THE ROLE OF INCOME DISTRIBUTION IN THE PROCESS OF DEVELOPMENT

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Meaning of Development

Most economists assume that the problems of economic development are solved by expertise. Their theories assume that the question of the nature of a good society -the kind of society towards which development presumably is leading- is already answered. Thus, the issue becomes one of solving practical problems. The good society is simply assumed to be an idealized version of the United States economy, that is, a society primarily dedicated to maximizing consumption of individually marketable goods and services. It is, therefore, understandable that economists have traditionally measured the level of economic development by the level of per capita income or product. It is a simple logical extension of this approach to focus on growing per capita income as the *deus ex machina* which will solve all problems.

There is much to be said for this approach since so far in history it has been the only way out of poverty for millions of people. However, serious doubt has been cast upon this approach during the past few years. Many countries -Brazil, Pakistan, Nigeria, even Mexico- have had rapid growth rates of per capita income while at the same time unemployment, inequality, and the level of poverty of the mass of the population have remained unchanged or even increased. A thin upper layer has prospered while the vast majority of the population remains entrapped in the backwaters of underdevelopment. Therefore, during the past several years a new look has been taken at the meaning of development. Dudley Seers (Seers, 1969), Mahbub ul Haq (Haq, 1971, 1973), Ivan Illich (Illich, 1969), and others have questioned the emphasis on chasing the consumption standards of the developed countries via economic growth. They argue for a direct attack on poverty through employment and income redistribution policies. In addition, people like

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Denis Goulet (Goulet, 1971), and Paulo Freire (Freire, 1970) argue that development must include »liberation« from oppression-cultural as well as political and economic. It is not economic growth *per se* that is the problem, but rather, the sole preoccupation with growth in a context of a highly unequal income distribution. Redistribution of income might very well have the effect of increasing the rate of growth.

In this paper we focus on the distribution of income as it affects the process of economic devolopment — both in theory and in the reality of the under-developed world today. First, we will elucidate a theory which explains the relationship between income distribution and economic development. Second, we will trace the historical process whereby income inequality led to what we today call underdevelopment. Third, we hypothesize that income inequality in the underdeveloped countries today is a leading factor in perpetuating that underdevelopment. The second and third points will require us to analyze the role of technology transfers, the role of multinational corporations (MNC's), the role of consumerism, and the role of the governments of the underdeveloped countries in creating and perpetuating underdevelopment. Finally, we will explore the relationship between income distribution and the direct attack upon poverty advocated by Seers, *et al.*

Income Distribution and the Process of Development

In this section we present a simplified model of the impact of income distribution upon the process of economic development. We stress the relationship between income distribution and the economic structure that emerges (Dobb, 1966).

The structure of final demand for consumer goods is determined by consumer preferences and by distribution of personal income. The composition of consumer goods output is determined, in turn, by that structure of final demand in conjunction with relative costs of production. In an economy with very unequal income distribution, the demand for most commodities (beyond the basic necessities of life) is primarily determined by the distribution of income. Income distribution is more important than the position that commodities occupy in an absolute scale of consumers' preferences. In a poor country, a highly unequal income distribution means that organ transplant clinics will be built in the capital city *instead* of water purification systems in the villages, automobiles will be produced instead of buses, key clubs set up instead of schools, coca cola plants built instead of dairies, etc. Both types of output cannot be produced simultaneously. This is the meaning of a low level of national income.

In the context of economic development, a highly unequal income distribution means that the growth process in the private sector typically proceeds primarily by providing new modern consumption goods for upper income people. Often the demand for these new consumer goods can be met only by imports. In other cases *domestic* production of these goods can take place only by using capital intensive techniques that are not able to achieve economies of scale because of of the small size of the market*. In either case, the impact on employment and therefore on the level of poverty may very well be negative.

The relationships between distribution and growth that we stress here may be highlighted by examining them for a hypothetical low income country having a near-equal income distribution. The closer such a country comes to equality of income distribution the more probable it is that demand curves for a wide range of non-basic commodities will exhibit discontinuities. For certain commodities and services (automobiles, refrigerators, televisions, washing machines, clothes dryers, trips around the world, a U. S. or European education for one's children, dishwashers, open heart surgery, etc., etc.) there may initially be almost no consumers at prevailing prices. In a low income country with an equal income distribution, people would not be able to afford these goods and services.

As prices for these items fall or as incomes rise, however, demand for them would become almost infinitely elastic. Everyone could now afford them and since no one had any of these items, everyone would presumably want one.** When growth proceeds and supply becomes adequate for all, the new demand curve might again, at the current price, become inelastic.

In this type of situation the development process would have to proceed by the introduction of additions of existing consumer goods (food, clothing, housing, education, medical care) to the whole population instead of by the introduction of new consumer goods for the upper income classes. The introduction of new consumer goods (particularly higher priced durables and services) would have to await a sufficient rise in total income so that most could afford them. Again, as in the previous illustration of unequal income distribution, low levels of national income mean that the production of both types of consumer goods is imposible. An actively intervening government could introduce new products collectively, i.e., laundromats instead of private washers and dryers (at great saving of capital).

Thus, there seems to be a certain paradox. The greater the degree of income equality in a poor country, the larger the number of commodities that would either not be available at all or would be in short supply. Yet this is not an indication that resources are inefficiently used. In fact it might mean that human needs are being more adequately met than there is a proliferation of automobiles, transplant clinics, Brooks Brothers suits, yachts, and so on.***

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*) There are exceptions where domestic demand plus export demand is sufficient to avoid excess capacity.

**) This efect would be reduced if the equal income distribution weakened demonstration effects.

***) Some degree of inequality is probably necessary as a reward to the experts (managers, engineers, etc.) who operate the economy but clearly nothing near what prevails, for instance, in Brazil where the top one percent of the population receive an income equal to the bottom 50 percent of the population.

We usually think of efficiency as (1) technical efficiency, and (2) the production of that basket of goods best suiting consumer preferences, given income distribution. However, we are arguing that income distribution determines consumer preferences. We assume that everyone has the same basic needs and argue that an equal distribution of income would allow everyone to meet their basic human needs, i.e., minimal levels of food, clothing, shelter, medical care, and education. However, at very low levels of national income, a country could only satisfy everyone's *needs* by failing to satisfy some people's wants. All the country's resources would go into production of food, clothing, housing, education, and medical care for everyone. No resources would be allocated to producing luxury apartments, trips abroad, etc.

At some point everyone's basic needs would be met. Then, we assume that goods can be grouped by the income level at which demand for them becomes very elastic. As a given income level is achieved economy-wide, that group of goods could be introduced for which demand has just become very elastic. The exact mix of the different goods could be determined by individual preferences.

The importance of income distribution to the process of economic development and underdevelopment can be elaborated by tracing that process over the past three centuries in the underdeveloped world, particularly in Latin America.* To that history let us now turn.

Income Distribution and the History of Underdevelopment

Probably the greatest weakness of many development economists is their lack of historical knowledge and understanding of the process of development in the West between the 17th and 20th centuries. The development of capitalism in the West presented the need for a change in the social structure so that the progress-oriented middle class could become the leaders of society. This often involved a more or less violent struggle for supremacy between the old social order and the emerging new one. This change in social structure with its consequent redistribution of income from the aristocracy to the middle class, enabled the economic surplus to be productively used. Productive use of the economic surplus was the special virtue that enabled capitalism to outstrip all prior economic systems.

If there is lack of understanding of the history of development in the West, there is almost total ignorance about the history of underdeveloped countries. The typical level of understanding is illustrated by Rostow's stages of growth model. The use of the stages of growth (or most other development models) as a framework for analysis of the process of development assumes that present day underdeveloped countries correspond to the »Traditional Society« stage or, at best, the »Preconditions« stage in the western developed countries. That is, that

*) We are aware of countries like Taiwan, S. Korea, Singapore and Hong-Kong which do not fit our model. They would all seem to be somewhat special cases, where, for whatever reasons, there have been progressive changes in income distribution and significant reductions in unemployment.

the present day developed countries were once underdeveloped, and that all countries move through all these stages. This obscures more than it illuminates historical reality. It denies that underdeveloped countries have had any history. But it is obvious that India today, for example, is radically different than 300 years ago.. This stage-approach totally ignores that 300-year history, including British colonial control, except to praise, that colonialism as the »intrusion« that broke through the crust of traditionalism and triggered the stage of »Preconditions«.

It would be more illuminating to have two alternative stages — one, Rostow's »Preconditions« stage, which is a transition from »Traditional Society« to the »Take-off«; and two, Underdevelopment, the stage following the breakup of traditionalism wherein the economy becomes distorted and frozen into the characteristics with which we identify underdeveloped countries.* India and Japan were both traditional societies 300 years ago-neither were underdeveloped-and today Japan is developed and India is underdeveloped. Why did Japan pass from traditional society through the preconditions to take-off and why did India get sidetracked into underdevelopment?

The answer requires us to study the history of the developed countries, the history of underdeveloped countries, and the history of the interrelation of the two sets of countries. We must pose questions about the role of imperialism and dependency (add most particularly the resulting income distribution) in *creating* underdevelopment. We must examine the relation between the *process of development* in Europe and America and the *process of underdevelopment* in Africa, Asia and Latin America. The now developed countries were never *underdeveloped* in the sense in which we have defined it. They were undeveloped at one time just as the now underdeveloped countries were once undeveloped. Underdevelopment is thus the outcome of an historical process.

While the economic history of low income countries shows great diversity, the essential causes of underdevelopment are captured by a striking common pattern. Again, we recognize that our model doest not fit every country but believe that it fits the great majority. The description of the typical pattern of change that follows should be read in this light.

Because of the particular historical experience of contemporary underdeveloped countries, the class structure in them has evolved in a substantially different way than in the West. Capitalism entered most underdeveloped countries through what the late Paul Baran called the »Prussian Way« — not through the growth of small, competitive enterprise, but rather through the transfer from abroad of advanced monopolistic business (Baran, 1952). Thus, capitalist development in

*) The simplest way to understand the meaning of underdevelopment is to see it as a process whereby an undeveloped country, characterized by subsistence agriculture and domestic production, progressively becomes integrated as a dependency into the world market through trade or investment. Its production becomes geared to the demands of the world market and particularly of the developed countries; with a consequent lack of integration between the parts of the domestic economy. The key, however, is dependency.

these countries was not accompanied by the rise of a strong property-owning middle class and the overthrow of landlord domination of society. Rather an accommodation was reached between the newly arrived monopolistic business and the socially entrenched agrarian aristocracy.

Therefore, there was little competition between enterprises striving for increased output and rationalized production. Nor was there accumulation of the economic surplus in the hands of entrepreneurs forced by the competitive system and the spirit of a middle class society to reinvest as much as possible in the continuous expansion and modernization of their business. The resulting social structure yielded an extremely unequal distribution of income. The typical result was production well below the potential level. Agriculture continued to be operated on a semifeudal basis. Waste and irrationality in industry were protected by monopoly, high tariffs, and other devices.

Starting with the historical studies of underdevelopment pioneered by Celso Furtado, Andre Gunder Frank, Keith Griffin, Osvaldo Sunkel, and others, a whole new approach to an understanding of this characteristic process of development and underdevelopment has been in the making, particularly in regard to Latin America. This »structural« approach builds on the historical perspective presented above. The development of capitalism and the world market is seen as a two-fold process. A highy dualistic *process of underdevelopment* of Africa, Asia, and Latin America is the consequence of the process of *development* of Europe and North America. This two-fold process created a situation of dependence in which the underdeveloped countries became appendages of the developed countries.

The structural approach tries to get behind statistical indicators such as the value of exports or imports and to identify the social forces or actors that are responsible for generating those indicators. This new approach emphasizes the role of dependence in shaping the internal economic, social and political structures (and thus the income distribution) and the external relations of underdeveloped countries. It leads us to examine the multi-faceted links between developed and underdeveloped countries which impede the genuine development of the Third World.

We now turn to our interpretation of the essential causes of this process of dependency and underdevelopment. The crucial aspect of this process is suggested by our model of the impact of income distribution on development and underdevelopment. As a result of the highly unequal income distribution created by narrowly based growth, stimulated by foreign business, the upper income groups adopted the consumption patterns of their counterparts in the developed countries. This shaped both the import and the domestic manufacturing sectors of the underdeveloped countries. The luxury consumption demands of this group were catered to instead of the subsistence needs of the vast majority. But the small upper income class was unable to provide a market for full industrialization.*)

*) It is difficult to be quantitatively precise about the size of the market necessary for full-industrialization. Generally, however, the smaller the country's population the more

Historically the process of underdevelopment has usually gone through three stages (Furtado, 1973). Each of these stages has been characterized by the creation or aggravation of income inequalities that produced a structure of consumption and investment strikingly unfavorable to economy-wide economic growth.

The first stage was characterized by domestic and international investment on the basis of the static comparative advantage of most poor countries in producing primary produtcs. In the second stage, the emphasis shifted to investment for import substitution. The third phase is typically characterized by the domination of the multinational corporation. Let us look at each of these stages in turn.

Comparative Advantage. At the time now developed countries were developing they moved into contact with what are now the underdeveloped countries. This contact took many forms. All were characterized by the subordination of Africa, Asia, and Latin America to the technological superiority of Europe and North America.

We do not want to emphasize the outright robbery, pillage, and plunder which the Europeans carried out in Africa, Asia, and Latin America. We could discuss at length the Europeans' enslavement of Africans; the policy of genocide which was carried out on the Indians of North, Central, and South America and on the aborigines of Australia and New Zealand; the expropriation of land; and the systematic destruction of domestic industries in India and wherever else they were found. These phenomena did contribute to the underdevelopment of the so-called Third World. The heart of the process of underdevelopment was, however, much less dramatic than slavery, genocide, and expropriation. It can be summed up as a process which created a structure of dependency.

The Europeans had greater command over resources, technology and power which created a structure of dependency and which has been maintained by the control over the surplus on the part of foreigners and domestic enclave groups. As a consequence of the distribution of income within the underdeveloped countries and the pattern of demand generated by this unequal income distribution, each year the underdeveloped countries became more and more dependent.

During the first stage, the countries of the West undertook certain kinds of investments in their colonies and semi-colonies. These investments were essentially of two types. One type of investment was the expansion of tropical agriculture through the creation of large plantations. The plantations produced crops in which there was a comparative advantage due to geography or climate. Thus sugar, coffee, cocoa, banana, coconut, pineapple, tea, and rubber plantations were established throughout Africa, Asia, and Latin America. These plantations used essentially the same type of capital for production as had been used before the Europeans or Americans arrived. They did achieve substantial economies of scale through reorganization; they shifted

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equal income needs to be distributed. Even in large countries (Brazil, India, Nigeria) the distribution of income must be equal enough to incorporate 40—60 percent of the population into the modernizing sectors.

land from subsistence to market crops, and introduced modern methods of transporting the crops to the coast and from there to Europe and North America. These investments brought about a large increase in output. However, the increase in productivity was primarily a result of a reallocation of resources that captured the gains from static comparative advantage through international trade. There was little in the way of technological change and thus almost no transformation of the structure of the society towards selfsustaining growth. No industrial transformation took place because of this expansion of agricultural output, as was taking place in the European countries.

The second type of investment made by European and North American countries was in extractive industries. Minerals of all kinds were found in Africa, Asia, and Latin America. The copper mines of Chile and Katanga, the tin mines of Bolivia, the bauxite mines of Jamaica, the oil fields of Venezuela, the Middle East and North Africa were the source of and enormous inflow of minerals to the industrializing economies of the West. Again, the effect of these investments on the economies of countries on the »periphery« of what was fast becoming a capitalist world system was of little consequence. There was no industrial transformation. There were no major technological changes in production that affected anything but the particular extractive industry itself. Transportation networks were established to move the minerals to the ports in order to be be transported to the countries of the developing capitalist world system — Europe and North America. The majority of people living in the poor countries experienced very few, if any, changes in their lives as the result of these investments. The extractive type of investments typically resulted in an even greater income inequality than did plantation agriculture because the linkages with other parts of the economy were fewer. This type of investment may also have left fewer benefits in the underdeveloped country than did plantations.

Thus neither type of investment — plantation agriculture or mineral extraction — had a transforming effect on the economies of the poor countries. The technology used in the periphery, *outside of enclaves*, before as after the investments was virtually the same.

This is not to say that no changes took place in the poor countries. There were changes. The countries of Africa, Asia, and Latin America were now well along on the way to becoming underdeveloped. Their market economies were becoming appendages of and dependent on the countries of Europe and North America. As plantation agriculture and mineral extraction (financed by the developed countries) grew the economies of the periphery became more and more dependent on the needs and demands of the developed countries and on the vicissitudes of the world market. For example, as plantation agriculture was introduced into the poor countries, workers were needed on the plantation. How were they recruited? The practices were different in different countries, but in the typical case a class of propertyless workers was gradually created, very often from previously self-sufficient farmers. The land they formerly farmed for themselves or as customary tenants was taken over for plantations in order to produce cash crops for export.*) As a result, formerly self-sufficient farmers now became subject to the vagaries of world demand (primarily from the developed countries) for the crops grown by the plantations. Seasonal unemploy-ployment of landless day laborers became the most visible sign of their dependency on what was happening far away in the developed countries.

There were large and obvious gains from this vast increase in productivity which came about as specialization took place more or less along lines of static comparative advantage. Many of the gains went to the investors and traders in the center countries. A second group of gainers were those Europeans and Americans who settled in the poor countries and served as managers and overseers in the mines and plantations. A third group of gainers were those local residents who became foremen and supervisors over the indigenous work force or were involved in the limited commercial expansion associated with the foreign investment.

What did these expatriate and local elites do with their gains? The answer is so obvious that it is often overlooked and so important to an understanding of the process of underdevelopment that it must be placed squarely in the center of any analysis of development and underdevelopment. They imported those goods from Europe and America which would make it possible for them to live in very much the same ways as their European and North American counterparts. They imported bottled water from Vichy, wine from Bordeaux, suits from Saville Row, automobiles from Detroit, and on *ad infinitum*. In each country of the periphery, cities grew up which to all intents and purposes were European or American cities. Visitors to the center of downtown Caracas or Sao Paolo would have a difficult time knowing they were not in London or New York. There are Hilton Hotels, enormous traffic jams, and all the latest electronic gadgetry. This standard of living has been imported from Europe and North America for the benefit of that tiny minority of the people who have been beneficiaries of the gains from participation in the international division of labor based on static comparative advantage.

The consumer preferences of this tiny minority are critically determined by American and European movies, television programs, and magazines. The members of this minority may live in Accra or Santiago but their minds are, to an important extent, formed in London, Paris, and New York. In order to maintain this level of consumption they have to receive very high incomes, as high as their compatriots in Europe and North America. And this is indeed the case. A pattern of consumption has been introduced into the poor countries which results from enormous inequalities of income and has led to a structure of production that further aggravates these inequalities. These inequa-

*) This is truer in Latin America than in Africa where communal self-sufficient agriculture persisted for years alongside plantation agriculture.

lities deepened underdevelopment and frustrate attempts to carry out a successful development program.

Import Substitution. Typically the process of underdevelopment began with the creation of a primary commodity exporting economy. The gains from trade were realized by the center countries, with their agents and the associated indigenous elite in the poor countries. The resulting concentration of income created a pattern of consumption of the well-to-do minority which was to a large extent based on imports from the developed countries.

The second stage of underdevelopment began with the shift to a policy of import substitution. This shift was precipitated by many factors. One factor was the balance of payments crisis in the underdeveloped countries triggered by the Great Depression in the developed countries. This crisis was dramatic evidence of just how dependent poor countries had become during the first phase of underdevelopment. A further push toward a policy of import substitution came in the 1950's. Restrictive trade policies in the center countries made it difficult for poor countries to earn enough foreign exchange to pay for their imports. This import substitution policy has clearly been identified with Raul Prebisch in Latin America and was largely based on his conclusion that foreign demand was insufficent for exports from poor countries. (This insufficiency of foreign demand is, in the 1970's, no longer the great fear it was in the 1950's and 1960's.)

Usually this policy of import substitution took the form of local manufacture of the same products which were previously imported for the consumption of the well-to-do- minority.*) This was only logical, because of the great inequalities in income distribution, the primary source of market demand for other than a narrow range of necessities was limited to the rich minority. This meant that profit-seeking firms found it most profitable to produce for that market.

The economic structure that resulted from import substitution in the periphery country exhibited a number of striking characteristics. The market for manufactured goods became bifurcated. One segment provided consumer goods for the bulk of the population with very low incomes. The other segment catered to the consumption demands of the rich minority.

The basket of consumer goods produced for the poor majority contained little diversity, was dominated by traditional necessities, and tended to remain unchanged because the real per capita income of this group remained more or less constant or even declined. The two major industries producing for the poor, food and textiles, have weak linkages (in an input-output sense) because they draw their inputs directly from primary production and sell their output directly to the final consumer; and are subject to few economies of scale or external economies.

On the other hand, the basket of consumer goods produced domestically for the rich minority, was characterized by a diversity

*) African countries, however, are barely into this stage.

of the products. This wide range of modern and constantly changing products required a complex array of industries, both domestic and foreign, for their production.

Ironically one result of this pattern of consumption and production was to place a heavy drain on foreign exchange earnings.*) Many items had to be imported in order to produce the import substitutes. Factories, spare parts, intermediate inputs, sometimes even raw materials, had to be imported to produce the modern consumer goods for the rich minority. The foreign exchange necessary to produce goods designed for the consumption basket of the rich was clearly higher than would have been necessary if economic growth had consisted of increased production of food, basic clothing, and housing for the consumption basket of the poor majority (see ILO). These industries would have used primarily domestic, not imported, materials and equipment.

A second and more important aspect of this characteristic pattern of production was that the capital requirements in the industries geared to production of consumer goods for the rich minority were generally much higher than they were in industries producing for the poor majority.**) It takes more capital relative to labor to build automobiles than to build bicycles. Thus, the industries established during the import substitution phase were relatively capital intensive. More generally, the industries producing for the rich minority used more relatively scarce resources (capital, skilled labor, and foreign exchange) than the industries producing for the poor majority. This meant a further concentration of income in the hands of the small, if somewhat expanded, minority of property owners, managers, technicians, professionals, and skilled workers. The continued concentration of income was necessary to generate the demand profile approprite to the structure of output. That is, inequality of income had to be maintained if the new consumer goods produced were to be sold.

There was some »trickling down« of benefits to the poor. Employment opportunities in the established factories were increased. However, since employment per unit of investment was much lower in the industries producing the new consumer goods, less employment was created than would have been if the investment had been in traditional consumer goods industries. The social overhead capital (roads, schools, hospitals) that was created to benefit these consumer goods industries certainly benefitted some of the poor. Again, however, they were not as beneficial as alternative public investments (rural water purification systems instead of urban hospitals, basic literacy programs rather than universities for the elite) that would have been possible with a more equal income distribution. Infant mortality rates fall as

*) The ensuing ballance of payments disequilibria helped generate the runaway inflations in certain Latin American countries which reduced further the consumption levels of the poor.

**) Ronald Soligo has summarized the findings of several attempts to measure the factor intensities of the goods consumed by the rich and the poor. All the studies have found that the basket of goods consumed is markedly different between the rich and the poor. In addition, the capital intensity of the goods consumed by the rich is higher and the labor intensity lower than in the goods consumed by the poor. (Soligo, 1974.)

a result of modern medical practices. Some of the poor who have moved to urban areas have electricity and running water available in the favelas, something they probably didn't have in the rural villages they left.

Our point should be clear. The import substitution phase typically brought no transformation of the economies of the periphery.*) No technological breakthrough took place in the way most work was done. As the result of the import substitution phase of development, in most countries, most peoples' lives were not much, if at all, improved.

Multinational Corporations. The third and current phase in the struotural process of underdevelopment is characterized by the movement of multinational corporations (MNCs) into the manufacturing sector of periphery countries.**) Once a fair-sized domestic market had been established during the import substitution phase, the MNCs realized that it would be profitable to set up production facilities within the underdeveloped countries for production for the local market. This phase is also characterized by an aggravation of income inequality with consequent growth patterns that impede economy-wide economic development.

In the developed countries, competition between large corporations has long taken the form of product innovation instead of price reductions. Thus, growth in the developed countries has more and more relied on the introduction of new consumer goods. As the MNCs moved into the underdeveloped countries they brought this emphasis with them. In addition, they found that this emphasis fit into the prevailing structure of income distribution and the consequent structure of »tastes« for goods. Thus, the MNCs concentrated on producing new consumer goods for the rich minority.

When the MNCs built factories in the underdeveloped countries they almost invariably introduced exactly the same technology they were using in the developed countries. This technology was readily available, it was already embodied in physical capital (including used machinery and equipment whose commercial life colud be extended by transfer to underdeveloped countries), and the companies knew how to manage factories which were using it. The design of new technologies which would better fit the factor endowments of the underdeveloped countries might have required a vast expenditure on research and development. By lowering profits, this would have made investments less attractive to the individual MNCs.

Since the technologies used by the MNCs tend to be labor saving, their impact on income distribution must increase inequality if there are no government transfer programs. There is a lesser increase in employment with capital intensive technologies. The extent of the labor saving nature of this technology can be seen in a recent study of 257 manufacturing firms throughout Latin America, in which it was found

*) There are obvious exceptions, e. g., Korea, Taiwan, Japan.

**) This phase is much more typical of Latin America than of sub-Saharan Africa.

that MNCs use only about one-half of the number of employees per $ 10,000 of sales used by local firms. Also there seemed to be no appreciable capital-saving. Many other studies show the same result (Muller, 1973).

Recent research indicates that some private businesses and government agencies in underdeveloped countries tend to use modern, capital intensive technologies even when labor-using, capital-saving alternatives are available. (Wells, 1972 and Thomas, 1972). Modern technologies are better known to many involved in the process of choosing technologies; they give more prestige to those involved; and make control from the top easier.

A typical structure is emerging in this third phase of underdevelopment. This emerging structure is characterized by the development of three separate sectors in the economy.

One sector is dominated by the MNCs. This is the sector where, because product innovation is so rapid, control of technical progress is the most important source of market power: durable consumer goods, machinery and equipment, electronics, computers, chemicals, and drugs.

The second sector is more and more coming under the control of the governments of the underdeveloped countries (at least of the most active ones). This is the sector where production consists of standardized, intermediate products such as steel and petroleum in which innovation of productive techniques is more important than product innovation. Since products are more standardized and turnover of fixed capital is slow, the rate of innovation tends to be slower and thus less crucial as source of market power. A second part of this sector is the growing physical infrastructure of roads, docks, electric power facilities, and so on.

The third sector has been left to local capitalists. The sector consists of industries, such as food and textiles, that produce nondurable, traditional consumer goods for the mass of the population. Since in underdeveloped countries these industries are characterized neither by product innovation nor by innovation of productive techniques, control of technical progress as a source of market power is not of major importance. Also firms in these industries have lower effective rates of return. For these reasons, MNCs, to date, have not moved into these industries except in certain speciality lines such as luxury foods where product innovation once again becomes of major importance.

In addition to new products and labor-saving technology, MNCs have brought something of even greater to the underveloped countries — the ideology of individual-consumption-oriented development. However, if the goal of development policy is to reduce unemployment and inequality, the transfer of this ideology to the rich and poor alike in the underdeveloped countries has had negative effects.

The ideology of individual-consumption-oriented development had already taken root during the first two phases of underdevelopment but the MNCs have brought the awesome power of modern advertising with them to nurture that ideology in the underdeveloped world. The existing rich minority were, of course, more than willing to buy the message that the good life comes from increases in consumption of individually marketable goods and services. But there is more to it than this. When the rich minority believes they must have individual washers and dryers instead of laundromats, and private automobiles instead of public transportation and when they control the economic surplus because of the inequality of income distribution, more and more of that surplus flows into the purchase of the new produtcs introduced and promoted by the MNCs. This leaves relatively less and less of the surplus available for development whether through direct investment or indirectly through taxation. As the rich minority becomes more and more accustomed to these consumption levels, the less they will accept development programs that restrict those privileges. Witness Chile.

This consumption ideology has even »trickled down« to the poor majority in the underdeveloped countries. The poor, believing they will never change their basic lot in life, except by luck (such as winning the local lottery), find they can at least share vicariously in the »good life« through television and even participate on the fringes by drinking Coca Cola, wearing the latest lipstick, and eating white bread. Many would ask, what is wrong with consumption? Isn't totalitarian control the alternative to consumer democracy? It is even argued that the psychological benefits from spending their money on transistor radios may outweigh the physical benefits from spending their money on meeting basic needs for food, clothing and shelter. This is somewhat ingenuous when speaking of the poor in underdeveloped countries. In Peru, for example, due to malnutrition, every year a significant number of babies suffer irreparable brain damage. Creating and satisfying wants for lipstick, Coca Cola, white bread, and transistor radios while basic needs remain unfulfilled helps maintain the mass poverty characteristic of underdevelopment. Multinational and local corporations determine, through their promotion and advertising campaigns, which products give psychological satisfaction. To speak of consumer democracy, when the producer has power to manipulate consumers' tastes and where income is so unequally distributed, is to obfuscate the real issues.

The Results of Development with an Unequal Income Distribution

On result of the typical process of underdevelopment that we described in the last section have been the substantial increases in the GNP of many underdeveloped countries. Over the period 1960—1971 *per capita* gross national product (GNP) grew at an average annual rate of 3.3 percent in Jamaica, 3.5 percent in Mexico, 2.7 percent in Brazil, 6.5 percent in Iran, 7.1 percent in Taiwan, 3.1 percent in Malaysia, 3.7 percent in Turkey, 4.6 percent in Ivory Coast, 7.4 percent in Korea, 4.8 percent in Thailand, 3.5 percent in Kenya, 3.7 percent in Pakistan (World Bank Atlas, 1973).

In addition to the growth in GNP, however, there was growing income inequality. Irma Adelman and Cynthia Morris have recently completed a massive cross-section study of income distribution in forty-four non-communist underdeveloped countries during the post World War II period (Adelman and Morris, 1973). Their results suggest strongly that as economic growth begins in very poor countries, the share of income going to the richest 5 percent of the population shows a »striking« increase while the income going to the bottom 60 percent of the population falls, both relatively, which we already knew, but in certain cases *absolutely* as well. That is, the bottom 60 percent of the population have less to live on after growth begins than had before. As the growth process widens and spreads throughout the economy, they found that while the top 5 percent continues to gain, the income of the bottom 40 percent of the population continues to fall both relatively and absolutely. This increase in income inequality and mass poverty continues until the countries reach an income level of roughly $400—500 per capita.

A recent World Bank study has presented arresting data on the distribution of income in a wide range of underdeveloped countries (Chenery *et al.*, 1974). They found that the bottom 40% of the people get less than 10% of the national income in 15 countries including Kenya, Iraq, Ecuador, Turkey, Colombia, Peru, Jamaica, Brazil, Panama, Venezuela. This same study found the top 20% receiving more than 60% of the national income in 15 countries including Kenya, Ecuador, Iraq, Turkey, Brazil, Peru, Jamaica, Mexico, and Venezuela. This study confirms the impression found by Adelman and Morris — that over the 1960's the situation has worsened.

Evidence from some Latin American countries support this picture. In Mexico, the ratio of the per capita income of the richest 20 percent of the population to the poorest 20 percent increased from 10 to 1 in the early 1950s to 17 to 1 by the middle 1960s (Muller, 1973). Another study of Brazil shows that the top 1 percent of the population now receives the same *total* income as the bottom 50 percent (Furtado, 1973). The same type of information from other countries adds further evidence. In India, the bottom 45 percent of the population is now living below the poverty line ($ 50 per year income) where malnutrition begins and, more importantly, the per capita income of this group has declined over the past twenty years while the per capita income of the country has increased (Chenery, *et al.*, 1974). In Pakistan, during the hayday of rapid economic growth in the 1960s, real wages in the industrial sector declined by one-third (Haq, 1971). These results are what we would expect to emerge from the process of development (underdevelopment) described in the previous section of the paper. An individual-consumption-oriented development program, combined with capital intensive technologies, will tend to worsen an already highly unequal income distribution; and frequently lead to an increase in mass poverty.

Another consequence of a development program aimed at raising the consumption of the wealthier minority in an environment of inequality is increasing unemployment (or at least no decrease). In Trinidad, 1953 through 1968, per capita income increased more than 5 percent per year while unemployment increased each year as well (Seers, 1969). An OECD study estimated urban unemployment at 15 percent in Ceylon, 14 percent in Columbia, 12 percent in the Phillipines, and 21 percent in Guyana (Turnham and Jaeger, 1970). Pakistan's experience of rapid growth also shows unemployment increase each year (Haq, 1971). Hans Singer has recently estimated that unemployment in underdeveloped countries (not counting disguised unemployment) amounts to at least 25 percent of the labor force (Singer, 1971). Turner, in a study of fourteen underdeveloped countries, found unemployment growing at a rate of 8.5 percent per year (Singer, 1971). The Prebisch Report concluded that for Latin America, GNP would have to grow at a rate of 6 percent per year between 1970 and 1980 just to maintain the unemployment levels of 1960 (Prebisch, 1971). Again, this is what we would expect from devélopment programs of the type described above. Emphasizing the production of consumer goods for the rich minority means investing in industries where the labor content per unit of investment and per unit of output is substantially lower than it is in industries producing for the poor majority. In addition, within those industries more capital intensive technologies are used than would be used if the technologies had been developed with the underdeveloped countries factor endowments in mind, instead of simply importing the technology used in the developed countries (Thomas, 1973 and Wells, 1972). At the present time it is the MNCs that are the principal promotors of this style of development.

We conclude that the process of development (underdevelopment), in particular of the past twenty years, has brought at least three important consequences: increasing income inequality, increasing unemployment, and no decrease of poverty for the majority of the population.

Income Distribution and New Development Strategies

The continuation of highly unequal income distribution patterns in underdeveloped countries means that development programs must be based on the consumption demands of the rich minority. This in turn implies the perpetuation of underdevelopment — of mass poverty, unemployment, and inequality. Inequality of income signifies that luxury goods industries will be expanded while industries producing traditional basic necessities for the poor majority will be neglected. Reliance on individual consumption demand means that automobiles will be produced instead of bikes and buses, washing machines and dryers instead of laundromats, Coca Cola instead of milk. Emphasis on individual, rather than collective, consumption means that many more durable consumer goods will be produced than is necessary. Individually owned washing machines, television sets, and lawn mowers that sit idle most of the time use more resources than is necessary. Their production uses up resources that could have been used to supply those same consumer durables to all of the people on a collective basis — i.e., laundromats, community centers.

Some people would agree with the analysis we have spelled out in this paper, but would argue that the present strategy for development will work in the underdeveloped countries today just as it worked earlier in Western Europe, North America and Japan. They would argue that the results of capitalist development in the 19th century were not that different from the results we have found in today's underdeveloped countries. Capitalist development in Europe led to: increasing inequality of income during the development process; high levels of unemployment, it took decades to absorb the unemployed in England; control of the social surplus by the capitalists who re-invested it to produce goods for themselves; a virtual absence of income re-distribution during the developmental process.

We would agree that in these respects the experiences are very similar. However, we would reiterate the crucial differences. (1) Today the new goods come in from outside rather than from within the country itself. (2) The technology is also imported and embodies a capital/labor ratio which is inappropriate to the factor endowments of the underdeveloped countries. (3) The production units today are monopolistic or oligopolistic and are often owned and controlled by the multinational corporations. (4) The unemployment problem is much greater today because of the rapid increases in population. (5) Today's developed countries were never colonies. They got to keep the gains from increased production and international trade. This is not true for today's underdeveloped countries. (6) Today's developed countries didn't have a socialist alternative. Today's underdeveloped countries do have such an alternative. The example of China is a very powerful force in the underdeveloped world today. For here is a country with a very modest level of per capita income which is feeding, clothing, housing, educating, and medically caring for a population of 800 million. No capitalist underdeveloped country is able to meet these basic human needs for all their people. Thus, the socialist alternative exerts great pressure on such governments as India, Pakistan, and Bangladesh where thousands have recently died from starvation.

If they are to escape underdevelopment, the underdeveloped countries must find an entirely different type of development strategy than that based on the consumption pattern of the rich minority. The reliance on growth rates must be rejected. Instead, a direct attack upon the worst forms of mass poverty, inequality, and unemployment must be mounted. The most elemental health, food, housing, and clothing needs of all the people must be met out of production before luxury consumption goods are introduced. If income is distributed more equally the problem will more or less take care of itself. The new pattern of consumption demand would lead to a new output basket embodying less capital and foreign exchange inputs and more labor inputs. This would make more effective use of limited capital and foreign exchange resources. The new pattern of consumption demand would, there therefore, maximize the employment of labor and reinforce equality in income distribution. Finally, there is no evidence that a more equal income would significantly reduce aggregate savings and, therefore, the growth rate of output.

If, in addition, every economic policy is evaluated for its impact on employment, this in itself will be a powerful means to redistribute income and reduce poverty. If income cannot be redistributed in the beginning, market demand must be rejected as a guide to production and replaced by specific national production targets for basic necessities. In a country that is very poor this is not as difficult as might first appear. It is a matter of producing a very few types of a narrow range of basic necessities. Market demand is a very poor guide when the majority of the population have little money income.

The key question is whether such a strategy of development can be conceived and implemented given the constraints of the present political and economic structures in the underdeveloped countries and in the world at large. The economy that prevails in most underdeveloped countries combines the worst features of capitalism and state or centrally planned socialism — the inequalities of capitalism without its incentives and the bureaucracy of state socialism without its equality and welfare (Haq, 1971). Obviously, sweeping political and economic changes are needed. Whether the underdeveloped countries can manage such a change, and whether they will be allowed (by the dominant developed countries) to change without violent revolutions is possibly the critical question of our time. The answer given by the military coup in Chile is not encouraging.

It is conceivable that the ruling classes in an underdeveloped country will voluntarily give up their vested interest in the *status quo* and allow income to be redistributed and control over the economic surplus to be transferred to other hands in order to promote social and economic development. It is possible that Albert Hirschman's policy of sequential reforms will succed. Many doubt, however, whether the reform will succeed in transforming the social and political structures of the underdeveloped countries. To them it seems more likely that the change will not come about by completely peaceful, evolutionary means, but rather by a social revolution that will destroy the power of the old ruling classes.

Ivan Illich argues that the underdeveloped countries must take charge of their own development (Illich, 1969). They must reject the meaning given to development by the rich countries and by their own elites if for no other reason than because they will never have the resources to pursue that type of development. That is, the resources available for development now and over the next several generations will simply be inadequate to support a development program geared to maximum production of individually marketable goods and services. Therefore, the resources must be reallocated from serving the rich — private automobiles, organ transplant clinics — to aiding the poor — public transportation, paramedics, water purification. Exactly, the conclusions to which our analysis led us.

Illich further argues that revolutionaries in the underdeveloped world have succumbed to the same delusion. They claim that a change in political regime will permit them to extend the privileges of the rich to all. Illich's own program, however, also requires a revolution; if not of iron and blood, at least one of ideas. It involves a radical shift in the pattern of power. It requires the kind of »liberation« movement that Gustavo Gutierrez (Gutierrez, 1972), Paulo Freire (Freire, 1972), and those in the »theology of liberation« movement call for. Development worthy of human beings will come about only when the mass of people recognize their oppression and consciously act to change it. That is, a revolution in ideas and values must accompany a transformation of structures so that a process of selfsustained humanization can be initiated.

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ULOGA RASPODELE DOHOTKA U PROCESU RAZVOJA

Charles K. WILBER i James H. WEAVER

Rezime

Većina ekonomista meri nivo ekonomskog razvoja nivoom dohotka po glavi stanovnika, a uspeh politike razvoja stopom njegovog rasta. Međutim, mnoge zemlje ostvaruju veliku stopu rasta dohotka po glavi stanovnika, a ipak imaju nezaposlenost, nejednakost i nepromenjeni ili pogoršani nivo razvoja širokih masa stanovništva. Ovim radom se želi objasniti gornji fenomen pomoću analize raspodele dohotka.

Pre svega razmatra se odnos između raspodele dohotka i ekonomskog razvoja. Zatim se analizira istorijski proces koji je nejednakost dohotka dovela do onoga što se danas naziva nezaposlenošću. Na kraju, dolazi se do zaključka da je nejednakost dohotka u nedovoljno razvijenim zemljama vodeći faktor u unapređenju razvoja.

Raspodela dohotka i razvojni proces

U privredi sa vrlo nejednakom raspodelom dohotka tražnja većeg dela dobara (svega osim najosnovnijih životnih potreba) uslovljena je pre svega raspodelom dohotka. U siromašnoj zemlji, velike razlike u raspodeli dohotka označavaju da je proces rasta privatnog sektora zasnovan na proizvodnji novih modernih potrošnih dobara koje zadovoljavaju potrebe ljudi iz najviše grupe dohotka, a ne na proizvodnji tradicionalnih potrošnih dobara koja traži sirotinja. Obe ove proizvodnje se ne mogu realizovati istovremeno. Ovo je u stvari obeležje niskog nivoa nacionalnog dohotka.

Raspodela dohotka i istorija nedovoljne razvijenosti

Po svoj prilici, najveća slabost mnogih ekonomista koji se bave razvojem jeste nedovoljno poznavanje istorijskih činjenica i nerazumevanje procesa razvoja na Zapadu između sedamnaestog i dvadesetog stoleća. Ako je istorijski razvoj Zapada nedovoljno dobro shvaćen, razvoj nedovoljno razvijenih zemalja je potpuno nepoznat. Upotreba većeg dela etapa modela rasta poriče da su nedovoljno razvijene zemlje imale bilo kakvu istoriju. A jasno je da se današnja Indija, na primer, radikalno razlikuje od one pre tri stotine godina. U toku poslednja tri veka Indija je prošla kroz proces nerazvijanja umesto kroz proces razvijanja. Ključ za rešenje ovog procesa je raspodela dohotka i njegova važnost može da se razmotri ako se prati proces nerazvijenosti u Trećem svetu u toku poslednja tri veka. Istorijski, proces nerazvijenosti može se podeliti na tri etape: komparativna prednost, zamena uvoza i multinacionalne korporacije.

Relativna prednost

Evropske investicije na bazi relativne nadmoći stvorile su strukturu zavisnosti i podređenosti kod današnjih nedovoljno razvijenih zemalja. Investicije u tropsku poljoprivredu i prerađivačku industriju nisu transformirale proizvodni proces kolonija. Van enklava koje su proizvodile za izvoz privreda je ostala nepromenjena. Dobit od investicija, po povratku u zemlju, ide u ruke onih koji napuštaju svoju otadžbinu i delimično u ruke lokalne elite, čime se stvara velika nejednakost u raspodeli dohotka. Bogata elita uvozi kapitalno intenzivna potrošna dobra iz Evrope da bi živela na način na koji Evropljani žive. Ovo stvara strukturu zavisnosti — siromašne zemlje postaju zavisne od razvijenih zemalja kako u tražnji izvoza tako i u ponudi uvoza.

Zamena uvoza

Po pravilu, proces nedovoljne razvijenosti otpočeo je stvaranjem privrede za izvoz primarnih dobara. Druga faza nedovoljne razvijenosti otpočela je prelaskom na politiku zamene uvoza. Ovo je obično ima-

lo oblik lokalne proizvodnje onih dobara koja su ranije uvožena za potrebe bogate manjine. To je sasvim logično. Zbog velike nejednakosti u raspodeli dohotka, primarni izvor tražnje na tržištu (svih dobara osim onih koja zadovoljavaju najosnovnije potrebe) predstavlja bogata manjina. Preduzeća koja jure za profitom došla su do zaključka da je najprobitačnije proizvoditi za ovo tržište. Tako se tržište sekundarnih proizvoda račva. Jedan segment je proizvodio potrošna dobra za široke mase stanovništva a drugi za bogatu manjinu. Važan aspekt ovog modela bio je da je tražnja kapitala za proizvodnju potrošnih dobara za bogatu manjinu bila daleko veća nego ona za proizvodnju dobara za siromašnu većinu. Kapitalno intenzitvne fabrike su doprinele koncentrisanju dohotka u ruke male, iako nešto proširene, manjine posednika, menadžera, stručnjaka, kvalifikovanih radnika. Nešto malo koristi je procurilo siromašnima, ali etapa zamene uvoza je uglavnom preobrazila periferiju privrede.

Multinacionalne korporacije

Treća i tekuća faza strukturnog procesa nedovoljne razvijenosti karakteriše se premeštanjem multinacionalnih korporacija (MNC) u prerađivački sektor Trećeg sveta. S obzirom da se tehnologija koju ove korporacije upotrebljavaju uvozi iz razvijenih zemalja, ovim premeštanjem ostvaruje se ušteda rashoda na radnu snagu, što u krajnjoj instanci dovodi do daljeg povećanja razlika u dohotku. Pored novih proizvoda i tehnologije koja smanjuje tražnju radne snage, multinacionalne korporacije donele su još jedan mnogo važniji uvoz u nedovoljno razvijene zemlje — uvoz ideologije razvoja orijentisane ka individualnoj potrošnji. Ova potrošačka ideologija »procurila« je čak i do najnižih slojeva siromašne manjine. Njena posledica je pogoršanje zahteva za kapitalom po potrošaču.

Rezultati razvoja sa nejednakom raspodelom dohotka

Jedan od rezultata tipičnog procesa nedovoljne razvijenosti je znatan porast bruto nacionalnog dohotka u mnogim nedovoljno razvijenim zemljama. Međutim, pored porasta bruto nacionalnog dohotka, porasla je i nejednakost u raspodeli dohotka. Druga posledica razvojnog programa koji je imao za cilj povećanje potrošnje bogate manjine u uslovima nejednakosti je porast (ili u najmanju ruku stagnacija) nivoa nezaposlenosti. U ovom radu smo došli do zaključka da je proces razvoja (ili nedovoljnog razvoja) u toku poslednjih dvadeset godina imao tri značajne posledice: porast nejednakosti u dohotku, porast nezaposlenosti i »očuvanje« nivoa siromaštva većine stanovništva.

Raspodela dohotka i nova politika razvoja

Nastavak politike velike nejednakosti u raspodeli dohotka u nedovoljno razvijenim zemljama zahteva da se programi razvoja zasnivaju na tražnji bogate manjine. Ovo povlači nastavljanje postojećeg sta-

nja nedovoljne razvijenosti — masovnog siromaštva, nezaposlenosti i nejednakosti. Da bi se nedovoljno razvijene zemlje izvukle iz zaostalosti, potrebno je pristupiti potpuno različitoj strategiji razvoja, strategiji koja se ne zasniva na tražnji bogate manjine. Ako se dohodak raspodeljuje ravnomernije, problem nerazvijenosti će se rešiti manje više sam po sebi. Ključno pitanje je da li se takva politika razvoja može sprovesti u okviru ograničenja koja postavljaju postojeće političke i ekonomske strukture u nedovoljno razvijenim zemljama i u svetu uopšte. Da li će nedovoljno razvijene zemlje uspeti da sprovedu takvu promenu, da li će im vodeće razvijene zemlje dozvoliti da to učine, bez burnih revolucija, to je po svoj prilici kritičko pitanje današnjice.