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CAPITALISM, UNDERDEVELOPMENT AND THE FUTURE OF THE POOR COUNTRIES

by

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ABSTRACT

"Capitalism, Underdevelopment and the Future of the Poor Countries"

by Thomas E. Weisskopf

I argue in this paper that capitalism in the poor countries of the modern world is likely to perpetuate underdevelopment in several important respects. First, the increasing integration of the world capitalist system will tend to heighten the economic, political and cultural subordination of the poor countries to the rich. Second, capitalist institutions within the poor countries will tend to aggravate rather than to diminish inequalities in the distribution of income and power. And third, capitalism will be unable to promote in most poor countries a long-run rate of economic growth sufficiently rapid to provide benefits to the whole population or to reduce the income gap between the poor and the rich countries.

The perpetuation of underdevelopment will affect not only the future of the poor countries. I argue that it will result also in increasing conflict and increasing potential for violence throughout the world. The likely failure of capitalism in the poor countries points to the necessity of radical social change in order to construct a decent world society and to achieve a just basis for world peace. Moreover, the negative consequences of capitalism for the poor people of the world will create the basis for revolutionary movements aiming to achieve these goals.

CAPITALISM, UNDERDEVELOPMENT AND THE FUTURE OF THE POOR COUNTRIES

Since World War II, much attention has been focussed upon the prospects for economic development in the poor countries of Asia, Africa and Latin America. The dissolution of most of the old colonial empires generated widespread expectations that a new era of economic growth and social advance could begin in the underdeveloped areas of the world. Many observers in the rich countries of the West expected that progress would follow from the penetration of modern capitalist institutions into societies that had previously been predominantly traditional and precapitalist.

The postwar period has in fact been characterized by the growth and spread of capitalism throughout the non-socialist world. On the one hand, international trade and foreign investment have multiplied rapidly in recent decades[1] as a newly integrated world capitalist system has arisen in the wake of the disruption caused by two world wars and a major worldwide depression. On the other hand, capitalist forms of production and organization have grown in scope and significance within most of the poor countries -- partly in response to the growth of international capitalism[2]. While the degree of penetration of capitalist institutions into the poor countries varies from one country to another, the overall trend is unmistakeably clear.

Contrary to the conventional wisdom, I shall argue in this paper that capitalism in the poor countries of the modern world is likely to <u>perpetuate</u> underdevelopment in several important respects. First, the increasing integration of the world capitalist system will tend to heighten the economic, political and cultural subordination of the poor countries to the rich. Second, capitalist institutions within the poor countries will tend to aggravate rather than to diminish inequalities in the distribution of income and power. And third, capitalism will be unable to promote in most poor countries a long-run rate of economic growth sufficiently rapid to provide benefits to the whole population or to reduce the income gap between the poor and the rich countries.

The perpetuation of underdevelopment will affect not only the future of the poor countries. I shall argue that it will result also in increasing conflict and increasing potential for violence throughout the world. The likely failure of capitalism in the poor countries points to the necessity of radical social change in order to construct a decent world society and to achieve a just basis for world peace. Moreover, the negative consequences of capitalism for the poor people of the world will create the basis for revolutionary movements aiming to achieve these goals.

I begin the argument in section 1 by discussing briefly some general characteristics of non-socialist poor countries in the contemporary world. In sections 2, 3, and 4 I go on to present the theoretical analysis which suggests that capitalism is likely to result in increasing subordination, increasing inequality and inadequate growth in the poor countries. In section 5 I examine some empirical evidence on these three hypotheses from the postwar experience of the poor countries. In section 6 I speculate on the consequences of continued underdevelopment for the future of the poor countries, and in section 7 I conclude by summarizing the argument and offering a few suggestions for policy in the rich capitalist countries.

1. The Present Situation

To analyze the role of capitalism in the poor countries, it is useful first to consider some economic characteristics of contemporary underdevelopment. These characteristics are to a significant degree the result of the colonial history of the poor countries -- a long history of subjugation that has transformed their social, political and economic structure.

First of all, and most obviously, there is an enormous gap between standards of living in the poor and the rich countries. The average per capita product of the poor countries of Asia, Africa and Latin America is less than one tenth of its value for the rich capitalist countries (see Table 1). Secondly, the distribution of income and wealth tends to be even more unequal in the poor than in the rich countries. The available evidence suggests that the top 5% of the population receive on the average about 30% of the income in the non-socialist poor countries and about 20% in the non-socialist rich countries (see Table 2).

Thirdly, the poor countries today are in various respects economically dependent upon the rich (see Tables 3 and 4). Exports from the poor countries consist chiefly of primary products (agricultural produce and raw materials) and flow mainly to markets in the rich countries, while the imports of the poor countries consist chiefly of manufactures that are obtained mainly from the rich countries. Export earnings in most poor countries are highly concentrated in a few commodities: on the average, the principal export commodity accounts for almost one half, and the top three commodities almost three quarters, of total earnings from merchandise exports. This concentration makes the poor countries extremely vulnerable to changes in a few commodity prices and results in periodic balance of payments crises for which external assistance is required. Except for the Middle East, all areas of the underdeveloped world show a marked deficit in their balance of trade that must be met by an inflow of foreign capital. Furthermore, there remains in most poor countries a substantial degree of foreign ownership and/or control of domestic resources that is reflected (to a limited degree) in a steady outflow of income from foreign investment.[3]

Finally, most of the poor countries are characterized by a pronounced economic dualism. A modern, foreign-oriented, largely capitalist sector can be found in a few major urban centers and around important sources of raw materials, while the rest of the country remains dominated by a more traditional, wholly indigenous,

Table 1

WORLD DISTRIBUTION OF AVERAGE PER CAPITA PRODUCT
1965

	Average Per Capita Product (U.S. $)	Population (millions)	Total Product (billion U.S. $)
Non-Socialist Countries			
South and East Asia (exc. Japan)	106	908.2	96.4
Africa (exc. South Africa)	126	279.9	35.2
Oceania (exc. Australia, New Zealand)	176	3.4	0.6
Middle East (exc. Israel)	287	82.8	23.8
Latin America (exc. Cuba)	407	235.5	96.0
Poor Countries	167	1509.8	252.0
Southern Europe	630	49.5	31.0
Japan, Israel, South Africa	840	118.4	99.4
Western Europe	1730	273.5	472.3
Australia, New Zealand	2030	14.0	28.5
North America	3440	214.2	737.1
Rich Countries	2040	669.6	1368.3
Socialist Countries			
Asia	99	732.1	72.6
Cuba	540	7.6	4.1
Poor Countries	104	739.7	76.7
Eastern Europe	820	121.3	99.8
USSR	1150	230.6	265.2
Rich Countries	1040	351.9	365.0

SOURCE: Hagen and Hawlyryshyn, "Analysis of World Income and Growth, 1955-1965," Economic Development and Cultural Change, Vol. XVIII, No. 1, Part II, Oct. 1969, Tables 3-8.

Table 2

SIZE DISTRIBUTION OF INCOME: SELECTED COUNTRIES

	POPULATION PERCENTILE GROUPS							GINI
POOR COUNTRIES	0-20	20-40	40-60	60-80	80-100	90-100	95-100	RATIO
1. India[1] (1951-60)	3.7	6.8	10.1	14.7	64.7	(44.0)	(32.0)	0.57
2. Mexico[2] (1963)	3.5	6.6	10.8	19.6	59.5	42.1	28.8	0.53
3. Ceylon[3] (1952-53)	4.3	8.4	12.2	18.5	56.6	42.5	32.4	0.50
4. Colombia[3] (1953)	(5.0)	(10.0)	(16.4)	12.2	56.4	48.4	41.6	0.50
5. Guatemala[3] (1948)	(5.0)	(9.0)	(14.8)	15.8	55.4	43.8	34.5	0.48
6. Argentina[2] (1959)	6.6	9.7	12.3	16.8	54.6	41.9	31.8	0.45
7. Barbados[3] (1951-52)	3.6	9.3	14.2	21.3	51.6	34.2	22.3	0.45
8. El Salvador[3] (1946)	(5.0)	(10.0)	(17.2)	15.7	52.1	43.6	35.5	0.45
9. Puerto Rico[2] (1963)	4.5	9.2	14.2	21.5	50.6	(34.0)	22.0	0.44
RICH COUNTRIES								
1. W. Germany[3] (1950)	4.0	8.5	16.5	23.0	48.0	34.0	23.6	0.44
2. Netherlands[3] (1950)	4.2	9.6	15.7	21.5	49.0	35.0	24.6	0.43
3. Denmark[3] (1952)	3.4	10.3	15.8	23.5	47.0	30.7	20.1	0.42
4. Sweden[3] (1948)	3.2	9.6	16.3	24.3	46.6	30.3	20.1	0.42
5. Italy[3] (1948)	6.1	10.5	14.6	20.4	48.5	34.1	24.1	0.40
6. Norway[3] (1950)	5.5	10.4	15.4	23.7	45.0	29.0	18.2	0.39
7. United Kingd.[3] (1951-1952)	5.4	11.3	16.6	22.2	44.5	30.2	20.9	0.38
8. U.S.A.[4] (1963)	5.1	12.1	17.6	23.6	41.6	(26.0)	15.8	0.36
9. Australia[3] (1954-1955)	5.6	12.5	17.8	22.4	41.7	27.9	18.9	0.35

Sources: 1 Subramanian Swamy: "Structural Changes and the Distribution of Income by Size: the Case of India", The Review of Income and Wealth, June 1967. 2. Richard Weisskoff: Income Distribution and Economic Growth (Ph.D. dissertation in progress), Chapt.1. 3. Simon Kuznets: "Quantitative Aspects of the Economic Growth of Nations (VIII): Distribution of Income by Size", Economic Development and Cultural Change, Jan. 1963. 4. U.S. Census Bureau, Trends in the Income of Families and Persons in the U.S.: 1947 to 1964, Technical Paper No. 17.

Note: Gini ratios were computed directly from the figures given in the table, including the bracketed figures which were estimated by rough interpolation to make up for missing data.

Table 3

THE PATTERN OF MERCHANDISE TRADE
BETWEEN RICH AND POOR NON-SOCIALIST COUNTRIES

	1953			1967		
	Billion $	%	%	Billion $	%	%
EXPORTS						
From poor countries[1]	20.4	100	100	37.5	100	100
Primary Products[2]		87			79	
To poor			20			16
To rich			67			63
Manufactures[2]		13			21	
To poor			5			6
To rich			8			15
From rich countries[1]	51.8	100	100	141.2	100	100
Primary products		35			26	
To poor			6			4
To rich			29			22
Manufactures		65			74	
To poor			23			17
To rich			42			57
IMPORTS						
Into poor countries	20.1	100	100	38.3	100	100
Primary products		37			31	
From poor			20			16
From rich			17			15
Manufactures		63			69	
From poor			5			6
From rich			58			63
Into rich countries	52.1	100	100	140.4	100	100
Primary products		55			39	
From poor			26			17
From rich			29			22
Manufactures		45			61	
From poor			3			4
From rich			42			57

Table 3 (continued)

1 Rich countries include North America, Western Europe, Australia, New Zealand, Japan, South Africa. Poor countries include all other non-socialist countries.

2 Primary products include SITC categories 0-4; manufactures include categories 5 - 9.

Source: United Nations, Statistical Yearbook, 1968, Table 15.

Table 4

TRADE DEPENDENCE IN THE NON-SOCIALIST WORLD
(Figures represent 3-year averages for 1964-1966)

AREA	BALANCE OF TRADE: No. of Countries[1]	BALANCE OF TRADE: Net deficit on Goods & Services (-)	BALANCE OF TRADE: Gross outflow of Investment Income (-)	TRADE CONCENTRATION: No. of Countries[1]	TRADE CONCENTRATION: Principal Export Product	TRADE CONCENTRATION: Three Principal Export Products
		(% of gross domestic product, aggregated over countries)			(% of total merchandise exports averaged over countries)	
1 South America	10	-0.9	-2.7	10	46.4	71.5
2 Central America	9	-2.8	-2.1	10	44.0	70.2
3 North Africa	4	-3.6	-3.3	5	51.9	74.0
4 Rest of Africa[2]	15	-3.2	-2.6	29	40.8	76.2
5 Middle East[2]	5	+0.2	-7.6	7	54.4	75.0
6 South Asia	4	-4.0	-0.8	5	41.8	67.6
7 East Asia[2]	8	-1.6	-1.0	8	36.0	63.9
Poor Countries	55	-2.2	-2.3	74	46.3	72.5
8 Intermediate countries[2]	6	-4.9	-1.3	6	24.5	45.6
9 Advanced countries	17	+1.0	-0.6	17	14.0	31.4
Rich Countries	23	+0.8	-0.6	23	16.7	35.1

1 The countries included in the sample for each area include all those whose population exceeded one million in 1965 and for which the relevant data were available.

2 South Africa, Israel, Greece, Spain, Portugal and Ireland are included in "intermediate countries"; Japan is included in "advanced countries".

Sources: Balance of trade data: International Monetary Fund, Balance of Payments Yearbook, 1967
Merchandise export data: United Nations, Yearbook of International Trade Statistics, 1967
Gross domestic product data: Hagen and Hawlyryshyn, "Analysis of World Income and Growth, 1955-65", Economic Development and Cultural Change, Vol XVII, No 1, Part II, Oct. 1969.

largely pre-capitalist sector. The significance of the modern sector varies greatly among poor countries, depending upon their colonial history and the more recent impact of the postwar expansion of world capitalism.

Related to these economic characteristics are several important socio-political features of contemporary poor countries that affect the growth and operation of capitalist institutions. First of all, the poor countries are typically characterized by a class structure in which power is highly concentrated among a small set of elites. These include on the one hand classes whose power is associated with the traditional sector and who constitute an aristocracy of long standing: large holders of land, wealthy traders, and other pre-capitalist elites whose dominance in the countryside was accepted and often strengthened by colonial rule. The elites include also several newer classes whose prominence is associated with the growth of the modern sector and the achievement of political independence: the big bourgeoisie, including established foreigners and emerging nationals, and the highly-educated and westernized national professionals, bureaucrats, and military officers who have displaced their colonial predecessors. While the relative strength of these elite classes varies from country to country, depending on the local conditions and the extent of social and economic change, their combined membership is almost everywhere very small in comparision to the mass of small cultivators, landless agricultural laborers, unskilled workers, and unemployed or underemployed persons of all kinds who make up the bulk of the population. Between the elite classes at the top and the masses at the bottom there is usually only a very small middle class of petty businessmen, semi-skilled blue and white collar workers and small property-owners.

Such a class structure in turn results in a state apparatus that is largely controlled by and responsive to the interests of the elites -- no matter what the formal nature of the political system. Because of their overwhelming power and prestige, the elites form a relatively cohesive ruling class: internal conflicts are minimized by a strong common interest in maintaining overall ruling class hegemony. Thus there are rarely decisive struggles between older and newer elites; the society remains in some degree both pre-capitalist and capitalist, and the non-ruling classes are rarely able to turn ruling class divisions to their own advantage.

A final important characteristic of contemporary poor countries is their dependent relationship with the centers of capitalist enterprise. This dependence arises partly out of the colonial legacy. Many economic activities in the modern capitalist sector depend either directly on foreign ownership and control or indirectly on foreign technological or managerial aid. Under such circumstances, it is only natural that a considerable fraction of the emerging domestic capitalist class finds itself in a subordinate and dependent position vis-a-vis the foreign capitalist class. For similar reasons, many governments in the poor countries are dependent upon the advanced capitalist powers for political and military support. Thus, capitalism in the poor countries today is not the relatively independent capitalism of old which stimulated the economic growth of England, the United States, Japan and other rich capitalist countries. Rather, the capitalism which is spreading in today's poor countries is far better described as a dependent form of capitalism, embedded within the world capitalist system as a whole.

2. Increasing Subordination

There are several factors at work within the world capitalist system to reinforce the subordination of the poor to the rich countries. These can briefly be described as the demonstration effect, the monopoly effect, the brain-drain effect, and the factor-bias effect. Each of these effects serves to intensify the demand of the poor countries for resources and skills available mainly in the rich, thereby contributing directly to economic dependence, and indirectly also to political and cultural subordination.

First of all, the increasingly close ties between the poor and the rich countries that accompany the integration of world capitalism give rise to a demonstration effect[4] whereby the consumption patterns of the rich countries are to some extent emulated by those citizens in the poor countries who are in a position to afford it. Of course, the majority of the population of a poor country cannot afford to consume like the majority of the population in a rich country; however, the elite classes in the poor countries (and, to some extent, the middle classes) can orient their consumption patterns towards those of their counterparts in the rich countries. To the extent that they do so, their consumption tends to rise and to be oriented towards characteristicallly foreign types of goods. This in turn leads to a relatively high demand for foreign exchange, either because the goods must be directly imported from a foreign country, or because their production in the underdeveloped countries requires the import of foreign raw materials, technology or expertise.

The second important factor that tends to perpetuate the economic dependence of the poor on the rich countries arises from the relationship between domestic and foreign private enterprise.[5] Foreign enterprise has a distinct advantage vis-a-vis domestic enterprise in the poor countries with respect to technology, know-how, some or all of these factors accounts for their interest in investing in the poor countries. Even when the poor country does not rely directly on foreign enterprise to produce goods and services, it is often the case that it must rely on collaboration with foreign firms, or on some kind of indirect affiliation with foreign private enterprise. While such collaboration and affiliation may serve to increase the productive capacity of the economy, at the same time it carries with it an unavoidable relationship of dependence. Furthermore, it is typically within the interest of foreign private enterprise to maintain the conditions in which its activities or its aid are essential, for considerable monetary rewards accrue to its monopoly of productive techniques and expertise. Thus the incentives are structured in such a way that it is usually not in the interest of a foreign firm to impart to a domestic counterpart the knowledge or the skills or the advantages upon which its commercial success is based. Under such circumstances, domestic enterprise remains in a subordinate position and an important part of the indigenous capitalist class remains dependent upon foreign capitalists. The interest of this part of the indigenous capitalist class becomes associated with that of their foreign collaborators or benefactors, and the impetus as well as the means for them to develop into an autonomous national bourgeoisie is dulled.

The technical and managerial dependence of poor on rich countries is often exacerbated by a substantial "brain drain": the emigration of scientists, engineers, business managers and other highly educated professionals from the poor to the rich countries where they can expect better-paying jobs, and a more stimulating work environment[6]. This outward flow of skilled labor, small in absolute size but very great in value because of its scarcity in the poor countries, is both facilitated and promoted by the increasing integration of world capitalism. Where people are encouraged to respond to individual monetary rewards, rather than collective social goals, and where strong forces are operating to attract valuable resources from backward to advanced areas, disparities tend to become cumulatively greater over time.

The last general factor that tends to reinforce the economic dependence of the poor on the rich countries within the world capitalist system results from the choice of production techniques adopted in the poor countries.[7] The technology that is used both by foreign and domestic firms in the modern sectors of the economy is typically very much influenced by production techniques that are used in the rich countries. Such techniques, arising as they do from an economic environment in which labor is scarce and capital is relatively abundant, tend to be more capital-intensive and labor-saving than would be desirable in poor countries. Since the required capital goods -- and often also the patents and other rights associated with the production and marketing of the output -- must often be imported from abroad, these techniques tend also to be relatively foreign exchange intensive. This effect is most pronounced when a foreign firm establishes itself directly in a poor country, because that enterprise will have an interest in using equipment and services from its own country. But the same effect comes about indirectly when domestic firms collaborate with foreign firms, or even if they simply borrow technology from a rich country.

Continued economic dependence implies also continued political subordination. So long as governments of poor countries must seek short and long-term economic aid from the advanced capitalist countries and the international organizations that are primarily funded by those same countries (the International Bank for Reconstruction and Development, the International Monetary Fund, etc.), their political autonomy will be severely restricted. Furthermore, it follows from the nature of the links between domestic and foreign capital described above that a significant part of the domestic capitalist class is likely to be relatively uninterested in national autonomy insofar as it conflicts with the interests of its foreign capitalist partners or benefactors. Thus the state is likely to be under considerable domestic pressure to curtail whatever nationalist instincts it might otherwise have.

Finally, the continuation of economic and political dependence is likely to limit the development of cultural autonomy as well. The more dependent the country is on foreign help of one kind or another, the greater will be the foreign presence in the country, and the greater the impact on indigenous social and cultural life. International capitalism is especially threatening to the cultural autonomy of poor countries because of the strong interest that capitalist firms have in transmitting the kind of consumerist mentality that stimulates the market for their products. The same kind of demonstration effect that biases demand in the poor countries in favor of foreign goods and services also serves to favor the import of foreign styles and fashions at the expense of domestic cultural autonomy. Just as a concentration of purchasing power in the hands of the elite classes accentuates the demand bias, so the dominance by the foreign-oriented elite -- and often foreigners themselves -- of educational institutions, communications media, and cultural resources tends to amplify the threat to indigenous cultural development.

3. <u>Increasing Inequality</u>

Under capitalism, each individual is rewarded according to the price at which he can sell the factors of production which he owns.[8] Among these, it is useful to distinguish the following basic factors of production: unskilled labor, labor skills, land (including natural resources), and physical capital (buildings, plant and equipment). In addition, the intangible factor "knowledge', or technological know-how, can bring important economic rewards to those who have initial or exclusive control over it.[9] Since unskilled labor is relatively abundant and the other factors relatively scarce in the poor countries, labor alone usually commands a relatively low price.

The vast majority of the population of the poor countries control only their own labor power, supplemented here and there with a few skills and/or a little land. The ownership and control of most skills, land and capital, as well as access to new and better technology, is largely confined to the elite groups that constitute the ruling class. Thus it is hardly surprising that income is so unequally distributed. In order for the distribution of income to improve in the future, there must be either (a) a more equitable distribution of claims to the scarce resources of the economy, or (b) an increase in the relative price of unskilled labor. It will be argued below that the growth of capitalism in the poor countries is likely to preclude both of these alternatives, and therefore that one can only expect increasing inequality of income in the non-socialist poor countries.

A redistribution of existing claims to scarce and valuable factors of production is not likely to get very far. In the first place, the respect for private property that is fundamental to capitalism precludes any large-scale dispossession of the rich in favor of the poor. The requirement of compensation and the political strength of the rich vis-a-vis the poor will work to limit the comprehensiveness and the effectiveness of any measures of redistribution. Thus, existing land, existing capital and existing control of technology are unlikely to be redistributed among the population as a whole in a manner that will significantly affect the overall distribution of income. And of course, the skills and the education acquired by the educated elites cannot, by definition, be redistributed among the population.

For similar reasons the incremental supply of valuable assets is unlikely to be any more equitably distributed. Capitalist development has always been characterized by a tendency towards increased concentration of ownership and control;[10] this results directly from the capitalist principle of building upon the best. The biggest landowners are in the best position to take advantage of new irrigation facilities for expanding acreage and to apply new techniques for expanding productivity. The biggest capitalists are in the best position to accumulate and borrow more capital in order to multiply their physical assets, and they also have the best access to new technology and new markets. Even the distribution of new skills through the expansion of educational institutions tends to provide disproportionately great benefits for those classes already most favored.[11] To expect intervention by the state to counter effectively these tendencies is to attribute to the lower classes a degree of political power and influence that could only result from a fundamental transformation of the social structure of the society.

There remains the possibility, however, that an increase in the relative price of unskilled labor could lead to relatively higher incomes, even for those who have only their own labor to sell. Such an increase would result from a rate of growth of the supply of complementary factors more rapid than the rate of growth of labor itself, provided that there were not off-setting changes in the technology and organization of productive activity that would serve to substitute for -- and hence reduce the demand for -- unskilled labor. In fact, most of the poor countries have been able to achieve some positive rate of growth in per capita output in the post-war period (see Table 5). This suggests that the rate of growth of non-labor factors of production (including the application of improved techniques of production) has exceeded the rate of growth of the labor force itself. Whether this process can continue is a matter of some uncertainty; the prospects for long-run growth in the non- socialist poor countries are considered in the next section. But, in any event, there are good reasons to believe that the changes in technology and in economic organization that accompany growth in the non-socialist poor countries are such as to reduce the demand for labor and thereby offset whatever beneficial effects on the price of labor may arise from an increase in complementary factors.

First of all, there is a bias against unskilled labor in the composition of goods and services produced in the non-socialist poor countries. The very unequal distribution of income which places disproportionate purchasing power in the hands of the elite classes results in a relatively heavy demand for luxury goods and services (e.g.: consumer durables) rather than necessities (e.g. food and clothing). Not only are the luxuries relatively foreign exchange intensive, but they are also generally more capital intensive and less labor intensive than the necessities which are demanded by the majority of the population.[12] Thus to the extent that the high-income demand of the elite classes affects the composition of output in a poor country, it tends to raise the demand for capital, and to lower the demand for labor.

Secondly, several forces are at work to bias the choice of technique used to produce any given good or service in favor of physical capital and skilled labor and against unskilled labor.[13] The tendency to adopt techniques that have been developed under conditions in rich countries, where capital is more plentiful and unskilled labor more scarce, results in just such a bias. This is particularly likely when foreign firms invest directly in a poor country; but for reasons suggested earlier, the same bias is likely to hold where domestic firms either collaborate or enter into licensing agreements with foreign concerns.

Another factor influencing the choice of techniques by capitalist enterprise in the poor countries relates to the problem of labor discipline. Because of the difficulty of organizing large numbers of unskilled workers, the individual capitalist employer often has an incentive to keep down the size of his work force and to pay a small number of more skilled laborers relatively high wages rather than pay a large number of unskilled laborers low wages. Similarly, the capitalist class as a whole has an interest in cultivating a labor aristocracy whose interests will be tied to those of the ruling elites, rather than to the masses; this serves to fragment the labor force and thus to inhibit the development of a revolutionary working class consciousness. To the extent that such forces operate, the benefits of employment are limited to only a part of the laboring classes and skilled labor substitutes for unskilled labor.

The tendency to under-employ unskilled labor is further reinforced by the disequilibrium prices[14] that often characterize markets in the non-socialist poor countries. It has become a commonplace among development economists to observe that money wage rates in urban areas of poor countries are higher than the rate at which employers would be willing to hire all the available labor. This results _inter alia_ from concessions made by the state to organized labor in response to union pressures; it favors the the minority of organized workers at the expense of the majority of the unorganized. At the same time, it is also widely recognized that the price of capital to private enterprise is often understated because of the various types of government programs, subsidies and other benefits which aid the investor. The result is that firms tend to use more capital and less labor than would be desirable from the point of view either of greater efficiency or of a more equitable distribution of income.

The result of all these biases is that increases in the demand for labor, resulting from growth in the relative supply of complementary factors, are likely to be more than offset by the labor-saving character of the sectoral composition of production and the choice of techniques.[15] As a result, the chances are that the price of labor in general will not tend to increase over time as much as per capita output, and the unskilled and unorganized laborer will not share in whatever benefits are generated by economic growth. Instead, the inequality between the elite classes and the mass of the population will be accentuated, while the former remain a small part of the population as a whole. Corresponding to this increasing economic inequality -- and constantly reinforcing it -- will be an increasing inequality in the distribution of political power as well.

4. Inadequate Growth

Increasing subordination and increasing inequality are not necessarily inconsistent with a positive rate of economic growth. Yet capitalist institutions -- both domestic and international -- impose serious constraints upon the ability of poor countries to sustain a long-run rate of growth adequate to provide material gains for everyone. Economic growth depends in large measure upon the accumulation of physical capital, the spread of labor skills and education, and the adoption of improved methods of economic organization and production.[16] These in turn require that the economic resources of a society be mobilized on a substantial scale and channelled into productive investment and other growth-oriented activities. In the following pages, the constraints imposed by capitalism on resource mobilization and resource utilization in the poor countries will be discussed in turn.

Resources can be mobilized either from internal sources, principally in the form of domestic savings, or from external sources, in the form of foreign aid or private capital inflow. The highly unequal distribution of income that characterizes the non-socialist poor countries would at first appear to favor relatively high rates of domestic saving, for it restrains the consumption of the majority of the population while placing very high incomes in the hands of the few. These high income recipients might be expected to save a larger share of their excess income than would be saved by the poor if the income were redistributed to them.

Yet there are also important forces working in the other direction. The demonstration effect of consumption patterns of the rich countries on the upper and even middle classes in the poor countries tends to stimulate luxury consumption rather than saving.[17] This effect is likely to increase with the increasing integration of the world capitalist system, and therefore to constitute an increasingly serious obstacle to private domestic saving in the poor countries. As for public domestic saving, the high concentration of political power that follows from the inequality of income distribution in non-socialist poor countries seriously limits the ability -- if not the desire -- of governmental authorities to raise revenues from the excess income of the upper classes.[18] Furthermore, the demonstration effect often operates just as strongly on government officials to increase public consumption as it does on private individuals to increase private consumption.

Even where a substantial amount of domestic savings can potentially be mobilized in a poor country, these savings may not in fact be transformed into productive investment because of a shortage of critical imported materials required for investment. It has been noted earlier that world capitalist integration tends to impart a foreign exchange intensive bias to economic activity in the poor countries. The result is often serious balance of payments difficulties which limit the availability of foreign exchange for investment projects. Such a foreign exchange bottleneck is frequently cited by development economists as a limiting factor in the investment programs of non-socialist poor countries.[19]

Finally, one potentially very important source of domestic resource mobilization in the poor countries is largely ruled out by a capitalist system of social organization. Many economists have drawn attention to the potential resources available in the poor countries in the form of idle manpower where widespread unemployment or underemployment is endemic.[20] Yet it has proven very difficult in the non-socialist poor countries to mobilize this labor for productive purposes. One of the reasons that it has been so difficult is that the workers potentially involved have little reason to believe that the benefits of their endeavors would be distributed any more equally than income is generally distributed in their society. Furthermore, an important element in mobilizing a large and previously idle labor force to a useful activity is a psychological sense of solidarity and commitment to a common, worthwhile cause. With its emphasis on individual achievement and competition, capitalism fails to provide an ideological basis for rallying large numbers of inexperienced and previously idle laborers to a constructive collective effort.

Because of the difficulties of domestic resource mobilization, many of the governments of poor countries have looked to the richer countries for much-needed resources. Unfortunately for those countries that are inclined to rely on foreign help, the prospects for increasing net inflows of foreign capital from the rich countries to the poor do not appear very bright. As far as foreign aid is concerned, the overall level of net aid provided by the rich capitalist countries to the poor fluctuated between $6 and $7 billion in the 1960's [21] and now shows every every sign of decreasing rather than increasing.[22] At its peak, the flow of net aid was equal to approximately 15% of gross investment in the non-socialist poor countries.[23]

Even though the prospects for high levels of foreign aid appear rather bleak, it remains conceivable that the flow of private capital could take up the slack. Such is in fact the exhortation often made in the rich capitalist countries.[24] Yet foreign private capital does not flow to the poor countries out of a sense of service; it flows in the expectation of generating profits which will ultimately be remitted home. Whether these profits are repatriated directly in the form of investment income or indirectly in the form of artificially high prices of inputs exported from the home base, they constitute a return flow of capital that sooner or later offsets the original flow to the poor country. In every year since World War II, the reported income repatriated from U.S. foreign private investment has in fact exceeded the outward flow of private investment funds.[25] Unless foreign investment rises continuously and rapidly in a poor country, it is unlikely to make a net contribution to the mobilization of resources.

In sum, only these countries whose small size makes it possible for limited amounts of foreign capital to go a long way can expect to rely largely on external sources of funds. The only non-socialist poor countries that are likely to escape any problems of resource mobilization are those which are fortunate enough to be well-endowed with scarce natural resources (such as oil) that yield both high profits to the firms exploiting them and high tax revenues to the state. In such countries, the question is simply whether the available resources will in fact be utilized productively by the existing government authorities.

There are several forces at work in non-socialist poor countries which tend to limit the effectiveness of resource utilization. In the first place, a substantial amount of private investment resources is drawn into activities which are relatively unproductive from the point of view of long-run growth. Such fields as trade, commerce and real estate are attractive to private investors because they often promise quicker and surer returns than agricultural or industrial investment.[26] For similar reasons, private -- and especially foreign -- investors typically prefer to invest in consumer good industries rather than in capital good industries.[27] Consumer goods cater to well-established markets and involve limited risks, while capital goods often require a larger and longer commitment of resources and generally face less predictable demand conditions. This consumer good bias on the supply side serves to reinforce the consumption-oriented biases in the structure of demand that limit the mobilization of resources for growth. The failure to develop domestic capital good industries in a poor country also hinders long-run growth because it confines the available technological options to productive techniques associated with the use of foreign capital equipment.

Just as capitalist market institutions in poor countries tend to bias the sectoral allocation of investment against growth-oriented activities, they also impart an unfavorable bias to the choice of techniques within any given activity. For reasons described in sections 2 and 3, there tends to be insufficient employment of unskilled labor and excessive use of skilled labor, capital and foreign exchange in non-socialist poor countries. Quite apart from the impact of this bias on subordination and inequality, it represents a form of resource utilization that is inefficient from the point of view of increasing output and growth.[28] Skilled labor, capital and foreign exchange are scarce resources in the poor countries and should be carefully economized rather than lavished on a limited number of activities. And unskilled labor is an abundant resource that could make a much greater contribution to output if given adequate employment opportunity.

The biases and the inefficiencies inherent in the use of the free market criterion of private profit maximization to allocate resources have been widely recognized and much discussed in the literature on economic development.[29] There are many good theoretical and institutional reasons to expect that the unconstrained operation of the free market would lead neither to maximum economic growth nor to the maximization of any more general criterion of social welfare. For these reasons, the state is usually called upon to intervene directly or indirectly into the operation of a capitalist economy in order to steer it towards desired objectives. In many non-socialist poor countries, the government does in fact affect significantly the allocation of resources. However the critical question is not <u>whether</u> the state intervenes, but <u>how</u> it affects the operation of the economy.

To answer this question, one must recognize that the capitalist state does not function in a political vacuum; it responds to the dominant political forces in the society. Thus the government of a non-socialist poor country will intervene to promote economic growth only insofar as this does not significantly conflict with the interests of the more privileged and influential classes. Unless the interests of the latter coincide with a growth-maximizing strategy, government policy cannot be expected to lead to maximum growth.

In fact, there are many important respects in which a growth-oriented policy conflicts with powerful class interests. The disinclination or inability of government authorities to raise substantial revenues by direct taxation of upper class incomes has already been cited as an obstacle to resource mobilization in non-socialist poor countries. As far as resource utilization is concerned, government policy can and does in many ways serve limited interests at the expense of overall economic growth.[30] High import tariffs to protect domestic industries often permit indigenous and foreign firms to make lavish profits while producing in a costly and inefficient manner. Government rationing of capital and foreign exchange often allows the most influential firms to obtain these factors at a relatively low price and thereby permits high profits while encouraging low priority use of scarce factors. As noted in section 3, minimum wage legislation can serve the interests of organized labor at the cost of over-pricing and hence under-utilizing unskilled labor.

The allocation of government expenditure is also subject to many points of conflict between a growth-maximizing strategy and the interests of elite minorities. For example, the power and influence of the urban upper classes operate to bias the educational expenditures of the state in favor of urban and higher education at the expense of rural and lower education. Yet there is evidence that the economic returns to primary education are much greater than to higher education in most poor countries.[31] Government expenditures on public sector activities that might compete with private enterprise -- domestic or foreign -- tend to be discouraged in favor of investment in infrastructural facilities that lower the cost of essential inputs to private firms.[32] All this is not to deny that -- within the limits imposed by its ability to raise resources -- the state in a non-socialist poor country can and does undertake programs to stimulate growth. The essential point, however, is that the extent and the effectiveness of these programs are invariably compromised by the class interests that constrain the functioning of the state apparatus.

In sum, capitalist institutions in the poor countries--linked to and strengthened by the expanding world capitalist system -- place important constraints upon the mobilization and the utilization of resources for economic growth. As a result, it would appear likely that only a few of the most favored non-socialist UDCs could achieve a satisfactory long-run rate of growth.

5. Recent Evidence

As the world capitalist system has gained strength in recent decades, and as capitalist institutions have developed on a wider scale within most poor countries, one should be able to observe and document the tendencies toward increasing subordination, increasing inequality and inadequate growth described above. Unfortunately, the available data do not permit a thorough test of the hypotheses advanced in the preceding three sections -- especially with respect to subordination and inequality. Yet there is a limited amount of evidence from the postwar experience of the non-socialist poor countries that can be used to throw light on some general trends.

Table 5 presents data on the postwar growth of the non-socialist poor countries, the non-socialist rich countries and the socialist countries of Eastern Europe. The rate of growth of per capita product in the non-socialist poor countries was on the average slightly over 2% per year, as compared with more than 3% in the non-socialist rich countries and almost 7% in the socialist countries. Obviously the gap between the poor and the rich countries is widening. Furthermore, a sub-

Table 5

AGGREGATE ECONOMIC GROWTH IN THE POSTWAR PERIOD

	AVERAGE ANNUAL % RATES OF GROWTH, 1950 - 1967		
	Per Capita Product[4]	Population	Total Product[4]
NON-SOCIALIST COUNTRIES			
South and East Asia[1]	2.0	2.2	4.2
Latin America	2.1	2.7	4.9
Poor Countries[2]	2.2	2.4	4.6
North America	2.2	1.8	4.0
Western Europe	3.5	1.1	4.6
Rich Countries[3]	3.1	1.3	4.4
SOCIALIST COUNTRIES			
USSR and Eastern Europe	6.8	1.4	8.2

1 Excludes Japan
2 Includes also Africa (minus South Africa) and the Middle East
3 Includes also Japan, South Africa, Australia and New Zealand
4 Gross domestic product at constant prices for non-socialist countries. Net material product at constant prices for socialist countries.

Source: Growth rates calculated from growth indices in United Nations, Statistical Yearbook, 1968, Tables 3,4.

stantial part of the population of the poor countries is unlikely to have gained anything at all from the growth that has taken place. If the overall rate of growth of per capita output in a country is 2% per year, and if the 10-15% of the population that gets half of the total income manages to increase its per capita income by 4% per year, then there is no incremental income left for the other 85-90% of the population.

Comprehensive data on the distribution of income by families or individuals are seldom available in a poor country for one point in time, much less for different years. To generalize about trends in income distribution, one must therefore turn to indirect evidence. Some insight can be obtained from published data on the relative rates of growth of different sectors within an economy. Table 6 presents data relating to the significance and the growth of the industrial sector in non-socialist countries. The first two columns show the share of industrial output in total output and the share of persons occupied in the industrial sector in the total economically active population. To the extent that the former share exceeds the latter, the output per person in the industrial sector is greater than in the rest of the economy. The data in Table 6 indicate that this is true in all areas, but especially in the poor countries where on the average 11% of the active population generates 22% of the total output.

The last two columns in Table 6 show further that the rate of growth of output per person in the industrial sector is considerably more rapid than in the economy as a whole -- especially in the poor countries. Thus the sector which is already characterized by a relatively high per capita output is increasing its per capita output more rapidly than the rest of the economy, thereby

Tab. 6

INDUSTRIAL GROWTH IN THE POSTWAR PERIOD

AREA	SHARE OF INDUSTRY[1] in gross domestic product (ca. 1965)	in economically active population (ca. 1965)	ANNUAL % RATES OF GROWTH[2] industrial output	industrial employment	industrial output per person	gross domestic product per capita
	%	%	1948-1966	1948-1966	1948-1966	1950-1967
	(1)	(2)	(3)	(4)	(5)	(6)
NON-SOCIALIST COUNTRIES						
Asia[3]	18	10	8.3	3.9	4.3	2.0
Latin America	29	15	5.8	2.0	3.7	2.1
Poor countries[4]	22	11	7.1	3.5	3.5	2.2
North America	32	28	4.7	1.0	3.7	2.2
Western Europe	37	33	6.3	1.6	4.6	3.5
Rich countries[5]	34	30	5.6	1.9	3.6	3.1

1. includes mining, manufacturing, electricity, gas, and water.
2. all growth rates based on constant prices.
3. excludes Japan and Israel (and entire Middle East for growth of Y/P)
4. includes also Africa (minus South Africa)
5. includes also Australia, New Zealand, Japan, South Africa, and Israel.

SOURCES: (1) calculated by aggregating country data (by gross domestic product) in United Nations, Statistical Yearbook, 1968, Table 186.
(2) calculated by aggregating country data (by population) in International Labor Office, Yearbook of Labor Statistics, 1969, Table 2.
(3) calculated from growth indices in United Nations, ibid., Table 9.
(4) calculated from growth indices in United Nations, ibid., Table 10.
(5) calculated from (3) and (4).
(6) calculated from growth indices in United Nations, ibid., Table 4.

accentuating the differential. Barring major intervention by the state to redistribute income (highly unlikely in any capitalist country), the increasing sectoral inequality in per capita output will be matched by increasing sectoral inequality in per capita income. To the extent that income is also more unequally distributed within the industrial sector over time, the increasing sectoral inequality understates the increase in the inequality of income distribution among families or individuals.

Inequalities can at least in principle -- if not in practice -- be quantified. Subordination, especially in its political, cultural and psychological manifestations, is almost impossible to measure statistically. To measure economic subordination, it would be desirable to have extensive data on foreign ownership and control of domestic resources, and on the dependence of domestic enterprise on foreign assistance of one kind or another. In the absence of comprehensive published information on these subjects, one can only turn to the much less satisfactory data on trade dependence of the kind introduced in the first section of this paper.

Table 3 contains data on the pattern of merchandise trade for both 1953 and 1967. From these data it is clear that in the post-war period the share of primary products in poor country exports has declined from 87% to 79%, but the share of manufactures in poor country imports has increased from 63% to 69%. The overall pattern of trade is still dominated by a flow of primary products from the poor to the rich countries and a flow of manufactures in the reverse direction.

Tables 7 and 8 present data comparable to those of Table 4[33] designed to focus attention on the changes that occurred between

Table 7

CHANGES IN BALANCE OF TRADE: 1953 - 1965

Area	No. of Countries[1]	Net Deficit on Goods and Services (-) as % of Gross Domestic Product (Aggregated over Countries		Gross Outflow of Investment Income (-) as % of Gross Domestic Product (Aggregated over Countries)	
		1953[3]	1965[4]	1953[3]	1965[4]
1 South America	10	-0.8	-0.9	-2.1	-2.7
2 Central America	8	-0.5	-2.8	-0.8	-2.0
3 North Africa 4 Rest of Africa[2]	3	-1.6	-4.3	-1.3	-0.7
5 Middle East[2]	4	-2.4	-1.4	-2.6	-5.1
6 South Asia	4	-0.5	-4.0	-0.5	-0.8
7 East Asia[2]	4	-2.5	-0.7	-1.1	-0.7
Poor Countries	33	-1.0	-2.3	-1.4	-2.0
8 Intermediate Countries[2]	4	-4.7	-5.7	-1.6	-2.2
9 Advanced Countries[2]	16	+0.3	+1.0	-0.3	-0.6
Rich Countries	20	+0.2	+0.9	-0.3	-0.6

1,2 See corresponding footnotes in Table 4
3 Figures represent 3-year averages for 1952-1954
4 Figures represent 3-year averages for 1964-1966

Sources: Balance of Trade Data: International Monetary Fund, Balance of Payments Yearbook, relevant years.

Gross Domestic Product Data:

1965 figures obtained from Hagen and Hawlyryshin, "Analysis of World Income and Growth, 1955-65", Economic Development and Cultural Change, Vol XVII, No. 1, Part II, Oct. 1969.

1953 figures obtained by extrapolating 1965 figures backward with growth indices in Organization for Economic Growth and Development, National Accounts of Less Developed Countries, 1950-1966, Table C and United Nations, Statistical Yearbook, 1968, Table 183.

Table 8

CHANGES IN TRADE CONCENTRATION: 1953-1965

Area	No. of countries[1]	Principal export product as % of total merchandise exports (averaged over countries)		3 principal export products as % of total merchandise exports (averaged over countries)	
		1953[3]	1965[4]	1953[3]	1965[4]
1 South America	10	51.0	46.4	74.9	71.5
2 Central America	10	54.0	44.0	79.6	70.2
3 North Africa	5	36.4	51.9	56.7	74.0
4 Rest of Africa[2]	11	39.9	49.6	62.7	70.9
5 Middle East[2]	6	50.4	41.9	74.2	72.1
6 South Asia	4	50.9	44.1	79.4	66.1
7 East Asia[2]	8	41.2	36.0	66.7	63.9
POOR COUNTRIES	54	47.4	44.2	71.7	70.0
8 Intermediate countries[2]	6	31.1	24.5	54.1	45.6
9 Advanced countries[2]	17	20.0	14.0	40.4	31.4
RICH COUNTRIES	23	22.9	16.7	44.0	35.1

1, 2 See corresponding footnotes in table 4.

3 Figures represent 3-year averages for 1952-54.

4 Figures represent 3-year averages for 1964-66.

SOURCE: United Nations, Yearbook of International Trade Statistics, relevant years.

1953 and 1965. In most areas of the underdeveloped world the deficit in the balance of trade increased as a proportion of domestic output during this period, giving rise to greater inflows of foreign capital and correspondingly higher levels of foreign debt.[34] Similarly, there was a widespread increase in the proportion of investment income outflow to total output, reflecting the increasing significance of foreign private investment in the poor countries. The average concentration of export commodities declined very slightly between 1953 and 1965, remaining very high for most poor countries.

While the evidence on economic dependence is mixed, it is quite clear that there has been no major break in the postwar period with the pattern of economic subordination established in the poor countries in colonial times. The continuing economic subordination of most poor countries is reflected in the political sphere by a plethora of political and military alliances with the major capitalist powers.[35] These alliances not only directly limit the political autonomy of the poor countries; they also strengthen the domestic classes most oriented to foreign interests and thereby indirectly further hamper the development of national autonomy.

6. Prospects for the Future

Both the theoretical analysis and the empirical evidence presented above point to the likelihood of increasing subordination, increasing inequality and inadequate growth in poor countries that are integrated into the world capitalist system. This prospect is obviously antithetical to the economic and social development of the poor countries and to the construction of a decent world society. Furthermore, the situation is inherently unstable.

In the long-run, the masses of people in the poor countries will not tolerate social and economic conditions that serve the interests primarily of an elite minority. For the increasing penetration of capitalism into the poor countries creates greater awareness of deprivation on the part of the deprived, while at the same time it erodes the traditional sources of stability and security afforded by precapitalist institutions.

Under these circumstances it is not surprising that popular unrest has grown in many parts of the underdeveloped world. Although few popular revolutionary movements have yet risen directly to power, an increasing number of governments in the poor countries have had to contend with threats from below. The world capitalist system is obviously not in imminent danger, but the conflicts inherent in the present situation are likely to increase over time and confront the ruling classes in the poor countries as well as in the rich countries with increasingly difficult problems.

The elites in any society naturally seek to preserve their privileged position. They attempt to resist the varying degrees of pressure brought upon them by other classes to change the distribution of income and power. Among a whole spectrum of possible outcomes of this class conflict we may distinguish three broad possibilities. First, the ruling elites may hold on to all of their privileges and hold off the majority of the population by the successful exercise of repressive power -- economic, political or military, as the case may demand. Second, the ruling elites may preserve the <u>relative</u> position which they enjoy in the society by buying off the discontent of the other classes with selective improvements in their <u>absolute</u> -- but not relative -- economic position. The third possible outcome is a successful revolution in which power is wrested from the ruling elites by some of the less privileged classes.

In the rich capitalist countries, conflicts over the distribution of income and power[36] have tended to result in the second outcome. This has been possible for several reasons. First of all, the rich capitalist economies typically manage to generate a rate of economic growth that is rapid enough to allow the upper classes to keep improving their economic position while at the same time permitting a gradual but steady rise in the material welfare of most of the other classes as well. Furthermore, the upper and middle classes are together numerous enough so that they can share the burden of providing something for the poorest classes (often in fact the middle classes can be made to bear the brunt of the burden). These classes are also diverse enough so that conflicts among them can at times be used by the poorer classes to press their demands.

The conditions which help to bring about the second outcome in the rich capitalist countries are, however, largely absent in the poor countries. In the first place, the rate of growth of per capita income tends to be lower, with the result that there is less incremental income to redistribute. Second, the masses of the very poor represent a much greater proportion of the population as compared with the middle and upper classes. These latter are relatively limited in number and much less prepared to assume the major burden of providing for the huge numbers of poor. Finally, the limited membership of the domestic privileged classes also reduces the possibility of conflict among them which could lead to political alliances across the line that divides them from the masses.

While it is thus illusory to expect the more privileged classes of the poor countries to redistribute a significant amount of income to the rest of the population, one might conceive of such a transfer from the more affluent classes of the rich capitalist countries. Yet the politics of the world capitalist system warrant little confidence in such a solution. It is very hard to imagine how the masses in the poor countries could bring sufficient political pressure upon the ruling elites of the rich countries to induce them to undertake a serious effort on their behalf. The masses in the poor countries are geographically and socially so distant from the elites in the rich countries that they are easily ignored and have no power to elicit substantial concessions. Even the established governments of the poor countries have been unable to induce the rich capitalist countries to supply modest levels of foreign aid or to reduce significantly the protective tariffs that exclude so many exports from the poor countries.[37]

Thus the second outcome has not often resulted from class conflict in the poor non-socialist countries and is no more likely to do so in the future. There is little prospect that the hardships experienced by the great majority of the population in the underdeveloped world will be offset by compensatory action on the part of the elite beneficiaries of the world capitalist system. So far the outcome has most often been the first one described above: the concentration of privilege in the hands of a minority that has held down the majority in more or less authoritarian fashion. Where radical threats to the status quo have arisen, they have generally been repressed with help where necessary from the major capitalist powers.

As revolutionary consciousness grows, however, a repressive policy becomes increasingly difficult to maintain. The repression itself is likely to breed greater hostility to the status quo, and the cost of controlling popular unrest will rise. The elites of the poor countries will have to rely more heavily on external assistance and military support, and the cost to the major powers of maintaining the capitalist system in the poor countries will also rise.

Herein lies one of the major contradictions of contemporary capitalism that offers some hope to the poor countries of escaping the syndrome of capitalist underdevelopment. To pay the human and economic cost of increasing military intervention in favor of repressive regimes in the poor countries will generate increasing and ultimately unmanageable domestic unrest in the rich capitalist countries. The Vietnam war has done more to threaten the fabric of American society than anything else in the last decade; the capitalist system cannot afford many more such ventures.

Yet at the same time the rich capitalist countries will be unable to contain the increasing tension in the poor countries by promoting the second outcome, the one that has served in the past to defuse class conflict within the rich countries. Billions of dollars can be raised to support armed forces in the name of defending the "free world", but only a fraction of this amount can be raised for redistribution abroad.[38] Even if far-sighted capitalists with a large stake in the expansion of the world capitalist system support vastly increased expenditures on foreign aid, they cannot counter the strength of an ideology that condemns "unearned" income -- not to mention the domestic political forces pressing internal ahead of external claims to government attention.

Thus in time the dependent elites of the poor countries may begin to lose critical support from the major capitalist powers. To the extent that this is the case, they will become more vulnerable to domestic unrest and to political change. Initially this change is most likely to see the power of the foreign-oriented elites captured by more nationalistic groups from among the middle or upper classes who are hostile to the penetration of foreign influence and determined to break the subordinate relationship of the poor with the rich capitalist countries. Such a change has already occured in several of the poor countries.[39]

In the long-run, however, the fundamental problems of under-development -- inadequate growth, increasing inequality and increasing subordination -- are unlikely to be soluble without a complete break with capitalist institutions both domestically and internationally. Only radical changes in the structure of power within the poor countries are likely to result in significant changes in the pattern of economic and social development. Until such changes do occur, conflicts and tensions will become increasingly serious in many parts of the underdeveloped world. Ultimately, however, revolutionary socialist momements are likely to succeed because of the failure of capitalism to eradicate underdevelopment and the limited capacity of the world capitalist system to defend itself against mounting revolutionary activity in the underdeveloped areas.

7. Conclusion

I have argued in this paper that the spread of capitalism throughout the underdeveloped world is likely to perpetuate rather than to alleviate the conditions of underdevelopment. At the same time, consciousness of deprivation and desire for improvement is likely to increase among the masses of people in the poor countries. The result is an increasing gap between aspirations and actual gains that will lead inevitably to mounting tension and conflict.[40]

For the reasons suggested in the previous sections, neither the elites in the poor non-socialist countries nor their counterparts in the rich capitalist countries are likely to be capable of responding to the growing conflict with sufficient material concessions to buy off the discontent of the masses in the poor countries. The longer they fail to do so, the less likely it is that the masses can in any event be bought -- for they will increasingly reject the whole system rather than merely their inferior position within it. Under these circumstances, the elites in both the poor and the rich countries will be obliged more and more frequently to resort to repression and ultimately to military force in order to preserve the status quo. But in the long-run such policies will prove too costly to the elites in the rich countries, whose stake in most of the underdeveloped world is less immediate than that of the elites in the poor countries.[41] Weakened by a selective and gradual withdrawal of support from their stronger allies, the elites in the poor countries will become increasingly vulnerable to pressures from below and will ultimately give way to revolutionary movements.

While this general scenario appears to be more or less inevitable in most of the underdeveloped world, there remain widely variant possibilities with respect to the time span and the degree of violence involved. The actual pattern of events will depend upon the internal dynamics of revolutionary movements and upon the extent of the resistance to radical change posed by the elites of the poor and the rich countries. For the construction of a more humane world and for the achievement of world peace, it is clearly terribly important to minimize both the time and the violence associated with the necessary and ultimately inevitable changes in the poor countries.

What can progressive elements within the rich capitalist countries-- and intellectuals in particular -- do to help the cause? It is easy to exaggerate the impact that concerned intellectuals can have on the course of events in the world. This is particularly true of intellectuals in the rich countries concerned about underdevelopment in the poor countries. The forces that will make or break radical change in a poor country are deeply embedded in the political economy of the world capitalist system and are not likely to yield to the power of reason or persuasion. Yet to remain silent is to comply with the <u>status quo</u>, and to speak out may help to stimulate the process of change.

The intellectual in a rich capitalist country must on the one hand work to destroy the myth of gradual improvement in the poor countries under the existing world capitalist system. It is important to show convincingly that radical change is necessary for true development in order to counter the ideological rationalizations used to support the present system. On the other hand, the intellectual most join other progressive elements within the rich capitalist countries to increase the pressure on the ruling elites to reduce their present involvement in the poor countries, to break their ties with the ruling elites in those countries, to cease to oppose revolution with economic and military force, and to show willingness to recognize and trade with revolutionary governments.

Such policies of course run counter to the interests of important groups among the elites in the rich capitalist countries. It would be frivolous to expect these groups to accede to such changes without a powerful struggle, even though in the long-run they appear doomed to failure. The crucial question that remains is whether this struggle can be won peacefully -- through mounting popular pressure on the intransigent elements of the ruling elites -- or whether it will entail a violent confrontation within the rich capitalist countries themselves.

Footnotes

1. The total value of exports within the non-socialist world rose from $53 billion in 1948 to $181 billion in 1967 at constant 1963 prices: this represents an average annual rate of growth of almost 7%; see United Nations, Statistical Yearbook, 1968, Table 13. The total value of direct private investment abroad from the United States -- the major source of foreign investment -- rose from $12 billion in 1950 to $71 billion in 1969 at an average annual rate of growth of almost 10%; see U.S. Dept. of Commerce, Survey of Current Business, Sept. 1960 and Oct. 1970.

2. United States direct private investment in the poor countries has grown from $6 billion to $20 billion in the period 1950-1969, at a rate of close to 7% per year; see U.S. Dept. of Commerce, Survey of Current Business, Sept. 1960 and Oct. 1970.

3. In the absence of comprehensive measures of foreign ownership and control of domestic resources in the poor countries, figures are presented in Table 4 measuring the ratio of the gross outflow of income from foreign investments to the value of gross domestic product. These figures vastly understate the significance of foreign investment for several reasons. First of all, the outflow of investment income fails to reflect the share of the earnings from foreign investment that is retained within the country. Secondly, a considerable part of the real earnings made on foreign investment is often disguised in the form of over-priced inputs and/or management fees, royalty payments, and other transfers that do not correspond to any real additional costs to the firm. Finally, the total returns to corporate capital in any country consitute only a fraction of the gross domestic product -- about 20% on the average. As a proportion of the returns to capital, therefore, the returns to foreign-owned capital are roughly five times as great as their share in gross domestic product.

4. The term "demonstration effect" was first introduced by Duesenberry (1949) to describe the tendency for low-income families to try to emulate the consumption behavior of higher-income families with whom they associate.

5. For a thorough and well-documented case study of the relationship between domestic and foreign private enterprise in a poor country, see Kidron (1965).

6. For an incisive treatment of the problem of the brain drain, see Griffin (1969, pp. 272-275).

7. A substantial literature within the field of economic development has been devoted to the problem of the optimal choice of techniques in a poor country. For a discussion emphasizing the problems associated with the transfer of technology from the rich countries to the poor, see Arrighi (1970). The foreign exchange using bias of imported technology is stressed in Kidron (1965, chapter 7).

8. For a lucid exposition of the distributional function of the price system under capitalism, see Meade (1964).

9. Schumpeter (1934) emphasized the significance of technological innovation for the profits of an individual entrepreneur and for the growth of an economy.

10. See Baran (1957, chapters 3 and 4) for a general discussion; and Means (1970) for evidence form the history of the United States.

11. There is a persistent tendency in non-socialist poor countries to over-invest in higher education and to under-invest in mass education as compared with socialist countries and with what would appear to be desirable from the point of view both of equity and of long-run growth. For a detailed study of these issues, see Bowles (1970).

12. For empirical evidence based on an input-output analysis of the Indian economy, see Hazari (1967, 1968).

13. See Arrighi (1970) for a thorough discussion of the biases affecting the choice of techniques by private enterprise in the poor countries.

14. The issues raised in this paragraph are discussed in greater detail and documented in Meier (1970, Part VII. C.1, "Development without Employment - Note").

15. For evidence that this has in fact been the case in many poor countries, see Baer and Herve (1966).

16. For a detailed quantitative analysis of sources of economic growth, see Denison (1967).

17. Nurkse (1962, chapter 3) analyzes the impact of the demonstration effect on rates of saving in the poor countries.

18. The experience of a well-known British economist, Nicolas Kaldor, in advising governments of poor countries is revealing on

this point. "Since I invariably urged the adoption of reforms which put more of the burden of taxation on the privileged minority of the well-to-do and not only on the broad masses of the population, it earned me (and the governments I advised) a lot of unpopularity, without, I fear, always succeeding in making the property-owning classes contribute substantial amounts to the public purse. The main reason for this...undoubtedly lay in the fact that the power, behind the scenes, of the wealthy property-owning classes and business interests proved to be very much greater than...suspected." See Kaldor (1964, Vol.I, pp.vvii-xx).

19. For a theoretical exposition of the problem, see McKinnon (1964); for a comprehensive empirical survey, see Chenery and Strout (1966).

20. The first author to focus much attention on the need for and the difficulty of mobilizing surplus resources in the poor countries was Ragnar Nurkse (1962, chapter 2).

21. See Commission on International Development (1969, Annex II, Table 15).

22. The United States provides more than half of the official aid from the rich capitalist countries to the poor countries; see Commission on International Development (1964, Annex II, Table 17). Net new grants of economic and technical aid from the U.S. have declined steadily since 1966, and net new credits from the U.S. have declined steadily since 1967; see U.S. Dept. of Commerce, Statistical Abstract of the United States, 1970, Table 1214).

23. See Hagen (1968, p.363). As Hagen notes, the real value of the aid disbursed is overstated because of the practice of tying aid to purchases in the donor country and because of the overvaluation of U.S. surplus agricultural commodities. In this connection, see also Johnson (1967, pp. 80-84).

24. See, for example, the report of the U.S. President's Task Force on International Development (1970).

25. See U.S. Dept. of Commerce, Survey of Current Business, annual reports on the international investment position of the United States, appearing in the August, September, or October monthly issue.

26. Leibenstein (1957, pp.112-119) has emphasized the attractiveness of "zero-sum" activities -- i.e., activities that re-distribute income rather than increasing income -- to private entrepreneurs in poor countries.

27. See Arrighi (1970) for a discussion of the reasons why foreign investors favor consumer good over capital good industries in non-socialist poor countries.

28. It has been argued by some economists that the use of relatively capital-intensive techniques, although inefficient from the point of view of static output maximization, may be optimal from the point of view of long-run growth because it distributes a greater share of income to groups who are more likely to save. Such an argument was first advanced by Galenson and Leibenstein (1955) and led to further refinements by Eckstein (1957), Sen (1962) and other writers. For a critique of their position, see Arrighi (1970, part IV).

29. For a concise discussion of the problem of market failure and the need for government planning, see Griffin and Enos (1970, chapter 3).

30. See Little, Scitovsky and Scott (1970, esp. chapter 6) for an extensive discussion of the ways in which government policy has inhibited efficient resource allocation in the non-socialist poor countries. What the authors fail to stress are the class interests served by such government policy.

31. See Samuel Bowles (1970).

32. For an instructive case study of the role of the public sector in India, a country whose government is heavily committed to state planning, see Chattopadhyay (1970).

33. Note that the sample of countries for which data were available both in 1953 and in 1965 is somewhat smaller than the sample for which data were available in 1965. Thus the figures for 1965 in Tables 7 and 8 generally apply to fewer countries and are not equivalent to those in Table 4.

34. The cumulative external public debt of the poor countries more than doubled from $22 billion to $48 billion between 1961 and 1968. By 1968, the ratio of total debt service and investment income payments to export earnings exceeded 25% in 7 and exceeded 10% in 29 poor countries. See Commission on International Development (1969, Annex II, Tables 9 and 11).

35. As of 1969, the United States alone had "mutual defense" treaties with 45 nations -- most of them poor -- and operated approximately 400 major military bases in 32 overseas countries and territories. The U.S. provided military aid to 58 foreign

countries and trained military personnel from 64 countries. See Congressional Quarterly Service (1964).

36. The conflicts which most threaten the stability of the rich capitalist countries are probably less economic and more social-psychological in origin: the unsatisfactory quality of life under capitalism is likely to give rise to more tensions than the inequitable distribution of income. For an analysis of some of the qualitative problems of advanced capitalism in the United States, see Gintis (1970).

37. For extensive documentation on the inadequacies of foreign aid and the negative impact of the trade policies of the rich capitalist countries on the poor, see Johnson (1967, esp. pp. 78-107).

38. In 1969, the United States federal government spent more than $80 billion on national defense but barely $2 billion on foreign assistance; see U.S. Dept . of Commerce, Survey of Current Business, July 1970, National Income and Product Accounts, Table 3-10.

39. The recent examples of Peru and Chile come first to mind. Other poor countries, such as the UAR, Indonesia, Burma, Ceylon, Ghana, Guinea, and Tanzania have at various times-- and to varying extents -- seen nationalistic governments come to power in reaction against foreign domination. In most of these countries, however, a fundamental restructuring of domestic capitalist institutions has yet to take place.

40. For a similar line of reasoning from quite a different perspective, see Huntington (1968, chapter 1, esp. pp. 32-59).

41. With the exception of a small number of large and very powerful multinational firms with a significant share of their assets located in the underdeveloped world, most of the elites in the rich capitalist countries do not have a very high direct economic stake in the poor countries. However, the capitalist class as a whole does have a general stake in perpetuating the capitalist rules of the game in the international arena. See the Ad Hoc Committee on the Economy and the War (1970).

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