First Lecture: Theories of Economic Growth: Explanations of Underdevelopment

1. The Concept of Underdevelopment

A country may be said to be underdeveloped if its per capita income is lower than it need be, given its actual and potential resources and the state of modern technology.

2. Indices of Underdevelopment in African Countries

References:
Higgins, Benjamin, Economic Development (Noton, 1959) part IV.
Nurkse, R., Problems of Capital Formation in underdeveloped Countries (Oxford, 1953), Ch. 1

The main indices are the following:

i) Low aggregate demand for output as a whole, so that individual industries have a difficult time getting established.

ii) Low level of per capita income of the population, given the actual and potential resources and the technology available in the modern world.

iii) High consumption levels linked to high consumption standards and patterns of the industrialized countries. This means a high marginal propensity to consume imports of consumer goods out of every increase in per capita income, against the background of the "demonstration effect" of higher standards of living abroad.

iv) Low level of per capita savings, as a corollary of (iii)
v) Low level of domestic investment following from (iv) and due to low inducement to invest, the main elements of which are high interest rates and a low schedule of marginal efficiency of capital against a background of low aggregate demand.

These first five factors constitute Nurkee's prototype of vicious circles: low incomes - high consumption and low savings capacity - low level of investment - low output - low incomes.

vi) Unfavourable demographic factors: high birth and death (especially high infant mortality) rates with which are associated the diseases of underdevelopment - malaria, tuberculosis, dysenteries, dietary deficiencies and diseases of malnutrition (avitaminosis, nutritional anaemias, etc.), onchocerciasis, schistosomiasis, and so on.

Although the high death and infant mortality rates may be lowered by modern medicine and public health measures, the high birth rate is not so easily controlled, with the result that every increase in output is quickly swallowed up by a rise in the population, and per capita income and savings continue to be low. This is often referred to as the "low level equilibrium trap".

vii) Low level of industrial skills: in agriculture, in particular, non-optimal size of farms, land tenure problems, rudimentary techniques, low yield per acre, lack of credit and marketing facilities, are the major difficulties.

viii) Predominance of extractive industries in
   a) Employment pattern, with disguised unemployment as a feature. The proportion may range from sixty to eighty per cent (Table F).
   b) Gross Domestic Output, which means that most of the African countries are primary producers of food, fibre and mineral products (contrast Table E with Table A).
ix) High ratio of exports and of imports to Gross Domestic Product. This ratio may range from one-fifth (or 20%) to one-half (or 50%). (Table I).

x) Low percentage of intra-African trade to total external trade of the various countries. Industrialized countries conduct a larger percentage of trade with one another than with primary producing countries, and than primary producing countries conduct with one another (Tables G & H).

xi) High dependence of fiscal system and public revenues on foreign trade, that is, on customs duties (chiefly import duties) as a result of the fact that per capita incomes are low and cannot yield much by of income tax (Tables C & D).

3. Choice of Per Capita Output (or Income) as an Index of Development and Underdevelopment

The main justification is that is a measurable concept, and does not necessarily involve welfare implications or considerations of happiness, although it may be an important factor in these.

4. The Concept of Growth

Following from our definition of the concept of underdevelopment our concept of growth may be defined as an increase in average per capita income \((Y + \Delta Y)/(P + \Delta P)\) assuming that total population is not declining.

5. Explanations of Underdevelopment

A. Geographic Determinism: i) The climatic factors of heat and humidity sap the energies in tropical underdeveloped countries, and are therefore not conducive to vigorous exertion as compared to the cooler and drier temperate zones. (As against this argument, note the improvement that air conditioning equipment may make possible—except in the fields—so that this argument could not be a permanent one.)
ii) Condition of Soil - Subject to leaching and erosion once vegetation is cleared and humus disappears. Not much soil. Hence wasteful clearing of land practised in tropical countries is destructive of productivity land. (Conservation and better use of land is the answer, so that this could not be a permanent factor).

iii) High rainfall and leaching of soil make application of inorganic fertilizer difficult. (However, a reversal of the usual order of agricultural activity, so that farming could be done in the dry instead of the wet season, using water control and irrigation methods to supply the land moisture and facilitate better fixing of fertilizer in the soil, would overcome this difficulty which, therefore, could not be a permanent factor).

iv) When the prevalence of mono-culture or one-crop systems, is added to the preceding factors the low and uncertain yield of agriculture is reinforced.

Note: The geographic factors are not permanent or immutable.

B. Sociological Theories:
These theories emphasize the following elements:
(a) Land tenure system (communal land holding) as destructive of the incentive to proper land utilization and increase of output. Cf. Enclosure movement in agriculture in 18th century Britain, and the Homestead Acts of the late 19th century in the United States. (Note, however, that ownership of land is not necessary to its use, as systems of concession and lease make clear. However, there is a point in the argument, even though communal land tenure does not necessarily obstruct mechanization).
B. Sociological Theories (contd.)

(b) Absence of Entrepreneurship: The modern spirit of enterprise which goes with private ownership is lacking in communal systems and entrepreneurs have to come from outside (e.g. Europeans and Levantines in Africa).
(Note, however, that no one knows for certain where entrepreneurship comes from. But certain social regulations may obstruct the development of entrepreneurship - e.g., the Usury Laws which, in the Middle Ages, gave opportunities to Jews in banking and commerce).

(c) Limited Needs and Backward Sloping Supply Curve of Effort:
It is argued that lack of growth in some underdeveloped areas may be traced to the limited needs of their societies, so that the efforts of their populations are directed to satisfying only those needs and no more. Thus, it is argued workers leave the reserves in the Rhodesias and the Union of South Africa to work in the mines for specific objectives in terms of a few household goods, a bicycle, a sewing machine, money for taxes, and so on. Having earned enough to meet these needs, they leave their jobs and return to their communities, and no amount of increase in wages would tempt them to remain and earn more income.

(This argument, it should be noted, is spurious in the light of the following:

(i) the impact of external contact and the demonstration effect of higher consumption standards abroad;
(ii) the backward sloping supply curve of effort (a reduction in the supply of labour with an increase in wages beyond a certain point) to the extent that it is true is logical and justified to the extent that, in the circumstances stated, the earning of further income in order to acquire additional goods would not be justified owing to the lack of complementary goods and facilities -
Why try to earn more income in order to buy a refrigerator when there is no electricity supply, or a motor cycle when there is no supply of gasoline in the villages and reserves?

(iii) But this phenomenon is not confined to underdeveloped countries. A steeply progressive system of taxation produces a disincentive to effort: e.g., in Great Britain during the Second World War the high marginal rates of income tax discouraged workers from trying to earn more income, and promoted a lot of absenteeism, because marginal income after tax was too small to make additional effort worthwhile.

(iv) The argument is frequently employed, or used to be so employed, dishonestly by mine employers in the Union of South Africa, as an excuse for paying miserable wages to African workers and refusing to raise them.

(d) Dualistic System: This explanation emphasizes the coexistence of two unrelated economic systems, one a monetary sector producing cash crops for export and managed by foreigners who provide all the capital and the technology; the other, the indigenous sector with limited needs and subsistence farming with primitive technology and without the use of money. The two sectors are said to be in conflict, the characteristics of the indigenous sector being regarded as an explanation for lack of economic growth in that sector, as compared with the so-called monetary sector.

(Note: The distinct between subsistence and monetary economy is artificial, in theory and in fact, for the following reasons:

(i) The major part of production in all countries is for subsistence or domestic (home) consumption, and the presence or absence of money in exchange makes no difference to this ultimate result.

(ii) There is some form of money in indigenous economies iron, copper (e.g., manillas of Eastern Nigeria in use until...
their withdrawal from circulation in 1948), cowrie shells, beads, etc. These perform the functions of money, except that there is no monetary management or regulation of the volume of the money supply and that their physical characteristics in some cases (e.g. iron and copper) discourage accumulation and hinder ease of transportation by the user.

(iii) Subsistence economy is not, as is implied in the argument, a way of life but a consequence of the lack of transportation facilities to move production to the market. This, naturally, discourages the production of an exchangeable surplus above the requirements for immediate consumption. "Division of labour is limited by the scope of the market" (Adam Smith, *Wealth of Nations*) and so is the use of money in exchange as well as the volume of production. Therefore, the provision of transportation facilities leads to the enlargement of the market, increases production; promotes monetary exchanges and indirect consumption. It follows, therefore that so-called subsistence economy, is not a cause or explanation of underdevelopment, but a consequence of it.

C. Colonialism and the "Backwash" Effects of International Trade

(Mill, Myint, Myrdal, Prebish, Singer)

Colonialism involves (a) special measures to hamper the growth of indigenous industry for the benefit of metropolitan and foreign industry (Myrdal);

(b) investment in the export sector by metropolitan business which, however, is not really a part of the colonial country's economy but an extension of the economy of the metropolitan country which derives all the profits and benefits ("spread effects") - (Mill, Singer);

(c) specialization in primary production for the benefit of the trade and industry of the metropolitan country; this has two main adverse effects ("backwash effects"): 
(i) fluctuations and long-run decline in prices of primary products;
(ii) terms of trade tend to move against primary producers and in favour of industrialized metropolitan countries, the net result of which is to jeopardize the incomes of producers as well as the export surpluses of the producing countries.

D. Historical Explanation
Simon Kuznets: The industrial revolution of the 18th and 19th centuries bypassed the areas that are currently underdeveloped, including Spain and Portugal and Southeastern Europe. Hence their technological backwardness.

The desire of Britain to enter the European Common Market (ECM) has created a flurry of discussions both among the original six members of the ECM and among the Commonwealth Countries associated with Britain. It is worth noting that among the most vocal opponents of Britain's proposed move have been two ex-colonies, Ghana and Nigeria, which one should have thought would be indifferent to the issue in view of their past unequal economic relations with the metropolitan country. The view has gained ground increasingly in recent months both in Britain and outside it, in the Commonwealth, that the move to join the ECM would be disastrous both to Britain and its Commonwealth partners, politically as well as economically.

The major political argument in favour of Britain's entry into ECM seems to have been the belief that Britain would impart a stabilizing influence on the Western European scene in view of the ambitions, jealousies and hatreds lying concealed between the two major partners - France and Germany - and between the remaining members and Germany, all as a result of the circumstances of the Second World War. The uncomfortable feeling existing among all the members has in no way been lessened by the rapid economic rise of West Germany, their former aggressor and defeated enemy.

Much of West Germany's revival has been due to the liberal economic treatment accorded it after its defeat by the western allies, especially the United States, one of the main reasons for this liberal treatment having been a desire to build up western Europe with an integrated West Germany as a counterweight to the westward spread of the political and economic influence of the Soviet Union. For a long time until recently the United States has continued to bear the main burden of western European defence, but this burden has proved increasingly irksome as West Germany continues to prosper at the expense of equilibrium in the United States balance of payments. Furthermore, the continuing prosperity of West Germany and western Europe accords ill with the fact of indefinite four-power occupation of that country and its former capital, Berlin. The additional fact of the possession of nuclear weapons by the two major powers, the U.S.A. and the U.S.S.R., and its imminent spread to France and possibly other western European countries introduces a dangerous complication into a situation already sufficiently complicated, to the extent that the issue of Berlin has become an annual summer festival among the occupying power.

Naturally, such a situation cannot long endure and, while vigorously denying any intention of pulling out of western Europe, the United States has been casting about for alternative solutions which would both end the perennial drain on its resources and lessen its involvement in a politico-military situation which threatens to explode at any time under the continuing atmosphere of tension and strain both within Germany and between Germany and the western allies, on the one hand, and between the four occupying powers on the other.

It is for these reasons that the United States has sought to shift the major burden of the economic and military defence of Europe on to western Europeans themselves, while trying to maintain a controlling hand and a controlling voice in decisions concerning the initiative and use of nuclear weapons in a much-feared European conflict - much to the irritation of western Europe, in particular France. At the same time the United States has given encouragement
to the strengthening of the ECM and to Britain's involvement with it in the hope that preoccupation with the building up a widened European community would provide channels for the release of constructive effort among its partners and help them submerge and forget their rivalries and hatreds in a common united effort. The stability which it is hoped will thus ensue should be considerably heightened by the staid character of the British who would, from then on, play the leading role in European politics. This, in turn, should afford the U.S.A. a breathing space from European involvements and enable it to assume the distinguished role of umpire among the warring Europeans and, if matters should progress to the worst and a conflict ensue between the divided Europeans and the Soviet Union, the U.S.A. could then fulfil the twice-tested role of "saviour of Europe".

From the point of view of Britain this development would spell a marked change in its role from that envisaged for it by Sir Winston Churchill at the time of the Atlantic Charter when he drew his three famous intersecting circles representing Europe, the Commonwealth, and the Americas, with Britain at the centre of the intersection of the three circles. Now one of the three circles, that representing the Commonwealth, is to disappear or at best become submerged in a much wider European circle representing Europe, the Commonwealth and the associated countries of the French Community. From a central role in western affairs a transition would be made to the role of leading partner in a buffer bloc between the U.S.A. and the U.S.S.R. Thus Britain is being cast, once again, and for the third time, for the role of pulling the chestnuts out of a European conflagration which, economically, has always been to the benefit of the United States and to the detriment of Britain, and could well result in the virtual elimination of Britain from international affairs, should a third world catastrophe occur.

This political analysis is motivated neither by dislike of the United States nor a love of Britain, but is merely the view of an outsider reading (perhaps misreading) contemporary events in the light of recent history.

The major economic argument which has been advanced in favour of Britain's entry into the Common Market with, it is hoped, guarantees for its Commonwealth partners, is the prospect of a large mass market available in Europe to British goods for the first time, with promises of a revival of Britain's economic fortunes. In its present economic circumstances it is understandable that Britain should set out seriously to explore this possibility, all the more so if equal guarantees could be obtained for its Commonwealth partners. And the British Government is understandably irked by the vociferous criticism and lack of sympathy for its position both within Britain and, outside, within the Commonwealth.

The circumstances of recent history, however, indicate clearly that the proposed entry of Britain into the Common Market is likely to be a panacea rather than a cure for Britain's deep-seated economic difficulties, and is most likely to end as a short-lived will-o'-the-wisp, and for reasons which will appear presently.

From the point of view of the Commonwealth the consequences of the developments outlined in the foregoing analysis augur ill in terms of the demise of time-honoured preferential arrangements and disappointed hopes of economic development within the Commonwealth. The position of the more economically developed members of the Commonwealth in this respect has been well outlined in contemporary discussions, and is rather well known. Not so that of the underdeveloped members whose interest in the matter has received scant attention in
both official discussions and the western press. These members have, unfortunately, been largely taken for granted, in spite of the protests of some of them, notably India, Nigeria and Ghana. But India's position is not as precarious as that of the African members of the Commonwealth, since India has been the fortunate recipient of massive economic aid from both East and West in the contemporary struggle for the domination of the Asian landmass by the United States and the Soviet Union. African countries, as a whole, enjoy no such good fortune since, in the MIT-Rostovian scheme of things they rank low in the five stages of economic growth, being mostly at the "preconditions" stage. By contrast India, at the "take-off", offers immediate promise of the ten plus per cent of gross national product going into productive investment, a vital Rostovian condition for the take-off into sustained growth and the ultimate drive to maturity and beyond. By the achievement of the take-off into sustained growth through western aid, the superiority of "capitalist" to "communist" economic development would be clearly demonstrated, and the contrast with the difficulties and disappointments of the forced-drift methods of Communist China would automatically determine the outcome of the East-West struggle in Asia and turn its vast hordes of people to the winsome ways of the capitalist and democratic West.

Such is the rationale in the western position towards India, while the Soviet Union takes a similar stance, mutatis mutandis, with Communist China as the king-pin of Soviet Asian policy, to which Soviet aid to India is an appendage.

While the rationale of the Rostovian thesis, from the western point of view, serves for the time being to keep Africa out of active involvement in the cold war, the major objective being to divert the attention of the new leaders of the transformed traditional societies of Africa from external wars of aggression to the constructive tasks of modernizing their societies and towards the benefits of compounded interest, what is the impact of the Common Market on African countries and its consequences for their economic development?

It is here necessary to examine the favourable and the adverse consequences in turn, of involvement of African countries (including members of the British Commonwealth) as associate members of ECM. The arguments, for practical purposes, concern mainly the African members of the British Commonwealth, since African members of the French Community are already actively involved.

Firstly, it is argued, will be the advantage of an assured market for the export products of African countries - oils and oilseeds, coffee, cocoa, etc., and any new export crops that they might develop in the future. If they refused to join it would be hard for them to compete in similar products with the African Community countries which, in any case, are not happy at the prospect of sharing the privileges of the Common Market with other African countries that at present do not belong to the Common Market.

Secondly, the Common Market Economic Development Fund, available to associate members, facilitates not only the development of new export crops and expansion of production of existing ones, but also investment in infrastructure such as roads, schools, hospitals, etc. The significance of the Fund lies in the need of African countries for infrastructure and to expand exports in order to obtain funds for economic development.

Thirdly, associate members enjoy a privileged tariff position in the form of free entry of their products in the Common Market, while having the right to impose tariffs on manufactured imports from industrial countries of the
Market, thus safeguarding their domestic infant industries.

Fourthly, a refusal to join the Common Market, with whose members a considerable amount of trade is already transacted, will close the door to a large actual and potential market, thereby reducing the range of accessible world markets.

On the debit side it may be pointed out, firstly, that the important thing for non-ECM African countries is not merely the accumulation of an export surplus for economic development, but its accumulation with those countries that have investment capital to spare. Since the Economic Development Fund is geared to the expansion of primary production and infrastructure there will be obvious difficulties in obtaining capital goods for investment in areas outside of these. Yet, having no export surplus with capital-supply countries outside of the ECM, such as the U.S.A., the Soviet Union, Japan, Eastern Europe and Scandinavia, they might experience difficulties in turning their Common Market export surpluses to account in these countries.

Secondly, involvement with the Common Market will make it difficult to expand processing activities in the primary sector because of direct competition with similar activities in ECM countries—a repetition of the previous colonial experience of African countries in this respect. Additionally, the existence of a guaranteed market for primary products would tend to lessen concern with the urgent need for establishing and expanding processing industries in African countries, thus lulling them into a false sense of security.

Thirdly, the greatest danger lies in the fact that primary commodity prices have been declining for a long time and are likely to continue to do so in the foreseeable future, a trend which the guaranteed prices of the Common Market must inevitably reflect unless action is taken to restrict output of primary commodities. At the same time the industrialized countries are every day making advances in the substitution of synthetics for natural products and reducing the primary commodity content of their manufactured goods. This process continually lessens their dependence on primary producers, so that with the advance of technology and the progress of substitution African countries are likely to find themselves with a bag of primary commodities which they have not learned to process or use in other ways, and the external demand for which would have shrunk. Their last state would be worse than their first.

The Common Market is therefore likely to be a hindrance, rather than a help towards the achievement of the transformation of the African economy from dependence on raw material production and export to industrialization through the establishment of processing and manufacturing industries. For it will tend to perpetuate just that very pattern of resource use and commodity trade which has been so detrimental to economic growth and from which African countries are trying to break away. What is needed in order to assist the desired economic transformation is to orient the various economies of Africa towards the African market, to encourage intra-African specialization and trade with special attention being given to the expansion of continental road and communications networks, and to coordinate development and industrial programmes on a regional and continental basis—all of these being important steps towards the development of the economic potential of a market of at least 200 million people, a market larger than that of the continental United States.

At this point it is appropriate to show the illusory nature of British hopes for entry into the Common Market. If the experience of Europe under the Marshall
Plan is any guide at all to the present situation, it should be remembered that the major obstacles among western European countries consisted in their inability to sell to one another because of the competitive rather than complementary nature of their production and therefore of their economies, the unwillingness of the United States to facilitate entry of their goods into its market by lowering its tariffs, and the difficulties of operating a payments arrangement. There is no reason why these obstacles should again prove insuperable, for the Common Market idea in its European aspects, barring its complications with, and adverse consequences for the economic development of, Africa, is an excellent idea and, given the will to operate it, can be made to work successfully. Equally so, however, there is no reason why the competitive nature of production and the payments problem should not once again present difficulties, although, with differentiation and specialization in production and adequate payments mechanisms, these difficulties need not recur. If, however, they do recur only France would tend to gain from the Common Market arrangements by reason of its greater degree of control over the raw materials and markets of African members of the French Community, whose government budgets it subsidizes directly in a number of cases.

Unfortunately, however, the ECM as it related to Africa is pregnant with adverse consequences, as already shown, and there is therefore no reason to expect this "Euroafrica" type of arrangement, with its bias in favour of the outmoded concept of natural or geographical specialization, to endure for long once African associate members begin to find the arrangement intolerable, nor can there be any assurance that the African members of the French Community who already chafe under the financial thumb of France would not seek ways and means out of a situation so degrading to their sense of nationalism and self-respect, and to which membership of ECM is an automatic and closely allied necessity. Once, however, for all these adverse reasons the African associate members begin to opt out of the ECM its nakedness will become revealed. For so long as the ECM remains rooted in the hoary concept of geographical specialization and until the point is reached at which a considerable degree of independence of primary products becomes a reality, the Common Market will remain inoperable without African markets and raw materials and without African participation.

It is towards such consequences that Britain is headed in its desire to join the Common Market, as though it did not possess a better alternative. This alternative, to be shortly outlined, it failed to seize a long time ago, possibly through lack of foresight or through despair of building up sound economic relations with its former colonial territories. Certainly, Britain was caught unprepared at the time of African independence with no plan for a continuation of its economic relations with its former wards on a more satisfactory basis of mutual interdependence and mutual respect.

The thesis which is here being developed, and the alternative which it holds, is that at the time when political independence for Africa began to become a reality Britain failed to alter the pattern and to take advantage of its economic relations with Africa. What the African members of the Commonwealth needed, and still need, is economic development through industrialization, as a means of ensuring more profitable employment for their excess farm population and transforming the nature of their economies so precariously balanced on the uncertainties of international trade in primary products. What Britain needed, on its part, was a new lease of life to revive its declining economic fortunes and its industries ravaged by war and the fierce competition of the post-war world. Since Britain's domestic market was too small to sustain the mass output
which modernization of its industries would entail it was necessary, then as now, for it to have access to a mass market. Such a market it had ready to hand in the Commonwealth, with all its preferential arrangements, but failed to exploit through a peculiar lack of imagination.

It is clear that since the African members of the Commonwealth needed industrialization and employment and that international investment was scarce and still is, in the face of expanding demands of underdeveloped countries; and that since Britain needed a wide market to serve as a basis for modernizing its ancient industries, it would have been mutually profitable to her and the Commonwealth if a Commonwealth Conference of representatives of government and business had been called under the aegis of the British Government and the Federation of British Industries, to take stock of the economic resources of various members of the Commonwealth and to decide on the strategic location of British investment throughout the Commonwealth on the basis of resource availabilities. It should then have been possible for British industrialists to invest in one or two major industries in each Commonwealth country with a view to producing for the entire Commonwealth market, since the individual markets were smaller than that of Britain and therefore unable to absorb in each case the mass output which large-scale production would have entailed.

Thus, manufacture of aluminium and aluminium products, textiles, cooking oils and fats, iron and steel products; oil exploration and refining, diamond cutting and dressing, and so on, could have been established on a large scale in appropriate countries throughout the Commonwealth. This would have created just that opportunity which African countries needed for industrialization and employment with maximum effect on their economies, as well as provided British capital with investment outlets and profits, along with the opportunity to rationalize old industries and establish new ones in Britain itself.

Such strategic dispersal of British investment, geared to production for the entire Commonwealth market as well as the entire African continent, could have revived the golden era of British investment prior and up to 1914, with mutually satisfactory results to all members of the Commonwealth, their national economies and levels of living. (France, of course, had a similar opportunity in the French Community but was too preoccupied with keeping its former colonies in their places, with the hoary concept of natural geographical specialization and the economies of primary commodities to see its opportunity.) It is this golden opportunity that is apparently being cast away by Britain in favour of the uncertainties of the Common Market as at present devised. Is it too late for Britain to take action before the opportunity entirely melts away? One should hope not.

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