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DEPARTMENT OF ECONOMICS
GOVERNMENT COLLEGE, LAHORE - PAKISTAN

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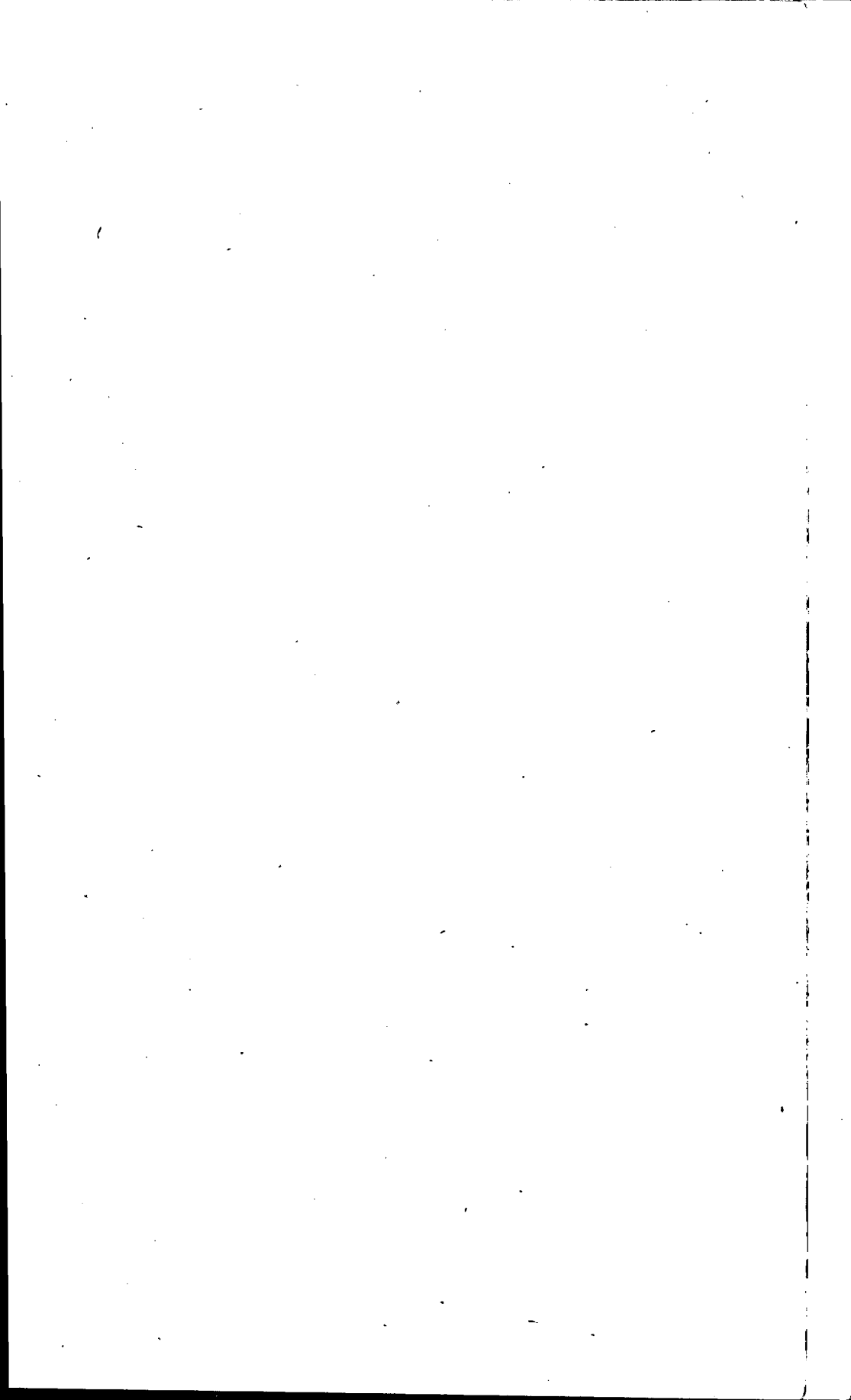
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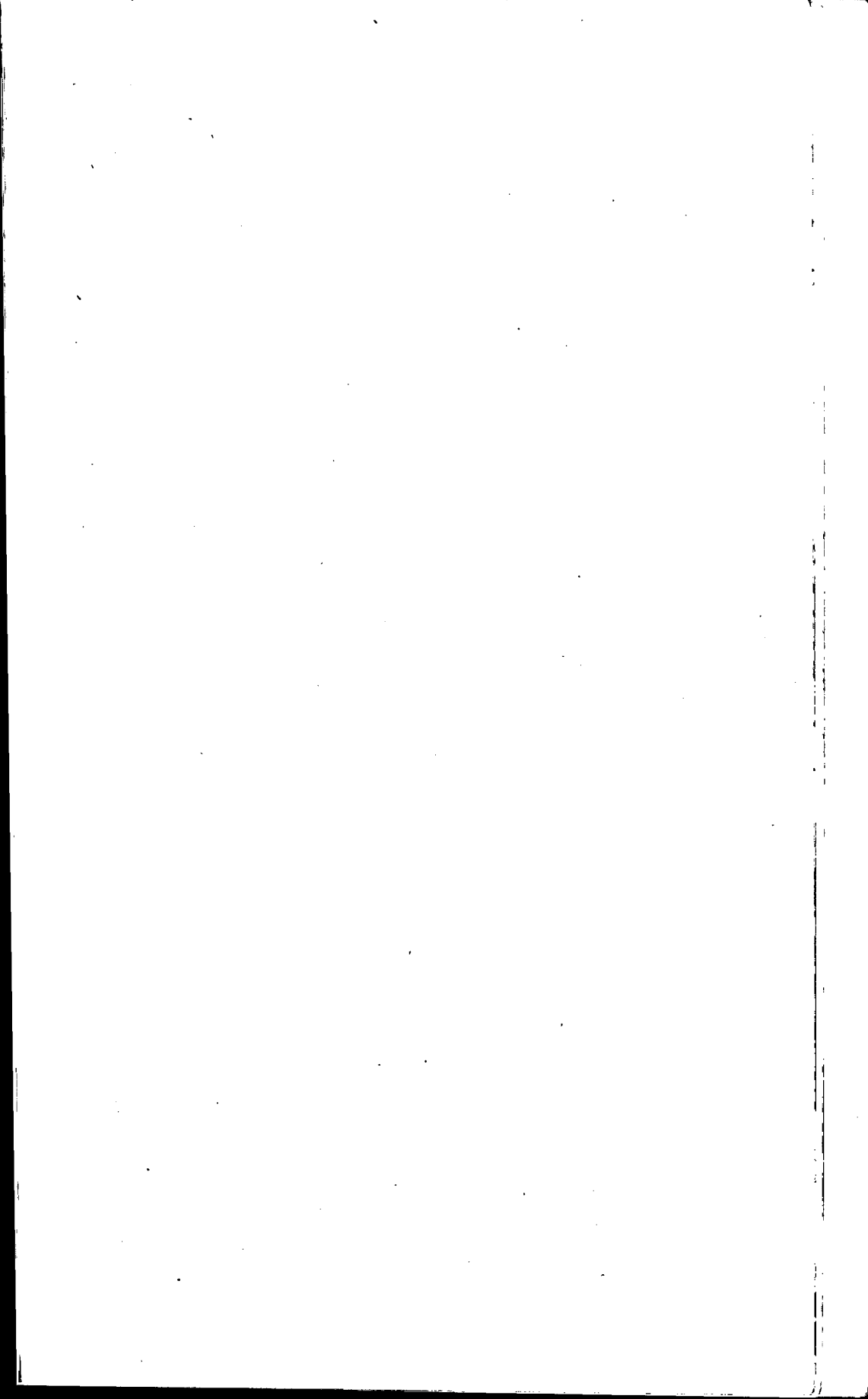
INTRODUCTION

This issue of the Economic Journal is devoted to the papers presented at two International Conferences held in two different countries to consider the problems of Growth and Development in 1979.

An International Seminar on Planning and Development Organised by the Planning and Development Board, Punjab (Pakistan) was held in August at Lahore. The Seminar was attended by experts from Bangla Desh, China, Yugoslavia, Pakistan and the World Bank.

Woodlands third Bi-ennial Conference was held in U.S.A. in Oct. 1979, at which papers were presented for Mitchell Prize.

Papers by Mr. Qureshi, Dr. Baqai and Dr. Paul Streeten are being published with the Courtesy of Planning and Development Board and those of Mr. Chianese and Mr. Gordon with the courtesy of Woodlands Conference and Mitchell Prize.



ISSUES AND CHALLENGES IN DEVELOPMENT PLANNING**

*Saeed Ahmad Qureshi**

History indicates that any meaningful process of planning has to be flexible enough to adjust itself to the peculiar physical, social, cultural and political environments of the country, to which it is applied at a given point of time. Whereas in developed countries, planning is largely corrective in its role and aims at ensuring economic stability, in developing countries it has become the prime medium for rapid economic growth and distributive justice. Diverse experiences in planning have been gained in countries with capitalist, socialist, and mixed economic systems. Yet, in spite of this diversity, the strategies adopted by these countries have to be capable of increasing per capita real income or raising standards of living, correcting serious imbalances in their economies and reducing inequalities in the distribution of wealth and opportunity.

Objectives :

While the overall objectives of development planning differ from country to country, developing countries with common destiny and aspirations for the future have to face certain common challenges which deserve a deeper attention and involve handling by our economists, planners and policy makers. New economic realities suggest that social gain and not private profit is the basic criterion for determining the objectives of development planning. Mere increases in national or real per capita incomes do not contribute to economic development but may instead make the rich richer and the poor poorer. The pattern of development and the structure of socio-economic relations should, therefore, be so planned that they result not only in appreciable increases in per capita income and employment, but also ensure better access to public services and increasing benefits of economic growth for the less privileged classes of society, leading to a progressive reduction in the concentration of incomes, wealth and economic power.

*Chairman, Planning and Development, Board, Punjab.

**Key note address read at the inauguration of International Seminar on Strategies of Planning and Development.

The objective of distributive justice has been addressed to in the planning exercises either by developing an institutional frame to take employment and income opportunities to the less privileged classes or by supplying essential consumption items and services at subsidised prices. More recently, the concept of basic needs has got currency with planners and policy makers and is being taken by its advocates as a panacea for solving the problems of food, clothing, shelter and social amenities for the general masses. The concept is no doubt appealing and manifests a more positive gesture towards the 'have nots'. The components of the basic needs 'basket' are large compared with what the planners were earlier offering to the low income strata of a society. The question is whether a mere change in expression from 'consumption planning' to 'basic needs planning', the latter being more elaborate and representing a larger basket, entails any guarantee that the 'basket' would reach the target group. It is imperative that an institutional framework capable of successfully carrying the package to the target groups over the uneven socio-economic plane is developed. The under-privileged are increasingly questioning the credibility of commitments by the planners and policy makers and blame them for being simple theorists incapable of finding workable solutions to the mounting social problems. I would, therefore, urge this gathering of renowned professionals to suggest strategies that are not only conceptually sound but also indicate an operational frame capable of achieving these objectives within socio-political and administrative parameters of the developing countries. The professional community in developing countries cannot afford so continue to play zero-sum games. They must sharpen their tools and change their operational modalities to come to grips with the specific issues and challenges.

The regional imbalance and disparities, including the rural-urban disparities, which are at times the concomitant of a development process geared mainly to growth, need to be reduced with the sublime purpose of enabling the people in all hooks and corners of the country to share the fruits of progress and prosperity. Pakistan's experience in the sixties is quoted by many as a model example of planned development by a developing country. Nevertheless, regional disparities which had tended to increase during the early phases of the country's economic development placed a question mark against this success story. Though the planners

became alive to the need for removing regional disparities at the time of the preparation of the Second Five Year Plan, the efforts fell short of the regional urges and aspirations. This precipitated the process of polarisation and undermined the integrity of the country.

During the early stages of economic development when the mobilization of domestic resources is inadequate to meet the national needs, dependence on foreign economic assistance is inevitable. However, perpetual recourse to foreign savings is neither desirable nor feasible. It is, therefore, an aspired development strategy of developing countries to move towards self-sustained growth. In Pakistan, it is one of the basic objectives of the planning to achieve this goal. Successive five year plans have promised to take the country to a stage of development when domestic savings and investment are of a magnitude that economic development becomes a self-sustained phenomenon. However, the attainment of this stage of development has not so far been feasible. It is for our economists and social scientists to evolve a strategy which would help the country to move more rapidly to this goal.

The above delineation of objectives can be summarised in the statement that development is a composite mosaic of growth, amelioration and political accommodation. While growth is conceived in terms of increases in the real per capita income and movement towards a self-sustained economy, amelioration points primarily to the distributive aspects and to the need for providing better living standards to the less privileged classes and regions. Political accommodation is a reality which often imposes itself on the development process, in order that certain demands and pressures can be satisfied. It cannot obviously be the guiding factor in planning process, because over a period of time it would cause unmanageable distortions and frustrate the basic objectives. Yet in actual practice, the organized and articulate localities have often ensured for themselves a better focus on their problems. The presence of this reality cannot really be ignored by the planners. In the attainment of these basic objectives, growth and amelioration, the questions of viability are as important as the choice of priorities.

In the ever emerging pressures and aspirations of today, development as a linear concept is foredoomed to failure. Any

programme of development must in the last analysis be consistent with the socio-political urges which are themselves exposed to a process of change and evaluation. No single objective can be pursued over a long period of time to the exclusion of other important objectives. This would create serious problems necessitating a shift to the neglected objectives. In other words, the targets of development follow some sort of a critical path. The priorities have to change in the absence of a viable equilibrium. This equilibrium requires that the emphasis on priority areas must be consistent with a minimum acceptable attainment of the secondary objectives. The need for changes in relative priorities in the light of experience has also to be recognised. It is for this reason that the temptation to follow a pre-conceived development model ought to be resisted. The sophistication and completeness of such a model, despite its aesthetic appeal to the professionals, can generate complications, which a simpler and more pragmatic approach would avoid.

Modalities :

This brings us to the question of modalities. It has often been argued that modalities by themselves are not really of any great significance. These are subservient to the main objectives, and whatever helps to achieve the objectives should be acceptable. While agreeing in principle, one must hasten to add the qualification that almost inevitably choice of modalities impinges on the socio-economic environment and must be studied with reference to its effect on that environment.

In the developing Asia and Africa, economic progress is governed by human endowments, social and cultural values and attitudes, political conditions and institutions. Bringing about changes in these basic parameters is a difficult task but these changes are necessary as without painful cultural adjustments economic progress is not possible. This can be done through spreading education, through better participation, and through inculcation of a more rational work ethics. A healthy mix of tying up resources in long, medium and short gestation period projects with time-frames well in harmony with the expectations, aspirations and waiting propensity of the people is equally desirable for successful planning, because in today's world the time gap between sacrifice and reward cannot be pushed beyond acceptable limits.

Economic experts, who examine various facets of contemporary development strategies cannot remain oblivious of the major issues which have to be handled with skill and foresight. Such policy issues as the controversy about 'balanced' and 'unbalanced' growth and the mix of these two development policies that has to be adopted by the developing countries merit expert evaluation. The vicious circle of poverty can be broken on the demand side of capital formation by means of balanced growth. For achieving accelerated economic growth in developing countries, the development of agricultural and industrial sectors, the establishment of social and economic overheads and the expansion of domestic and foreign trade sectors need to be done in harmonious way. However, the limitations imposed by the inelastic nature of the supplies of essential inputs like capital and skilled labour must also be considered. Similarly, while identifying the leading sector, which may provide adequate stimulus to other sectors of the economy, it must be ensured that the strategy does not conflict with growth and distributional justice, and the forward, lateral and backward linkages are likely to materialise.

The interdependence of agricultural and industrial sectors is the prime reason for developing the agricultural sector along-with the industrial sector. Surplus labour force released as a result of reorganization of agriculture can be absorbed by the industrial sector. Raw material needs of the industrial sector are also met through the development of agriculture. Similarly, the development of industrial sector is instrumental in ensuring an unabated supply of inputs to agriculture. While formulating development plans, economists are concerned with the issues like "agriculture-led growth," "industry-led growth" and at times with "export-led growth". This aspect needs a more critical appraisal.

The choice between export promotion and import substitution policies to be adopted by developing countries is a difficult task in development planning. Import substitution may not be feasible for countries with a small domestic market. On the other hand economies, which emphasise export development, have not only to be more efficient in production and be highly cost-and-quality-conscious in order to meet international competitions, but have to

be prepared to face the growing walls of tariffs and non-tariff barriers. Planners have to determine a healthy balance between the two frameworks.

The advocates of export-led growth stress the fact that high rates of savings have generally been achieved by countries which had a high rate of growth in exports. The discipline implicit in such a strategy is no easy matter. Failure of the authorities to check excess demand at home can frustrate this policy and generate pressures in balance of payments. Similarly, development outlays, which are too ambitious for the level of available savings, can lead to inflation and affect the competitive position of export industries. The pressures of domestic demand can erode the export surpluses. The export-led growth may not, therefore, be feasible in societies with a large propensity to consume, and low rate of internal savings.

Developing countries of today find themselves in the same stage of development and technological progress in which developed countries had been long times ago. In their struggle for survival and under the pressures of rising expectations, they have to catch up with the time through acquisition of a feasible blend of technology, both indigenous and imported, in order to ensure economic efficiency in production which, in turn, influences the rationale of import substitution and relative competitiveness of the economy in the international sphere. While making the choice, it should be ensured that the technology is in conformity with the resource endowment of the economy and within its capacity to sustain without perpetual access to the original sources.

Domestic saving and external borrowing are the two major alternatives of the development strategy of less developed countries. The people have to make a choice between the hardships created by voluntary and forced domestic savings and the current expedience of borrowing external resources. In the present state of affairs, a lions share of the foreign exchange earnings of developing countries is already being taken away by their debt servicing payments. Their depleted ability to repay these debts is due to a shortfall in their own earnings and hence a pressing need for debt reliefs and moratoriums. Upto what extent and for how long debt reliefs can be granted by the donor countries is an open question.

The prospects of international economic assistance have also declined during the past decade or so. The willingness of developed countries to extend development assistance is shrinking. In such a situation, extrapolation of historic averages seems unrealistic. The developing countries have to take a practical view of this situation and redesign their programmes to the extent that is feasible. This indeed is one of the major challenges of today.

The roles of private sector and public sector have often been debated by the economists, policy-makers and investors in this country. In a mixed economy like ours, both have to find a place. While control of vital institutions like banks, railways and certain basic industries may be confined to public sector, its role should also be viewed in the light of its operational capabilities. Where fiscal instruments can harmonise the financial, economic and social parameters, their use should be preferred over direct State involvement. A healthy competition between the two sectors is desirable. The movement from imperative to indicative planning in this situation is one of the difficult policy areas.

The difficulties and complexities outlined above, the inadequacy of domestic and external resources and the need for a healthy balance between growth and distribution face the developing countries with an awesome challenge. The vigours of this challenge can be moderated through a positive programme of population planning. For societies which do not consider these paramount, the magnitude of developmental efforts has to be much larger and the initial sacrifices much greater.

Critical Problems :

The usefulness of this seminar in serving the cause of development planning lies in a balanced treatment of the problems of development. These problems do not end with the designing of a strategy. In fact, the more formidable problems lie in the field of implementation. For effective implementation, the delivery institutions, logistic support, infrastructural base and administrative capabilities are of crucial importance. The creation of adequate Government machinery for implementing a plan must precede its formulation.

What has often been conceived as a vacuum of investment may in reality be a vacuum of management. We must address ourselves fully to the operational capability of the delivery system. It

is here that the distinction between success and failure would be spelt out.

Improvements are imperative in the preparation, execution and evaluation of the development programme. At the stage of finalisation of the plans, the feasibility of the programme, its mutual consistency and the optimum use of resources need to be ensured. At the micro-level, defective preparation of projects, insufficient attention to cost economics and questionable assumptions about the time-span, input requirements and the projected socio-economic benefits are areas which call for a vast improvement. On the side of execution, the gap between the targets and the institutional capability may be widening. The link between evaluation and the restructuring that such an evaluation may indicate also needs to be established.

The maintenance of completed projects leaves a great deal to be desired. Here the problem is not merely a neglect of the essential requirements. It is more fundamental. The growth of revenue resources is lagging behind the level of development programmes. Finances are not available for proper maintenance. Equally serious is the inability or reluctance of the local people and local institutions to bear the maintenance expenditure of the public utilities that have been handed over to them. This problem longs for an urgent resolution.

Present planning is sectoral oriented which may sometimes result in distorted spatial impact. There is a need to introduce another phase in planning which would translate the sectoral plan spatial plan before it is handed over to the implementation and execution agency.

The concept of grass root planning as a modern approach to planned development has come into recent focus amidst realisation that planning at national levels without the participation of local people and the mobilisation of local resources does not have the desired impact. It requires that planning should come from below rather than from above. Grass root planning reflects the felt needs of end receivers and provides an additional and more dependable source of revenue at the local level. Why it has not yet become operational is a question which requires deeper probe.

Other major problems that deserve the attention of the participants of the Seminar are the vicious circle of low savings, erosion of the confidence in the viability of investment and the lack in the confidence in equality of opportunities seriously impeding development efforts in the less developed countries.

Developing countries in their struggle to raise the standard of living of their people through resorting to development planning are presently in the grip of inflation which is accentuated by excessive reliance on deficit financing. Inflation has a serious impact on the incentives to save. It hinders realistic planning as resource costs cannot be anticipated which in turn disturbs priorities and requires readjustments in the development programme. It may also induce a shift of investment from the commodity producing sectors towards real estate and commercial activity, which, in turn, enlarges the gap between creation of incomes and the availability of goods. The effects of this phenomenon on social cohesion can be devastating. Inflation should, therefore, be regarded as one of the major parameters to be considered in the process of planning.

During the last decade, generation of massive external resources through foreign remittances has emerged as a seemingly regular source of development financing of developing countries. It is estimated that in 1975 there were 13.8 million emigrant workers living temporarily away from their countries who remitted close to \$8.1 billion to their home countries through official channels. These remittances have provided a cushion of support to these countries in their balance of payments difficulties. In Pakistan, the current resources flowing into the country in the shape of home remittances of Pakistani workers residing abroad are as large as the export earnings. How far planners can bank upon this source of external finance for the future development plans of the country is an important issue. Can we really peg the economy of the country to a source of financing which is uncertain and indefinite. If these resources are not now productively utilized in the country, their massive inflow may damage the economy by inducing distortions in the patterns of consumption, investment and income distribution. In the future planning of the country, the domestic use of foreign remittances must be considered as a distinct area worthy of serious analysis and policy formulation.

SELF-RELIANT INDUSTRIALISATION**

Paul Streeten*

Summary

The paper surveys the role of industrialization in developing countries in the light of certain objectives (efficient growth, reduced inequality, diversified jobs, integrated development) and certain constraints (environmental damage, scarcity of resources, protectionist policies by industrialized countries). It is argued that the basic objective of development provides a key to the solution of a number of apparently separate but on inspection related problems: urbanization, protection of the environment, equality, a better international division of labour. This approach throws a new light on the demand for sources of energy and for sophisticated products, the transfer of inappropriate technologies, the role of the transnational enterprise, the relation between rural development and industrialization and the relation of domination and dependence.

Self-reliant development is a complex process in which many variables act upon one another and in which policies must act upon several objectives either simultaneously or in an appropriate sequence. Yet, we cannot talk about everything at once nor can we do everything at once. Industrialization is clearly only a part of a unified, self-reliant development strategy. A unified, self-reliant strategy provides an opportunity to overcome the fragmentation that some critics have discerned in national policy-making and also in the organization of the United Nations specialized agencies. It is a challenge to organize all development efforts in an integrated set of thrusts aimed at the improvement of the lot of the masses of the poor people in this world.

In a concerted and unified strategy industrialization has a special role to play. The poorer the country, the larger the proportion of the population that is engaged in producing food. To rise

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**This paper draws on my contribution to *Employment, Income Distribution and Development Strategy*, Essays in Honour of H.W. Singer, edited by Sir Alexander Cairncross and Mohinder Puri (Macmillan, 1976).

I am indebted to Hans Singer, Maurice Scott, Frances Stewart and especially to Hellen Hughes, who showed me the importance of bearing in mind "industrialization for whom."

above poverty, industrialization is necessary, for industrialization means the application of power to production and transport. Output and consumption per head can rise towards the desired levels only with the help of mechanical aids. In this sense, development, including rural development, is industrialization.

In addition, manufacturing industry is subject to increasing returns, to learning effects and to cumulative processes. The exceptionally high growth potential of manufacturing industry (reflected in the annual average growth target of manufacturing output of 8 per cent) has been demonstrated in several countries in recent years.

Rapid economic growth, and specially industrial growth, has come under attack from several directions. It has been argued that social objectives such as income distribution and jobs are more important than the rise in some abstract index number to which industrial growth contributes substantially. It has been said that the drive for industrial growth has destroyed the environment and has rapaciously used up exhaustible natural resources and, in particular, supplies of energy. It has been claimed that rapid growth, spurred by industry, increases inequalities and proceeds without regard to the damage inflicted upon its victims. Perhaps most convincingly, it has been argued that development in countries in which cultivable land and capital are scarce, where the labour force grows rapidly and mass emigration is ruled out, must aim at raising the yield of land; that food output can grow only if markets exist in which the food can be sold; and that, exports apart, these markets must be found in the countryside, amongst the mass of the rural population. Rural development, the argument goes, combined with income redistribution, is a necessary condition of economic growth.

In the face of all these charges against and criticisms of industrialization, it must be emphasized that in order to achieve the social objectives rightly advocated, and in order to fight the evils of pollution, premature raw material exhaustion, unemployment, inequality and market limitations, industrial growth is an absolutely essential condition. It must, of course, be growth that benefits the right groups, that is properly composed and properly measured,

so that social costs are fully accounted for and proper relative weights are given to different components, to the working conditions and to the human relations in which production is carried out.

Statistically there is no evidence of an inevitable conflict between high rates of industrial growth and the achievement of other development objectives; if anything, there is evidence to the contrary. In many, though not in all cases, the achievement of social objectives has been consistent with high rates of industrial growth and, indeed, has depended on them. The causal links between these variables are complex, controversial, and still partly unknown, but the promotion of industrial growth is one of the strategic variables in the complex set of related national and international development policies.

The current combination of a world-wide energy crisis with world-wide cost-inflation has called into question the whole inherited framework of economic analysis and policy. If it needed underlining, the crisis certainly has underlined that economic and political forces cannot be treated separately and in isolation, for the demands of the trade unions and the demands of the oil producers (and possibly of other producers of scarce raw material and food) are economic exercises in political power. The role of industrialization in this new framework of thought and action also requires a thorough reappraisal.

Industrialization for what ?

Many confusing and complex issues become clearer and simpler if we remind ourselves of the purpose of development and the place of industrialization in a development strategy. In particular, questions about energy, the environment, pollution, appropriate technology, appropriate products and consumption patterns, markets, international trade and integration and the transnational corporation can be answered more easily if we know where we want to go. Many apparently technical and separate problems are seen to be connected and become amenable to a solution if we bear the basic objective in mind.

Development is not about index numbers of national income, it is not about savings ratios and capital coefficients: it is about and for people. Development must therefore begin by identifying human needs. The objective of development is to raise the level

of living of the masses of the people and to provide all human beings with the opportunity to develop their potential. This implies meeting such needs as adequate nutrition and safe water at hand, continuing employment, secure and adequate livelihoods, more and better schooling, better medical services, shelter, cheap transport and a higher and growing level of measured income. It also includes meeting non-material needs like the desire for self-determination, self-reliance, political freedom and security, participation in making the decisions that affect workers and citizens, access to power, national and cultural identity, and a sense of purpose in life and work. Much of this can be achieved in ways which do not register a high index number for measured output of commodities, while a high growing index for national income growth is consistent with leaving these basic needs unsatisfied.

If we approach development in these terms, the place of the private motor car, of heavy demand on sources of energy, of highly sophisticated luxury goods, of the transfer of inappropriate products and technologies, of the role of the transnational enterprise, of urbanization, of the relation between industrial and agricultural policies, and of domination and dependence, all appear in a different light.

The disenchantment with industrialization in recent writings and speeches has been based on a confusion: it is a disenchantment with the form that economic growth has taken in some developing countries and with the distribution of its benefits. Certain types of modern product and modern technology have reinforced an income distribution and a style of development that is out of tune with the basic goals sketched out above. After a reorientation of goals, industrialization as the servant of development regains its proper place in the strategy. Industry should produce the simple producer and consumer goods required by the people, the majority of whom live in the countryside; hoes and simple power tillers and bicycles, not air conditioners and expensive cars and equipment for luxury flats.

An industrialization strategy guided by the goal of meeting the needs of the poor not only leads to a different composition of products and of techniques; it also reduces the demand that rapid urbanization makes on scarce capital, scarce skills and scarce

natural resources. By raising the level of living of the poor people in the countryside, it may reduce the pressure to leave the farms-treads and to expand urban expensive services.¹

In subsequent sections I shall survey several problem areas and re-examine the appropriate policy in the light of the basic objective. The conclusions depend upon countries opting for a style of development that gives priority to satisfying the simple, basic needs of the large number of poor people. Industries producing clothing, food, furniture, simple household goods, electronics, buses and electric fans would thrive without the need for heavy protection in a society that had adopted this style of industrialization and development. Much of the recent criticism of inefficient, high-cost industrialization behind high walls of protection and quantitative restrictions should be directed at the types of product and of technique which cater for a highly unequal income distribution and reflect entrenched vested interests. It is no way a criticism of industrialization for the needs of the people.

This does not mean that opting for such a style is an easy matter. The required changes in the thrust of research and development expenditure and of science policy, the attack on the living standards and power of those profiting from the present pattern of trade, technology and products, the more complex system of decentralized administration of rural development and the required co-ordination and changes in trade and investment policy are enormously difficult tasks. The point, however, is that no solution is possible unless the fundamental objective is borne in mind.

Industry and agriculture

The dispute about whether to give priority to industry or agriculture is a sham dispute. The answer is not Either-Or, but Both-And. Industry needs agriculture and agriculture needs industry, and for some purposes the very division into the the two

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1. On the other hand, the turmoil and disruption caused by rural modernization, with better roads, easier transport, better primary schools, the introduction of wirelees, cinemas and other media of communication make for larger migration to the cities than if the villages had been continuing in their traditional ways. Nevertheless, sufficiently attractive rural opportunities, combined with limited opportunities in the towns is bound to reduce the flow of migrants.

categories is wrong. Thus when we are concerned with evaluating an agro-industrial project, the relevant project appraisal criteria cut across the demarcation line between industry and agriculture.

Still, it might be objected that the speed of progress of an economy, in which the scope for substitution between sectors is limited, is controlled by the speed of its slowest moving sector. It is for this reason that attention in the last fifteen years has been focused on agriculture. This is quite true, but how do we identify this sector in the first instance? How do we unmask it as the laggard, so that we can bring pressure to bear upon it to improve its performance? It has been a platitude for many years now to say that non-export agriculture, especially in dry zones, has been the lagging sector in many developing countries. But today's platitudes are yesterday's startling discoveries. Nobody in the thirties, when all the talk was about agricultural surpluses, would have believed what we find so obvious today. It is the very success of rapidly moving, dynamic industry combined with high growth rates of agricultural productivity in the advanced countries, and especially in the U.S.A., that has shown up agriculture in the developing countries as the slowcoach: an instance of the uses of unbalanced growth.

In spite of the Green Revolution and Substantial, though patchy, progress in agriculture, we have not yet reversed the role and turned industry into the lagging sector. We need continuing advances in industry in order to provide agriculture with the inputs and with the markets, and we need progress in agriculture in order to provide industry with food, raw materials and, again, markets (as well as, in some cases, exports). If several things done together are essential for success, it does not make sense to ask which should have priority. There is less scope for substitution, even at the margin, than is sometimes thought.

Even at the margin, the choice is not between industry and agriculture: it is between projects and complexes of projects, many of which, like processing local raw materials (see below, p. 12), will cut across the dividing line between industry and agriculture. Priority must be given to a form of industrialization which is consistent with a strategy of rural transformation. Some plead for a type of agriculture which supports urban industrialization; others for industrialization that serves agriculture. The argument here is that mutual support and consistency are required.

Urban and rural location of industry

The concern with growing inequality has also a regional dimension. There are both economies and diseconomies in the rapidly growing cities of the developing world. Urban growth poles offer to firms advantages of location, economies of scale, low costs of information, availability of a suitable labour force, access to administrators and policy makers and to sources of learning and opportunities to exchange information and co-ordinate actions. On the other hand, the inability of the rural sector to hold the growing working population has led to migration to the towns with the resulting shanty towns and slums and the growing burden of constructing the urban public services for the rapidly expanding number of town dwellers. The more that is being done to meet the needs of the urban immigrants through the creation of jobs, the clearance of slums, the building of houses and the provision of public services, the more flood in from the countryside. The social costs of urban industrialization diverge from its private costs. Even with the best policies, urban industry is incapable of providing anything like an adequate number of jobs or a satisfactory level of living to all those wishing to leave the country for the promises of the city.

This proposition is sometime criticized by those who say migration to the towns is an improvement for the migrants and that economic progress consists in reducing the number of those in agriculture. But this view neglects the fact that the absolute number of people in agriculture and industry depends not only upon the rate of growth of the labour force and the rate of growth of employment opportunities in industry, but also on the initial relative size of the industrial sector. For the same growth rates in the labour force and in employment opportunities, the existence of an initially relatively small industrial sector implies that the absolute number (though not the proportion) of people in agriculture, or at any rate in the rural sector and in the urban "informal sector" must increase. To believe that the absolute number of people in the rural work force and the "informal sector" can decline in the early stages of industrialization is an illusion.

The creation of rural industries and rural public works could contribute to the absorption of some of the large and rapidly growing under-utilized labour force. The purpose of these

industries would be to use agricultural labour when it can be spared from seasonal peak demands, to use local materials and to mobilize the underemployed labour force for the construction of rural public works, such as feeder roads, houses, schools, which would support the rural industries.

Environmental aspects of industrialization

Neither the contemporary discussion of the environment nor the energy crisis has led to clear and soundly argued conclusions. The first and most important lesson is that late industrial starters can learn from the mistakes made by the early starters. It is possible to avoid in the beginning the creation of the environmental damage that the advanced industrial countries have inflicted upon themselves and the wasteful uses of energy that the Western style of industrialization has involved. It is the heavy dependence upon oil supplies that has contributed to the present crisis in the high-income countries. A style of industrialization less hooked on the private motor car, and more directed at the use of indigenous sources of energy and materials would lead towards greater self-reliance.

Another important set of policy questions relates to the international location of dirty processes. Just as differences in factor endowment guide the allocation of resources according to comparative advantage, so differences in social pollution costs should in principle guide international specialization of industry. The costs of pollution will tend to be lower in many developing countries and the benefits to be derived from industrial production will tend to be higher. For both these reasons, a shift of polluting activities from the industrial countries to the developing countries can be envisaged.

A careful distinction should be drawn between local and global pollution. It would be legitimate to restrict activities and products that lead to global pollution but such restrictions must not be used as a pretext for protectionism by the industrial countries where the pollution is purely local and remains confined to the area of production in the developing countries. Taxes imposed by industrialized countries on their own pollution-intensive activities may be used by them as an excuse to exclude imports from countries which can conduct these activities at lower social costs without harm to the importing countries. The 'sweated environment'

argument would be as fallacious as the 'sweated labour' argument for protection.

A third set of policy questions would relate to the return to the use of some natural products that had been hit by the invention of synthetics, but where the costs of pollution from producing the synthetic product had not been allowed for. Pyrethrum against DDT is one illustration; natural fibres against synthetic fibres, another. Some of these natural products have the advantage not only of being free from pollution but also of being labour-intensive and contributing to rural development, and therefore contributing to the solution of the employment and the rural-urban migration problems.

A fourth set of questions concerns the actions that developing countries can take in the face of the scarcity of non-renewable natural resources. Many of these have not been priced, according to their scarcity, taking into account a proper social time discount rate and risk premium. A correct pricing policy would provide incentives for more economical use of these products, for switching to products that use less of these materials or none, for a search for new sources of these materials and for the development of substitutes. Meanwhile the higher revenue earned by the material-exporting developing countries should be used for diversification and development as long as poor countries dependent on their imports and without corresponding high-priced exports, are insured against damage from high prices.

But it is not enough to estimate the possibility of exhaustion and to attach a value to these materials, allowing for time and uncertainty; what is also needed is co-ordinated action between the developing countries in which these materials are to be found. Incentives and penalties are required to secure joint action and rules about how increases in revenue derived from joint scarcity pricing should be shared and used for development, and in particular in ways that do not harm developing countries dependent on imports of these materials.

Exports of manufactured products: prospects of growth and the international distribution of gains

While the spectacular export performances of a few but a growing number of countries (and by no means only those with high GNP growth records) have shown that breakthroughs into the

markets of developed countries are possible in spite of existing tariff and non-tariff barriers, there is also evidence of growing restrictions against these exports whenever they begin to be seriously felt by the protected and local industry of an importing country. Annual growth rates in the sixties of 10 to 15 per cent of exports of manufactured products from the developing countries are liable to run into obstacles put up by importing countries. These would become more serious if the lesson were to be generalized and many more developing countries were to engage in massive export drives, and particularly if these exports were to be concentrated on a few 'sensitive' products.

Policy restrictions are liable to be supported by a form of 'adjustment assistance' which directs R & D and compensation expenditure at defensive investment to re-equip the industry hit by the low-cost imports or simply to subsidize it in order to remain competitive.

Apart from restrictions by importing countries, there are also well-known institutional limitations to increasing exports, limitations that cannot easily be classified under 'supply' and 'demand', such as absence of export credits, marketing and sales organization and knowledge of required designs. Calling in the transnational corporation to overcome these obstacles, while solving some, also raises new problems (see below, pp. 18-21)

On the other hand, there are also supply limitations. These may lie in the lack of entrepreneurial ability to spot the type of products for which world demand is expanding and which can be produced at low costs; in weak organizational and administrative ability—in both the private and public sectors; in the inability of the economy to supply enough food for the workers engaged in manufacturing to keep industrial wages low and prices competitive; and in the inability to resist the power of the urban trade unions to extract ever higher money wages.

While organizational and other supply obstacles clearly account partly for the export failure of some countries, it cannot be doubted that this failure contributed to the success of the successful exporters. If all developing countries had adopted the strategy of Taiwan and Korea, their exports and the exports of some other countries would have fared less well in the sixties than they did.

The success of Taiwan and Korea cannot readily be applied to India, Bangladesh and Indonesia, Gustav Papanek carried out a little calculation that showed what a generalization would imply. "Korea employed over 500,000 people in labour-intensive industrial exports during the last seven years. For a country of the size of Indonesia, the comparable figure would be three million people. Assuming added value of \$ 400 per head, this would mean for Indonesia exports of about \$ 12,000 million, for India exports of over \$ 40,000 million. Imagine the reaction of the developed world (to which Taiwan and Korea have been exporting) if India, Indonesia and others exported electronics, garments or textiles on this scale.²" This does not mean that there are no opportunities for greatly increased intra-Third World trade, about which more below.

There is also the question of the distribution of the gains from the rising volume and value of manufactured exports. When transnational corporations are engaged in producing and selling exports, a part of the gain accrues to countries other than the exporting country. In conditions of oligopoly, low costs are not automatically passed on either to buyers in lower prices or to workers in higher wages, but may only swell profits.

What is often claimed as the peculiar virtue of private foreign enterprise, viz. that it brings a 'package' of capital, enterprise, management and know-how, is also its peculiar defect: it means that monopoly rents and profits accruing to these factors go abroad and that only the reward for unskilled or semi-skilled labour, in highly elastic supply and with little bargaining power, goes to the host country. If, on top of this, the country gives tax concessions to the foreign firm and subsidizes it through trading estates or import privileges, the division of the gains is very uneven and export figures give a misleading picture of the host country gain³.

Alternatives might be sub-contracting, the encouragement of indigenous firms with management contracts, national export sales corporations or various forms of joint venture.

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2. *Economic Growth in Developing Countries—Material and Human Resources*; Proceedings of the Seventh Rehovot Conference, ed. by Yohanan Ramati, Praeger Studies in International Economics and Development, 1975, pp. 169-170.
 3. Paul Streeten, "Policies Towards Multinationals," *World Development*, Vol. 3 No. 6, June 1975.

If we are interested in the limits to the growth of exports of manufactured products and the likely international and internal distribution of gains, a typology by product will be useful. We may then distinguish between the following.

(1) *Processed local primary Products* : These include products such as vegetable oils, foodstuffs, plywood and veneer, pulp and paper products and fabricated metal. The processing may be into semi-processed, refined or completely manufactured products. When these products are cheaper to transport in a processed form, rather than in their raw state, countries processing them enjoy an advantage over the countries in which they are sold. Cascading tariffs (rising with the stage of processing) in developed countries discriminate against this type of export. Yet, processing is clearly not appropriate in all cases where a developing country has the raw material. But where appropriate, countries with raw materials that are much sought after can insist that the materials be processed locally. This is another instance of a strategy directed at exploiting the scarcities of raw materials and food in combination with industrialization.

(2) *Traditional labour-intensive goods* : These include garments, textiles, footwear and simple engineering goods. While low labour costs make developing countries' exports competitive in these products, they face particular obstacles in importing countries where the competing industries are often concentrated and politically well organized. Successful exporting here may have to be combined with the mobilization of interests in importing countries. Independent retail chains, mail order firms, trading houses or consumers' associations are useful allies in organizing pressures against the producers' organizations and their lobbies. A better system of international monetary adjustments would also give more scope to increase exports of these products.

(3) *New labour-intensive goods* : Goods such as plastic and wooden items, rattan furniture, glassware, pottery and wigs have appeared in recent years. The fact that their impact on importing countries is more dispersed and less noticeable makes them better export prospects, as long as not too many countries compete in selling them.

(4) *Processes, components and assembly in a vertically integrated international firm* : A comparatively recent phenomenon is the location of a wide range of activities in a vertically integrated

transnational corporation in developing countries. Semiconductors, tubes and other electronic components are assembled in developing countries for the parent firm in developed countries. Garments, gloves, leather luggage, baseballs are sewn together in Taiwan, South Korea, Thailand and India; motor-car parts such as radio antennae, piston rings, cylinder linings, car lamps, braking equipment, batteries and springs are made in many countries. Data are flown to South-East Asia and the West Indies for punching on tape by low-wage key punch operators; watchmakers fly jewels to Mauritius for precision drilling. These industries are footloose, attracted by low wages, tax concessions, docile trade unions, relative absence of corruption, and political stability. They also represent an organized interest in the importing country opposing import-competing interests and sometimes enjoy tariff advantages.

(5) *Import substitutes or local products turned exports*: These products, often goods such as motor-cars (Brazilian Volkswagen is an outstanding example), car parts, steel pipes and tubes, electric wires and cables, bicycles, electric motors and diesel engines were set up initially to replace imports and, having become established, have entered the export market. They represent the last stage in the product cycle. Marginal-cost pricing for exports is common (i.e., export prices are lower than domestic prices) and exports may be subject to anti-dumping measures.

This classification is useful for identifying the problems of adjustment and the pressure groups in the importing countries and hence the possible limits to growth in the exporting country and the division of gains between different factors of production and different countries. The classification also indicates that it would be rash to jump to the conclusion that the promotion of exports of manufactures through price incentives is always and necessarily the best strategy for all developing countries. A good deal has recently been written about negative value added in import-substituting manufacturing as a result of excessive protection. We should not forget that negative value added can also occur in exports and that a recipe of universal export promotion, extrapolated from the experience of the sixties, supported by transnational enterprises with a good many concessions, privileges and incentives can be just as detrimental to the developing host country as high-cost import substitution.

The next ten years will be a more difficult period, especially as more and more countries adopt export-promoting strategies. Over-expansion may turn the income terms of trade against the exporting countries (though this would improve the terms of trade of developing primary producers); import capacity and import willingness are not likely to keep in step with accelerated export expansion: and even when exports are successful, the gains to the developing countries may be small or, in extreme cases, negative. This does not mean that developing countries should not devote considerable efforts to promoting exports, or that export-orientated strategies do not have advantages over import-substituting ones. It does mean that institutional, political and technological constraints will have to be investigated and overcome and that some co-ordination and co-operation between developing countries is essential if they are not to erode the benefits through excessive competition.

Collective self-reliance and international trade

An industrialization strategy guided by the goal of meeting the needs of the poor also introduces different incentives and opportunities into international and intraregional trade: it implies a reorientation towards more trade between developing countries. Starting with similar factor supplies and similar levels of demand, developing countries can more appropriately produce for one another what they consume and consume what they produce. This can be the basis of mutually beneficial trade. In simple mass consumption goods, often produced in a labourintensive, capital-saving way, the developing countries have a comparative advantage and could expand their trade among themselves.

I have argued that, even if the developed countries were to resume high rates of economic growth, their ability and willingness to absorb large increases of manufactured products from the developing countries is limited. There are good arguments on grounds of comparative advantage for increasing trade among developing countries. Some of these, like Brazil and Mexico, have been registering high rates of growth and it might well be in the high growth countries of the Third World, rather than in the OECD countries, that the future of the international division of labour lies. To interpret "collective self-reliance" in this sense is entirely compatible with the most conventional economic doctrine. Sir Arthur Lewis drew a historical parallel.

“Besides competing in the O.E.C.D. markets, the tropics can also compete in their own markets. In 1965 they imported manufactures, excluding metals, valued at \$ 14.1 billion dollars; to wit \$ 2.3 billion of chemicals, \$ 4.7 billion of light manufactures and \$7.2 billion of machinery and transport equipment. At least \$ 12.5 billion of this came from outside the region. It follows that the tropics do not have to depend on competing with O.E.C.D. countries in O.E.C.D. markets. They can just as well compete with O.E.C.D. in their own tropical markets.

“This point sometimes comes as a surprise to policy-makers in the tropics. We have got so accustomed to the idea that the tropics trade with the temperate world that we tend to assume that the chief way to expand tropical trade is to sell more to the temperate countries. Actually, as Germany industrialized in the second half of the nineteenth century, she did not concentrate primarily on breaking into the British and French markets, though she did this too. She looked rather to the countries around her in Eastern and Central Europe, who were even more impoverished than she, and made big gains there. Similarly Japan's trade drive in the 1933's was directed not at the industrial nations but at Asia and Africa and Latin America. This is where the rising new exporters should surely be looking, rather than to European and North American markets, since it is surely easier to beat your competitors in third markets than it is to beat them at home, once you have established the machinery for making customer contacts ”

“The continuous discussion of the possibility of creating new customs unions or common markets in Africa and Asia and though the paucity of actual results also indicates how difficult the problem is. The basic difficulty centers in the fact that only a handful of tropical countries are currently in a position to benefit from expanded opportunities for exporting manufactures. Twelve of these accounted for 85 per cent of the trade ⁴. The problem stands out clearly if one asks the following question :

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4. The leading exporters of manufactures (5-8 minus 67 and 68) in 1965 were as follows (figures in \$m.): India 799, Singapore 295, Pakistan 190, Mexico 170, Brazil 124, U.A.R. 123, Rhodesia 116, Philippines 66, Malaya 64, Colombia 34, El Salvador 32, Trinidad 28, Kenya is also a substantial exporter if her trade with Uganda and Tanzania is counted as foreign trade (56).

Since among themselves the tropical countries now import over \$ 14-billion of manufactures, why do they have to wait for preferences for their exports in O.E.C.D. markets? Why do they not just accord preferences to each other in their own markets, in line with the already agreed principle that discrimination against developed countries is acceptable? The answer is because this would benefit the leading twelve at the expense of the remaining seventy, who might now have to pay higher prices to these twelve than they would have to pay to O.E.C.D. countries. The problem differs only in scale when one shifts from global tropical preferences to more limited regional preferences, customs unions or free trade areas. In each region one or two countries stand out as the ones most likely to benefit at the expense of their regional partners, who are therefore not anxious to rush in without some clearer indication of what the balance sheet of profits and losses is likely to be.”⁵

But there is another type of Argument for increased trade between developing countries which does not rest on comparative advantage and a combination of protection in advanced countries and demand expansion in developing countries. It embraces variables not normally included in a narrowly economic analysis.

Orthodox arguments for protection are based on the principle that, in order to protect one industry, we wish to pull resources *into* one type of activity. This implies — in conditions of full employment—that we wish to pull resources *out of* another type of activity. It would be nonsense to wish to protect *all* industries. Conventional arguments for protection based on increasing returns or external economies imply pulling resources out of agriculture or services.

But the new argument points to some protection (though not autarky), at least in principle, of nearly *all* activities. By opening up a society indiscriminately and too widely, we reduce the incentives and opportunities to developed indigenous processes and products appropriate for the low-income groups in developing countries, for their small and low-income markets, for their scarcity of physical and human capital and for their desire for the wide spread of the benefits of development. The educational, psychological and institutional arguments against a move towards world free trade, for

5. W. Arthur Lewis *Aspects of Tropical Trade* Wicksell Lectures 1969, Stockholm, pp. 42-43.

capital flows and general openness point to the need to protect all activities from the eroding influences of the advanced world economy and more important, they point to the need for constructive indigenous efforts, which, of course, do not result automatically from looking towards like-minded countries, but which may be hampered by an *excessively* outward-looking strategy and by emulation of the style of the rich.

Something like this also underlies the distinction between self-reliance and dependence, between autonomy and domination. Countries and groups of countries that generate their own technological capability, their own social institutions and organizations (not only in technology and industry but also in land tenure and rural institutions) will be able to mobilize their efforts more effectively than those that always look at how they order these things in the metropolis.

There are alternative styles of development, and one type of society may prefer to develop by adapting technologies and products from abroad, while another will find its identity by raising a curtain round its frontiers or round the frontiers of a group of like-minded countries with similar factor availabilities and similar income levels. A judicious selection of features of an outward and inward-looking strategy is likely to give the best results, e.g. drawing on foreign research and developing indigenous research or drawing on and adapting foreign technology and products. The lessons of industrializing Germany, France, Japan and Soviet Russia, which used and adapted foreign ways, blending new institutions with old traditions, are not directly applicable because international income gaps were narrower then and the dimensions of the demographic problem which determine the scale of the need for jobs, were quite different. Yet, as the Lewis quotation shows, even they did not look at the established markets of England but at new opportunities and the growing markets of the future. The main point is that there may be a choice of styles of development which can be understood only if we include institutional and educational variables in our scheme and transcend a narrowly defined static economic model.

Some authors prefer to put the contrast more starkly and simply in terms of planning *v. laissez-faire*. According to them, it is the need for stronger, more effective centralized planning, according to social priorities, and the search for independence from the vagaries

of the world market, that distinguishes the advocates of different trade policies.⁶ Others, while in sympathy with the planning approach, see the differences in the area of learning, education and institutions. A third group see them in the political power structure. Planning and controls in an inegalitarian society reinforce inequalities and encourage corruption; the use of prices in an egalitarian society will contribute to poverty eradication and equality.

The transnational corporation : its potential role in industrialization

The role of the transnational corporation in industrialization is of growing importance and policies have to be evolved that enable governments willing to admit it to harness its potential for the benefit of the development effort. It has been argued above that the basic objective of development (viz. meeting the needs of the hundreds of millions of poor) provides one rallying point round which many development issues can be grouped. The transnational corporation is not a goal but an instrument of achieving certain goals. It, too, provides a focus for a number of different issues.

(1) *Regional integration* : Two distinct sets of problems arise here. One is an anxiety shared by many countries. When several developing countries form a customs union, a free trade area or a closer region of co-operation, new profit opportunities arise for the already operating and for newly entering foreign companies. Policies have to be devised to ensure a fair sharing of these profits between the union and the foreign companies.

A second set of problems concerns the sharing of the gains from integration between different members of the union. The creation of a new form of international company, the shares of which are held by the member countries of the union, might be one way of solving this problem, though it has so far not been successful. The proposal would be for the company to combine low-cost, efficient, location and operation with sharing of the gains between member countries.

Alternatively, there can be agreement on other forms of compensation, such as agreeing to pay higher prices for the exports of the less industrialized member countries, or to permit their citizens to migrate within the region or to locate universities and research institutes in the less developed partner countries.

6. Ignacy Sachs, ch. 3 in *Trade Strategies for Development*, ed. by Paul Streeten, Macmillan, 1973.

(2) *Environment*: In the new international division of labour which would be guided by differential pollution costs in different countries 'dirty' processes in developing countries could be one of the functions of the transnational corporation. This could be done either by the firm locating 'dirty' processes within its vertically integrated system of operations in a developing country where the social costs of pollution would be lower and the benefits from industrialization higher, or by transferring the whole operation to such a country. The argument would be analogous to that of locating unskilled- or semi-skilled-labour-intensive processes and products in developing countries. One important point to be investigated here is whether the transnational corporation cannot be used as a pressure group to ensure access for the products to the markets of the developed countries.

(3) *Technology*: The objective to be aimed at here would be to devote more R & D expenditure to the invention and dissemination of appropriate technologies and products, where appropriate to the developing host countries or, where not, to be exported to or produced in the developing countries. The specific potential but as yet unrealized contribution of the transnational corporation to transferring and adapting existing technology and to inventing new and appropriate technology may be substantial. It would raise the problem of the ability of the developing countries to absorb existing or new technologies and of the contribution that the transnational corporation can make, preferably through joint ventures, to training people, encouraging research and fostering attitudes favourable to such absorption.

(4) *Bargaining*: As the transnational corporation has become one of the main vehicles of transferring technology from developed to developing countries, an important aspect of policy is the terms on which the technology is transferred. In settling the bargain and in drawing up the contract, a large number of items may be for negotiation. Some of these may refer to incentives such as protecting the market for the product or improving the quality of inputs (public utilities, a disciplined labour force); others may lay down conditions for sharing the benefits with the host country, such as tax provisions, the use of local materials, local participation in management, training workers, creating jobs, raising exports, etc., others again will relate to policies such as conditions about repatriation of capital and profits, about raising local capital, etc.

Hitherto, multilateral technical assistance in negotiations of this type, and in training negotiators, has been on a very small scale. International organizations could render vital technical assistance in strengthening the bargaining power of LDCs in negotiating such contracts and contribute to an informed dialogue between managers of companies and public officials through training courses, in an area at present obscured by emotional and ideological fumes. What is needed is both direct technical assistance in drawing up contracts possibly with the aid of model contracts, and indirect aid through training and the provision of information.

(5) *Institutions* : Another important area of policy is the imaginative exploration of new legal and business institutions which combine the considerable merits of the transnational corporation with the maximum beneficial impact on development. This area comprises joint ventures, i.e., joint both between private and public capital and between domestic and foreign capital, which go further than window dressing by giving access to information and decision making, and various provisions for investment and gradual, agreed transfer of ownership and management from foreigners to the host country. Thus, countries wishing to curb the power of large groups in their manufacturing sector may find investment reduced. This may make it advisable to institute a 'joint sector' in which public is combined with private national management with or without an equity stake, or public capital is combined with private international capital. Another possibility would be a management contract with a national or international investor.

Thought and action in this area have suffered from a poverty of the institutional imagination which has lagged behind the advance of the scientific and technological imagination. Discussion have turned partly on the ideological dispute between private and public enterprise. Yet, the real issues have little to do with this type of ideology. Mixed companies can be devised that simultaneously harness private energy and initiative, yet are accountable to the public and carry out a social mandate. Equally arid has been the dispute over the virtues and vices of private foreign investment. Here again, the task should be to identify the positive contributions of foreign firms and the social costs; to see how the former can be maximized or the latter minimized, and to provide for gradual, agreed transfer to national or regional ownership and management. There is a need for a legal and institutional framework in which the

social objectives that are not part of the firm's objectives can be achieved, while giving the firm an opportunity to contribute efficient management and technology.

Costs and benefits of alternative policies of industrialization

Since the last World War, many developing countries have attempted to promote their manufactures by a large number of direct interventions such as physical controls, licenses, etc. These were accompanied by a host of other incentives and deterrents, such as multiple exchange rates, import entitlements, export bonus vouchers, subsidies in various forms and to various inputs. In some cases, there have been periodic reversions to a more simplified and uniform policy, often under pressure from the IBRD and the IMF, and the government of the USA. The theoretical pros and cons of both approaches are by now well known. At the same time, quantitative estimates of their practical significance are scarce, unsystematic and usually out of date.

More specifically, it would be useful to investigate comparisons between high levels of intervention and the incidence of declines in efficiency, not only in a narrowly allocative sense, but also through blunting of incentives and through divergences between social and private productivity; between the pursuit of static comparative advantage and the mobilization and generation of new resources; between the costs of and returns to a sizeable bureaucratic control of industry; and between unified and multiple exchange rates. Such comparisons might be made in the light of certain social and economic objectives over time.

The debate is sometimes confused by an identification of the interventionist approach with protectionism, and of the 'market' approach with free trade. These distinctions, in turn, are occasionally confused with that between 'inward-looking' and 'outward-looking' policies. The issue here is *not* the well rehearsed dispute between protectionists and free traders, nor the less well-understood one between those who advocate looking inwards and looking outwards. It is an issue about *instruments*, and it compares the effects of a battery of direct controls and interventions with operation through prices and the market. Export-orientation and looking outwards can be and have been pursued through interventions and directives, just as import-substitution and looking inwards have been. An objective, quantitative appraisal would contribute

to taking some of the ideological wind out of the sails of the better-known disputes between 'freedom and planning' and similar choices presented to developing countries.

Technology and entrepreneurship

Technologies both determine and are determined by the objectives of development strategy : growth, distribution, savings, employment. Capital-intensive, labour-saving methods will generate large profits and high salaries and wages for a small labour aristocracy. Unless ownership of capital assets is widely shared or is public, these incomes will accrue to a small group of owners of physical assets and people with the required skills and access to education. Their consumption—often influenced by advertising, open communications and foreign-exchange-using luxury goods, the production of which again reinforces the unequal income distribution. It is often maintained, though not enough hard evidence has as yet been produced, that a more equal income distribution would give rise to a consumption pattern that is more capital-saving and labour-using. More capital-saving, labour-intensive techniques may distribute a large *share* of income to the wages of the unskilled and semi-skilled and are likely to lead to a different consumption pattern. But the casual nexus in either direction is not yet established with any certainty.

These connections between choice of industrial technology, both in core processes and in ancillary activities, choice of industrial products, income distribution, wealth distribution, access to education and training, and consumption patterns are vital for policy decisions

Inward-looking policies of import substitution have been blamed for distorting the price and incentive system and these distortions have been said to cause growing inequalities. At the same time, it has been argued that reliance on the price mechanism and outward-looking, freer trade policies also increase inequalities, though these have a different cause and take on a different form. Is it true that both inward-looking and outward-looking industrialization and trade policies increase inequalities? Are there forces inherent in rapid industrial growth that make for greater

inequality? If so, institutional, structural and technological changes are required to distribute the fruits of growth more evenly.

It is in the nature of modern technology that it reduces the scarcity value and hence the rewards of unskilled labour and traditional know-how, while modern medical science, by reducing mortality rates, increases the supply of unskilled labour. An important question arises here about strategies that proceed on 'both legs,' by simultaneously promoting the modern, capital-intensive, high technology sector and the non-organized, self-employed, "informal" unskilled-labour-intensive sector. Can rapid, modern industrialization proceed in a manner so as not to destroy but encourage the non-organized, low-income, low-productivity sector? Can the surplus from modern industry be used to create jobs, to raise productivity and to generate incomes in that part of the economy that has not yet been absorbed in it?

Income distribution and employment are only two aspects of a whole cluster of social objectives. Different forms of industrial organization are accompanied by different degrees of workers' participation and different power structures.

The test of a successful self-reliant strategy of industrialization is the extent to which it reduces the gap between the high incomes in the high-productivity, high-technology sector and the low incomes in the low-productivity, low-technology sector, by raising the performance of the latter, without impeding progress in the former.

GROWTH STRATEGIES AND POLICIES : PAKISTAN EXPERIENCE**

*Dr. Moin uddin Baqal**

Pakistan's development experience, covering a period of three decades has been characterised by sharp changes in development strategy. Articulations of strategy arising from political perceptions have been quite strong. In some respects, the changes of policy appear to represent sharp reversals. These periods can be easily distinguished. An attempt has been made in this paper to analyse the distinguishing features of processed strategy in each period and to measure the performance of the economy during the period in terms of the stated objectives. A broader view of the period, however, indicates certain common underlying features. First, it appears that the development policy has consistently been focussing on traditional growth criteria and concern with G.N.P. growth remained important for policy-makers, despite changes in other aspects. Secondly, distributional aspects of development were at no stage fully integrated into a comprehensive development strategy together with a package of basic reform in the power structure in the power structure in the rural and urban areas. Thirdly, it appears that while growth performance of Pakistan's economy has, on average, been better than in the South Asia Region as a whole. it was at no stage a high growth performer like South Korea and other countries in East Asia Region. Its higher growth performance in the Region was counter-balanced at least partly by high and continually accelerating rate of increase in population. At the same time, the available evidence shows that the indices of personal income distribution did not at least worsen over the period.

2. This gives the picture of a country continually emphasizing growth with relatively less emphasis on distributional aspects in

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practical policy. At the same time, it shows a medium growth performance with reasonable balance maintained in personal income distribution. This seemingly contradictory phenomenon is related to the basic elements characterising national attitude towards economic problems.

I

3. Pakistan's early attempts at initiating a development strategy reflect a passionate desire to speed up the process of industrialization. There was a very strong realisation among the economic policy-makers at the beginning of the nation's life as an independent entity that the country had virtually no industrial base. The geographical boundaries of the new states in the South Asia sub-continent were so drawn that the sources of raw materials remained in India. Also there was a strong feeling generated by the pre-partition debate around the concept of Pakistan that the economic foundations of the new State would be weak, that the Muslims were not likely to prove able and enterprising entrepreneurs and that the country would have to make an extra effort to overcome such handicaps. The writings on the economic consequences of the division of India by C. N. Vakil and others emphasized these elements. This was the basic information and analysis about the country determining policy options. The hurried departure of Non-Muslims, active in the field of business and commerce, created a vacuum and underlied the urgency of Pakistan filling the void by encouraging its own entrepreneurial class.

4. These factors explain, at least partially, the political acceptability of support measures, concessions and incentives for the private sector in Pakistan, on a scale which could not be easily tolerated in any other country. With hindsight, it appears surprising that those who produced the famous Liaquat Budget in the final year of British India could tolerate such concessions for the private sector. The policy-makers were politically responsive and showed great concern for social justice and equity. But their concern for developing a sound economy weighed much more.

5. The economic strategy which started shaping up during the early fifties was not fully articulated until much later. Its major elements were an excessive emphasis on industrialization (which, of course, coincided with the current fad in economic development

literature, apart from arising from Pakistan's own peculiar background), reliance on private sector for playing major role in industrial progress and setting up a system of incentives which would ensure that a private industrial sector emerges to take up the desired role.¹

6. It is doubtful whether the most powerful instrument for implementing this strategy viz an over-valued exchange rate, was adopted after a proper analysis of all aspects of its impact. The devaluation of pound sterling in 1949 came very early in the life of the new nation requiring a major economic decision for which no advance thinking had developed. According to certain statements, the decision not to devalue Pakistan rupee with the sterling (which in effect amounted to an upvaluation in relation to major trading partners) was in the nature of a holding operation. It was argued while a non-devaluation decision could be reversed, a devaluation decision was irreversible. However, Indian political action in refusing to trade with Pakistan on the basis of new exchange rate parity with Indian rupee, created pressures within the country to hold the value of the currency on the same plane as the honour and integrity of the nation. There are virtually no precedents for Indian action against Pakistan's no-devaluation decision. It appears that Indians also felt politically slighted by Pakistan's decision on the value of the currency. This attitude towards the external value of the currency has survived even in later years in the sub-continent, supported by a proclivity to support over valued exchange rates with severe controls on exchange to transactions and imports.

7. The over-valued exchange rate (which persisted despite the decision to devalue in July 1955, as inflation had in the meantime created a wider difference between official and equilibrium exchange rate), became the main instrument for the transfer of resources largely from agriculture, but also from urban fixed income consumers to both the newly-emerging industrial sector and the public sector using foreign exchange for infra-structure development and defence.

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1. To the extent, private sector failed to emerge in East Pakistan. Pakistan Industrial Development Corporation was set up to take up industrialization with the objective of transferring projects to private sector whenever it was ready to buy.

8. Other elements of the strategy were a regime of exchange and import control, compulsory procurement of foodgrains at prices below the market level to maintain relatively stable food prices in urban areas with rationing, tax holdings for direct taxes, low level of direct taxation on agriculture and heavy indirect taxation.

9. It is generally argued that the system worked in the sixties, but did not produce results in the fifties. In fact, it would be more pertinent to argue that the system functioned quite effectively to produce rapid industrialization, for which it was designed. It was, however, based on seeking a blind transfer of resources from agriculture. It, therefore, produced adverse results for agriculture, which held back overall growth. Industrial growth was quite spectacular during the period.

10. In the sixties, it was possible to finance continued industrial expansion with the help of rapidly rising inflow of foreign assistance. This enabled the strategy to be modified so as to protect agriculture also against adverse terms of trade. Agricultural support prices were improved and supply of subsidized inputs commenced. The improvement in agricultural production, particularly in West Pakistan was remarkable. Combined with the continued rapid advance in industry, the period recorded high growth rates averaging close to 7 percent per annum in West Pakistan and around 5 percent in Pakistan.

11. Apart from the problem of agriculture-industrial terms of trade, the strategy of forceful market incentives for industrialization produced a marked regional problem in the context of the peculiar geographical situation of the country. As the transfer was taking place in the fifties from agriculture, East Pakistan suffered more because of its larger dependence on agriculture.² Private sector industrial investment was much more in West Pakistan. As private industrial sector gained, the problem of regional transfer of resources emerged as a major issue. In the sixties, the situation was corrected significantly by increasing public investment in East Pakistan to a significantly higher level than domestic savings in the region.

2. It is interesting phenomenon that while major adverse impact of exchange rate policy was on East Pakistan, the Cabinet Ministers from East Pakistan were its main supporters, with West Pakistan Ministers opposing it.

12. Apart from creating sectoral and regional imbalances, which were partly neutralized by increasing reliance on foreign assistance, the strategy of development followed during the period ran into difficulties on the basis of its own logical contradictions. While in the fifties, this strategy was mainly relying on taxation of domestic consumers (notable example being completely sheltered market for cotton textiles), it had later to provide incentives for export promotion. These were devised through an Export Bonus Scheme, which in effect required growing consumption of high cost luxury items to provide a base for supporting industrial exports. Increase in conspicuous consumption thus became an important element of the strategy, reducing domestic savings.

13. In the external sector this was reflected in the rapid growth of bonus voucher exports with stagnation or decline in export at the official exchange rate, resulting from differential incentive levels. By 1970, the cash foreign exchange available with the Government after deducting the allocation against bonus vouchers was not adequate to meet even the minimum commitment for official purchases and servicing.

14. Foreign assistance in net terms had moved from a rising to a declining part of the curve. The debt servicing problem was catching on, with stagnant levels of new commitments. The cushion provided by foreign assistance flows to resolve regional and sectoral conflicts in the allocation of resources was no longer available.

15. Private sector had virtually exhausted the possibilities of exploiting sheltered domestic market. As the incentives were maintained, new capacity was created, with limited possibilities for utilizing the capacity fully. Private sector had never been under pressure to be efficient and competitive. It was, therefore, found that even with the support of Bonus Voucher Scheme, it could enter the export market only in a few areas. There was a large increase in unutilized capacity.

16. The strategy of development followed during the period starting from fifties and extending upto late sixties had thus run into a variety of problems. There were economic contradictions within the strategy as industrial capacity creation failed to be reflected in corresponding increases in production. Foreign aid as a pillar of this strategy proved a shifty foundation. Within the

country, the transfer mechanism resulted in a strong political reaction from the affected sectors and regions. The tensions, which were covered up by rising inflow of foreign resources, erupted again in a violent fashion.

17. There was a great deal of misplaced optimism about the success of the strategy which we may call "Pure Growth Strategy" following current usage of terms. The apparent success had received international attention, particularly in sharp contrast to the performance in India during the period when India was following a strategy to foster public sector growth of basic industries. The admiration for Pakistan model, partly represented an over-simplified view, though there were perceptive critics whose analysis of the damage being caused by bonus voucher scheme, over-protection and low savings should have provided sufficient warning regarding the possibility of a frustrated take-off. However, the development community in the world was in search of success stories and Pakistan appeared a good candidate. But there were elements of basic significance in the strategy which may have to be regarded as essential for any successful development strategy. The emphasis on economic growth, particularly in the more balanced form between agriculture and industry in the sixties could not be regarded as unwarranted in the situation of Pakistan.

18. The succeeding chorus of condemnation of the development strategy followed during the fifties and sixties was as over-simplified as the earlier admiration for it. Subsequent analysis has brought out evidence that during the sixties when agricultural growth started taking place at a higher rate than the population increase, distributicnal improvements accompanied economic growth. The traditionally accepted view of a trade-off between growth and income distribution was not borne out by Pakistan's experience. It may be interesting to revalue the experience of the sixties more objectively in view of the evidence that growth rates were high and that some improvement in personal income distribution was taking place and that East Pakistan had also started registering per capita income growth in the sixties together with an acceleration of development programme at a higher rate than in West Pakistan.

19. It is also of interest to note that strategies, resembling that of Pakistan's model of sixties have been followed in a number of other countries with remarkable success in the seventies. Pure

Growth approach has yielded results in a number of East Asian countries. South Korea is perhaps the most relevant example because of the size, resource endowment, and the level of economic development from where it commenced a major sustained drive, for industrialization and higher share in world trade.

20. The main difference in the latter-day versions of Pure Growth Strategy and Pakistan model of the sixties lies in the use of market forces and the basic parameters of the market structure. Pakistan started with a distorted market and used the distorted price system to provide a mechanism for subsidizing the industrial entrepreneurs (both of the public and private sectors). Public sector enterprises generally covered their inefficiency under the system of protection and subsidy. Private sector earned large profits, initially used for re-investment, later diverted increasingly to conspicuous consumption. Pakistan used low interest rates, over-valued exchange rate and an ineffective tax system to distort the market completely before allowing the use of the entrepreneurs. Other countries have used the market to create pressures for efficiency. Exchange rates are in realistic range and interest rates are high enough not to allow great variation between actual and shadow interest rates. Taxation systems are not effective in all cases, but tend to be more effective in most successful cases.

21. Secondly, presently middle income developing countries have used market-based loans through commercial channels much more than the official development assistance. They did receive large foreign assistance, which for a number of years was a high proportion of G.N.P., but quickly moved to market-related borrowing. Market borrowing has a greater degree of emphasis built on the commercial viability of projects than aid financing. It is also free from fluctuations in volume due to political attitude of suppliers.

22. Thirdly, these countries have tended to emphasize export expansion much more than import substitution. Exchange and import controls are relatively liberal and foreign investment and technical cooperation with Trans-national Corporations is encouraged. Pakistan's policy was completely the reverse in all these aspects.

23. Fourthly, in all the countries recording rapid growth, the standard of social services and their coverage of population had

been high. This remained almost completely neglected in Pakistan. A deeper analysis of the development strategy followed in the fifties and sixties and a closer examination of the reasons for its apparent failure is necessary, because the alternative approaches adopted during the early and mid-seventies did not produce highly favourable results. In effect there has been an attempt in the late seventies to revive certain elements of the earlier strategy by using the private sector again as an engine of growth.

24. The perception of the distributional aspects, on which major attack concentrated against the experience of the sixties, mainly related to concentration of ownership. Not much by way of analytical studies was available concerning the pattern and the direction of change in inter-personal distribution of income. Concentration of ownership was the visible tangible evidence which served as proxy for income distribution. Thus in terms of policy prescription, the more difficult issues regarding productivity of small farmers, their access to inputs and credit, employment policy and control of luxury consumption by a sizable affluent class were relegated to a secondary position. Nationalization of industrial assets and financial institutions became a major objective, to reduce the element of concentration of ownership.

II

25. It is difficult to describe the development policies pursued during the seventies within a comprehensive and consistent strategy. There were a number of shifts which apparently contradicted earlier statements of policy. However, even at the risk of finding part of the evidence which may not fit an overall description, an attempt can be made to describe the main elements of the new strategy.

26. Firstly, and most obviously it was the policy during the period to enlarge the size of the public sector and to cut down the size of the private sector. The private Sector lost a major part of industrial assets in former East Pakistan. The Government made no attempt to help them or register their claims. It is rare for a country not to help their private sector under such circumstances. Nationalization of 32 large units in 10 major industries was carried out, initially without compensation. Later compensation principle continued to be in dispute without a judicial or quasi-judicial process for ensuring any degree of objectivity.

27. Nationalization appeared to continue under an undisclosed plan, so that predictability of Government action could not be a basis for private sector investment decisions.

28. There was no economic planning framework within which private sector could perceive its role. With the powerful role in the economy that the public sector enjoys in Pakistan, this was an important deterrent.

29. The basic decision taken by the Government in May 1972 to devalue Pak rupee and to abolish multiple exchange system had removed the main plank on which the investment incentive system was based. With the over-valuation of exchange rate removed completely, profitability of new ventures had to be established on competitive efficiency at world prices. The subsidy involved in exchange rate was no longer available. Size of domestic market was reduced after separation of Bangladesh. Investment, therefore, had to be diverted to export industries. This, together with the new world prices for machinery, favoured medium and small investment in industries like carpets and leather. Full information regarding the magnitude of investment in small scale industry is only now being compiled. The rapid growth in output of this sector (at an average rate of 7 percent per annum) and growing exports of manufacture from relatively small industry indicate that investment in small scale industry was significant.

30. Public sector presence in the economy increased through nationalization of large industrial units, banking, insurance, shipping, oil distribution and later through nationalization of small scale agrarian industries. An equally important factor was an acceleration of investment in setting up fresh industrial units in the public sector. This was justified partly on the nature of new industries which generally fell in the category of heavy basic industries and partly on the grounds of non-participation by the private sector.

31. It thus appears that the general picture in industrial policy involved an emphasis on import substitution in heavy basic industries through public sector investment with private sector confined to small and medium industries where expert prospects appeared attractive. There was considerable ambiguity regarding the large industrial sector lying between these two. There were

pronouncements seeking private investment, not backed by policies which would attract private investment in these areas.

32. The Government was concerned and worried over low growth in the economy. This was explained on the basis of natural calamities. However, government also attempted to win back the private sector for accelerating economic Growth. Revival of the economy was expressed as an objective of policy. But the internal contradictions of policy restrained the success of such policies.

33. Agriculture received emphasis in terms of attempts at seeking to improve the terms of trade in favour of agricultural sector. This was the logical step following from the devaluation of 1972. However, the Government was torn apart because of its conflicting commitments towards its rural support base and the urban constituency related to organised trade unions and other fixed income groups. Every attempts at raising agricultural prices was accompanied by raising wages, which in due course at least neutralised gains for agricultural sector through inflation. To be fair, it has to be appreciated that the task was rendered extremely difficult by worsening terms of trade for the country as a whole. Within that context, seeking to improve sectoral terms of trade for agriculture posed serious problems.

34. The problem was compounded by overall economic stagnation caused by institutional bottlenecks. While the Government was moving ahead with an enlargement of the public sector, it did not follow the logical step seeking to construct either a strong administrative capability for managing the expanded public sector role efficiently or a combination of this with trained and disciplined party cadre. There were in fact, strong measure which tended to reduce the effectiveness, efficiency and morale of those in charge of implementing Government policies in relation to the extended role for the public sector. This contradiction continued to grow over the period causing problems in the management of nationalized units as also in the implementation of new projects within a pre-determined time schedule.

35. The weakening of the institutions was even more important in agriculture. Progress during the sixties along the path of 'Green Revolution' had increased the dependence of agriculture on Governmental institutions. Growth of private institutions which

had begun in late sixties was frustrated by the nationalization of fertilizer distribution in early seventies. Governmental institutions dealing with agriculture were particularly weakened by factors affecting general administration, because the field staff is often among the lowest paid. Inflationary pressures and reduced supervisory control rendered them greatly liable to both inefficiency and corruption.

36. The relatively larger landlord was able to use his influence to get services and inputs and was thus able to take advantage of better prices by maintaining his output. The income distribution within agriculture, in all probably worsened as marketable surplus and size of cash crops declined. Surpluses were available only with larger farmers who thus benefited from improved farm prices.

37. Distribution, it appears from the data collected and analytical studies made so far, deteriorated in stead of improving with the modification of pure growth strategy by injection of socially-oriented nationalization.

38. Inflation emerged as the major factor determining income distribution. The public sector was increasingly committed to financing large public sector programme arising from initiated projects. With the limited managing capability in the public sector there were negligible savings being generated by about 20 to 30 percent of industrial assets now owned by the public sector. Private sector had potential savings which could not be invested in productive enterprises and were drained into consumption or trading. Inflation became the mechanism for a forced transfer of private savings to finance public sector enterprises. Initially increased assistance from *OPEC* countries shielded the budget from pressures becoming unmanageable. As *OPEC* countries moved to more normal pattern of slow-moving project assistance, this cushion was no longer available

39. Growth of public services which could help establish a more favourable social policy were naturally affected by resource constraint, as also by the absence of elected and functioning local bodies. Nationalization of privately run educational institutions and increases in pay-scales of teachers could probably be expected to improve the standard of education. But these were added stumbling blocks on the road to progress towards extending the

coverage of services to entire population. Public resources were pre-empted in replacing private effort, rather than increasing the coverage of services. Same was the result of abolition of fees charged from students, through the fees were never really more than nominal

40. It thus appears that nationalization policy alone was used as a major element in a development strategy of which primary object was professedly a balance between social justice and growth. Its impact was probably favourable in the degree of concentration of economic power, but it did not make a major impact on income distribution in urban areas. There is some evidence that an improvement took place in real wages of organized labour. On the other hand, real wages in the government employment (which is still a significantly larger employer than the private sector) probably declined during this period, if the Guisinger-Hicks analysis is extended beyond 1975. Informal sector real wages were reported declining upto 1975 due to agricultural stagnation. These may have improved since then as the pressure of large scale migration to Middle East firmed up the labour market.

41. The evidence on income distribution is tentative and somewhat outdated. But it generally supports the view that no significant improvement in income distribution was taking place, even if deterioration in the distribution pattern is not fully established. It appears though that an independent development through large scale migration of labour force was providing large supplement income to relatively poorer families, so that consumption disparities and those of economic status were reduced, while income distribution based on G.D.P. was not affected. Probably, the failure in the area of coverage of population by public services is even a more important element in the overall picture.

III

42. More recently, an attempt has been made to modify the strategy through the Fifth Five Year Plan. There were earlier attempt by the Planning Commission to coordinate the investment programme initiated by the People's Party Government in the public sector into a proper plan framework. This always required the plan draft to specify some statement on missing elements of policies relating to the private sector and social services and to work out the

financing of the overall cost of the Plan. The draft plans thus posed awkward questions, though the planners were careful not to pose them very sharply. The drafts were not adopted as officially approved plan until the final year of the Government.

43. The Martial Law Government came to the conclusion after September 1977 that it would require a plan to bring discipline and focus to the investment programme as a starting point for its endeavours to stabilize the economy. It was quite specific on two crucial points. Firstly, it clearly adopted the view that the private sector should be given a more positive role in the Plan in order to reduce the unmanageable burden for the public sector in terms of both financial and managerial resources. Secondly, its directive was to emphasize rural and agricultural development and have a programme for providing a comprehensive coverage of social services for the rural population.

44. The elements of a modified strategy was thus available. However, it was difficult to visualize at this stage the extent to which the economy was already committed to continued of implementing the strategy implicit in the ongoing programme. There was no decision to go back on these commitments. In fact the central piece in the programme was the Karachi Steel Mill. A large part of the programme in transport, ports and shipping, power and urban water supply was related to this central project. There was broad agreement that Pakistan had to move towards steel production and steel based industries in the next stage of industrialization. A move along this path would necessarily involve a strain on resources during the period a major project of this nature is constructed. Timing could have been considered more flexibly, if the project was not already under way. However, there was no question of taking a decision to sink the large investment already made on the project, only to relieve the immediate pressure on resources.

45. The Fifth Five Year Plan thus came out with a two-part plan. The first part relates to the completion of the projects under way with the strict policy of not starting new projects in the public sector. Thus it has sought to phase out the role of the public sector in industry by the end of the Plan period. On the other hand, it

makes modest beginnings in the early period in the social sectors to build up the programme by the end of the Plan period. Private sector is also to be re-inducted in investment during the first part to build up its programme by the end of plan period. The Plan thus begins virtually with implementing old projects and ends with a new strategy. It could thus be called a transitional plan.

46. This sounds reasonable. However, the Plan faced enormous problems of financing this tremendous feat. The old programme itself was more than could be afforded by the country with its resources reduced by a prolonged period of virtually no growth in per capita incomes. The practical limits of adding the phasing in of Basic Needs strategy were lower than required for meaningful targets of accomplishment within the Plan. The plan sought to overcome this dilemma by proposing a major resource mobilization effort within the country and a debt rescheduling operation abroad. These were bold assumptions, but provided the only way out of an extremely tight situation. The plan left the room open for curtailment of the size of the Plan, if the mobilization effort of the required size could not be mounted. In effect, the plan only revealed how serious the disparity between resources and development commitments had already become. It underscored the magnitude of the problem facing the country which required a joint massive efforts by the nation as well as international community.

47. The international community took the view that the Plan was ambitious and should be curtailed. Commitments on past projects need not be treated as irrevocable. They sought a larger beginning on Basic Needs Approach while reducing the net aid inflow to Pakistan. The opposition to the ongoing programme and high growth rates forecast in the plan are not unrelated to the political dispute regarding Pakistan's nuclear programme. Lower growth rates reduce the urgency of developing nuclear energy.

48. Aid commitments have been reduced in recent years while action on debt relief question has been deferred. The resumption of full debt relief agreement has raised current commitment of resources for debt servicing to a level where net aid inflow (corrected for the over-pricing of committed aid) is relatively small.

49. The Government of Pakistan made a bold effort in the Budget for 1979-80 to raise additional resources amounting to 25 percent of the base level in one year. This understandably raised political reaction and some concessions had to be made. It appeared that politically tolerable limits of raising additional resources were reached. However, even with this effort the Government would only be off-setting the decline in net aid inflow and reducing a part of the budget deficit. It may not be possible to raise resources to the level required to implement the transitional strategy of the Plan. The social sectors would inevitably receive the cut. Even ongoing projects of high priority would be delayed and inflationary pressure would persist. Pressures for such a scenario would be strengthened by the recent steep increase in energy prices.

IV

50. The immediate problems are difficult and pressing. However, in terms of longer-term strategy, certain elements have to be kept in view. It may be desirable to take this longer-term perspective in view, while seeking solution of immediate problems.

51. Firstly, Pakistan's past experience, and the longer-term perspective require a high-growth strategy. It need not be pure growth. But it can be seen that high growth would be essential. Stagnation in the recent past has enhanced the urgency of a new breakthrough. No meaningful solution of Pakistan's economic difficulties is possible without sufficiently high growth. In an earlier paper, the present writer made projections upto the year 2000. Any social policy to be financed with the target of universal coverage by the end of this century would require an average growth rate in the neighbourhood of 7 per cent. This is also the rate derived from employment targets and improvement of average productivity necessary for a meaningful approach against poverty.

52. Secondly, the high growth targets are feasible and desirable with a proper emphasis on agriculture. An Average growth rate in agriculture of 5 per cent is right now regarded unrealistically high. But with proper institutional strengthening in agriculture, the resource endowment of Pakistan is quite capable of achieving it. It is thus necessary that Pakistan should use best of its skills and talent in bringing about institutional progress in agriculture. As the physical part of the programme moves, it would not be difficult to support it with financial resources.

53. Thirdly, it is absolutely essential to bring down the rate of population increase to less than 2 per cent by 1990. Pakistan's main advantage in South Asian context was a favourable demographic picture. This is being rapidly eroded with considerable damage to the ecological balance of Indus System. No long-term strategy is feasible without a firm population policy.

54. Fourthly, and specially related to long-term population policy, is the urgency to extend coverage of social services. The present situation is deplorable and probably constitutes the most important impediment to long-term sustained high development.

55. Fifthly, Pakistan has to resolve the dilemma in relation to private sector. Public sector has shown its limitations in managing a large role in directly productive activities. Private sector has shown its unwillingness to participate actively in the economic life without subsidies and incentives which the nation cannot afford. It would be crucial for the success of any long-term strategy if either a socially responsible private sector is developed operating on the basis of unrigged market or a much more efficient cadre of business-oriented public administration is evolved.

NEW METAPHORS, MYTHS AND VALUES FOR STEADY STATE FUTURE*

Robert L. Chianese

ABSTRACT

This paper offers a provocative remedy on the cultural level for the stubborn resistance to steady state values and for the popular fear that human nature will languish in societies that curtail growth. It attempts to smooth the actual transition to a sustainable society by proposing the establishment of a network of cultural centers to change popular perceptions about steady state realities through a revision of the myths, metaphors and assumptions that celebrate growth.

These centers would give talented people the means to promote values compatible with a sustainable society, by creating and sponsoring art, entertainment, education and sports for mass audiences, modeled on and devoted to co-operative coexistence. Current cultural myths that make growth synonymous with exploitation and that define the human enterprise as a heroic quest for personal gain would be modified or replaced by versions based on a mythology appropriate to a state future.

The centers would operate as commercial ventures in the midst of an existing growth-dependent society, turning the mass media resources of that culture against its own most destructive tendencies.

I

Our visions of the future reveal our dreams, fears and realistic expectations about the place and time we hope to live out our destiny as creatures. The longing for a better future, usually with vast material and social improvements, informs the heart of Western thinking from Plato and Thomas More to B.F. Skinner and Buckminster Fuller. The whole history of our thought looks far backwards in time and deep into human nature to discover essential contours of our being that would enable us to design a future compatible with our

*Submitted to the 1979 Mitchell Prize international competition and selected to receive a \$5,000 award, at Wood Lands conference, 1979.

best and most characteristic qualities. This quest is utopian, scientific and religious and it marks a long commitment to material and spiritual values which shape and color our images of the future.

Signs of the powerful influence of these values on our notions of the future, though hidden, can be found everywhere, for values pervade language, thought and action in gross and subtle ways. Current visions of the future in popular films, for example, reveal familiar assumptions. Luke fights Darth Vader in *Star Wars*, and Apollo fights the Cylons in *Battlestar Galactica*: here, human wit, intuition and individual bravery combat villainous arch-antagonists who are soul-less machines programmed for destruction. This apocalyptic battle pits the artful intelligence of freedom-loving humans against the limited responses of beasts and automatons and reaches far back into pre-history to reveal Ulysses, Beowulf and Arthur as the ancient forebearers of Luke, Apollo, Flash, Buck and their kin. The depiction of the future itself in these films, however, is more revealing than the dialogue or action, for it looks incredibly man-made. Space operas feature totally fabricated worlds and giant vessels, where computers, power sources, battlements and other technical hardware constitute the living environment. Indeed; humans in the future live by means of vast and isolated machine microcosms even as they do battle with mechanical demons.

Perhaps such a vision points to current ambivalence about technology and anxiety over our loss of freedom in depending on it. Kubrick's *2001* makes this theme its subject, and, like the other films, defines the future in a by-now familiar way: first, that the future unfolds up and out among the planets and stars through man-made technological advances. second, that the unspoiled Earth is either a distant memory or a feature dream; and future that our old deeprooted problems will continue to haunt us like unremitting ghosts, though we will become wizards of applied science. This view of the future epitomizes the principle and often unacknowledged assumptions of many scholars, writers, technicians, scientists, professional futurists and ordinary citizens: technical progress will proceed space, the Earth will recede in importance as a theater for the drama of humankind, and people will remain much the same particularly in maintaining current racial, sexual, economic, and class power structures as they continue to search for freedom and peace out in the stars.

These ideas about the future, which together from the outline of a shared, cultural myth, capable of many plots and stories, may be so popular because it seems such an inevitable step from our previous history, embodies so many of our values, and suggest tremendous continuity in the face of tremendous change. Presumably it is comforting to imagine the wielder of a photon weapon having trouble getting a date and reassuring to see women and blacks in less than command positions, still supporting white, male leaders. Nevertheless, this vision of the future derives its strength and appeal from an even more wide-spread assumption most people make about the future itself—namely, that it represents a “natural” growth and expansion of the present. This concept reveals the linear and materialistic bias of Western thought even as we attempt to define metaphysical abstractions such as space and time. In sum, we define the future as more, later! Almost every chart and graph in the West moves from left to right, from less to more, from the past or present to the future. Time moves away and out for us, like a seed growing in the ground, ramifying into a splendid tree. Time bears fruit, is pregnant with importance, etc. These ideas coalesce into an nexus of assumptions that form a mythology of growth. This mythology, which pervades modern culture, gives growth, expansion and progress the status of world metaphors for success in life.

It is no great leap from this idea to believing that growth occurs best without restraints and that life itself is a struggle for unlimited expansion through individual competitions over territory and resources. In the West, Nature herself is believed to operate by the presumed law of exploitive self-preservation, and we hold that human life should be modelled on evidence we find in nature for an opportunistic and expansionist life-process. It is no wonder that screen battles in the future, where resources and space would presumably be inexhaustible, still take the form of imperial struggles for territory, material wealth and a way of life. Space itself, an abstract metaphor for infinitude, becomes the ultimate booty for victors whose motives are clearly colonial.

Even more sober and reasoned accounts of our “conquest” of space highlight the increased energy, mineral and food supplies that space factories or colonies could provide us in much the same language of the corporate executive projecting future business growth. Indeed, space in America has become a commercial enterprise, with scientists,

astronauts and lectures on the futurist circuit extolling the investment benefits and social virtues of the exploration and exploitation of space. J. Peter Vajk in *Doomsday Has Been Cancelled* presents an elaborate defense of space colonization of our quest for unlimited material prosperity, which he sees as the means to our growth as a species, including the development of a higher consciousness. In a chapter significantly entitled "The Endless Horizon," Vajk draws this portrait:

As the human population of the solar system grows, and as the total economy of the space communities expand and becomes more intricate and complex, small groups of people will have the opportunity to set out on their own, homesteading the asteroid belt or various orbits around other planets, to pursue whatever visions or lifestyles they may choose. In less than a hundred years human settlements will be found in most parts of the solar system, with no possibility of crowding—after all, more than just a little bit of space is available out there.¹

This scenario projects the myth of the frontier into the extraterrestrial dimension, where Vajk's homesteaders brook no restrictions on their freedom of choice. All limits or value conflicts are avoided through continued growth and expansion, and all hope for the future depends on having "more"; "If we are to have a humane and positive future; the production of food for human consumption must expand as the population increases" (p. 67). These good intention Vajk wants to achieve through "social reform," which do away with mismanagement and "inequities" in food distribution in backward nations. But to solve other problems, Vajk's space explorers will have to turn a profit and, with exclusive access to the bounty they discover there, they will be able to use their privileged vantage point in lofty space to exact a high price for it. Would they, once at home in their self-contained and efficiently designed colonies, want to rescue the messy and problematic Earth? The personality of the space-merchant—the competitive, materialistic, progress-oriented, business-adventurer—put grave qualifications on the conquest of space as a final solution to the energy, environmental and social problems that beset us. Finally, Vajk provides surprisingly few examples of how the

1. J. Peter Vajk, *Doomsday Has Been Cancelled* (Peace Press 1 Culver City, California; 1978), p. 166.

space program will actually solve present problems, for his real mission is offering positive counter-visions to the doomsday he finds in other writers on the future, particularly those advocating limitations to growth.

II

This sketch of the origins and pervasiveness of the mythology of growth is meant to suggest the extent of the difficulty confronting world leaders who are preparing the way now for viable steady-state societies in the future. People will resist "no growth" and "steady-state" as philosophies fit for a defeated race if the metaphoric equations between the future and natural expansion, between growth and unlimited competition are allowed to stand. In such a context, steady-state is seen as a stalemate against the human spirit.

This is more than an image problem for steady-state, though the term, with its unfortunate suggestions of a passive, austere and colorless standstill, needs to be replaced. If, for instance, we substitute the term "dynamic equilibrium" for "steady-state," we clarify and add attractiveness to the idea of limits. A dynamic equilibrium describes a condition of balanced change along defined limits; it adds action and motion to the concept of "steadiness" and characterizes the manner by which change proceeds as a harmonious balance of all moving parts within a self-contained system. (Calder's mobiles are sculptural dynamic equilibriums, whereas "steady-state" seems sculpturally analogous to a static monolith). The new term more accurately conveys the nature of a "no growth" society, which will change and continue to present risky challenges to the imagination and stamina of its inhabitants as they strive to maintain a balance.

Growth has other forms, besides unlimited material expansion; and freedom can be defined as the opportunity to cooperate and not compete. Natural growth can be shown to be dependent on strict law that regulate recycling ecosystems within the balance of the Earth, while unlimited expansion of a single part at the expense of the whole is one way of describing cancer. Inner growth, the expansion of mutual interdependencies and the development of the human character free of material definition are versions of growth that involve the quality and depth of our lives and not quantities and products. Such modified myths of growth are compatible with a

steady-state future and need to be asserted and shown as attractive alternatives to the destructive ones that dominate us now.

These two views of growth point to a clash of values that can blight the human prospect as surely as unsolved technological problems. This contest pits expansion, territoriality, competition and exploitation on one side against steady-state, shared resources, cooperation and interdependence on the other. This conflict points to a much larger issue than the solution of environmental problems, or population pressures or unequal distribution of goods. It reveals our current dilemma to be a crisis of our basically dual nature—selfish and altruistic, acquisitive and generous, hostile and gregarious, repressive and ecstatic, impulsive and thoughtful. It is as if after eight million years of evolutionary and cultural history, we must in the next fifty to one hundred years face the ultimate issue, ourselves: whether our capacity for rational cooperation in the art of living on Earth or even in space can win over our proclivity for competitive self-interest, which will destroy us. In sum, the problem is power, not energy, greed not energy, greed not resources, and solutions must fit the political and cultural nature of the problem at the persuasive level of values, myths and fundamental assumptions.

The project envisioned here addresses this need directly by founding steady-state cultural centers throughout the world to foster new habits and attitudes about cooperative coexistence in a world of limits. The centers would attempt to become a source of cultural enrichment and transformation through the analysis and criticism of destructive values and myths and the creation and promotion of alternative ones.

These centers would be dedicated to the following set of principles and ideals:

- that life is an infinite mystery, full of paradox, which art, science and human understanding only partly comprehend; respect and love for that mystery must be a central human concern;
- that human potential is unlimited and is developed by challenging the unknown;
- that the goal of human life is full exploration and uninhibited satisfaction of one's capacities, talents and desires through enduring relationships with others;

- that material acquisitiveness is the greatest deflection from real living and the transformation of people into dull, anxiety-ridden consumers its most sorry consequence;
- that one of the most complex things in the universe is human, pluralistic community, which presents the ultimate challenge for thinking, moral creatures today;
- that human survival is at stake due to the greed of some who take advantage of others;
- that no individual human being can be whole or complete until all are so, for humanity is a single creature.

This collection of statements would serve to guide the centers in their daily operations, informing them with a general outlook rather than defining a specific creed.

These centers would serve society at large somewhat in the way organizations for institutional development serve a business, a region, a profession or a university. Lead by a director or coordinating team, they would offer selected people the opportunity and resources to launch planned social change. In their commitment to a particular set of values, the centers differ from the typical "think tank," since the task forces developed through them would be the actual source of change. To be effective, they would address a wide audience through the mass media, the arts, drama, films, books, lectures and exhibitions, where myths and values are most powerfully communicated. They would try to revolutionize culture not through force, but through the persuasiveness, quality and ethical soundness of an art, mythology and new order of ideas that celebrate the values of cooperative restraints in a sustainable society.

The pool of people to direct or work at the centers is large: it includes everyone with a basic commitment to cooperative coexistence. Since this principle is not overly restrictive, the various projects the centers would sponsor would be extremely diverse and treat a wide range of themes and issues from different approaches, thus allowing numerous people with heterogeneous backgrounds, personalities and talents to participate. This would include a large segment of women, who might find the centers a unifying vehicle for their own liberation activities, one that many men would support just as enthusiastically. It would also include retired people and

those who have left lucrative careers, dissatisfied with "the system," and those who have at yet been unable to find one. Artists, intellectuals and academics, as well as people in professions, government and business, who are critical of a wasteful and debilitating society, would find a creative outlet for their ideas and talents. Many people already working in areas such as consumer advocacy, alternative energy technologies, and environmental and health movements, would discover strong affinities between their goals and the goals of the "steady-state" centers. In essence, many people in our society who at this point have rejected the reckless consumption and self-serving profiteering of the establishment, in spirit if not in fact, and who now seem diffused and isolated in single-issue politics or narrow social experiments, would discover a focus and a constructive form for their energies. Indeed, the founding of this loosely organized counter-establishment would galvanize a large segment of people in search of new ideals and could alter significantly the collective psyche of society by bringing a critical and creative mentality to the forefront of social consciousness.

Once chartered by a regional or national coordinating committee to undertake specified tasks, the centers could start work with a handful of personnel. People would apply to join work groups by explaining their ideas and plans about announced projects to the center's local coordinating team, which would make the selection. Depending on the nature of the project, people would work at the center, or elsewhere and at home. Since much of the effort would result in public entertainments and educational materials and programs, the center could preview its productions with the help of an advisory board. This board, made up of people dedicated to the center but with limited time, would offer suggestions for improvement but would not have veto authority. The coordinating team, working with the participants themselves, would be responsible for quality control. Conflicts over content would seek resolution through the regional committee, which would be charged with applying the widest interpretation possible to what constitutes effective "steady-state" material.

In an example of the kind of work these steady-state cultural centers would produce, a task force or a whole center might undertake to revise the traditional concept of the hero. Hero-myths usually involve a male quester searching for himself. The archetypal

pattern of this myth sets tests of strength and prowess as impediments in the hero's way to self-discovery. He must realize and accept hidden aspects of his own nature before he wins the sacred treasure of freedom and understanding. The story often becomes a paradigm of individual (male) ascendancy and a symbol of psychological growth—from dependence to independence, from youth to maturity. It is enacted by heroes from many cultures and eras, from Gilgamesh, Prometheus, Buddha and Christ to Horatio Alger, Huck Finn and Superman. The embellished biographies of historical figures such as Lincoln and Mao, Rembrandt and Beethoven, and Darwin and Einstein erroneously stress their self-made character; and types such as the knight, the samurai and the cowboy glamourize self-sufficiency. This nearly universal myth, which is essentially an initiation rite into experience itself, stars, as Joseph Campbell has said, a hero with a thousand faces.

To make this myth more compatible with a steady state society requires an important shift in emphasis. (Replacing the male hero with an androgynous quester improves it but does not change the basic pattern and point of the story.) The self-reliant figure often discovers that the crucial parts of himself with which he must come to terms are embodied in others and that his growth depends upon the integration of them into his own personality, usually through love. This key aspect of the myth must be stressed—that personal freedom and the fulfilment of one's inner desires requires other people. The myth's paradoxical conclusion defines growth and personal freedom as the extension of one's responsibilities to others. Thus, in a revision, the collective aspect of the self (psyche) needs emphasis, as well as the collaborative nature of the quest. The "hero" cannot be allowed to forget his dependence on others, whether they be servants or sages, companions or combatants—or society and tradition themselves. A refocused initiation myth must place emphasis on the conclusion of the quest and reveal the sacred treasure as interdependence. A team of male and female characters as the protagonist could itself make this point, especially in a story of collective self-discovery and an assault on group fear and ignorance. The challenges could involve the solution of technological, environmental or social problems rather than the destruction of some villainous scapegoat. The crisis would test the bond of cooperation and synergy between them rather than individual might. None of the vigor and danger of the old stories

needs be sacrificed, especially their mystery, frivolity, sensuousness, and their joy in eccentric personality. "Revisions" must avoid the clinical purity, the jargon and the dogmatism of the zealot and the political ideologue.

In this example, the center would then seek ways to promote the new myth, mainly through commercial ventures. The range of possibilities is enormous—from exposure in popular entertainment media to the creation of schools of art, and from the development of toys and games to the production of educational materials. Revised versions of familiar tales, stories and legends that employ the hero myth or altogether new stories could be written and illustrated for a young audience in book or comic book form, along with action-figures and games that feature the protagonists. New scripts for those current T.V. series that are most adaptable to the redesigned content of the myth can be written and completely new series can be introduced. Even quiz and game shows that involve tests of collective knowledge and ability could be devised. Stock situation comedy, soap operas and talk shows are prime sources of popular attitudes about cultural values. No serious attempt at cultural transformation can ignore them and the centers could introduce their own or promote the introduction of new material in these and other popular art forms.

Other myths that reinforce exploitive growth need to be analyzed and countered. For example; the myth that defines early middle age as full maturity and sees youth and old age as less than ideal states; the myth that sees change as only for better or worse; the myth that worships quantity over quality. These ideas not only shape the themes of stories, but give form to institutions, policies and laws as well as provide structures for our very feeling, thinking and seeing. Our image of the future itself is formed by an imagination circumscribed by potent assumptions, mainly about unlimited time and space. It is to this imaginative sphere that the centers would direct their energies.

Film, plays, street theatricals, payments and radio dramas could be sponsored that address the myths directly through new content, and that treat other issues and values related to the success of a sustainable society.

—complexity as a value as opposed to simplicity.

—life as a process of deepening significance and connections as opposed to accumulation of products and experiences.

- the excitement of lasting commitments rather than momentary thrills
- the dependence of creative imagination on discipline and detailed work
- life as continual goal-setting rather than reaching a single goal
- acceptance of paradox and contradiction as fundamental to life
- the wholesomeness of instinctual gratification when free of repressive domination.

The suggestions for the new content of art, mythology and values for the future are not limited to verbal forms. Dance, sculpture, photography, music, architecture and interior design can be made to reflect these concepts. They are general enough to find expression in all art, since they do not posit specific "programmes" for reform or for the artist to create in the service of a narrow doctrine. (Indeed, the reinterpretation of much great art would find evidence for them.) Art by its nature is fundamentally noncompetitive and nonprogressive—Picasso is not an "improvement" over Turner; art changes without getting "better" or "worse". Art is an instrument of change essentially compatible with steady state values.

Other means of reaching popular audiences need to be explored. The centers could publish national magazines that feature human interest photostories like *Life*, *People*, and *Us*, but which do indeed focus on the material suggested by the titles of these magazines and not on the loves, tastes and narcissistic aspirations of "stars" and instant celebrities. The centers could also promote singing groups and other musical talent to vie with the current trend of flagrantly commercial performers. Textbooks and anthologies that present historical and political events from a less ethnocentric outlook are needed as well as collections of reading, stories, and poems that enable one to compare the new mythologies with past examples. Exhibitions of art, particularly Third World and non-Western, with detailed explanations of the background and values of the artists and cultures could provide needed education about the variety and homogeneity of people. Exhibits of rarely treated subjects such as community or collective heroism could be assembled, featuring works like Rodin's *Burgers of Calais* and paintings by Breughel and Chagall. Soviet and Chinese Communist art need to be displayed, if the West

is to find ways to coexist with our supposedly most dangerous competitors.

III

The centers would augment this effort to transform society at the cultural level with an equally ambitious and complementary effort at the intellectual one. New intellectual syntheses are the vanguards of major social changes and the world views that emerge from them. On the horizon are unified field theories in the biosciences and physics that promise new definitions of human life. The centers can become the coordinating impetus behind this search for coherence, uniting the sciences, arts and the study of values into a modern and radical humanism—one that is understood by and responsive to a wide and popular audience.

This role of catalyst in intellectual discovery needs to be taken on by an organization like the centers, since the university and the scientific community have nearly abandoned it. These two institutions have a strong investment in the present order of ideas, which features narrow specialization and compartmentalization of knowledge, territorial divisions between areas of inquiry like the humanities and sciences, standards of proof requiring quantification, and evaluation of ideas based on utility. This intellectual schema is a major factor in the vocationalization of the university and the commercialization of knowledge, scientific and otherwise. As long as society requires that education serve the job market and science serve industry, knowledge, at least official knowledge, will remain circumscribed by the laws of supply and demand.

The nature of the intellectual discoveries now being made requires not only new approaches suited to a less mechanistically-determined and materially-constituted universe, but the inclusion of previously excluded areas of human understanding such as metaphysics and ethics, which are already entering scientific thought. (The humanities will have as much catching up to do as the sciences will have reviewing of traditional wisdom.) Subatomic particle physics borrows poetic metaphors and mystical insights to describe for itself the paradoxes of the electron and the quark. Behaviorism and sociology treat "facts" of human behavior and social interaction that inherently involve "VALUE" considerations. Theories of perception and learning in psychology make assumptions about human seeing

and knowing that the philosopher could help to clarify. Objectivity, a logical impossibility, may itself give place to another mode of vision, deliberately interacting with the subject under scrutiny and capable of perceiving a wider spectrum of phenomena than science chooses to examine.

As medicine shifts from cures to preventative treatment and includes the whole of the human organism in its view, the definition of health itself will change and may involve factors that only shamans or savants have claimed to understand and the full understanding of the human cell may bring genetic engineering and, along with the synthesis of information from nutrition, biofeedback, brain chemistry, physical fitness and psychotherapy, it may lead to prolonged life span and a redefinition of life, aging, disease and death. These theoretical breakthroughs involve a number of social, political and ethical concerns that necessarily intrude upon the "value-free objectivity" claimed essential by contemporary science.

To explore the implications of these new ideas and theories requires interdisciplinary and cooperative efforts between many currently isolated fields and the adoption of a more unified view of existence. The traditional dualisms between mind and body, living and non-living, metaphysical and physical, value and fact, subjective and objective are breaking down, and the content, mode of inquiry and form of the new knowledge depend upon synthesis. In helping to foster this intellectual activity, the centers would work to remove knowledge from the control and interpretative framework of the scientific establishment, which is committed to the economic utilization of ideas and the maintenance of the existing intellectual power structure. The centers could encourage and finance reports, debates and conferences and sponsor greatly needed books and educational material that explain current theories and ideas to the general public and place them, where possible, in a coherent system of thought. Fellowships could be offered to promote the collaboration and cross-fertilization necessary to accomplish this. The effort to lessen the influence of the materialistic and rationalistic values of our modern technocracy upon what we know and how we know it is in an inevitable extension of the contest of values the centers will wage through the creation of new mythologies for the future; the new knowledge will inevitably be formed by and influence that mythology.

IV

If the centers are to bring about significant social change, they will need funds; and, as in any venture, generating resources will represent a major challenge. The centers can begin with volunteers and benefactors and with contributions of talent and work by artists, musicians, writers and intellectuals who are dedicated to steady-state reforms. Once launched, the network of centers could model itself after a non-profit foundation, relying on volunteers, fund drives, grants and bequests for revenue. But such a status could result in limited activity and the imposition of restraints on the centers' radical purpose. Moreover, the change in attitudes the centers wish to foster must take place and the leading edge of a completely commercial society. Non-profit status would confirm the suspicion of many that steady-state alternatives are unworkable in the "real" world. The centers therefore need to turn a profit, however modest. As they support and expand programs largely on their own, the centers will provide a model of a non-exploitive, cooperative enterprise that can sustain itself and will thereby pave the way for others to launch more centers with very limited resources.

The sale of the art, entertainment, books and educational materials produced by the centers would also sponsor event ranging from exhibits, concerts, and lecture series to non-competitive sports shows, festivals and fairs. Swap meets, which would feature the exchange of items and not money, could be held. To attend these events, people would pay a minimum admission fee, with the option of paying more if they are able or if they particularly like what they see.

One underway, the centers would offer stipends or royalties to people for their work, with staff members receiving salaries commensurate with financial need and the desirability of the tasks they perform, rather than according to rank or status. As the centers grow through the investment of profits in new programs, they would make flexible financial arrangements to accommodate various kinds of working relationships, often on a contractual basis. To sponsor and produce major ventures in television, publishing, entertainment, sports and the arts will require the centers to form companies, whose large and unconventional operations will continue to be based on a non-exploitive economic system.

This assortment of artistic, educational and cultural activities constitutes an area where the main resources are, at least ideally, human talent and imagination. While growth in this area can be conventionally defined as capturing a larger share of a market, competitive expansion here does not necessarily lead to monopolistic control. The opportunity for wide participation in the "art, education and entertainment" business is implicit, though present practice often reveals the most ruthless competition. There is room for as many artists, stars, heroes, sitcoms, singers, films and books as can be produced. The growth of the centers, efforts in these areas would be a model of the kind of growth needed in a sustainable state: shared, non-polluting growth of human resources, which promotes greater insight, pleasure, knowledge and connectedness between people. Eventual alliances with other industries, such as those involved with pollution control and alternative energy sources, could give the centers a strong economic base.

Activity on all these levels could be the catalyst for major social changes. Schools of art, psychology, philosophy and economics could evolve out of the programs sponsored by the centers and the separate forces of cooperative coexistence that already exist could find a means of organization. An intellectual, cultural and political movement of the sort that accompanied and propelled the Renaissance could emerge. The movement envisioned here, with its commitment to change that gradually transforms society through new ideas attitudes, stresses constructive alternatives and options and the formation of a highly visible counterculture within the existing order. It places its faith in the aesthetic, moral and intellectual education of humankind, rather than in revaluation or coercion. It presents a working model of social cooperation for the established culture to emulate and join and looks forward to joining and being joined by the main stream. But, the first stage of that eventual and productive confluence requires the organization of the talent and techniques of modern world against its most self-destructive actions. The centers attempt to do this by providing a means of transition to a sustainable social order. They represent more than the limited hope of human survival; they offer a version of growth and change that will enable the human spirit to thrive.

GROWTH POLICIES IN A GLOBAL PERSPECTIVE**

*Lincoln Gordon**

1. Introduction

The decade of the 1970s was marked by profound upheavals in the fabric of international economic relationships. In 1971, the Bretton Woods monetary system was brusquely terminated by the unlinking of the dollar from gold. In 1973-74, the sharp rise in oil prices brought about a far-reaching international redistribution of income, strengthened the forces of simultaneous recession and inflation, and helped to create an international debt structure of colossal magnitude and uncertain stability. At the same time, the developing countries, organized in the United Nations under the banner of the "Group of 77," put forth their claims for a new international economic order, leading to a frustrating and inconclusive process of "North-South dialogue."

Within the "North," there were conflicting tendencies. Increased unemployment led to the dismissal and return home of many imported "guest workers" and to a resurgence of protectionism, especially for labor-intensive industries. Yet the European Communities were enlarged from six to nine members, with the early prospect of adding three more. Mutual criticism and rudimentary harmonization of macroeconomic policies became institutionalized, both in the Organization for Economic Co-operation and Development (OECD) and at periodic summit meetings of the seven principal market economy countries. As the decade ended, a new experiment in regional financial cooperation was launched under the rubric "European Monetary System," and on a broader front the Tokyo Round of multinational trade negotiations in Geneva concluded with substantial additional liberalization of trade and pioneering agreements to limit non-tariff barriers—rescuing these prolonged negotiations from a series of near collapses. The Communist countries were also showing increasing interest in participating in international trade and securing technology from the industrial democracies.

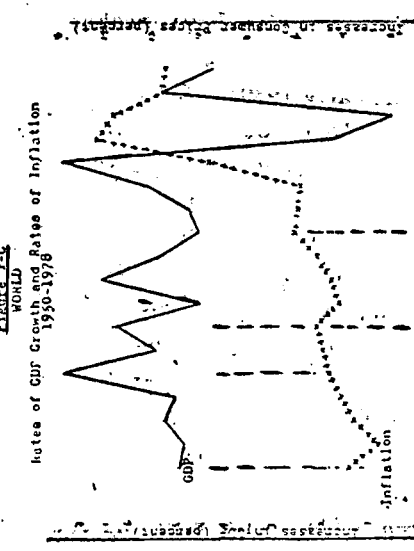
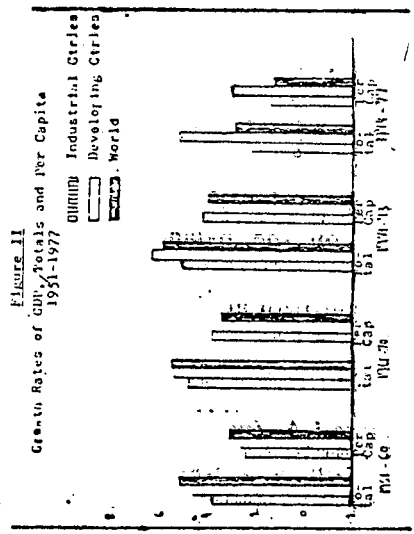
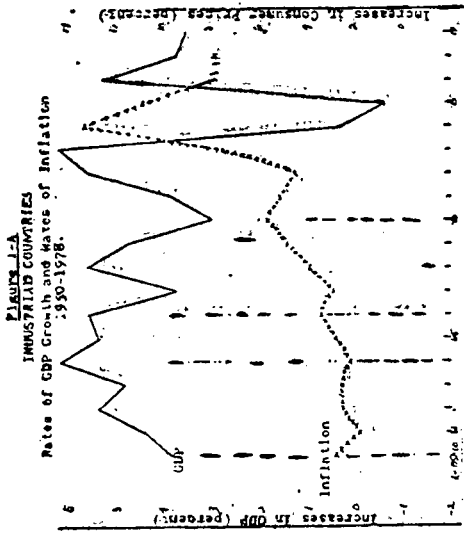
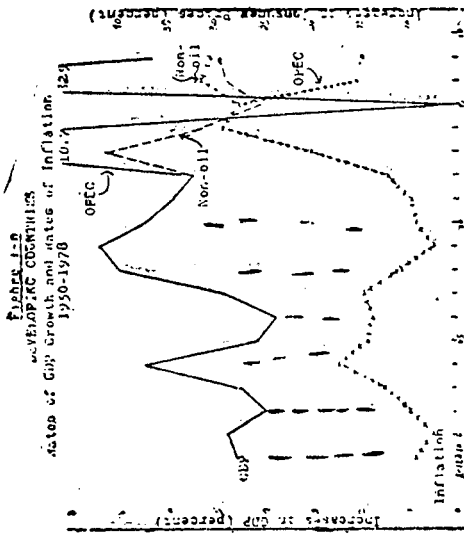
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**Paper presented for the third Biennial Woodlands Conference on Growth Policy, 1979.

Macroeconomic trends showed an apparent break around 1973-74, when the deepest recession since the Great Depression of the 1930s was accompanied by a speed-up of inflation. The first signs of these tendencies antedated the oil price rise, which therefore cannot be blamed as their sole cause. But the "oil shock" greatly aggravated both recession and inflation, while imposing severe pressures on the balance of payments of both industrial and developing oil-importing countries. A quarter century of sustained economic growth at the highest rates in recorded history, interrupted by only mild and shortlived cyclical recessions, seemed to have given way to a new phase of uncertainty and perplexity.

Figure I-A (page 66) charts the basic facts on growth and inflation for the market-economy industrial countries—the members of the OECD. It helps to explain the variety of interpretations. On the side of growth, optimists can attribute the depth of the 1975 recession to "special circumstances" and point to the ensuing recovery as a sign of basic economic health. Pessimists note that recent recoveries have peaked at similar levels while successive recessions have become steadily deeper, with ominous implications for the early 1980s. On the side of inflation, on the other hand, there is little room for optimism. The net effect has been a general loss of confidence in Keynesian demand management through fiscal and monetary policies as an adequate means for keeping modern economies on the narrow track of high employment without undue inflation. Inflation control has come to displace high employment as the cardinal objective of economic policy management. Acceptable levels of unemployment and inflation have both been revised upwards, but at the cost of severe tension in all but a few fortunate countries, the most notable exceptions being Switzerland and Austria.

Figures I-B and II (page 66) show a somewhat better record of recent growth in developing countries, but there is little confidence in its sustainability. The variety of experience is much greater in this group. The oil exporting countries are obviously in a class by themselves, with the special problems of applying windfall resources to a process of modernization in which non-economic obstacles are much more formidable than economic constraints. Among the other developing countries, the majority also appear to have been fighting losing battles against inflation while facing new



Underlying data are from *Yearbook of National Accounts Statistics*: International Tables, 1968, 1975, 1977 (New York: United Nations); International Monetary Fund (Washington), *International Financial Statistics*, May 1976 and May 1979; and International Monetary Fund, *Annual Report 1978*.

World Growth rates for 1977 were projected by the author from data in International Bank for Reconstruction and Development (World Bank) Washington *Annual Report 1980*. GDP per capita growth rates were estimated by the author, dividing overall growth rates by approximate population growth rate trends for each group of countries and the world.

In Figure II-B the data include both oil-exporting and non-oil developing countries through 1973 and non-oil countries only (i.e. excluding OPEC members, after 1974).

For Notes and Sources, See Page 6.

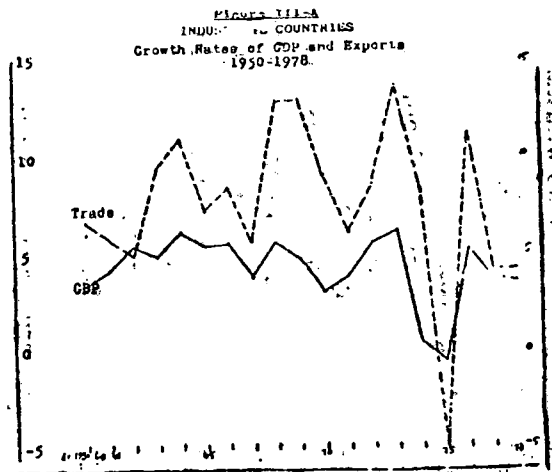
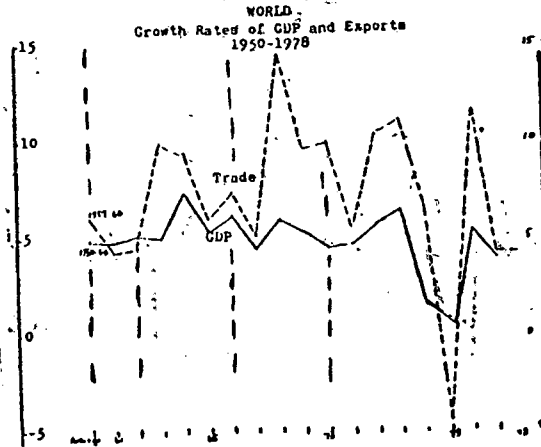


Figure III-C



For Notes and Sources, see page 6.

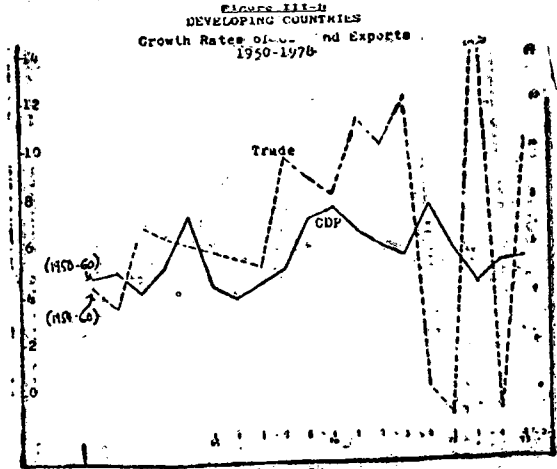
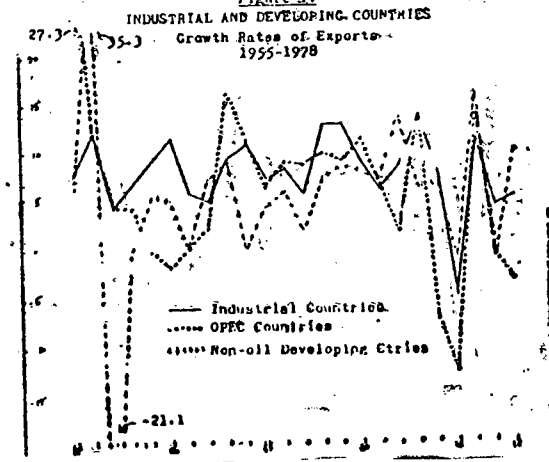


Figure IV



balance-of-payments constraints, even with some lowering of sights on desired growth rates. At the same time, there are signs of growing disparities within the group, with growth rates in the more industrialized developing countries steadily outpacing the poorest group mainly in tropical Africa and South Asia, which is sometimes referred to as the "Fourth World."

Perhaps the most surprising phenomenon of these recent years has been the maintenance of far-reaching economic interdependence in the face of powerful forces working for domestic protectionism and insulation from external influence. The simplest measure of interdependence is the volume of goods and services traded in relation to the volume produced (or, for a given country, the proportion of its total output involved in imports and exports). Financial interdependence is also of great importance but is too complex to be appraised by any similar, single measure. As shown in figure III (page 5), although the growth rates of world trade no longer exceed those of production by as large a margin as in the earlier post-war decades, trade levels continue high notwithstanding the malaises of "stagflation" and the uncertainties of fluctuating exchange rates.

Whatever their causes, the trends of recent years have given strong support to more profound questions of growth objectives, strategies, and policies—questions whose roots long antedate the mid-1970s. As the Cleveland-Wilson essay puts it, issues of "Growth for Whom?" and "Growth for What?" have come to prominence alongside "How Much Growth"¹ In the industrial countries, the classic issues of income distribution have been exacerbated by the slowing of overall growth, and a major share of public attention has gone to new issues of environmental protection, the scope of public services, tradeoffs between work and leisure, and other elements of what is broadly termed "quality of life." A highly articulate and visible minority professes to reject entirely any interest in material goods beyond a bare minimum. In some developing countries, and in the "development community" of professionals and intellectuals concerned with developmental planning and assistance, increasing doubts are expressed about whether the conventional path of modernization

1. Harland Cleveland and Thomas W. Wilson, Jr.: *Humangrowth An Essay on Growth, Values, and the Quality of Life*, Palo Alto, Aspen Institute for Humanistic Studies, 1978, p. 9.

and industrialization is either feasible or desirable for many of today's poorer countries. A series of alternative paradigms of developmental strategy are struggling for recognition. Their implications for relative growth rates and patterns in various groups of countries, and their impact on international interdependence are only beginning to be seriously explored.²

The thesis of this paper can be summarized in six propositions :

- (a) that domestic tranquility as well as international harmony will require a more affirmative approach to long-term growth policies and problems of structural change than has heretofore been the accepted doctrine in the United States ;
- (b) that the international dimension of such policies of cardinal importance ;
- (c) that the United States can neither insulate itself from the international environment nor alone control the shaping of that environment ;
- (d) that new forms of international cooperation are essential to the adoption of growth policies which maximize the shared interests and minimize the zero or negative-sum games among nations ;
- (e) that collective leadership of differing groups of nations will be required on specific issues, but the active participation of the United States will be indispensable to successful management of all the more substantial ones : and
- (f) that institutional and policy development will be mainly incremental rather than revolutionary, but incremental means capable of producing revolutionary results.

Before examining these concepts in more detail, however, it will be useful to clear away some potential misunderstandings on the nature of the "growth transition."

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2. The most extensive effort of this type to date is the three-year project at the OECD known as "Interfutures," whose full title is : "Research Project on the Future Development of Advanced Industrial Societies in Harmony with that of Developing Countries." The final report of the Interfutures project, together with many of the background papers, is expected to become publicly available during the course of 1979.

II. Alternative Views on the Growth Transition

The Cleveland-Wilson essay on *Human growth*, taken as a starting point for the discussions at the Third Woodlands Conference, present a stimulating array of premises and interpretations concerning the nature of the contemporary transition in three respects: (1) the objective character of economic growth; (2) changing value and attitudes toward the goals and modes of growth in various groups of nations; and (3) changes in the structures of governance and in growth policies at both national and international levels. While not disguising the many ills and discontents of today's world, the essay leaves the reader with a highly optimistic sense of growing harmony: harmony between mankind and the natural environment; harmony among aspirations, possibilities, and accomplishments; the universal satisfaction of basic human needs; and a benign international regime for the management of interdependence.

Such harmonious outcomes of the contemporary transitional period are certainly not to be taken for granted. Their realization can flow only from widespread consensus on the diagnosis and effective leadership in implementing the prescriptions. In fact, however, there is substantial disagreement on both diagnosis and prescription even within the limited circles actively concerned with long-term growth issues, while active concern of any kind extends to only a small fraction of leadership groups. A long process of public education and political mobilization on these issues therefore lies ahead.

This author, although sympathetic to the broad spirit of the essay, does not accept some of the premises as stated. In particular, the repeated characterization of historical experience as "indiscriminate economic growth" looking toward GNP expansion as an end in itself, regardless of the content of production, is a caricature of the economic and political history of today's industrialized democracies.³ Since their economies are predominantly of the open market type, consumer demand has been the

3. The terminology in *Human-growth* on this point resembles the argument in the Second Report to the Club of Rome, which contrasted "undifferentiated" with "organic" growth and raised similar difficulties. See Mihajlo Mesarovic and Eduard Pestel, *Mankind at the Turning Point*, E.P. Dutton, New York, 1974, pages 1-9.

main force in determining patterns of production. Their effectiveness in meeting the needs and desires of the great majority of their populations—remaining pockets of poverty notwithstanding—has been anything but “indiscriminate.” Alongside high productivity and high rates of economic growth as conventionally measured, these countries have achieved the highest ranking on all the scales of social indicators: health, education, shelter, recreational opportunities, innovations in both high and popular cultures, civil liberties and political freedoms. Whether equality of income distribution is inherently a social good is disputed among both philosophers and politicians, but on this scale also the industrial democracies generally rank near the top, while all of them have made enormous strides toward equalizing opportunity for all classes, regions, and ethnic groups in their populations.

Of course it must be recognized that GNP alone is not a satisfactory measure of social welfare and that market forces have their limitations. In particular, market forces do not reflect “externalities” (costs or benefits not accruing to the firms or individuals responsible for them); they are responsive to “effective demand” based on existing income shares; they are often distorted by ‘market imperfections’ (inadequate knowledge and monopoly power); and they cannot be applied to the provision of “public goods.” In this author’s view, they are much less effective in guiding capital investments for production with long technological leadtimes than they are in promoting efficiency in the current allocation of resources. But all of the industrial democracies have developed some kind of “mixed economy” in which market forces are supplemented or supplanted by political decisions—in the opinion of many, too much so.

Rather than contrasting “human” or “organic” growth with a mythical straw man condemned as “indiscriminate growth” therefore, this author prefers to regard the transition as one of ongoing structural change, in which new constraints, new technological and institutional opportunities, and above all changing attitudes and preferences (perhaps changing “values”) so interact as to alter the rates and directions of growth and to raise new issues for national and international governance. In open and dynamic societies, it is to be expected that the solution to every old problem will create its own new problems. The speed of technological and

social change in today's world often seems to outrun our institutional capacities. But that is no reason to denounce yesterday's adaptations as narrow and indiscriminating, any more than to romanticize the past as a lost golden age.

A second caution concerns the profundity of today's transition, which *Humangrowth* suggests may be comparable to the introduction of settled agriculture, the evolution of the nation-state, or the Copernican and Industrial Revolutions which initiated the modern era. If that turns out to be so, it will become evident only to our grand-children. In the politico-military sphere, nuclear weaponry has certainly constituted a basic revolutionary change. By placing in jeopardy entire large societies and perhaps the entire human species, it has profoundly altered the terms of all equations risking overt hostilities between nuclear powers. But in the domain covered in this paper, the author's analysis of long-term trends has identified only five clear cut discontinuities: (a) the exceptional surge of growth in the three decades following World War II, which could not be sustained at those rates; (b) the explosion of population growth in the developing world, accompanied by imminent population stabilization in the industrialized world; (c) the drive for economic modernization and autonomy in the decolonized continents of Asia, Africa, and Latin America; (d) the prospective shift of energy sources from low-cost fossil fuels to some mixture of higher-cost but essentially limitless alternatives; and (e) the expansion of human activities to a scale placing severe stress on some local environmental capacities and potentially affecting the global environment.

These discontinuities are occurring alongside more normal processes of change: technological evolution; new kinds of private and public claims on the economy; growing international interdependence; and shifts in relative affluence and influence of individual nations—with good reason to focus special attention on the “newly industrializing countries.” Taken together, these movements surely constitute a major transition. But in historical perspective, the changes of the next fifty years seem more likely in magnitude to resemble those of the first half of this century (without, one hopes, the punctuation of two World Wars and a Great Depression) than the earlier profound transformations which altered the entire fabric of human civilization.

With respect to the outlook for developing countries, this author questions the extent to which the satisfaction of "basic human needs" has in fact moved to a central role in the policy making of most national governments, as contrasted with the international "development community." Nor is he satisfied that the commendable objective of placing a floor under some kind of poverty line appropriate to the circumstances of each nation has been matched by workable developmental strategies—even in intellectual concept, not to speak of political feasibility. The term "entitlements" in this connection has unfortunate connotations of costless privileges which can be secured without effort. A preferable approach would place the main stress on opportunity for full participation in development and its benefits by the hitherto marginalized rural and urban poor. Nor is it realistic to suppose that any nation will give to basic needs an absolute priority over its other legitimate aspirations.

For the North, the "new growth ethic" must be regarded more as an aspiration than as a confident prediction. As described by Cleveland and Wilson, it would make for more harmonious societies in which lower growth rates are readily accepted because of changing preferences and a greater variety of non-economic satisfactions. Against that vision can be set the pessimism of a Fred Hirsch, who sees the demand for "positional goods" as inherently incapable of saturation;⁴ the astringent diagnosis of a Mancur Olson, who sees the power of special interest groups and institutional sclerosis as brakes on productivity and growth ardently desired by publics-at-large;⁵ or the mute testimony of two European elections in May, 1979—the British overturning a social-democratic government with a record of low growth and high inflation and the Austrians strengthening a social-democratic government presiding over high growth and low inflation. One underlying cause of inflation in industrial societies is rivalry for larger increments in goods and services than the economic machine is generating a clear indication that the "new growth ethic" is far from reality.

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4. Fred Hirsch, *Social Limits to Growth*, Harvard University Press Cambridge, Massachusetts. 1976.
 5. Mancur Olson, *The Political Economy of Comparative Growth Rates*, Unpublished paper presented at a conference at the University of Maryland, February, 1979, to be published,

On the global plane, finally, the hope that nations will move to realize the full positive-sum potential inherent in international cooperation is a consummation devoutly to be wished. Yet the whole concept of positive-sum games, especially in economic intercourse, is a relatively new idea in human history, and it must still contend with the ancient tradition of assumed hostility among separate races, tribes, clans, or nations. If slower growth is in store for the industrial countries, that will not automatically redound to the advantage of the developing world; the contrary is more likely. Nor would a new growth ethic necessarily entail a more outward-looking and sympathetic concern for development in remote societies. Against the evidence pointing toward a "global fairness revolution" in the 1970s are the falling proportion of resources devoted to official development assistance, the prolonged failure to implement the food security plans unanimously agreed at the World Food Conference of 1974, the narrow vision of many coastal country negotiators in the Conference on the Law of the Seas, and the revival of protectionism as an influential force throughout the world. In contrast with the institutional creativeness of the mid 1940s, the present dispersion of leadership and weakening of all forms of authority and hierarchy portends an uphill struggle to secure even second-best solutions to many of the newer international issues of growth policy.

III. The Concept of Sustainable Growth

The theme of the Third Woodlands Conference is stated as "The Management of Sustainable Growth." Management implies a series of deliberate actions by individuals, private organizations, governments at various levels, and international institutions. The meaning of the term "sustainable growth" is more ambiguous.

In common usage, "sustainable" refers to short-term cyclical fluctuations and is often described as the desirable objective of macroeconomic demand management policies. That implies that growth should be maximized within such constraints of the labor force (and its rate of growth), the amount of available capital (and the rate of investment), and expected increases in productivity. Productive improvement will be determined not only by capital investment and technological change but also by investment in human capital (education and health), job satisfaction, and attitudes toward mobility and adaptation. In that framework, growth rates

may be unsustainable high during the phase of recovery from a recession, while unemployed labor and capital are being reabsorbed into productive uses. But if demand management tries to keep growth rates that high, bottlenecks will soon be encountered which set off inflationary pressures, distort the allocation of resources, induce wage increases beyond the gains in productivity, and lead to another and unnecessarily severe recession. A policy of "sustainable growth," on the other hand, would gradually contain overall demand as recovery takes place and perhaps encourage investment in potential bottleneck sectors. That kind of policy would minimize cyclical fluctuations and keep growth rates close to the potential maximum made possible by labor force growth, additions to the capital stock, and technological and institutional improvements.

Since our conference is concerned with longer-term growth issues, however, the term "sustainable growth" must have broader connotations. It implies compatibility with limitations of natural resources and environmental absorption capacities. It may involve issues of intergenerational equity. And insofar as it constrains on growth are institutional and attitudinal, it raises fundamental questions of the differing valuations placed on economic growth by different cultures or by individuals and groups within a given culture.⁶

It is easy to point to examples of unsustainably high rates of growth in specific environments. The most obvious example involves drawing on renewable resources beyond their rates of potential regeneration. Destruction of forests, "mining the soil," and polluting rivers and lakes beyond redemption all come to mind. The practice of sustained yield forestry and agriculture has long been recognized as a hallmark of prudent civilizations. Rigorous analysis can demonstrate some marginal tension between the technological and economic definitions of "sustained yield," but these are second-order refinements of a valid basic concept.

When it comes to depletable resources, however, there are no easy guides to optimum rates of use. One can start by rejecting the simplistic notice—surprisingly widespread in some current writings on resources—that renewables are always preferable to

6. Recent dramatic events in Iran suggest the complexity of this kind of question.

depletables "it is unfair to future generations" to "use up" the depletables. Leaving aside the point the non-fuel minerals are not "used up," but simply shifted about, with ample opportunity for recycling many of them (although others admittedly become too widely dispersed for recycling), the logical conclusion of that simplistic notion would be that mankind should never have burned a pound of coal or a drop of oil, and should never have entered the Stone Age, much less the ages of bronze and iron. Yet there is also substance in complaints of "profligate" and "wasteful" use by some societies and in the broad notion of "stewardship" for generations yet unborn. The idea of stewardship is most clear-cut in relation to literally irreplaceable and unique treasures—whether natural (Grand Canyon) or man-made (works of art and architecture). But when it comes to raw materials, the human record of ingenuity in technological means of mineral discovery, extraction, and use, and in substitution when particular items become scarce and costly, suggests that a general policy of self-denial by the present generation would be fruitless and perhaps even positively detrimental to the interests of the future.⁷

In the event, there is no way of relating resource depletion systematically to a quantified notion of rates of "sustainable growth" over the long term. Insofar as raw material costs affect growth rates—and their importance is exaggerated in much of the popular literature—the pertinent question is whether at a given time their relative costs are falling or rising. If falling, as has been the case for most minerals during the past 100 years, they permit slightly faster rates of overall growth. If rising, as costs of energy are now doing, they will somewhat retard overall growth. But that effect is not very large, provided that the changes occur gradually. Econometric estimates for the United States, for example, suggest that a doubling of energy costs, spread over the

7. The classic discussion of these issues is to be found in Harold Barnett and Chandler Morse, *Scarcity and Growth: Economics of Natural Resource Availability*, The Johns Hopkins University Press, Baltimore, Maryland, for Resources for the Future, 1963. See also V. Kerry Smith (editor), *Scarcity and Growth Reconsidered*, The Johns Hopkins University Press, Baltimore, Maryland, for Resources for the Future, 1979.

twelve years 1978 to 1990, would reduce growth rates by only about 0.4 percent per year⁸

The issue of population growth is also conceptually puzzling. If welfare could be measured in fungible units of happiness, an argument might be made that humanity is "better off" with ten billion people at 125 units each than with five billion at 200 units each. (In the former case, there would be a total of 1,250 billion "happines units"; in the latter, only 1,000 billion.) That argument would be rejected by this author, but with the recognition that it is a subjective judgment which gives higher value to the material conditions for dignity and freedom of choice for the living than it does to sheer numbers on the race of the earth.

A further complication in the effort to define sustainable growth arises from long-term changes in the content of production. In the short term, fluctuations in GNP serve as a good measure of levels of economic activity, which can be related to employment, capacity utilization, inflationary pressures, and the balance of payments. Some kind of structural change is also taking place, but at a slow enough pace to leave most of the structure unchanged over the few years of the typical business cycle. In the longer term, however, structural change becomes dominant, with basic alterations in what is produced and consumed and in where and how it is produced. Those alterations have major effects on resource and environmental impacts. At the same time, innovations in resource use and environmental protection are altering the impact of any given level and pattern of production.

For most goods and services, consumption does not follow a linear or exponential path of continuous growth. The more common path is a logistic (or S-shaped) curve leading to saturation, stability, and perhaps decline. The overall growth rate, which may appear as a fairly smooth curve, is the summation of a large number of goods in different phases of consumption—some in rapid expansion, some in stability, and others in decline. It follows from these characteristics that there can be no specific, determinable, rate of overall growth which is the "maximum sustainable" over a long period. What is sustainable in terms of resource limitations

8. The Energy Next Twenty Years Study Group, *Energy; The Next Twenty Years*, Ballinger, Cambridge, Massachusetts, p. 20.

(if any) or environmental capacity depends on the composition of the baskets of goods and services, and that composition keeps changing in response to changing consumption preferences, perceived resource or environmental constraints, and technological capacities.

In practice, it is very unlikely that physical constraints will be the limiting factor on overall growth rates, which are more likely to be influenced by the changing character of demand and by social constraints on supply. We may therefore be well advised to focus on the policy implications and the management problems of alternative rate and patterns of growth without pressing further for an unambiguous and elusive definition of "sustainability."

IV. Prospective Changes in Growth Patterns

Other papers prepared for the Third Woodlands Conference explore intensively the factors likely to influence growth patterns in the United States during the next few decades: attitudinal, technological, environmental, political, and economic. This section deals more broadly with the same set of questions as they may apply to all the more industrialized countries, including the important class of "newly industrializing countries." This group, led by Brazil, Korea, and Mexico (and also Taiwan, if that island can still be regarded as a country) is rapidly becoming differentiated from the rest of the so-called developing world. Some of the features summarized below are predictable with confidence, while others are merely conjectural. It should be noted that all of them work in the direction of slower growth than was experienced in the quarter century up to 1974.

1. *Demography.* The surest of all the causes of slower growth in the future, especially from the late 1980s forward, lies in reduced birth rates, which have fallen to or below the replacement level in most of the industrial countries. That trend might be reversed by a change in fashion as happened after World War II, but a reversal would be surprising. After a short phase in which lower fertility may help to increase growth rates by increasing the proportion of working women and reducing that of dependent children, the longer-run effect will retard the growth in the labor force and also lead to a higher proportion of dependent older people. Medical breakthroughs on prolongation of life, coupled with deferred retirement,

could either intensify or mitigate those effects, so that even the demographic influences on future growth cannot be foreseen with complete certainty.

In most of the developing countries, even though peak rates of population growth may now have been passed, the proportion of young people is so high that rapid increases in labor force will continue for several decades. In most of their economies, a shortage of jobs is a far greater concern than a shortage of labour, even though skilled labor is often scarce. In tropical Africa, moreover, death rates are still very high and life expectancy correspondingly low, so that several decades of increasing population growth rates may be expected before the point of inflection is reached. Although the growth in per capita incomes will generally be seriously retarded by rapid population growth, the overall national economic growth rates in most cases may not differ greatly from the results achievable with slower population growth.

2. *The Occupational Shift to Services.* The best established characteristic of structural change in all the more affluent societies is the sectoral shift of occupations—first out of agriculture into manufacturing and then out of both agriculture and manufacturing into services. It is generally believed that productivity gains in services are slower than in primary production and industry, so that a shift toward services tends to reduce average productivity. In some types of modern services, such as bookkeeping, clerical work, communications, and data handling, technology is evidently permitting enormous increases in productivity, but that is not the case for personal services such as education, health care, legal advice, or equipment maintenance. And there is a large class of services—including many kinds of government activities—whose output is not directly measurable and is simply assumed to be equivalent to the salaries paid. Whatever might be the judgment of some archangel with a magic measuring rod, the expressed opinion in most democratic societies indicates that their publics believe that they are getting progressively less return for their expenditures on government services.

3. *Affluence and Saturation.* The most elementary theorems of welfare economics suggest that as individuals, families, communities, or nations become richer, the marginal value of further increments in the output of goods and services should diminish. The progres-

sive reduction in work time over the last century seems to confirm the theorem. Not only have weekly working hours been cut by one third or more, but holidays and vacations have been increased and the average span of working life reduced by more schooling at one end and earlier retirement at the other. Yet one cannot project this trend automatically into a continually growing preference for leisure over work and into growing productivity from the fewer hours worked to the point where the minimum of desired work satisfies all of a society's material demands. (That would amount to what Lord Keynes once called the solution to the economic problem.) One of the most striking paradoxes of contemporary social history in the western world is the failure of the enormous improvement in objectively measured material welfare to be matched by corresponding improvement in subjective satisfaction.

On the evidence so far, the human capacity to keep new material wants up to or beyond the growing production potential seems likely to prevail for at least another generation, even though demand for specific items or categories (motor vehicles, food, clothing, refrigerators, space heaters) may become saturated. Some important types of growing demand are inherently open-ended, such as adult education and health care, while others are inherently unsatisfiable—notably the “positional goods” whose acquisition is by definition a zero-sum game. (Everyone cannot have a larger house or a higher rank in a job hierarchy than everyone else.)

4. *Collective Goods.* A strongly marked trend in the industrial countries throughout the 20th century has been the increasing proportion (and even greater increases in absolute amounts) of collectively supplied goods and services—especially “public goods” (such as national defense or environmental improvement) whose benefits are pooled, cannot be individually appropriated, and therefore cannot be assigned a market valuation. In these cases, unless some new method of social accounting can be devised, the increments to welfare may be either greater or less than the conventional measurements we apply. If individuals could “buy” varying amounts and grades of purified air, the amount of resources devoted to air quality improvement would theoretically be balanced against all competing uses of resources. Wage gains based on productivity improvements would be allocated by each individual or family between environmental improvement and conventional family expenditures.

In theory, the democratic society (or local community) establishing environmental standards is applying a collective political judgment as a substitute for the sum of individual decisions on resource allocation. If those standards are achieved through direct public expenditure, as in the case of municipal sewage treatment, the needed resources are secured through taxation and the control expenditures in the national accounts as additions to GNP. But if the standards are achieved through regulation of the private sector, the costs must be passed on to consumers in higher prices; there is no apparent addition to real output: GNP is increased in "current dollars" but not in "real terms" after correction for inflation. Thus productivity appears to have fallen even though purer air or water are being secured. The worker, instead of voluntarily allocating some income to environmental improvement, either directly or through political participation and decisions to tax, feels cheated by inflation which he then wants offset by wage increases.

If environmental quality improvement requires heavy investment in pollution control equipment, thereby competing for capital supplies against investment which improves measured productivity and also raising the cost of capital generally, the downward effects on productivity and growth will be real as well as apparent. The gains in social welfare may still be worth the costs, but neither our methods of accounting nor the politics of environmental decision-making are sufficiently sophisticated to examine such tradeoffs explicitly.

It should also be recognized that in an ideal system of social accounting, some aspects of environmental protection would be regarded as costs for producing other goods and services while others would be treated as benefits in the form of additional environmental amenities. An increasingly complex industrial society is bound to incur larger environmental costs—either as consequences of environmental deterioration or as expenditures for pollution control and environmental protection. At the same time, an increasingly affluent society is likely to desire a larger amount of environmental amenities in its basket of goods and services. In either event, the measured effects will involve a reduction in growth rates.

5. *Capital Shortage.* The observed experience of the industrial world regarding voluntary savings and levels of investment varies greatly among countries and over time. In this as in other fields, it is common to mistake a short-term fluctuation for a long-term trend. As the comparative study of economic growth experience makes clear, variations in the productivity of investment are often more important than differences in the rates of investment (or proportions of GNP saved and invested.)

In the early stages of economic modernization, investment normally claims an increasing share of GNP. Since capital is scarce and returns to capital correspondingly high (i.e., incremental capital-output ratios are low), this type of structural change promotes high growth rates. A highly capitalized economy should expect lower marginal returns, and a society with elaborate arrangements for social security should expect lower voluntary private savings. The postwar record in most industrial countries has not borne out those expectations, but some observers believe that they are now finally coming to pass, especially in North America and parts of Europe (although less so in Japan). Whether the reduction in industrial investment really portends a fundamental long-term trend, however, or perhaps rather reflects the uncertainties of anti-inflation measures and other public policies, will not become evident until more time has elapsed.

Even if savings are not reduced, a capital shortage could result from an enlargement of investment needs to maintain a constant output (at least as measured). Pollution control is one example already mentioned. Both minerals extraction and continuing improvements in agricultural productivity may become more capital intensive in the decades ahead. The largest projected source of such expanded capital requirements is the energy transition, in which the shift to higher-cost sources will involve huge investments, both for energy conservation and for the development of alternative supplies.

6. *Technological Slowdown.* Another frequently suggested cause of slower growth is a reduced rate of technological innovation. In the absence of any satisfactory measure of either the quantity or the quality of innovation, it is impossible to verify the hypothesis

Proportions of GNP going to basic research, applied research, or research and development are very gross approximations, and the major scientific or technological breakthrough that might create a new "leading sector" a decade or two hence is unforeseeable almost by definition. Since technological advance has accounted for so large a fraction of modern economic growth, a society intent on growth must have the means to generate new technology or the means to secure it from others. But the refrain that "there is nothing left to discover" has been sung by one or another prominent scientist at least once a decade, thus far always to be proven wrong.

What appears much more plausible is the argument that technological innovation contributed to exceptionally high growth in the postwar quarter century for two reasons which no longer apply. In the entire industrial world, it is first suggested, the Great Depression stifled new investment and therefore delayed the technological application of advancing science. Then the World War gave a strong impetus to both science and technology, but confined their applications to war purposes. After the war, there was a surge of civilian applications, making up for fifteen years of lost time.

The second reason concerns the postwar, "technological gap" between the United States and the rest of the world. Although some European writing on this topic, focussed first on a invincible "American challenge," look ludicrous in the light of subsequent events, the basic point holds good. In the late 1940s and 1950s, industrial productivity in the United States was much higher than in Europe or Japan, mainly because of better managerial and technological methods, including economies of scale. As markets enlarged by the formation of the European Communities and by the worldwide reduction in tariffs, and as science, technology, and managerial methods migrated through a variety of means, including notably the activities of multinational enterprises, the gap was closed by Japan and most of Europe. During this "catching-up," Japanese and European growth rates—and average worldwide growth rates—could be exceptionally high. From now on, the possibility of high growth through gap closing no longer exists, since technology and productivity levels are fairly uniform all over the industrial

world! (For the developing countries, in contrast, that route to high growth rates still remains open.)

A similar "catch up" phenomenon pertains to structural shifts in basic occupations, notably from agriculture to industry. For Japan and parts of Europe that shift occurred on a large scale during the first two post-war decades, promoting increased productivity in agriculture and high growth rates in industry. With agriculture now accounting for only 3 to 10 percent of the labor force, there simply is no longer much room left for movement in that direction.

7. *Institutional Rigidities.* Mention was made earlier of the intriguing hypothesis that narrowly-based special interest groups can constitute retardants to growth notwithstanding the broader desires of their surrounding societies. In Mancur Olson's formulation, this unfortunate condition is likely to become increasingly common in stable political democracies enjoying sustained freedom from revolution, civil war, or enemy occupation. In his words, "the 'English disease' is not a unique ailment of one country, but rather the most advanced manifestation of an evolutionary process that has naturally reached its furthest point in the country with the greatest maturity in both industrialization and democracy, but which is also going on (at possibly an increasing rate) in all of the developed democracies."⁹ His paper makes some comforting references to possible countervailing forces (short of war or anti-democratic revolution), but recent politico-economic history in most of the industrial world seems more in line with the pessimistic hypothesis than with the optimistic qualification.

Inflationary pressures, the spread of kidnapping, assassination, and other forms of violence, the failure to cope with urban deterioration, and the decline in social civility and in accepted legitimacy of any form of authority are all associated with tension between the interests of narrow groups, classes, occupations, or regions and some wider concept of national or global interest. In relation to economic growth, it is striking that several European experiments in moderating inflation through voluntary wage and price restraints negotiated with labor and business confederations

9. Mancur Olson, *op. cit.*, page 80.

have given way to "stagflation," with only Austria still pursuing that kind of "incomes policy" with apparent success.

The increased rates of inflation experienced by most of the industrialized countries in the 1970s cannot be attributed solely to institutional rigidities and special interest pressures. These factors have probably played a smaller role than those more commonly recognized, such as increased energy costs, slower productivity growth, excessive monetary expansion in several countries (often related to electoral timetables), and the surge in international liquidity associated with large deficits in the United States balance of payments. Nevertheless, the Olson thesis points to an important kind of interaction between social and political institutions and economic growth—an interaction capable of generating either vicious or virtuous circles.

8. *The Anti-Growth Counter Culture.* The last of the more conjectural factors affecting growth rates is the possible spread of those forms of counter-culture which regard economic growth as positively evil. There is a long history of religious and mystical rebellions against any kind of concern with worldly goods or other worldly affairs. Since the Industrial Revolution began, there have been periodic antindustry movements, some popular (like the Luddites) and others intellectual (William Blake, William Morris, and many others). Conditions in the mines and factories of Victorian England make those reactions easy to understand, even though the peasantry in pre-industrial England's "pastures green" also suffered on the average a short and deprived life with little opportunity to escape the privation.

In the more affluent societies of today, there is evidently far greater latitude for contrasting life-styles to co-exist: the anti-materialists in their organic self-help communes, the consumerists in their well-tended suburbs, and many others in between. Generalized anti-growth sentiment seems thus far to have had little impact on public policies or "mainstream" lifestyles in the industrial world, and still less in the developing countries.

More focussed anti-growth sentiment, however, clearly influences patterns of economic activity in particular localities, the acceptability of certain kinds of industry, and the related requirements

for environmental protection. The potential for more pervasive effects on growth rate lies in two fields : (a) changes in attitudes towards job satisfaction which might radically reduce productivity and require a basic restructuring in the organization and conditions of work ; and (b) a faith in the potentials for energy conservation carried so far as to prevent the development of any kind of workable alternatives to the dwindling supplies of petroleum and natural gas.

V. The Nature and Scope of Growth Policies

In spite of the conjectural character of several of the factors discussed above, their overall tendency points toward slower growth than in the postwar era and substantial changes in the composition of output—the directions and patterns of growth. Ultimate consumption should reflect changing age structures, saturation with many consumer durable and semi-durable goods, upgrading of quality, and a continuing shift toward recreational activities (active and passive), adult education and health care services, and such public goods as improved environmental quality. Labor supply should reflect an increasing “choosiness” concerning working conditions and rewards.

Will such changes in rates and directions of growth lead to happier and more stable societies ? The slow growth optimists will answer affirmatively, anticipating mere leisure and less “hassle,” more satisfaction derived from non-economic pursuits, and lesser pressures on environmental carrying capacities. Believers in physical resource limitations on growth will argue that such changes are not only welcome but inevitable.

The slow growth pessimists, on the other hand, will see in these changes the prospect of intensified social struggles, since lesser growth implies more zero-sum games, in which improvements for the poor or handicapped require a positive sacrifice by the more fortunate. Without a “growth dividend” to be distributed, politics will in their view become an increasingly stubborn defense of vested interests, with grave risks to the survival of open societies and democratic institutions. The worsening of inflation in recent years seems to confirm the pessimistic view, since one of its causes is the cumulation of group demands for income gains beyond the actual increases in social product. An observer of 20th century Latin

America can testify to the capacity of inflation to tear apart the social fabric and destroy the political consensus which makes democracy viable. The revival of regional separatism in Europe and Canada ; the struggles over energy policy in the United States Congress ; the recrudescence of industrial protectionism in many countries ; these and other signs all seem to point toward what one cynic has called the "Latin Americanization of the industrialized world." And within Latin America, the social and political effects of years of slow growth in Argentina—once the unquestioned leader of modern development in South America—should serve as a sober warning to the slow growth optimists.

In this author's judgment, the optimists will have to become correct at some future time, but that time is not yet with us or in sight within the horizons relevant to present policy making. On the contrary, for the now foreseeable future, the factors depressing growth rates will place policy makers under heavier pressure to secure maximum results from the resources available. Far from being able to rest on their oars, they will be pressed to give closer attention to efficiency, to innovation, and to dynamism. There will be much more complex trade-offs—more concern for externalities previously neglected, for quality in goods and services, and for accountability. And there will be increasing interest in fitting short term measures into some sort of framework of long-term objectives—in short for the development of structural growth policies.

That assertion implies the taking of a position on the spectrum of policy choice between long-term planning and reliance on market forces as the determinants of economic structure—the decisions on what is to be produced, where, and how. In its extreme versions, that choice is illusory. Even in the citadels of communist economic doctrine, there are no longer any advocates of centralized planning of everything. And while the universities and political parties of the western world harbor many articulate and dogmatic advocates of pure markets, no society in practice accepts their prescriptions literally.

If one simply compares the results in the major groupings of so-called open-market and centrally planned industrial countries

(the "capitalist West" including Japan, and the "communist East"), the superiority of the former is evident in economic terms and even more evident in political terms for believers in civil liberties and political freedoms. The value systems of the West emphasize freedom, innovation, spontaneous initiative, decentralization, and limits on social controls whether exercised by governments, businesses, religious orders, trade unions, or others. Their experience suggests that market forces—in spite of all the limitations summarized in Section II above—are comparatively efficient allocators of resources and means of linking together an enormous web of economic activities. Yet it is hard to believe that they are a sufficient guide to the longer-term processes of structural change in which all societies are involved.

In fact, even in countries where market forces are most widely respected, the scope of public policies influencing structural change is very wide. It includes social, health care, and education policies affecting the size and quality of the labor force; provision of physical infrastructure; urban services; regional policies; environmental protection; natural resource development; promotion of scientific and technological research; support for agriculture; a variety of "industrial policies;" social security and welfare programs; and intervention in foreign trade and international investment.¹⁰

Only in a few cases, however, are these policies guided by some kind of coherent image of the desired future shape of the society, or even subjected to processes of coordination to minimize internal inconsistencies or mutual frustrations. Where such attempts have been made, as in the successive versions of the French

10. In this connection, Dr. Burkhard Strumpel has commented that affluent societies may develop an increasingly important third category of economic activities, guided neither by market forces nor by governments. He sees signs of such trends in the "informal economy" observed in several countries, including barter, "do-it-yourself," and small group cooperation. This kind of third category is of course paramount in primitive societies. The author is intrigued by the suggestion, but has too little sense of the magnitudes involved to evaluate their importance to economic growth patterns as a whole.

national plans, observers find them increasingly irrelevant to actual policies.

A respectable argument can be made that the cardinal aim of structural growth policy should be to provide *resilience*—the capacity to adapt smoothly and rapidly to unexpected change. Whether its sources are shifts in preferences, technological innovations, the curtailment of foreign markets or supplies, or new competition from some unexpected source. There is an analogy with planning for national defense by a country which harbors no aggressive designs. Its task is to canvass the array of possible threats to the national security, assign to each some estimate of probability and of severity if it occurs, and then organize the defense forces (and related diplomatic efforts) accordingly. In some aspects of economic security there are precise counterparts to this strategy of resilience: stockpiles of food and imported raw materials and reserve capacity in power and water supplies and in systems of transportation.

In this author's view, resilience is a necessary but not sufficient component of planning for structural change. He would complement it with affirmative guidance for certain strategic sectors, using market forces to the maximum for the implementation of those objectives and retaining a very broad area for untrammelled initiative and competition, including real rewards for successful innovation. The strategic sectors of mainly domestic concern include the educational and health care systems, transportation, urban settlement, local environmental protection, social security, and minimum income maintenance. The strategic sectors with both domestic and international implications include population policies (immigration and emigration as well as fertility levels, family planning, and settlement patterns); energy: food; regional and global environmental protection; and the broad shape of industrial adjustment and evolution. The shorter-term aspects of such strategic guidance would be related to macroeconomic demand management, while its longer-term aspects would need to be appropriately institutionalized at both national and international levels.

At the national level, that implies an intimate connection between long-term guidance for the strategic sectors and the critical

central agencies of government. the budgetmakers and monetary authorities. without letting longer-term objectives being lost under the well-known formula that "the urgent drives out the important." But institutionalization is not only a matter of bureaucratic organization. Unless its concerns also extend to the political level and the political discourse of the society, it is not likely to have much influence. The time horizon of electoral politics is often much shorter than the lead time involved in policies for structural change. Yet mobilization of environmental interest groups has demonstrated that long-term concerns can be brought into active political discourse—even if not always on an intellectually disciplined level.

VI. The International Dimension.

In the United States, in contrast to countries more dependent on foreign trade, the traditional procedure in making economic policies has been to formulate them first in purely domestic terms and only later, if at all, to see what modifications might be needed to take care of their international aspects. For the second group of strategic growth policy sectors summarized in section V, that procedure is no longer adequate. The move to interdependence is no more rhetorical cliché; it is a fact of life. The main features of this change are well known. Internationally traded goods and services now account for 10 percent of our GNP compared with 4 to 5 percent in the years before and after World War II. Since the early 1960s, exports have risen from 3 to 7 percent of manufacturing production, and much more for some categories. About one-quarter of all farm output is exported; for wheat, the share is over one-half. Although the United States is more self-sufficient in minerals than most industrial countries, the tendency is toward greater import dependence, conspicuously led by the case of petroleum. Income from investments abroad provides the foreign exchange for about one-quarter of our imports. The linkage with the world economy was dramatized in November, 1978, when defense of the external value of the dollar became a crucial criterion of domestic monetary policy.

These trends bring American experience closer to what has long been customary in Europe and Japan, even though public psychology and political discourse have not yet caught up with the

new realities. A similar intensification of interdependence extends to most of the developing world, with examples of extreme isolation, such as Burma or Cambodia, all the more remarkable for their exceptionality. Even the two principal communist countries, the USSR and China, whose continental dimensions have made relative self-sufficiency possible and whose doctrines have professed it to be desirable, are moving conspicuously toward greater involvement in international trade, investment, and technology transfer.

It follows that the international dimension now has to be incorporated from the start into the formulation of growth strategies. In many cases, such strategies can be made effective only with some measure of international cooperation. This point can be illustrated in a summary review of the principal sector involved.

1. *Population Strategy.* While policies designed to influence birth rates and urban settlement patterns are prototypically domestic, immigration and emigration are inherently international. With no large unsettled areas of the world inviting large-scale immigration, that kind of contribution to 19th century development in the Americas, Australia, and New Zealand cannot be duplicated—a regrettable fact since it probably helped to raise living standards in both the sending and receiving countries. But migration on a smaller scale has until recently supplied an important fraction of the work force in northern Europe and the thinly populated oil-producing countries of the Middle East; it is also a major issue in relations between the United States and Mexico. Migrant remittances contribute substantially to the balances of payment of several countries. Migration also involves international issues of “brain drain,” of political asylum, and of human rights.

It would lead us too far astray to open up here the social and ethical aspects of migration policies. But it is directly relevant that many European leaders have come to wonder whether a policy of moving capital and labor-intensive industries abroad might not have been wiser than the importation of guest workers on the scale practiced in the 1960s. A similar question might apply to a part of the American immigration from Mexico, although

many of the migrants are not seeking industrial employment, and the disparity in wage rates will keep that frontier under pressure for a long time to come. In any event, this aspect of growth policy would benefit from efforts to guide its general magnitude and to regularize the scale and conditions of migration through international agreement.

2. *Food and Agriculture.* In this field, every country already has some kind of growth strategy, either in the form of explicit goals or in the form of implicit targets in systems of price supports, market guarantees, or income supplements to farmers. At the Rome World Food Conference of 1974, there was an apparent world-wide consensus on international cooperation to expand food production in developing countries, create an internationally guided system of security reserves for the major cereal grains, and strengthen the mechanisms for emergency food relief. A few years of good harvests have undermined the Rome consensus and thwarted its translation into effective measures. Meanwhile, consumption has inexorably continued to expand with rising populations and improving living standards, China has entered world grain markets as a regular large-scale buyer, and another crisis period like the mid-1960s or the early 1970s is bound to occur within a few years.

What appears called for in this sector is a follow-through of the principles agreed at Rome, ultimately complemented by long-term projections of production expectations and efforts at harmonizing the various national strategies of the principal food exporters and importers. The gains from such harmonization could be substantial, but the obstacles should not be underestimated.

3. *Energy.* The importance of energy policy in relation to growth strategies in all countries—even those fortunate enough to be large exporters of energy materials—has become obvious to publics and policy-makers everywhere. The issues become less confusing if sorted out into their major categories, each of which requires national action but could also benefit enormously from international cooperation. In a more extended discussion recently published elsewhere, the author has identified four categories in

the following terms:¹¹ (a) completing adaptation to the economic consequences of the price discontinuity of 1973-1974 (to which might be added the further consequences of price increases in 1979); (b) protecting against the security dangers of supply interruption and of nuclear proliferation; (c) defining and moving to some form of longer-term energy sources to replace cheap oil and gas; and (d) avoiding, minimizing, or managing any oil supply and price "crunch" en route to the long-term alternative.

Although different forms of energy supply are suited to particular uses, there is sufficient overlap so that all kinds of demand and supply now interact, finally coming to focus on residual demand from those residual oil suppliers in the Middle East (notably Saudi Arabia) who combine unused production capacity with earnings beyond their current needs for imports. Actions to conserve energy anywhere, to discover new sources of conventional fossil fuels anywhere, or to develop economical means of exploiting unconventional energy sources—whether fossil fuel, nuclear, or solar—all affect the global energy balance, pricing policies, and the possibilities of supply interruptions. Both coal and nuclear fission—the only two large-scale energy sources which have the assured ability to replace depleting reserves of oil and gas—involve health risks and other major environmental hazards. Uninterrupted energy supplies at tolerable (and reasonably stable) prices are so critical to all forms of economic activity that the effort to secure them can give rise to major international tensions, including armed hostilities. Even among trusted friends and allies, such as the NATO member countries, fears that one or another is getting an unfair "free ride" are major sources of friction. No other set of issues of growth policy is so fraught with potential for world wide negative or positive-sum games on a huge scale.

In each of the four categories specified above, there are strong grounds for cooperative international action, although the relative weights of national and international considerations vary from area to area. In adjusting to higher energy prices, each oil-importing

11. See Lincoln Gordon, *Growth Policies and the International Order*, McGraw-Hill; for the 1980's Project/Council on Foreign Relations, New York, 1979, page 110 and Chapter 6 *passim*.

country must seek its own means of confining the inflationary impact without precipitating excessive deflation, recession, and unemployment. The central international task is to ensure that the new pressures on balances of payments do not lead to beggar-thy-neighbor policies of competitive currency devaluations or trade restrictions.

As pointed out at the beginning of this essay, the world economy proved more resilient in face of the "oil shock" of 1973-74 than was feared at that time. Even though the scale of price increases in the second (1979) round was smaller, they took place against a background of much greater fragility—higher unemployment and inflation rates in the industrial world and much larger debt servicing burdens in the developing countries. The international task of monitoring and supplementing the recycling of petrodollars and guarding against renewed trade protectionism is now correspondingly more severe. For the poorer developing countries among the oil importers, substantially greater volumes of aid will be essential to avoid serious setbacks in their development prospects, unless the exporters can be persuaded to favour them through some kind of two-tier concessional pricing.

Security against sudden interruption of supplies is also mainly a national responsibility, for which diversification of sources and creation of emergency stockpiles are the principal instruments. International arrangements for emergency sharing can provide some reinforcement, as well as a deterrent against politically motivated denials of individual importers. The limitation of nuclear weapons proliferation, on the other hand, is an international undertaking by its very nature. With the diffusion of nuclear science and technology, it has become evident that success in non-proliferation efforts requires the voluntary cooperation of the whole group of countries with a serious interest in nuclear energy, reinforced by a system of sanctions agreed among all but enforced collectively by the suppliers of nuclear equipment and services. Although the studies of the International Nuclear Fuel Cycle Evaluation will not be completed until early 1980, their work so far points toward several institutional innovations, including new kinds of rule-making for supply assurances and new forms of multinational management for spent fuel, waste disposal, and control of pluton-

ium. Developments of this kind will build on the foundation of exceptional authority already granted to the International Atomic Energy Authority.

The longer-term regime to replace low-cost petroleum is likely to differ from country to country, depending on available local resources, the structure of demand, and the capacity to pay for imports. As in the case of food, governments have a natural tendency to seek self-sufficiency in energy supplies, but that goal is physically unattainable for many countries and economically undesirable for many more. The transition will be spread over several decades and will also differ among countries.

While energy supply strategies will be formulated at the national level, they will be strongly affected by international considerations. That is obvious in the case of oil and nuclear fission, but also extends to such questions as the prospects for a greatly enlarged coal trade, transportation and marketing arrangements for liquefied natural gas, and technological cooperation on novel sources ranging from efficient windmills to photovoltaic cells, ocean thermal generators, biomass conversion, and nuclear fusion. The interaction of energy markets creates a strong convergence of interest in the discovery and exploitation of new fossil fuel sources, especially in the developing countries. Because exploration has been impeded by mutual suspicion between host governments and multinational energy companies, the World Bank has embarked on a fossil fuel development program which may provide a more favorable environment for their cooperation.

In the short run, the strongest compulsions for international energy cooperation arise from conditions in the oil market itself: the world's dependence on internationally traded oil; the prospect that global oil production will pass its peak within the coming decade or two; and the organized control of world oil prices by OPEC a group of thirteen developing countries. Countless man-hours have been devoted to the construction of elaborate mathematical models of the world oil market, in the hope of descrying the likelihood and timing of a possible supply-price crunch." But a difference of two or three million Barrels per day can convert a buyers' market into a sellers' market, as demonstrated in late 1978 and there are many unpredictable factors on both the supply and

the demand sides which can easily vary by more than those amounts. These circumstances constitute a classic case for maximizing resiliency, for organized contingency planning, and for erring on the side of anticipating the ultimately inevitable transition to other energy sources. The alternative is to risk a prolonged period of scarcity, in which supplies would be allocated either by price levels far higher than the costs of the ultimate substitutes (squeezing out all but the most affluent consumers), or by political alliances, or by the threat or use of military force.

The industrialized countries have taken some cooperative steps towards enhanced resiliency through the International Energy Agency with its emergency supply sharing arrangements, pressure for parallel measures of conservation, and promotion of cooperation in the development of new energy technologies. The Tokyo seven-power summit agreement (June 1979) to accept specific nation-by-nation oil import ceilings marked another substantial step forward. But there is no forum for organized cooperation among the oil-importing developing countries, which have been fearful of antagonizing their OPEC allies on broader issues of North-South relations. The same tension between desires for greater bargaining power and fears of confrontation has impeded effective three-way cooperation between the two groups of oil importers and the OPEC exporters.

If the United Nations system were now being designed *ab initio*, it would surely include a specialized agency for energy, parallel with those for food and agriculture, health, education, and labour. That kind of institutional development is not now in the cards because of a widespread (and easily understood) reluctance to create new bureaucracies and because much of the terrain is occupied by others, including the World Bank, the International Monetary Fund, and the International Atomic Energy Agency. There is a strong case for adding a low-key, small-scale International Energy Institute focussed on assisting developing countries with energy assessments, data improvement, technical training, and application of new technologies. But the most provocative idea for institutional development would be a petroleum commodity agreement, in which consumers acceptance of stable or slowly rising prices (in real terms) would be balanced by producers' commitment to supply continuity and floors under production levels. Short of a formal agreement,

one can imagine many possibilities of tacit understandings. All would be facilitated by some organization on the part of the oil-importing developing countries and by the reestablishment of a forum for the three-way dialogue broken off in 1977 with the termination of the Conference on International Economic Cooperation.

4. *Other Raw Materials.* No other raw materials are even remotely comparable with energy in their economic importance, capacity for world-wide disruption, urgency of technological transition, or environmental impact. Nor is there any serious danger of economic growth rates becoming seriously constrained through the exhaustion of physical mineral supplies on a time scale of decades or even centuries.

Affirmative policies for raw material development, however, are an important component of growth strategies for several reasons. The long-run trend towards stable or declining relative costs can be maintained only by continuous technological improvement in method of discovery, extraction, and utilization. For many developing countries the production and marketing of raw materials, and the terms and conditions of their development and sale, are crucial to prospects for adequate rates of growth and to hopes for modernization and diversification. At the same time, investment in non-fuel raw materials, like investment in oil exploration, is being hampered by mistrust between multinational mining companies and host country governments.

This is one field in which the often raucous North-South dialogue of recent years is beginning to show some signs of convergence on workable lines of policy. The elements include international monitoring of raw materials markets, with formal commodity agreements to limit price fluctuations in selected cases; broader arrangements to compensate for fluctuations in earnings from raw material exports; improvements in sophistication of mining laws and their administration; and development of mutual confidence between mining companies and host governments through new forms of concession contracts, joint ventures, participation of international financial institutions, or agreed procedures for the settlement of disputes. The opportunities for positive-sum games in this area are so large as to give hope that continued development on these lines

will gradually create a kind of case law of effective and internationally respected practices.

5. *Environmental Protection.* In terms of their impact on growth strategies, most environmental protection activities tend to be local or national, or confined to geographical regions involving only a few countries. The broader international issues have been well-defined in recent years, aided by the educational role of the United Nations Conference at Stockholm in 1972 and the subsequent work of the UN Environmental Program. The global issues are potentially of the greatest importance; they affect the great "commons" of the oceans, the atmosphere, and outer space. The record on cooperation to reduce ocean pollution is a poor one so far, and the effort to secure a comprehensive new legal regime for the seas has been even more frustrating.

Practical scientific cooperation in these fields, on the other hands, has continued to show promising gains, including collaboration among politically hostile countries. That spirit may change when more direct economic interests are perceived to be at stake, as well be evident from reflection on the idea of controlling fossil fuel combustion to avoid carbon dioxide overloading of the atmosphere. For the present, however, environmental protection does not appear to call for entirely new modes of cooperation or major institutional innovations.

6. *Industrial Adjustment.* In contrast, the issues of structural change in the industrial sector are of consummate importance in growth strategies. They are at the core of tensions in North-South relations. Their effective management poses some of the most difficult issues in both domestic politics and international cooperation. Unlike the case of energy, they are too diffuse to threaten the international order directly, but their indirect and longer-term consequences are fundamental to prospects for peace and for human dignity.

These strong statements reflect the conviction that industrialization is an indispensable component of successful development for the poorer nations of the world, notwithstanding the widespread discussions of "alternative development strategies" and "basic human needs." The particular modes of industrialization pursued by some developing countries in the 1950's and 1960's were certainly

misdirected—especially those focused on replacing imports of limited categories of consumer durable goods. With few exceptions, the dominant strategies of that period also neglected the urgent need for expanding agriculture and increasing agricultural productivity—policies which could have helped to raise incomes of the poorest segments of the population, reduce the pressures for excessive migration to the cities, and avoid the shift from net food exports to net imports experienced by much of the developing world. In addition, methods of industrial and agricultural production were frequently inappropriate to available productive resources, notably in overusing scarce capital and underusing plentiful labor.

Those warranted criticisms, however, apply to the kinds of industries selected and the kinds of production methods promoted; they do not detract from the fundamental importance of economic diversification and a major shift from primary production to industry as a necessary means for the improvement of living standards. If basic human needs are to be met through real opportunities to produce and earn, and not as some kind of dole, industrialization is an essential prerequisite to that goal as well.

But industrialization which uses resources efficiently and which proceeds rapidly enough to keep up with burgeoning populations requires linkage with the already industrialized world. Linkage is needed for technology transfer and the the rapid acquisition of skills for supplies of imported capital equipment, and for markets to earn the means to pay for technology and capital. (It need not be repeated that the technology should be adapted to local conditions rather than applied blindly, and the capital equipment should be suitable for higher labour intensity than in the industrial countries). The more successful developing countries as defined by conventional measures—whether income distribution is highly uneven (as in Mexico and Brazil) or relatively even (as in Korea, Taiwan, and Singapore) have all followed that course. There is no other in sight or on the drawing boards of econometric modellers which promises effective results.

That course calls for a receptive posture on both sides towards a continued expansion of North-South trade, investment, and technology transfer, and for the poorest developing countries an expan-

sion of northern aid. It implies a readiness to accept internal adjustments in the North even when economies are beset by unemployment, inflation, a general slowing of growth, and a loss of confidence in all forms of governance—all factors conducive to growing protectionism.

The king of solution to this dilemma sometimes suggested as part of a "new international economic order", namely a "planned redeployment" of labour-intensive industry from North to South, is chimerical. The North would not accept that kind of industrial planning for any purpose. Since experimentation and innovation largely concentrated in the industrial sector, the objections to generalized planning are well founded. At the same time, the progressive reshaping of the division of industrial labor between North and South, including new forms of the intra-industry trade which has been so fruitful in North-North relations, should aid the North in its search for new categories of high technology and "knowledge" industries and new ways of securing a more efficient allocation of resources.¹² The fear of coping with the "absorption of ten or twenty additional Japans" should be mitigated by the realization that each new Japan can become a partner in the absorption of its followers, as Japan itself has been doing to some extent in relation to its developing country neighbours.

Since the Bretton Woods system was conceived in the mid-1940s the preachments of international economic policy makers in the leading industrial countries have seemed to favour absolute free trade in industry if not in agriculture. The practice has been much more qualified, but it has also moved surprisingly far in that direction, especially among the principal members of the General Agreement on Tariffs and Trades (GATT). The industrial integration of additional countries into the system, however, will almost certainly require some systemic reforms. The main features of those reforms concern the spreading and the timing of adjustment impacts: sharing by the more industrialized countries, in the displacement of obsolescent industries and slowing the process sufficiently to permit its

12. The increasing interest of the Communist regimes in international trade and technology transfer suggests that East West relations will also become of growing importance in the international division of labor.

accommodation into the other on-going processes of domestic structural change. The OECD has wisely called for policies of "positive adjustment" so far mainly a phrase, but one which points in the right direction.

For heavily capitalized industries subject to severe cyclical fluctuations, international cooperation could help in the projection of global regional marketing prospects, the avoidance of excessively bunched investments, and the accelerated elimination of obsolete capacity. For other industries, the subjection of protective safeguards to orderly international review would improve the prospects for a shift toward positive adjustment policies. The realistic alternative are backward looking—a recrudescence of unilateral protectionism and a spiral of retaliatory measures from which the more advanced developing countries would probably emerge as the greatest sufferers.

VI The Potentials and Limits of International Management

The kinds of policy evolution suggested in this paper will be disappointing to those who seek a radical reform of the international economic order, to those who favor a quick transition to zero economic growth or to completely altered patterns of growth, and to those who are satisfied simply to carry on with "business as usual." That is inevitable with a diagnosis and prescription which combine some elements of planning for strategic sectors with a strong belief in the value of market forces, in resilience, and in the preservation of large areas of economic activity for the interplay of free competition and innovation. The prescription encourages the institutionalization of serious thinking about alternative visions of the future and deliberate choice of general directions, while retaining humility about the capacity to predict with certainty and a strong distaste for efforts to confine the future in a straitjacket. It accepts the condition of continuous change as inherent in dynamic societies enjoying or seeking high living standards, without counterposing such processes of change to the preservation of what is most valuable in the natural environment or in mankind's diverse cultural monuments and traditions.

The concept of affirmative growth policies for strategic sectors implies some kind of institutional evolution at the national level in

most countries and in various constellations of international groupings, from the regional to the global. The national level deserves priority attention, since many of the issues can be managed at the level and also because more effective national organization is a prerequisite to international action. For the most part, international action will take form of exchanges of information among national authorities and transnational organizations, coordination or harmonization of national policies, and development of codes of national behavior with varying degrees of international monitoring. Only rarely will there be need or possibility of direct international or supranational management. And given the exponential relationship between the numbers of countries involved and the difficulties of decision-making and administration, institutional design should search earnestly for means of decentralization to regional or functional groupings or for ways of representing large numbers in smaller bodies.

Behind these apparently modest lines of thought concerning both substance and procedures there lie two subjective judgments, one optimistic and one pessimistic. They are: (1) that the international order as it has been evolving does offer substantial opportunities to all nations for pursuing their developmental objectives, and that it is by no means static or wholly resistant to change; and (2) that the enormous inertia of attachment to nation-state and to the imagery of autonomy and sovereignty—however maladjusted to the needs or realities of the times—makes incremental reform the only possible mode of change short of a global war or a catastrophic economic crisis. But it should be emphasized that incremental reform, which works by building on existing institutions instead of sweeping them away and replacing them, is not necessarily slow or small. In such sectors as energy, incrementalism can be afforded but gradualism can not.

The two above judgements are complemented by a third (also optimistic and subjective: the conviction that incremental reform is the best path to durable change. In economic arrangements as in other spheres, radical reform has often followed the classic pattern of political revolutions, Euphoria; Terror; Thermidor; and Restoration. But even incremental reform does not take place without leadership. On that score the world's condition has been

worsened by the passing of American international economic hegemony, even from the viewpoint of many who complained about its exercise. No other single nation is in a position to assume that role; it must be replaced by new forms of collegial leadership. For the whole array of strategic sectors identified in this paper, a necessary although not sufficient, condition of successful collegial leadership necessary will be the active participation of the United States.

Book Reviews

I. GETTING FROM HERE TO THERE :

By W. W. Rostow

Macmillan Edition (London) 1979.

An attempt to place current international economic problems in historical perspective has brought forth yet another interesting book by Prof. Rostow : *Getting Fram Here to There*. Like the 'Stages of Economic Growth' (1960) this thesis also contributes some fresh ideas in the current debate on subjects like inflation, unemployment and future prospects for the world economy.

Confining the discussion to Western Contries, Prof. Rostow states that in all O.E.C.D. Countries there has been less than adequate level of 'investment since 1974. Moreover, the revival since the 1975-76 recession has been weaker than the revivals typical of the cycles since 1955. Identification of this phenomenon makes the basis of his main argument.

In Rostow's opinion this investment gap should be seen in the background of 1950-60 boom which was responsible for diffusion of Western technology in the world. This technological progress and diffusion resulted in the rise in incomes but kept prices of energy, food and raw materials low since 1951. The most significant factor responsible for raising rational incomes of developed countries were the terms of trade of European countries (rising from 85 in 1951 to 105 in 1972). This kept investment expanding.

But then came a sudden change in this trend. Upward shift in the prices of primary commodities, including fuel, since 1972 started recession in the post-war boom. While prices of primary commodities rose by 160% and of fuel by 300%, the prices of manufacture increased by 44% during 1972-74. Increased money wages in the wake of price inflation added fuel to fire. This compelled European Governments to adopt policies of monetary and fiscal restraint. The logical result of these policies was recession which reduced real incomes and damped the working of accelerator.

But, how to get from here to there ? Rostow believes that a lot will depend upon the prospects of making the first quarter of next century a success. Success of these twenty years can be fashioned out of appropriate set of policies tailored to the needs.

Thus, placed in historical perspective, Rostow foresees the first quarter of next century as a possible upswing of fifth Kondratieff. The Russian economist, Kondratieff, believed that prices and products in capitalistic countries oscillate in a rhythm of 40-50 years about an equilibrium path.

Rostow retraces the sequence of kondratieff upswing and downswing from 1790 to 1977. In this endeavour he identifies a trough in 1930's, a peak in 1951 and a trough again 1972 i.e. on the eve of price explosion. In the course of two centuries two periods are considered of great importance i.e. 1951-72 and 1972-77. During 1972-77, like its four preceding kondratieff upswings, the terms of trade, income distribution and rate of inflation changed. These changes are believed to have set into motion a severe recession, ending post 1945 boom.

A situation characterized by rising prices of raw materials can be corrected by a change in the direction of investment. Moreover unlike the previous situations wherein private capital rescued the situation by re-directing investment now, onus will have to be on Government spending. This is necessitated by the nature of new sectors such as pollution. Thirdly, the fact that energy policy is politically linked need be fully appreciated. Finally, the author emphasises that substitutes of energy will have to be found before a downswing of kondratieff takes place in this quarter century.

Rostow's scepticism about adequacy of neo-kenesian economics to deal with the upswing of 5th kondratieff underlines the general concern of economists about the effectiveness of policies in contemporary situation. It would indeed be absurd to think that a right level of effective demand will ensure the necessary scale and pattern of investment. It appears that under present circumstances effective and efficient use of resources would prove a more productive policy. Any required change in pattern of investment would not take place without conscious intervention of public policy. Hence a shift in thinking is needed ; a requirement to assign equal importance to supply as keynesians ask us to give to demand.

What about the cost of supplies? Though shortages of supplies and awakening of the material suppliers to the possibilities of price hike explain this phenomena but still more surprising is the great increase in the prices of industrial commodities. Industrial goods of U.S.A. alone showed more than two fold increase since 1967 (1967 = 100 1976 = 214) Looked at from the supply side, this phenomena can be rightly attributed to three factors viz., shortage mentality gripped international business world, inhibited supplies prior to 1971-74 and government regulations inhibiting plant expansion in some advanced countries. More appropriately, consequent inflationary pressure should have been tackled in the light of current trend in prices and products.

Rostow conceives anti-inflationary policy in the context of fifth Kondratieff upswing. Two significant recommendations made are: first, that increased resources be put aside for food, energy and raw materials, secondly, effort should be made to prevent raw material push inflation from setting off a reinforcing round of wage-push inflation. For high and steady growth with price stability a rather radical view is put across i.e. for sometimes an optimum solution would be fixed wages. It is believed that fiscal, monetary and other tools can be sufficient to stimulate demand to maintain full employment. Historical evidence on role of trade unions and employers' urge for profits does not fully support Rostow's remedy which requires acceptance of some restraint. It can be said without doubt that consensus on objectives and rules of wage-price policies are difficult to arrive at. Such policy recommendations would therefore carry limited utility.

Finally, this economic discussion also ends on a political note. The author is of the opinion that the democratic societies have to decide to what extent new political changes will be acceptable to them in the early part of next century. Are they willing to restrict individual freedom and private enterprise? Decisions on such issues assume importance in view of the fact that price system fails to reflect scarcity of essential factors. It is interesting to note that the case for greater direct controls is steadily gaining strength in the West.

II. ECONOMICS OF GROWTH AND BASIC NEEDS IN PAKISTAN

Dr. Muhammad Arif

Progressive Publishers, Lahore, 1979

Price Rs. 50/-

This book is a welcome addition to the available material on strategies of planning in Pakistan. It provides comparison based on empirical data about various phases of economic development in Pakistan.

Dr. Arif's work is pioneering in several respects. He uses actual data for Pakistan—one of the four Asian countries having more than half of the world's poor. He analyses the effects of the major development strategies—rapid growth, with redistribution and growth with basic needs approach. As against the studies in other countries, which established a number of cases where rapid growth lead to deterioration in the income distribution, his study about Pakistan during the sixties shows that the period of high growth was also marked by a rise in the income share of the bottom 40% and a fall in the share of top 20%.

Recent evidence confirms earlier speculations that in the early stages of development, the distribution of income tends to become more concentrated and to distribute the gains from growth equally, a deliberate policy is required.

His analysis results in two broad conclusions. On the one hand a high rate of growth is crucial to the poor, since the time when different lower income groups cross the poverty line is substantially affected by the rate of growth of the economy. On the other hand, the elimination of poverty can be speeded up at limited cost, by some effort at redistribution of assets, and even more, of consumption.

The book consists of eight chapters, chapter one deals with the three main approaches to the development of poor countries. First the "Pure growth" approach, in which growth becomes the main objective and redistribution of the gains of development is taken to be an automatic process.

The second is Redistribution with growth, introduced by Chenery and others in their book: "Redistribution with Growth."

The 'RWG' strategy for development gives us a model through which the gains from economic growth can be distributed more equally over the entire population of a country.

The third approach is called "BNA"—the basic needs approach introduced by 'ILO'—the International Labour Organisation. According to this approach the objective of development strategies should be the provision of food, clothing, shelter, health and education for all the people in the society.

Dr. Arif agrees with the Basic Needs Approach and has tried to apply this approach on Pakistan giving statistical data. However, his empirical study deals only with the provision of food. Other important components of basic needs like clothing and shelter are totally ignored whose data is just not available.

Chapter two and three give theoretical background of 'BNA.' Chapter four provides us with a critical and comparative analysis of various development strategies followed in Pakistan during the three five year plans (1955-70).

Chapter five explains RWG model of Chenery and its application to Pakistan. Dr. Arif is not perfectly satisfied with the result of the model and in the rest of the chapter, he gives us a model of basic needs and has made projections from 1980-81 to 1997-98 about the growth of per capita income in various deciles of population. However, his model is based on the study done by Lal Jayawardena on Sri Lanka in the book "Redistribution with Growth" by Chenery and others and its application on Pakistan is just appreciating.

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