

## DEVELOPMENT AND UNDERDEVELOPMENT: THE QUEST FOR VALID THEORY

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Between the conditions of underdevelopment and the circumstances of development, there lies a great chasm to be bridged. The best course, it would seem, lies in the utilization of the "theory of economic development" as a basis for planning the development of underdeveloped countries, and developing countries. There is no doubt but that measures grounded in solid and dependable theory can best implement such an expenditure of human effort, not to mention time and finances. But do we have such a theory?

The question is not primarily whether the theories of economic development which we have inherited, centered on the concept of equilibrium, are valid in their structure, reasoning, and prediction, but rather whether these theories are applicable to the underdeveloped countries. Since the results derived from the theoretical models are achieved by assuming diverse coefficients and various relations between parameters for the birth rate, the propensity to save, the determinants of investment decisions, and other factors, are these theories general enough to allow themselves to serve as a basis for planning and policy making in countries whose stage of development is not that of the system utilized as a model?

This is best answered by an investigation of the historical contrast between those economic, social, political, and educational factors which prompted the growth of the now developed countries, and the current situation in the less developed countries.

### HISTORICAL CONTRAST OF FACTORS

*Economic Factors*—General theories of economic growth and development from Adam Smith on relate increases in per capita income, the criterion of development, to four major variables: (1) Capital Formation, (2) Population Growth, (3) Discoveries of New Resources, and (4) Technological Progress.

(1) Capital Formation: During the period of rapid expansion of the now developed countries—the 18th and 19th centuries—the al-

most simultaneous technological advances brought about by the Industrial Revolution affected a great many facets of the overall economy, rather than being confined to a narrow range of activities centering around the formation of "overhead capital" in the form of roads, irrigation projects, and other public utilities, which is presently the case in less developed countries. Since many of these countries, due to the efforts of colonial governments, already have a measure of social overhead capital accumulation in varying degrees, and yet give no evidence of breaking out into economic expansion, there seems to be little similarity between the circumstances giving rise to economic growth in the now developed countries and the present conditions in the now underdeveloped countries. This had been a relatively continuous process of savings and investment in the first case, while it is in the form of sporadic social overhead capital projects in the latter, with capital being drained away from the colonial possession.

(2) Population Growth: The now advanced countries, at the beginning of their period of growth, were in a position of less than optimum population and the conditions accompanying the Industrial Revolution, including the discoveries of new resources and the fostering of international trade, served to push the level of optimum population progressively higher. Consequently, this growth provided the impetus for additional expansion of capital accumulation in the form of savings and investment as well as social overhead capital. The "population explosion", therefore, was preceded in these countries by the period of rapid expansion, but in many less developed countries the explosion has occurred or is occurring before their intended period of rapid growth, and the pressures attendant to this surge, which has placed or is placing population above optimum levels, may prevent any rise in per capita income. It may very well be that per capita income, because of this pressure, will decline and thus increase the difficulties already inherent in securing enough savings and investment to generate sustained growth.

(3) Discoveries of New Resources: An old friend of many social scientists, "the frontier thesis", is a most effective instrument to point out the opportunities for increased mobility to new and fruitful lands which were open to the 18th century European, or 19th century American, or even 20th century Canadian. However, there exist in most underdeveloped countries today few such expanses of additional high quality land as were available in North America. This is

especially true in Asia, where population concentrations are already drawn to what productive land is available. Accordingly, there is a deficiency of the type of "frontier spirit" which fostered investment in colonial empires, and later in production for new and expanding markets. The effect that this would have on entrepreneurship can readily be seen. It must be noted, however, that the extension of land resources in underdeveloped countries is more restricted than the discovery of natural resources in a mineral sense, since this is limited only by man's knowledge of the uses to which resources can be put.

(4) Technological Progress: This is a manifold concept involving, for the most part, the three inter-related functions of invention, innovation, and entrepreneurship. There are, of course, myriad aspects of the problem. The most helpful comparison which can be made at this point, however, is that of the positive attitude toward business and enterprise in general, involved in Reformation ideology, which created an entrepreneurship spirit that went hand in hand with the discovery, development and utilization of new and more progressive techniques in all sectors of the economy, with its current counterpart.<sup>1</sup> The underdeveloped countries, for the most part, are permeated by generations of impressed value judgments, with the attitude that risk-taking and the business world should be regarded in a negative manner.

*Sociological Factors* — (1) Population shifts and occupational mobility as well in the less developed countries are completely voluntary matters, although some pressures have been brought to bear upon the population as a whole, or segments of it, by the governments of individual countries, notably Communist China. This same transfer of population from the rural sector to urban concentration and industry was effected in Europe by the enclosure systems and in the United States by great socio-economic stresses.

(2) The social system which served as the basis of most of the now advanced economies was, and still is, the immediate family unit. Incentives, in the form of higher wages, or more leisure time, are effective in producing expanded effort because the worker is able to equate the benefits deriving therefrom to the immediate well-being, security, and "happiness" of the family unit that he is responsible for, in the sense that he has created it and to some extent controls it. As a result of his choice, he, his wife, and his children can be sure of enjoying those things which accrue to increased income or leisure.

<sup>1</sup> Cf. Benjamin Higgins, "Economic Development of Underdeveloped Areas: Past and Present", *Land Economics*, XXXI (August 1955), p. 190. The entire complex of the "Protestant Ethic" has been vastly overrated in such comparisons, however.

or both. On the other hand, the extended family system is still the dominant form of social organization in the underdeveloped countries, and a worker can be almost sure that the extra effort that he may think of expending in the pursuit of income above and beyond that which is currently his lot will only be dissipated over the extensive number of relatives he already has to provide for, or, all too often, he will be obliged to assume responsibility for an even larger number of distant relatives because of his newly won gains.

*Political Factors*—(1) The underdeveloped areas, in the 18th and 19th centuries, presented no organized political resistance to the developed countries (with the notable exception of the American Revolution), and became the recipients of those benefits which might be derived from foreign trade and investment policies inherent in the political practices of the time. The advanced countries, in their positions as manufacturing monopolies, although exploiting the underdeveloped areas, still provided a market for raw materials, a source of further investment, and security (or a reasonable pretense at it) in the form of "political stability". The stability of the colonies was vital, as a safeguard to financial investment, current and future. The fires of nationalism which burn brightly in the underdeveloped countries today throw a different light on foreign investment and enterprise. The intrusion of a technically superior country in the form of investment is many times resented, and any outside effort to enforce stability would have dire consequences.

(2) Internal political policy, in terms of social welfare and taxation, also widely differs in historical perspective. The Industrial Revolution brought abject poverty to many because of its mechanism, and taxation favored the forces of wealth. Morally, this paper does not seek to pass judgment on these facts. However, it should be noted that the flow of savings and investment which promoted economic development stemmed from this system. At a point where the underdeveloped countries seek to break out into a period of sustained growth, they desire as advanced a system of social welfare and progressive taxation as the developed countries have now. Realistically, this demand would only prove a drain on any attempt made at economic expansion, there being a limit on the amount of finances available. The choice must therefore be made between full-blown welfare measures now and continuing stagnation and regression in the future, or austerity now and growth, with all its appendages, in the future. It is a decision which only the peoples of these countries can make for themselves.

*Educational Factors*—Institutions of education, both clerical and secular, were well established in 18th- and 19th-century England and Europe. Those who had the finances could easily obtain access to educational levels above those deemed compulsory, by the various local and national governments, where such laws existed. The history of continually increasing levels of free educational opportunity in the United States during this period, and the land grants made for that purpose are, of course, a matter of record. In the now underdeveloped countries, with notable exceptions, the illiteracy rate is extremely high, however (sometimes over 90%), and there are few, if any, educational facilities for general education, much less the training of technicians, engineers, and the like. Graduate professional schools are a comparative rarity in underdeveloped countries and the qualified candidates for graduate education may be said to be just as scarce.

#### WHAT IS AN "UNDERDEVELOPED" COUNTRY?

Although this paper has been speaking, as we all do currently, of "underdeveloped" and "developing" countries, a scant fifteen years ago the same lands and peoples were characterized by the term "backward". Whether the terminology applied reflects an enlightened social conscience or merely an attempt at international diplomacy via semantics is not the point here. The prime consideration is that authorities in the field have provided varying definitions and descriptions of what an "underdeveloped" country is.

Buchanan and Ellis state that an underdeveloped country is one which "on the average" affords its population an ultimate product of consumption and material well-being "appreciably inferior" to that provided by the economies of those countries now considered as being economically developed,<sup>2</sup> while Jacob Viner maintains that an underdeveloped country is one which has good potential prospects for utilizing either more capital, or more labor, or more available natural resources, or all of these as a conglomerate, to support a higher level of living for its present population, or, in the event that the per capita income level is already quite high, to support an expanded population on a "not lower level of living."<sup>3</sup>

Eugene Staley, in defining an underdeveloped country, really describes the situation to be encountered there. According to his perspective, an underdeveloped country is one that is characterized by

<sup>2</sup> Norman S. Buchanan and Howard S. Ellis, *Approaches to Economic Development* (New York: Twentieth Century Fund, 1955), pp. 3-4.

<sup>3</sup> Jacob Viner, *International Trade and Economic Development* (Glencoe: Free Press, 1952), p. 125.

chronic mass poverty not the resultant from some temporary misfortune. It is further typified by obsolete methods of production and social organization. This means that the evident poverty is not completely due to poor natural resources and, therefore, could be diminished by "methods already proved in other countries."<sup>4</sup>

It is apparent that one could go on citing the particular "definitions" of underdevelopment held by authorities in the field *ad infinitum*, this possibility being reflected in Leibenstein's summary of contemporary opinion on the matter;<sup>5</sup> a listing taken much to task by Higgins.<sup>6</sup> The United Nations had set as a rough dividing line between advanced and underdeveloped countries the per capita income figure of one-quarter that of the United States or below; a figure, in 1952-54, of approximately 500 dollars (U.S.) per annum.<sup>7</sup> Although the method may be somewhat arbitrary, it is, nevertheless, extremely necessary. Moreover, the countries which now fall into his classification are far from homogeneous in character.

The most important point, however, is that there is a vast area of actual and potential disagreement as to basic terminology. If this situation exists in relation to underdevelopment, is there, perhaps, reason to expect that there will be difficulties encountered in defining an acceptable goal for economic development?

#### WHAT ARE THE GOALS OF ECONOMIC DEVELOPMENT?

Myrdal has provided a point of departure for the premise that economic development involves substantial increases in demand, incomes, investment, and production.<sup>8</sup> Simon Kuznets, meanwhile, maintains that economic growth is a "sustained change in the total output."<sup>9</sup> There is also the contention, by Buchanan and Ellis, that development means developing the real income potentialities per person.<sup>10</sup> All of these attempts to define the end product of economic development efforts point toward a more valid conception which is voiced by Peter T. Bauer, who stresses that, in a meaningful sense,

<sup>4</sup> Eugene Staley, *The Future of Underdeveloped Countries* (New York: Harper & Bros., 1954), p. 13.

<sup>5</sup> Harvey Leibenstein, *Economic Backwardness and Economic Growth* (New York: Wiley, 1958), pp. 40-41.

<sup>6</sup> Benjamin Higgins, *Economic Development: Problems, Principles, and Policies* (New York: W. W. Norton, 1959), p. 13.

<sup>7</sup> United Nations, *Measures for the Economic Development of Underdeveloped Countries* (ST/ECA/10). New York: May 1951. Chap. 1, para. 2 & 3.

<sup>8</sup> Gunnar Myrdal, *Rich Lands and Poor* (New York: Harper, 1957), p. 33.

<sup>9</sup> Simon Kuznets, "Suggestions for an Inquiry into the Economic Growth of Nations," in Universities-National Bureau Committee on Economic Research, *Problems in the Study of Economic Growth* (New York: National Bureau of Economic Research, 1949), p. 6.

<sup>10</sup> Buchanan and Ellis, *op. cit.*, pp. 21-22.

economic development is not merely an increase in the volume of goods and services that "people want and have freely chosen . . . a widening of human options."<sup>11</sup>

In an earlier contribution, Bauer had also stated that he regarded the "extension of the range of choice," *i.e.*, an increase in the range of effective alternatives available to individuals, as both the principal objective and the criterion of economic development.<sup>12</sup> Perhaps the most positive argument for economic development, inclusive of a statement of the goals involved therein, is made by W. Arthur Lewis, who concurs with Bauer that economic growth increases the range of human choice, giving man greater control over his environment and thereby increasing his freedom. This increased freedom resulting from economic growth bestows the great privilege of choice between more goods, more services, or more leisure (and it permits mankind to indulge in the "luxury of greater humanitarianism" as well).<sup>13</sup> However, it should be realized that there are still value judgments to contend with when the choices between additional goods, services, or leisure are available, since the people, individually or collectively, are conditioned by the values set upon each of these alternatives in their particular society.

Nevertheless, there seems to be more agreement here than there was concerning underdevelopment. And well there should be, since these underdeveloped countries are, by their nature, those least able to afford any squandering of capital or misdirection of human resources. At the very same time, the compulsion, for any number of reasons, to accelerate development, is quite likely to lead to misdirection in these countries, since one of their many characteristic paradoxes is their desperate need of an economic civil service; yet it is here that it is nearly always painfully deficient. Therefore, the more practical evidence that is accumulated about possibilities, probabilities, and priorities, as well as outright impossibilities and pitfalls, the better the chances are that a common technique will emerge for the guidance of those who have assumed the responsibility for development efforts. Moreover, it can justifiably be said that the more desperately urgent the desire for economic progress is, the more vital it is that the road to this goal be distinctly delineated and correctly chosen.

<sup>11</sup> Peter T. Bauer, "Economic Growth and the New Orthodoxy," *Fortune*, LVII (May 1958), p. 142.

<sup>12</sup> Peter T. Bauer, *Economic Analysis and Policy in Underdeveloped Countries* (Durham: Duke University Press, 1957), p. 113.

<sup>13</sup> W. Arthur Lewis, *The Theory of Economic Growth* (Homewood: Irwin, 1955), p. 421.

## SUMMARY

We have a legacy today of approximately two hundred years of economic development theory formulated on the equilibrium concept. Classical theory was based upon the "mature" capitalistic system which was thought to have existed in 18th- and 19-century England, and "modern school" theory is based upon the mature capitalistic system in the Western world. The working models which are proposed are patterned after the factor proportions found in these systems. All theories agree that the growth depicted in their models will slow down. The Classicists predicted stagnation as an end result, Marx envisioned collapse for the system, and the "modern school", although they foresee the tendency for capitalistic systems to stop growing after an advanced stage of development has been reached, suggest that there might be methods to offset this tendency in the form of a "mixed" economy. However, these theories do not suffice as a valid tool when applied to what we refer to as underdeveloped and developing countries, since they are not all-inclusive enough to provide for all stages of growth. Although, for short-term analysis of the history of a particular group in a short time period during which the basic institutions and attitudes can validly be assumed to vary comparatively little, these theories might be a valuable tool, in the case of long-term studies of countries, they prove markedly deficient.

Encountering these deficiencies engenders the feeling that there is no adequately comprehensive and factually grounded "general theory" of economic growth that will allow us to predict in detail and/or to draw clear inferences for practical procedure. In reality, then, we might do well to abandon the quest for a truly "general theory" and content ourselves with a search for "special theory" of underdevelopment and development which would be tailor-made for the conditions—institutional, sociological, psychological, and technological—common to less developed countries.

This should not, under any circumstances, be regarded as a conviction as to the futility of previous efforts, nor a prediction of future failures in this respect. On the contrary, it is meant to point up the necessity for a structural guide to development planning. If the framework of a completely valid and applicable "general theory" of economic growth and development is lacking, and if efficient develop-

ment measures are only attained through the superimposition of one effective "special theory" upon another,<sup>14</sup> perhaps it is just as well. The question that must be answered is, "How long?"

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<sup>14</sup> In addition to Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (New York, 1953); N. Georgescu-Roegen, "Economic Theory and Agrarian Economics," *Oxford Economic Papers* (New Series), Vol. XII (February 1960), pp. 1-40 should certainly be mentioned as a case in point of "special theory". The pioneer article, Paul N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and South-Eastern Europe," *Economic Journal*, LIII (June 1943) became the base of another special theory by Robert Solow, "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics* (February 1956), pp. 90-91, and Richard R. Nelson, "A Theory of the Low Level Equilibrium Trap in Underdeveloped Economies," *American Economic Review* (December 1956), pp. 894-908. See Harvey Leibenstein, *A Theory of Economic-Demographic Development* (Princeton: Princeton University Press, 1954) as well.