels of economic well-being places us in a position of suggesting that "an adult rabbit is 'underdeveloped' because a baby elephant is so much bigger . . . ."[1]

Although the Viner definition is interesting and useful, the criterion of comparative development gaps is extremely difficult to measure. Measurement of the economic potential of a country is even harder to measure and makes this definition a purely academic one.

The confusion between means and ends seems to be the root of the terminological controversy. Raising the level of economic well-being is the end. The principal means of achieving this objective is complete utilization of economic potential. Since the ultimate objective is the alleviation of economic poverty, the only yardstick by which an economic system can be judged is whether it creates prosperity or poverty for its people, and so it seems appropriate to define economic development in terms of a certain measure of poverty.

According to Robert Theobold, " . . . the difference between these two parts of the world is not in terms of underdevelopment with its perjorative tones of backwardness not only in economic but also in

---

[1]B. M. Niculeseu, "Underdeveloped, Backward, or Low Income," The Economic Journal, LXV (September, 1955), p. 547.

social organization; it is quite simply between poverty and riches."[1] Therefore, for this study, these two definite worlds named developed and underdeveloped--expressing a complex reality--will simply be called the rich and the poor.

While the United States is not the only rich country, (others being Australia and Western Europe), it will serve as our example.

The Rich

In spite of the shortcomings of some of its economic and social systems, the record of achievement here is impressive. The United States has had a continuous and rising curve of productivity, wages and unmatched domestic purchasing power. There are numerous reasons for this success, but certain broad economic characteristics need mentioning.

John Chamberlain said: "The variety of a free system is competitive capitalism--in that it allows energy to flow uncoerced into a thousand and one different forms, expanding deeds, services and jobs in myriad unpredictable ways."[2] The concept of economic freedom is the cornerstone of American business. It unleashes individual ingenuity which gives vitality and dynamism to the economy. In spite of the hue and cry of the protectionist, the principal tenet of the United States' economic system is competition.

---

[1]Robert Theobold, The Rich and the Poor (New York: The New American Library of World Literature, Inc., 1961), p. 15.

[2]John Chamberlain, Theories of Economic Growth (Stanford: Stanford University Press, 1961), p. 22.

The entrepreneurs are essential elements in the process of production, and the American economy places great value on individual incentive. "From each according to his ability, to each according to his needs" does not belong in American idealism. . .

Above all is capital. The American people are not only able to buy food and essentials, but have funds left over to spend or save as they choose. It is this capital which supports the competition and supplies incentive to the entrepreneurs.

The Poor

The term "poor" is given to those countries which, when compared to the rich, display numerous characteristics of poverty. Defined this way, the term applies to most of the countries of Latin America, Asia and Africa, as well as some countries in Southern and Eastern Europe. Despite a considerable diversity between these nations which is not found between the rich, several characteristics are sufficiently widespread to warrant their being considered as bench marks of economic underdevelopment.

The first among such characteristics is low per capita income. One recent study estimates that the lowest income countries, containing two-thirds of the world's population, receive less than 30 percent of the world's income. (At the other extreme, a small group of wealthy countries, with less than 8 percent of the world's population, receives approximately 28 percent of the world's income.)[1] Table I-1,

[1]Eugene Haley, The Future of Underdeveloped Countries (New York: Harper and Brothers, 1961), p. 401.

which shows per capita GNP for a related group of countries in 1955, provides substantial evidence of this disparity.

As could reasonably be expected, the level of material well-being in poor countries is substantially below standards of the rich. In general, the inhabitants of the poor countries are ill-fed, ill-clothed, badly housed, poorly educated and diseased. Table I-2 (Columns 1 - 3) focuses attention on three of the most common non-monetary measures of comparative national welfare: literacy rates, caloric intake and life expectancies. Professor Krause summarizes the situation in the following words: "The picture portrayed is that people in underdeveloped countries tend, on the average, not to live so long as the people in developed countries, and while they live, they tend to experience far more deprivation."[1]

Another feature of poverty is revealed by an analysis of output structures and occupational distribution. Almost without exception output and employment are concentrated in primary production, i.e., agriculture and mining. (See Table I-2, Columns 4 - 5). Primary production constitutes 40 percent to 60 percent of total output, and 60 percent to 90 percent of the population is engaged in subsistence agricultural production. Similar data for developed countries indicates that raw materials production is of less importance.

---

[1]Krause, _op_. _cit_., p. 11

TABLE I-1

PER CAPITA GROSS NATIONAL PRODUCT

SELECTED COUNTRIES, 1955

(IN UNITED STATES DOLLARS)

Per Capita Income Range	Developed Country	Amount	Underdeveloped Country	Amount
1,500 or over	United States	2,343		
	Canada	1,667		
800 - 1,499	New Zealand	1,249		
	Switzerland	1,229		
	Australia	1,215		
	Sweden	1,165		
	France	1,046		
	United Kingdom	998		
	Norway	969		
300 - 799	West Germany	762	Venezuela	762
	USSR	682	Argentina	374
	Italy	442	Panama	350
	Union of South Africa	381	Colombia	330
100 - 299	Japan	240	Turkey	276
	Spain	239	Brazil	262
			Philippines	201
			Chile	180
			Saudi Arabia	166
			Indonesia	127
99 or under			Belgian Congo	98
			Haiti	75
			India	72
			Pakistan	56
			Communist China	56
			Nepal	40

Source: Adapted from Walter Krause, Economic Development (San Francisco: Wadsworth, 1961), Table 2, p. 10.

TABLE I-2

SOME DEVELOPMENT INDICATORS FOR SELECTED COUNTRIES (1959 DATA)

Countries	Literacy Percent of Population 15 Years and Over	Caloric Intake Per Capita Per Day	Life Expectancy (Males Aged One Year)	Percent of GNP From Primary Production (Except Mining)	Percent of Population Active in Agriculture
Latin America					
Argentina	86	3040	62	23	--
Brazil	49	2500	39	26	35
Ecuador	56	2230	57	37	80
Guatemala	29	----	48	--	90
Mexico	57	2330	44	--	66
Venezuela	53	2300	--	6	50
Asia					
India	17	2080	39	50	73
Japan	--	2210	67	17	--
Pakistan	19	1930	--	55	85
Thailand	64	----	52	40	90
Africa and Near East					
Ghana	--	----	--	--	--
Iran	15	----	--	--	85
Iraq	31	----	--	--	--
Tanganyika	--	----	--	59	--
Advanced					
United States	97	3130	68	4	19
Canada	96	3150	69	7	24
West Germany	96	2890	68	7	25

Source: Based on Stephen Enke, Economics for Development (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1963), Tables 2-2, 2-3, 2-4, 3-2, and 3-3.

Widespread and chronic underemployment is another characteristic of the poor nation, and is due to the slow expansion of nonagricultural employment opportunities.

CHAPTER II

SPIRAL OF POVERTY

"Unless we can see the Great Ascent from the vantage point of those who must make the climb, we cannot hope to understand the difficulties of the march."[1] Economic theories of growth can help us clarify the "logistic of the Great Ascent." It must, however, be pointed out that there is no single theory of growth for dealing with the problems of cumulative change.

According to the classical theory of economic growth, the most important ingredients are capital formation, resource discovery, population growth and technological progress. National output is determined not only by the amount of these factors but also by the proportions in which they are combined. The rate of growth depends on the rate of change in the above factors. Since resource discovery and technical progress are impossible without capital accumulation, capital can be considered as the very core of economic development.

Capital accumulation is possible only if the society is able and willing to forego present consumption for increased future consumption. It is only by saving and investing a share of the national income that capital investment and economic progress are possible.

---

[1]Robert L. Heilbroner, The Great Ascent (New York: Harper and Row, Publishers, 1962), p. 33.

"There is no other road to economic development than a compulsory rise in the share of the national income which is withheld from consumption and devoted to investment."[1]

In poor countries the rate of investment is low because the per capita income is so low that there is very little margin between income and expenditure. The low real income is due to the low productivity, which, in turn, is due largely to the lack of capital. The lack of capital is a result of the small capacity to save. Thus the vicious circle is complete.

On the demand side for capital, also, there exists a vicious circle. According to R. Nurkse, the inducement to invest is limited by the size of the market. The market is limited by the small purchasing power of the people. This is due to their small income which in turn is due to low productivity. Low productivity is the result of the small amount of capital invested. The vicious circle is again complete.

The saving-investment process is further complicated by the fact that in many poor countries a high rate of interest is essential to induce the public to save. But high interest rates will discourage the demand for capital. Low rate of investment will decrease the per capita income, which will cause the rate of savings to fall still lower and the rate of interest to rise still higher.

---

[1]Gunner Myrdal, Economic Theory and Underdeveloped Regions (London: Gerald Duckworth Company, 1957), p. 82.

The high rate of population growth tends to add further difficulties to the accumulation of savings, and investment in the poor countries is just enough to keep up the present standard of living. Unless income rises more rapidly than population growth, the demand pattern is likely to be weighted toward food and presents little inducement to manufacturing of other products.[1]

Professor Nurkse has provided a succinct statement of the concept:

> It (vicious circle of poverty) implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty . . . . For example, a poor man may not have enough to eat; being underfed, his health may be weak; being physically weak, his working capacity is low, which means that he is poor, . . .; and so on. A situation of this sort, relating to a country as a whole, can be summed up in the trite proposition: 'a country is poor because it is poor.'[2]

We have already seen how the various characteristics of underdevelopment are themselves obstacles to development. In addition, the literature abounds with long lists of other obstacles which inhibit efforts to improve the economic status of underdeveloped countries.[3]

Generalization on this subject is difficult for several reasons. First, there is considerable diversity among the underdeveloped countries. A certain factor, overpopulation, for example, may be

---

[1]United Nations, Process and Problems of Industrialization in Underdeveloped Countries (1955), p. 18.

[2]Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries (Oxford: Basil Blackwell, 1960), pp. 5-7.

[3]Krause, op. cit., Chapters 3 and 4.

considered the most important obstacle in some countries, while in other countries the problem of population growth may be of less importance. Each country, in addition to the general obstacles rooted in poverty, has certain problems that are unique to its own environment. Second, generalization is difficult because what is thought to be an obstacle to development is a matter of personal judgment. Leading authorities are far from agreed on what constitutes the fundamental obstacles.

However, several obstacles are included on every list. They can be grouped under three broad headings: 1) economic, 2) political and 3) socio-cultural and demographic problems. Some of the most frequently mentioned obstacles are: lack of natural resources, a low volume of savings, shortage of foreign exchange, labor and entrepreneurial inadequacies, political instability, lack of achievement motivation, excessive population growth, and a general cultural resistance to change.

In describing these obstacles to development the concept of a vicious circle is once again used to show the interrelationships among the obstacles. Each of the factors listed as an obstacle is in a sense both the cause and effect of other obstacles. One example, as noted previously, is the circular interdependence of income and capital accumulation.

How can a poor country ever hope to overcome these inadequacies and fulfill so many necessary conditions? Why are the people of a potentially rich country, say Brazil, as economically poor as the people living in the regions of the Sahara? This writer maintains that the obvious chain of cause and effect in the vicious circle theory is the answer--dismal as it may seem.

CHAPTER III

THE POOR GET POORER

Poverty is not a new phenomenon in the history of the world. The new phenomenon is the incredible rise of living standards in the developed countries after World War II. The news of this richness has been the prime mover in changing ideas into politically backed demands for development.

Before attempting to analyze the hypothesis "the rich get richer and the poor, poorer," it is first necessary to understand why the poor have remained poor while the rich have advanced towards more riches.

Background

No thing can exist without its opposite. Within this natural law the exploited and the exploiters are the two actors that give rise to the ideas of poverty and riches. Almost all poor countries have one thing in common, they have always been exploited by the rich. They were colonies. Before World War II they formed an integral part of the mother country. Colonial progress was not studied as a separate problem but as a part of the organic whole. The entire economy of the "family of nations" was based on a form of comparative advantage. Natural resources were drained out of the colonies to industrial centers of the mother country, and the development policies in the colonies were exclusively directed toward the stimulation of those industries for which they were best suited.

At the same time all unsuitable industries were discouraged. In Africa, loans for cocoa planters were available at 2.5 percent whereas all other loans cost the natives 35 percent.[1] In addition, foreign investment was encouraged only in short-term enterprises which yielded quick profits.

Therefore, the very first vicious circle was initiated by the exploiters in the following manner: Since no industry was allowed to develop in the colony, the cost of production remained higher than in the industrialized mother country, and the colony was forced to specialize in the production and supply of raw materials and natural resources. At the same time, as long as the costs of industrial production in the colonies remained higher than in the mother country, no investment was profitable for development of an industry which might progress in the future. The situation was further worsened with each stage of tremendous industrial progress in Europe. The gap widened. The vicious circle was closed! Some progress (with selfish motive) was made in certain sectors which were regarded as most suitable for development under the natural environmental conditions of the area. Only the refineries in the Middle East were developed and large royalties were paid to the Shieks; but nowhere did these profits lead to the genuine development of the area. In addition, the great Shieks seldom reinvested their gains locally in development projects.

Thus there existed a bond between the local land or oil baron and the makers of European colonial policy. "Therefore, each national movement in the colonies brought with it its specific social content, while

---

[1]Y. S. Brenner, Theories of Economic Development and Growth (New York: Fredrick A. Praeger, Publisher, 1966), p. 252.

each social demand automatically assumed a nationalistic form."[1] World War II introduced a new kind of capitalist into these colonies. These were the allies who had to develop local industries to supply their forces. The new capitalists invested locally and employed the natives. The die was cast. Later attempts to return these countries to prewar conditions met with failure. In addition to the infiltration of American capital, a great wave of good will swept the world after the war and contributed to the awakening of the poor countries and their hunger for a higher standard of living.

The foregoing paragraphs have explained how the poor of today were kept in that sorry condition. Why they will remain poor and get poorer is the subject of the balance of the chapter.

There exist innumerable factors which hamper the growth of these countries. However, for the purpose of this study three basic factors, falling into three broad categories of growth, are isolated. These categories are: 1) foundation of an economy, 2) disadvantage in international trade, and 3) modernization and technological advance. To further simplify, the discussion of the hypothesis is made in terms of an equation.

Poverty is directly proportional to: 1) inefficiency of agriculture, which is the foundation of an economy [f(a)], 2) elasticity of

[1] Ibid., p. 255.

the demand of primary products in world trade [f(e)], and 3) technological gap [f(t)]. The equation can then be written as:

$$P \propto f(a,e,t) \text{ or}$$

$$P = K[f(a,e,t)] \text{ where k is a constant}$$

Inefficiencies in Agriculture

Even today agriculture forms the backbone of a country's economy. While a vast majority of the farmers in the underdeveloped world produce barely enough food for themselves, the farmers in the industrialized countries feed scores of people scattered throughout the world. Regardless of certain theories in this area, this writer is of the opinion that as long as production in agriculture remains low, there can be no hope for progress in any other sector of the economy, especially for those countries whose exports consist mainly of agricultural products.

A high productivity in farming is a must to release workers to seek other occupations and at the same time to avoid total nation-starvation. Agricultural progress is needed to feed the industrial worker and to provide a market for their manufacturers. In spite of all the aid, the agricultural output of the poor countries remains at an appallingly low level.

Take Ghana, for example, where the food situation is not as extreme as India's. [1]In 1960, a farmer in that country was producing enough food to feed one and one-half working people. Given a population increase of 2.7 percent annually, the food production should increase 20

[1]Statistics in this section based on figures in the Ghana Seven Year Development Plan, 1960.

percent within seven years to keep up with the rise in demand. Furthermore, if the farmer is to produce agricultural raw material in addition to food the increase in production will have to be 33 percent within seven years. In other words, normal growth in agricultural production must rise about 5 percent if any kind of growth in industry is to be expected. As can be seen from the following paragraphs, this is rather a hard task to be accomplished by Ghana or any other poor country.

The development of agriculture is further handicapped by its association with colonialism. The underdeveloped countries seek fashionable industry and are reluctant to discuss agriculture. This attitude has led to severe food shortages in the country and precious foreign exchange has been spent to keep the people from total starvation.

It is sometimes argued that cheap food may be imported from the rich. This is not really applicable to the underdeveloped countries, for they have nothing with which to pay for the imports. Only an oil or mineral rich country can afford this sort of luxury.

In contrast to the underdeveloped countries, agriculture in the advanced countries is government supported. The producers, with the help of modern machinery and government protection, produce a large surplus which more than satisfies the domestic requirements and completely eliminates the need for importing basic foodstuffs. This condition gives impetus to further industrialization and modernization for the basic need of the economy is completely satisfied.

Elasticity of Demand of the Primary Products, f(e)

The next most important fact which will keep the poor poor is their tragic role in international trade. Most experts in this area believe the underdeveloped countries should improve and expand their production of raw materials and trade with the industrialized countries. This argument is based on the belief that most poor countries enjoy their greatest comparative advantage in the area of raw material production. While this approach seems reasonable, concentration in raw materials production is not sufficient formany poor countries, for their export trade then becomeshighly reliant upon one or two products. This not only reinforces their poverty but also perpetuates it. Copper accounts for half of Chile's exports; rubber for half of Malaysia's; cotton, jute and tea for half of Indian exports; coffee for 45 percent in the case of Brazil; rice for 45 percent in Ceylon; sugar for 44 percent in the Philippines and cotton for 70 percent in Egypt.[1] For progress and prosperity these countries are dependent on the sale of these products, and unfortunately, the demand is quite elastic, both with respect to price and income. Consequently, the demand for these raw materials on the international market offers no stability on which to base hopes for higher levels of income.

The chances of progress for these poor are virtually nil, since any expansion of the market is possible only through price cuts and these price cuts "defeat the object of raising additional foreign currency

[1]Maurice Dobbs, Economic Growth and Underdeveloped Countries (New York: International Publishers, 1963), p. 12.

with which to finance additional imports."[2] The disasterous effects of price change were computed by the United Nations Economic Commission and it reports that a change of only 5 percent in average export prices is equivalent to the annual inflow of private and public capital and of government grants to the poor countries.

In spite of signs of recent revival, the prices of primary commodities have fallen continuously since 1950, directly benefiting the rich. (Refer to Table III-1). Within this framework of falling prices there are also great price fluctuations with prices sometimes halving and doubling in the space of a year. This has been a source of great frustration to the poor. These fluctuations have made it virtually impossible for countries exporting such products to anticipate the value of their exports and hence the volume of imports they can afford.

The development of synthetics has lessened the world's demand for most of the primary products. According to Professor Harrison, the development of synthetic and substitute materials has meant that the demand for raw materials has not kept up with the increase in industrial production.[2] Thus, although the postwar boom has brought about an enormous output, the demand for the products which the poor countries are best suited to produce has sadly decreased.

---

[1]Anthony Harrison, <u>The Framework of Economic Activity</u> (London: Macmillan and Company, Ltd., 1967), p. 153.

[2]<u>Ibid</u>., p. 152

TABLE III-1

RECENT TRENDS IN INTERNATIONAL TRADE

Value, Price (Unit Value) and Volume of World Trade and Volume of World Production, 1953 and 1957-64

	1953	1957	1958	1959	1960	1961	1962	1963	1964
Value of world exports[1] (thousand million dollars f.o.b.)									
Total[2]	78.2	109.5	105.5	113.4	125.9	131.5	138.7	151.2	168.7
Primary products	41.8	53.2	49.8	52.2	56.2	58.0	59.6	65.0	(71.0)
Manufactured goods	35.4	55.1	54.5	59.7	68.3	71.9	77.5	84.0	(95.7)
Unit value of world exports (indices 1953=100)									
Total	100	103	100	99	100	99	99	100	102
Primary products	100	101	96	93	92	91	91	94	97
Manufactured goods	100	104	103	103	105	106	106	107	108
Volume of world exports (indices 1953=100)									
Total	100	136	135	146	161	170	179	193	212
Primary products	100	126	124	134	146	152	157	165	(175)
Manufactured goods	100	150	149	164	184	192	206	222	(250)
Volume of world commodity output (indices 1953=100)									
All commodities	100	121	124	134	143	149	159	167	(176)
Agriculture	100	110	115	118	121	122	126	129	(130)
Mining and manufacturing	100	127	128	141	153	162	174	185	(198)

[1]Excluding United States special category exports.

[2]Including commodities not classified according to kind.

Source: GATT, International Trade, 1964 (1965).
Note: The unit value indices do not include the Eastern trading area; the export-volume indices are estimates.

In addition, the markets for manufactured and semimanufactured goods of the poor have also been closed. Their share of the world exports have fallen from 27 percent in 1953 to 20.2 percent in 1964, while that of the rich has increased from 58.6 percent to 64.8 percent in the same period.[1] (Refer to Table III-1 and Chart III-1). The poor then are forced to remain poor, for they are not allowed to pay for the imports they need for development nor have they been able to develop industries for a larger market.

Professor Kiichivo Satah, a Japanese economist, explains it through a theory of dependence. The dependence rate (DpR) is directly proportional to import volume (IV) and inversely proportional to the sum of domestic output (DO) and import volume (IV).[2] The above statement can then be converted into the following:

$$DpR = \frac{IV}{DO + IV}$$

For the rich, DpR for almost all commodities (except certain metals and rubber) is always at its lower limits of 1 due to substitute products. However, for the poor, the DpR is high and usually between 0.6 and 0.7, indicating a high dependency rate due to IV factor. This proves that the needs of the poor are nontransferable and nondeferable.

---

[1] *Ibid.*, p. 155.

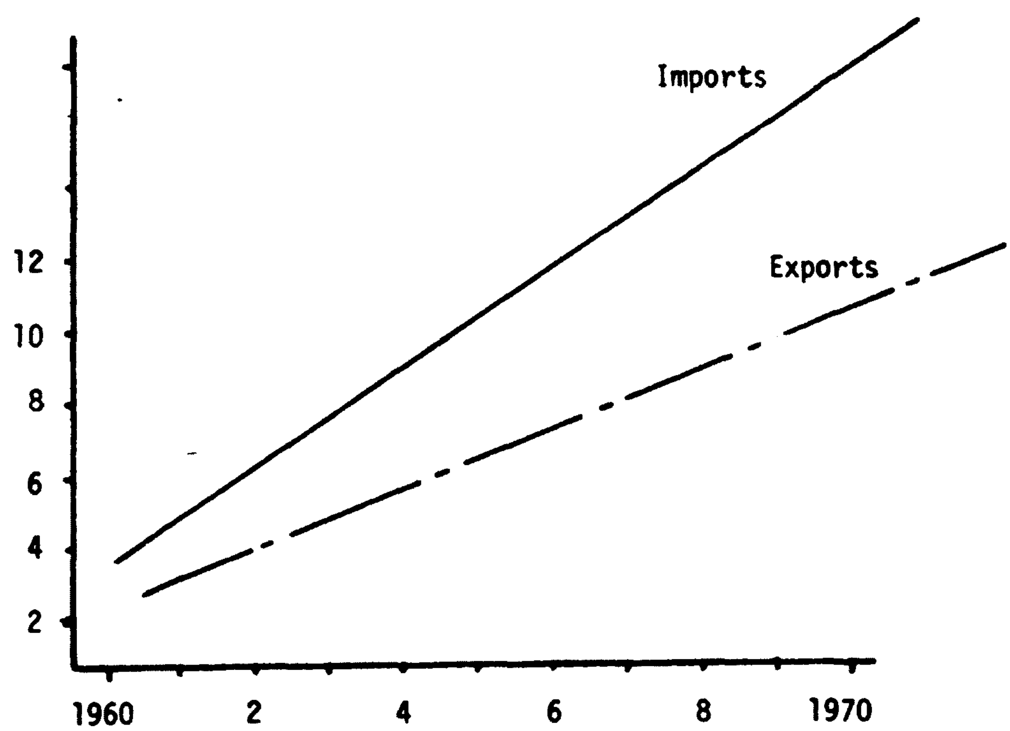
[2] Herbert V. Prochnov, editor, *World Economic Problems and Policies*, (New York: Harper and Row, Publishers, 1965), p. 11

CHART III-1

TRADE OF POOR COUNTRIES WITH REST OF THE WORLD

1960 - 1970

(Billion Dollars at 1960 Prices)



Source: International Trade, 1965 (GATT, 1966).

The dependency is once again related to the elasticities of supply and demand. Since the statistics on domestic output are not available for poor countries, export figures were substituted, and the following table still supports the dependency theory.

TABLE III-2

EXPORT AND IMPORT VOLUME AND DpR
FOR SELECTED COUNTRIES
1965

Country	Exports[1]	Imports[1]	Diff	DpR
United States and Canada	33 Bil	29 Bil	+ 4	0.4
Brazil	1,406 Mil	1,487 Mil	- 81	0.6
India	1,682 Mil	2,831 Mil	-1,149	0.7
All Southeast Asia	8,640 Mil	11,910 Mil	-3,270	0.6
All African Countries	6,910 Mil	7,070 Mil	- 160	0.5

[1]Statistics taken from GATT, International Trade (1965).

Quota Restrictions

The essential question in the trade relationship between these two worlds is to what extent and at what speed they are proceeding toward a truly economic complementarity. To put it differently, the question is whether the rich are willing to encourage the poor to sell all that they can economically produce. The answer to this question again is far from encouraging. High import duties on products of interest to the underdeveloped countries appear to have become a natural feature of the tariff structure of the industrialized countries. Quota restrictions on the imports from the poorer countries are a pernicious form of discrimination.

An example of these restrictions is found in the importation of textiles. Despite the fact that such restrictions are not only considered immoral by GATT, but also by a majority of the citizens of this country, the import of textiles into the United States continues to be restricted. In addition to outright tariffs there are heavy excise duties within the rich countries which are designed to restrict the demand for imports from the poorer countries. Restrictions, then, only affect the poor who have no bargaining power to change the system, the purpose of which seems to be to protect the strong from the weak.

It is ironical that the solution to the question of quota restriction, which is known as the "rule of reciprocity" (matching concessions), adds to the poverty of the poor. While there has been little or no reduction in the tariffs on the manufacturer of the poor world, groups of rich countries have achieved the gradual reduction of tariffs on items of mutual interest to themselves with the consequence that the poorer countries have been further handicapped in expanding their exports.

Furthermore, tariff structures in the developed world discriminate in favor of raw materials and primary products and against the export of processed goods from the underdeveloped. Mr. B. K. Nehru, Ambassador to the United States, comments:

> What this amounts to in essence is that the developed countries should continue to enjoy the entire value that is added in the processing of raw materials, and that the poorer countries should be inhibited from industrializing themselves and should continue to carry on their existence as the world's hewers of wood and drawers of water.[1]

Though the above comment of Mr. Nehru seems rather harsh, the following example will clarify the point. African countries can export raw cocoa beans to European Economic Community by paying a duty of only 5 percent. But the same cocoa beans processed into powder or cocoa butter or subjected to some simple process is rewarded with an export duty of 136 percent.[2] To summarize: The underdeveloped nations depend on the rich for the supply of all necessary equipment for development. Their demand for these goods is inelastic and their exports to the rich are declining. The demand of the rich for these commodities is highly elastic. In addition, foreign exchange accumulated by the poor through the sale of these commodities has to be spent in the rich countries to obtain the industrial goods which are necessary for development.

---

[1]B. K. Nehru, from a speech given before the Foreign Trade Convention, Waldorf Astoria, New York (November 1, 1966).

[2]GATT, International Trade (1964), p. 65.

Furthermore, the rich countries sometimes demand that the importing country repay loans either in scarce hard currency or through the purchase of the exporter's goods.

Technological Progress, f(t)

The ever-increasing technological gap which separates these two worlds tends to keep the poor poorer. A large segment of the under-developed nations believes that they would climb the hill to prosperity if they only possessed the technology of the rich. This couldn't be farther from the truth. Modern technology, by its very nature, is not suitable to serve by itself as a lever to raise the standard of living in the underdeveloped countries.[1] But what is modern technology? It is labor saving, capital consuming, and requires skilled and educated labor. This is exactly what the poor countries do not need and do not have. There are those who believe this high technology should be transferred *per se* to help the plight of the poor. The remaining part of this chapter will look into this and attempt to show why this simply cannot be achieved.

Technology moves in a cycle and can only flourish if the cycle is conducive to its growth. In the advanced countries there exists a cycle--production, consumption, creation of needs, and research and development. Thus technology is generated in the system and forms a part of it.

---

[1]Brenner, *op. cit.*, p. 257.

This cycle is not present in the underdeveloped world. Industry, technology and science are all imported--which is analogous to a transfusion of blood into a lifeless body. This transfusion of new technology into the poor nations leads to so-called modernization, i.e., the poor modernize their way of life through the utilization of radio, television, etc. obtained from outside, but are not capable of increasing industrialization. To put it another way, industry and modernization should follow a parallel path in an economy. In a viable system, for example, consumption of a new item follows production, which in turn follows invention. But in the poor countries there is a wide gap between industrialization and modernization.

Aside from the gap mentioned above, modernization becomes in itself a sad hindrance to development by making the nationals of a poor country seek the "demonstration effect." Usually the elite, who also form the leadership of the country, ape the colonial habits of consumption and spending, mistaking them for real values. This excessive consumption in luxury goods (conspicuous consumption) on the part of the few weakens the whole economy by reducing the foreign exchange of the country and the amount they might save.

k Factor

To balance the equation for poverty a constant k is used which depends on socio-political conditions prevailing in the country. In most of these areas political instability is a rule rather than an exception. Planning and growth depend on an open and dependable future.

Different languages, customs and habits in these parts prevent free mobility of labor and capital within the country. The joint family system destroys incentives for saving and investing. Religion places an overwhelming emphasis on the spritual and ceremonial aspects of life. In India, for example, 7 percent of all rural income is spent on ceremonies![1]

Above all, these poor countries have a multitude of institutions and attitudes which make their society less conducive to progress. A classical example of an African's statement on labor is as follows:

> There is a tendency in the west for people to assume that man lives to work. We believe that man works to live. This view of life gives rise to our high preference for leisure.[2]

Prosperity demands that people not only sacrifice their luxuries but that they be willing to work conscientiously toward a goal.

Therefore, even if all the factors on the right side of our equation are positive, a negative k factor will tend to keep a country poor and, as time passes, make its condition worse.

Illustrating the Equation

From the above discussion it can readily be seen that the poor have virtually no chance of ever becoming rich. Though this study could not develop and quantify the unknowns of the equation, it still supports the thesis of this study.

---

[1] Ibid., p. 257.

[2] D. K. Chisiza, "The Contemporary Outlook," The Journal of African Studies, Vol. 1 (March 1963), p. 32.

Take the case of Chile, for example. The constant k tends to be negative . The country is steeped in religion and its various institutions. The political situation is unstable and is not conducive to development.

Its prime dependence is agriculture, pursued in accordance with the slow rhythms of nature. Land is held in small parcels where machinery cannot be used. Its inefficiency in agriculture makes f(a) negative.

Considering f(e), the main export of Chile is copper. For each American cent by which the price of copper varies, the Chilean treasury gains or loses about four million dollars.[1] With this one export, Chile has to buy from the rich not only capital goods like machinery, but also the luxuries for its rich, the demand for which is inelastic for Chileans. Furthermore, Chile imports the majority of its machinery from Germany and has to pay more for its transport and installation. This means a higher proportion of capital costs.

Technical improvements are constantly being made in the rich countries and the pace of this technological advance is phenomenal. Chile is not in a position to adopt new technology and therefore tends to continue lagging behind the rich, who had bigger advantages to start with. According to one assessment it would take forty-two years for countries in Latin America, including Chile, to reach a per capita output of one-third of that of the United States today.[2]

---

[1]"What is Economic Development," United Nations Review, Vol. 5 (March 1959), p. 25.

[2]United Nations, Analyses and Projections of Economic Development (1955).

A Note on Aid

The problems of the poor have been increasingly discussed and analyzed by the people of the rich countries. The rich citizenry is sometimes at a loss to understand why the poor cannot forge ahead with all the funds received from them. This note will attempt to clarify this situation.

The poor borrow large amounts of capital from various institutions, such as the World Bank. The news media usually trumpet the amounts loaned, but forget to mention one important item--interest. In 1964, interest payments made by the poorer countries were estimated at 3,750 million dollars, which is equivalent to about 12 percent of their export earnings and about 40 percent of the grants and long-term loans received by these countries.[1] Therefore, these countries have to return a large proportion of the capital inflow immediately as interest payments. Furthermore, their current state of indebtedness retards further inflow as it reduces the security of the loan.

For the purpose of solving certain problems--the a and e factors of the equation--a new organ of the United Nations known as the United Nations Conference on Trade and Development (UNCTAD) was set up in 1963. The main purpose of UNCTAD is to stop the decline of primary commodity prices and to restate the "terms of trade." Although statistics prove that the poor's terms of trade have been deteriorating over the past ten years, the rich countries refuse to acknowledge this. This has given rise to a controversy and is a source of tension pulling these two worlds asunder.

---

[1]United Nations, International Financial Statistics (1965).

CHAPTER IV

DEVELOPMENT THEORY

In spite of all controversies in the literature, full employment (and more recently, the promotion of economic growth) is now deemed a proper welfare function of the modern state. The urgent need to become rich, and the demonstrated success of state planning in transforming the economy of the Soviet Union, has convinced the world's poor nations that vigorous governmental action is the only shortcut to economic development.

The issue confronting the poor is not the stabilization of demand or the maintenance of full employment, but the need to remold the entire economy. Their task is not reconstruction of a once prosperous economy, but the construction of a viable economy out of human and natural resources that have never been a part of modern economy. In addition, they want to accomplish this task, which took the west centuries to accomplish, in a relatively short period of time. Hence, they are between the horns of a dilemma. Should the economic development be gained by evolution or revolution? Literature abounds with pros and cons on this matter.[1] But, in the opinion of most students of this subject, determined efforts by an informed government offers hope for success.

---

[1] For a discussion on this topic see Economic Development, edited by Laura Raudal (Boston: D. C. Heath and Company, 1964).

This chapter attempts to analyze one of the most important and popular theories promulgated by economists to accelerate growth and hence richness. The sword that will behead the monster of poverty is acknowledged to be "economic planning," with extensive government action wielding the sword. However, before beginning this analysis, a word should be said concerning the definition of the term "economic planning." In this work this term refers to "deliberate, rational, continuous effort by governments to accelerate the process of economic development and to channel it into the desired direction" by means of a statement of objectives and the allocation of resources necessary for achievement.[1]

The Big Push Theory

In recent years a number of economists have concluded that a "big push"[2] or, to use another popular term, "critical minimum effort"[3] is required to break through the vicious circle of poverty and enter that sought-after state of richness. The basic idea is well summarized by Professor Paul N. Rosenstein-Roden as follows:

---

[1]Gerhard Colun and Theodore Geiger, "Country Programming as a Guide to Development," in Robert E. Asher and others, Development of Emerging Countries (Washington, D. C.: The Brookings Institution, 1962), p. 46.

[2]P. N. Rosenstein-Rodan, "Notes on the Theory of the Big Push," H. S. Ellis and H. C. Wallich, editors, Economic Development for Latin America (London: Macmillan and Company, 1961), pp. 57-67.

[3]Harvey Leibenstein, Economic Backwardness (New York: John Wiley and Sons, 1965), Chapter 8.

> There is a minimum level of resources that must be devoted to . . . a development program if it is to have any chance of success. Launching a country into self-sustaining growth is a little like getting an airplane off the ground. There is a critical ground speed which must be passed before the craft can become airborne. . . . Proceeding 'bit by bit' will not add up to the sum total of the single bits. A minimum quantum of investment is a necessary, though not sufficient, condition of success. This, in a nutshell, is the contention of the theory of the big push.[1]

Thus economic development is seen as a discontinuous process, and a gradual approach to the problems of development is therefore rejected. According to the proponents of the big push theory, a massive frontal attack is needed to overcome the inertia of a stagnant economy. While there are several versions of the big push theory, they all are based on similar arguments. They all stress the importance of complementarities among industries, and hence favor the "balanced growth" approach. Secondly, they all emphasize the existence of indivisibilities (discontinuities) in the development process. The existence of these indivisibilities, advocates of the big push approach contend, necessitates a large initial volume of investment in order to realize the advantages of balanced growth.

The advocates of the balanced growth contend that the only way the poor can escape from the "low income trap" is to initiate an across-the-board attack on the problems of poverty. And, they further conclude that the signals of the price mechanism need to be supplemented and corrected if this task is to be accomplished. Therefore, the balanced

---

[1]Rosenstein-Rodan, op. cit., p. 57.

growth approach results in the conclusion that economic planning is needed to initiate a process of self-sustained growth in the poor countries.

The potential advantages of balanced growth, however, cannot be realized by proceeding "bit by bit" because of indivisibilities in the process of economic development. The problem is further complicated by technological indivisibilities in production functions, especially where social facilities are concerned. A half-finished dam, which now exists in Bengal (India), does no one any good.

The strongest argument in support of the idea of a big push may be noneconomic in nature. Even economists who reject the economic rationale for a big push are sympathetic to the idea that a big push may be needed to jolt the poor out of the rut of tradition.[1]

A Critique

The principal criticism of the big push approach is that the underdeveloped countries simply do not possess sufficient quantities of the required resources to solve all their problems at once. One critic calls the idea an escapist solution that does not come to grips with the realities of the typical underdeveloped country.[2] For a rapid promotion of industry to supplement raw materials production, vast

---

[1]Stephen Enke, Economics for Development (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1963), p. 316.

[2]Albert O. Hirschman, The Strategy of Economic Development (New Haven: Yale University Press, 1958), p. 52.

amounts of resources will be required. Additional investment will be required to satisfy increasing demands for foodstuffs and to supply agricultural raw materials to the new industries.

Thus it can be seen that the resources required to carry out a policy of balanced growth are of such a magnitude that a country adopting this policy must be far from poor.

Social overhead as a precondition to the expansion of productive activities, which many internationalists believe is a must, is the final criticism. The question is, Is it necessary for a poor country to have full expensive social overhead facilities before it can travel the road to riches? There is also another idea which is propounded in relation to this theory. It is claimed that investment in social overhead facilities will give impetus to production activity. This writer believes that it is extremely risky to invest in grandiose social facilities and then hope that such facilities will stimulate development.

In summarizing, it can be said that the theory of the big push places the burden of development on the government. This may be the right solution to break the circle of poverty; however, it is impossible for the poor countries to do everything at the same time and try to establish a simultaneous frontal attack in all sectors of the economy.

CHAPTER V

PLANNING EXPERIENCES--CASE STUDIES

In spite of the fact that economic planning is generally viewed as a matter of utmost importance in underdeveloped countries, the majority of them have made relatively little progress in preparing and implementing development programs.

In poor countries development plans have been prepared; but, for a variety of reasons, they have never been successfully implemented. India and Indonesia provide excellent illustrations of this type of situation.

Indonesia

Since its independence in 1949, Indonesia has prepared two national development plans: A Five-Year Plan (1956-1960) and an Eight-Year Plan (1961-1969). Although a considerable amount of time and money has been devoted to the preparation of these plans, they have been complete failures thus far.

While there have been numerous obstacles to effective planning in Indonesia, a general unwillingness to face the problems squarely is the greatest obstacle. According to Benjamin Higgins:

> At the root of Indonesia's failure to launch a development program . . . has been the lack of commitment on the part of Indonesian government, and behind them, the Indonesian people, to the planning and execution of a development program. There is still a

> lack of understanding, even among educated Indonesians, of the requirements of economic development. Sovereignty and prosperity are still too directly linked in their minds, and when sovereignty did not bring immediate prosperity, there was a tendency to blame either the continued presence of foreigners or the government in power at the moment.[1]

Also, ideological conflict among political leaders and general political instability have served to paralyze development efforts in Indonesia. Due to these factors, the Five-Year Plan "was reduced to sheer administrative exercises."[2] And the results achieved thus far during the Eight-Year Plan have been extremely poor. As one observer recently put it, "It is evident that only a miracle can bring about the realization of the Plan's objectives."[3]

Some economic observers now maintain that since the conflict with the Netherlands over West New Guinea is resolved, Indonesian economy may now stabilize and develop. This remains to be seen. But from this case, one important conclusion can be drawn and that is, it is futile to prepare development plans unless the government and the people are committed to economic advance and are willing to undertake the measures necessary to achieve it. Unfortunately many poor nations lack this to a great degree.

---

[1]Benjamin Higgins, Economic Development (New York: W. W. Norton, 1959), p. 735.

[2]United Nations, "A Decade of Development Planning and Implementation in the CAFE Regions," Economic Bulletin for Asia and the Far East, XII (December 1961), p. 18.

[3]Justus Van Der Kroef, "Indonesia's Economy Looks Forward," Eastern World, XVII (April 1963), p. 24.

India[1]

India offers an example of a different approach to development planning. She has not only produced economists of international renown, such as Dr. Agrawal, but has been experimenting with planning for the past twenty years. Since 1951, India has made an effort to harness its national development through a series of three Five-Year Plans. What have been the results of her efforts?

The First Five-Year Plan

After the establishment of the Planning Commission in 1950, the First Five-Year Plan was formulated and was to cover the period 1951-1956.

This plan was a modest one. The basic objectives of the plan were to correct the disequilibrium in the economy caused by war and partition (1947), and to initiate a process of economic development. The plan's income and investment targets were very conservative. National income was expected to increase by only 12 percent and the rate of investment was to be stepped up from 5 percent to 7 percent of national income.

Also, the Planning Commission decided to concentrate on increasing agricultural output and repairing and expanding the transportation system. The decision to give priority to agriculture and transportation was based on the urgent need to expand food and raw

---

[1]This discussion is based on the following publications: Government of India Planning Commission, The First Five-Year Plan, 1952; The Second Five-Year Plan, 1956; and The Third Five-Year Plan, 1961; India News; V. V. Bhatt, A Decade of Planned Development (New York: Asia Publishing House, 1961), pp. 285-317.

material production which had suffered due to partition of the country. This order of priorities was reflected in the pattern of public developmental expenditure which took place during 1951-1956. Of a total outlay of Rs. 1,960 Crores,[1] approximately 31 percent was spent on agriculture and irrigation, 27 percent on transportation and communications and only 6 percent on industry and mining (See Table V-1).

Despite the moderate size of the plan and heavy deficit financing, some gains were recorded in the period. National income at constant prices rose by about 18 percent, and per capita income increased by 10 percent. The index of agricultural production was about 19 percent higher at the end of the period than in the year preceding the plan. And the industrial production showed an even larger percentage of increase than agricultural production.

Was this really a successful plan? This writer believes that the gains were rather fortuitous. First, the increase in agricultural output was the result of a succession of favorable monsoons rather than agricultural programs initiated. Second, as a result of war and bloodshed, industrial production was far below capacity at the start of the plan. The combination of these factors resulted in an unexpectedly low ratio of investment to output during the plan period.

The first plan was no real challenge and did not demand any effort on the part of the Indian people. In an address to the National Development Council in 1957, Mr. Nehru emphasized this point. He said:

---

[1]A crore is 10,000,000 units. A rupee (Rs.) before devaluation was worth about 20 cents. After devaluation in 1965, it is now worth about 13 cents.

TABLE V-1

DISTRIBUTION OF PUBLIC DEVELOPMENTAL OUTLAY

UNDER INDIA'S FIVE-YEAR PLANS

(In Percentages)

Category	First Plan (actual)	Second Plan (actual)	Third Plan (proposed)
Agriculture and Community Development	14.9%	11.5%	14.2%
Irrigation	15.8	9.1	8.7
Power	13.3	9.7	13.5
Industries and Mining	6.0	23.4	23.8
Transportation and Communications	26.6	28.3	19.8
Social Services and Miscellaneous	23.4	18:0	17.3
Inventories	----	----	2.7
Total	100.0%	100.0%	100.0%

Source: Dhires Bhattacharyya, Understanding India's Economy (Calcutta: Progressive Publishers, 1962), p. 501.

> We had rather an easy time in the First Five-Year Plan . . . . We had not made any particular effort. We just took what was there and called it a Plan.[1]

The plan, however, did not alleviate the poverty of the mass of India's citizens.

The Second Five-Year Plan

The Second Five-Year Plan was the first real attempt at planning to fight poverty. The principal objectives of the second plan were: 1) to increase the national income by 25 percent; 2) to expand employment opportunities by providing 11 to 12 million new jobs; 3) rapid industrialization; and 4) establishment of a socialistic pattern of society through reduction in the inequalities in income and wealth. In spite of the conflicts among the objectives, it was felt the plan would be successful and double the national and per capita income.

The plan was hardly a few months old when serious difficulties were encountered. Some of the chief difficulties met with in implementing the plan were: severe depletion of foreign exchange; steeply rising prices due to poor harvests and deficit financing; the failure of the investment undertaken to produce the predicted increase in output; large spending for defense; and the failure of private savings. As a result of these difficulties, corrective measures were initiated. In order to conserve foreign exchange, import controls were imposed, and at the same time, an intensified effort was launched to obtain additional foreign aid. The planned investments were cut back to the core; consequently, many of the plan's objectives were not attained.

---

[1]Quoted in Bhatt, op. cit., p. 196.

The second plan originally proposed a total investment outlay of Rs. 6,200 crores, but the actual investment amounted to Rs. 6,750 crores. However, considering the rise in prices during the period, the investment outlay in real terms was deficient by about 15 percent.[1] The marked shift from agriculture to industry in the second plan, as compared to the first, is indicated in Table V-1. It can be seen from this table that over 50 percent of the total developmental outlay in the second plan was allocated to industry as opposed to slightly over 30 percent in the first plan. On the other hand, the second plan allocated only 20 percent to agriculture and irrigation against 35 percent in the first plan.

The ambitious Second Five-Year Plan ended in frustration and failure. National income increased by only 20 percent against a planned target of 30 percent. Since population increased by nearly 11 percent in the period, per capita income rose by 9 percent. The plan also failed to provide the number of employment opportunities. Consequently, unemployment increased from about 5 million at the start of the plan to 9 million in 1961.

The Third Five-Year Plan

In 1961, India launched her Third Five-Year Plan. If the plan's objectives were fully realized, national income is expected to increase

---

[1] I. M. D. Little, "A Critical Examination of India's Third Five-Year Plan," Oxford Economic Paper, XIV (February 1962), p. 1

by 31 percent during the five years and 14 million new jobs will have been created.

The investment pattern in the third plan reflects a slight shift in the order of priorities of the development program. The percentage allocated for agriculture and power has been substantially increased while the percentage allocated for transportation and communication has been reduced. (See Table V-1.)

The Third Five-Year Plan is, at this writing, completed. The evaluation of the plan is not available, however. But it can be safely said that the prospects for achieving the objectives look rather dim. During the first year of the plan, national income increased by only 2 percent,[1] considerably less than the 5 percent annual target. Furthermore, the war with Communist China has forced India to increase her expenditures for defense and use her precious foreign exchange to import arms. In addition, the wrath of God in the form of drought has plagued the country for the past two years. The total production of food grains harvested in autumn 1965 and early 1966 was forecast to decline by about 14 million tons from 88 million in the previous year. The target set under the Third Five-Year Plan was 95 million tons. According to FAO, India's imports of wheat will probably exceed 10 million tons in 1964-1965.[2]

---

[1] Krishna Moorthy, "Progress Report on Indian Plans," Economic Review, XXXVIII (October 11, 1961), p. 105.

[2] FAO, Monthly Bulletin of Agriculture, Economics and Statistics, No. 1 (1966), p. 14.

Where will India find the foreign exchange to pay for these imports of wheat? The poor will therefore remain poor.

A Summary of India's Experiences

A major inadequacy in the Indian planning is the general failure in implementation and control. An example of this inadequacy was the government's tardiness in imposing import controls when the foreign exchange crisis developed.

The great failure of the plans has been the lack of foreign exchange. A development program aimed at industrialization requires large supplies of foreign exchange. Even if a concerted effort is made to economize on the use of foreign exchange, the resources of a poor country are inadequate to meet the needs of a large-scale industrialization program.

There also exists a conflict between maximizing output and minimizing employment.[1] An industrial development program requires massive investment in capital-intensive industries. This type of investment does not create many employment opportunities (in a short run). In a poor country, where unemployment is a serious problem, additional employment opportunities can be created through schemes which require relatively small amounts of investment.

Perhaps the most serious cause for failure of the plans is the population growth. India cannot hope to achieve any increase in real per capita income unless it first comes to grips with the vital problem of its population increase.

---

[1] Krause, op. cit., pp. 166-168.

Lastly, in India, like in many poor countries, economic calculation seems to have very little to do in shaping the development strategy. Investment projects appear to be selected or rejected on a political basis without attempting to measure the prospective returns from alternative projects.

CHAPTER VI

CONCLUDING REMARKS

Given the complexity of the problems facing the poor countries today, there seems no hope of breaking the bonds of economic stagnation.

The progressives who felt that Europe was morally bound to help the underdeveloped because it was partially responsible for the backwardness of these areas have become disheartened. The "neo-colonialists" who are the new entrepreneurs in the world market, looking for sources of raw materials and new markets, are losing interest because of synthetic materials and rich markets in the affluent societies. The nuclear weapons have antiquated the theory of "balance of power/fear." This has led to a loss of interest on the part of the rich leaders to secure political and military orientation of these poor. In addition, "the importance of all underdeveloped countries as an outlet for surplus capital to prevent a 'Ricardian' stagnation in the capitalist world has also disappeared, since boundless amounts of capital can be happily rocketed into the outer space."[1]

Economic development is a dynamic process. Hence the factors effecting economic development are dynamic. To progress, therefore,

---

[1]Brenner, op. cit., p. 278.

each of the variables [f(a,e,t)] should be progressed. But the profile of the poor presented in this study portrays that these lands tend to preserve the vicious circle of poverty because of their defective homeostatic mechanism. Also, if the standard of living is to be increased the rate of technological advance and output must increase faster than the rate of growth of the labor population.

Even if all the ingredients for growth are given, the development toward riches still depends on the people. They must be willing to break from the past, work harder, produce more and make sacrifices to provide savings. Socio-cultural roadblocks must be breached, but the people of the underdeveloped nations seem unwilling to do these things. How can government plans work? How can they become rich?

Policies, plans and procedures have been designed and redesigned to bring together these two worlds with no avail. Ignorance, political instability, population explosion, and incompatibility between nations are determined to sap the strength of any or all these policies and push the poor deeper into the doldrums of poverty and hunger.

SELECTED BIBLIOGRAPHY

Bhatt, V. V. A Decade of Planned Development. New York: Asia Publishing House, 1961.

Bhattacharyya, Dhires. Understanding India's Economy. Calcutta: Progressive Publishers, 1962.

Brenner, Y. S. Theories of Economic Development and Growth. New York: Fredrick A. Praeger, Inc., 1966.

Chamberlain, John. Theories of Economic Growth. Stanford: Stanford University Press, 1961.

Chisiza, D. K. "The Contemporary Outlook," The Journal of African Studies, vol. 1, no. 1 (March 1963).

Colun, Gerhard, and Gieger, Theodore. "County Programming as a Guide to Development," Development of Emerging Countries. Robert E. Asher, Editor. Washington, D. C.: The Brookings Institution, 1962.

Dobbs, Maurice. Economic Growth and Underdeveloped Countries. New York: International Publishers Company, 1963.

Enke, Stephen. Economics for Development. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1963.

FAO. Monthly Bulletin of Agriculture, Economics and Statistics, No. 1 (1966).

GATT. International Trade, 1964. 1965.

_______. International Trade, 1965. 1966.

George, Henry. Progress and Poverty. New York: Doubleday, Doran and Company, Inc., 1928.

Government of Ghana. Ghana Seven-Year Development Plan. 1960.

Government of India Planning Commission. The First Five-Year Plan. 1952.

_______. The Second Five-Year Plan. 1956.

_______. The Third Five-Year Plan. 1961.

Haley, Eugene. The Future of Underdeveloped Countries. New York: Harper and Row, Publishers, 1961.

Harrison, Anthony. The Framework of Economic Activity. London: Macmillan and Company, Ltd., 1967.

Heilbroner, Robert L. The Great Ascent. New York: Harper and Row, Publishers, 1962.

Higgins, Benjamin. Economic Development. New York: W. W. Norton and Company, 1959.

Hirschman, Albert O. The Strategy of Economic Development. New Haven: Yale University Press, 1958.

Krause, Walter. Economic Development. San Francisco: Wadsworth Publishing Company, 1961.

Leibenstein, Harvey. Economic Backwardness. New York: John Wiley and Sons, 1965.

Little, I. M. D. "A Critical Examination of India's Third Five-Year Plan," Oxford Economic Paper, XIV (February 1962).

Moorthy, Krishna. "Progress Report on India's Plans," Economic Review, XXXVIII (October 1961).

Myrdal, Gunner. Economic Theory and Underdeveloped Regions. London: Gerald Duckworth Company, 1951.

Nehru, B. K. Speech given before the Foreign Trade Convention, Waldorf Astoria, New York. November 1, 1966.

Niculeseu, B. M. "Underdeveloped, Backward or Low Income," The Economic Journal, LXV (September 1965).

Nurkse, Ragnar. Problems of Capital Formation in Underdeveloped Countries. Oxford: Basis Blackwell, 1960.

Prochnow, Herbert V., editor. World Economic Problems and Policies. New York: Harper and Row, Publishers, 1965.

Randall, Laura, editor. Economic Development. Boston: D. C. Heath and Company, 1964.

Rosenstein-Rodan, P. N. "Notes on the Theory of the Big Push," Economic Development for Latin America. London: Macmillan and Company, 1961.

Theobold, Robert. The Rich and the Poor. New York: The New American Library of World Literature, Inc., 1961.

United Nations. Analyses and Projections of Economic Development. 1955.

_______. "A Decade of Development Planning and Implementation in the CAFE Regions," Economic Bulletin for Asia and the Far East, XII (December 1961).

_______. International Financial Statistics. 1965.

_______. Process and Problems of Industrialization in Underdeveloped Countries. 1955.

Van Der Kroef, Justus. "Indonesia's Economy Looks Forward," Eastern World, XVII (April 1963).

Viner, Jacob. "The Economics of Development," The Economics of Under-Development. Edited by A. N. Agrawala and S. P. Sugh. London: Oxford University Press, 1963.

Viner, Jacob. International Trade and Economic Development. Oxford: Clarendon Press, 1963.

Wernette, Phillip. The Future of American Prosperity. New York: The Macmillan Company, 1965.

"What is Economic Development," United Nations Review, Vol. 5 (March 1959).