PN-ABT-552

DEVELOPMENT STRATEGIES VS. DEVELOPMENT EXPERIENCE:

WHAT DO THE FACTS SHOW?

Prepared for the Bureau for Private Enterprise
of the
U.S. Agency for International Development

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December 10, 1984

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The search for universally applicable solutions to the socio-economic problems of developing nations has been a constant pursuit of international donors, multilateral as well as bilateral. In this quest for answers, both development theorists and practitioners have tried to find clearcut examples of successful development strategies which might be replicable if certain conditions are met.

This paper examines the two major post-World War II development theories—"trickle-down" and "basic human needs"—and the performance of six countries—the Republic of Korea (hereafter Korea), Brazil, El Salvador, Sri Lanka, Kenya, and Cuba—during that period. The paper compares and contrasts the economic performance of each of these countries with respect to:

- Their success in responding to the basic human needs of their people and in reducing poverty.
- The role of the public sector vs. the private sector.

Few of these cases are generally accepted examples of successful national development, however defined. In a number of countries, high levels of economic growth have been accompanied by growing inequity in income distribution. Some countries have had remarkable redistribution of wealth and have made great strides in improving the socio-economic well-being of their citizens—at the expense of economic growth. Others have made only modest progress with either the generation of wealth or its equitable distribution.

The Korean case may be extraordinary in this regard and will be the first examined in this paper. Korea enjoyed both a high rate of economic growth and basic needs satisfaction. The Korean development pattern has been highly equitable largely because assets were distributed relatively equally before rapid growth began and because the pattern of development did not greatly concentrate income or wealth.

Like Korea, Brazil experienced "miraculous" economic growth during the 1960s and 1970s. Unlike Korea, however, rapid growth in Brazil led to a significantly worsening income distribution. Despite the high growth rate that characterized this period, Brazil made little progress toward satisfying the basic needs of its poorest citizens.

In the 1960s El Salvador was considered the "pride of the Alliance for Progress." But after six years of rapid economic growth, income distribution had worsened and the basic needs of the Salvadoran people were not being satisfied.

Sri Lanka, in contrast, grew at average or low rates from independence in 1948 until a change of government in 1977 led to a radical shift in economic policies. Low growth notwithstanding, Sri Lankan governments provided an ample system of social benefits. With inequality kept relatively low, Sri Lanka eliminated the worst manifestations of poverty.

Kenya attained above average levels of economic growth, but it did so at the expense of income distribution. Moreover, little progress was made toward alleviating poverty or providing for basic needs.

After its revolution in 1959, Cuba's priority was the achievement of an equitable distrbution of wealth. Economic growth was a secondary consideration. The results were low economic growth and the attainment of a level of socio-economic well-being rarely equaled in a developing country.

This paper will evaluate the impact of the different strategies pursued by these countries and will discuss the lessons learned from an analysis of their varying experiences. Finally, it will look at the extent to which current development theory as practiced by the Agency for International Development (AID) is out of step with the experiences of the countries examined in this paper.

A. TRICKLE-DOWN

Most economists would define the "trickle-down" theory of development as the view held during the 1950s and 1960s that saw development as purely an "economic" phenomenon in which rapid gains from the overall growth of GNP and per capita income would automatically benefit the masses through jobs and other economic opportunities (Arndt, p. 1). If per capita GNP were rising, then all—including the poor—would be better off eventually. It would be only a matter of time, it was assumed, until the benefits of development would "trickle-down."

In perhaps the first use of the term in an economic context, Jawaharlal Nehru paraphrased one facet of the Hobson-Lenin theory of imperialism in a 1933 article: "the exploitation of India and other countries brought so much wealth to England that some of it trickled down to the working class and their standard of living rose" (Arndt, pp. 1-2). Jacob Viner, in one of the first post-World War II articles on economic development, referred to

> a school of thought with respect to economic development ...[which] believes that to subject a national programme of economic development to the requirements that it shall prevent an increase in the absolute extent of severe poverty may doom the programme to failure without lasting benefit to any sector of the population. They hold that in many cases all that is practicable, at least for some time, is to increase the national area of economic health and strength, perhaps relatively but at least absolutely, without preventing or even retarding, and possibly even while stimulating, the growth of the area of deparate poverty. Eventually, they contend, the prosperity will trickle down to the lower levels of the population (Arndt, p. 2).

Essentially, proponents of "trickle-down" predicted that a vertical flow of income from rich to poor would happen of its own accord if certain levels of average income could be attained. Thus, poverty would be eradicated without the implementation of explicit income distribution policies.

Advocates of "trickle-down" assert that the strategy has been successful. Krauss posits that:

> The second approach to alleviate Third World poverty is to try to increase the standard of living of all citizens, rich and poor alike, by economic growth. This more-generalized, less-targeted approach focuses on the size of the pie rather than the relative size of the slices. Its major advantage is that it works! There is incontrovertible evidence that the absolute real income of poor people has been increased by rapid economic growth whenever and wherever it has taken place in the Third World (p. 45).

By the late 1960s, however, the evidence concerning economic growth and income distribution had poured in from the developing world. While it was generally expected that income equality was much higher in poor countries than in rich countries, some theorists and practitioners were surprised to learn that inequality was rising in many developing countries. The absolute incomes for the poor may have grown in some countries; in other countries the real income of the poor actually declined. In most countries that adopted the "trickle-down" approach, the income of the rich grew at a more rapid rate and the gap between the incomes of the rich and the poor widened. Indeed, the mass of people in many of these countries have not benefitted at all from development. Clearly, the vertical flow of income as a consequence of economic growth simply was not occurring as predicted. In this context, "trickle-down" theory was judged to be a failure.

B. BASIC HUMAN NEEDS

The "Basic Human Needs" (BHN) strategy represents a response to the generally perceived failure of the "trickle-down" strategy. The term "basic needs" was used first in the debate over whether poverty is an absolute or relative phenomenon (Weeks and Dore, p. 134). There is some difference of opinion as to when and by whom the concept was first developed (ILO, 1977). For development theorists and practitioners, however, the concept became the center of focus and debate at the 1976 World Employment Conference organized by the International Labor Organization (ILO). A consensus had grown that the process of growth in developing countries had not solved—indeed may have aggrevated—the problem of poverty. It was argued, therefore, that development strategies must be explicitly redistributionist. The donor community and the developing countries themselves needed to focus on the "basic needs" of the poor by implementing a strategy which would redistribute current income or wealth or both.

This BHN approach emphasized the provision of several basic commodities and services to the poor: staple foods, water and sanitation, health care, primary and non-formal education, and housing. The strategy included two basic elements. First, these basic needs would be provided at costs that the poor could afford. Second, the strategy would include service networks to distribute these services in forms appropriate for consumption by the poor, and especially in areas where the poor live (Gillis, et. al., p. 93).

For BHN programs to redistribute income, it was argued, services would have to be offered on a subsidized basis. Otherwise redistribution would not work, either because the poor would have to spend too much for them or would not use them at all. Services also would be appropriate for meeting the needs of the poor: primary schools not universities, village clinics not intensive-care units in urban hospitals. The system would be extended to the poor in their villages and urban slums: schools and clinics, teachers and primary health workers would go to the poor where they lived (Gillis, et. al., p. 94). The BHN approach would be "... designed to improve, first, the income earning opportunities for the poor; second, the public services that reach the poor; third, the flow of goods and services to meet the needs of all members of the household; and fourth, participation of the poor in the ways in which their needs are met" (World Bank, 1980, p. 13).

C. NEW DIRECTIONS AND THE PRIVATE ENTERPRISE INITIATIVE

The 1973 "New Directions" amendments to the Foreign Assistance Act shifted the U.S. development assistance mandate from the "trickle-down" to the "basic human needs" development strategy (Doggett, p. 1). U.S. development support would focus on "countries which pursue development strategies designed to meet basic human needs and achieve self-sustaining growth with equity (Doggett, p. 3)." U.S. development policy would emphasize goals including: "(1) the alleviation of the worst physical manifestations of poverty among the world's poor majority; and (2) the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits" (Doggett, p. 3).

Further, the "New Directions" amendments stipulate that national economic growth will be far more likely if it is induced from the agricultural sector. Therefore, U.S. agriculture, rural development, and nutrition assistance would be used primarily for "activities which are specifically designed to increase the productivity and income of the rural poor."

Finally, the "New Directions" amendments call for U.S. participation in development to be carried out as much as possible through the private sector. In keeping with this provision, the Reagan administration instituted the Private Enterprise Initiative in 1981, based on the belief that greater reliance on private enterprise was essential to the generation of economic growth in developing countries sufficient to satisfy basic needs and that the private sector was the engine that makes growth occur most quickly (Doggett, p. 6 and p. 20).

MEASUREMENT: HOW DO WE MEASURE SUCCESS OR FAILURE?

A. EQUITY

This paper will measure the effect of economic development on welfare through an analysis of income distribution.[1] The most common method of analyzing these data is the Lorenz curve which ranks income recipients from lowest income to highest. The Lorenz curve itself shows the percentage of total income accounted for by any cumulative percentage of recipients. The shape of this curve indicates the degree of inequality in the income distribution. As Figure 1 illustrates, the curve must touch the forty-five degree line at the lower left corner (zero percent of recipients must receive zero percent of income) and the the upper right corner (one hundred percent of recipients must receive one hundred percent of income). If all recipients had the same income, the Lorenz curve would lie along the forty-five degree line (perfect equality). If only one individual or household received income, it would trace the lower and right-hand borders of the diagram (perfect inequality). Generally, it lies somewhere in between. The farther the curve bends away from perfect equality, the greater is the inequality of distribution (Gillis, et. al., p. 72).

The Gini coefficient ratio, a measure of the degree of overall inequality present in an income distribution, is derived from the Lorenz curve. This

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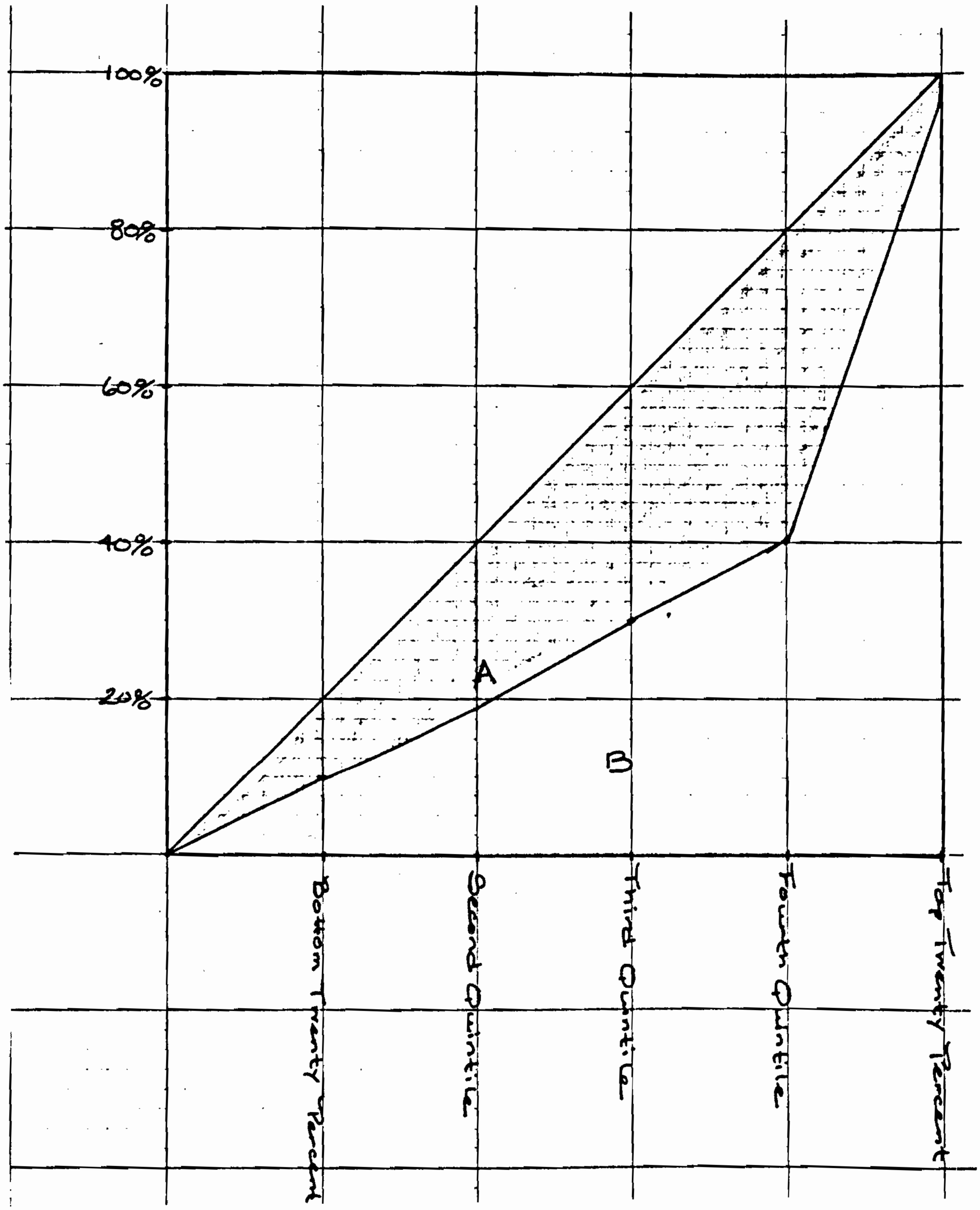
[1] Two types of income distribution are cited generally: functional and size distribution. Functional distribution refers to the division among the factors of production, land, labor, and capital. Size distribution refers to the distribution of income of all kinds among individuals or families and is a direct measure of welfare. Functional distribution is important as a cause of welfare levels because income distribution is determined largely by ownership of the productive factors (Gillis, et. al., p. 71).

FIGURE 1

ILLUSTRATIVE LORENZ CURVE



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ratio is the value of area A divided by the sum of area A plus area B (See Figure 1). The larger the share of the area beneath the forty-five degree line that lies above the Lorenz curve, the higher the value of the Gini coefficient ratio. The theoretical range of the Gini ratio is from zero (perfect equality) to one (perfect inequality). Normally, national income distributions range from about .20 to .60 (Gillis, et. al., pp. 72-73).

B. BASIC HUMAN NEEDS

A variety of social indicators have been used to measure the provision of basic needs. Most lists of basic human needs include minimal levels of nutrition, health, clothing, shelter, and education (Gillis, et. al., p. 77). Translating this list into measurable indicators has presented numerous conceptual problems, however. Some indicators reflect results, while others—such as population per doctor and school enrollments—measure inputs. Some indicators measure the average level of social progress for the whole society, while others are based on a "have, have-not" principle. Thus, the percentage of households with access to clean water can accurately capture the numbers without such service. By contrast, an average of calories consumed per capita as percent of requirements is quite misleading, since it combines the over-consumption of the rich and the under-consumption of the poor. Likewise, figures on average life expectancy, or average infant mortality, do not give us any idea of the range between rich and poor (Hicks, p. 342). For this paper, the provision of basic needs also will be assessed by using an aggregate measure of social well-being, the Overseas Development Council's "physical quality of life index" (PQLI). This measure aggregates three indicators of the basic human needs: life expectancy at birth, the infant mortality rate, and the rate of literacy.

A. KOREA (1963-1972)[2]

ECONOMIC GROWTH:	High
INCOME DISTRIBUTION:	Highly Equitable
BASIC HUMAN NEEDS:	Well Provided
LEADING SECTOR:	Public

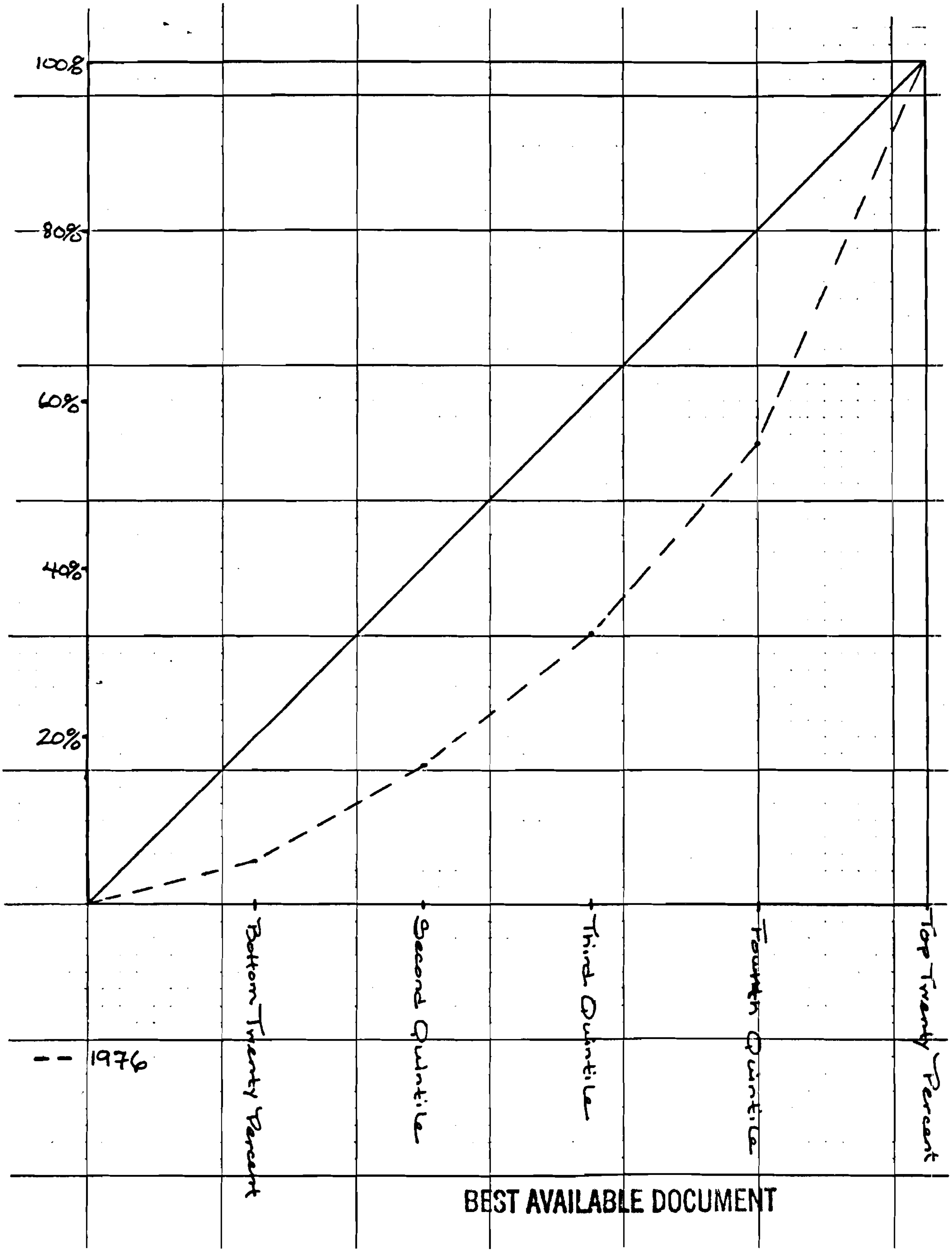
From 1963 to 1972, Korea experienced a period of rapid economic growth that is considered one of the outstanding success stories of economic development. During this period, Korean real GNP more than trebled, growing at ten percent per year (Hasan, p. 3). An increase in per capita income from $100 to $1500 per year occurred over approximately a generation. Industry grew annually at about seventeen percent. Manufacturing expansion averaged about 17.5 percent over the same period (World Bank, 1981b). Exports, which were only about two percent of GNP in 1960 ($40 million), had risen to twenty-eight percent of a vastly expanded GNP by 1975 ($650 million). This real growth in exports of fifty-five percent a year is unmatched by any other country in the world (Krueger, p. 2).

The pattern of development which led to the attainment of the "Korean miracle" had a number of distinctive features. Korea's overall development strategy changed from import substitution industrialization to export promotion industrialization. Rapid economic growth was carried out through the modernization of small- and medium-sized firms. Foreign ownership was held to a minimum. As manufacturing for export boomed, it absorbed a larger share of labor force

[2] During this period, Korea was governed by the Park Chung Hee regime. Park had assumed one-man rule in 1961 and remained in power until his assassination in 1979.

FIGURE 2

KOREAN INCOME DISTRIBUTION



growth than in almost any other country.

These factors contributed not only to economic growth but also to a rapid decline in poverty. Inequality in Korea remained low as compared with other developing countries—more on par with inequality in the most developed Western countries (See Figure 2). For this reason, Korea is often described as a clear-cut example of successful "trickle-down," i.e., rapid growth with vertical income distribution. "Growth appears not to have caused serious disparities in an income distribution that has been remarkably egalitarian for a developing country" (Kim and Roemer, p. 154).

It is crucial to note, however, that Korea had experienced a rather dramatic redistribution of income <u>before</u> the period of rapid growth began and that rapid growth did not significantly alter this situation. This redistribution had been an unintended, but unavoidable, result of the end of Japanese rule by World War II and of the dislocations caused by partition and the Korean War (Adelman, 1974, p. 280). At the time of Japanese withdrawal in 1945, nearly ninety percent of Korea's industrial assets and twenty-seven percent of cultivated lands were Japanese-owned. This property fell to the Korean government, which disposed of it over a ten-year period (Suh, p. 330).

A two-stage land reform also was critical both for Korean development and for increased equity. During the first stage, the U.S. military confiscated Japanese-held land, based on the American military model in Japan. The second land reform implemented by the Korean government limited holdings to approximately three hectares, destroying the rural base of the rural elite. Tenancy had been 42.1 percent in 1947, but was 5.2 percent in 1964; ownership had been 16.5 percent in 1947, but was 71.6 percent in 1964 (Mason, et. al., p. 238). In 1964, the distribution of income in Korea was among the best in the developing

TABLE 1

INDICATORS OF THE PROVISION OF BASIC HUMAN NEEDS IN KOREA

Indicator	1960	1977
Crude Death Rate	13	8
Life Expectancy at Birth	54	63
Infant Mortality Rate	62	—
Adult Literary Rate	71	91*
Number Enrolled in Primary School as a Percentage of Age Group	94	109**

* 1975
** 1976

Source: World Bank, 1979b.

world and has remained so. Korea's gini coefficient had been .34 in 1964 and was .36 in 1971 (Ahluwalia and Chenery, p. 42 and Steinberg, p. 34).

Moreover, the Korean educational system, which accommodated all children at its lower levels and then rigorously selected the few best performers for continuation to its higher levels, had supported both equity and growth. In 1964 the educational level of the Korean population was nearly three times that of the average country at its level of per capita GNP. The development of Korean education before rapid growth had resulted in the achievement of universal primary education and in improvements in secondary schools and higher education (Adelman, 1973, p. 317).

Essentially, Korea's relatively more egalitarian income distribution was not the result of its growth strategy. The Korean government had not discouraged economic concentration in terms of its export performance, nor was the tax structure designed to redistribute income. They had not viewed more equitable income distribution or better access to services as a primary goal in itself. In fact, the government had avoided redistributive policies such as minimum wages and other measures which would have increased labor costs (Krueger, p. 82). Thus, in some respects, the urban work force had paid the price for the export expansion of the economy (Steinberg, p. 20).

Nonetheless, the Korean poor clearly benefitted from rapid economic growth. Because the relative distribution of income had changed so little, rapid growth more than doubled the real income of Korea's poorest twenty percent (Adelman, 1974, p. 285). And as Table 1 illustrates, significant improvements were made in satisfying basic needs.

Korea is considered by many to be the shining example of the success of a private enterprise-led development effort. The evidence would suggest the

TABLE 2

SELECTED INDICATORS OF THE ROLE OF GOVERNMENT IN KOREA'S ECONOMY

	1960	1966	1971	1976	1980
Total government expenditures (including local government and special accounts)/GNP	20.6	16.3	18.3	20.7	22.0
National Tax burden/GNP	10.6	10.7	15.0	17.4	17.4
Government investment and loans/ total government expenditures	22.6	27.1	29.1	29.7	27.4
Government investment and loans/ gross domestic fixed investment	25.9	29.8	28.7	27.1	19.8
Investment of government and government enterprises/gross domestic investment	19.3	22.0	23.3	19.5	17.7
Total public investment (including government-invested enterprise)/ gross domestic investment	40.9	32.6	40.0	36.7	36.3
Savings of government and government enterprises/gross domestic savings	27.4	25.5	22.6	24.2	18.7
Total public savings (including government-invested enterprises)/ gross domestic savings	31.6	30.6	24.2	28.5	22.7

Source: Shinohara, et. al., p. 58.

opposite. As the Korean economy grew so did the government's role. In 1960 total government expenditures in Korea were unusually high relative to GNP. Although they declined somewhat in 1966, they rose steadily thereafter, reaching twenty-two percent by 1980 (See Table 2). During the period of rapid growth, approximately twenty-three to thirty percent of government expenditures were allocated for government investment and loans (Shinohara, et. al., p. 57). In addition, all commercial banks are owned by the state. The importance of state ownership of all commercial banks must not be understated: all credit and loan applications and foreign business relationships are approved by the government (Steinberg, p. 23). This, of course, gave the government tremendous power to control and direct the Korean economy.

From 1963 to 1972, the output of Korean public enterprises grew at a real average rate of 14.5 percent while the economy as a whole grew by 9.5 percent and the non-agricultural sector by 12.2 percent. In 1971 state enterprises had direct and indirect imports that exceeded total total exports, resulting in an 11.6 percent sectoral trade deficit. Had these largely import substituting enterprises not been established, it is estimated that Korea's current accounts deficit might have been as much as twenty-five percent greater due to increased imports.

In terms of sales, twelve of the largest sixteen Korean enterprises are state-owned. Public enterprises have in recent years contributed about eleven percent of GDP in Korea and for one-sixth of total industrial value-added. In Korea the savings of state-owned enterprises generated as much as ten to fifteen percent of gross domestic investment finance (Gillis, et. al., p. 567). For Korea in 1972 only ten percent of value-added in the public sector was marketed under competitive conditions and public enterprises either dominated or played a leading role in all mining and manufacturing industries that might be considered strategic (Gillis, et. al., p. 573). Most Korean state enterpises are in the very capital-intensive sectors which exhibit strong economies of scale. In fact, the public enterprise sector is more than three times as capital-intensive as the Korean economy generally (Gillis, et. al., p. 578).

Korean state enterprises enjoy relatively strong reputations for generating accounting profits (Gillis, et. al., p. 574). Their performance is considered to be very good, particularly by world standards. At the disaggregated firm level, no significant example of the kinds of inefficiences that are assumed to characterize public enterprises in developing countries has been found in Korea. Economists have found that this high level of performance is attributable to the government's general dedication to growth and to a skilled and energetic labor force. Prolonged or blatant inefficiency in public sector management would <u>not</u> be tolerated and would generally be brought to the President's attention (Choksi, pp. 25-28).

Despite Korea's reputation as a "private sector oriented" economy, it is, in fact, government dominated; and the "economic miracle" was indisputedly government-led. As Steinberg has argued:

> The Korean private sector experience is a very special blend of government intervention and private growth. With complete domination of all the credit mechanisms, internal and external, by the government, with its ability to set quotas for export performance, to punish companies by denial of credit if these targets were not met, to appoint and dismiss key staff, to regulate and control all business at even the most modest level, and with a major share of investment (thirty percent) in the public sector, Korea is anything but a model for private-sponsored growth. The development of an autonomous, powerful business community has not occurred in Korea, for such growth would have engendered the proliferation of diverse centers of political power, a situation that no Korean government, classical or modern, at any stage in its development was prepared to tolerate. The Harvard studies amply illustrate the folly of using the Korean model in extolling the advantages of private sector growth.[3] In fact, it could be

> argued that the Korean model, if it demonstrates anything, shows that government intervention into the private sector has been profound, pervasive, and all encompassing as in many socialist economies. A laissez-faire economy it is not (p. 46).

In summary, Korea achieved rapid growth as well as the satisfaction of basic needs. Because substantial redistribution of assets occurred before "miraculous" growth began, Korea's growth strategy did not have a negative impact on equity. But Korea did not develop in this way under the leadership of the private sector as is often thought to be the case. Korea's growth was brought about by a strong central government that controlled and directed the private sector.

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[3] In 1975 AID provided $460,000 for a joint study of the Korean economy by the Harvard University Institute for International Development and the Korea Development Institute (KDI). Eight volumes were produced. See, Mason, et. al., The Economic and Social Modernization of the Republic of Korea.

B. BRAZIL (1964-1974)[4]

ECONOMIC GROWTH:	High
INCOME DISTRIBUTION:	Highly Inequitable
BASIC HUMAN NEEDS:	Poorly Provided
LEADING SECTOR:	Public

When the military assumed power in 1964, the Brazilian economy had been in a deep depression for a number of years. The rate of inflation had grown to over one hundred percent; the growth rate of real GDP had fallen from 10.3 in 1961, to 5.3 percent in 1962, 1.5 percent in 1963, and 2.4 percent in 1964. Balance of payments difficulties increased because of both the sluggishness of exports and the low level of capital inflows (Baer, 1973, p. 1). The military proposed the implementation of an "unemotional, efficiency-oriented approach" with strong central government control but which used "all possible resources, including private and foreign" to develop Brazil (Stepan, pp. 182-183).

By 1968 the military had created what has been described as an "economic miracle." Annual real growth of GNP, which had averaged 4.1 percent per year between 1964 and 1967, rose to 11.5 percent in the years from 1968 to 1973 (Hewlett, p. 46). The "miracle" produced impressively high rates of industrial growth, manageable rates of inflation, a rapid surge in manufactured exports and in capital goods imports, a massive influx of foreign capital, a buildup of reserves, and an increased role of the state in the productive sphere (Hewlett, p. 48). But as The Economist once described it, "The Brazilian economy has grown over the past decade in much the same way as a Brazilian drives his car. That is extremely fast, disregarding everyone else on the road, narrowly

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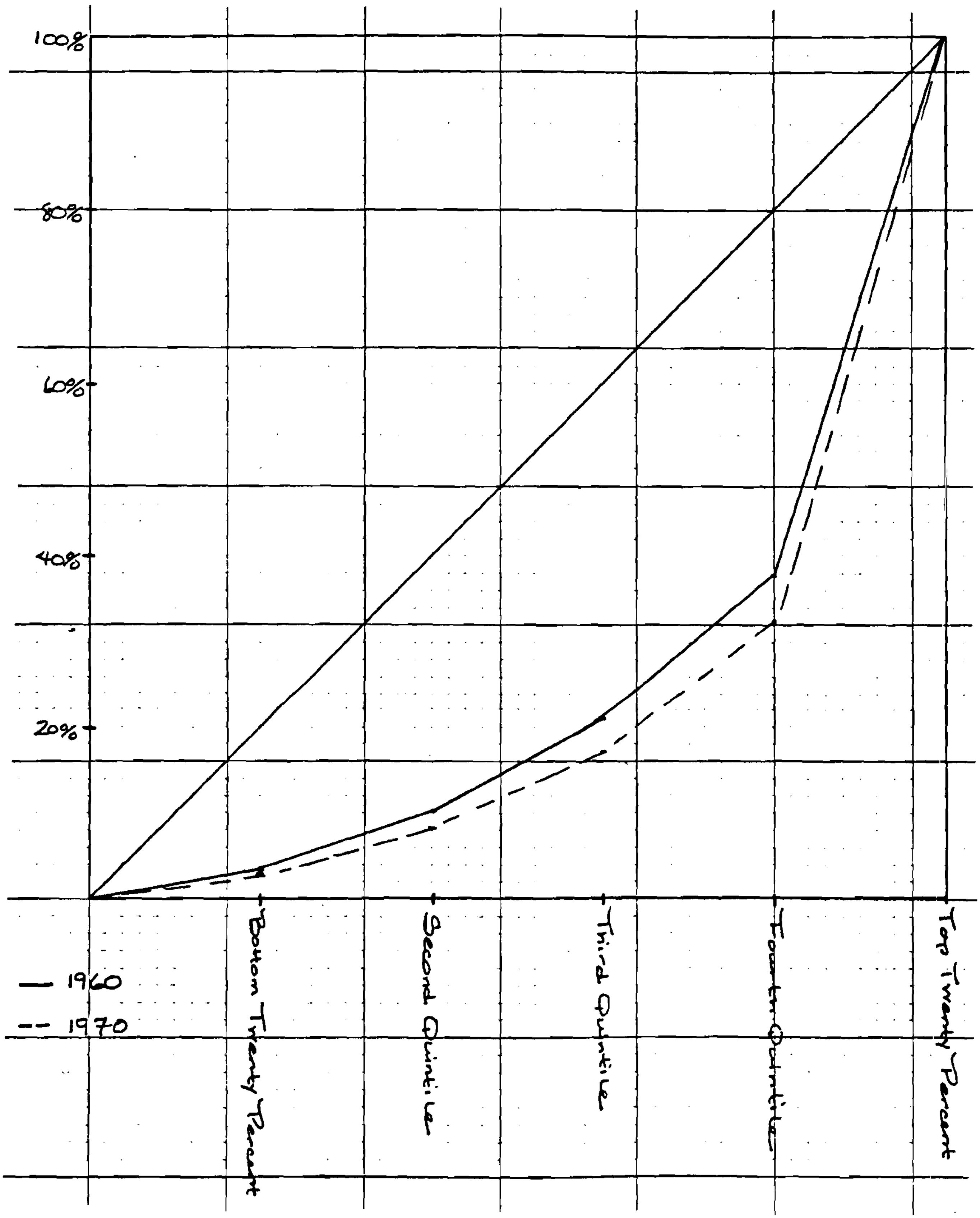
4 The Brazilian military assumed power in March 1964 and continues to govern that country.

FIGURE 3

BRAZILIAN INCOME DISTRIBUTION



avoiding accidents and not stopping to consider whether his passengers have been left behind" (The Economist, 31 July 1976, p. 46).

The increase in Brazilian inequality was quite substantial from 1960 to 1970 (See Figure 3). The Gini coefficient rose by an astounding rate from .53 to .62. The poorest 40 percent of the population received 10.3 percent of national income in 1960 and 8.1 percent in 1970. Moreover, the incomes of this 40 percent grew at 3.7 percent, while the incomes of the richest 5 percent grew at almost twice that rate (7.3 percent). By 1976 the top one percent of all Brazilians appropriated a larger proportion of national income than the bottom fifty percent, and thirty percent of Brazilian families had fallen below a subsistence minimum (Hewlett, p. 13).

Brazil's "economic miracle" was also a basic needs disaster for the poor (See Table 3). In 1975 only thirty-seven percent of Brazil's population had adequate calorie intake, with twenty-six percent having deficits of up to four hundred calories per day and with thirty-seven percent suffering deficits of more than four hundred calories per day. First degree malnutrition affected seventeen percent of infants from birth to six months, and increased to forty percent by the age of two years. Only forty-seven percent of all children aged one to seventeen years reached their normal weight. Although the experts argue that Brazil is capable of providing adequate nutrition for the entire population, in the past fifteen years attention has turned away from domestic food production toward soybeans, cocoa, and fruit juices for export. This has resulted in internal food prices rising faster than the general price index and a falling per capita supply of some basic foods (Dore and Weeks, p. 173).

Brazil also had a generally poor record on general education, partly due to the fact that in 1975 not only did it have a low percentage of expenditure

TABLE 3

INDICATORS OF THE PROVISION OF BASIC HUMAN NEEDS IN BRAZIL

Indicator	1960	1974
Crude Death Rate	11	9*
Life Expectancy at Birth	57	61
Infant Mortality Rate	—	82
Adult Literary Rate	61	68
Number Enrolled in Primary School as a Percentage of Age Group	95	90**

* 1977
** 1976

Source: Sloan, Tables 2 and 4; World Bank, 1979b.

on education, but that even this low level of expenditure (12.4 percent) was a great improvement over 1960. In that year, only 7.5 percent of total government expenditures was devoted to education. Further evidence of the lack of commitment by Brazil's military government to primary education is the fact that, of those funds which were devoted to education, the bulk was earmarked for higher education. In 1971, 70.8 percent of public capital expenditure on education was devoted to higher education, whereas only 2.6 percent went to primary, and 10.8 percent to secondary levels (Dore and Weeks, p. 180).

Brazil has many highly trained physicians to provide sophisticated curative health care to the upper income strata, but there are very few paramedics to administer preventive health care to the mass of the population. The absence of a widespread health care delivery system results in an exceedingly high infant mortality rate and a relatively low life expectancy (Dore and Weeks, pp. 181-82). Infant mortality is twice as high as in comparable developing countries, and estimates based on official death registration statistics show increasing infant mortality rates in certain metropolitan areas during the middle and late 1960s (Hewlett, p. 168).[5] In the 1960s and early 1970s, life expectancy in the properous southeast of Brazil was over sixty years, while for low-income urban households in the five northeastern states life expectancy was forty years (Hewlett, p. 169).

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[5] Between 1960-1973, the rate of infant mortality in Sao Paulo increased forty-five percent to a high of ninety-seven deaths per thousand live births. The proportion of dwellings served by running water fell from sixty-one percent in 1950 to fifty-six percent in 1973; the percentage of the population linked to sewage fell from thirty-five percent in 1971 to thirty percent in 1975; and, in 1970, fifty-two percent of the population of greater Sao Paulo was officially classified as suffering from malnutrition, as opposed to forty-five percent in the mid-1960s (Hewlett, p. 170).

The most dramatic change in the post-1964 Brazilian economy was the tremendous growth in state enterprises (Evans, 1979, p. 266). From 1968 to 1974 the number of state enterprises increased more rapidly than during any previous period. When it first assumed power, the military regime briefly considered a neo-liberal, non-statist approach that entailed the divestiture of state enterprises. However, very few enterprises were sold (Evans, 1979, pp. 216-17). Despite their pro-private sector ideology, the military realized that "any attempt to dismantle, diminish, or transfer the role of public sector enteprises in the economy would have seriously compromised or at least delayed economic recovery, given their prominent role in many key sectors" (Mendonca de Barros and Graham, p. 12).

During this period, the state's share of total net worth of the one hundred largest firms grew from less than sixty percent to nearly seventy-five percent. By 1974, twenty-two of the largest twenty-five firms in Brazil were state enterprises (Mendonca de Barros and Graham, pp. 7-8). Most importantly, the state sector comprised almost twenty percent of the net worth of the Visao sample of 5,113 manufacturing firms in 1974.[6] According to Trebat, state enterprises in most sectors grew significantly faster that the manufacturing sector as a whole which had led rapid growth during the "Economic Miracle" (Trebat, 1977, p. 5).[7] Both private national and private foreign shares declined relative to the state. As Table 4 illustrates, the portion of net assets controlled by state enter-

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[6] The Brazilian journal Visao publishes a "Quem e Quem" or "Who's Who" of corporations which is similar to the Fortune 500.
[7] Trebat's study of the Brazilian public sector looks at the growth and allocative performance of the larger state eneterprises from 1966 to 1975 in six sectors, including: utilities, rails, steel, petrochemicals, and mining (Trebat, 1977, p. 4).

TABLE 4

CHANGES IN OWNERSHIP AMONG THE LARGEST* 300 INDUSTRIALS IN BRAZIL: 1964, 1972, 1974

	Distribution of the Net Assets of the Largest Firms		
	1966	1972	1974
Manufacturing and Petroleum			
State Enterprises	17%	30%	32%
Private Brazilian Firms	36%	28%	28%
Multinational Corporations	47%	42%	40%
Manufacturing			
State Enterprises	8%	15%	16%
Private Brazilian Firms	41%	35%	35%
Multinational Corporations	51%	50%	49%

* Size of the firms is measured in terms of net assets.

Source: For 1966 and 1972 Newfarmer and Mueller, 1975 and for 1974 Newfarmer, 1977.

prises in manufacturing and petroleum doubled between 1966 and 1974.

Brazilian state enterprises were both dynamic and profitable during rapid growth. They were substantially larger, had a higher rate of productivity, and were somewhat more profitable than were either Brazilian private or multinational corporations (See Table 5). On the average the rate of return for state enterprises was quite high for the public sector (Souza and Afonso, p. 114). With the exception of the railroads, state enterprises made at least moderate profits that are high by ordinary commercial criteria (Trebat, 1977, p. 11). All were expected to be financially self-sufficent. When some of them made low or no profits, it was largely because they were given a lower priority position in the state investment schedule (Souza and Afonso, p. 116).

The pricing policy for state enterprises moved from a concessionary marginal or below marginal cost pricing policy to an average cost policy (Mendonca de Barros and Graham, p. 8). Thus, the adoption of "realistic" prices meant that the final price paid by customers of state enterprises included the full average cost of output, contributions to investment financing, and special taxes (Trebat, 1977, p. 11). Consequently, "realistic" pricing allowed state enterprises to become self-financing (Mendonca de Barros and Graham, p. 8). Trebat's sample of state enterprises was able to finance between forty and sixty percent of gross capital outlays with retained profits and depreciation funds, comparing favorably with fifty percent for Brazilian private firms (Trebat, 1977, p. 13).

The Brazilian government also assumed the role of major investor. By 1974 the Banco do Brasil held more than a third of all funds on deposit in Brazil's fifty largest commercial banks. If other commercial banks owned by state governments are included, the total share of total deposits stood at more than

TABLE 5

COMPARATIVE MEASURES OF THE LARGEST* PRIVATE BRAZILIAN, MULTINATIONAL, AND STATE FIRMS, 1972

	Private	MNC	State
Average Size (Net Assets in Billions of 1972 CR$	99	217	2,529
Fixed Assets/Employment (1972 CR$)	34,978	38,851	150,919
Product per Worker (Wages, Salaries, and Profits divided by Emploers in 1972 CR$)	35	53	99
Exports/Total Sales (Percent)	4.8	7.9	11.5
Before Tax Profitability (Before Tax Profits divided by Equity: Unweighted Average)	16.4	15.8	17.6

* Based on a sample of 318 of the largest non-financial firms. Size of the firm is measured in terms of net assets.

Source: Von Doellinger and Cavalcanti, 1975.

half (Baer, et. al., 1977, p. 75). An examination of loan shares reveals the state's even greater power. In 1974 the Banco do Brasil made almost fifty-three percent of the loans held by the fifty largest banks, with all government banks holding almost sixty-five percent (Baer, et. al., 1977, p. 75). The National Development Bank (BNDE), the National Housing Bank (BNH), the Bank of the Northeast, and several other individual state banks provided more that seventy percent of the loans devoted to investment purposes (Baer, et. al., 1977, p. 76).

In summary, Brazil is a good example of the failure of "trickle-down." In that country unprecedented growth increased inequality and did not improve the well-being of the country's poorest citizens. And like Korea, Brazil is an example of the government successfully taking a leading role in implementing the development strategy.

C. EL SALVADOR (1961-1972)[8]

ECONOMIC GROWTH:	High
INCOME DISTRIBUTION:	Highly Inequitable
BASIC HUMAN NEEDS:	Poorly Provided
LEADING SECTOR:	Private

In response to the wave of unrest generated by the Cuban Revolution and depressed export prices throughout Central America, President John F. Kennedy initiated the ten-year Alliance for Progress program in 1961. Using the Alliance, U.S. and Central American policymakers planned to erode the appeal of socialism to the poor by promoting heavy public and private investment which would stimulate economic development and growth. The benefits of this growth would "trickle-down" to the poor as a consequence of the expansion of overall economic activity, employment, and markets (Wilkie, pp. 409-431).[9] As its largest recipient, El Salvador became the pride of the Alliance.[10] The country was, according to the Johnson administration, "a model for the other Alliance countries" (LaFeber, p. 174).

The development strategy adopted by the Central American countries was based on regional integration and import substitution industrialization with substantial aid from the Alliance (Booth, pp. 352-53). In 1961 El Salvador and its neighbors came together to form the Central American Commom Market (CACM) with strong U.S. support from the outset.[11] Through CACM, these countries were

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[8] El Salvador had been ruled by a military-oligarchy coalition since the 1940s. In 1962 Colonel Rivera assumed power as the head of the Party of National Conciliation (PCN), which ruled for the next seventeen years.

[9] The planners of the Alliance for Progress proposed to aid the process of "trickle-down" by requiring that participating countries adopt certain social, political, and economic policies such as land reform. Of the participants, however, only Costa Rica actually implemented the reforms envisioned.

[10] El Salvador received $63 million in Alliance funds between 1962 and 1965 (LaFeber, p. 172).

[11] The members of the Central American Common Market were El Salvador,

able to reduce barriers to regional trade and investment and thus, to promote industrialization.

The impact of the strategy on economic development and growth was profound: El Salvador experienced one of the highest growth rates in the hemisphere, reaching twelve percent in 1964 and 1965. Despite a high population growth rate, per capita GDP grew 2.2 percent during the 1960s. Hundreds of new industries (especially in food processing, textiles, and chemicals) were created; and by the mid-1960s, El Salvador possessed more industries than any Central American nation. Between 1953 and 1962, the number of corporations registered in El Salvador increased by more than five hundred percent from about 80 to 482. Between 1961 and 1965, the average annual growth rate was 6.9 percent; average annual growth in value-added by the manufacturing sector was 10.7 percent. The value of industrial production rose from $53.3 to $154.4 million between 1960 and 1966 (Baloyra, p. 43).

But the rapid economic growth achieved in El Salvador after 1960, actually caused "income and wealth to trickle not down, but up—away from the poor—in both relative and absolute terms" (Booth, p. 352). As Montgomery observed:

> The old saying that "money follows money" was never truer than in El Salvador .... These investment patterns not only contributed to an ever greater concentration of wealth, but confirm that the traditional developmentalist assumption that wealth ... will 'trickle down' in developing nations is groundless (pp. 94-95).

Despite promises to the contrary, the Salvadoran government did <u>not</u> adopt reforms that redistributed income. Rather, the Alliance-CACM development model led to increased income distribution inequality (See Figure 4). The power and

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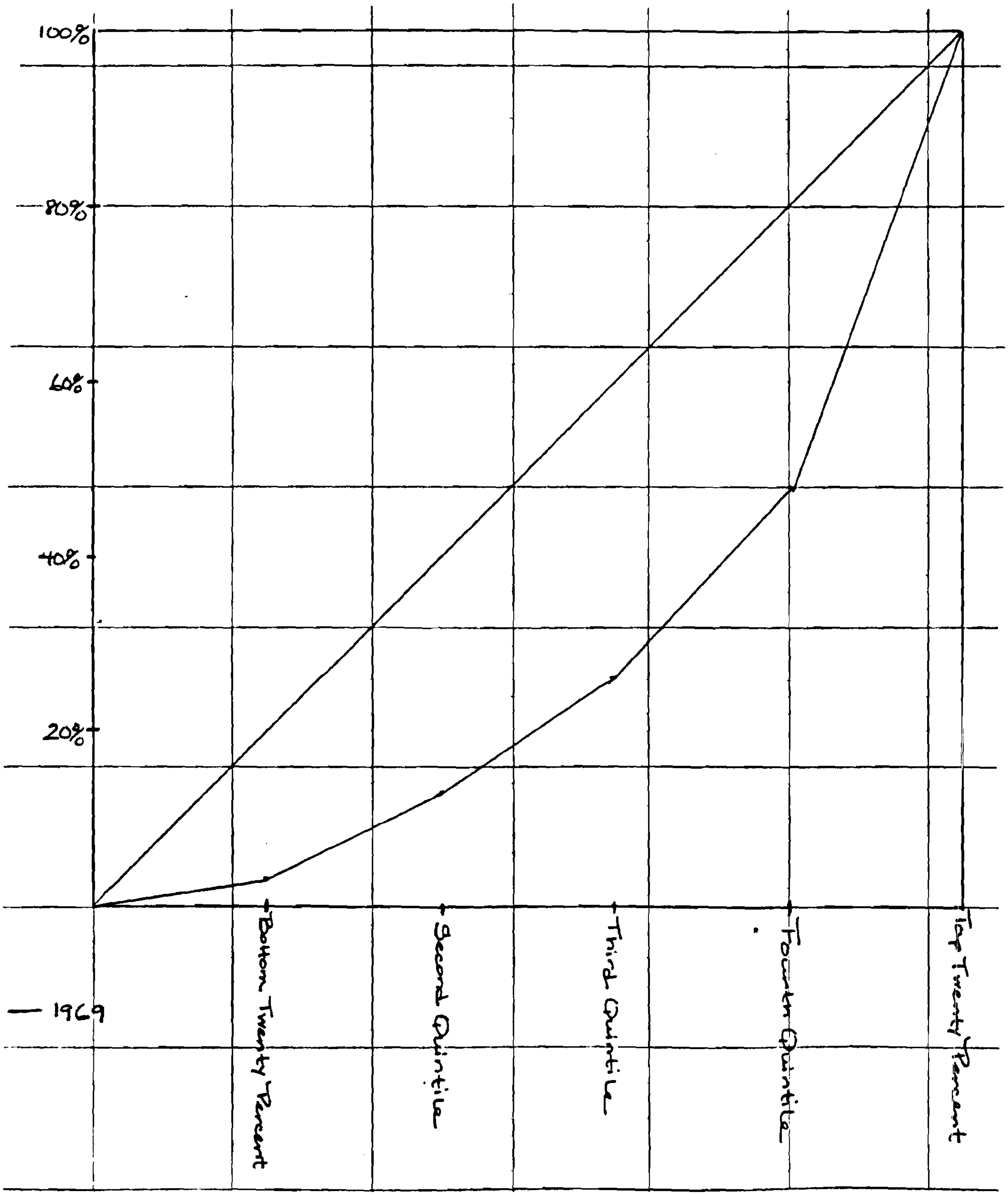
Honduras, Costa Rica, Guatemala, and Nicaragua.

FIGURE 4

SALVADORAN INCOME DISTRIBUTION



wealth of El Salvador's "Fourteen Families" burgeoned with the Alliance (LaFeber, p. 174).[12] Because the government did not implement land reform, a great deal of El Salvador's best agricultural land was converted to capital-intensive cultivation of export crops (in particular cotton) at the expense of access to land by subsistence tenants, squatters, and smallholders. Thus, land, the major source of wealth, became more concentrated in fewer hands. At least fifty percent of all Salvadorans depended on the land for a living, but fewer than two percent controlled nearly all the fertile soil and sixty percent of all the land (PACCA, p. 91). Of the rural population, 96.3 percent had 12 acres of land or less (Armstrong and Shenk, p. 6).

Moreover, the coffee producers increased their control over the expanding industrial sector. They invested in high-technology, capital-intensive industries which generated enormous profits—at roughly four times the rate as any other Salvadoran group. This group attracted approximately eighty percent of the foreign capital invested in the country. Industrial production and investment became more centralized: the output of Salvadoran industry more than doubled and the number of employees in industry doubled between 1967 and 1975, but the number of firms actually producing diminished by as much as ten percent (Booth, pp. 359-60).

In contrast, a 1965 agricultural minimum wage law caused the number of colonos and aparceros (rural workers provided a plot of subsistence-cultivation land by their employers) to drop one-third of 1961 levels by 1971. The portion

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[12] The term "Fourteen Families" was first used by Time magazine to describe the economically and policially powerful Salvadoran coffee oligarchy. In fact nearly 250 Salvadoran families derive considerable wealth and power from the ownership of land as well as the production and export of coffee.

TABLE 6

INDICATORS OF THE PROVISION OF BASIC HUMAN NEEDS IN EL SALVADOR

Indicator	1960	1976
Crude Death Rate	17	9*
Life Expectancy at Birth	50	63*
Infant Mortality Rate	—	—
Adult Literary Rate	49	62
Number Enrolled in Primary School as a Percentage of Age Group	80	77

* 1977

Source: World Bank, 1979b.

of landless campesinos among rural Salvadorans grew from twelve percent to forty-one percent. Unemployable campesinos swelled cityward migration rates as the continued capitalization of agrarian production reduced the number of subsistence farms, reduced domestic food production, and greatly concentrated land ownership and agricultural production (Booth, pp. 352-53). Although industrial workers' productivity increased significantly, their real wages declined. While new employment opportunities in capital-intensive manufacturing industries rose, the demand for new jobs was far greater. Therefore, unemployment in El Salvador grew both in the countryside and in the cities (Booth, p. 359).

The CACM-Alliance development model also was a basic needs failure (See Table 6). Torres Rivas argued that:

> The social costs of the process defy quantification .... Underemployment and low incomes translate into the perpetuation and even deterioration of truly deplorable living conditions. The real results ... are found in ... infant mortality, malnutrition, the extremely slow decline in illiteracy, the accelerated increase in underemployment, detrioration in housing, lack of opportunities for getting ahead, and last, even the actual physical degradation of the population (p. 151).

Amidst a booming agricultural economy, Salvadorans ranked among the world's five most malnourished peoples (LaFeber, p. 175). Seventy percent of the children under five years of age were malnourished (Armstrong and Shenk, p. 6). The per capita calorie consumption rate was the lowest in the Western Hemisphere (Armstrong and Shenk, p. 7). Rice and other grain crops were exported while poor Salvadorans lacked money to buy food—particularly since government-imposed price supports kept food prices high (LaFeber, p. 175).

More than fifty percent of the Salvadoran population remained illiterate. The infant mortality rate was sixty per one thousand live births. Sixty-four percent of the urban population lacked sewage facilities. Forty-five percent of the population had no drinking water on a regular basis (Armstrong and Shenk, p. 7). Consequently, by 1969, 300,000 Salvadorans—one in every eight citizens—had fled this "model" Alliance nation to find food and work in neighboring Honduras (LaFeber, p. 175).[13]

Unlike the Korean and Brazilian strategies, the CACM-Alliance development model was clearly private sector dominated. The Alliance's emphasis on private investment, however, exacerbated the economic imbalance between El Salvador's rich and poor (LaFeber, p. 159). Alliance funds in massive amounts went to U.S.-owned firms and to the Central American coffee producers that controlled banks and mercantile businesses as well as the best tillable land (LaFeber, p. 154) The "Fourteen Families" had used the Alliance to their profit as they moved into the new industrial-mercantile businesses that the program helped build. For the most part, the new industries remained in a few, family hands, as did the coffee and sugar plantations regardless of the influx of foreign capital (LaFeber, pp. 174-75).

From 1961 to 1969 roughly $1.4 billion was invested in Central America. Foreign investment rose from $388.2 million in 1959, 3.8 percent in the manufacturing sector, to $755.3 million in 1969, 30.8 percent in manufacturing. In El Salvador foreign investment had risen 38.1 percent by 1968. As previously noted, much of this new domestic and foreign investment went into the capital-intensive production of consumer goods. North American investment increased

13 In 1969, the expulsion of Salvadorans from Honduras led to the week-long "Soccer War" between the two countries, which ultimately destroyed the Central American Common Market. Nearly 130,000 Salvadorans returned home, putting more pressure on the land in what was already Central America's most densely populated country (LaFeber, pp. 175-76).

until its $34 million represented sixty-five percent of all foreign investment and strongly influenced such infrastructure sectors as transportation, oil refining, and electric power (LaFeber, p. 173). To be sure, the influx of foreign capital and domestic private sector investment led to economic development and rapid growth, but at a great cost to the poorest Salvadorans.

In summary, the CACM-Alliance for Progress development strategy pursued by El Salvador generated above average economic growth. Contrary to Brazil's or Korea's, this strategy was based upon domestic and foreign private sector initiative. Nevertheless, it led to greater imbalances in income distribution; and it failed to cope effectively with the problems of poverty.

D. SRI LANKA (1956-1977)[14]

ECONOMIC GROWTH:	Moderate
INCOME DISTRIBUTION:	Highly Equitable
BASIC HUMAN NEEDS:	Well Provided
LEADING SECTOR:	Public

Like most small developing countries, Sri Lanka[15] emerged from its colonial period as an "undiversified agricultural export economy" whose principal products were tea, rubber, and coconut (Balakrishnan, 1977, p. 192). The socialist government elected in 1956, however, pledged to dramatically transform the country's economy. The government set out to bring about rapid growth through the industrialization of Sri Lanka in a mixed economy (Balakrishnan, 1977, p. 194). What happened was quite different than what the government had planned. The overall growth of the Sri Lankan economy was poor; and the growth of aggregate output, in the context of a rapid growth of population, could not provide any significant improvement in per capita income. From 1960 to 1970, Sri Lanka's GNP at constant (1959) prices increased at an annual average rate of 4.4 percent while per capita real product increased annually by 2 percent (Balakrishnan, 1979, p. 102). Economic growth was more inadequate from 1970 to 1977 when real GDP grew at only 2.9 percent per annum (World Bank, 1982a, p. 2).

Nonetheless, during this period Sri Lanka became perhaps the most successful example of poverty and inequality elimination among low-income developing countries. In 1953 the country had a low per-capita income, relatively great inequality, and a large population of poor people. By 1977 inequality had

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[14] Sri Lanka elected a socialist government in 1956, a conservative government in 1965, a socialist government in 1970, and a conservative government in 1977.

[15] Ceylon, granted independence from Great Britain in 1948, changed its name to Sri Lanka in 1972.

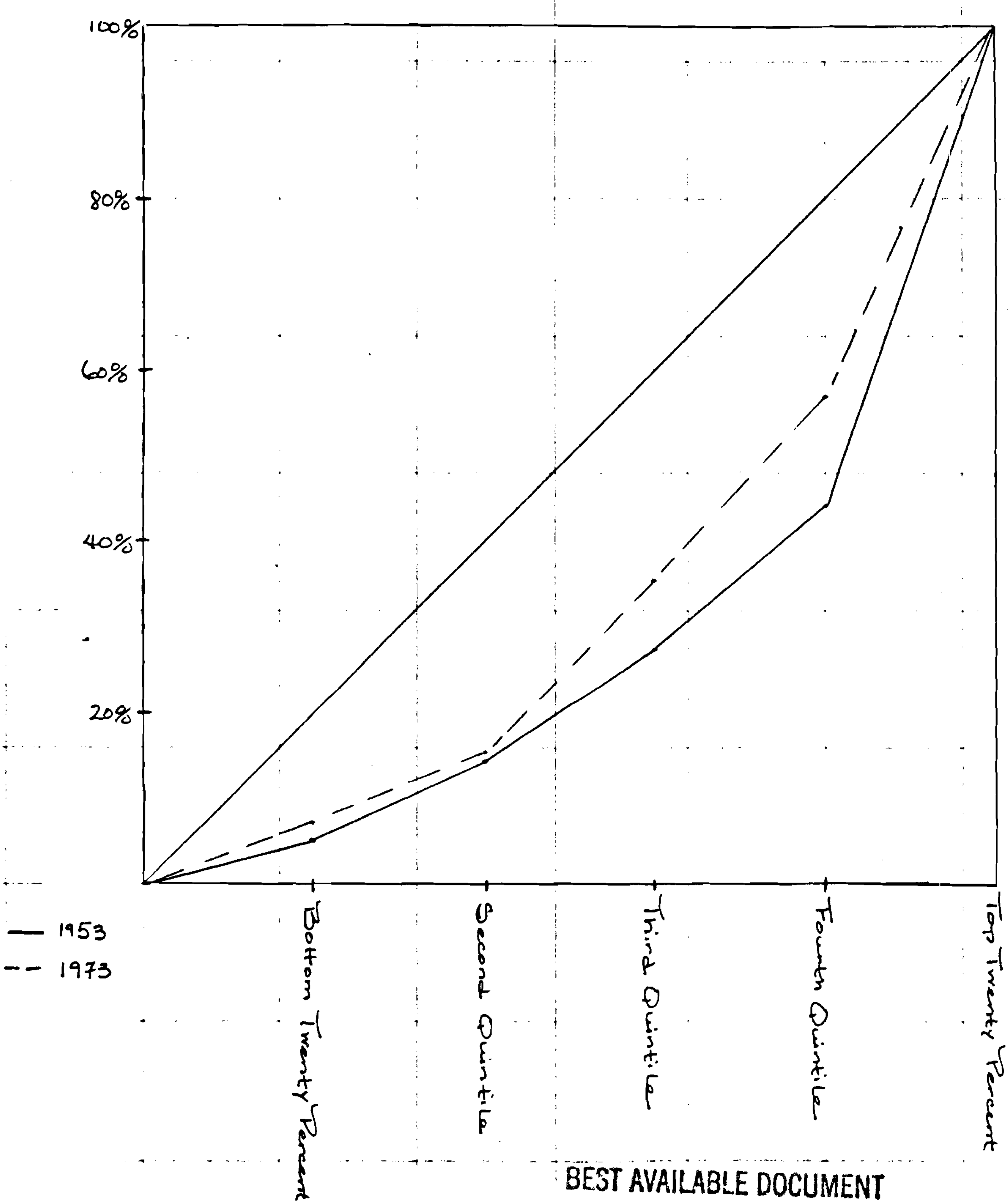
declined substantially and considerable progress had been made in reducing poverty (Gillis, et. al., p. 76). The data on changes in income distribution show that Sri Lanka steadily moved toward greater equality despite relatively slow growth and rising unemployment levels in the economy (See Figure 5). The Gini coefficent ratio declined from .46 in 1953 to .45 in 1963 to .35 in 1973. Despite an increase in mean monthly income per capita from Rs. 117 in 1953 to Rs. 150 in 1973 (only a twenty-eight percent increase), the mean monthly per capita income of the bottom forty percent rose from Rs. 42 to Rs. 72 (a seventy percent increase). The number of households with a monthly per capita income below Rs. 100 per month, i.e., below the poverty level, fell from sixty-three to forty-one percent during the same period (Fields, p. 197).

A major cause of this greater equality was a significant increase in the incomes of small-scale producers in both agriculture and industry. Further, legislation attempted to ensure that a higher share of this income was kept by the small-scale producer himself (Jayawardena, pp. 273-74). The government's program included guaranteed producer prices for paddy, the provision of credit and its collection under supervision, and a policy of successively curtailing the rice subsidy. Thus, by raising the domestic price level of paddy, the government made production more profitable and shifted the cost to urban purchasing families (Jayawardena, pp. 275-76). Added to these policies was the Paddy Lands Act of 1958, which was designed to ensure that production gains were shared by tenants and not solely by wealthy farmers. The Act safeguarded the rights of the tenant cultivator of paddy lands, protected him against eviction, and reduced the share of crops he would be required to pay his landlord from the traditional one-half to one-quarter (Jayawardena, p. 276).

In addition to the above, a two-stage land reform process contributed to

FIGURE 5

SRI LANKAN INCOME DISTRIBUTION



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more equitable distribution of wealth in Sri Lanka. Although rural landholding in that country always had been relatively egalitarian, land reform made it more so. In 1972 the first phase of land reform established a ceiling for landholding: one person could hold no more than twenty-five acres of paddy land and fifty acres of other agricultural land. The Land Commission, created under this program, insured that land in excess of these ceiling amounts would be demarcated and vested in government hands for development in a suitable manner. Appropriated land was available for distribution to landless labor (Jayawardena, p. 276). The second phase, beginning in 1975, nationalized all estate lands owned by public companies, which were exempted from the earlier land ceiling legislation. This program virtually ended foreign ownership in Sri Lanka's plantation sector. Both phases of land reform resulted in the transfer of a considerable portion of lands, previously under foreign or local private ownership, to public ownership and control. In tea, the country's principal export crop, public ownership and management covered two-thirds of the total acreage in the country (Balakrishnan, 1979, pp. 113-14).

Moreover, greater income equality from production was reinforced by the development of a welfare state unequaled in low-income developing countries. Sri Lankan governments were committed to policies designed to promote the welfare of their population (Balakrishnan, 1979, p. 125). These policies included: free secondary education and health facilities as well as subsidization of the major imported food items and transportation. For example, the government absorbed the costs of selling rice to Sri Lankans at less than the world market price (Wickremeratne, p. 150).

The results of these policies in terms of the provision of the basic needs of Sri Lankans were impressive (See Table 7). By 1977 nearly the entire Sri

TABLE 7

INDICATORS OF THE PROVISION OF BASIC NEEDS IN SRI LANKA

Indicator	1953	1976
Crude Death Rate	11	8
Life Expectancy at Birth	56	69*
Infant Mortality Rate	71	44
Adult Literary Rate	65	85
School Enrollment Ratio Ages 5-14	58	80

* 1977

Source: World Bank, 1982a.

Lankan population had received a minimum level of literacy (Dunlop, p. 61). Similarly, data on mortality and morbidity demonstrate great improvements in the well-being of Sri Lankans. In sharp contrast to Brazil and El Salvador, malnutrition is a rarity in Sri Lanka. Epidemics have been eliminated. Typhoid, tuberculosis, and malaria have declined significantly as causes of death. Crude and infant death rates have fallen and life expectancy has climbed into the upper 60s (Gillis, et. al., p. 253).

The economic difficulty that these policies created was that roughly fifty percent of current government expenditure was directed towards social welfare (Jayawardena, p. 277). The central government budget expanded enormously in the 1960s and 1970s. Between 1960 and 1975, its expenditure, a third of which represented various transfer payments, increased by 278 percent. On a per capita basis, government expenditure increased from Rs. 185 to Rs. 515 during that period (Balakrishnan, 1979, p. 125). Consequently, the size of the gross budget deficit progressively increased after the early 1960s. Sri Lankan governments used domestic borrowing, external borrowing, "money creation" (borrowing from the banking system), and utilization of cash balances to finance these deficits. In this context government spending became an important source of inflationary pressure on the economy (Balakrishnan, 1979, pp. 125-26).

Since 1956, the government had become the leading economic actor in Sri Lanka. It assumed both a progressively greater overall regulatory role and a greater role in production, distribution, and accumulation. Government participation in many spheres of economic activity—industry, transport, banking, insurance, and agriculture, among others—resulted in considerable control over the ownership and allocation of resources in the economy. In turn the private sector was subjected to greater direction and control by the public sector

(Balakrishnan, 1979, p. 124).

Indeed, the growth in state-owned enterprises in Sri Lanka was dramatic as the number of public enterprises in all fields doubled in a decade (Gillis, et. al., p. 567). The State Industrial Corporations Act of 1957 led to the creation of several state industrial corporations to promote the development of basic industries in the public sector. In 1963 fourteen state industrial corporations were in operation. By 1974 the number had grown to twenty-six corporations engaged in the production of cement, textiles, sugar, paper, chemicals, petroleum products, tires, ceramics, and milk products, among others. In 1977, state industries accounted for approximately thirty to thirty-five percent of the total gross value of industrial production in the economy (Balakrishnan, 1979, p. 116).

Public sector corporations were expected to fulfil both growth and welfare objectives in Sri Lanka. They were to be the chief instruments furthering state onwership and social control in the economy, the "leading sector" promoting capital formation and long-term development, as well as a major employment outlet (Balakrishnan, 1977, p. 198). From their creation, these enterprises experienced management inefficiency, technical deficiencies in planning, overstaffing, and defective pricing policies—all contributing to poor economic performance. Thus, state-owned enterprises operating at a loss was a chronic condition in Sri Lanka (Gillis, et. al., p. 574).

Because of the burden these corporations imposed on its budget, the government attempted to improve their performance in the mid-1960s through greater efficiency in management, higher rates of capacity utilization, and the adoption of more appropriate pricing policies. Subsequently, the situation appears to have improved, relative to performance in the earlier years. The total net profits of state industrial corporations increased from an average of Rs. 52 million in 1966-1970 to an average Rs. 115 million in 1971-1975. In the latter period, the average rate of return on capital investment in state industrial corporations as a whole ranged from four to seven percent, which was still rather low, although a number of individual corporations recorded rates of return much higher than average (Balakrishnan, 1979, pp. 116-17).

In summary, Sri Lanka is often cited as the classic example of the satisfaction of basic needs at the expense of growth. While tremendous improvements were made with respect to equity and welfare, economic growth did not occur fast enough either to provide adequate financing or to provide employment to the growing labor force, especially of educated youths seeking white-collar jobs. Continued economic difficulties led to many shortages, slower growth, and cutbacks in social services as well as ultimately to popular dissatisfaction, repeated changes of governments at the polls, and an unsuccessful youth revolt in 1971 (Gillis, et. al., p. 86). In 1977 a conservative government was elected which adopted a new development strategy based on curbing the welfare state, diminishing the role of the public sector, and enhancing the role of the private sector.

E. KENYA (1963-1974)[16]

ECONOMIC GROWTH:	High
INCOME DISTRIBUTION:	Highly Inequitable
BASIC HUMAN NEEDS:	Poorly Provided
LEADING SECTOR:	Private

When the Kenyatta government assumed power in 1964, Kenya was among the world's poorest nations in terms of average per capita income. Wealth was very unevenly distributed, concentrated in the hands of non-citizens. Policymakers defined development in terms of the elaboration of the political and economic institutions established throughout the country during the colonial period and the expansion of the already developed private sector (Barkan, p. 10). In its Development Plan 1966-1970, the Kenyan government clearly stated its three economic objectives: "to achieve high and growing per capita incomes, equitably distributed, so that all are free from want, disease, and exploitation" (Burrows, p. 4). The government found that it could successfully attain the first objective, but fail to accomplish the second and third.

During the first ten years after independence, Kenya made considerable progress toward bringing about rapid economic growth. Between 1964 and 1975, real GDP grew by seventy percent, averaging seven percent per year (Burrows, p. 5). Despite a population growth rate of 3.3 percent per year (among the world's highest), real per capita income grew at about 2.2 percent over the decade (Collier and Lal, p. 10). The World Bank found that virtually every indicator of economic performance for Kenya during this period was well above average for a country at its level of development (Burrows, p. 5). Although Kenya's growth

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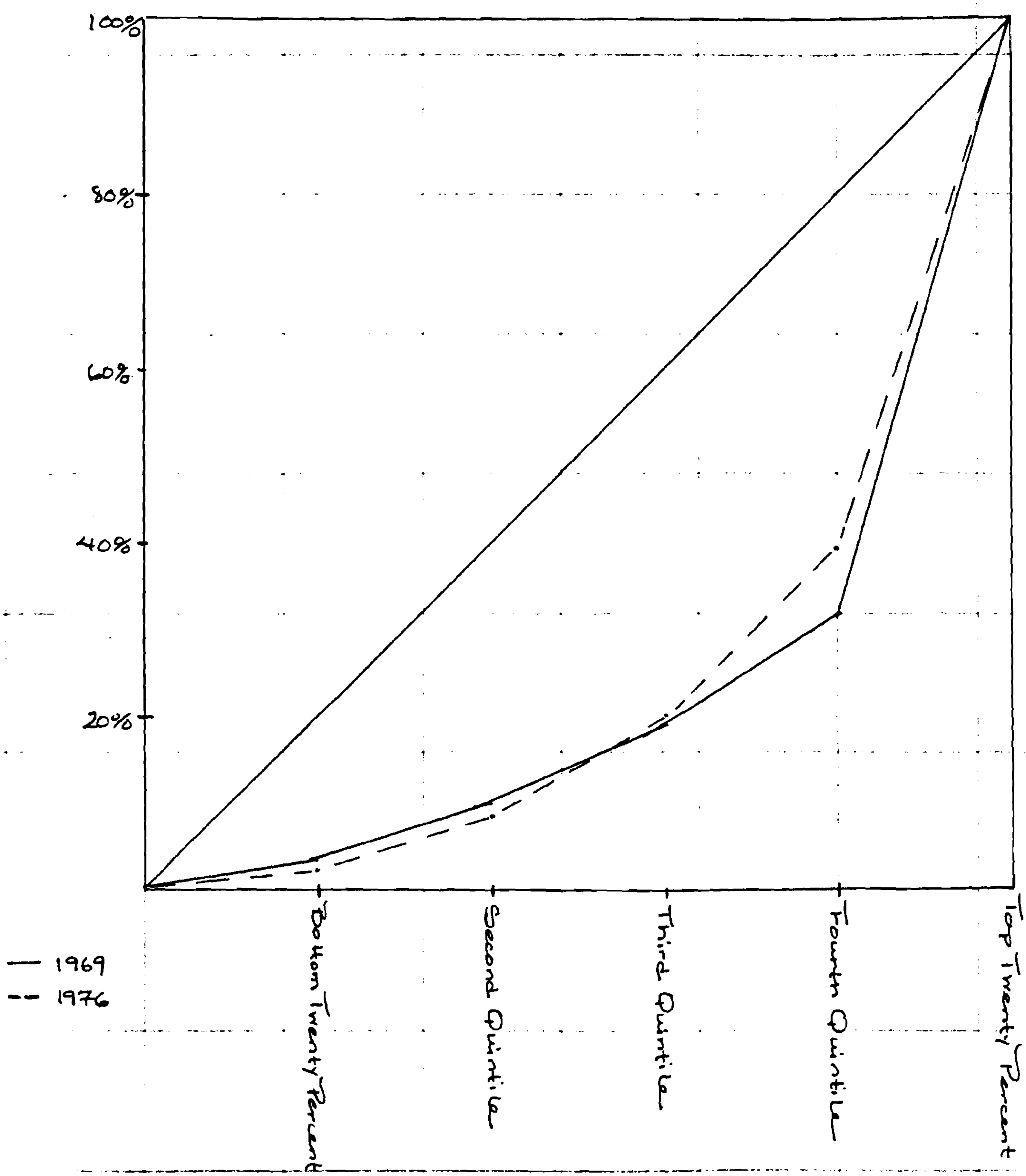
16 After independence in 1963, Kenya was ruled by the Kenya African National Union (KANU) under the leadership of Jomo Kenyatta until his death in 1978.

FIGURE 6

KENYAN INCOME DISTRIBUTION



was not considered "miraculous," it exceeded that of most other African states; and it was comparable to the growth rates of most Western developed economies, except Japan (Barkan, p. 19).

Kenya's performance during the same period was rather disappointing in terms of the attainment of the second objective, equitable income distribution (Burrows, p. xi). Kenya's concentration on the achievement of rapid economic growth and a rise in the overall standard of living was unquestionably at the expense of the achievement of a more equitable distribution of income (Barkan, p. 10). Despite the government's pledge to launch a determined attack on Kenya's more blatant inequities, this problem persisted (See Figure 6). In fact, the imbalances between economic groups did not lessen, they grew (Burrows, p. 16).

Essentially, the Kenyatta government had assumed that "trickle-down" would solve the equity problem, so it concentrated on creating the conditions for rapid economic growth. In its policy statements, the government argued that its fiscal policy would redistribute the income that had been generated by rapid growth. After examining Kenya's fiscal system at length, however, a World Bank mission concluded that this policy had not been a significant mechanism of redistribution or of reducing rural, urban, and regional imbalances. Morevoer, the mission found no evidence that the government's expenditure pattern had done much toward offsetting income inequalities (Burrows, p. 16).

Indeed, the mission argued that the Kenyan economy operated in such a manner as inevitably to concentrate wealth further. First, Kenya had inherited one of the most skewed wage structures in the world: employers paid skilled workers ten to fifteen times what they paid unskilled workers (Burrows, p. 16). This had a tremendous impact on the rest of the economy. Because they

TABLE 8

INDICATORS OF THE PROVISION OF BASIC NEEDS IN KENYA

Indicator	1960	1977
Crude Death Rate	19	14
Life Expectancy at Birth	47	53
Infant Mortality Rate	126	148*
Adult Literary Rate	20	40
Numbers Enrolled in Primary School as a Percentage of the Age Group	47	105**

* 1975
** 1976

Source: World Bank, 1979b; ODC, p. 163.

encouraged high standards of housing and other services, these wages sucked resources into urban areas to support a standard of living far above what the majority of Kenyans could enjoy.

Second, the mission noted a built-in tendency for the urban areas (where most of the wealthy live) to progess at a faster rate than the rural areas (where most of the poor live). Although partly due to the high wages of urban workers, this situation was also attributable to other government policies. In formulating both external trade policy and domestic agricultural pricing policy the government did not consider the interests of the majority of the rural population. Consequently, the internal terms of trade worked in favor the urban areas and therefore, towards a greater concentration of income (Burrows, p. 17).

Finally, wealth had been held to a large extent by European farmers, by Asian traders in rural areas, and by expatriate officers in the civil service before independence. Thus, the Kenyatta government's principal concern with regard to distribution was the rectification of the more obvious racial imbalances (Burrows, pp. 15-16). Other manifestations of inequity, such as the higher standard of living and amenities in urban areas as compared with rural areas and the marked disparities even within rural areas, were to be found everywhere; but they were not addressed.

Moreover, the Kenyatta government was unable to make significant achievements with respect to the provision of the basic needs of the Kenyan people. Poverty, especially among the rural landless population, continued to be a major problem. As Table 8 illustrates, little progress was made in terms of meeting basic needs during the period of rapid growth. Life expectancy improved somewhat, but remained extremely low. Infant mortality, which had been extremely high, actually worsened. Despite growth, Kenya's indicators of the socio-economic well-being of its citizens were below the average for developing countries at a comparable level of development (ODC, pp. 162-63).

In Kenya private enterprise was clearly the mainspring of development (Burrows, p. xiii). Unlike other African governments during the same period of time, the Kenyatta government sought to foster the rapid growth of the private sector, subject to rather limited controls to ensure the broader interests of society. Encouraged by the government's policies, the Kenyan private sector—both domestic and foreign—significantly expanded; and private investment was substantial. As a result, the private sector dominated the Kenyan economy and provided the thrust of development in most major sectors of the economy (Burrows, pp. 17-18).

As in El Salvador, the Kenyan government assumed a role that consisted largely of supporting the private sector although the relative role of the state sector increased after independence. While some state-owned enterprises were created, growth of the state sector was not encouraged to any significant extent. The government's principal contribution was in the development of banking and financial institutions that played a primary role in supplying capital to the private sector. As a means of promoting "African Capitalism," the Industrial and Commercial Development Corporation (ICDC), for example, was created to boost the growth of African industries. The ICDC had among its activities an extensive program of loans to African-owned manufacturing companies (Leys, p. 164). The ICDC and other such institutions constituted the main instruments of governing national industrialization policy (Leys, p. 131).

In summary, Kenya attained better than average levels of economic growth. But the government made little progress toward eradicating the poverty of the masses of Kenyan people. Despite some forms of government economic intervention, Kenya remained a predominantly private sector economy.

F. CUBA (1959-1975)[17]

ECONOMIC GROWTH:	Low
INCOME DISTRIBUTION:	Highly Equitable
BASIC HUMAN NEEDS:	Well Provided
LEADING SECTOR:	Public

In 1959 the Cuban government announced an ambitious set of economic goals, including: an increase in the rate of growth, a reduction in the island's dependence on sugar, the diversification of agriculture, the development of the industrial sector, the diversification of trade relations, as well as an increase in the standard of living of the Cuban people through the expansion of health, education, and welfare programs. In some respects, the leaders of the revolutionary movement naively assumed that all these goals could be accomplished more or less simultaneously (Sloan, p. 4). What the Cuban government did not have immediately after the revolution was a clearcut development strategy for accomplishing its objectives. It had a set of priorities regarding social reforms and implemented programs to accomplish them (MacEwan, p. 95).

During the first eighteen months, the Cuban economy performed relatively well, adjusting with surprising ease to a number of distributive reforms the government implemented shortly after assuming power. Unlike after the Russian and Chinese revolutions, output increased in most branches of the Cuban economy (Brundenius, p. 45). Nonetheless, as Ritter argued: "this easily achieved first prosperity gave rise to a euphoric revolutionary over confidence for which Cuba later paid rather heavily" (p. 107).

Cuba's first plan called for import substitution industrialization in in-

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[17] The Cuban Revolution began with the seizure of power by the 26th of July Movement, led by Fidel Castro, on January 1, 1959.

dustries such as metallurgy, chemical products, machinery, and automobile assembly. Most of the equipment for these new plants was to be supplied by the Soviet Union, the German Democratic Republic, and Czechoslovakia. The government also assumed that the rapid expansion of non-sugar agriculture would lead to self-sufficency in food production (Brundenius, p. 49).

As it turned out, 1962 and 1963 were economic disaster years. Total material production decreased by 2.4 percent in 1962 and by 3.3 percent in 1963. Agricultural output fell by 11.3 percent in 1962 and by 5.8 percent in 1963 while industrial output grew by only 0.4 percent in 1962 and declined by 1.5 percent in 1963 (Brundenius, p. 50).[18] Sugar production fell from 6.7 million metric tons in 1961 to 4.8 million in 1962 and 3.8 million in 1963. Because industrialization depended upon the import of capital equipment from abroad, the lost in sugar revenue created more difficulties.

In 1962 the Cuban government acknowledged the excessive de-emphasis of sugar and the need to industrialize in a more organized manner (MacEwan, p. 95). After a heated debate beginning in 1963, policymakers decided that agriculture would be "the pillar upon which to build the future industrialization of the island" (Brundenius, p. 51). In 1963 they announced a decision to redirect priorities from industrialization to agriculture with renewed emphasis on sugar. They agreed to adopt non-traditional forms of planning, organization, and work incentives (MacEwan, p. 96). Nonetheless, from 1964 to 1970, the annual growth in total material production averaged only 4.8 percent (Brundenius, p. 150

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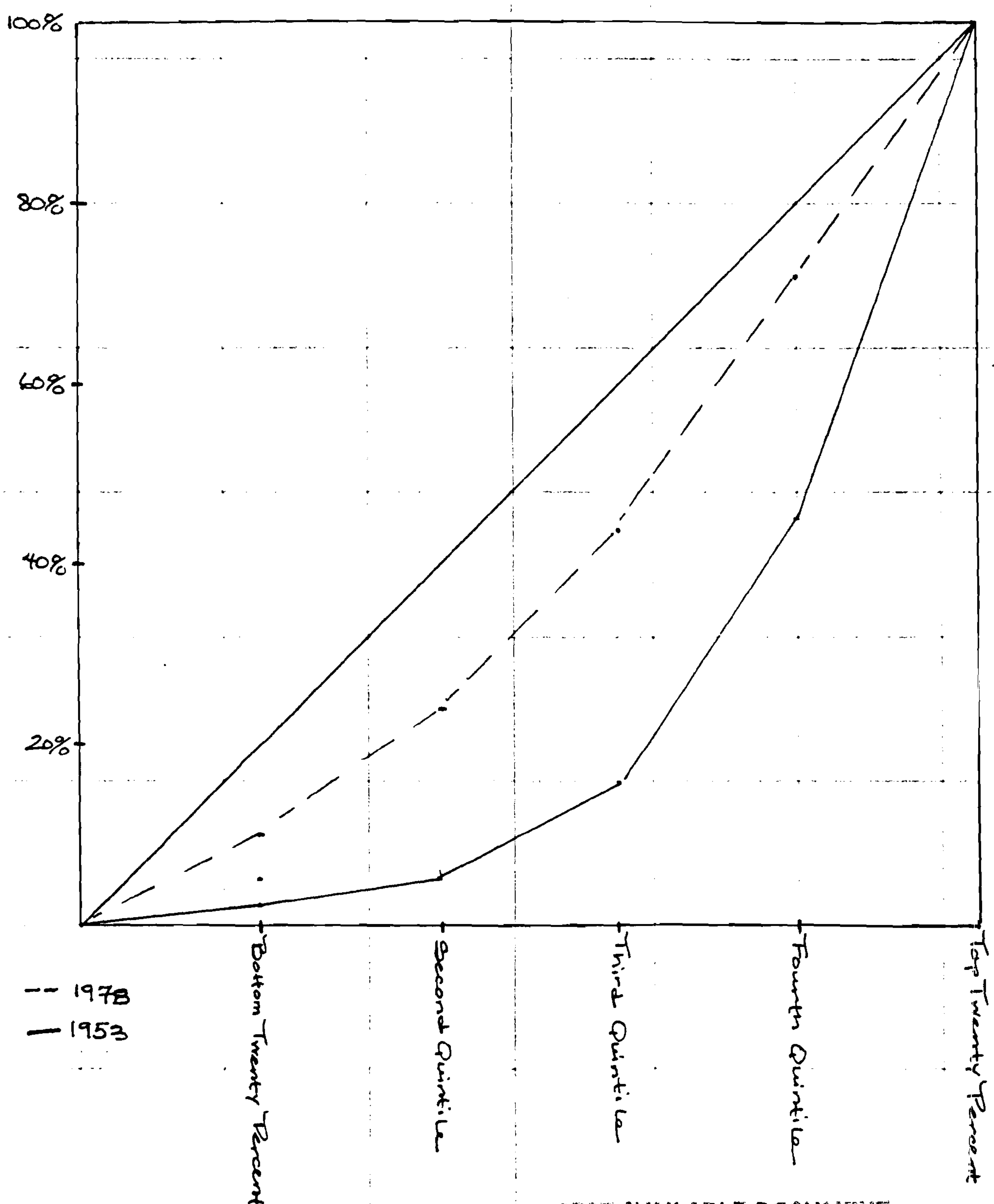
[18] This situation was not just the result of Cuban mismangement. The U.S. embargo was being seriously felt in those years. In October 1962, the embargo was extended to a total naval blockade of the island (Brundenius, p. 50).

FIGURE 7

CUBAN INCOME DISTRIBUTION



and p. 153).

Following the diasppointing economic performance of the 1960s, the Cuban economy vigorously recuperated during the first half of the 1970s. From 1971 to 1975, the annual growth rate was 10.0 percent (Brundenius, p. 57). This was primarily the result of accelerated industrialization. The growth of heavy industry as the share of non-consumer goods in total industrial output increased from forty-seven percent in 1970 to fifty-four percent in 1975 (Brundenius, p. 57). According to Mesa-Lago, this growth was the result of more efficient organization, previous investments, and a better allocation of capital (Mesa-Lago, 1981, pp. 176-77).

Despite Cuba's serious economic problems, the revolutionary government clearly achieved its objective of creating a more equitable society (See Figure 7). As Dudley Seers has argued, "the degree of equality in Cuba is ... probably unique" (Seers, p. 262). Cuba's gini coefficient dropped precipitously from .56 in 1958 to .28 in 1973 (Brundenius, p. 106 and p. 117). The data show that a massive redistribution of income to the bottom quintiles occurred immediately after the revolution and that more modest transfers occurred during the 1960s and 1970s (Brundenius, p. 110). It has been estimated that the lowest forty percent of the income earners increased their share from 6.5 percent before the revolution to 17.2 percent by 1962. The rural workers were the major beneficiaries: those earning more than seventy-five pesos a month increased from 28.8 percent in April 1959 to 34.2 percent in April 1959 and to 44.3 percent in April 1960 (Brundenius, p. 108).

This dramatic increase in equity was accomplished through a number of distributive reforms. In 1959 Castro announced important measures to benefit the poorest sector of the population, especially those in the rural areas. In

TABLE 9

INDICATORS OF THE PROVISION OF BASIC HUMAN NEEDS IN CUBA

Indicator	1960	1974
Crude Death Rate	9	6*
Life Expectancy at Birth	64	72**
Infant Mortality Rate	35	29
Adult Literary Rate	—	96*
Students enrolled as a Share of Population Ages 7-13	95	109

* 1977
** 1976

Source: Sloan, Tables 2 and 4; World Bank, 1979b.

January 1959 electrical rates for rural areas were reduced by half. In March a Rent Law was announced, which called for reductions of fifty percent in the rents of all people who paid less than one hundred pesos per month and between thirty and forty percent for the tenants in higher brackets (Brundenius, pp. 41-42).

The Agrarian Reform Law of May 1959 converted agricultural land into the property of the people working it and took over unproductive farms, particularly the cattle estates, and organized them into people's farms. The sugar plantations were expropriated and converted into cane cooperatives (Brundenius, p. 42). The reform set a maximum limit of 402 hectares for land ownership, which could sometimes be raised for cattle farming to 1,340 hectares. A good-sized plot of twenty-seven hectares was fixed as the "vital minimum" for a family of five people; this amount of land was distributed free, and the farmer had the right to buy another forty hectares. It has been estimated that some 100,000 "poor peasants" benefited from this provision of the reform (Brundenius, p. 43). This reform raised the living standard of some 350,000 rural workers by giving them stable jobs and by almost doubling their income. It has been estimated that total money wages rose from about 550 million pesos during the first nine months of 1958 to over 1 billion pesos during the corresponding period in 1961 (Brundenius, p. 107).

The various decrees and measures adopted in 1959 resulted in an increase in the purchasing power by the bottom half of income earners of 382.5 million pesos in that year alone, of which 150 million pesos were the result of wage increases, 80 million were due to the reduction in rents, 100 million came from the general suppression of gambling, 15 million were due to lower prices for medicine, and another 15 million were the result of a reduction in electricity rates (Brundenius, p. 107).

Despite Cuba's attainment of only modest economic growth, indicators of the socio-economic well-being of the Cuban people show that significant gains were made as a result of the reforms implemented (See Table 9). Perhaps the most well-known program of the 1960s was the literacy campaign of 1961. At the beginning of 1961, approximately one million Cubans were illiterate (about twenty-five percent of the adult population). At the end of the year, the number of illiterates had been reduced to 250,000 and would decline further in subsequent months (MacEwan, pp. 74-75). By the 1970s, Cuba had attained both a virtual elimination of illiteracy and had created a highly developed, multi-level educational system (Commerce Department, p. 5).

Major preventive medicine programs and inoculation campaigns were carried out, resulting in the practical elimination of polio, diphtheria, and malaria as well as the substantial reduction of other diseases (MacEwan, p. 79).[19] The leading causes of death in Cuba had become similar to those of a developed rather than an developing country (Sloan, p. 5). Almost all malnutrition had been eliminated, especially among children (Commerce Department, p. 5). By 1974 Cuba's infant mortality rate had fallen to twenty-nine per thousand while life expectancy had risen to seventy-one (Sloan, Table 4).

But two major problems were created by this rapid redistribution. First, the supply of goods and services could not keep up with demand. Demand for beef, for example, significantly increased as a result of redistribution. By

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[19] Nearly forty percent of Cuba's 6,300 physicians emigrated after the revolution, so in the early 1960s some deterioration in health conditions occurred. By the 1970s, however, Cuba had more than 7,000 physicians (MacEwan, p. 79).

the spring of 1961, people began to notice the shortages of a number of goods. By 1962 the supply of food had diminished to such an extent that it was necessary to ration food.[20] Second, as more goods and services were provided at low or no cost, money became more and more meaningless. In turn so did the incentive to work or to conserve. The result was low labor productivity and chronic assenteeism. Although the Cuban leadership adopted pragmatic responses to these problems such as price increases, material incentives, and farmers markets, they remained significant problems.

In the process of implementing various reforms, the Cuban government found itself in control of a larger and larger segments of the economy (MacEwan, p. 95). The 1959 and 1961 agrarian reform laws led to public ownership of seventy percent of Cuban farmland (Sloan, p. 4). Law 851 resulted in the seizure of the lion's share of U.S. investments in Cuba, including all sugar mills and oil refineries. Through subsequent decrees the U.S.-owned banks as well as 287 larger companies, both foreign and national, were nationalized, expropriated, or confiscated (Brundenius, p. 44). This situation placed economic management almost exclusively in the hands of an inexperienced bureaucracy.

In summary, Cuba shows that income redistribution alone does not solve the problems of the poor unless the redistribution is accompanied by sustained economic growth in the country in the long run. The government brought about more

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20 Food rationing did not mean that the vast majority of people were worse fed than before the revolution. Both Cuban agricultural workers and large segments of the urban population ate better. All children below seven were guaranteed one liter of milk per day, and millions who had seldom eaten meat or eggs received a regular ration. Only middle and upper classes as well as some of the better paid urban workers received less through rationing than they had before (Brundenius, pp. 49-50).

equitable income distribution through increased wages; increased pensions; reduced rents; nationalization of the property of Batista's supporters, U.S. corporations, and Cuban private industries; lower the costs of electricity and public transportation; and free public services such as education, medical care, and recreation. But in so doing, it created economic difficulties which have stymied the growth and development of the Cuban economy.

As Table 10 illustrates, the countries discussed in this paper pose interesting contrasts both in terms of development strategy and result. Korea and Brazil experienced rapid economic growth, usually described as being "miraculous." The growth rates in El Salvador and Kenya were well above average for countries at their levels of development. But in Sri Lanka and Cuba, little or no growth was attained.

Brazil's physical quality of life index is much lower than would be predicted by its per capita GNP or it rate of growth, although for Cuba and Sri Lanka the opposite is true. While Korea achieved growth with equity, Brazil achieved growth at the expense of equity. Sri Lanka and Cuba, despite limited growth, made great strides in eradicating poverty and in providing for the basic needs of their citizenry. Brazil and Korea are clearly a "market-oriented" economies; however both had strong, growing, and efficient public sectors which spearheaded growth. In El Salvador and Kenya the private sectors were unquestionably dominant.

It would seem that many of the factors which led to equitable growth in Korea were reversed in Brazil: asset ownership was highly concentrated; there was no land reform; access to education was uneven and heavily influenced by economic factors; development emphasized large production units; technologies adopted tended to be capital intensive (Gillis, et. al., p. 86).

Whereas the Korean, Sri Lankan, and Cuba governments consciously or unconsciously adopted redistributionist policies, the Brazilian government can be more accurately seen as an efficient and powerful agent of accumulation than

TABLE 10

ECONOMIC GROWTH AND THE PHYSICAL QUALITY OF LIFE INDEX (PQLI)

Country	Per Capita GNP 1980	Per Capita GNP (Real Growth Rate) 1970-79	PQLI	Disparity Reduction Rate (DRR) 1960-Current
Brazil	2,050	6.1%	74	-
Korea	1,520	8.1%	85	4.1
Cuba	1,410	4.7%	93	5.2
El Salvador	590	1.4%	71	2.3
Kenya	420	2.6%	53	1.6
Sri Lanka	270	2.5%	80	1.4

Source: ODC, pp. 160-169.

as a source of redistributive or "welfare state" policies. In his preface to Distribuicao da Renda[21], Delfim Netto, Brazilian minister of finance in 1973 and currently minister of planning, harshly criticized those who favored government intervention to reduce inequality, accusing them of indulging in "a veritable confidence game which would end up leaving the nation dividing up the misery more equitably" (Hewlett, p. 177).

The CACM-Alliance for Progress development model pursued by El Salvador brought in massive amounts of new investment during the 1960s and 1970s, but created import-dependent, capital-intensive manufacturing that failed to absorb a rapidly growing labor supply. There, policymakers supported private sector-led development with repressive labor policies to the great detriment of equity (Booth, p. 363).[22] In Kenya similar policies produced similar results.

In assessing and explaining these similarities and differences, three lessons seem most striking. First, the concerns raised by the critics of "trickle-down" are certainly justified. National income simply does not seem to "trickle-down" unless two conditions have been met: either redistribution must occur before the growth process begins (as in Korea) or the government must adopt expressly redistributionist policies (as in Sri Lanka).

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21 This is the work of Carlos Langoni, a Chicago-trained Brazilian government economist, who suuports the "trickle-down" assumption that increasing inequality is an inevitable, if unfortunate, accompaniment of rapid economic growth, but that the process is self-righting.

22 A number of writers have argued that El Salvador's current instability can be traced directly to these policies. Rather than adopt the much-needed reforms, national economic elites responded to the frustration generated by this situation with repressive political and military power. As Booth stated, "the political turmoil and revolutionary movements that this frustration has engendered, ironically, are the products of the very developmental model adopted by Central American policymakers in order to forestall revolutionary pressures" (Booth, pp. 363-64).

In this context, redistribution of assets through land reform may be critical. Where land reform took place (Korea, Sri Lanka, and Cuba), greater equity was achieved; where it did not (Brazil, El Salvador, and Kenya), income imbalances increased with growth. Thus, if AID is to continue its emphasis on rural equity, should not land reform be a necessary underpinning of rural programs.[23]

Second, the issue with which development theorists and practitioners should concern themselves is not the competition between the public and private sectors, but the efficient operation and management of both. In most developing countries—from socialist Cuba to market-oriented Brazil or Korea—state-owned enterprises are common (Gillis, et. al., p. 565). Throughout the first decade after World War II, state-owned enterprises in developing countries were largely confined to the so-called natural monopoly sector, small-scale producers of sumptuary products, and basic necessities, or banking (Gillis, et. al., p. 566). During the last two decades, however, an entirely different pattern of public enterprise involvement has emerged: by whatever standard employed, the relative size of state-owned enterprise sectors in developing countries has expanded markedly. With few exceptions, the reasons for this expansion have little to do with ideology. If anything, the role of state-owned enterprises in such market-oriented countries as Bolivia, Brazil, Chile, Indonesia, Korea, and Taiwan was by the early 1980s no less significant than in India, Bangladesh, Sri Lanka, and Egypt, countries where interventionist traditions have historically been stronger (Gillis, et. al., p. 565).

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[23] See Steinberg, p. 40 for a discussion of land reform in Korea and its impact on equity.

Korea and Brazil demonstrate that the public sector <u>can</u> be an efficient, profitable agent of development. Many government-owned corporations are among the largest enterprises in their countries, and some are among the largest enterprises in their fields anywhere in the world. A few, such as Brazil's Petrobras, are multinational enterprises in the truest sense of the word. Of the largest five hundred industrial corporations outside the United States in 1978, thirty-four were state enterprises from developing countries—primarily natural resourse-based industries in Brazil, Venezuela, and Korea (Gillis, et. al., p. 566-67). But these enterprises, when inefficiently operated, also can be a tremendous drain on the economy as Sri Lanka and Cuba demonstrate. Should not then AID policy focus on the efficiency and profitability of both the public and private sectors in developing countries?.

Finally, development theory may now be based on more myth than reality. As argued previously, Korea is almost universally considered to be a success story. But some the factors which contributed to that success now seem to be forgotten. In 1963 to 1964, Korea was described as a "basket case." Even the Koreans accused themselves of having a "mendicant mentality," always on the dole. AID officials strenuously objected to "pouring money down the Korean rathole." Had security considerations not prevailed, the U.S. might have backed off from Korea at that time (Steinberg, p. 42). Instead, the U.S. provided about $13 billion in both military and economic assistance to Korea. Aside from Israel and South Vietnam, it has been the largest U.S. foreign assistance program per capita, and for almost two decades the U.S. was the major support to that government and economy (Steinberg, p. 4). Might not some of the countries currently perceived as being "ratholes" achieve modest—if not "miraculous" development and growth—if certain lessons are applied in formulating their strategies?

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