

Putting Policy Goals in Human Terms

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1. The Historic Perspective

There are two basic forces of development which set the pace and give the direction of progress: Technology determines the physical process of production and deeply affects its dynamics through the application of science to production processes throughout the economy. Democracy determines the social process of shaping codes of behavior and institutions and the functions of national and local governments; this process is deeply affected by the ideas of the individual's rights and responsibilities, equality before the law, and freedom to participate in cooperatives, interest groups, political parties, churches, etc.

These are the two generators of progress sweeping the world. They are guided and more or less controlled by people. They are mutually compatible and in fact tend to support each other.

This has been the experience in the industrial countries. Modern technology and democracy developed hand in hand. During the hundred-year

period of 1860-1960, the leading industrial countries (all of them still predominantly rural in 1860!) increased their national output by 2 to 3.5% per year, and developed their representative forms of government. Quite a number of the major newly developing countries achieved a rate of growth twice as high, of 4 to 8% per year, during the 15 year period of 1950-65, as seen in Table 1. This is indeed a remarkable achievement, made possible because the modern technology developed in the West could be readily transferred, with minor modifications, to the newly-developing countries. Here, it is only since the Second World War that the interaction of technology and democracy began, along with the spreading of universal education and suffrage and some form of representative government.

These two generators of progress are also bringing about fundamental changes in the basic goals of economic growth. In the early decades of Western development, production technology was introduced without regard to its impact on workers. The "sweat shop" system dramatized by Dickens was common in industrial England, western Europe and eastern U.S. during the 19th and the early 20th century. It receded under the impact of democratic institutions and political organization through which the rising aspirations for better living and human dignity of people found effective expression. Workers' unions, farmer organizations and political parties emerged which pressed for improving the living level of workers and farmers. To the economic goal of increasing production was added the companion goal of reducing poverty.

Ten years after World War I, the industrialized West plunged into a deep depression, of which the major cause was not lack of production, but lack of effective market demand. This lack of demand, in turn, was caused

Table 1

Annual Rate of Growth of National Product:

Industrial Countries, 1860-1960, and Newly Developing Countries, 1950-65

Selected Major Countries	Compound Growth Rates	
	1860-1960 <sup>1/</sup>	1950-65 <sup>2/</sup>
	%	%
<u>Industrial Countries</u>		
France and U.K.	2.0	
Germany and Denmark	2.75	
Sweden	3.0	
U.S. and Japan	3.5	
<u>New Developing Countries</u>		
India		3.9
Colombia		4.6
Brazil		5.9
Mexico		6.0
Taiwan		7.7

<sup>1/</sup> Source: Simon Kuznets, Modern Economic Growth. New Haven, Yale University Press, 1966, p. 64.

<sup>2/</sup> U.S.D.A. Economic Research Service, Economic Progress of Agriculture in Developing Nations, 1950-68, Wash., D. C., May 1970, p. 30.

by lack of purchasing power, of income on the part of masses of people. Modern industrial technology creates mass-production--which cannot be sustained without mass-consumption--which in turn requires the abolition of poverty. Since World War II, the industrial West is struggling, more or less successfully, with groaning and fits of distemper, from "poverty in the midst of plenty" to "plenty without poverty". Some of the smaller European nations, e.g. Sweden, Denmark, Switzerland, have made great strides toward this goal.

After World War I, Russia embarked upon a different strategy in her struggle for plenty without poverty, that is upon a strategy of socialism under a one-party dictatorship, or communism. Since World War II, Eastern Europe also adopted this strategy. On the whole, I believe it is fair to say that the communist countries have been less successful in their production efforts than the West. On the other hand, the communist countries, within the limits of their lower output, have been more successful in their efforts to abolish poverty. But I see no reason why the democratic countries, that is those characterized by a mixed economy of large private and public sectors and a multi-party political system, should not be capable of abolishing poverty--unless it be the intransigence of big business or the traditional elite in accepting its social responsibility toward the welfare of the nation.

History suggests that if the communist countries could unleash the creative potential of their managers by lifting from them the heavy hand of bureaucracy, and if the democratic countries could place upon their wealthy elite the obligation to restrain the exercise of their power and

cooperate with the government in abolishing poverty--both groups of countries would converge in their development strategies, would understand each other better, and would brighten up mankind's future.

## 2. Goals and Strategies of Public Policy

Progress demands a rapid rate of economic growth in production according to people's desires and preferences. In many developing countries, population is increasing nearly as fast as production. Under the impact of democracy, aspirations for more and a much wider variety of goods expand much faster than either population or production. Hence, the pressure on the economic growth rate is very great, and especially on the agricultural sector because of the importance of food supplies to a fast growing population. Table 2 shows that in much of Latin America as elsewhere the poorer classes are falling below the level of the middle-income classes by about 20 to 30% in calories, and 30 to 50% in proteins. These figures indicate a serious lack of food, particularly as even the "middle classes" were well below the FAO standards of minimum requirements, except Chile.

Progress demands provisions for an adequate minimum living standard below which no person should fall, for several cogent reasons. Poverty saps the health, energy and productivity of people, and hence depresses production. Hunger and malnutrition are especially debilitating. Acute poverty makes people lethargic, makes them subservient, depending on the mercy of their masters, and fearful of losing their livelihood. Poverty is incompatible with human dignity, with the freedom and responsibility of citizenship, and with life, liberty and the pursuit of happiness as conceived in all democratic societies. Equally important is the fact

Table 2

Latin America: Nutritional Gap between  
the Middle Class and the Poor <sup>1/</sup>

Countries	Per capita consumption of the poor class in percent of that of the middle class	
	Calories	Protein
	%	%
Brazil	70	60
Colombia	70	50
Ecuador	84	106
Peru	79	73
Chile	78	82
Mexico	77	70

<sup>1/</sup> Source: Inter-American Development Bank, Agricultural Development in Latin America: The Next Decade, Wash., D.C., 1967, pp. 123-124.  
The high protein figure for Ecuador is due to the sample area for the poor class being located near the coast (Monta) with ready access to fish, while the middle class area is in the mountains (Coto Collao). Still, in absolute terms even the coastal people with their 54 grains of protein per day were 24% below the minimum requirement according to FAO nutritional standards.

that widespread poverty cannot generate the demand for the goods and services without which the economy stagnates.

These two goals of development policy must be pursued in such a way that they actively support each other. What is needed is the simultaneous and integrated pursuit of three approaches.

First, the "self-equilibrating market" approach consists of letting development be guided by the market forces. People's preferences for many goods and services are reflected in their market demand, and the prices resulting from the interplay of supply and demand signal to producers how much of what they should produce. This quasi-automatic market system works well in the private sector within fairly clearly definable limits.

Within these limits, managerial decisions of private entrepreneurs can be left free of government interference. This holds particularly for most of the self-employed entrepreneurs in agriculture, trade and the crafts, and for small employers and corporations with no power over the market forces, i.e., the "small capitalists". A large number of goods and services can be produced efficiently by such small- and medium-sized enterprises. Beyond these limits, the "self-equilibrating market" approach tends to break down and may cause severe misallocation and idleness of resources, as in depressions, in areas of chronic poverty, and in periods of large unemployment.

Second, the "public policy" approach guides development according to the comparative urgency of human needs. For instance, it formulates policies making modern inputs and knowledge and institutions available to low-income farmers and other self-employed entrepreneurs in industry and trade. This raises their labor productivity and income, and at the same time increases

the demand for many agricultural and industrial goods. Agriculture is particularly dependent upon this approach because of farmers' extreme vulnerability to market price fluctuations, and of their very weak bargaining position in the market. Similarly, workers are very vulnerable whenever their bargaining position is weak and alternative employment opportunities are lacking.

"Supporting" public policies are aimed at rectifying specific disadvantages of producers, such as land reform and agricultural credit programs giving farmers access to land and other inputs, selective price supports and cost subsidies to induce farmers to modernize their farming methods, and provisions for collective bargaining of workers for adequate wages and working conditions.

Examples of "regulatory" public policies are anti-trust and minimum wage laws, setting standards of performance of banks, insurance companies, food processing, to mention just a few.

These types of public policies apply to the private sector where the market forces fail to allocate resources where they are urgently needed, or cause unemployment, or fail to reduce unemployment and other causes of poverty.

Third, the "public sector" approach provides for the government to carry out economic functions for which private enterprise is not suited for various reasons. For instance, many infra-structural facilities are best provided by the government--with considerable variations between countries and even between regions in one country. Agriculture suffers a severe handicap in this respect. Lack of roads, transports, communication, schools, health centers, etc. constitutes a formidable obstacle to agricultural development.

Each country needs to develop its own combination of public policies in the private sector, and its own size and functions of the public sector. The basic purposes of these three types of development policies are to accelerate progress, to encourage and guide private enterprise according to national and human needs, and safeguard the public interests against the undesirable effects of excessive economic power of individuals or groups on the livelihood, security and dignity of people.

The criteria for what is "desirable" or "undesirable" in the market performance must clearly pertain to the market's effect upon meeting human needs. For instance, policies should give high priority to measures reducing poverty, and increasing the production of necessities rather than luxuries. Similarly, under certain conditions, the import of labor-saving machinery might at times be prohibited in order to prevent labor displacement and increases in unemployment and poverty.

### 3. Example of a Concrete Action Program

A recent mission of the International Labor Organization of the United Nations to Colombia, with Dudley Seers as team leader, offered to the government a remarkably lucid development program which I summarize in outline form as a useful example of a promising strategy<sup>1/</sup>:

- (1) Commitment to the goal of full employment;
- (2) More concern with social implications, and less with production for its own sake;
- (3) "Thinking very hard" before introducing labor-saving Machinery;
- (4) Closing the great gulf between town and country;

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<sup>1/</sup> ILO, Towards Full Employment: A Programme for Colombia. Geneva, 1970, p. 283 ff.

- (5) Transformation of land tenure structure;
- (6) High technical level for small farmers, "with a network of credit, extension and training centers and cooperatives";
- (7) Regional planning, with emphasis on rural industries;
- (8) High technical level in small-scale and handicraft industries with less emphasis on luxury consumer goods;
- (9) Improvement of housing conditions, especially in small towns;
- (10) Reduction in monopolistic power, and a more equitable tax system;
- (11) Universal primary education enforced, and expansion of advanced education
- (12) Proper health services, especially in rural areas;
- (13) Shifting planning emphasis away from national income targets toward sectoral employment objectives.

The mission estimated the extent of urban unemployment and under-employment at around one-third of the labor force in 1967. For agriculture, a study revealed that in 1960, 56% of all farm families were on farms of "sub-family" size, i.e. affording productive work for less than two persons. Landless farm families accounted for 13 percent of the total, most of them living under very poor conditions. This means that about 70% of all farm families are very poor, indeed. (See p. 67 of ILO Report.)

In basic economic terms, this means that in Colombia one-third of the urban, and two-thirds of the agricultural labor force have not enough land and capital available for their use to make their labor sufficiently productive to support themselves above the poverty level--apart from the fact that their weak bargaining position often forces them to accept wages well below their labor's marginal productivity.

#### 4. Frontal Attack on Poverty

This example of a development program differs from the conventional approach as it represents a frontal attack on poverty, consistently carried through along the various fields of policy formulations. It recognized the fundamental truth that the self-equilibrating market forces in an economy of modern technology and large-scale conglomerates of business firms cannot be expected to resolve the poverty issue.

Perhaps the most important reason for this is the strong tendency of capital to be centripetal in its processes of accumulation. The more capital someone has, the easier it is to get more. This centripetal force of capital is generated in part by two institutional arrangements of the business world: (1) the right to plow back undistributed profits into the firm--instead of distributing the whole profit in dividends to the share-holders and borrowing new investment capital from banks, and (2) the use of existing capital and land assets as collateral security for loans with which to get more capital. Both these institutional arrangements make for allocating new capital to places where there is already a plentiful supply, instead of channeling it to places where capital is scarce and urgently needed in order to raise labor productivity and reduce poverty.

A dramatic example of this centripetal force of capital allocation is the fact that most of the private U.S. investment abroad moves to large firms in western Europe, compared to a mere trickle moving into the newly developed countries. Similarly, in the domestic market it is much easier to get investment funds for constructing sumptuous high-rise buildings than low-cost housing, even if the latter are desperately needed. In fact, the issue of low-cost housing is becoming so critical that governments

are forced into providing it, either through "supporting policies" in the private sector (e.g. in the U.S.), or through incorporating it into the public sector (e.g. in Singapore) by directly allocating funds to low-cost housing.

In any viable development strategy, this centripetal force of capital accumulation in the private sector should be mitigated by diverting an adequate part of the capital flow to places where it is most needed in the interest of human needs, either within the private sector through policies of government subsidies, supervision and regulation, or in the public sector through the direct investments of government funds, or both.

An example of the first method is a set of land reform measures which would redistribute land by the government buying it from large landowners, selling it to small farmers, and providing the credit necessary for them to carry on efficient production. An example of the second method is for the government to greatly improve and expand roads, transport, schools, health centers, low-cost housing, etc. in areas where they are lacking in order to raise the very low productivity of people to levels which will support an adequate living standard.

Note that in my discussion of how to make a frontal attack on poverty I have mentioned only those kinds of policies which are designed to raise the productivity, and hence the income earning capacity of the poor. This can be done without redistributing income from the rich to the poor, but by guiding new capital formation to places where such capital is most needed.

The care of the indigent, the aged, sick and unemployable, is quite a different problem and requires different policies. In western countries, such "welfare" policies often include a dole to the unemployed to relieve the poverty of families. These policies typically are not intended to

render more productive the labor of the "welfare recipients". Measures to keep unemployables out of dire want are, of course, essential purely on humanitarian grounds. They do not affect the structure of the economy and depend mainly on income transfers from the rich to the poor.

In contrast, the structural change involved in reducing poverty by making the labor of the poor more productive does not only increase the national product, but also provides nearly all families with sufficient income to either care for their own unemployables themselves, or contribute an adequate amount of taxes to carry the cost of government welfare programs.

One thing appears certain: the developing countries can ill afford not to harness their rapidly growing labor force and absorb it fully in their production processes. This requires new positive functions of government. In the decades ahead it will become anachronistic to ignore the poverty issue in development planning; in fact, it will assume a priority position over the past master goal of maximizing the gross national product per se.

This shift in emphasis is clearly expressed in the United Nations Report on the Second Development Decade. The Committee, headed by Nobel-Prize Laureate Jón Tinbergen, declared that while the First Development Decade of the Sixties was dedicated to increase the gross national product, the Decade of the Seventies must be dedicated to reduce poverty.

Recommended for general reading:

Gunnar Myrdal, The Challenge of World Poverty, Random House,  
New York, 1970.

Albert Hirschman, Journeys Toward Progress, Anchor Book,  
Doubleday, New York, 1965.

Rainer Schickele, Agrarian Revolution and Economic Progress,  
Praeger, New York, 1968.