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AN INTERPRETATION OF
ECONOMIC BACKWARDNESS*

by H. Myint

In current discussions the terms " underdeveloped" and"backward" are generally used as though they were completely interchangeable by applying them to aggregate geographical concepts such as "countries","areas", and"regions", or by equating them with certain broad indices such as low incomes or capital investment per head. It is more illuminating, in my view, to give these terms different connotations by using the former to mean underdeveloped resources, and the latter to refer to the backward people of a given area, In this paper I shall argue that this distinction is fundamental to the understanding of the nature of economic backwardness.

I

The difference in approach in terms of "underdeveloped resources" and in terms of "backward people "[1] can best be illustrated by examining the current fashion of including not only the natural resources but also the so-called "human resources" under the generic heading of "underdeveloped resources", which seems to imply that the two terms we have distinguished really overlap. But is it merely a matter of taste or tact whether we choose to speak of "backward people" or of "underdeveloped human resour-

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1_/ In order to avoid misunderstanding I had better say at once that in speaking of a "backward people", in contrast to "an advanced people", I am referring only to economic life and do not in the least imply general cultural "backwardness". The qualifying word "economic" is dropped merely for the sake of brevity.

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ces?" On a close examination it will be seen that each term has its own hinterland of associated ideas and the two cannot be superimposed on each other without creating a number of serious logical difficulties.

In common-sense terms, a "backward people" may be defined as a group of people who are in some fashion or other unsuccessful in the economic struggle to earn a livelihood. Thus we are starting from a Classical or Marshallian distinction between man, on the one hand, and his environment on the other: only then can we think of a group of people as being successful or otherwise in adapting themselves to their environment. Further, the idea of "backwardness" inevitably implies a comparison of different degrees of success in this economic struggle: some groups of people are less successful or "backward" compared with other more successful or "advanced" groups. Thus the nature of backwardness would lose much of its significance if applied to a homogeneous group of people without international economic relations. It is when a self-sufficient primitive or medieval economy has been opened up to outside economic forces and its people come into contact with other economically more "advanced" people that the idea of backwardness suggests itself.

This way of approach at one raises a number of issues. Firstly, we shall have to make a more systematic analysis of the continuous process of mutual adaptation between wants, activities, and environment which we have described as "economic struggle". Secondly, in order to make a valid comparison of the varying degrees of success in the economic struggle of different groups of people we require the assumption that these different groups are in fact pursuing the same or comparable sets of ends. This is a big assumption which will have to be examined closely. Finally, we shall have to consider whether it is sufficient to measure the degree of "backwardness" or "advancement" of different groups of people merely in terms of the relative distribution of final incomes among them; or whether the pattern of distribution of economic activity among the different groups and the different roles they play in economic life might not in the long run offer a more significant clue to the future potential development of each group.

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These will be discussed at a later stage (section 1V). For the purpose of a preliminary contrast, however, it is sufficient to note that when we adopt the approach in terms of "backward people" we are by definition making their failure in the economic struggle the centre of the problem and that this involves: (a) a fundamental contrast between them (the backward people") and the natural resources and the economic environment of their country, and (b) a deliberate concentration of attention on their share of incomes or economic activity either within their own country or in relation to the world at large as distinct from the total volume of output or economic activity.

When we turn to the approach in terms of "underdeveloped resources", however, we are led to quite a different set of ideas. To treat "human resources" on exactly the same footing as natural resources as part of the common pool of "underdeveloped resources" is to abandon the older man - against- environment approach in favour of the modern "allocative efficiency" approach. We are then concerned, not with the success or failure of a given group of people in their struggle against their economics environment (including other groups of people), but with the allocation of given "resources" among alternative uses as determined by the price system or by the central planner or by a mixture of both. The aim of this allocative process is to maximize total output, and "undervelopment" becomes a species of deviation from the productive optimum defined in some sense or other.

We can now see that although, physically speaking, the same people are involved when we speak of "backward people" and of underveloped human resources", the standpoint adopted in each case is different. From the first standpoint, these people are regarded as actors (even if unsuccessful ones) in the economic struggle. From the second, they are regarded as impersonal units of "underdeveloped" resources not distinguishable from units of other types of underdeveloped resources except by the degree of underdevelopment defined in some functional sense. Thus we are not specially concerned with "human resources" more than with other types of resources except in so far as it could be shown that "developing" the human resources would in fact increase the total output by a greater extent than

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by developing other "material" resources.

The difference between the "backwardness" and the "underdevelopment" approach becomes very clear when we exclude human resources from the definition of "underdeveloped resources" and confine it entirely to natural resources." This is by no means an unusual or deliberately contrived "strong case" to boost our distinction. As a matter of fact, much of the thinking on the subject is still influenced by the idea of "underdeveloped countries" as those which (whatever their "human resources") possess a greater amount of potential natural resources waiting to be developed compared with the"developed countries" whose natural resources have already been fully brought into use. We may also note how the use of such expressions as "underdeveloped countries", "underdeveloped areas", "underdeveloped regions", etc.,tends to foster this belief in the existence of potential natural resources.

Here, once we have excluded the human beings from the "underdeveloped resources", a number of propositions amerge. Since they will recur again in the course of our argument, they may be summarily stated at this stage. (1) "Underdevelopment" of natural resources and "backwardness" of people are two distinct phenomena and they need not even always coexist: thus the inhabitants of the "overpopulated" countries which admittedly have very little natural resources left for further unaided development are also generally backward". (2) When "underdeveloped" natural resources and "backward" people coexist, they mutually aggravate each other in a "vicious circle"; but this mutual interaction is an essentially dynamic and historical process taking place over a period of time and may be too complicated and qualitative to be easily fitted into the formal quantitative framework of optimum allocation of resources (including capital resources) suggested by the pure "underdevelopment" approach. (3) Although the "underdevelopment" of natural resources may cause the "backwardness" of the people, it does not necessarily follow that any efficient development of natural resources resulting in an increase in total output will always and pari passu reduce the backwardness of people. On the contrary, the problem of economic backwardness in many countries has been made more acute, not because the natural resources have remained "underdeveloped", but because they have been

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as fully and rapidly developed as market conditions permitted while the inhabitants have been left out, being either unable or unwilling or both to particiapte fully in the process.

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Let us now turn to the logical difficulties which arise from attempts to superimpose the "backwardness" and the "underdevelopment" approach on each other. These can be best illustrated by examining some of the typical arguments in favour of increasing the flow of investment from the "advanced" to the "underdeveloped" countries.

Advocates of plans for the international economic development of the underdeveloped countries generally start by saying that the case for alleviating the poverty and discontent, ill health and ignorance of the peoples of these countries can be made whether we approach the subject from a humanitarian standpoint or purely in self-defence to ease the storm-centres of international relations. At this stage therefore the problem seems to be set out in terms of human misery and discontent, in terms of "backwardness" rather than in terms of "underdevelopment" of resources. Indeed, the existence of "underdeveloped" natural resources at least, far from creating a "problem" in the relevant sense, may be regarded as part of the means of solving it. When, however, we pass from this initial statement of the problem to the later parts of the economic development plans which contain a more technical treatment of the proposals and "target figures" for investment, we generally encounter a shift from the "backwardness" to the "underdevelopment" approach. The existence of "underdeveloped" natural resources is no longer regarded as the means of solving the problem; it has become the problem itself. The argument then proceeds as though the phenomenon of the "backwardness" of the people can be satisfactorily accounted for purely in terms of the "underdevelopment" of the resources and deviations from the optimum allocation of world's capital resources.[1]

1/ Cf., for example, United Nations Report, Measures for the Economic Development of Underdeveloped Countries, ch. viii.

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It is now time to consider the meaning of "underdeveloped resources" more closely. In the language of optimum theory, it seems to describe two types of deviation: (i) less than optimum amounts of these "underdeveloped" resources have been used in producing final output, and (ii) less than optimum amounts of capital have been invested to augment the quantity and improve the quality of these "underdeveloped" resources. Where the first occurs by itself it would be possible to increase the total output of the underdeveloped countries without outside investment merely by reorganizing their own existing resources by such measures as legal and administrative reforms, the mobilizing of domestic savings, and so on. In current discussion, although this possibility is admitted, it is considered that as a rule the two types of deviation occur simultaneously, the first caused by the second. That is to say, the scope for a more productive reorganization of "development" of the resources of the underdeveloped countries is limited without first removing the basic cause of "underdevelopment", viz. an insufficient flow of investment from the "advanced" countries.

The typical arguments in favour of increasing investment in the underdeveloped countries may now be examined. They may be classified according to the degree of optimism concerning the richness of the "underdeveloped resources".

i. The most optimistic type of argument assumes that as a rule underdeveloped countries possess natural resources capable of being developed by private investors on a purely commercial basis and this process will automatically help to raise the standard of living of the people of these countries. "Underdevelopment" is therefore caused by "artificial" obstacles and restrictions to the free international movement of private capital. Whatever our views about the richness of potential natural resources, this type or argument serves to illustrate a sharp clash between the "underdevelopment" and the "backwardness" approach. For, on a closer examination, it turns out that the only type of investment which private investors are willing to undertake in the underdeveloped countries is the exploitation of raw materials, e.g., petroleum, and it is precisely in this field that the governments of the underdeveloped countries are frequently unwilling to ad-

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mit private foreign capital because they fear that this nineteenth-century type of investment" will merely develop the natural resources and not the people and will result in"foreing economic domination" aggravating the economic"backwardness" of their peoples. This is a genuine deadlock to which no satisfactory answer can be given in terms of the simple "underdevelopment" approach. And to dismiss the whole thing merely as irrational economic nationalism seems suspiciously like throwing the baby away with the bath water (see section Vl below).

ii The next type of argument may be regarded as an attempt to retrieve the underdevelopment" approach by introducing the Pigovian concept of the "social" productivity as distinguished from the "private" productivity of investment. Here it is argued that although the underdeveloped countries may not possess (or are unwilling to make available) resources which can be developed by private enterprise, they can nevertheless very profitably absorb large sums of international investment in the form of public enter prises using a broader criterion of "social" productivity. These enterprises would include public utilities, transport, hydro-electric and irrigation schemes, &c., which offer economies of large scale and scope for complementary investment and where only a public agency can collect the diffused social returns by means of taxation. A good example of a direct application of this argument may be found in the United Nations Report on National and International Measures for Full Employment. Here the authors, after recommending that the International Bank for Reconstruction and Development should be used as the main channel of inter-governmental lending to reduce political risks on both sides, lay down the following conditions;

" The criteria of worthwhileness for the loans should be their effect on national income, taxable capacity and export capacity. The Bank should not in general lend, unless it is convinced that in consequence of the loan, the borrowing country's current balance of payments will improve sufficiently to permit interest and amortization payments to be made ."

"Development loans should be made at interest rates uniform for all borrowing countries"(Op.cit., pp. 93-4.)

These two conditions may be regarded as the logical limits to which

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the investment policy towards the underdeveloped countries can be liberalized on the basis of the Pigcvian concept of "social" productivity of investment. It may be noted that fairly substantial amounts of capital can still be absorbed by some of the underdeveloped countries within these limits. But comparing this view with the general run of discussions on the subject, it soon becomes apparent that many advocates of international development plans would consider the Pigovian conditions as too restrictive to be regarded as a serious basis of investment policy towards the underdeveloped countries. There are two possible ways out of this impasse. The first, which we shall recommend in the later part of this paper, is to make a clean break with the whole "underdevelopment" approach and to adopt a more direct approach to the problem of economic backwardness of the people. The second and more popular alternative is to try to broaden the "underdevelopment" approach still further; and this brings us to the third type of the underinvestment argument.

iii The argument at this stage consists in attempts to stretch the concept of "social productivity" or "desirability" by invoking (a) the principle of "needs", and (b) the dynamic principle of trying to stimulate further rounds of loan investment by "productive" grants to "improve social capital", particularly in the fields of public health, education, and communications. A good example of this may be found in a later United Nations Report on Measures for the Economic Development of the Underdeveloped Countries. Here the authors argue:

(a) that "the amount that can be profitably invested at a 4 percent rate of interest depends on the amount which is being spent at the same time on improving social capital; and especially on public health, on education and on roads and communications. There is much to be done in this way in the underdeveloped countries before they will be in a position to absorb large amounts of loan capital" (para.269)
(b) that the underdeveloped countries "cannot borrow" for these purposes, presumably because "they could not meet the full burden of loan finance" (paras. 270 and 277);
(c) that, therefore, grants-in-aid should be made to the underdeveloped countries, but purely for "productive" purposes (paras. 271 and 276).

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The authors do not, however, hesitate to invoke the principle of needs. Thus:

The principle that the better off should help to pay for the education, the medical services and other public services received by the poorer clases of the community is now well established within every Member nation of the United Nations. The idea that this principle should also be applied as between rich and poor countries is relatively new, It has however been put into practive on several occasions. (Para. 272)

How far are these attemps to stretch the idea of "social" productivity succesful?

To begin with, there is an important shift in the basic definition of the "underdeveloped countries" which is not as clearly stated as it might be. Up to now the main burden of the argument has been on the proposition that "underdeveloped countries" possess a greater amount of "underdeveloped" resources than the developed countries and that therefore the "social" productivity of investment is higher in the former than in the latter. From now on the emphasis has shifted to the fact that the underdeveloped countries have lower per capita incomes and therefore suffer from greater needs than the developed countries.

The introduction of the principle of needs does not create any difficulties provided we are prepared to keep it clearly apart from the principle of productivity. Then loans should continue to be made strictly on the productivity principle while grants should be made separately on the need principle.

This however, results in somewhat unpalatable conclusions. (a) When we are allocating loans, our main concern is to maximize the total world output and not to equalize international incomes. Thus the social productivity curves of investment must be constructed objectively, and independently of our value judgements concerning needs. This means that capital should not be diverted in the form of low interest loans or grants to the poorer countries simply because they are poor. A more economic way of reducing inequalities in the international distribution of income is to allocate the world capital resources in uses where its social productivity is highest even if it happens to be in the richest countries, and to redistribute the resultant output after first ensuring that it is maximized.(b) Conversely,

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when we are allocating grants, our concern is with a more equitable international distribution of incomes and not with thei# effects on total output. Thus grants should be made in the form of final consumers' goods and services, directed not only towards the poorer countries but also towards the poorer sections within each country. The principle of need in its strict form is an argument for diverting final incomes from the richer to the poorer countries for consumption purposes and not an argument for diverting capital grants for "productive" purposes.

These conclusions are not without relevance to the practical issues of economic policy in the underdeveloped countries. Thus critics of the unsuccessful developmental ventures of the British Overseas Food Corporation and the Colonial Development Corporation may reasonably maintain that the root cause of the failure lies not as much in the wrong choice of men and inefficient methods of administering the ventures but in the vagueness of the mandate itself which tries to compromise between the principle of obtaining economic returns and the principle of needs. They may say that rather than waste huge sums of money by investing in projects which cannot be justified on the strict productivity principle, it were better to distribute them as free gifts of consumers' goods and services among the poor of Africa. Again, individuals and governments in underdeveloped countries sometimes find themselves with large sums of money which they cannot profitably or safely invest locally; and then, following the strict productivity principle and the need to protect their capital, they have found it wiser to invest it in the most developed countries such as the U.S.A. or the U.K.

The last example, however, brings out the unsatisfactoriness of trying to apply the static rules of the productive optimum to the problem of the underdeveloped countries. This, however, is rather damaging to the conventional definitions of the "underdeveloped" countries both in terms of "underdeveloped" resources and in terms of low per capita incomes. For now it begins to transpire : a) That if we take the productivity curves of international investment on the basis of existing economic conditions in the " developed " and the underdeveloped countries, more often than not capital is like-

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ly to be more productive in the former than the latter and the Pigovian distinction between "social" and"private" product will not appreciably change the broad picture; (b) that therefore if we were to allocate capital according to the existing productivity curves, even taking a generous view of "social" productivity, this would still result in relatively greater quantities of capital being invested in the "developed" than in the"underdeveloped" countries, accentuating the unequal rate of economic development between the two types of country; and (c) that a policy of a more equal redistribution of international incomes based on the pure principle of needs, although it may relieve the burden of cumulative unequal rates of economic development, does not touch the heart of the problem;for fundamentally the problem of the "underdeveloped" countries is not merely that of low or unequal distribution of final incomes but also that of unequal participation in the processes of economic activity.

Faced with these considerations, those who wish to retain the "underdevelopment" approach are obliged to"dynamize" it and to refer to social productivity in the longer run as distinct from the present social productivity of investment.

We are now in a position to examine the argument of the authors of the United Nations Report on the Measures for the Economic Development of the Underdeveloped Countries. It will be seen that the crux of their argument lies in the question how far "improving social capital" in public health, education, and communications, whether financed by grants or loans, can successfully stimulate further rounds of loan capital. Thus the authors "appeal to the principle of need in para. 272 (also implicit earlier on, e.g., para. 248) turns out to be a side-issue . It is a confusing side-issue at that because the requirements for creating incentives for further investment and those for promoting economic equality do not always conveniently coincide in the same policy as the authors have implied. On the contrary, there are many instances where the incentives for further investments can be created only by pursuing relatively disequalizing policies such as control of domestic wages, tax exemptions to new (foreign) enter-

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prises, etc.[1]

Turning to their main argument, the extent to which further rounds of loan investment can be effectively stimulated by a policy of "improving social capital" by grants must depend on a wide variety of circumstances which vary from country to country and about which no definite generalizations can be made. We are no longer in the static world where "under-investment" in a particular line can be deduced in principle by an inspection of the given social marginal productivity curves and where there is a definite functional relationship between the quantity of capital invested and the quantity of "returns" in the form of final output. Thus given favourable circumstances, a small amount of "investment" in social capital might start a chain-reaction and yield "returns" in the form of secondary rounds of investment out of all proportion to the initial investment. On the other hand, if circumstances are not favourable, even a larger amount of initial investment might not successfully start these secondary rounds of activities, and there is no real guarantee that increasing the amount of the initial investment still further would induce the desired results. In reply to such objections, the authors can only appeal to the general presumption that if average incomes per head or expenditure per head in the type of social services they have chosen is low, then longer-run social productivity of investment in "social capital" is likely to be high. This general presumption is not as strong as it appears and there are two general arguments which may be advanced against it.

The first is clearest in the case of education and technical training although it can be applied also to other types of "social capital". It is the fairly common experience of the under-developed countries to find themselves, not merely with an overall shortage of educated people, but also with a relative shortage of those regarded as "socially productive", such as engineers and doctors, combined with a relative abundance of those regarded as less socially productive, such as lawyers and clerks. The reason for this is, of course, that with the existing social and economic organi-

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1/Cf., for instance, "Industrialization of Puerto Rico", Caribbean Economic Review, December 1949, by Professor A. Lewis, one of the authors of the Report.

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zation of these countries there is a relatively greater market demand for the latter type of person than the former. This would seem to suggest that the problem of creating and organizing demand for trained personnel in the underdeveloped countries may even be more important than the problem of creating the supply by investment in "social capital". Given the demand, the supply of trained personnel of most types (including those trained abroad) would seem to respond more automatically and to a greater extent than is usually allowed for. On the other hand, there is less indication that the demand can be effectively stimulated merely by creating the supply without simultaneously introducing far-reaching changes into the economic structure . Thus most underdeveloped countries can provide numerous instances of graduates from technical and agricultural colleges who cannot be absorbed, because the existing economic structure cannot be changed quickly enough to absorb them, although in terms of broad averages the amount of money spent per head of education and technical training is quite modest. The common fate of these people is to suffer a form of intellectual "disguised unemployment" by taking up appointments as clerks and ordinary schools-teachers.[1] Thus there is a genuine tendency for a great deal of investment in "social capital" to be wasted, although the full extent of this wastage is concealed because expenditure on education and technical training is classed under the head of social services and not subject to the strict profit-and-loss accounting of other types of state enterprises.

This leads us to the second argument, which is rather disconcerting to the economic theorist. The application of fairly sophisticated economic theory involving concepts of social productivity and induced investment tends to create the impression that we have now openened up new possibilities of investment in the underdeveloped countries which were unappreciated and unexplored by the governments and administrators of these countries. This, however, overlooks two circumstances. Firstly, a substantial part of capital inflow into the underdeveloped countries was in the form of government borrowing even in the heyday of private investment. Secondly, the governments of the newly-

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1/ Cf. J.S. Furnivall, Colonial Policy and Practice, pp. 380-82.

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opened-up countries have always been impelled by a powerful "self-interest" to try to obtain adequate revenues to meet the expanding costs of administration. Thus, untutored as they may be in economic theory, they have been obliged by practical necessity to borrow and deploy their loans and grants in ways not so different from the recommendations of the present-day economic experts.[1] The moral of this argument is not merely that there is less scope for the deployment of "productive" loans and grants (as distinct from those social service expenditures which are frankly based on the principle of need) then appears at first sight. There is a further consideration which cuts across the whole of the "underdevelopment" approach. For, as we shall see, ironically enough, where the governments of the underdeveloped countries have been successful in stimulating private (foreing) investment the result has frequently been too great and rapid an expansion in a few lines of primary production for export which further aggravated the problem of the adjustment of the indigenous peoples of these countries to outside economic forces. Thus again, we are led back from the consideration of the total quantity of investment and the total volume of output and economic activity to a consideration of the type of investment and the distribution of economic activities and economic roles between the backward peoples and the others.

This is a convenient point at which to pause and summarize our argument so far. (i) The problem of the so-called "underdeveloped countries" consists not merely in the "underdevelopment" of their resources in the usual senses, but also in the economic "backwardness of their peoples. (ii) Where it exists, the "underdevelopment" of natural resources and the backwardness of people mutually aggravate each other in a "vicious circle" (iii) While (ii) is very important, it needs to be handled with care, for it is liable to

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1/ In some cases, however, there may be an important divergence between the social productivity of investment to the community and the "private" productivity to the government interpreted narrowly in terms of quick revenue receipts. Sometimes governments may actually discourage new domestic industries to protect their vested interests in customs and excise duties.

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distract our attention from the real problem of economic backwardness. Thus, impressed by the connexion between the "backwardness" of the people and the "underdevelopment" of the resources, many have sought to superimpose these two concepts on each other and to explain the former entirely in terms of the latter. In doing so, however, they are continually obliged to stretch and shift the basis of their argument; from the "underdeveloped" natural resources to the "underdeveloped" human resources; from the "private" to the"social" productivity of investment; from the principle of "productivity" to the principle of "need" ; and finally, from the static idea of the optimum allocation of investable resources to the dynamic idea of stimulating further rounds of investment by "productive" grants. It is fair to say that, in spite of all these contortions, the real issues of backwardness seem to have eluded the grasp of the "underdevelopment" approach. (iv) Thus in order to push our analysis farther to the heart of the problem, it would seem desirable to make a clean break with the "underdevelopment" approach and to recognize the problem of "backwardness" as major problem in its own right which may occur even where there is no important "underdevelopment" of resources in any of the acceptable senses. To emphacize this we shall speak from now on of "backward" and not "underdeveloped" countries.

III

At this stage it will be seen that there are at least two other "obvious" explanations of "backwardness" which must be considered as seriously as "underdevelopment" in relation to some of the backward countries. But like "underdevelopment" itself, we shall have to leave them aside in our search for a more general approach to the problem.

The first, of course, is the "overpopulation" approach which not so long ago used to occupy a central position in discussions now dominated by the idea of underdevelopment". Here again we may agree that backward peoples generally tend to have high birth-rates and that therefore"overpopulation" and backwardness" tend to aggravate each other in another of those "vicious circles" which are a feature of the whole subject. But this still leaves important gaps in the explanation. While overpopulation

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may be a major cause of backwardness in some countries, it does not explain why other countries not suffering from manifest population pressure should also be similarly backward, Moreover, some backward countries, e.g. most of those in south-east Asia, initially started from sparse populations in relation to their natural resources. It is only after they have been "opened up" to international trade that they have tended to become overpopulated, partly because their death-rates have been reduced and partly because their resources have been developed in a few special lines of primary production for export which are subject to diminishing returns. Here, overpopulation cannot be regarded as the cause of backwardness; rather it is a manifestation of the maladjustment of backward peoples to outside economic forces at the physical level. Nor need this maladjustment always take the form of overpopulation. In some cases of extreme backwardness the size of the backward population has been known to diminish to the point of extinction. Finally, the degree of overpopulation depends, not only on the relation between the physical quantity of natural resources and the size of population but also on the level of technical and economic development of the people. Thus advanced industrial countries can usually maintain a denser population at a higher standard of living than the backward agricultural and pastoral countries. Further, in the past the advanced countries have absorbed very large increases in population without lowering their standard of living; indeed, many would maintain that these increases were a necessary part of their even greater rates of expansion in output and economic activity.[1] Thus to try to account for economic backwardness purely in terms of population pressure is to leave unanswered the question why the economically backward peoples have been unable to increase their productivity to match the increase in their population while the economically advanced people have managed to increase their standard of living on top of large increases in population.

The second possible line of approach is in terms of the deliberate and legalized political economic, and racial discriminations imposed on the "backward" peoples by the "advanced" peoples, Here again, although this ap-

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1/ Cf J.R. Hicks, Value and Capital, p.302 n.

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pears to be a major factor in certain countries, notoriously in Africa, it does not explain why the indigenous peoples of other countries who are not subject to such obvious discriminations to the same extent should also be similarly backward. Here, of course, the definition of the nature and extent of discrimination raises very formidable difficulties which we must frankly by-pass if we are to get farther on with our analysis. We shall thus content ourselves with drawing a somewhat crude working distinction between the deliberate and therefore directly remediable causes of backwardness in the form of open and legalized discriminations and the more fortuitous and intractable disequalizing factors which may operate even where there is a perfect equality of formal legal rights between different groups of people in their economic relations with each other (cf., however, section V below).

We are now able to sketch the general outlines of our problem. When the backward countries were "openend up" to economic relations with the outside world, their peoples had to face the problem of adapting themselves to a new environment shaped by outside economic forces. In this, whatever their degree of cultural advance in other spheres, they seem to have been conspicuously unsuccessful or "backward" compared with the other groups of economically "advanced" people- whatever their degree of cultural advance in other spheres. Our problem is to explain this gap, to explain why the backward people cannot stand on a "competitive footing" with the advanced people in this"economic struggle". The problem is further complicated by the fact that the gap between the advanced and backward peoples instead of being narrowed has been frequently widened by the passage of time. Thus an inquiry into the causes of economic backwardness essentially consists in searching for those disequalizing factors which instead of being neutralized are cumulatively exaggerated by the free play of economic forces".

In order to isolate these disequalizing factors, we can adopt a "model" of a backward country which has the following broad negative specifications (i) Initially the country started with a fairly sparse population in relation to its potential natural resources; so it cannot be said to have been suffering from "overpopulation" to begin with. (ii) Its natural resources

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are then "developed", usually in the direction of a few specialized lines of primary production for export, as fully as the world market conditions permit. This process of "development" is generally carried out by foreing private enterprise under conditions of laissez-faire; but frequently the process may be aided by a goverment policy of stimulating expansion in investment, export, and general economic activity motivated by a desire to expand taxable capacity. So the country's natural resources cannot be said to be obviously "underdeveloped". (iii) Whatever its political status, its native inhabitants at least enjoy a perfect equality of formal legal rights in their economic relations with other people, including the right to own any type of property and to enter into any type of occupation; so they cannot be said to suffer from obvious discriminations in economic patterns.

To those who are firmly wedded to the conventional explanations of economic backwardness this may seem like assuming away the entire problem. But when we turn and survey the different types of backward countries, it will be seen that there is a large group, for example those in south-east-Asia, British West Africa, Latin America, which approximates more to our model than to any models of obvious "underdevelopment","overpopulation", or discrimination", or a combination of all of them, if the first and the second can in fact be combined. Further, even in the other groups of backward countries where these conventional explanations are obviously very important, our model is still useful in turning attention to the residual causes of backwardness which may turn out to be by no means negligible.

IV

Before we consider our "model" further let us examine the concept of economic backwardness more closely. We may begin by distinguishing between the "backward country" as an aggregate territorial and economic unit and the "backward people" who frequently form merely a group within if confined to certain sectors of the economy. Now the disequalizing factors which we are seeking must be considered as operating, not only between the backward and the advanced countries as aggregate units, but also between the

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backward and advanced groups of peoples within the same backward country itself. Obviously a complete analysis of economic backwardness must take into account both sets of disequalizing factors which are closely interrelated with each other. Even so, we shall come to realize that the familiar countries A and B approach of the conventional theory of international trade is seriously inedequate for our purpose and that to study the actual impact of outside economic forces on the backward people we shall have to go behind these macro-economic units to those disequalizing factors which operate within the backward country itself. But much still remains to be done even in terms of the conventional approach, using these versatile letters A and B to denote the " Advanced" and the "backward" countries respectively. It is only recently that the general run of economists have turned their attention to the long-run problem of unequal rates of economic growth and productivity among the different countries participating in international trade. But even so, it is fair to say that this has somewhat shaken the belief in the adequacy of the static theory of comparative costs to deal with the essentially dynamic process of growth of the international economy. Thus it is now increasingly admitted that the existing ratios of comparative costs are by no means immutable and rigidly related to the original natural resources of the countries but may be influenced to a great extent by such factors as education, experience, technical skills, and so on, which arise out of the process of international trade itself and may exert a cumulatively disequalizing influence against the countries which have a later start. Following on from this, it would seem that the gains from international trade cannot be adequately measured merely in the form of the conventional "terms of trade" and the distribution of final incomes among the participating countries; we must also take into account the distribution of economic activities, in the form of induced investment and secondary rounds of employment, growth of technical knowledge and external economies, and all those dynamic stimuli which each participating country receives as a consequence of a given in-

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crease in the volume of its trade.[1] Although different views may be held about the practical policies most likely to induce these secondary rounds of investment and economic activity, there is little doubt that the concept of "induced" investment affords great theoretical insight into the nature of economic backwardness. In a sense, one might say that the difference be tween the"advanced" and the"backward" country lies in the fact that the former, subject to the powerful "accelerator" effect, can generate its own trade-cycle while the latter merely receives the fluctuations transmitted to it from outside, although of course the size of the impact need not be smaller for that reason.

Having said this, however, it is necessary to add that an approach to backwardness which stops short at this level will be seriously inadequate and that many of the discussions on the subject have been vitiated precisely because they are couched in terms of such geographical aggregates as "countries", "areas", "territories", etc. A natural consequence of this is a preoccupation with such macro-economic quantities as the aggregate and per capita national income, total volume of exports, total and average amount of investment, etc. Whence follow those economic development plans which aim to increase either the total or the percapita national income by a certain percentage by means of target figures for investment calculated on the basis of average capital requirements per head of population.

This type of macro-economic model of economic development may be suitable for the advanced countries.[2] but there are a number cf reasons why it cannot be satisfactorily extended to the backward countries, To begin with, the advanced country, by definition, is in the middle of a self-generating process of economic growth characterized by a steady rate of technical innovation and increase in productivity. Thus is seems reasonable to rule out diminishing returns and assume that a given rate of net investment will, on the whole, result in a corresponding rate of increase in total out

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1/ Cf. H. W. Singer, "The Distribution of Gains between Investing and Borrowing Countries", The American Economic Review Papers and Proceedings May 1950.

2/ Cf., however, T. Wilson, "Cyclical and Autonomous Inducements to Invest", Oxford Economic Papers, March 1953.

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put or productive capacity. Further, certain basic ratios, such as the propensity to consume, are not obviously unstable and may be used as constants for the process analysis. When we turn to the backward country, however, these assumptions are no longer plausible. The problem here is not to trace the working of the process of economic growth on the basis of certain constant proportions but to try to start that process itself. We cannot stop short at thinking in terms of overall rates of net investment and increase in total output because the two rates are no longer connected in a determinate manner by a stable average ratio of capital to output.[1] Indeed even if we could assume constant average productivity of capital, this will not be sufficient for the purpose of many economic development plans because they rely to varying degrees on the assumption of "external economies" and increasing returns to scale. Further, none of the basic ratios required as constants for the process analysis can be assumed to be stable for the relevant long period. Under the impact of outside economic forces, most of these ratios, such as propensity to consume and import, population growth, etc., have been changed or are in the process of changing. Here again it is the accepted task of economic development policy, not merely to accept these ratios as given, but to try to change them in directions considered to be favourable for development. This is not to say that all economic development plans based on macro-economic analysis will always fail. It is merely to say that it is not sufficient to stop short at this level and assume as a matter of course that, provided the required supply of capital[2] is forthcoming, the process of economic growth will work itself out automatically as it does in the advanced countries. Thus the very nature of our problem, which is to start this process of economic growth, obliges us to go behind the macro-economic units and investigate the actual structure and "growing points" of the backward economy. For the same reason, we

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1/ 'The law of large numbers' is unconvincing when applied to the industrial sector of backward economies, where instead of n number of firms in full working order the State is trying to start a few odd new industrial units.

2/ Including "productive" grants to stimulate investment. Cf. section 11 above.

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cannot treat the changes in the basic ratios and propensities as "exogen ous" changes in data but must inquire into their nature and causes.

So far we have been concerned only with the mechanical difficulties of applying the macro-economic models to the backward countries. Even more serious difficulties are encountered when we inquire into the meaningfulness of macro-economic quantities such as the aggregate national income or the per capita income to the peoples of the backward countries. These arise in addition to the complication already noted- that "backward peoples" normally form only a sector of the economy of their "countries" - so that the fortunes of the "country" and the "people" cannot be closely indentified.

Even in the advanced countries, such concepts as the increase in national income or aggregate output capacity create serious problems of interpretation once we drop the static assumption of given and constant wants and enter the real world of a continual stream of new wants and commodities and improvements in the quality of existing goods. We can, however, put aside these "index-number" problems in favour of a "commonsense" interpretation, since we can assume that the "measuring rod of money" and physical productivity are meaningful to the individuals concerned and broadly approximate to the social goals they are pursuing as groups in a fairly simple and straightforward manner. When we come to the backward countries, however, this assumption has to be carefully re-examined. The peoples of backward countries have had shorter periods of contact with the "money economy" so that the habits of mind and the symbolism associated with monetary accounting may no be deep rooted in their minds.[1] Further,as groups, they are subject to complex pulls of nationalism and racial status, so that there may not be a simple meansend relationship between the in-

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1 /Cf. S. H. Frankel, Some Conceptual Aspects of International Economic Development of Underdeveloped Countries (Princenton, May 1952), now reprinted in The economic Impact on Underdeveloped Societies (Blackwell, Oxford, 1953). My debt to my colleague Professor Frankel cannot, however, be adequately expressed in terms of specific points, for I have had the benefit of discussing with him the fundamental issues of the subject for several years. I cannot, of course, claim his authority for the particular conclusions I have arrived at in this paper.

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crease in national output and the achievement of their social goals. Thus, in many backward countries, people seem to desire up-to-date factories and other trappings of modern industrialism, not so much for the strictly material returns they are expected to yield as for the fact that they are in themselves symbols of national prestige and economic development. Following Veblen, one might describe this as a case of "conspicuous production".

There is then a greater need in the study of backward countries than in that of the advanced countries to go behind the "veil" of conventional social accounting into the real processes of adaptation between wants, activities, and environment which we have described earlier on as the "economic struggle". When we do this we shall see that the "problem" of the backward countries as it is commonly discussed really has two distinct aspects: on the subjective side it might be described as the economics of discontent and maladjustment; on the objective side it might be described as the economics of stagnation, low per capita productivity and incomes. In principle the latter should be a counterpart to the former and provide us with quantitative indices of it. In practice there is a real danger of the macro-models of economic development "running on their own steam" without any reference to the fundamental human problems of backwardness on the subjective side.

To illustrate this, let us begin by considering the backward country as a stationary state. In terms of the objective approach this is a standard case of economic backwardness and "over population" popularly attributed to the Classical economists.[1] In terms of the subjective approach the situation may not appear so gloomy. Many of the backward countries before they were "opened up" were primitive or medieval stationary states governed by habits and customs. Their people might live near the "minimum subsistence level" but that, according to their own lights, did not appear too wretched or inadequate. Thus in spite of low productivity and lack of economic progress, there was no problem of economic discontent and frustration: wants and activities were on the whole adapted to each other and the people were in equilibrium with their environment. This is not to say that every-

1/ Cf., however, Ricardo's Principles, Sraffa ed., p. 99 and p. 100 n.

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thing was idyllic: there may have been frequent tribal wars and insecurity of life and property. But on the whole it is fair to say that there was no "problem" of backward countries in the modern sense and that the situation perhaps resembled J. S, Mill's picture of the stationary state more than that of his predecessors.[1]

Now consider the second stage particularly in the second half of nineteenth century and the beginning of twentieth century when these stationary backward societies were opened up to the outside economic forces, Here we can see why the term "backward" which we have been obliged to use for lack of a better alternative is so loose and liable to different interpretations . For at this stage, and to a certain extent even today, the economic backwardness of a society was simply measured by the lack of response of its members to monetary incentives. This in effect meant measuring the backwardness of a people, not by their inefficiency and inaptness in satisfying their given wants or in pursuing their own social goals, but by their tardiness in adopting new Western standards of wants and activities. Measures for 'economic development' then consisted mainly in attempts to persuade or force the backward people into the new ways of life represented by the money economy- for example, by stimulating their demand for imports and by taxing them so that they were obliged to turn to cash crops or work in the newly opened mines and plantations. Whether it was meaningful or not to the people, the accepted yardstick of economic development of a "country" was its export and taxable capacity.

"Backwardness" in the sense of economic discontent and maladjustment does not fully emerge until the third stage of the drama when the natural resources of the backward countries have been "developed" to a large extent usually by foreign private enterprise, and when the backward peoples have been partly converted to the new ways of life. Here the irony of the situation lies in the fact that the acuteness of the problem of backwardness at this stage is frequently proportional to the success and rapidity of "economic development" at the second stage. To begin with, it becomes apparent

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1/ Cf. Mill, principles,bk. iv, ch. vi.

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that the backward peoples can be only too successfully converted to new ways of life on the side of wants and aspirations while this cannot be matched by a corresponding increase in their earning capacity. We then have a progressive maladjustment between wants and activities, the former outstripping the latter at each round of "education" and contact with the outside world. (This may spread from the individual to the national level when at the fourth stage the independent national governments of the backward countries find their resources insufficient to carry out ambitious schemes of economic development and social welfare.) Further, the backward peoples now find that they cannot successfully adapt themselves to the new economic environment shaped by outside forces and that they lag behind in the "economic struggle" with other economically advanced groups of people who have initiated the "opening-up" process. Thus they find themselves with a relatively smaller share of the economic activities and the national incomes of their countries although these may be rapidly increasing in the aggregate (at least up to the limits set by the diminishing returns in the new lines of the primary production for export). Here then we have the problem of economic backwardness in its full efflorescence charged with the explosive feeling of discontent and grievance against " lop-sided economic development","foreing economic domination", "imperialistic exploitation" and so on.

We can now see why it is so unsatisfactory to approach the problem of the backward countries as the source of international tension purely at the macro-economic level of the conventional development plans. Aggregates such as the total national income and volume of exports are very unsatisfactory as indices of economic welfare of a"plural society" made up of different groups of people such as that which exists in many backward countries. Here the well-known maxim of static welfare economics, that the economic welfare of a country is increased if some people can move to a better position while leaving the others exactly as they were before, must sound somewhat galling to the backward peoples who frequently happen to be those left "exactly as they were before".

Nor is per capita income very satisfactory as an index of "poverty".

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The sort of maladjustment between wants and earning capacity which we have been describing may occur even if per capita incomes are rising. Indeed a greater amount of discontent may be created where incomes rise enough to introduce new commodities into the consumers' budget and then fluctuate and decline (a common experience in export economies) than where incomes per head remain stationary or decline slowly. Further, we should note that the degree of discontent depends, not as much on the absolute level of per capita incomes as in their relative ranking. Thus motives of "conspicuous consumption" and the external diseconomies of consumption of higher income groups associated with Veblen and more recently with Professor J.S. Duesenberry should be taken into account.[1]

It is important to point this out since low income per head has now crystallized into the definition of backward countries. Some have even tried to put it on a "scientific" basis by arguing that since the existing low incomes of the backward peoples are insufficient to provide them with the minimum nutritional requirements, their physical efficiency and productivity is lowered, thus creating a "vicious circle". While this may be an important long-run factor, it is a dangerous over-simplification of the complex motivations and aspirations of the backward peoples both at the individual and national levels to assume that Communism can be "contained" by calories. Even in the backward countries, perhaps particularly there, men do not live by bread alone. Thus as a Times correspondent has recently written about the wage claims in the African Copper Belt:

" Another factor which drives the African to make demands is his increasing needs. He is beginning to buy smarter clothes: to eat foods he never did before; to drink wine and English beer instead of native liquor. It is, indeed, an almost impossible task today to compile a reasonable family budget because of this transitional stage in African "consumer" requirements. This, too, however much people may disapprove of the elaborately dressed up African 'spiv' with his cowboy hat, sunglasses, and new bicycle, is a healthy trend; it is obviously essential if the African is to be weaned from a subsistence to a cash economy that he should develop the needs that create incentive." (The Times, 19 January 1953.)

If the backward peoples as individuals desire those commodities one associates with the 'American way of life", at the national level they seem

1/ Cf. Ragnar Nurkse, Some Aspects of Capital Accumulation in Under-developed Countries, Cairo, 1952, Third Lecture.

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to desire the latest models of social security schemes associated with the 'British Welfare State'. It would thus be a crowning-point of irony if some backward countries were to turn towards Communism through an excessive fondness for the American and British ways of life.

V

In the light of what has been said above, the study of the 'disequalizing factors' at work against the backward peoples within the economies of their countries emerges as an essential link between the two aspects of the problem of backwardness: the economics of discontent and maladjustment on the one side and the economics of stagnation or relatively slow rates of growth in total or per capita national income and productivity on the other.

When we consider these 'disequalizing factors' we shall see that the exclusion of the 'obvious' explanations in terms of 'underdevelopment', 'overpopulation', and 'discrimination' still leaves us with a great variety of residual causes of backwardness. To analyse them in detail is beyond the scope of this paper. For our purpose of obtaining a general interpretation of the nature of backwardness it is sufficient to point out certain broad patterns of backwardness in which the initial differences in experience, opportunities, capital supply, etc. between the economically backward and advanced groups of people seem to have been 'fossilized' or accentuated by the 'free play of economic forces'. We shall illustrate these patterns with reference to the backward peoples in their typical roles as unskilled workers, peasant producers, and borrowers of capital which between them cover most types of economic contacts between the backward and the advanced peoples.

In order to do this we shall introduce three characteristic features of the 'opening-up' process into our 'model' of the backward economy.

i. The first concerns the nature of 'specialization' for the export market. Now it is commonly realized that 'specialization' does not merely mean moving along the given 'production-possibility' curve of the textbook; and that in practice it involves an irreversible process whereby much of the resources and the productive equipment, e.g., transport and communications,

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of the backward economy have been moulded and made 'specific' to satisfy the special requirements of the export market.(hence the well known argument for diversification.) But the habit of thinking in terms of 'countries' or 'areas' leads to the inadequate appreciation of one further fundamental fact: in spite of the striking specialization of the inanimate productive equipment and of the individuals from the economically advanced groups of people who manage and control them, there is really very little specialization, beyond a natural adaptability to the tropical climate, among the backward peoples in their roles as unskilled labourers or peasant producers. Thus the typical unskilled labour supplied by the backward peoples is an undifferentiated mass of cheap manpower which might be used in any type of plantation or in any type of extractive industry within the tropics and sometimes even beyond it.[1] This can be seen from the range of the primary industries built on the immigrant Indian, Chinese, and African labour. Thus all the specialization required for the export market seems to have done by the other co-operating factors, the whole production structure being built around the supply of cheap undifferentiated labour.

When we turn to the backward peoples in their role as peasant producers again the picture is not appreciably changed. Some backward economies 'specialize' on crops which they have traditionally produced, and thus 'specialization' simply means expansion along the traditional lines with no perceptible change in the methods of production (e.g. rice in south-east Asian countries.) Even where a new cash crop is introduced, the essence of its success as a peasant crop depends on the fact that it does not represent a radical departure from the existing techniques of production[2] (e.g. yams and cocoa in West Africa). Thus as a historian has said about the palm-oil and ground-nuts trade of West Africa: 'They made little demand on the energies or thought of the natives and they effected no revolution in the society of West Africa. That was why they were so readily grafted on to

1/ Cf. S.H. Frankel, Capital Investment in Africa, pp. 142-6.
2/ If this condition is not fulfilled, the peasant system soon gives way to the plantation system or the peasant is so supervised and controlled that he is reduced to the status of a wage-earner except in name (cf. J.H. Boeke, The Evolution of Netherland Indies Economy, p.11).

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the old economy and why they grew as they did.[1] Here again one is tempted to say that much of the 'specialization' seems to have been done by nature and the complementary investment in transport and processing. On the side of productive activities, the fact that the crop is sold for the export market instead of for domestic consumption is an accidental detail. It is only on the side of wants that disturbing changes seem to have been introduced, including a decline of skills in the domestic handicraft industries now no longer able to compete against the imported commodities. To prevent misunderstanding, it should be added that frequently the peasant methods are found to have lower costs than the 'modern' scientific methods, and that is the reason why peasant production has been able to withstand the competition of the plantation system in some countries. But at the best this merely means the survival of old skills rather than a steady improvement in the methods of production through 'specialization' for the export market.

Thus, paradoxically enough, the process of 'specialization' of a backward economy for the export market seems to be most rapid and succesful when it leaves the backward peoples in their unspecialized roles as unskilled labour and peasant producers using traditional methods of production.

ii. The second characteristic feature of the 'opening-up' process is the monopoly power of varying degreees which the foreign business concerns exercise in relation to the backward economy. Here again the actual process of the growth of trade between the advanced and the backward countries differs from the textbook picture of two countries coming into trading relations with each other under conditions of perfect competition. Indeed, if we were to insist on applying the rules of perfect competition to foreign enterprises, very few backward countries would have been 'developed'. The process of opening up a new territory for trade is an extremely risky and costly business, and it is only by offering some sort of monopolistic concessions that foreign business concerns can be induced to accept the risks and the heavy initial costs, which include not only those of setting up transport and communications and other auxiliary services but may also include the ordinary administrative costs of extending law and order to pla-

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1/ A. McPhee, The Economic Revolution of West Africa, pp.39-40.

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ces where it does not exist. Hence the age-old method of economic development by chartered companies, In the case of mining this is reinforced by the technical advantages of large-scale enterprise.

Even where there is no formal concession of monopoly power, as in a peasant economy, conditions are generally very favourable for its growth. To begin with, only fairly big firms with large enough reserves to meet the heavy initial costs and risks may venture into the new territory. Further, although there may be no restriction to free entry, potential competitors may be put off by the'economies of experience' which give a great differential advantage to the pioneers. Thus there are usually a small number of fairly big export-import firms engaged in a 'cut-throat' competition with each other in their effort to increase their turnover and spread their heavy overhead costs. This need not be limited to 'horizontal' competition among the export-import firms; it may also result in a 'vertical' competition between the export-import firms and the steamship companies which control the trade routes. After some time this trade war generally results in 'pools' and 'combinations' both of the horizontal and vertical types,[1] for'the small trader must grow to greatness, either in himself, or in combination with others. The alternative is his failure and ultimate disappearance, In fact, economic conditions of England are exhibited on an intenser scale in West Africa, where businesses grow, decay and combine with mushroom rapidity.[2]

Thus in a typical process of 'development', the backward peoples have to contend with three types of monopolistic forces: in their role as unskilled labour they have to face the big foreing mining and plantation concerns who are monopolistic buyers of their labour; in their role as peasant producers they have to face a small group of exporting and processing firms who are monopolistic buyers of their crop; and in their role as con-

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1/ This 'vertical integration' may also spread downwards towards a greater supervision and control of peasant producers resulting in a 'mixed' system between peasant and plantation systems (cf. Boeke, op, cit., ch. i).

2/ Mc Phee, op. cit., p. 103; cf. W.K. Hancock, Survey of British Commonwealth Affairs, vol, ii. part 2, ch. iii, sec.iii; also J.S. Furnivall, op. cit., pp. 95-7 and pp. 197-8.

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sumers of imported commodities they have to face the same group of firms who are the monopolistic sellers or distributors of these commodities.

iii The third characteristic feature of the 'opening-up' process is the growth of the middlemen between the big European concerns and the economically backward indigenous populations. They are the necessary adjuncts to any process of rapid economic development and fill in the gaps between the highly specialized Western economic structure and the relatively unspecialized roles of the backward peoples. Although they may operate in the labour market, they are more important in their activities as collectors of produce from the peasant farmers, as distributors of imported articles to the indigenous consumers, and, most important of all, as money-lenders. In most backward countries they seem to owe their special position to their longer contact with Western economic life; frequently they may start as immigrant labour and work their way up as small traders and money-lenders. The racial distribution of the middlemen groups among the backward countries is familiar: thus we have the Indians and Chinese in south-east Asia, Indians in East Africa, Syrians and 'Coast Africans' in West Africa, etc. Thus the economic hierarchy of a typical backward country is generally a pyramid with Europeans on top, then the middle men, and lastly the indigenous people at the bottom.

Each of the characteristic features outline above tends to reduce the relative share of the national incomes of the backward countries accruing to the indigenous peoples. But, as we have said before, the nature of economic backwardness cannot be fully appreciated until we go beyond the distribution of incomes to the distribution of economic activities; for 'it is to changes in the forms of efforts and activities that we must turn when in search for the keynotes of the history of mankind.[1]

When we consider the backward peoples in their role as unskilled labour, it is important to ask, not merely why their wages have remained low but why they have been frozen into their role of cheap undifferentiated labour with little vertical mobility into more skilled grades. Here, apart from the monopsony power of the employers, various complex factors are at work

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1/ Marshall, Principles, p. 85.

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to stereotype their role; out of these we may select three as being fairly typical.[1]

The first is the very high rate of turnover of indigenous labour, partly because the backward peoples are unused to the discipline of the mines and plantations, and partly because they have one foot in their traditional tribal and village economies which make them look upon wage labour not as a continuous permanent employment but as a temporary or periodical expedient to earn a certain sum of money. Given this rapid rate of labour turnover, there is no opportunity to acquire the experience and skill for promotion to skilled grades. If this were the only cause, one might assume that this is a transitional problem which would gradually disappear with the breakdown of the traditional social institutions and the spread of money economy. But unfortunately there are other obstacles.

This brings us back to the difficulties which we by-passed when defining the nature and extent of 'discrimination' against backward peoples. Here, with reference to the lack of vertical mobilitity of indigenous labour, we must frankly admit that our distinction between 'discrimination' and 'disequalizing factor' wears very thin in many backward countries. Even where there is no official colour bar, unofficial industrial colour bar is fairly widespread (for example, say, the Rhodesian copper-mines). Even where 'discrimination' has not hardened into a 'bar' of any sort, the natural and frequently unconscious tendency of the white employers to mark off 'native' or 'coloured' occupational categories irrespective of individual differences in ability and skill can be very damaging to the backward peoples; for the educational effect of apprenticeship and promotion to skilled grades in ordinary economic life is more far-reaching than huge sums of money spent on educational institutions.

The third factor which has contributed to the fossilization of the 'cheap labour' convention is the additional supplies of labour which mines and plantation can draw, either from the breakdown of tribal societies (e.g. the Ashanti Wars in West Africa) or from the human reservoirs of India

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1 /Cf. Wilbert E, Moore, Industrialization and Labor, ch. v for a more systematic analysis.

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and China. Importation of immigrant labour has been blessed by liberal economic policy as contributing to the international mobility of labour; and it may be freely admitted that 'economic development' and the rapid growth of output of tropical raw materials could not have been achieved without it. But as a solution to the problem of human backwardness it has been somewhat unhappy. It has not appreciably relieved the population pressure in the donating countries; and in the receiving countries, apart from the complex social problems it has created, it has robbed the indigenous people of the chance to acquire vertical mobility in the labour market through the automatic operation of the laws of supply and demand and the principle of substitution.

Let us now turn to the backward peoples in their role as peasant producers in relation to the middlemen and the big export-import firms. Here we have the familiar disequalizing factors, such as the peasants' ignorance of market conditions, which are extremely unstable, their lack of economic strength to hold out against middlemen and speculators, and their need to borrow money at high rates of interest, which have reduced the relative share of incomes accruing to the backward peoples. It may also be freely admitted that this has been helped by their well-known 'extravagance' and lack of thrift which are after all the logical consequences of too succesful a policy of creating economic incentives for the production of cash crops, The formal framework which offers perfect equality of economic rights offers no protection, and the result of the 'free play of economic forces' under conditions of fluctuating export prices is the well-known story of rural indebtedness, land alienation, and agrarian unrest.[1] Here again we should go beyond the distribution of incomes to the distribution of economic activities. We shall then see that the real damage done by the middlemen lies not in their 'exploitation', considerable as it may be in many cases, but in the fact that they have put themselves between the backward peoples and the outside world and have robbed the latter of the educating and stimulating effect of a direct contact.[2] As a consequence even after many decades of rapid 'economic

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1 /Cf. Furnivall, op.cit., passim
2 /Cf. Hancock, op.cit., pp. 225-7.

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development' following the'opening-up' process, the peoples of many backward countries still remain almost as ignorant and unused to the ways of modern economic life as they were before. On the side of economic activities they remain as backward as ever; it is only on the side of wants that they have been modernized, and this reduces their propensity to save and increases their sense of discontent and inequality.[1]

Finally, we may comment briefly on the backward peoples in their role as borrowers. Here, when we inquire closely why they are obliged to borrow at very high rates of interest from the money-lenders, we frequently find that high risks and the difficulties of finding suitable outlets for liquid funds may be more important than an overall shortage of saving. It is true that the rigid sterling exchange standard of some backward countries (which works like the gold standard) may have a deflationary bias, particularly during periods of rapid extension of the money sector. But, in spite of this, it is difficult to establish that there is an overall shortage of saving for the backward economy as a whole. In the 'advanced' or Western sectors at least, big business concerns can raise loans on the international market on equal terms with the borrowers from the advanced countries and the banks generally tend to have a very high liquidity ratio.

This leads us to the problem which is apt to be obscured by the 'under investment' approach which stresses the overall shortage of capital supply. It is the problem of organizing the distribution of credit as distinct from the problem of increasing the total supply of saving. The'retail distribution' of credit among peasant producers is beyond the capacity of the ordinary commercial bank and, in spite of the rise of the co-operative movement, still remains one of the unsolved problems of the backward countries which may have greater long-run significance than the more spectacular projects for economic development. Further, there is a great need to extend credit facilities not only to the peasant producers but also to the growing class of small traders and businessmen among the backward peoples who would like to enter into the traditional preserves of the middlemen. Here many would-be businessmen from the backward groups frequently complain of the 'discrimination'

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1 /Cf. Ragnar Nurkse,op. cit., 1952, Third Lecture.

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against them by the commercial banks when the truth of the matter is that they are simply caught up in a vicious circle of lack of business experience resulting in a lack of credit-worthiness. The banks, far from discriminating, are playing strictly according to the 'rules of the game', but these rules tend to put the heaviest handicap on the weakest players.

That the real 'bottleneck' may frequently lie in the difficulties of organizing the distribution of credit and finding suitable outlets for existing savings, rather than in the overall shortage of saving, may also be seen from the fact that domestic saving even where it exists in sizeable amounts is normally used for money-lending on the basis of land and jewellery mortgage since this yields a very much higher rate of return to the savers than any other available form of 'productive' investment.

VI

The idea of economic backwardness put forward in this paper may be better appreciated in terms of the deviations, not from the static concept of the allocative optimum, but from the dynamic presumption concerning the beneficial effects of free trade held by the older generation of liberal economists. For it will be remembered that the Classical case for free competition was based, not as much on the purely static consideration of allocative efficiency as on dynamic considerations of economic expansion. Thus it was believed that the growth of individualism and economic freedom would encourage initiative and enterprise, thrift, industriousness, and other qualities favourable to the dynamic expansion of the economy both horizontally, through the international division of labour and the extension of the market, and vertically, through capital accumulation and technical innovations.[1]

This line of thought is worth pursuing. The Classical economists did not claim that the free play of economic forces would necessarily lead to a more equitable distribution of wealth; as a matter of fact, they believed that inequalities of incomes (on the basis of equal opportunities) were necessary to provide the incentives for economic expansion: thus a redistri-

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1/ Cf. L. Robbins, The Theory of Economic Policy, p. 16; also H. Myint, Theories of Welfare Economics, ch. iv.

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bution of incomes from the rich to the poor might discourage saving, and poor relief (whether on a national or an international scale) might aggravate the population problem. As a corollary to this, they denied that the free play of economic forces would set up disequalizing factors which would ultimately inhibit the expansion in the total volume of output and economic activity.

As is well-known, this Classical vision of harmonious economic growth through free enterprise has been shattered by two major factors: the growth of monopoly and imperfect competition, and the growth of unemployment. These did not, however, immediately lead to a reconsideration of the long-run theory of economic development on the Classical lines, for many economist have been too preoccupied with the purely static effects of imperfect competition, as in much of modern welfare economics, or with purely short-run problems, as in much of modern Keynesian economics, It is only fairly recently that the tide has turned, and the economics of backwardness, apart from its practical interest, may now come to occupy an important position in its own right as an essential element in the new theory of long-run economic development.

One of the most interesting developments in the long-run theory of economic development is Professor Schumpeter's well known argument that the growth of monopoly , which from a static view would result in a maldistribution of resources, might actually favour technical innovations and economic development.[1] We have already seen a parallel case of this argument when we were led to the conclusion that monopoly was an essential element in the 'opening-up' process of the backward countries to international trade. The question then arises: can the Schumpeter argument be extended to the backward countries or is there a fundamental difference in the operation of monopoly in the backward countries as compared with the advanced countries?

Recently Professor J.K. Galbraith has put forward a theory which seems to provide a part of the answer. He maintains that the growth of monopoly in the advanced countries, particularly in the U.S.A., has been accompanied

1/ J. Schumpeter, Capitalism, Socialism and Democracy, chs. vii and viii .

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by a growth of 'countervailing power' on the opposite side of the market, e.g. trade unions, retail chain stores, co-operative societies farmers' unions, etc. The growth of monopoly increases the gains from building up the countervailing power and induces its growth and this provides a new self-regulatory mechanism to the economy in a world of monopoly.[1] In Professor Galbraith's terminology, then, economic backwardness may be described as a phenomenon which arises because the process of 'economic development' has been too rapid and the initial conditions too unfavourable to give rise to an effective 'countervailing power' to check the 'foreign economic domination' of the backward peoples. One remarkable thing about Professor Galbraith's argument is that although he is concerned with the economically most advanced country in the world, the U.S.A., the sectors of the economy which he regards as being particularly in need of the countervailing power agriculture, consumers' goods market, and the labour market- are exactly paralleled in the backward countries with their export-import monopolies and large scale mining and plantation businesses (cf. Galbraith, op.cit., chs. x and xi).

Now if we were merely concerned with the problem of backwardness in its subjective aspect as the economics of discontent it would be sufficient to show how the working of the disequalizing factors set up by the free play of economic forces in the absence of countervailing power has resulted in the present situation. But we must go on to the other side of the problem and investigate the relation between the disequalizing factors and economic stagnation or the slow rate of growth in total output and economic activity (apart from the unfavourable effects of political and social unrests, both on present production and future investment).

Here, as we have noted above, we must be on guard against the convenient supposition that the requirements of economic equality and economic development always work in the same direction. Bearing this in mind, when we consider the typical process of 'economic development' of most backward countries there seem to be prima facie reasons for thinking that the dise-

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1/ J. K. Galbraith, American Capitalism. The Concept of Countervailing Power.'

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qualizing factors have affected not merely the distribution but also the rate of growth in the total volume of output and economic activity.

The fundamental assumption of liberal economics is that the free play of economic forces would lead to the maximum development of individual talents and abilities; whereas in practive the free play of economic forces in backward countries has resulted, not in a division of labour according to individual abilities, but in a division of labour according to stratified groups. The accurate selection of the different types and qualities of natural resources by the automatic market mechanism contrasts dramatically with its lack of selectivity concerning human resources which has resulted in the 'fossilization' of the backward peoples in their conventional roles of undifferentiated cheap labour and unspecialized peasant producers. Thus, unless we are prepared to subscribe to the doctrine of inherent racial inferiority of the backward peoples, there seems to be a strong presumption that the potential development of the backward countries has been inhibited by this waste of human resources, leading to a stultification of the possible 'growing points' of the economy. Nor can the loss of educational opportunities be adequately remedied by 'investment in human capital' as is frequently assumed. Mere increase of expenditure on technical training and education, although it may offer a partial relief, is really too weak and unselective to be an active-countervailing force to the deepseated disequalizing factors. Too great an emphasis on the 'under-investment in human capital' therefore tends to confuse the issues and distract attention from the more potent disequalizing factors.

Further, the disequalizing factors work not only on the supply side but also on the demand side, and unequal distribution of incomes and of activities combine with each other to inhibit economic development. One of the most important reasons why the backward countries have been prevented from enjoying the stimulating effect of manufacturing industry is not the wickedness of foreign capitalists and their exclusive concern with raw material supplies but merely the limitation of the domestic market for manufactured articles.[1]

1/ Cf. Ragnar Nurkse, op, cit., First Lecture.

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When we were discussing the concept of 'social productivity' towards the end of section 11 above, we remarked on the tendency of economic practice to forestall economic theory. So also here, with the concept of 'countervailing power'. Long before the economists were aware of the problem, practical administrators and economic historians of the backward countries were impressed by the fact that the peoples of these countries seem to need some sort of countervailing power to enable them to stand up against the 'free play of economic forces'. Some have sought the countervailing power in the preservation of the traditional social institutions and, in extreme cases, have even toyed with the idea of a retreat into the self-sufficiency of the traditional stationary state. Others, more forward-looking, have tried to foster countervailing power in the form of co-operative societies, and more recently, by means of trade unions and marketing boards for the peasant produce. Above all this, the disequalizing forces themselves have generated a fierce nationalism among the backward peoples which is the most powerful source of countervailing power in the present times. So we are already in a position to learn a few lessons about the nature and limitations of the countervailing power in the backward countries.

The first lesson is that some sources of countervailing power, like the co-operative societies, themselves need a fairly high degree of business-like behaviour and 'economic advance' and can only be fostered very slowly in the backward countries. The second lesson is that it is easier to redistribute existing incomes than to redistribute and stimulate economic activity by the use of countervailing power. The governments of some backward countries are now able to obtain a larger share of the income from the exploitation of the natural resources, either by striking better bargains with foreign mining concerns or by means of marketing boards in the case of peasant produce; but they are still faced with the problem of reinvesting the money in a directly productive way as distinct from increasing expenditure on general social services. It is difficult enough to find outlets for productive investment in backward countries; it is far more difficult to find those outlets which will increase the direct participation of the backward peoples in the processes of economic activity. It is important to

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stress this point because the governments of the backward countries, in their desire to have rapid and spetacular economic development, may be tempted to embark on those large-scale projects which, even if they were successful as business concerns, might not appreciably increase the participation of their peoples in the new economic activities.[1] Apart from its failure as a business concern, the fundamental weakness of the famous 'Ground Nut Scheme' of the British Overseas' Food Corporation was that in an attempt to have rapid results on a large scale the Corporation was obliged to minimize the African participation in it.

The final lesson to be learnt is the danger of an excessive use of the countervailing power combined with an extreme economic nationalism. As a counter-measure to the disequalizing forces at the international level, discriminatory and protective measures to change the existing terms of comparative costs and foster the national economies of the backward countries have their place, In certain circumstances, they may even have a favourable effect on the volume of international trade in the long run. But, on the other hand, the dangers of an excessive nationalist policy should not be underrated. The loss to the backward countries in this case is not merely consumers' loss through having to pay a higher price or through having to put up with poorer qualities of commodities substituted for imports; a far heavier loss may lie in the sphere of economic activities when cut off from the stimulating contact with the outside world. This is also true of trade unions. In some backward countries trade unions have the very important function of breaking the industrial colour bar; but in other they may become a crippling burden on the economy and inhibit economic progress.[2]

These considerations should not, however, blind us to the genuineness of the disequalizing factors working against the backward peoples and their real need for countervailing power. From the point of view of these peoples this is where the real rub lies, It is, however, precisely on this point economists, both of liberal and of central- planning persuasion, have shown the least sympathy and understanding. The liberal economist is apt to be-

1/ In some countries excessive central planning may give rise to a new class of "middlemen" in the guise of government agents or officials.

2/ Cf. Report on Cuba, by the Economic and Technical Mission of the International Bank for Reconstruction and Development, pp. 138-59.

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lieve that the disequalizing factors do not exist and that all attempts to use the countervailing power are the result of 'irrational economic nationalism'. The central planner is apt to seek a solution of the essentially distributive and structural problems of economic backwardness in terms of bigger and better aggregative economic development plans. Thus the study of the disequalizing factors at work against the backward peoples has never really been allowed to emerge from the intellectual underworld of extreme economic nationalism.

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