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# DEVELOPMENT AND UNDER-DEVELOPMENT

A NOTE ON THE MECHANISM OF  
NATIONAL AND INTERNATIONAL ECONOMIC INEQUALITY

BY

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## PREFATORY NOTE

*In preparing for publication the three lectures which, on the invitation of the National Bank of Egypt, I had the honour to give in Cairo on 17, 18 and 20 October 1955, I have in the main followed the original manuscript although, to comply with established time limits for academic lectures, certain parts were omitted or shortened when the lectures were delivered orally. I have permitted myself to amend and revise the text and to put part of the first lecture into an appendix.*

*The exposition refers exclusively to the non-Soviet world. In the Soviet orbit a totally different economic system is in force; in international trade this is represented by the state monopoly over all economic relations with foreign countries.*

*The value premises applied are the desirability of democracy and of equality of opportunity. The operational significance of working with explicit value premises and the more precise meaning of those actually used in these lectures are accounted for in my book *An International Economy*, Harper's, New York, 1956; I refer in particular to the Preface, Chapter II, the Appendix and earlier writings cited in footnote I to the Appendix.*

*In these lectures the argument moves on the general and methodological level in the sense that social and economic theories are discerned as broad structures of thought and that facts are brought in only when necessary for stating problems or as controls of the applicability of the theories in explaining reality. My purpose is, however, an approach to a more realistic theory. A treatment of the problems themselves in greater concrete and practical details is attempted in the larger book just mentioned where, however, the present issue of the mechanism of equality and inequality is only summarily referred to.*

G.M.

Geneva, December, 1955.

## FIRST LECTURE

# THE QUEST FOR A THEORY OF ECONOMIC DEVELOPMENT AND UNDER-DEVELOPMENT

### 1. — International Economic Inequality

The rapidly growing literature on the economic problems of the under-developed countries is, of course, a reflection of the fundamentally changed international political situation we are facing after the Second World War. The social sciences are as always responding — and, as always, because of the inertia inherent in our traditions, responding with a certain time lag — to the interests and worries of the society in the life of which they are a part. When selecting as topic for my lectures the subject *Development and Under-development*, I am aware of merely following in the general stream of this ideological adjustment on the part of the social sciences to the new political situation in the world.

This complex of problems can, however, be viewed from many angles: different questions can be asked and different approaches chosen. It is, indeed, in the interest of a balanced growth of scientific knowledge that simultaneously many individual scholars attack problems in many different ways. In the great Western tradition of liberal humanism our faith is that also in this field progress in the course of time will come as result of discussion and even controversy.

In these lectures I have chosen to focus attention on one particular aspect of the international situation, namely the very large and steadily increasing economic inequalities as between developed and under-developed countries. Though these inequalities and their tendency to grow are flagrant realities, and though they form a basic cause of the rising international political tension in our present world, they are usually not made a central problem in the literature on development and under-development.

This is, however, what I would want to do in these lectures. I am asking the questions: why and how have these inequalities come to exist, why do they persist, and why do they tend to increase? *What is the causal mechanism at work which produces these trends?* In my third lecture I will reverse the inquiry and also ask: how could the trends be turned? A rational answer to this latter question — where the reasoning proceeds in terms of means and

goals instead of causes and effects — will have to be based upon clarity about this same causal mechanism.

When viewed in the very broadest perspective, the facts of international economic inequality fall into a definite pattern which has a simple contour. A few countries are economically highly developed and have a relatively high level of real income *per capita*. To this group belong the North-Western European countries — including Western Germany, Switzerland and Austria but not Southern Europe — and in addition the former British colonies in the temperate zones mainly populated by European stock, i.e. North America, Australia and New Zealand. Together their populations do not make up more than about one sixth of the total population in the non-Soviet world. These highly developed countries are also those that are rapidly developing further; it is mainly the industrialised countries which are continuing to industrialise and the much larger part of the non-Soviet world's total capital formation and investment is made in these countries.

This is the economic upper class of nations. The lower class of nations is far bigger. Leaving aside a number of countries in an intermediary position, considerably more than half of the people in the non-Soviet world live in the countries which in earlier times were called the "backward countries" but which in the ideological adjustment I just referred to — implying also a tendency to switch from social statics to dynamics — we are now becoming accustomed to characterise as the "under-developed countries." In these countries the real income *per capita* is only a fraction of what it is in the highly developed countries. Their economic development to higher levels of prosperity has usually proceeded much more slowly; some of these countries are stagnating or have even moved backwards.

On the whole, the economic inequalities between developed and under-developed countries have therefore been increasing. As the under-developed part of the world is so much larger, and as the rate of population growth has there been more rapid, it is indeed probable, as Mr. H.W. Singer has suggested, that in spite of the spectacular progress in the highly developed countries the economic well-being of the average human being in the non-Soviet world is lower today than it was in 1913 and, perhaps, lower than in 1900 (1).

The considerable differences within both groups, in regard to actual economic levels as well as current development rates, and also in regard to development rates during different years in the near past, do not invalidate the foregoing

(1) H.W. Singer, "Economic Progress in Under-developed Countries" *Social Research*, March 1949, pp. 2f. Singer refers to the world as a whole; the statement in the text about the non-Soviet world represents an inference from Singers' actual statement which holds true *a fortiori* as the average income standard in the Soviet world is rising rather rapidly as compared with that in the rest of the under-developed world (though on account of the high investment rate, which has made this possible, the consumption standard has risen more slowly).

broad generalisations which I need for stating clearly the problem I venture to discuss in these lectures. I am in search of the causal play of forces which has led to this result.

## 2. — The Inadequacy of the Theory of International Trade for the Explanation of the Economic Inequalities.

I find a special reason to raise this problem, since our inherited economic theory would rather lead us to expect that international inequalities should not be so large as they are and not be growing. In any case this theory does not furnish us with an explanation in causal terms of these inequalities and their tendency to increase.

“The fact that many under-developed countries do not derive the advantages from modern transportation and commerce that theory seems to demand is one of the most pertinent facts in the present international situation and cannot be easily dismissed” — I am quoting from a recent paper by a Swedish economist, Mr. Folke Hilgert (1), known for some outstanding contributions to our ideas about the “network of international trade” and related matters which he made at the time when he served as a member of the Economic Secretariat of the League of Nations and which now belong to classic texts.

Hilgert points out that huge movements of labour and capital from Europe have transformed the plains in the temperate belts into “white man’s land” with high, rapid and sustained economic development and rising levels of living. “Yet the gradual filling of the ‘empty spaces’ has not reduced the pressure of population in, for instance, Asia’s over-populated regions where labour is most abundant.”

Let us remember, however, that according to the classical doctrine movements of labour and capital between countries would not be necessary for bringing about a development towards equalisation of factor prices and, consequently, earnings and incomes; in fact, the theory of international trade was largely developed on the abstract assumption of international immobility of all factors of production. That trade itself initiated a tendency towards a gradual equalisation of factor prices was implicit already in the expositions by the classical authors, though their method of stating the law of comparative costs in terms of only a single factor, labour — which, however, could have different “qualities” or degrees of “effectiveness” — turned the emphasis in other directions.

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(1) “Uses and Limitations of International Trade in Overcoming Inequalities in World Distribution of Population and Resources”, *World Population Conference*, Rome, 1954, E/CONF.13/176, to be published.

After Eli F. Heckscher's paper on the equalising influence of trade on factor prices and Bertil Ohlin's restatement of the classical theory of international trade in terms of a general equilibrium theory of the Lausanne school type (1), trade appeared more clearly as a substitute, or an alternative, to factor movements in permitting an adjustment of industrial activity to adapt itself to the localisation of natural and population resources with the result that the relative scarcity of labour and capital became less different. Upon this foundation there has in recent years been a lively discussion between the econometricians elaborating, under specific, abstract and static, conditions, the relative effectiveness of this tendency to equalisation of factor prices as a result of international trade (2).

The inadequacy of such theories for explaining reality cannot be accounted for by pointing to the relative breakdown of the multilateral trading system as it functioned prior to the First World War, a change which is related as both effect and cause to the increase of national trade and payments restrictions. For, as Hilgert observes, a similar confrontation of the facts of international inequality with the theory of international trade for the period before 1914 reveals the same discord. And I would add that it is not self-evident but, indeed, very much up to doubt whether today a freer trade would necessarily lead to less of international inequality or whether in general trade between developed and (densely populated) under-developed countries has ever had that effect.

From these assertions I would, however, not rush to the conclusion that the theory of international trade is "wrong" — *under its assumptions* in regard to facts and valuations. But the assumptions may be *unrealistic*, and particularly so from the point of view of the problem of how to explain the international economic inequalities as between developed and under-developed countries and their persistent tendency to increase. In relation to this problem the theory would then be *irrelevant*; it becomes "wrong" only when pressed upon a problem where, instead, other and entirely different assumptions are appropriate. The theory of international trade and, indeed, economic theory generally were never worked out to fit the reality of economic development and under-development. These theories were never focused on the

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(1) Eli F. Heckscher, "The Effect of Foreign Trade on the Distribution of Income" *Readings in the Theory of International Trade*, selected by a committee of the American Economic Association, Allen & Unwin, London, 1950 (translation from the Swedish original 1919); Bertil Ohlin, *Inter-regional and International Trade*, Cambridge University Press, Cambridge, 1933.

(2) The recent discussion of the problem of factor price equalisation as a result of international trade was initiated by Professor Paul A. Samuelson in two articles in the *Economic Journal*, 1948 and 1949; for fuller reference see Svend Laursen, "Production Functions and the Theory of International Trade", *The American Economic Review*, 1955, pp. 540 ff.

problems connected with very different production techniques, corresponding to great differences in the relative scarcity of factors of production and general levels of living, and it would be unfair to expect them to offer a theoretical postulation of those problems (1).

My scientific conservatism brings me to stress also that I have here been referring to the theory of international trade as a single, comprehensive system of thought. This system, however, is the matrix of a large number of special arguments and theorems which can usually be reshaped and fitted to other assumptions and thus be made to preserve their usefulness as part of very different theories. This is, indeed, what we continuously accomplish: we are readjusting our theoretical tools to new and different questions. The new questions are largely posed because of changing political circumstances. Thus the present interest in economic development and under-development is a reflection of the dramatic political change that the under-developed nations are becoming articulate in craving for development and pressing for greater international equality.

### 3. — The Unreality of the Assumptions

Having thus built up the front against theoretical iconoclasm, I have nevertheless to admit that the theory of international trade does not furnish us with the model or mechanism which contains an explanation of the economic inequalities and their tendency to increase. It is also clear that this is due to its unrealistic assumptions. The most crucial leap from reality is represented by its basic assumption of stable equilibrium. Only under this unrealistic assumption does trade represent an element in the economic process which constantly operates to bring about greater economic equality between regions and countries.

By "stable equilibrium" I refer to the assumption that the system reacts to primary changes in such a way that economic relations constantly are on the move towards an equilibrium where they would remain unchanged if no new primary changes occurred. The idea I want to expound in these lectures is that, on the contrary, in the normal case there is no such tendency towards automatic self-stabilisation in the economic system, but that the system, if left to itself, will steadily be on the move away from such a state. If left to take

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(1) In fact, the development of the "infant industry argument" and many other special considerations by the classical authors, particularly in their discussion of practical problems of the day, contain *in nuce* a very much more realistic approach to the problems of development and under-development than their general theory. The same is true of the discussion by Ohlin and others of the effect of trade on technology and the relative scarcity of different factors of production and particularly different qualities of labour. See Bertil Ohlin, *op. cit.* and *La Politique du Commerce Extérieur*, Paris, 1955.

its natural course, the economic process will be cumulative instead of equilibrating — in the meaning that secondary changes usually have the same direction as the primary ones and not the opposite one — and it will then most often tend to create inequalities and not equality, and to increase existing inequalities; trade is an important element in this cumulative process. Apparently, such a theory has for it the presumption of truth, since this is what is actually happening.

This idea — in its negative form that the equilibrium assumption and the theoretical approach, which it represents, is unrealistic — is, of course, anything but original. It has often been pointed out that the theory of international trade, more than any other part of economic theory, has stubbornly remained an equilibrium theory. Professor John H. Williams, in his preoccupation with the relation between economic policy and theory, has observed as one of the greatest paradoxes of recent times that, “while since 1914 the world has been in a state of profound and virtually continuous disturbance, formal international trade theory has continued to emphasise equilibrating tendencies” (1); indeed “the main drift in theory, until recently at least, seems to have been toward further emphasizing equilibrating tendencies — whether through refinements on the classical analysis, or through the one of more modern value theory, or by introducing more countries and commodities... The so-called ‘modern’, or Keynesian approach has carried this emphasis even further through its analysis of international trade adjustment in terms of income” (2).

In a number of writings Williams has expressed his scepticism against this trend of theory and attempted “to deal with the world as it is rather than on the simplified assumptions of traditional theory” (3). As his interests have primarily been focused on the relations between Western Europe and the United States and in the main confined to those changes in the last 40 years which to a large extent have the character of disturbances induced by wars and crises, he has not been tempted to seek a theoretical scheme for the explanation of the phenomena of development and under-development with which these lectures are concerned. On the whole, the literature is curiously void of attempts to relate the problems of development and under-development and the facts of international inequality to the theory of international trade. Hilgert could almost raise a claim to originality merely on the ground of having posed this question in the article I have cited.

Professor Jacob Viner, for instance, gave his lectures in Brazil the provocative title: *International Trade and Economic Development* (4), but did not

(1) *Economic Stability in a Changing World*, Oxford University Press, 1953, p. 24.

(2) *Ibid.* p. 29.

(3) *Ibid.* p. 32.

(4) The Clarendon Press, Oxford, 1953.

raise *this* issue. Viner, in fact, segregates the problem of economic development of under-developed countries in a last chapter where he makes many interesting, though rather unconnected, observations and suggestions about poverty. In this chapter he also touches upon various international relations: gives reasons why foreign capital will probably not be available on any large scale, reassures the under-developed countries, perhaps a little too readily, against any general adverse bias in their terms of trade, and points to their possibilities, *nota bene* with good fiscal and monetary management, to counteract the effects of the wide fluctuations in their export prices. But the theory of international trade appears only very occasionally and then in certain general pronouncements, which because of the unrealistic equilibrium assumption seem somewhat lost and out of place<sup>(1)</sup>. In the five earlier chapters he renders a delightfully readable account of his, on the whole, orthodox ideas about a host of problems in the international trade field but has astonishingly little to say about what the reader would expect from the title of the book: the relation between trade and development — except again in the form of intelligent but discrete inuendoes scattered throughout the text.

Viner makes one point, however, which has a bearing on the problem: "It is incumbent on the economist... to recognise and to proclaim that economic improvement is not merely a matter of more capital, or more acres, or more coal in the ground, but also of growth of effectiveness of management and of manual effort through better education, better health, better motivation, and better political and social organisation. If he fails to do so, he is liable to find himself throwing the blame for national poverty wholly on physical circumstances beyond human remedy, or on factors external to that economy, to the neglect of the internal human, social, political and moral factors which may carry a large part of the true responsibility"<sup>(2)</sup>. He links this correct

(1) For example: "In a predominantly agricultural country rapid growth of population unaccompanied by proportionate growth in demand for its agricultural products will under free-market conditions bring spontaneously into action forces tending to industrialise the country, by making agricultural production less remunerative." (*Ibid.* p. 113). This is a very wrong description of what actually has taken place, and is taking place, in the under-developed world. One particular point where the thinking in terms of the equilibrium assumptions leads entirely astray is the idea that "free market conditions bring spontaneously into action forces" tending to equilibrate industry and agriculture. As a matter of fact, even when population growth and pressure on the land reduces marginal productivity of labour in agriculture to zero, labour will not be available for industrialisation except for a wage which is — comparatively — high. Costs and prices in industry do not reflect real opportunity (or displacement) costs. Viner may answer by stressing that he assumes "free market conditions"; but the point is that such an assumption is totally unrealistic. Indeed, it remains an unanswered question what this assumption precisely means under the actual social, psychological and economic conditions in under-developed countries; if this question is not answered, and I believe it cannot be answered, this whole way of thinking remains meaningless and becomes wrong, if any inferences as to reality are drawn.

Viner probably agrees with this for, as I point out in the text, he actually does not attempt any use of any theory in dealing with the development problems of under-developed countries.

(2) *Ibid.* p. 16.

observation to the classical concept, utilised in the theory of international trade, of "differences in qualities of factors of production".

It is undoubtedly in this sphere of the "qualities" of the productive factors and, consequently, the "effectiveness" or production in various lines that a main part of the theoretical explanation has to be sought for why countries have fared so unequally in their development and why international trade has not been active as an equalising force. But lumping those things together under a single, abstract and vague concept and mostly dealing with this lump as a solid, static entity means precisely keeping them outside the analysis, i.e. abstaining from seeking the theoretical explanation demanded by establishing the inter-relationships. And occasional references to individual elements within this lump and to their changes do not constitute a systematic explanation, linking economic development to economic theory, but represent rather a reversal to the indiscriminate "all case" method of the German historical school, which Viner least of all should be expected to find to be in his liking.

Keeping these things outside the theoretical analysis is the second main unrealistic assumption which makes the theory of international trade irrelevant for the problems of development and under-development (1). It is closely related to the equilibrium assumptions. For it is precisely in the realm of these factors, which the theory of international trade usually takes as given and static, where the equilibrium assumption is most unrealistic and where instead circular cumulative causation is the rule.

That the theory of international trade has been dominated by these two unrealistic elements is no historical accident but is in my opinion the result of certain ideological predilections. I believe that our thinking and also our observations, even when we try to be objective, are dominated, much more than we are aware of, by certain very general ideas or thought patterns. These general ideas are to an extent value-loaded; this gives them influence over our intellectual exertions and tend to protect them from our awareness and critical attention, if we do not work with explicit value premises. They are part of a powerful tradition and have moulded all our tools of thinking: shaped not only answers but, even more primarily, determined what ques-

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(1) Already in his important paper from the late twenties, "The Theory of International Trade Reconsidered", Williams made the points that "the classical theory assumes as fixed, for purposes of the reasoning, the very things which... should be the chief objects of study if what we wish to know is the effects and causes of international trade, so broadly regarded that nothing of importance in the facts shall fail to find its place in the analysis" and that "the relation of international trade to the development of new resources and productive forces is a more significant part of the exploration of the present status of nations, of incomes, prices, well-being, than is the cross-section value analysis of the classical economists, with its assumption of given quota of productive factors, already existent and employed". (*Economic Journal*, 1929, pp. 195 ff.).

tions we ask and how we ask them. They have been particularly powerful in determining the theory of international trade. The two unrealistic elements I have been referring to are the media through which these inherited ideological predilections hold their power over economic theory (1).

#### 4. — Groping for a Theory

The theory of international trade and its inherent ideological predilections have had, of course — to a degree and more or less by implication — their influence also on the discussion of economic development. The facts of international economic inequalities and of their tendency to grow are awkward from the point of view of this theory and these predilections, and it is easily discernible that these facts have rather systematically been kept outside the sphere of intensive attention and in any case almost never been posed as a main problem in the discussion of economic development and under-development. Even today, when these facts are highlighted by the rising international political tension, a tendency is visible to steer the discussion into other aspects of the problems of under-developed countries than those related to international inequalities.

Similarly, the continuous trend in the theory of international trade towards demonstrating, contrary to the facts, that unhampered trade works in the direction of decreasing inequalities, has its close parallel in the type of discussion carried on in the developed countries on the commercial policies of under-developed countries. The advices given to the under-developed countries — and also the pressures exerted upon their commercial policies by means of the policies of the developed countries themselves — are determined without much recognition of these facts and their underlying causal mechanism; instead they are commonly rationalised in terms of a theory of international trade founded upon unrealistic assumptions. And the foundation given to the international organisations in the field of international trade — the International Monetary Fund, the now defunct International Trade Organization and its remnant GATT — tend continuously to be permeated by the same ideological elements at the basis of our theories.

When this is said it should, however, be emphasised that on the whole the large and rapidly growing literature on economic development and under-development has paid little attention to economic theory generally and to the theory of international trade in particular. In its present stage this literature has mostly a rather untheoretical twist. Indeed, when it is at its best it seeks validity by keeping near to the ground of concrete facts and practical problems.

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(1) In the Appendix, I give a condensed analysis of these major predilections of economic theory as they are rooted in its philosophical fundament.

Most of the writings on economic development and under-development express, however, the need for a theoretical framework to organise our knowledge in a systematic fashion; but this yearning is usually qualified by much scepticism, which sometimes amounts to a total disbelief, that we ever will have a general theory of economic development.

##### 5. — The Floating Notion of the “Vicious Circle”

At this point I would like to call to our attention that almost all students of problems connected with development and under-development make a reference to the “vicious circle”. Professor C.E.A. Winslow, in a book devoted to the economics of health, to choose a random illustration, points out that “It was clear... that poverty and disease formed a vicious circle. Men and women were sick because they were poor; they became poorer because they were sick, and sicker because they were poorer”. (1) Winslow thus points to a cumulative process, continuously pressing levels downwards, where one negative factor is at the same time both cause and effect of other negative factors.

In the same spirit, Professor Ragnar Nurkse, when in 1952 preceding me in giving that year’s Commemoration Lectures in Cairo at the invitation of the National Bank of Egypt, referred to the “vicious circle of poverty” and explained (2):

“The concept implies, of course, a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty. Particular instances of such circular constellations are not difficult to imagine. For example, a poor man may not have enough to eat; being under-nourished, his health may be weak; being physically weak, his working capacity may be low, which means that he is poor, which in turn means that he will not have enough to eat; and so on. A situation of this sort, applying to a country as a whole, can be summed up in the trite proposition: ‘a country is poor because it is poor’.”

Very apparently a similar circular causation between less poverty, more food, improved health and higher working capacity will sustain a cumulative process upwards instead of downwards. In these lectures I will venture an attempt to give a more definite formulation to this vague idea of cumulative

(1) C.E.A. Winslow, *The Cost of Sickness and the Price of Health*, Monograph Series No. 7, Geneva, 1951, p. 9; cf. also Gunnar Myrdal, “Economic Aspects of Health”, Chron. World Health Organisation, Geneva, 1952, 6, No. 7-8.

(2) Ragnar Nurkse, *Some Aspects of Capital Accumulation in Under-developed Countries*, Cairo, 1952; cf. Ragnar Nurkse, *Problems of Capital Formation in Under-developed Countries*, Oxford, 1953, pp. 4 f.

causation and thus provide, if not a theory of economic development and under-development, which would be too ambitious an aspiration, at least an approach toward, and a vision of, such a theory.

Before I close this first lecture I would want to stress that, when we have once approached the formulation of such a theory of development and under-development, it will remain a task to integrate it into our general economic theory and, in particular, into the theory of international trade. To have logically unconnected and, in fact, mutually inconsistent theories is hardly a satisfactory state of things. This would most certainly, on the one hand, imply considerable adjustment and changes of these general theories; those changes would then reflect the progress in our perception of the world economy attributable to the intensified studies of the dynamic, long-range problems related to economic development and under-development. On the other hand, the theory of economic development, when it is once posited, will not have been constructed out of nothing except empirical data: as building stones there will have been salvaged many familiar arguments and theorems now harboured in the broad framework of our static theories, adjusted and fitted into the new structure. In economics, as in social theory generally, old thoughts are usually never discarded altogether; nor is ever an idea entirely new and original.

## SECOND LECTURE

# THE CUMULATIVE PROCESS OF ECONOMIC DEVELOPMENT WITHIN A NATIONAL STATE

### 1. — Stable Equilibrium: a False Analogy

When constructing a theory to explain the changes in a social system, the stable equilibrium notion is normally a false analogy. Its implied assumptions, that every disturbance provokes a countervailing reaction within the system directed towards restoring equilibrium, and that it all will work itself out in one and the same time-space, have no correspondence in reality. Society does not naturally behave as a pendulum, either resting in a stable position of economic relations or, after having had this position disturbed, in some circumvent way moving towards its restoration.

The normal course is not only, as has often been conceded, that the occurring short-run deviations will themselves continuously cause to alter the long-run equilibrium position towards which the system is supposed to be steering. Quite ordinarily *the system in not steering towards such a position at all but, rather, is continuously en route away from it.* My thesis is that in the normal case a social change does not call forth countervailing changes but, instead, supporting changes, *moving the system in the same direction as the primary change but much further.* A social process thus tends to become cumulative and often moving with accelerating speed.

If such a process is stopped, by new primary changes, as is frequently the case, the position of balancing forces where it comes to rest is normally not a stable but an unstable one, implying that any primary change of the forces will again start a cumulative process away from this position in one direction or another. Or the position of rest may have been caused by policy interferences, planned and applied with the intended purpose to stop the movement. This is, of course, the very opposite to a natural tendency towards equilibrium, endogenous to the system.

This general characterisation of a process of social change refers to the normal case; I will be discussing later the exceptions where equilibrating tendencies are at work.

## 2. — A Case Study of the Cumulative Process

I once carried out a comprehensive study of the development problem of one particular group of people: the Negro population in the United States<sup>(1)</sup>. It was during this study that I first came to realise fully the total inadequacy of the equilibrium approach and how the essence of a social problem is that it concerns a complex of inter-locking, circular and cumulative changes. I was gradually moved to make this thought the main hypothesis of my study. When now briefly referring back to this study, my purpose is to facilitate a more concrete conception of the inner mechanism in a cumulative process of social change.

The American Negro people are not confined to one single geographic district where they are alone by themselves. But they are nevertheless cut off from the rest of the American population and are tied together to a distinctly separate social group, with a community of worries and a common destiny. This relative social isolation is effected by the American version of the institution of colour caste. Behind the colour line the Negro people live to a degree a life as separate as if they were on an island with restricted communications to the rest of the world. They have developed an entire class structure of their own, where the caste disabilities reflect themselves in the fact of a greater concentration of the population in the lower social strata and lower average levels of all economic and social indices for comparable strata. There is a unity in interests and aspirations in this social group just as much as there is such a unity in any under-developed country or region of a country.

The relative status of the Negro people in America in the late ' thirties and early ' forties, when I made my survey, had been rising since the great national compromise in the 1870's after the Civil War and Reconstruction, but not very rapidly, and there had even been some retreats. The prevailing views on the Negro problem among the social scientists were mostly framed in static equilibrium terms and demonstrated on the whole rather faithfully the general trend towards social fatalism inherent in the equilibrium approach. Mistrust of the efficiency of "interferences" in the social process as, for example, efforts towards educating the white people to broader views, campaigns for giving Negroes legal redress through the courts, and legislation, "movements" and "reforms" generally characterised the approach and was felt to possess the mark of hardboiled scientific objectivity in contradistinction to the credulity

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(1) *An American Dilemma. The Negro Problem and Modern Democracy*, by Gunnar Myrdal, with the assistance of Richard Sterner and Arnold Rose; Harper's, New York, 1944

of the do-gooders (1). The practical conclusion tended to be that the rise in Negro status would continue to be, as it has been for two generations, a very slow and uncertain process, largely outside the grasp of intentional policy measures: "state-ways cannot change folk-ways" (2).

In my scrutiny of the complicated inter-relations between social forces and, in particular, the trends of state and organisational policies at that time in the United States and their conditions and effects, I reached the conclusion that the national compromise which had reigned for such a long time was approaching its end, at least relatively. "Ten years from now this (past) period in the history of inter-racial relations in America may come to look as a temporary interregnum. The compromise was not a stable power equilibrium" (3). More positively my conclusion was that "not since Reconstruction has there been more reason to anticipate fundamental changes in American race relations, changes which will involve a development toward the American ideals" (4). This great, dramatic break in the social development of American society has actually occurred. A student who has sometimes been wrong in his forecasts of the future will be excused for pointing to a case when he was right.

I want now to sketch in its barest outlines the social theory or methodological hypothesis used in this particular study (5). In its simplest form the

(1) The important fact is, however, that the social scientists of this period — while most often eagerly and honestly asserting that their findings and their teaching could not have any great practical effects on the development of inter-racial relations in America — were actually all the time efficiently bringing together and organising the rational arguments for fundamental social changes. Indeed, they were making it increasingly difficult for educated white people to uphold some of the stereotyped opportunistic views which were basic to segregation and discrimination. It is my conviction, for which I have given the evidences in the book referred to above, that the American social scientists' work during the pre-war period contributed mightily in producing the driving forces to the dynamic development of inter-racial relations which later was gathering its momentum some ten years ago.

(2) This *laissez-faire* approach in the great tradition of the late Professor William Sumner — with still older moorings in the natural law philosophy which, with all the paraphernalia of modern social science lingo and the impressive amassing of facts, has a particularly strong hold in America — was often connected with a vague philosophy of economic determination. In this pre-war period, it presented itself in two versions with many intermediary positions: a radical Marxist version, where the expectation was an economic revolution which would change everything and even eradicate race prejudice; and, much more commonly, a conservative liberalistic version, according to which no such revolution was to be expected and, consequently — as the assumption in that version too was that no significant change can be brought about except by tackling the "basic factor", the economic system — the situation would remain pretty well as it was and that, anyhow, there was little chance for any type of induced changes to alter much. The one factor theory thus strengthened the equilibrium approach and its inherent fatalistic tendency and blocked a rational conception of circular interdependence and cumulative dynamic development.

(3) *Op. cit.* p. 1014.

(4) *Op. cit.* p. XIX.

(5) The rest of this section contains a condensation of the methodological argument in the book cited and particularly Chapter 3, Section 7, "The Theory of the Vicious Circle", pp. 75 ff., and Appendix 3, "A Methodological Note on the Principle of Cumulation", pp. 1035 ff.

explanatory model can be reduced to two factors: "white prejudice", causing discrimination against the Negroes in various respects, and the "low plane of living" of the Negro population. These two factors are mutually inter-related: The Negroes' low plane of living is kept down by discrimination from the whites while, on the other side, the Negroes' poverty, ignorance, superstition, slum dwellings, health deficiencies, dirty appearance, bad odour, disorderly conduct, unstable family relations and criminality stimulate and feed the antipathy of the whites for Negroes. White prejudice and low Negro standards thus mutually "cause" each other. If things remain about as they are and have been, this means that the two forces balance each other: white prejudice and the consequent discrimination against the Negroes is blocking their efforts to raise their low plane of living which at the same time forms part of the causation of the prejudice on the side of the Whites.

Such a static "accommodation" is, however, entirely fortuitous. It is everything else than a stable equilibrium position. If either of the two factors changes, this will cause a change in the other factor, too, and start a cumulative process of mutual interaction where the change in one factor will continuously be supported by the reaction of the other factor and so on, in a circular way. The whole system will be moving in the direction of the primary change, upwards or downwards, but much further. If the original push or pull is withdrawn after a time, still a permanent change will remain in both factors, or even the process of interacting changes will continue without a neutralisation in sight.

Both the two factors are composite entities. If we split the Negroes' "plane of living" into its components — levels of "Negro employment", "wages", "housing", "nutrition", "clothing", "health", "education", "stability in family relations", "law observance", "cleanliness", "orderliness", "trustworthiness", "loyalty to society at large", etcetera — the hypothesis is that changes in all these variables cumulate in a similar fashion. A rise in any single one of the Negro variables will tend to raise all the others and thus, indirectly as well as directly, result in a cumulative effect to decrease white prejudice with new effects back on the Negro plane of living as described. A rise in Negro employment will increase earnings, tend to raise levels of living generally and improve health, education, manners and law observance, and *vice versa*; a better education will enhance the Negroes' chances of getting into higher salaried jobs, and *vice versa*, and so all through the entire gamut of variables. White prejudice is an equally composite and unstable entity of beliefs and valuations and is, among other things, dependant upon its result in discrimination. Experience thus shows that, if by some chance discrimination in a particular field of social contact is increased or decreased, the psychological force behind it, i.e. prejudice, tends to change so as to support actual behaviour. This fits into the general pattern of cumulative causation.

The point is not simply that "many forces are working in the same direction". They are, in fact, not; and there might even be periods when counter-directed forces are balancing each other so that the system remains in rest until a push or a pull is applied at one point or the other, pushing upwards or pulling downwards. When the total system then starts moving, it is *the changes in the forces* that work in the same direction. And this is so because the variables are interlocked in such a causal mechanism that a change of any one causes the others to change in such a direction that these secondary changes support the primary change, with similar tertiary effects upon the first affected variable, and so on.

We notice that when there is a "balance", a neutralisation of changes, so that the system is at comparative rest, this is not a stable equilibrium at all — of the type which is tacitly assumed in the notions of "equilibrium", "accommodation", "adjustment", "maladjustment" and "social lag" — and, further, that under this hypothesis a system which is moving is not steering towards any "equilibrium" or necessarily "accommodating" towards any sort of new stability. Ordinarily social systems are not in rest but are actually moving both with their own momentum and also ordinarily under the influence of a multitude of outside pushes and pulls, primarily affecting several of their variables and in different directions, thus often turning the systems around their axes as they are moving.

The causal interrelation between all the factors in the problem of a population group like the American Negroes gives sense to the general notion of the "status" of the group — in essentially the same way as the inter-relation between prices gives sense to the notion of the "price level" — and an index of this status could be constructed and would have meaning as measuring in time or space the general tendency of the system. The main scientific task is, however, to analyse the causal inter-relations within the system itself as it moves under the influence of outside pushes and pulls and the momentum of internal on-going processes.

In a realistic study the system becomes, of course, very much more complicated than any abstract model. All factors must be broken down by region, social class, age, sex and so on, and the number of combinations increases by multiples for each classification applied. The scientific ideal is not only to define and arrange the factors into their elements, but to give for each of the elements a measure of their actual quantitative strength in influencing each of the others, as well as a measure of their ability to be influenced themselves by changes in other elements within the system or by changes in the outside forces.

These outside forces in the study in question represent the surrounding total national American community. Some of those outside forces are under-

going large short-term changes as, for instance, the business situation and employment opportunities. Some others are more constant determinants as, for instance, the complex of inherited ideals which in my study I called "The American Creed" and the institutional and political frame as it is influenced and activated by those ideals. The outside forces provide continuously pushes and pulls for the system, and they influence, at the same time, the co-efficients of internal causation, i.e. they change the structure of forces within the system itself.

The time element becomes of paramount importance in these formulae as the effects will be spread very differently along the time axis. A rise of employment, for instance, will almost immediately raise some levels of living; but a change in levels of education or health is slow to be achieved, and its effects back on the other factors are then in turn delayed, forcing a lag in the whole process of cumulation.

Ideally the scientific solution of a problem like the Negro problem should thus be postulated in the form of an inter-connected set of quantitative equations, describing the movement — and the internal changes — of the system studied under the various influences which are at work. That this complete, quantitative and truly scientific formulation is far beyond the horizon does not need to be pointed out. But in principle it could be made; and I submit that the working out of such a postulation should be the aim and guide of our less perfect research endeavours.

If the realism of the hypothesis of circular cumulative causation is accepted, certain general conclusions can be drawn which it is worth while to spell out already at this point. To begin with, this conception of a great number of inter-dependent factors, mutually cumulative in their effects, disposes of the idea that there is *one* predominant factor, a "basic factor". Usually the "economic factor" has been given this role in an often non-conscious application of Marxian economic determinism.

When studying the Negro problem or any other social problem under this hypothesis it becomes, indeed, difficult to perceive what precisely is meant by the "economic factor" as distinct from the others and still less understandable how it can be "basic" as everything is cause to everything else in an interlocking circular manner. For similar reasons, the application of this hypothesis moves any realistic study of under-development and development in a country, or a region of a country, far outside the boundaries of traditional economic theory. This is because by necessity the study becomes concerned also with all so-called "non-economic factors": what the classical authors lumped together in such concepts as "the quality of the factors of production" and the "efficiency of production" and usually kept outside their analysis.

That, under the hypothesis of cumulative causation, an upward movement of the entire system can be effected by any number of measures rather independently of where the initial push is applied, is a very important point to keep in mind. But it certainly does not imply that from a practical and political point of view — i.e. when reasoning instead in terms of means and goals — it would be indifferent where and how a development problem is tackled. The more we know about the way in which the different factors are inter-related — what effects a primary change of each factor will have on all other factors, and when — the better will we be able to establish how to reach maximum total effects of a given policy effort in moving and changing the social system.

Nevertheless it is unlikely that a rational policy will work by changing only one factor. If, therefore, this theoretical approach is bound to do away in the practical sphere with all panaceas, it is, on the other hand, equally bound to encourage the reformer. The principle of cumulation — insofar as it holds true — promises final effects of very much greater magnitude than the efforts and costs of the reforms themselves. The low status of the Negro is, for instance, tremendously and self-perpetuatingly wasteful all around — for example, the low educational standard causes low productivity, health deficiencies and low earnings and these again keep down the educational standards, and so on. The cumulatively magnified final effects of a push upward when wisely applied to the relevant factors is in one sense, a demonstration and also a measure, of the earlier existing “social waste”. In the end, the cost of raising the status of the Negro will not involve any “real net cost” at all, but instead result in great “social gains” for society. The definition of these political concepts does not only require explicit value premises but must be conceived of in the dynamic terms of circular cumulative causation.

This is, indeed, the principle upon which an under-developed country can hope to “lift itself by the shoe strings” — if it can only manage to accomplish what Professor W.W. Rostow calls the “take-off into self-sustained growth” (1) and afford the sacrifice to wait on the full returns of its policy efforts.

Before I go further, I should perhaps say that I feel very much in line with ordinary common sense when stressing that in the normal case circular cumulative causation and not stable equilibrium is the more adequate hypothesis for the theoretical analysis of a social problem. John Maynard Keynes has some basis for his famous dictum that usually “the practical men” unknowingly are “the slaves of some defunct economist” when they express general

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(1) Manuscript to be published shortly in the *Economic Journal*.

opinions. They then often think in the metaphysical teleological terms of the stable equilibrium notion and the idea of individual interest harmony under conditions of non-interference on the part of the state. But in their proper role they act on better assumptions. Every successful businessman has the principle of cumulative causation as a built-in theory in his approach to practical problems; otherwise he would not be successful. A politician would be a failure if he did not calculate with the cumulative effects. The whole philosophy of the professional philanthropists is imbued by this hypothesis. (1)

I am afraid that the social scientists cannot escape the main responsibility for having preserved — against the wisdom of the generally perceived common sense among laymen — the inherited stable equilibrium notion as the organising principle when systematising knowledge about society into theory. They have thus become more deserving of Keynes' observation than the "practical men" — even if, as I point out in the Appendix, much research work and lately also some attempts to piecemeal theoretical analysis actually follow quite a different approach, without it ever being really clarified, however, how it all hangs together, how it clicks with equilibrium theory and what more broadly it implies for our practical philosophy about the world.

### 3. — A Simple Illustration of the Drift towards Regional Economic Inequality within a Country :

I have suggested that the principle of interlocking, circular interdependence within a process of cumulative causation has validity over the entire field of social problems. Suppose that in a local community an accidental change occurs which is so relatively big that it is not immediately cancelled out in the stream of events: that, for example, a factory, where a large part of the population gets its livelihood, burns down and that it becomes clear that it would not pay to rebuild it, at least not in that locality. The primary effect is that this business firm gets out of activity and its workers become unemployed.

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(1) Actually, the best formulation in writing I have found for the working of the cumulative process in the field of the Negro problem was given by one of the wisest foundation heads in America, the late Edwin R. Embree of the Rosenwald Fund:

"There is a vicious circle in caste. At the outset, the despised group is usually inferior in certain of the accepted standards of the controlling class. Being inferior, members of the degraded caste are denied the privileges and opportunities of their fellows and so are pushed still further down and then are regarded with that much less respect, and therefore are more vigorously denied advantages, and so around and around the vicious circle. Even when the movement starts to reverse itself — as it most certainly has in the case of the Negro — there is a desperately long unwinding, as a slight increase in goodwill gives a little greater chance and this leads to a little higher accomplishment and that to increased respect and so slowly upward toward equality of opportunity, of regards, and of status". (*Brown America: the Story of a New Race*, The Wiking Press, New York, 1931, p. 200). The vaguely implied notion that cumulative causation is retarding the speed of progress is, however, wrong.

Let us for the sake of simplicity focus our attention on the effects *via* one single variable: the local tax rate. The tax rate will go up as the income basis narrows. This secondary change may become even bigger if, in response to the lowered demand curves, businesses and workers begin to move out from the community to seek better markets somewhere else. If they do, this will usually also change the age distribution in an unfavourable direction, lowering taxable income *per capita* and raising the relative demand for public welfare services.

The higher tax rate, in its turn, will itself act as an extra disincentive to other businesses and workers considering moving into the community; it will also strengthen the incentive for already established businesses in the community and workers to seek to get out, which then in a second round will cause the tax rate to move upwards still more, having again similar effects. If in this situation the local authorities, because of the rising tax rate, are moved to lower their standards in various public services, such as the provision of schooling for children, homes for the aged, roads, etcetera, the rise of the tax rate may be retarded but only at the expense of making the community in another important respect less attractive for businesses and workers.

Should the tax rate before the first change have reached a stationary level, it is now *not* moving towards this level as an equilibrium — or any other stable level — but continuously away from it, and this movement itself is all the time causing new changes of a nature to result in pushing the tax rate still higher, and so on and on. This simple model of cumulative causation released by a primary change is, I believe, more typical of actual social processes than the intersection of the demand and supply curves at an equilibrium price which has become symbolic of much of our reasoning in economic theory.

When nevertheless in well-organised welfare states like the Scandinavian ones the local tax rate does not continue on that adventurous course but is prevented from rising too much, and when also the community in that connection is restrained from lowering the standards of public services too much, this has quite another explanation than the play of the market forces, namely the fact that national state legislation has been enacted for the specific purpose of stopping such a cumulative process by subsidising from the common purse any individual community which for reasons outside its own command has got into financial difficulties, and at the same time prescribing certain minimum standards for public services. The modern highly integrated national states in the one-sixth of the non-Soviet world which is well off and rapidly progressing have furnished themselves with a most complex network of systems of regularised public interferences of all sorts which have the common purpose of counteracting the blind law of cumulative social change and hindering it from causing inequalities between regions, industries and social groups. To

this question of the countervailing changes induced by organised society I will come back later.

In my example the primary change was an adverse one. The cumulative process, however, works also when the change goes in an upward direction. The decision to locate an industry in a particular community, for instance, gives a spur to its general development. Work opportunities and incomes are provided for labourers who might have been unemployed before or employed in a less remunerative way. Local businesses can flourish as the demand for their products and services is increasing. Labour, capital and enterprise from outside are attracted to exploit the rising opportunities. One new business or the enlargement of an old one widens the market for others, as does generally the increase of incomes and demands. Rising profits increase savings but cause at the same time investments to go up still more which again pushes up the demands and the level of profits. And the expansion process creates continuously external economies favourable for sustaining its continuation.

The local tax rate — the factor I picked out for illustration of the causal interrelations in a downward cumulative process — can be lowered and the amount and quality of public services enhanced; both changes will make the community more attractive to businesses and workers also for this reason, with the result that the local finances will again be boosted with similar results on the tax rate and public finances, and so on. These fiscal effects of localised expansion may become hampered because of interferences by the state in the form of burdens for inter-regional tax equalisation built into the taxation system. As I am still considering only the play of the forces as unhampered by state interferences, I leave this last matter for the moment.

#### 4. — The Play of the Market Forces Tends towards Inequality :

A cumulative process of the same general character, going downwards or upwards as the case may be, will also be generated by a change in the terms of trade of a community or a region, if the change is large and persistent enough or, indeed, by any other change having as its effect a substantial decrease or increase in the interrelated economic quantities: demand, earning power and incomes, savings, investments and production. The main idea I want to convey is that *the play of the forces in the market does not normally tend towards causing regional equality but, on the contrary, inequality*. "Nothing succeeds like success", and I add: nothing fails like failure. The version in the Bible of this ancient folk wisdom is even more expressive: "Unto everyone which hath shall be given and from him that has not, even that he hath shall be taken away from him".

If things were left to the market forces without any policy inferences, industrial production, commerce, banking, insurance, shipping and, indeed, almost every economic activity which in a developing economy tend to give a bigger than average return and, in addition, science, art, literature, education and higher culture generally, would cluster to certain localities and regions, leaving the rest of the country more or less in the backwater. Occasionally these favoured localities and regions offer particularly good natural conditions for the economic activities concentrated there; somewhat more often they did so once they started to gain competitive advantage. Naturally the economic geography sets the stage. Commercial centres are, of course, usually located in places where there are reasonably good natural conditions for the construction of a port, and centres for heavy industry are most often located not too far away from coal and iron resources.

But within broad limits the attractive power today of a centre for commercial and industrial expansion has a main origin in the historical accident that something was once started there and not in a number of other places where it could equally well or better have been started, and that the start met with success. Thereafter the ever increasing internal and external economies — in the widest sense of the word including also, for instance, a working population trained in various directions, lively communications, the feeling of growth and elbow room and the spirit of new enterprise, etcetera — fortified and sustained their continuous growth at the expense of other localities and regions where instead relative stagnation or regression became the fastened pattern.

It is easy to see how the expansion in one locality has “back-setting effects” in other localities. More specifically the movements of labour, capital, goods and services do not by themselves counteract the natural tendency to regional inequality. By themselves, migration, capital movements and trade are rather the media through which the cumulative process evolves, upwards in the lucky regions and downwards in the unlucky ones. Generally, if they have positive results for the former, their effects on the latter are negative (1).

The localities and regions where economic activity is expanding will attract net-immigration from other parts of the country. As migration is always selective, at least in regard to the migrants' age, this movement by itself tends to favour the rapidly growing communities and disfavour the others. In the historical epoch — which is only just now coming to its end in the very richest and most advanced countries — when birth control is still on the spread downwards in the economic and social strata (2), the poorer

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(1) This statement will be qualified in the next section.

(2) When this process is completed, the average fertility might well be rather high or at times even rising; but it is positively, and not negatively, correlated to economic and social status.

regions will also have a relatively higher fertility which adds its influence to that of the net emigration in making the age distribution in these regions dis-favourable, at the same time as in the long run it may cause a less favourable relation between total working population and resources. The poverty in rural regions of Europe during the long period of net-emigration to the industrial centres — and to America — has part of its explanation in the unfavourable age distribution, in part caused by migration.

Capital movements tend to have a similar effect of resulting in increased inequality. In the centres of expansion increased demands will spur investments, which in the ordinary way will increase incomes and demands and cause a second round of investments, and so on. Savings will increase as a result of the higher incomes but will tend to lag behind investments in the sense that supply of capital steadily meets a brisk demand for capital. In the other regions the lack of new expansionary momentum has the implication that the demand for capital for investment remains relatively weak, so even compared to the supply of savings which will be low as incomes are low and not rising but tending to fall. Studies in many countries have shown how the banking system, if not regulated to act differently, easily becomes an instrument for siphoning off the savings from the poorer regions to the richer and more progressive ones where returns on capital are high and secure.

Trade operates with the same fundamental bias in favour of the richer and progressive regions and disfavour of other regions. The freeing and widening of the markets will often confer such competitive advantages to the industries in the already established centres of expansion, which usually work under conditions of increasing return, that even earlier existent handicraft and industrial activities in the other regions are thwarted. The hampering of industrial growth in the poorer Southern provinces of Italy, caused by the erasing of internal tariff walls after Italy's political unification, is a case in point which has been thoroughly studied: industry in the Northern provinces had such a lead and was so much stronger that it dominated the national market, which was the result of political unification, and suppressed industrial efforts in the South (1).

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(1) The process was conditioned and spurred by the liquidation of the political and administrative power centres in Southern Italy, while those in Northern Italy, which at that time even more than now were tools in the hands of the industrial interests there, gained hegemony over the whole country. The unification of Italy was in reality very much a conquest and an annexation of Southern Italy by the stronger Northern Italy. The role of the state in the cumulative process will be discussed in a latter section of this lecture.

Another example on a still larger scale is the long economic stagnation after the Civil War up till the Second World War of the southern states of the United States. As will be touched upon in the Third Lecture, this systematic bias of trade as between regions forms also part of the mechanism of the economic relations between a metropolitan country and its colonies.

As industrialisation is the dynamic force in this development, it is almost tautological to state that the poorer regions remain mainly agricultural. As I pointed out, the perfection of the national markets will even tend to frustrate earlier beginnings of industrial diversification in agricultural regions. In the backward regions of Southern Europe about three quarters of the population gets its livelihood from agriculture. In these regions, not only what they may preserve of manufacturing industry and other non-agricultural pursuits, but also agriculture itself shows a much lower level of productivity than in the richer regions (1).

The cumulative process towards regional inequality works through many causal chains usually not accounted for in our short-term analysis of the play of the forces in the markets. If left to themselves, those regions, which have not been touched by the expansionary momentum, would not, for example, be able to afford to keep up a good road system, and all their other public utilities would be inferior, creating other regional competitive disadvantages. Railways would be drawn so as to meet effective demand for transport, which would imply without giving much consideration to the needs of those regions.

Under the same assumption the poorer regions, unaided, could hardly afford much medical care and hospitalisation and their populations would show more of health deficiencies and a lower productive efficiency. Their schools would be grossly inferior — in Southern Europe the populations of the poorer regions are actually still largely illiterate. The people living there would on the average be ridden by more primitive variants of religion, sanctioning traditional *mores* by taboos and functional magic, and they would be more superstitious and less rational generally. Their entire systems of valuations would take such imprint of poverty and backwardness that they would become even less susceptible to the experimental and ambitious aspirations of a developing society.

All these frustrating effects of poverty are interlocked in circular and cumulative causation, one with the others and all with the biases I referred to in the working of migration, capital movements and trade. The contrary effects of rising economic levels in the centres of expansion are in a similar fashion

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(1) Part of the stronger competitive position of industry in Northern Italy at the time of Italy's political unification, referred to above, was based on the fact that Northern Italy also had a more developed agriculture.

Professor Jacob Viner makes the plausible point that "... the real problem in poor countries is not agriculture as such, or the absence of manufactures as such, but poverty and backwardness, poor agriculture and poor manufacture". *Op. cit.* p. 52.) This is supposed to be a criticism of Prof. Raul Prebisch and others who have urged industrialisation as the necessary mainstay in a program of economic development. As his argument is narrowly static, Viner however, misses entirely the point that industrialisation is motivated to rectify a disbalanced economy and to give the dynamic momentum.

also interconnected in circular and cumulative causation, continuously sustaining further expansion. For easy reference I will refer to all the former effects as the *Backsetting Effects* of economic expansion in other regions. I include under this label the effects *via* migrations, capital movements and trade and also all other more or less "non-economic" effects exemplified above, and the term refers to their total magnitude as cumulated and magnified by circular causation.

It should in this connection be pointed out that according to historical experience the cheap and often docile labour of underdeveloped regions usually does not attract industry. The few examples where the labour supply has been effective in bringing industry to backward regions — as the movement of textile industry from New England to the Upper South in the United States — are rather in the nature of exceptions from a general rule. There are so many forces working in the opposite direction, among them the external economies in the established centres of economic expansion. Ordinarily it is labour which has to move to the localities of rising demand and there at the place of employment try to make the difficult efforts of adjustment to the different ways and values of an expanding society.

##### 5. — The Spread Effects

Against the Backsetting Effects there are also the "Spread" effects of expansionary momentum from the centres of economic expansion to other regions. It is natural that around a main centre of expansion a whole surrounding region is more or less taken into the stride as it becomes spurred ahead by increasing outlets of agricultural products and stimulated to technical advance and rational business conduct all around. There is also another line of "spread" to localities farther away, where favourable conditions exist for producing raw materials for the growing industries. These and all other localities, where new starts are being made and happen to succeed, become in their turn, if the expansionary momentum is strong enough to overcome the Backsetting Effects, new centres of self-sustained economic expansion.

In reality, relatively expanding, stagnating and regressing localities are represented by a fairly continuous series on different levels, with all graduations between the extremes. Insofar as in the aggregate all the dispersed industrial advances amount to something considerable, economic standards in the whole country are given a lift. But ordinarily, even in a rapidly developing country, large regions will be lagging behind, stagnating or even regressing; and there would be more regions in the latter two categories if the play of the market forces were alone left to decide the outcome.

Even in the case of countries like the United States or Sweden, where in the last century business enterprise could exploit a particularly favourable situation in regard to natural resources and where also other unusually advantageous conditions for economic growth were present, not least in the general cultural situation, the development was not that entire countries were drawn into a more or less equal and simultaneous expansion process. A closer view discloses great disparities. In the United States, for example almost the whole South was until recently largely a stagnant region; likewise the emergence some generations ago of the new great opportunities in agriculture on the Western frontier left large rural areas in New England in decay from which some of them have not yet emerged.

A country where, on the contrary, few starts are being made and/or where the starts do not happen to meet with such success that they result in a substantial and sustained increase in demand, incomes, investments and production, becomes an under-developed country. Even in such a country there are, however, usually localities and regions which are advancing industrially. Many Latin American countries illustrate how in countries which on the average are under-developed, there can be districts, usually around the ports, which are very rapidly expanding.

The Spread Effects of momentum from a centre of industrial expansion to other localities and regions, operating through increased demands for their products and in many other ways, weave themselves into the social process by circular and cumulative causation in the same fashion as the Backsetting Effects in regard to which they represent countervailing changes. In the marginal case the two kinds of effects will balance each other and a region will be "stagnating". This balance is, however, not a stable equilibrium, for any change in the forces will start a cumulative movement upwards or downwards.

It is quite feasible that all the regions in a country may be inside this margin of balancing forces if the initial starts are many and strong and successful enough and the Spread Effects work relatively effectively. The inequality problem is then reduced to the different rates of progress as between regions in the country. On the other hand part of the curse of a low average level of development in an under-developed country is that the Spread Effects there are weak. This is one of the reasons why internal regional inequalities tend to be the greater the poorer the country is on the average; I will later point to another equally important reason, namely the different character of state policies in developed and under-developed countries.

This fact that *the Spread Effects tend to be weaker, the poorer the country is*, has immense importance in our problem. The Spread Effects are a function of the relative level of development. A high average level of development

in a country is followed by improved transportations and communications, higher levels of education and a more dynamic communion of ideas and values, which all tend to strengthen the forces for the spread of economic expansion. Considering the development process for a country as a whole the Spread Effects, as they become operative, form themselves an important, phase of the cumulation of the changes: their weakness in under-developed countries is one of the main facts holding those countries in stagnation or regression while, on the contrary, the effective spread of expansionary momentum is a main explanation why sustained and rapid progress becomes an almost automatic process when a country has once reached a high level of development.

#### 6. — Countervailing Changes

On this point of my reasoning I would like to recall that my main hypothesis is the existence of a circular and cumulative causation, implying that in the normal case secondary changes, called forth by a primary change, tend to move the system in the same direction; this is what makes a social process cumulative. Expansion, when it has once got a start in a locality, will feed itself, while this very movement upwards in one locality will engender Backsetting Effects in other regions which would force them into a spiral of regression, if there were no Spread Effects from the former localities strong enough to counter-balance the Backsetting Effects.

The Spread Effects to the otherwise regressing regions represent thus in those regions a countervailing change to the Backsetting Effects operating in a downward direction. Under no conditions do the Spread Effects establish the assumptions for an equilibrium analysis, though. Economic stagnation, if it occurs, is nothing else than a fortuitous and temporary balancing of the two types of effects. On a higher level of general economic development in a country the relative strength of the Spread Effects becomes itself a spur to development, while on a low level the weakness of the Spread Effects implies that they do not counteract the Backsetting Effects' influence to cause a cumulative regression.

There are a great number of other complications and qualifications that in a more elaborated analysis would have to be fitted into the model which I am attempting to visualite. Thus we cannot exclude, though we see very little evidence of it around us, that there might be factors inherent in the situation of a centre of economic expansion which tend to retire or even revert the cumulative process when it has reached a certain level of development, for instance due to an increase of not only public expenditure but also private costs when industry has become too concentrated — "external dis-

economies", if the term be allowed — and, more generally, the social and individual costs of congestion. To the same category would also belong the depressing effects of decreasing demand in a "maturing economy", if new outlets are not created by capital export, state expenditure, including all sorts of social investments but also war and armament costs, or otherwise.

Or it may be that wages and the remunerations of other factors of production can be driven up to such a high relative level that for this reason other regions get a real chance to compete successfully. A prolonged period of economic expansion may also have saddled a prosperous region with a very large equipment of old real capital which may introduce a temptation not to discard obsolete capital so rapidly as would be advantageous in a period of swift technological development. The quasi-monopoly in many fields, which is often connected with a position of having been in the lead for a long time, may also have damaged the spirit of enterprise and risk-taking (1).

In the downward direction, the cumulative process might likewise engender endogenous countervailing forces and become arrested. Thus the cruel Malthusian population checks, raising the death rate when population increase had pressed down consumption under the subsistency level, represented in the classical population theory such countervailing changes operating when there was a downward movement of the level of living of the workers. These checks would set a limit under which regression could not proceed and thus establish a low level stagnation equilibrium. Assuming permanency in the forces operating in the direction of economic regression, this equilibrium would indeed for once be a stable one. The recent explosive development of medical science making the prevention of death even at exceedingly low living levels a rather easy and inexpensive matter, would tend to force the population checks to retreat and thus move the stagnation equilibrium to a much more depressed level of human misery in countries where economic development does not keep pace with increased population pressure. There might be other endogenous countervailing changes in a downward process having a similar effect of slowing down, arresting or even turning the direction of the movement.

Naturally, in the short run, in all countries and all regions at all times the equilibrating interplay of countervailing changes as between demand, supply and price — to which economic theory has devoted such a disproportionate amount of attention — will be operating more or less according to that theory. This interplay usually represents, however, only the ripples on the surface or, to mix the metaphores boldly, the foxtrot dancing steps of all the participants in a market during the broad march of events.

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(1) An analysis of these and other factors apt to retard an expansionary movement, as they operated in Europe in the period between the two World Wars, is contained in Professor Ingvar Svennilsson's *Growth and Stagnation in the European Economy*, Geneva, 1954.

In general, changes of anticipations consequent to more primary changes rather tend to push and support a cumulative process; this agrees with the main hypothesis. Thus, already an expectation on the part of the white population that the Negro plane of living will be rising, normally tends to decrease white prejudice. In certain regions of the South in America and, in particular, among the poor whites who are in the closest competitive position to the Negroes, such an expectation may, however, at least for a time, instead cause rising resentment and increased prejudice which then introduces a counter-directing secondary reaction but, of course, no equilibrium.

When rising prices cause people to expect further price rises, this will normally move them to buy more and sell less which, in full accordance with the main hypothesis, supports the primary tendency of the prices to rise. Indeed, it is mainly the anticipations which give to the Wicksellian cumulative process its acceleration in later stages (Wicksell's policy goal of a constant price level was not to be expected as an outcome of the play of the forces in the market but as a result of intentional monetary policy). But, of course, it is possible that people are so conditioned by theory or earlier experience that they will expect that after a rise in prices there will follow a fall; this then, of course, has the contrary effect.

If people really believed in an equilibrium theory, this would — in a way similar to their knowledge of psycho-analysis — influence their mental reactions and their behaviour, normally in the direction of countervailing the cumulative process. If people were more statically minded, and therefore expected corrections to come automatically, they would thus show greater reluctance to move out of the community where the factory had burned down, and they would be less eager to invest in enlargement of their plants in the other community where instead I had assumed a primary change supurring the development process upwards. In both instances this would slow down the cumulative process, particularly in the beginning; in the extreme case it could stop it altogether.

A realistic study of any social process will have to reckon with a great variety of differently interrelated secondary changes, and I do not deny that sometimes the changes are interlinked so as to counteract each other. Nevertheless, I believe that when main trends over somewhat longer periods are under consideration, social changes tend to be cumulating in their net effects. The development problems refer by definition to these longer periods and to what happens when the primary changes by cumulation come to have magnified effects and give rise to a sustained movement which then reaches outside the framework of any static adjustment towards an equilibrium.

It has to be remembered, however, that the long term changes are nothing else than the cumulated changes in the shorter run. Naturally, the short term

changes in the general business conditions of a country as a whole have to be fitted into the scheme. A boom implies a generalised spur to expansion over the whole economic field. It will perhaps usually have its strongest effects in the established industrial centres but may be helping along a number of new starts in other localities or making lingering old starts a success. A boom will probably always increase the relative strength of the Spread Effects. A depression should have the opposite results. I believe that more intensive research on changes in the general business conditions, directed more specifically on their consequences for economic development and, in particular, on the aspects of this problem relating to economic geography, would be rewarding. When changes in general business conditions by tradition are dealt with as the "business cycle problem", long after these changes seem to have lost every appearance of being cyclical, this implies a recognition that, under the given institutional set-up, there are in the economic system self-generating changes of the countervailing type.

#### 7. — The Role of the State

The Secretariat of the United Nations' Economic Commission for Europe has since many years devoted increasing attention to the empirical study of the problem of regional development and under-development in various European countries; the results are being published in the annual *Economic Surveys of Europe*. This year a more comprehensive analysis of these problems was contained in a separate chapter of the Survey (1) : From this study I want only to retain two main conclusions which become apparent as soon as the relevant data are organised according to regions.

The first one is that in Western Europe regional income disparities are much wider in the poorer countries than in the richer ones. If we use such a simple measure of regional inequality as the proportion of the total population of a country living in regions where average incomes are below two-thirds of the national average, we find from the tabulations for this study that this proportion amounted to only a few percent in Britain or Switzerland, to some ten percent in countries like Norway and France, and to about one-third in Italy, Turkey and Spain (2).

The second conclusion is that while the regional inequalities have been diminishing in the richer countries of Western Europe, the tendency has been the opposite in the poorer countries.

(1) "Problems of Regional Development and Industrial Location in Europe", *Economic Survey of Europe in 1954*, Geneva, 1955, pp. 136 ff.

(2) Not only the inequalities within each country but also the differences in relative inequality between countries would have appeared much greater, if the administrative division in regions used for the tabulation had been more adequate to the problem studied.

One part of explanation to these two broad correlations follows directly as an inference from the characterisation of the social process of circular cumulative causation which I have attempted to give in the foregoing. The Spread Effects tending to communicate the economic growth momentum from the localised centres of expansion to other localities and regions is dependent upon such factors as transportation, communications, education, rationalisation and equalisation of beliefs and valuations, etcetera, which are themselves a function of the general level of economic development attained. It is from this point of view natural that the poorer countries should show greater economic inequalities as between regions, and it is also natural that regional inequalities should decrease as a country emerges from poverty and stagnation.

When a country develops and becomes richer and then the Spread Effects become stronger, the resulting greater equality as between regions will itself spur economic development and so become an important factor in the cumulative process. It implies a fuller utilisation of the potentialities of the human resources in a nation. On the contrary, the fact that the Spread Effects are weaker in an under-developed country, which generally is caused by its poverty, and the consequent fact of gross inequalities, with often the larger part of the population living on a subsistence level in stagnant or regressing regions, represent themselves a major impediment for economic progress. This is one of the interlocking relations by which in circular cumulative causation "poverty becomes its own cause".

Of equal importance for the explanation of the two broad correlations is another fact, namely that without exception all the richer countries since a couple of generations have been approaching the "welfare state". In those countries, the market forces which would have resulted in a tendency to regional inequalities have become increasingly regulated and counteracted by state policies directed towards greater regional equality. In the poorer countries, on the other hand, market forces have been given a relatively freer play, when their effects to create regional inequalities have not actually been supported and magnified by built-in feudal and other inegalitarian institutions and power structures aiding the rich in exploiting the poor.

The causal relation is again circular, insofar as the poorer countries have remained poor partly because in recent generations the efforts to national integration policies have been weak, while on the contrary, the richer countries have succeeded in maintaining their economic progress by more forcefully carrying out such policies. Again, as in relation to a different strength of the Spread Effects, it is a question of the degree of the utilisation of the human resources of a country.

The egalitarian policies of the welfare state are not inexpensive: to the advantages meted out to the poorer regions in a country correspond sacrifices for the richer regions, at least temporarily. This is another example of circular causation in the cumulative process: egalitarian policies meet greater difficulties in a poorer country which would need them so much more as the weakness of the Spread Effects has there created greater inequalities to overcome. Again "poverty becomes its own cause". At the other end, economic progress and rising levels of income mean more elbow room for everybody and therefore give more force to the ideals of rational generosity. When people are becoming better off and have greater security, they will feel freer to give up privileges and let down barriers keeping others out and will be more prepared to carry the costs of common burdens; and this process, in its turn, builds ever stronger the fundament for continuous economic progress.

Broadly speaking, the egalitarian policies of the welfare state will be aimed at strengthening the Spread Effects of communicating the expansionary momentum to the less progressive regions of a country and counteracting the Backsetting Effects. In the system of cumulative causation the two types of influences — the market forces and the policies — are circularly interlocked even in another way. Weaker Backsetting Effects and stronger Spread Effects — and, consequently, less of regional inequalities — give a firmer political power basis for the egalitarian policies. As, in their turn, those policies result in greater equality, democracy strengthens its hold as it is evolving. On the contrary, with the strength of the Backsetting Effects and the weakness of the Spread Effects in a poor country follow greater economic inequalities; this is inimical to the growth of effective democracy which could form the power basis for the egalitarian policies such a country would be in particular need of precisely because of the relative weakness of the Spread Effects and the strength of the Backsetting Effects.

Generally speaking, on a low level of economic development with relatively weak Spread Effects of expansionary momentum, the competitive forces in the markets will by cumulative causation constantly be tending towards resulting in regional inequalities; the inequalities themselves will be holding back economic development and at the same time weaken the power basis for egalitarian policies. A higher level of development will strengthen the Spread Effects and weaken the Backsetting Effects which will decrease regional inequalities; this will sustain economic development and at the same time create more favourable conditions for policies directed to decrease still further regional inequalities. As the national state becomes ever more effectively a welfare state — motivated in a way which approaches a more perfect democracy and having at its disposal national resources big enough to carry out large scale egalitarian policies with less sacrifices on the part of the regions and groups

that are relatively better off — the stronger will be both the urge and the capacity to counteract the blind market forces which tend to result in regional inequalities; and this, again, will spur economic development in the country, and so on and on, in circular causation.

These statements move on a level of high generality, as a "theory" is permitted to do. Broadly, they grasp the social facts as they organise themselves into a pattern when viewed under a bird's eye perspective. The special characteristics and circumstances of every country, every region and, indeed, every acting individual — differences in natural resources and their dispersal in a country, international relations, historical traditions in regard to production activity, national and group cohesion, religions and ideologies, and economic, social and political initiative and leadership, etcetera — will result in wide variations to the theme. They can, however, all be fitted into this general vision of circular cumulative causation as they cannot be integrated in our inherited theories insofar as they are dominated by the equilibrium approach.

#### 8. — The "Oppressor State" and the "Welfare State"

The term "state" stands here for all organized interferences with the market forces. The defence for this vaguely inclusive terminology is the fact that in modern time the state has actually become the main manifestation of this organized society and has enforced itself as the controlling framework for practically all the interferences by other institutions and power groupings within the state.

The traditional role of the "state" in this inclusive sense was mostly to serve as medium for giving additional force to the cumulative process tending towards inequality. It was the economically advancing and wealthier regions and social groups which were more active and effective in organising their efforts, and they had usually the resources at the same time to stop organisational efforts by the others. And so the "state" — which stands here for organised society — became mostly their tool in favouring their interests.

Feudalism was a huge collusion between the rich and mighty to lay a hold on the land and seize power to tax the peasants. The cities enforced their "privileges" upon the surrounding rural regions: the merchants and industrialists in the cities protected themselves against competition from outside. In the cities the richer classes protected themselves effectively against the poorer: labour regulations not only in the mercantilist state but much earlier were weighted against the workers, and their general purpose was to keep down wages and to sustain labour supply. The heavy anti-state and anti-organisation bias of the classical economist was thus in their time much more of a truly

“liberal” position as it was directed against a state which could still generally be characterised as the “oppressor state”.

But it should not be overlooked that even in the poorest and least progressive countries policy actions were continuously taken by the state to counteract the tendencies towards inequality. The under-privileged groups pressed for greater equality. From all ages history records uprisings of the poor against the rich, the exploited country-side against the city, the peasants against the landlord. When successful, these revolts by the under-privileged received the sanction of the state.

In Sweden “land reforms” were centuries ago pressed through time and time again, often more radical than those at present carried out or planned in under-developed countries. The proud words in the Swedish Constitution which in free translation may be given in the following form: “The right of the Swedish people from the most ancient time to be taxed only with its free consent is exercised by Parliament”, refer to this important and rather singular historical fact that in Sweden the buds of feudalism were at all times continuously nipped in the bud by the revolts of the farmers who thus retained fairly unfringed property rights to the land and thereby also their freedom as citizens.

The national state, when it came into being, almost always partly relied upon popular appeal even centuries ago, and it almost always exerted a certain amount of countervailing power against the tendency to regional inequality. Every state took early some responsibility for common services and for building roads and raising the level of technology in the backward regions — though ordinarily in a poor country an inproportionate part of the meagre public funds devoted to such purposes served the richer regions in particular.

In the planning of railways considerations of short-term profitability, as I mentioned, worked to the advantage of the richer regions. But from the beginning in most countries another purpose was also operative, namely to open up under-developed regions; freight rates were gradually fashioned with partial regard also to this second purpose. The same applies to the building of electrical power stations and distributional networks — even if it happened quite late in fairly advanced countries that power tariffs were biased to the advantage of the richer regions.

As the banking system developed, some precautions were usually rather early taken in the laws regulating this activity to preserve some control over capital resources in the interest of the less industrialised regions; later on specialised financial institutions were established and subsidised to service their particular credit needs.

In the last decades of the nineteenth century agriculture tended to become an occupation which remunerated the tillers on a much less generous scale than other workers, and protection for the prices of agricultural products was built into the system of economic policies. Measures to aid the starting of new industries in stagnant regions and to protect existing ones were common in almost all countries from a still earlier stage. In some countries the beginnings of legislation to protect tenants against absentee landowners, farmers against the big corporations, formed to exploit the water power and the forests, and other similar policy measures were also taken long ago.

These policies were weak, particularly in the now poorer and relatively stagnating countries, and usually much more than counterweighted by other policies framed to favour the richer regions. But they were always present in some measure. In fact, efforts to support economic development in under-developed regions are as old as the national states.

A main vehicle for these strivings towards regional equalisation measures were the national parliaments. As they developed and gradually afforded a platform for grievances, this policy trend gathered momentum. The poor are the many and even the relatively poor are the great majority, wherever the line was drawn for those who were given a say. In order to gain power political parties had to sponsor reforms in the interest of greater regional equality; this became the more necessary as later the electorate was gradually enlarged towards manhood suffrage. Popular movements and interest organisations played their important role. The more advanced states perfected more and more systems of laws and regulations favouring the poorer regions and the poorer classes generally.

A considerable part of the equalising measures took the form of transferring ever more functions to be provided for out of the public purse and of transferring the financial responsibility, partially or entirely, to ever larger units: from the local community to the province and from both to the state. This happened gradually to road building and road upkeep, to the provision of clinics and hospitals, to the responsibility for sanitation, health protection, education, etcetera. At the same time minimum standards for public services provided by the municipalities were enforced, and tax equalisation schemes were embodied in the general tax system, usually earlier than the introduction of progressive taxation. The institutions to provide professional training, better market outlets, credit, etcetera, to the poorer regions proliferated and were made stronger.

Already a little more than half a century ago began in the advanced countries the development towards social security reforms and, a couple of decades later, towards progressive taxation, two mighty policy trends which have for-

cefully contributed to equalisation even as between regions. Individuals from the privileged classes, like Hjalmar Branting in Sweden and Franklin Roosevelt in the United States and many before them, went over to the other side and contributed leadership to the poor.

I believe it would be a rewarding task to make an intensive comparative historical analysis of this development from the "oppressor state" to the "welfare state" under the main viewpoints of its interrelation with economic progress and its character of a cumulative social process. There would be many individual differences as between the several countries, particularly in regard to timing, but I believe a main conclusion would nevertheless be fundamental similarities in the broad pattern of historical sequence and the causal cumulative mechanism of social, economic and political factors steering and determining this sequence.

In a few countries we have by now reached a situation where no large social groups and, consequently, no regions are permitted to be really poor and, which is even more important, where the opportunities for the newly born are almost equal. As I pointed out, this implies among other things that the productive powers of the entire population are brought nearer to their real potential. The reforms as they have evolved have at every point of time continuously contributed to raising the "quality of the factors of productions"; they have by raising the level of national productivity widened the financial limitations of social reform policy, thereby also making possible still further reforms, and so on.

A main explanation of why these few countries can be characterised as highly integrated is to be found in these complex networks of systems of state interferences, preventing any region, industry or social group from lagging far behind in their development. The interferences get their support from the sentiment of national solidarity in countries where the ideals of liberty and equality have been operative social forces; the gradual realisation of these ideals has in its turn strengthened them and thereby the solidarity basis for national policy. Economic progress itself has increased the strength of the Spread Effects of expansionary momentum, decreased inequalities and thus solidified democracy; it has also created the easier conditions for mutual generosity which made the enactment of the equalising state policies gradually more possible; in its turn the greater equality of circumstances in these countries has sustained economic progress.

*Policies for national integration, including regional equalisation, represent themselves a phase only of the cumulative social process of economic development, though this process is of a higher order as it includes also, in addition to the evolvement of the market forces, people's political attitudes, the political*

interferences and in fact the entire political process. In these countries social and economic reforms now develop further by their own momentum as almost incidental to economic progress — which has partly been, and continues to be, one of their results —; and the need for “reformers” has decreased to an extent that the internal life of those nations has lost much of its earlier dramatic interest. The distributional conflicts become minimised and their continuous gradual solution secured by the expected general rise in production. To spur on this rise in production becomes in an ever more egalitarian society the main policy goal and it is commonly shared by all regions and groups.

When these few countries demonstrate an approach to harmony of individual interests — as, indeed they very definitely do — this is, however, not the old one of natural law, utilitarianism and the economic equilibrium theory, brought about by natural forces in the market. *It is to a large extent a “created” harmony, created through policy interferences by organised society into the operation of the market forces which, if left to themselves, would have led to disharmony, and it is narrowly restricted to the nation.*

One closing word on the operation of the price system. In the highly integrated national states, the conditions under which the price system operates have, in this cumulative social process, been radically influenced and arranged by the legislation and administration of the state, by interest organisations of all sorts which, in those countries, tend to become quasi-public institutions, and by individual private businesses which, contrary to the assumptions of the theory of price formation under free competition, are powerful enough to influence demand or supply and, consequently, prices. *Prices are manipulated; they are not the outcome of the forces in the market; they are in a sense “political prices”, depending on the regulating activity of the state, quasi-public and private organisations and private businesses.* The state interferences in the price system are, in a sense, the covering and closing ones as, under the direction of the political process in a democracy, they are partly framed to regulate, countervail or support, the non-state interferences in order to make the total outcome correspond to the valuations and objectives which emerge from the democratic political process.

Nevertheless, within this institutional framework the price system functions, and apparently to considerable satisfaction. Short-term changes in demand and supply work themselves out in about the way described to such full length in the inherited equilibrium theory of price formation. It can even be stated that it is precisely in these countries where the price system is given a real chance to function, and function well. In the less well integrated countries, on the other hand — with a less efficiently working mechanism of the spread of expansionary momentum and where, furthermore, the state gives to the natural forces more free play and has, in fact, because of the poverty,

so much narrower limits for policy interferences in all respects — even short-term changes are continuously apt to start a development towards some sort of public disaster.

### 9. — The Need of a Theory

This is very obviously a complex of problems which should entice the builder of mathematical models and where the art of the econometrician would also be maximally useful. There is need for abstract models accounting for the complex circular causal interrelations between changes in the various forces during a cumulative social process and doing it in such a way that statistical data could be inserted. I am aware that Professor Ragnar Frisch and others have been experimenting with very much simplified models of this type and tried to work out the methodology for more perfect approaches. Indeed, some of the illustrative models, presented in the present lively discussion of the development problem of under-developed countries constitute also small pieces and bricks of a mathematical theory of cumulative causation. What we are all groping for is a general theory of development and under-development.

Giving such a theory of circular cumulative causation a mathematical form encounters the difficulty of the compulsion to restrict the variables to a bare minimum. For realism and relevance the model therefore by necessity depends on a major *a priori*: an insight into what the essential facts and causal relations really are. To take this *a priori* from one's own hunches is almost certain to be a choice of one of the innumerable roads to irrelevance.

The fact is that the theoretician's individual hunches do not even have the quality of being random, which would at least preserve a slight possibility that occasionally a theoretician would by pure chance strike upon what is essential and thus be in a position to draw inferences which are relevant. For he is mostly, *nolens volens*, under the impact of the inherited theory which in its most generalised forms, regularly is static, metaphysical and teleological and serves as the container for the predilections which I comment upon in the Appendix. By their specialisation the econometricians as a group are even less likely to have their critical ability sharpened by study in the philosophy and sociology of knowledge and are thus less able to avoid becoming only "the slaves of some defunct economist", again to cite Keynes' characterisation of the theoretical thinking of "the practical men" which, as I pointed out, has a much broader scope of validity. The devotion of so much of their efforts even in the last decades to "welfare economics" — though it was conclusively proven long ago that this entire approach is unrealistic and, in fact, even without logical sense — is a demonstration of this point.

There is no other rational way to reach that insight into what is really essential, which is indispensable for the choice of variables for a theoretical model, than the cumbersome and laborious one of comprehensive and intensive empirical social science research. Only on this basis can we hope to construct the "model of the models" which could function as the guide to realism and relevance for our abstract theories. This basic empirical research would need to encompass social facts and relations in all fields. Our traditional division of knowledge into separate and delineated social science disciplines has, of course, no correspondence in reality, and concrete social problems are never simply economical, sociological, psychological, or political. A model of development and under-development which works only with "economic" variables, for instance, is already for this reason doomed to be unrealistic and thus irrelevant.

And this comprehensive social science research, prior to the construction of the abstract model and needed for its realism and relevance, should be unfettered as far as possible from the powerful predilections I have referred to; the general method to accomplish this is to work with explicit value premises tested both as to relevance and significance. This comprehensive research needs, however, as it proceeds, to formulate hypotheses in order to direct the observations and ask pertinent questions. Empirical knowledge cannot be assembled and systematised without organising principles, *i.e.* an insight into what are the essential facts and relations. It needs, in fact, for its own pursuit a nucleus of the theory which I said could only be constructed on itself as a basis.

This is the logical crux of all science: it assumes in all its endeavours an *a priori* but its ambitions must constantly be to find an empirical basis for this *a priori*. A worth-while theory of development and under-development, if it ever could be formulated, would have to take its direction from ideas distilled from the broadest empirical knowledge of social change in all its manifoldedness, acquired under the greatest freedom from tradition-bound predilections. Only thereby can the heroic simplifications be safely founded which the econometrician needs for using his powerful tools in a way which makes his contribution realistic in explaining social reality and relevant to the guidance of social policy. But the empirical knowledge itself cannot be acquired without principles of selection and organisation, *i.e.* without a vision of a theory.

We are thus constantly attempting what in its perfection is impossible and we are never reaching more than makeshifts; these, however, can be better or worse. In our present situation the task is not, as is sometimes assumed, the relatively easy one of filling our "empty boxes" with a content of empirical knowledge about reality. For our theoretical boxes are empty

primarily because they are not built in such a way that they can hold reality. We need new theories which, however abstract, are more realistic in the sense that they are in a higher degree adequate to the facts.

Meanwhile, I believe it to be a disciplining force in our dispersed efforts in the field of development and under-development that a clear concept of the ideal is constantly kept in mind and given a directing role in all our research. To begin with, we need to free ourselves from the impediments of biased and inadequate predilections and unreal and irrelevant theoretical approaches which in our academic tradition we are carrying with us as a heavy ballast.

### THIRD LECTURE

## THE INTERNATIONAL PROBLEM

#### 1. — The Poverty of the Under-developed Countries

In this Third Lecture, where I proceed to deal with the problem of international inequalities, I will as in the earlier two be interested only in the broadest structure of essential facts and causal relations — not at this stage in particular cases as, for example, the spots on the map of the under-developed world where there are oil resources to be exploited and which now attract capital and enterprise in large scale economic enclave buildings. The vision of a theory of development and under-development I am reaching for, should outline those facts and relations which are general, common and essential, but it should have, at the same time, the capacity to encompass in the successive stages of concretion, which is the aim of scientific research, the special characteristics and circumstances of individual under-developed countries. This is what I mean by the realism of a theory. My postulate is continuously that the inherited equilibrium theory does not furnish such a realistic framework for research, mainly because it does not contain the hypothesis of circular cumulative causation but actually excludes it.

Against the background of the analysis of regional relations, carried out in the Second Lecture on the basis of this hypothesis, the backwardness and poverty in the under-developed world should not cause surprise. Contrary to what the equilibrium theory of international trade would seem to suggest, the play of the market forces does not work towards equality in the remunerations to factors of production and, consequently, in incomes. If left to take its own course, economic development is a process of circular and cumulative causation which tends to award its favours to those who are already well endowed and even to thwart the efforts of those who happen to live in regions that are lagging behind. The Backsetting Effects of economic expansion in other regions dominate the more powerfully, the poorer a country is.

Within the national boundaries of the richer countries an integration process has taken place: on a higher level of economic development expansionary momentum tends to spread more effectively to other localities and

regions than those where starts happen to have been made and successfully sustained; and inequality has there also been mitigated through interferences in the play of the market forces by organised society. In a few highly advanced countries — comprising only about one-sixth of the population in the non-Soviet world — this national integration process is now being carried forward towards a very high level of equality of opportunity to all, wherever, and in whatever circumstances they happen to be born. These countries are approaching a national harmony of interest which, because of the role played by state policies, has to be characterized as a "created harmony"; and this has increasingly sustained also their further economic development.

Outside this small group of highly developed and progressive countries, all other countries are in various degrees poorer and mostly also less progressive economically. In a rather close correlation to their poverty they are ridden by internal economic inequalities, which also tend to weaken the effectiveness of their democratic systems of government in the cases where they are not under one form or another of oligarchic or forthright dictatorial rule.

The relations between relative lack of national economic integration and relative economic backwardness run, according to my hypothesis of circular cumulative causation, both ways. With a low level of economic development follow low levels of social mobility, communications, popular education and national sharing in beliefs and valuations, which imply greater impediments to the Spread Effects of expansionary momentum; at the same time the poorer states have for much the same reasons and because of the very fact of existing internal inequalities often been less democratic and, in any case, they have, because they are poorer, been up against narrower financial and, at bottom, psychological limitations on policies seeking to equalise opportunities. Inequality of opportunities has, on the other hand, contributed to preserving a low "quality" of their factors of production and a low "effectiveness" in their production efforts, to use the classical terms, and this has hampered their economic development.

On the international as on the national level trade does not by itself necessarily work for equality. A widening of markets strengthens often on the first hand the progressive countries whose manufacturing industries have the lead and are already fortified in surroundings of external economies, while the under-developed countries are in continuous danger of seeing even what they have of industry and, in particular, their small scale industry and handicrafts outcompeted by cheap imports from the industrial countries, if they do not protect them.

It is easy to observe how in most under-developed countries the trading contacts with the outside world have actually impoverished them culturally.

Skills in many crafts inherited from centuries back have been lost. A city like Baghdad, with whose name such glorious associations are connected, today does not harbour any of the old crafts, except some silver smithies, and they have adapted patterns from abroad requiring less craftsmanship; similarly it is only with the greatest difficulties that one can buy a book of Arabic literature, while cheap magazines in English or Arabic are in abundance.

If international trade did not stimulate manufacturing industry in the under-developed countries but instead robbed them of what they had of old-established crafts, it did promote the production of primary products, and such production, employing mostly unskilled labour, came to constitute the basis for the bulk of their exports. In these lines, however, they often meet inelastic demands in the export market, often also a demand trend which is not rising very rapidly, and excessive price fluctuations. When, furthermore, population is rapidly rising while the larger part of it lives at, or near, the subsistence level — which means that there is no scarcity of common labour — any technological improvement in their export production tends to confer the advantages from the cheapening of production to the importing countries. Because of inelastic demands the result will often not even be a very great enlargement of the markets and of production and employment. In any case the wages and the export returns per unit of product will tend to remain low as the supply of unskilled labour is almost unlimited.

The advice — and assistance — which the poor countries receive from the rich is even nowadays often directed towards increasing their production of primary goods for export. The advice is certainly given in good faith, and it may even be rational from the short term point of view of each under-developed country seen in isolation. Under a broader perspective and from a long term point of view, what would be rational is above all to increase productivity, incomes and living standards in the larger agricultural subsistence sectors, so as to raise the supply price of labour, and in manufacturing industry. This would engender economic development and raise incomes *per capita*. But trade by itself does not lead to such a development; it rather tends to have Backsetting Effects and to strengthen the forces maintaining stagnation or regression. Economic development has to be brought about by policy interferences which, however, are not under our purview at this stage of the argument when we are analysing only the effects of the play of the market forces.

Neither can the capital movements be relied upon to counteract international inequalities between the countries which are here in question. Under the circumstances described, capital will, on the whole, shun the under-developed countries, particularly as the advanced countries themselves are rapidly developing further and can offer their owners of capital both good profits and security.

There has, in fact, never been much of a capital movement to the countries which today we call under-developed, even in earlier times — except tiny streams to the economic enclaves, mainly devoted to export production of primary products which, however, usually were so profitable to their owners that they rapidly became self-supporting so far as investment capital was concerned and, in addition, the considerably larger but still relatively small investments in railways and other public utilities which had their security in the political controls held by colonial governments. The bulk of European overseas capital exports went to the settlements in the free spaces in the temperate zones which were becoming populated by emigration from Europe. After the collapse of the international capital market in the early 'thirties, which has not been remedied, and later the breakdown of the colonial system, which had given security to the foreign investor, it would be almost against nature if capital in large quantities were voluntarily to seek its way to under-developed countries in order to play a role in their economic development.

True, capital in these countries is scarce. But the need for it does not represent an effective demand in the capital market. Rather, if there were no exchange controls and if, at the same time, there were no elements in their national development policies securing high profits for capital — i.e. if the forces in the capital market were given unhampered play — capitalists in under-developed countries would be exporting their capital. Even with such controls and policies in existence, there is actually a steady capital flight going on from under-developed countries, which in a realistic analysis should be counted against what there is of capital inflow to these countries.

Labour migration, finally, can safely be counted out as factor of importance for international economic adjustment as between under-developed and developed countries. The population pressure in most under-developed countries implies, of course, that they do not need immigration and the consequent low wages that immigrants are not tempted to come. Emigration from these countries would instead be the natural thing. For various reasons emigration could, however, not be much of a real aid to economic development, even if it were possible.

And the whole world is since the First World War gradually settling down to a situation where immigrants are not welcomed almost anywhere from wherever they come; people have pretty well to stay in the country where they are born, except for touring by those who can afford it. And so far as the larger part of the under-developed world is concerned, where people are "coloured" according to the definition in the advanced countries, emigration is usually stopped altogether by the colour bar as defined by the legislation, or in the administration, of the countries which are white-dominated and at the same time better off economically.

If left unregulated, international trade and capital movements would thus often be the media through which the economic progress in the advanced countries would have Backsetting Effects in the under-developed world, and their mode of operation would be very much the same as it is in the circular cumulation of causes in the development process within a single country as analysed in the Second Lecture. Internationally, these effects will, however, dominate the outcome much more, as the countervailing Spread Effects of expansionary momentum are so very much weaker. Differences in legislation, administration and *mores* generally, in language, in basic valuations and beliefs, in levels of living, production capacities and facilities, etcetera make the national boundaries effective barriers to the spread to a degree which no demarcation lines within one country approach.

Even more important as impediments to the Spread Effects of expansionary momentum from abroad than the boundaries and everything they stand for is, however, the very fact of great poverty and weak Spread Effects within the under-developed countries themselves. Where, for instance, international trade and shipping actually does transform the immediate surroundings of a port to a centre of economic expansion, which happens almost everywhere in the world, the expansionary momentum usually does not spread out to other regions of the country, which tend to remain backward if the forces in the markets are left free to take their course. Basically, the weak Spread Effects as between countries are thus for the larger part only a reflection of the weak Spread Effects within the under-developed countries themselves.

Under these circumstances the forces in the markets will in a cumulative way tend to cause ever greater international inequalities between countries as to their level of economic development and average national income *per capita*.

## 2. — The Economic Impact of Colonialism

Many of the under-developed countries were until recently under the political domination of a metropolitan power, some are still. Almost all of the under-developed countries, that were not colonies, were, and many are still, economically dominated from abroad with effects in the economic field which are closely similar to those under colonialism.

In judging the economic results of colonialism, I think it would contribute to avoiding an irrational heightening of the resentments of these nations, if the main thesis of these lectures were constantly borne in mind, namely that because of circular cumulative causation a tendency towards inequality is inherent in the unhampered play of the market forces, particularly when the

general level of development is low. Nationally, this tendency will be counter-acted by the Spread Effects of expansionary momentum when once a country has reached a high average level of economic development and by national integration policies; internationally, for reasons just given, the Spread Effects are much weaker and the cumulative process will be more unhampered in unfolding itself in the direction of inequality, if the forces in the markets are given their free play. Keeping the commercial advantages of this tendency of the play of the market forces and also of the political and economic power position inherent in colonialism does not presume any sinister design on the part of the ruling country or its businessmen and politicians.

This should not be implied to mean that what the metropolitan countries and their businessmen undertook in order to advance their own economic interests, always and necessarily was to the disadvantage of the dependent countries. In a very real sense the economic activities of the colonisers represented a measure of spread of economic expansion which without the peculiar power relations of colonialism would not have taken place. Thailand, which the jealousies between the colonial powers left in political independence, did not become more developed than Burma.

The colonial governments also built roads, ports and railways and invested in other forms of overall capital — or provided the conditions of political security and economic profitability without which they would not have been built by private business concerns. Even when, as usually was the case, these enterprises were motivated primarily by the colonial governments' own interests and those of their settlers and business groups, they represented important advances towards creating the conditions for general economic development.

The colonial government established law and order, a regular civil service, took measures for elementary sanitation and, in some cases, for popular and higher education on a limited scale. These generally beneficial activities of colonial governments and their business people took a larger scope in the cases where the political domination was a more complete institutional arrangement and endured for a considerable time, as in India or Indonesia, while they were of smaller consequence in the cases where the domination was less complete and durable as in Egypt or in the Middle East.

More generally, colonialism implied contacts with the ideas and ideals of the world of the advanced countries and conferred higher education and training to administrative and professional responsibility to some whose number differed greatly as between the several colonial empires. When the former colonies now steer out on their own course as independent states they

have this as their basis for their policies, including their economic development policies. But during the time of dependency, these positive accomplishments showed a persistent tendency not to result in much of economic development — even if, in most cases, the colonies had more of development than they probably would have had if they had been left alone. To explain this we have to reach down to the cumulative mechanism of the play of the forces.

A metropolitan country had, of course, an interest in using the dependent country as a market for the products of its own manufacturing industry. If it took special measures to hamper the growth of indigenous industry — which often happened — this was a natural commercial policy of a country which had political domination over another country. Usually such measures, however, were not necessary, as its home industry had an incomparable lead and in surroundings of well-developed external economies could produce the products so cheaply that it easily could undersell any competitor in the dependent country — if only that country was prevented from protecting him which is the essential element of political colonialism. Likewise the metropolitan country had a clear and obvious interest in procuring primary goods from its dependent territory and even to invest in producing them in plenty and at low costs, thereby exploiting in its own interest the local natural resources and the indigenous cheap labour.

A metropolitan country had also a self-evident interest in monopolising so far as possible the dependent country for its own business interests, both as an export and an import market. In pursuing this interest it had at its disposal the trade and payment regulations as an important outflow of its political domination. But in a natural and normal way it got the protection of its monopolistic interests fortified even more by the whole structure of legislation and administration and the entrenched institutional system of business connections which was gradually built up. This “enforced bi-lateralism”, as I have called this phenomenon in another connection, characterised all colonial empires, though in different degrees. It was a natural result of political and economic dependency, and it now tends to retain its hold even after political liberation.

In the metropolitan countries this bilateral tendency was often idealised as “close cultural and economic ties” to a mother country. And, as I said, there were very substantial advantages to the dependent country connected with it. But at the end of the process it must, of course, normally mean a considerable economic disadvantage to the dependent country, as it tends to worsen its terms of trade by restricting artificially the scope of the markets where it buys and sells. It gives an interesting sidelight on the power situation in the

world to note, in passing, that when this enforced bilateralism was occasionally challenged, it was not from the interest point of view of the dependent countries, but from that of other industrially developed countries which demanded open access to their markets as sources of raw materials and as outlets for their exports of manufactured goods.

The capital, enterprise and skilled labour a metropolitan country sent to a dependent country tended for natural reasons to form enclaves cut out and isolated from the surrounding economy but tied to the economy of the home country. Racial and cultural differences and the very much lower level of wages and modes of living made even within the enclaves themselves strict segregation a natural consequence. Segregation hampered the transfer of culture to the indigenous population, including technical skills and the spirit of enterprise. It is one of the main reasons why these economic starts of colonialism remained enclaves and why the spread of expansionary momentum was extremely weak or altogether absent.

When employment opportunities were expanded in the mines and on the plantations, the new demand for labour was rapidly filled by population increase, which was also spurred by the unquestionably beneficial policies, referred to above, to preserve internal order and peace and improve sanitation, etcetera. As the colonisers had an interest in plentiful labour supply and low wages for their enclaves, rapid population increase and the lack of real development in the much larger subsistence economy outside the enclaves did not to them appear as an unfavourable trend of events.

A main interest of a metropolitan country was quite naturally order and social stability. By an almost automatic logic it therefore regularly came to ally itself with the privileged classes in the dependent country; sometimes such classes were created for this purpose. These favoured groups were, by and large, primarily interested in preserving the social and economic *status quo* under which they were privileged, and they would normally not press either for a national integration policy, aimed at greater equality within the country, or for progressive economic development in the main subsistence sector of the economy.

From one point of view, the most important effect of colonialism was related to the negative fact that the dependent nation was deprived of effective nationhood and had no government of its own which could feel the urge to take protective and fomenting measures in order to promote the balanced growth of the national economy. Lack of political independence meant the absence of a unifying and integrating purpose for the collectivity — except, at a later stage, the negative purpose to expell the foreign rulers. The country and the people were laid bare and defenceless to the play of the market forces.

as redirected only by the interests of the foreign metropolitan power. This by itself thwarted individual initiatives, at the same time as it prevented the formation of a public policy motivated by the common interests of the people.

For all these reasons, *colonialism meant primarily only a strengthening of all the forces in the markets which anyhow were working towards internal and international inequality*. It built itself into, and gave an extra impetus and a peculiar character to, the circular cumulative process. It had — and in some countries still has, not least in the dependent countries themselves — its close parallels in certain institutional power structures within individual countries: the caste system, the racial and religious chasms, the dependence of the rural regions upon the richer city and, in the feudal or semi-feudal order, the dependency of the peasants upon the landlord, the merchant, the moneylender or the tax collector.

In the era of awakened nationalism in the under-developed world the colonial system is now doomed and its liquidation is one of the most important political avalanches taking place before our eyes. The remnants of the system are bound to disintegrate within a period of time which is very short in the annals of history.

The new nationalism is always, in a sense and to a degree, "democratic" and, in any case, the old alliances with privileged groups interested in *status quo* do not any longer assure social peace. In the dependencies which still linger, the military and other expenses for maintaining the regime and the costs and losses caused by the popular revolts, and also the financial burden for social reforms and for investments in economic development which are now thrown in, take the profitability out of the colonial system and make it instead increasingly a liability to the metropolitan countries.

There are special vested interests in these countries, sometimes able to infect whole political factions in their parliaments. The settlers and business corporations, who have profits, investments and a whole way of life to lose, will of course resist giving up their privileges. The ideas about this system as a vehicle for a national "civilising mission" in history, which under the epoch of colonialism had emerged and become systematised with different ideological structure and phraseology in the different metropolitan countries, will for a considerable time be earnestly upheld by writers, statesmen and the common citizens. Fundamentally, these ideas are, however, largely rationalisations of economic interests, and when gradually the profitability of the system is lost and it stands out as an increasingly expensive political luxury, the colonial system is doomed and the national ideologies will be readjusted accordingly. The intellectual leaders in the great humanistic tradition in these countries will instead increasingly be concerned with the eminently practical problem

of how with wisdom and foresight the liquidation of the colonial system could be handled so as to cause a minimum of incidental human sufferings and in any case to avoid tragedies on a large scale.

When a poor and backward nation thus becomes politically independent, it will find, if it did not know it before, that political independence most certainly does not mean that it is automatically on the road to economic development. It is still up against the circular cumulative social processes holding it down in stagnation or regression: the natural play of the forces in the markets working all the time in the direction of internal and international inequalities as long as the general level of development in a country is low.

It has to start where the colonial regime leaves off and, as I said, the overall investments and the civilisational accomplishments of that regime become its principal assets. It inherits a large subsistence economy with enclaves producing primary goods — to afford importing the capital goods it urgently needs for economic development it will have to press on with the production and exports along the same line. The “enforced bi-lateralism” is firmly entrenched in the whole business set-up and can only gradually be transferred into a more profitable system of many-sided business relations with the entire world supply and demand markets. As it cannot offer the security of political colonialism it will initially have greater difficulties and not smaller to attract foreign entrepreneurs and funds from the international capital market. The one great asset its liberation from colonial domination has bestowed on it is its liberty to regulate its life according to the interest of its own people. And this new asset, its freedom to interfere with the play of the forces in the markets, will not be remunerative, except when put to use in an intelligent and firm manner.

Meanwhile, the very struggle for independence has in many cases released spiritual forces for national identification, this necessary first condition for a nation's ability to conceive a national development plan. India is, of course, an outstanding example of this birth of a nation through the fight for independence. Libya, on the other hand, which got its freedom by a decision of the United Nations as incidental to the defeat of fascist Italy in the Second World War, or several countries in the Middle East, which owe their existence as separate states mainly to the balancing jealousies of the West-European colonial powers, when cutting up the Ottoman empire after the First World War, and have between them got artificial boundaries set by the interplay of the same foreign influences, now demonstrate the weaknesses concomitant with their having won their nationhood too cheaply and in a manner too haphazard from the point of view of their inner human forces.

### 3. — The Absence of a World State

In the developed countries regional inequalities have been mitigated and in a few of the most advanced ones almost wiped out of existence by the spread of expansionary momentum and by the interferences by the national state. The world as a whole shows an appearance which is more similar to the internal situation in one of the least developed countries where the spread of expansionary momentum is weak and where the state has been less able to counteract the Backsetting Effects of the play of the market forces, directed towards inequality. The international situation is only very much worse and even more hopeless, as we have only the faintest beginnings of something like an international authority which for the world as a whole could perform the task of the national state in an individual country. If from one point of view the explanation for the existing and ever increasing international inequalities is the cumulative tendency in the unhampered play of the market forces in a situation where the effectiveness of the spread is weak, from another point of view the explanation is instead the absence of a world state which could make interferences in the interest of equality.

On a deeper level, the explanation for this is that there does not exist for mankind as a whole that psychological basis upon which such a policy could be founded: a basis of mutual human solidarity — like the solidarity felt within a nation, a state of mind which there, built upon a certain homogeneity of culture in all regions and social classes and most often, though not always, strengthened by a common language and religion and the concept of racial oneness, has evolved from a long history of common destiny and in the advanced countries developed continuously to ever higher levels by the very experience of sharing in the responsibility and costs for the national integration policy itself.

During and immediately after the Second World War very courageous attempts were made to build up inter-governmental organisations in many fields for the explicit purpose of initiating policies for international economic integration. This activity, as a matter of fact, was an important part of the psychological warfare of those years, aimed at winning the masses for the war aims and sustaining their willingness and capacity to bear sacrifices in the common struggle. The results are diminutive, measured in terms of the hopes once held out to the peoples. But the efforts are still continued. And they will be continued, because integration and equality are ideals which no country and, indeed, no responsible human being can ever afford to give up. International organisations, therefore, when once they have come into existence, and however non-consequential they become, will never be liquidated in peace time. They are in that sense among the most stable of human institutions

Many of these organisations are as yet, in the main, only propaganda fora and, in addition, media for diplomatic contacts between governments and for consultations. Some produce studies of importance to the respective learned professions and to the individual governments. Some also succeed in getting hold of certain technical tasks of actual cooperation in minor matters between the governments. The International Bank for Reconstruction and Development actually lends some money, and some of this capital stream is directed towards the under-developed countries — very small sums, to be sure, at times probably less than the capital some of these countries lose through capital flights or by the gradual home-taking of investments after their political liberation. Most of the international organisations are active in technical assistance, again on a small scale. There are possibilities that an international institution will be founded for distributing capital aid, though in very small, almost only symbolic, portions.

Meanwhile the under-developed countries are utilising the international organisations for raising demands for international action to improve their terms of trade and counteract the disastrous fluctuations in their export returns, but it is improbable that practical agreements on an important scale can be reached in this field. The idea of an international control of industrial cartels is also being quietly buried.

If the practical results are as yet meagre or altogether absent, nevertheless it is of greatest importance that international fora have been created, and will remain functioning, where the under-privileged countries can raise their demands for equality and express their dissatisfaction with the operation of the market forces. Even if the present trend is not upwards, it is not excluded that the trend may turn and that in the course of time these beginnings of a world government, which are present in our existing international organisations, can be gradually strengthened so that they can come to function in ways which are more and more similar to those of the individual national states within their own boundaries. We should not forget that so late as in the years prior to the Second World War hardly no responsible scholar or statesman would have dreamt of the feasibility of that likeness to international taxation on a small scale which nevertheless United Nations technical assistance program actually represents.

The judgment holds, however, that for any new foreseeable future the corrective policies initiated by intra-governmental organisations will amount to very little — to make a comparison which comes naturally: in the aggregate to very much less than the effects of such changes, upwards and downwards, of the under-developed countries' terms of trade which according to experience can be expected to occur from year to year.

In this situation the under-developed countries are thrown back on their own resources. Their situation is not entirely hopeless. Even in the absence of a world state which could interfere in the play of the market forces in the interest of greater equality, they are now becoming masters over their own economy and can even regulate international trade insofar as their own exports and imports are concerned. They can by introducing intentional policy interferences manage to alter considerably the direction of the market processes under the impact of which they have hitherto remained backward. The cumulative nature of these processes, which has kept them down in utter poverty, holds out, on the other hand, the promise of high returns from their policy efforts if they manage to plan them intelligently and carry them out effectively — which is, however, a very big *if*.

The political independence they have won for themselves, or are now winning, is their most precious asset: the national state. It gives them freedom to organise their own life according to their own interests. In the absence of a world state, their policies have to be nationalistic in the sense that they must with a single-minded intensity be directed to raising their own economic standards towards reaching greater equality with the rest of the world. It is not up to them, who are the poor, to take internationalistic considerations, except those that are in their own interest. The richer countries are not making much of real sacrifices either, though in their case it would be in line with their professed ideals of liberty and equality.

Economic nationalism does not need to be preached to the newly liberated under-developed countries. I feel rather a special responsibility when speaking to my present audience, to add the reminder that, while nationalism, as I suggested, has an important function to fill in welding together the masses and inspiring them to a common purpose and a unified policy and while this becomes the more important in the virtual absence of a functioning world state, an economic policy does not become rational to a nation simply because it appeals to national feelings and still less only because it is damaging to other nations. This is the more important to stress as for natural reasons the nationalism in the under-privileged countries contains not only the positive urges towards growth and welfare at home but also much of resentment against those richer countries which have until so recently been the systematic oppressors of their national aspirations.

There is a simple rule to apply in drawing the line for sane and sound nationalism: *an under-developed country is well advised to take any and all measures which, on the ground of good reasoning, can be proved to enhance its own economic welfare.* It should carefully avoid policy measures which are not nationally beneficial in their total and ultimate effects. And culturally it has reasons not to abstain from learning from all the world. It is a policy

of self-defeatism, which least of all a poor country can afford, to build up barriers against the richer world's civilisation and values.

I am giving this advice to rational nationalism with a clear conscience, as it is my firm conviction that real success in the under-developed countries' nationalistic economic policies would bring us nearer, and not further away from, the stage when an integrated world policy, based on international solidarity, could with more effectiveness be attempted. It is poverty itself which keeps levels of culture in the under-developed countries low; and, whether we like it or not, solidarity is a state of mind which is nurtured not by condescending compassion or pity with those who are very different from oneself but is the feelings which develop between equals and near-equals.

It is not the downtrodden Negro in America who overcomes white prejudices and inspires a natural acceptance of his equal human rights but the educated, prosperous and secure Negro; he is more effectively the fighting Negro. It is when the workers in our advanced countries have won the status, where they are guaranteed their right to strike, that they can enter into collective bargaining on equal terms — and strikes can then actually become very rare occurrences. Land reforms were seldom handed down by public-spirited landlords on their own benevolent initiative but were pressed upon society by the dissatisfaction of land-hungry peasants. If we could imagine that today in our advanced countries farmers were deprived of their votes, we would not have the present agricultural price policies; these policies have been won as the result of the political power the farmers could exert, and without such a power the countryside in most of these countries would for long periods have been more poverty-stricken and backward (1).

Similarly, in the relation between nations it is fundamentally a question of some greater power balance. All my observations of the functioning of our weak international organisations have converged to the conclusion that *the main cause of their weakness in the present historical stage is international inequality and, more specifically, the exceedingly weak bargaining power of the under-developed countries which formally constitute their majorities but are pushed around under the pressures exerted by the tiny minority of rich countries.*

(1) Some of these political advantages won by the underprivileged groups in the advanced countries are at the expense of still more underprivileged peoples in under-developed countries; this is an example of the fact that, in the absence of a world state, the nations as integrated entities, including their less privileged groups, become interested participants in joint policies which from a broader point of view work towards international inequality and exploitation. The peoples in Cuba and Java could be a little better off if we in Europe were to waste less labour in growing sugar beets; by protecting our farmers' butter we are giving less of a chance to the producers of the raw materials for manufacturing margarine; the Egyptians cannot be very happy about the United States' way of supporting their cotton growers. But this does not countersay the point made in the text, where I am simply illustrating how on the national scene solidarity must be based on some equality of political power.

From this point of view — of attaining a world situation where there would be a stronger basis of solidarity for international concerted actions in the interest of equality and integration — every development towards solidarity between the under-developed countries is also a step forward, insofar as this means that they become stronger. Under-developed countries tend to have their cultural and economic relations and, in fact, most of their communications with one or several industrial countries, while their mutual ties are weak. This is, indeed, a natural outcome of prolonged economic and cultural backwardness, foreign economic domination and, in particular, political colonialism. It has its approximate parallel in the paucity of close inter-relations within a subjugated class of many static societies, concomitant with the development of fixed client-patron relations to individual families or members of families of the dominating class. As in such a society, so in the world at large, the unprivileged group has to seek its liberation partly by cultivating its own interrelations. By joining hands and pooling what they have of bargaining power, the under-developed countries can together gain for themselves considerations which they would not have got individually.

As yet, there is almost no practical economic cooperation between the under-developed countries, and the basis for fostering it is weak as the initial situation is almost complete absence of economic relations and often of effective transport facilities. But on the more general political plane there is under way a movement towards solidarity among the under-developed countries which is bound to become in time one of the great vehicles of history. They have in common the memory of foreign domination and exploitation, the intense realisation of poverty and international inequality, and the ambition of rising to fuller participation in the enjoyment of the world's opportunities.

Their collective support of all liberation movements in the still dependent countries is already a political reality of considerable significance. In their internal policies they are beginning to learn from each others' experiences and not taking all their patterns from the developed countries. In time practical economic cooperation within this group will also develop. As international solidarity grows between the great majority of mankind which is struggling along in the under-developed countries, the minority in the developed countries will be under the inner urge to join by careful steps the majority, which is becoming powerful, in common policies for common goals.

This is how, under favourable circumstances, I could see world solidarity coming to us and the gradual emergence of a likeness or an approach to the world state. The benevolence on the side of the richer countries will in this respect be a secondary factor, for the simple reason that, except under the urge of some compulsion, our advanced nations are not prepared to give up privileges and make real sacrifices for the poorer countries

No society has ever substantially reformed itself by a movement from above: by a simple voluntary decision of an upper class, springing from its social conscience, to become equal with the lower classes and give them free entrance to the class monopolies. Ideals and the social conscience do play their very considerable role, which should not be forgotten, but they are weak as self-propelled forces, originating reforms on a large scale: they need the pull of demands being raised and pressed for. When power has been assembled by those who have grievances, and the storm is gathering, then is the time when ideals and the social conscience can become effective.

#### 4. — The National Plan

It is now commonly agreed that an under-developed country should have a national economic development policy. Indeed, it should have an overall, integrated national plan, as is also urged by everybody. All under-developed countries are now, under the encouraging and congratulating applauses of the advanced countries, attempting to furnish themselves with such a plan — except a few that have not yet been reached by “the great awakening”.

It is assumed by all that it is the national state which must be responsible for the overall plan and, indeed, for its initiation and pursuance. From one point of view, the plan is a program for the strategy of a national government in applying a system of state interferences in the play of the forces in the markets, thereby conditioning them and giving a push upwards to the social process which had settled down in a vicious circle of inequality and economic regression, stagnation or a too slow development.

Because of the various deficiencies in a backward country it is also accepted by everybody that the government will have to take over many functions under its own regime which in most advanced countries in the West are left to private business. In much of the contemporary literature on economic development and under-development — and particularly in that larger part of it which is now streaming from the advanced countries — the matter is sometimes a little confused by an altogether unfounded counter-position of central state planning and “free enterprise” and by assuming that planning creates rigidities.

It should be clear, however, that if an under-developed country really succeeds in starting and sustaining by its interferences an upward cumulative process, this will give more and not less space for what of private enterprise such a country possesses or is able to foster. And the central planning will constantly have to aim at breaking the rigidities, which are the mark of under-

development, and to seek to establish greater flexibility in the entire social fabric<sup>(1)</sup>. But quite apart from how the line is drawn in this respect, which is usually not a question of great principles but of practical considerations, the national government is expected to assume by means of the plan, and the co-ordinated system of state interferences making up the operational part of the plan, responsibility for the direction of the entire economic development of the country.

The emergence of this common urge to economic development as a major *political* issue in all under-developed countries and the definition of development as *a rise in the levels of living of the common people*, the uncontested understanding that economic development is *a task for the governments* and that the governments have to prepare and enforce *a general economic plan*, containing a system of intentionally applied controls and impulses to get development started and to keep it going, is an entirely new thing in history — indeed a complete conversion of the Schumpeterian model of what once happened in the now developed countries.

What we witness is how this much more than half of mankind living in poverty and distress is not only accepting for itself the pursuance on a grand scale of a policy line which we are accustomed to call "socialistic", but that positive and urgent advice to do so is given to them by all scholars and statesmen in the advanced countries and by their governments when participating in solemn resolutions of all the inter-governmental organisations. Apparently nobody in the advanced countries sees any other way out of the difficulties, which are mounting in the under-developed countries, than the socialistic one, however differently one's attitudes may be towards the economic problems at home.

A main element of every national development plan is a decision to increase the total amount of investment, aimed at raising the productive powers of the country, and to procure the capital formation necessary for this purpose. The plan must determine this overall amount and must, in addition, determine the proportions of the capital which should be allocated in different directions: to increase the overall facilities in transport and power production; to construct new plants and acquire the machinery for heavy industries and for light industries of various types; to raise the productivity level in agriculture by long-term investments in irrigation schemes and short-term investments in tools, machinery and fertilizers; to improve the levels of health, education and training of the working people, and so on. To be practical and effective, the plan must be worked out not only as a general

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(1) Cf. United Nations, Economic Commission for Latin America, *Analyses and Projections of Economic Development I. An Introduction to the Technique of Programming*, New York, 1955, pp. 3 ff.

frame but must have this frame filled and concretized by careful segmental planning. And it must contain definite direction on all points and, in addition, spell out instructions for the specific inducements and controls by which the realisation of those directives becomes effected.

The plan should take the lesson from the industrially advanced countries that national integration towards greater social mobility and regional economic equality is a condition for rapid and sustained economic growth in the country as a whole. A main purpose of the state policies blueprinted in the plan, therefore, must be to increase the strength of the Spread Effects of the development impulses as between the regions and between occupations. In this respect most under-developed countries are up against stale institutions of social and economic inequality which often cannot be broken easily; frequently the state is itself initially in the hands of social groups which have an interest in preserving the traditional social chasms.

A poor under-developed country cannot, however, in the early stages of its economic development really afford much of the type of redistributational measures which in the advanced countries are known under the label "social security". They should consider carefully the fact that the now highly developed countries in the early stages in their economic development had very little of it and that this type of equalizing policies came to play an important role only when their general level of income *per capita* had risen high above what the under-developed countries can hope for in any near future. They might also recall that the one century delayed industrial revolutions which is now taking place in the Soviet-Union under very different political and institutional conditions, in this one respect closely follows the pattern of earlier capitalistic development that the levels of real income and consumption of the working masses are kept exceedingly low to allow for sustained rapid capital formation. There is no other road to economic development than a forceful rise of the part of the national income which is with-held from consumption and devoted to investments, and this implies a policy of utmost austerity — so independently of whether the increased savings are engendered through high levels of profits to be ploughed back in industrial expansion or through increased taxation.

This frugality, which must be applied to the level of living of the masses of the people for the simple reason that they are the many, becomes a much more difficult policy in the under-developed countries today because of their much greater poverty and also because of the new ideology — which had no real counterpart in the developed countries in their early stages of development but has now been spread with their generous support — that the purpose of economic development is to raise levels of living for the masses of the people. It becomes even more difficult as democratic forms of government are being adopted, giving the vote to the masses.

In the advanced countries political suffrage was by various devices restricted to the upper income strata until late in the development process. That type of "restricted democracy" has in our days lost its appeal. The under-developed countries have to go all the way to full democracy. The alternative is to remain legalized oligarchies — or, if the outer forms of democracy are adopted to dilute those forms. But as in these countries the inherited social stratification has taken its shape under the impact of economic stagnation, this will in most cases imply preserving social chasms inimical to the strengthening of the Spread Effects which is necessary to sustaining economic development.

These countries need thus real democracy already in order to break down the existing impediments to economic development. But undoubtedly democracy, at the same time, makes it more difficult for their governments to hold down the level of consumption in the degree necessary for rapid development. The tendency towards dynamic dictatorships of a fascist or communist type, visible in all main parts of the under-developed world, should be viewed under the perspective of this basic political dilemma.

Independent of whether it is democratic, oligarchic or dictatorial, the state, which is supposed to do the planning and put it into effect is in under-developed countries often a weak state, served by a comparatively ineffective and sometimes corrupt administration. It is usually particularly weak on the provincial and local level. Central economic planning is always a difficult thing and, when it has been tried, it has not been too much of a success in the advanced countries. Now, what amounts to a sort of superplanning has to be staged by under-developed countries with weak political and administrative apparatuses and a largely illiterate and apathetic citizenry.

There are all reasons to expect numerous mistakes and in many cases total failure. But *the alternative to making the heroic attempt is continued acquiescence in economic and cultural stagnation or regression which is politically impossible in the world of today*; and this is, of course, the explanation why grand scale national planning is at present the goal in under-developed countries all over the globe and why this policy line is unanimously endorsed by governments and experts in the advanced countries.

Only one more general observation: the population reproduction rate and its different components become of crucial importance for the perspective into the future, represented by the national economic plan. The explosive development of medical science implies that the lowering of mortality rates, which in the now advanced countries was a slow process stretching over generations, can be expected to happen in a very much shorter span of time in the under-developed countries, and that it will proceed rather independently of whether levels of living have been raised. In many individual parts of the

under-developed world the death rate is already today lower than it was in the advanced countries in the childhood of now living generations; there is no reason why their situation should not become the normal one in under-developed countries within a decade or two.

If fertility is not decreasing simultaneously — and the natural effect of the health reforms is the opposite one — the rate of natural population increase will tend to rise. The under-developed countries have today about one third larger population than at the time when the Second World War broke out; they may be expected to double their population within the next thirty or forty years. In all under-developed countries, even in those with a fairly favourable relation between population and natural resources, rapid increase of the population, by its demand for investments already in order to keep up the basic living conditions at their present levels, will tend to hamper and slow down economic development; this implies that a given rate of development will require greater sacrifices.

The national plan should therefore include a population policy, aimed at controlling fertility. As a matter of fact, a vigorous and successful birth control campaign will be needed already to hinder the rate of natural population increase to rise.

## 5. — The Criteria for Planning

I have wanted to make these condensed remarks on the problem of national planning for economic development of under-developed countries in order to depict what I am not going to dwell upon further in this lecture, but to have, nevertheless, a general background for the discussion of one single point on which I would like to reflect a little more thoroughly. The point is this: *The national plans cannot be made in terms of costs and profits for the individual enterprises; they can, in fact, not be made in terms of the prices in the markets.*

Most of the investments to be planned are not profitable from the market point of view. This is true not only in regard to the big overall investments whose main purpose is to create the external economies for industries which mostly as yet are not in existence but only planned, sometimes for a distant future on the other side of even a five-year or a ten-year plan. It is equally true of the investments in most of the manufacturing industries. In fact, the reason why they have not been made earlier, and why they would not be made now without the incentive to be rendered by the state in some form or another as specified in the plan, is simply that they cannot be expected to produce the product for sale at a competitive price.

More generally, the explanation why there are unemployed and under-employed workers in an under-developed country is that in the market there is no effective demand for this labour. Indeed, *the explanation why a region or a country has a stagnating economy is that it cannot compete successfully.* And, from this point of view, the whole meaning of the national plan is to give such shelter from the market forces to investment, enterprise and production that they become undertaken in spite of the fact that they are not remunerative according to private business calculations.

It is here that the national state comes in as representing the common and long-term interests of the community at large. It senses the fictitiousness of the private business calculations in terms of costs and profits. From the point of view of the common long-term interests every new investment and every new enterprise has another sort of yield than the expected money returns. This is so if we can assume that the aggregate of new investment and new enterprises, as provided for in the plan, can succeed to set off a cumulative process of economic growth. And, contrariwise, it is these other yields which will then represent the tendency to circular unidirectional interactions within the entire system which makes this process cumulative and thus sustains it.

These extra-profit yields consist of the external economies which almost every new enterprise bestows upon other enterprises, now or in a future which might be distant, the value of expanding markets, the value of increasing the number of trained workers and, insofar as gradually levels of living can be raised, the productive value of higher levels of consumption in general and, in particular, higher standards of health, education and culture. It is inherent in the circular cumulative causation within the entire economic and social fabric during an expansion process that the final results as measured in the rise of production and the national income should be many times bigger than the initial costs implied in getting the system under way and keeping it moving.

In the national plan these real economic effects have to be accounted for and they must be calculated in real terms. It is, indeed, necessary to complement the profits calculations with calculations also of those other yields both in order to motivate the state interferences generally, and, more particularly, in order to give a rational basis for the decisions of the national plan on the crucial questions of how the specific targets are set and how the interferences shall be proportioned and balanced in a scheme of rationally motivated priorities: how high the capital formation and investment level shall be raised, in what industrial fields the investments shall be steered and how much shall be invested in health, education and various training schemes, etcetera, and by what means the results shall be achieved.

None of these questions can be answered and, indeed, the plan cannot be constructed in simple market terms. *A whole cumulative expansion process has to be blue-printed in real terms* of the concrete investment projects, their effects on the volume of production in various lines and on consumption, on employment of workers and natural resources, the induced changes in health, education and productiveness of labour, etcetera, in various sectors and in different years, with main attention focused on the circular causal interactions between all the factors in the system. The plan must be determined also in regard to the concrete state interferences in the markets to be applied in order to assure that the process really comes off and develops as planned.

As I have already mentioned, a national economic plan is by logical necessity what is called "socialistic" in contra-distinction to a free market economy. From the beginning of the 'twenties there was a lively discussion in our learned journals about the possibility of any rationality in a planned economy. It was started off by Professor Ludvig von Mises who declared that a socialist economy must fail because the absence of a free market and of a cost and profit system untampered with by the state would preclude the application of any economic criteria to determine in an objective way what should be done and what not. This thought that economic planning is necessarily arbitrary and that the market itself renders objective criteria for policy — which contains in a nutshell all the inherited, irrational predilections holding back economic theory which I referred to in the First Lecture and comment upon in the Appendix — can, of course, be traced much further back; among others, Gustav Cassel presented his version of the doctrine more than fifty years ago.

The thought is, however, entirely fictitious, and the whole discussion without sense, since the problem is stated in terms of value metaphysics and not in terms of the practical needs and the concrete human valuations as they are operating in the actual setting of the real and observable causal interrelations between the changes of the factors in a particular social system. The ironical fact is that this very type of economic planning, the possibility of which was so recently denied on logical grounds, is now proceeding in almost all under-developed countries — often with the competent guidance of economists, many of whom in another compartment of their thinking harbour whole learned structures of fictitious arguments in the old tradition to which Mises only gave a particularly unreserved and, therefore, crude expression.

The price system as a part of a very irrational whole, namely the economy of a backward and stagnating country, can hardly have any great claim on rationality to begin with. It could the less form the rationality basis for those "economic" and "objective" criteria as, furthermore, its continuous modification is part of the state interferences which form the operative part of the national plan.

As I referred to in the Second Lecture, we have in our industrial and highly integrated countries by a long and gradual process of public and private organisation of the markets succeeded fairly well, on the whole, to make the price system our servant and not our master — though curiously enough it is usually not fully recognised in popular debate which in many of the most thoroughly organised economies, like those of Switzerland or the United States, is carried on as if prices were actually set by the laws of supply and demand under free competition. The under-developed countries are now launching on the attempt to accomplish this difficult task of taking the command over the price system and conditioning it to operate as an effective means of carrying out their national plans, and they are pressed by the circumstances to do it in a much more sudden and complete way and on the bases of very much weaker governments and administrations.

When stressing the fact that a national economic plan cannot be rationally constructed by the application of the criteria of the price system and private business profitability but that the plan must consist of the blue-printing in real terms of a process of circular and cumulative causation, I am not preaching a gospel of licence but quite the contrary. To reach deeper than a registration of the market phenomena and to ascertain and analyse the intricate causal interrelations in a planned cumulative development process in an analytical task of supreme difficulty, but, if I am right, there is no other way to rational economic planning. And this approach, if effectively carried out, will in the practical sphere spell out reasons for an economic policy of suppressing the temptations to raise levels of living very soon and very much. A poor under developed country that under the difficult circumstances I hinted at has the ambition to "lift itself by the boot-straps" and start out on a sustained economic development process must, indeed, count inputs and outputs in the most careful manner and generally apply a policy of frugality. My point here is that to have any hope of success it has to make the calculations in real terms and not the fictitious terms of prices, costs and profits.

Indeed, a major purpose of the national plan is to effect the strictest economy with the available resources. When, as a matter of fact, many under-developed countries demonstrate shocking waste of very scarce resources in "show-piece" public works and in subsidizing expensive starts of investment and production along blind alleys, this is the result of their failure to apply rigid planning, and the only cure is to improve their planning. This assumes getting down to a realistic analysis of the concrete causal relations involved.

Another general purpose of the plan is to overcome the rigidities which characterise an under-developed economy. Rational economic planning is therefore the opposite to being adverse to the market economy as such. Ist

endeavour must constantly be to enlarge markets and to utilise for the aims of the plan the price formation that takes place in the markets which are thus created or expanded. This is, however, not at all the same thing as taking the criteria for the planning itself from these market phenomena which are its own creation or results of its modifications. The strategy of economic planning in under-developed countries must very largely consist in foreseeing by rational analysis where the bottle-necks due to particularly tough rigidities are likely to arise and then to direct the policy measures accordingly.

A third general purpose of national economic planning is to carry out the liberation of the minds of the people and the governments from many popular preconceptions, often originating from their envious comparisons with the highly developed countries, which otherwise are certain to dominate the economic policies in under-developed countries: the only way to do it is by knowledge of the true causal relationships as revealed by a rational planning in real terms. The result of economic development should regularly be that manufacturing industry becomes a growing part of national production, and this is generally understood. But this correct conception of the end result of economic development does not necessarily imply that rationally the economic policy measures should, in every stage, be concentrated on starting a number of industries and certainly not necessarily those industries which characterize the developed countries' economy. It might be, and it is actually often the case, that the more intractable basic rigidities in their economic systems are in agriculture and that therefore the self-sustained process upwards of circular cumulative causation requires a concentration of the larger part of the initial policy efforts in that field.

From my account of the development problem of the American Negro people — which served as an attempt to give a more concrete conception of the character of the circular and cumulative causation of a development process — I drew the general conclusion that an upward movement can be effected by any number of measures, rather independently of where the initial push is applied. But I also stressed that from the point of view of economy of efforts, i.e. in order to initiate a maximum advance of the entire system as a result of a given amount of sacrifices, it matters very much how a development problem is tackled. The task of national economic planning in under-developed countries consists of reaching, on the basis of a careful study of the circular cumulative causation which runs forth and back between all the factors in their social systems, a strategy for state interferences which secures a maximum general economic advance possible to realize with so much of sacrifices as the people can safely be expected to accept.

## 6. — International Trade under National Economic Planning

These principles have, of course, their full application to international trade as well. The development plan of an under-developed country will regularly imply the necessity of buying capital equipment from abroad in large quantities. If, as is usually the case, this increase in imports is not covered by a sufficient amount of capital aid and foreign credits or none at all, the under-developed country will have to do its utmost to increase its exports. When the limit of desirable and possible export expansion is reached — set by internal production facilities and the often inelastic demands abroad — it will have to restrict its imports of consumption goods and, in particular, luxury goods to sustain the essential imports.

These induced changes in the composition of its foreign trade will have to be matched by production increases in agriculture and manufacturing industries to stop inflation and also by price and consumption regulations at home in order to hinder the demand for luxury imports to transfer itself into incentives for an undesirable direction of investments and production at home. The capital formation for raising the level of investments has at the same time to be engendered by higher savings procured by various policy measures. All these induced changes in the quantities of consumption, production, exports and imports are essential elements in the national plan.

As investments and production are going up and as then factors of production have to be stimulated to move into new combinations, a certain degree of internal inflationary pressure is under all conditions to be expected in a country which is embarking upon economic development. In order not to lose control over the development process, incomes and consumption demands have to be controlled carefully, but some of the increased demands will turn towards imported goods. As anyhow the raised imports of capital goods are bound to put a pressure on the exchange resources, an under-developed country bent upon economic development will be compelled to apply import restrictions already for reasons of protecting its exchange balance.

These import restrictions, which thus under all conditions become necessary even without any designs for protectionism fit, however, into the national plan which, as I have already pointed out, assumes that a number of investments and production enterprises shall be undertaken which are not competitive in the markets and therefore need shelter. In their turn they will, as they mature into the stage when they can deliver more goods in the market, gradually relieve the exchange situation. Some of this increased supply will consist in more export goods. In the actual situation of a deeply lopsided economy which most under-developed countries inherit from stagnation and

economic colonialism, the larger part of the production increase will be more and new goods for the home market, substituting for imports and gradually allowing an increase of consumption in a more self-sufficient economy.

I am here reproducing in very much simplified form the essential elements of any national plan as observed from the view-point of foreign trade and exchange. The advice under-developed countries are now gratuitously given to abstain from interfering with foreign trade and from tampering with exchange is in most cases tantamount to an advice of not bothering with economic development. The advice they would really need is, instead, how to carry into effect their trade and payments regulations, and how to pursue that necessary modicum of control over internal inflationary pressure which is a precondition for a rational and efficient management of the trade and payments regulations. This latter advice they need very badly indeed, for monetary, trade and payments policies represent one of the fields where a less efficient administration can make a real mess of national planning for economic development, as many sad examples are apt to demonstrate.

Returning to the trade regulations and their employment for protective purposes, it is obvious that they cannot be rationally framed according to the "objective" economic criteria of the price system, i.e. not by means of a simple, static application of the theory of comparative costs. Many manufacturing industries are thwarted in their growth or prevented from ever coming into existence because of the small size of the domestic market; this market is frequently over flooded with foreign imports from sources to which this demand is often only very marginal. By providing protection against outside competition, the local industries can be given their chance. Another general reason for protection is the fact that, as I have already pointed out, almost every new industrial enterprise is apt to create a number of extra-profit yields for the economy as a whole in the form of external economies of all sorts, an increase of the number of trained workers, etcetera. These effects are for various reasons relatively much more important in an under-developed country than in a developed one.

An under-developed country is, furthermore, characterised by the fact that a large portion of its working force is unemployed or eking out a bare sub-existence through various forms of "disguised unemployment". This fact that in a country labour is not productively employed is from one point of view a way of stating that country's under-developed status; from another point of view it represents its opportunity. If part of this "free" labour can become gainfully employed, it is a net advantage for the country even if, for this purpose, a shelter against competition needs to be erected. In an under-developed country the span between wages in manufacturing industry and in agriculture is, furthermore, for many reasons, apt to be particularly large.

This will hamper industry if it is not given protection to a corresponding degree.

Interferences in international trade, motivated by considerations of this type, are only part of the general efforts, as defined in the national plan, to recondition the price system in such a way that a sustained cumulative process towards economic development is engendered. The practical or action part of a national plan consists of nothing else than a system of interferences in the price system; the interferences have all to be judged in terms of the factual analysis in real terms which the plan also contains of the actual situation and the envisaged cumulative process upwards which is the practical goal. *The plan and its targets, in other words, have to render the basis for deciding the criteria; the decisions themselves are political decisions reached in terms of national welfare, as this is determined by the political process.*

As applied to the field of international trade, this is again everything else than an invitation to licence. It implies only a change of the normative standard of political judgment from the logically untenable and, indeed, entirely fictitious doctrine of free trade or some of its euphemisms, to the true interests and real causal relationships as they exist in an under-developed country and become revealed by the incisive study of the relevant facts which the national plan should represent. No under-developed country can afford not to calculate most carefully with the international prices of its possible exports and imports.

The prices abroad are independent variables in the problem: they are given realities which an under-developed country can usually not influence and modify as it can its domestic price structure. There are, as I pointed out, rational reasons why it will choose to produce at home things which it could import cheaper or export things at a loss to be covered by subsidy. But those reasons must take full account of the international prices as independently determined facts; the risk of not doing it with utmost care is a slowing down of the development process. The fact that protectionism is rational in an under-developed country should, of course, not be used to conceal the other fact that the interferences in international facts, as today actually practiced in most of those countries is often grossly irrational.

As a matter of fact, that old chapter in the theory of international trade, which from Ricardo's time we give the title "Comparative Costs", is well worth preserving in the theory of economic development and under-development which we are in need of. The extra-profit yields, which I have referred to, can be introduced into the scheme, as well as the facts which make inflationary pressure and exchange difficulties normal consequences of a policy of economic development. If these amendments were made in a systematic

way, unbiased by our predilections, what would emerge would be a *dynamic theory of comparative costs*. Contrary to the old static theory, it could not pretend to explain actual reality but would form a part of the theory for rational economic planning.

These countries are for many reasons in a different position from that of the highly developed countries and, as I have explained in more detail in another connection, there are good reasons for a "double standard morality" so far as international trade is concerned. Much of the activity in the International Monetary Fund and in GATT and much of bilateral negotiations about trade policy outside these organisations has been based on the principle *do ut des*. This may be appropriate in the mutual relations between highly developed countries, but it implies a false assumption of equality so far as under-developed countries are concerned.

An inflationary pressure and a pressure on their foreign exchange resources are a normal consequence of their economic development policy, and a tight regulation of their foreign trade becomes already for this reason a necessity, if they are not to give up this policy. In addition, they have in the very fact that their economies as a result of under-development are lopsided and lacking competitive strength special reasons, which are not present for developed countries, to use these regulations for protection. And as they must be bent upon to utilize every chance to keep their import at a maximum level, their trade regulations will not decrease world trade, as those of a developed country actually do, if it manages — as it should be able to do — to keep out of exchange difficulties.

The under-developed countries can on rational grounds ask the developed countries to liberalize their trade unilaterally. They need to be staunch free-traders, and even preserve for themselves the right to give export subsidies, so far as the advanced countries' imports from them are concerned, but restrictionists in regard to their own imports. And they have valid arguments against anyone who would call this attitude logically inconsistent.

## 7. — The Under-developed Countries' Need for New Scientific Approaches

I started out in the First Lecture to compare certain facts with theory: on the one hand, the facts of gross economic inequalities, and ever increasing inequalities, as between industrially developed and under-developed countries and, on the other hand, the theory of international trade which suggests a tendency towards equalisation of the prices of the factors of production as a result not only of factor movements but of trade. I related the deficiency of this theory to its assumption of stable equilibrium and its closely related abstraction from most of the things important for economic development

and under-development. The equilibrium notion and the general approach of economic theory in line with this notion follow certain irrational basic predilections which are further commented upon in the Appendix.

In the Second Lecture I stated my general hypothesis that, contrary to the equilibrium approach, normally a social process is cumulative because most often a primary change calls forth reactions in the system which are not equilibrating and counteracting that change but supporting it; if a social system is at rest, this is not a stable equilibrium but a fortuitous balance which will be broken and transferred into a cumulative process in one direction or another by any new primary change. This implies that the free play of the market forces is not working towards equality but will tend to result in inequalities between regions, and I illustrated this inference by discussing in some detail the development process as it affects different regions in one individual country.

I noted as exceptions to my main hypothesis the occurrence of counter-acting changes, especially in the short run. Even in the longer run the Spread Effects of the expansionary momentum in other localities and regions is apt to counteract the Backsetting Effects and thus to break the tendency to regional inequalities, though it will never create the assumptions for equilibrium analysis. The effectiveness of the Spread Effects is a function of the general level of development in a country. Another countervailing force is the interferences by the state and the social organisations. In the richer countries, where the Spread Effects have become maximally strong and the interferences by organised society highly developed under an increasingly effective democratic control, we are approaching a "created harmony" with equal opportunities for all.

In the Third Lecture I developed the thought that the situation in the world as a whole is more like that in an under-developed country: where the weakness of the Spread Effects is a basic explanation of greater inequality where generally the state, partly for this reason, is less democratic, and where the state therefore, and because of the more severe financial limitations, has not reached far in applying interferences in the play of the market forces in order to decrease inequalities.

The international situation is only very much worse. The colonial system, like similar institutional power structures inside the under-developed countries themselves, has in many ways given additional strength to the forces working for international inequalities. Our weak international organisations represent hardly a beginning of a world state, and the concerted actions initiated and agreed upon in these organisations are, when measured in terms of the real problems to solve, as yet not very much more than faint gestures. Interna-

tional inequality is under these circumstances continuously increasing as a result of the play of the forces in the market.

The under-developed countries are thus thrown back upon their own resources. They have one asset, the national state, and the possibility it implies of regulating their own economy. To speak in Hegelian terms: *the road to international integration must go over national integration; nationalistic policies by the poor countries and an increase of their bargaining power, won through these policies and through increased cooperation between them as a group, is a necessary stage towards a more effective world-wide international cooperation.*

In the latter part of the Third Lecture I reversed, therefore, my approach. Instead of asking about the outcome of the natural play of the forces in the markets, I posited the practical and political problem of how an under-developed country could, by intentional state interferences, initiate and sustain national economic development. The hypothesis of cumulative causation which tends to be the doctrine of despair for the poor countries as long as they leave things to take their natural course, holds out glittering prizes for a policy of intentional interferences. Applied to a goal-directed national endeavour it promises results much bigger than the efforts — if the efforts succeed to start a cumulative process upwards. This is the theory of how to lift oneself by one's boot-straps.

The under-developed countries in their drive for economic development are in almost all respects up to very much greater difficulties than the now developed countries ever faced. The economic level where they start is in most cases very much lower; the relation between population and resources usually much more unfavourable and the population trends more dynamic and dangerous; they do not have at their disposal an international capital market as the now developed countries had in their time, nor the emigration outlets; they have not inherited the traditions of rationality and the rule of law which were so important in the earlier history of the now developed countries. And they are late-comers: they have not the opportunity, as the now developed countries had, to advance as industrial islands in a surrounding world of backward nations which they could exploit as markets for manufactured goods and as sources of raw materials and for this purpose even keep in colonial bondage. The one advantage they have is our accumulated scientific and technical knowledge.

But to utilise this knowledge they need — and this will be my last point — fresh research in all fields. Neither our techniques of politics, administration and social reforms, nor our techniques in production and distribution can with advantage be simply taken over. As they have developed to suit the conditions of the advanced countries, which are very different, they are not adequate

to the needs in under-developed countries. Ideally *the under-developed countries should utilise all the available knowledge but work out their own specific techniques to fit their values and their actual conditions*. And to do this effectively, they would need to carry on research on all levels, also fundamental research.

They have also for free use our economic theories. But again they should not accept them uncritically but remould them to fit their problems and their interests. They should be aware of the fact that very much of these theories are partly rationalisations of the dominant interests in the advanced and rapidly progressing industrial countries. A very large portion of the literature on the development of under-developed countries produced in the advanced countries, for instance, has not had as its value premises our old Western ideals of liberty, equality of opportunities and common human brotherhood — ideals which are now victoriously conquering the world and which the under-developed countries have in common with us — but much narrower national political interests as they are viewed in those advanced countries. This situation has been much worsened under the impact of the cold war when often these national interests even became narrowed down to strategic interests in that world conflict.

More generally speaking, it would be pathetic if the young social scientists in the under-developed countries got caught in the predilections of the thinking in the advanced countries, which are hampering the scholars there in their efforts to be rational but would be almost deadening to the intellectual strivings of those in the under-developed countries. I would instead wish them to have the courage to throw away large structures of meaningless, irrelevant and sometimes blatantly inadequate doctrines and theoretical approaches and to start out on fresh thinking right from their needs and their problems. This would then take them far beyond the realm of both out-moded Western liberal economics and Marxism.

Instead of chewing on our old doctrines and doctrinal controversies they should make their pick of what is really practical and useful in our tradition and then proceed to making their own theoretical constructs to suit their problems — as I pointed out in the First Lecture, they would then find many old and familiar arguments and theorems useful when adjusted to fit into a new frame. All the under-developed countries are now starting out on an economic policy line which, as I pointed out, has no close historical precedent in any advanced country. In the same way as the course of economic events and policies in those advanced countries in all times gave rise to new realignments of social and economic theories better fitted to, and closely conditioned by, the historical circumstances there and then, it would be entirely appropriate if the fact of very different events and policies in the under-developed coun-

tries today were accepted as a challenge to produce new and different theoretical frames for social and economic research.

If this hope could come true, an incidental effect of the awakening of this large majority of mankind, which has up till now mainly subsisted in economic and cultural backwardness, would be new scientific discoveries and the widening of our spiritual horizon — in the end the enrichment of our common culture. It is under the inspiration of this brave hope that in these lectures I have permitted myself to deal in somewhat provocative terms with a number of the inherited theoretical approaches as they have been fashioned in the privileged countries during their period of economic advance and unchallenged intellectual hegemony over the world.

But let me end by the reminder that to make the pick of what is really useful and practical in our traditional theoretical approaches, and to effectuate the throwing away of the ballast but to accomplish at the same time the new alignments of all old arguments and theorems to fit into a different approach to economic and social problems, is by no means an easy accomplishment. It is not the task for dilettants and ignoramuses — they are usually the first to succumb to traditional predilections or some of their popular perversions often without even knowing their intellectual bondage. They are the least, original. No critic has ever been effective without knowing thoroughly what he was criticizing. The steeply climbing path I am staking out for the young social scientists in the under-developed countries requests, in fact, the most severe efforts to true learning and the fullest mastery of the entire theoretical heritage. It is much easier to be a conformer than a competent rebel. Again I was not preaching a gospel of licence but of harder intellectual discipline.

APPENDIX  
TO THE  
FIRST LECTURE

IDEOLOGICAL ELEMENTS IN ECONOMIC THEORY

In the First Lecture I referred to certain value-loaded, very general ideas or thought structures which — if we are not employing purposively and effectively the method of working with explicit value premises — are having a dominant influence on our way of posing problems and answering them. The following condensed note is aimed at a general characterisation of these predilections with the main interest focused on their logical inter-relations and their relation to the historically given philosophical fundament of economic thinking.

The main point is that in an usually uncontrolled way they determine the mental climate in which we work. This mental climate of certain dominant general ideas is by no means only the reflection of material interests. Generous impulses are just as real as egoistic ones, and western civilization is, for instance, imbued with the ideals of liberty and equality; the operative importance of these ideals as social forces in the dynamic mechanism of development, mostly confined, however, to the national states, is hinted at towards the end of this Appendix and commented upon in the Second and Third Lectures.

But in the present connection we should not overlook the fact that all our economic speculation, including the theory of international trade, was originally framed in the setting of the interests and ideals of the then most prosperous country, Great Britain, and there even consciously conceived of as a theory for the welfare of the British nation (1). Thereafter, and until very recently, it was almost exclusively developed further by theorists who were the nationals of those few countries which were rapidly progressing economically under conditions of expanding mutual trade and large movements of capital and labour. In these countries, all higher culture, including the rise of economic science, was concentrated at the centres of economic expansion.

It is difficult to believe that these facts have not been of importance in the selection of viewpoints and the setting rebey also in the horizon for economic

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(1) Cf. Lionel Robbins, *The Theory of Economic Policy*, MacMillan, London, 1952, pp. 9 ff.

theory: it should not be surprising then that the problems particular to the under-developed countries and regions tended to fade out in a pale, distant haze — until in recent years they were forcefully pressed upon us by the political and spiritual revolt of the peoples living there. It is a commonplace in the sociology of knowledge that social and economic theories rarely escape from becoming to some extent a rationalisation of the interests and the aspirations of the milieu where they grow: if not so much by commission, the more by omission.

### 1. — Major Predilections

One such dominant idea is the general notion of *harmony of interests*, which certainly is a comforting thought for those who have drawn a lucky number in life's lottery. The idea was a clearly perceived conviction in the philosophy of natural law which served as the basis for the first construction of a general economic theory two hundred years ago. In utilitarianism, which soon took over the function of forming the philosophical basis for economic theory, this assumption of an existing harmony of interests became a more involved matter and was often hidden away in tacit assumptions and sometimes explicitly renounced as, for instance, by Bentham. And many of the theoretical approaches of the classical economists in England were based on a recognition of conflicting interests, as for example, Ricardo's theory of distribution.

But, in the end, the harmony notion as a major predilection of economic theory pressed itself into the practical and political conclusions even in the economic thinking which was based on utilitarianism. It was inherent and logically necessary in the very attempt of the utilitarians to explain both actual behaviour and a moral behaviour in terms of the hedonistic mechanism of the sensations of pleasure and pain.

At bottom this was also an identification between "what is" and "what ought to be" and, as in the philosophy of natural law, such an identification assumes a harmony of interests in society; the differences in real life between an actually perceived utility and the morally correct one had to be explained as "a miscalculation of chances". Without the assumption of interest harmony, the empiricist philosophy of utilitarianism would lose its claim on objectivity (1).

The further fact that the utilitarians could not in practice carry out the social calculus of pleasure and pain — which was their proclaimed method of

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(1) Gunnar Myrdal, *The Political Element in the Development of Economic Theory*, Routledge and Kegan Paul, London, 1953, pp. 44, 48 *et passim*.

empirically determining those policies which gave as a result the maximum "general social welfare — by necessity brought this assumption of interest harmony up from the level of epistemology to the level of practical discussion in connection with various topical political issues (1). However, on this level, the assumption was, then as now, often hidden as an implicit link in the chain of argument.

In both these closely related philosophies, out of which all our modern economic and social theory has branched off, it was recognised that many social institutions — mainly results of "interferences" — prevented the natural harmony of interests from becoming realised. The entire discussion between the more radical and the more conservative writers for two centuries, when it is brought to the pivotal point, turns around the question of what, and how much of, prior institutional change would be necessary to bring society to the natural state of interest harmony (2); even Marx is no exception to this generalisation.

It was, however, mainly the conservatives who came to determine the development of economic theory. From a purely logical point of view this is entirely fortuitous. The fate of their theories profited from the accident that they happened to be conservative; for this implied that they were interested in a natural state of harmony which, to them, was fairly like the world they saw. Their teleological analysis became therefore relatively more relevant for its explanation (3). This is what I have called the "realism of conservatism"; it operates as long as theory is steered by a metaphysical and teleological concept of reality.

We might today feel ourselves far away from the confident faith of the old philosophers in an intrinsic harmony of interests in the world as we see it or as it would be after certain purifying reforms. But if we scrutinise carefully the way we are apt to formulate and motive our most general policy opinions in regard to their expected effects, or if we analyse similarly leading articles in the press, the party programs and the speeches during an election campaign, or a debate in the General Assembly of the United Nations, and similarly if we search our own economic theories and ask for the explanation of why they approach problems in the way they do, and if we then succeed in keeping the distance necessary to discern the broadest pattern of our reasoning, we will be surprised to find what a powerful hold over our thought-ways this old idea of interest harmony has maintained.

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(1) *Ibid.* pp. 43 *et passim*.

(2) *Ibid.* pp. 71 ff., 106 ff. *et passim*.

(3) *Ibid.* p. 31.

A second general predilection, closely related to the interest harmony doctrine, is the *anti-state* and, indeed, the "*anti-organisation*" bias. In both the philosophy of natural law and of utilitarianism, atomistic individualism was a conscious assumption, stressed in protest against earlier and contemporary philosophies which tended to give to the state and other collective bodies an organic nature and, indeed, a kind of personality with independent, if limited, interests, rights and duties. The hedonistic psychology was thus implied already in the philosophy of natural right; in the empiricist utilitarian philosophy it was elaborated and laid as the basis for the whole endeavour of calculating the "general welfare" as a sum of individual interests. The political bias springs from the fact that this calculation was made upon the further assumption — or adjusted to fit the assumption — of interest harmony in society. The prolific modern "welfare economics" moves inescapably under the same spell, attempting by individualistic psychology to reach a metaphysical goal, determined in advance by the predilections and, more particularly, the harmony doctrine, which is logically inherent as otherwise the objectivity of the welfare notion would be lost.

To the physiocrats as the early exponents of the philosophy of natural law this bias was programmatic: to them the explanation why the "natural order" of the harmony of individual interests did not materialise in full perfection, was mainly the "interferences" of the state and other collective bodies. In their time the state and its institutional substructure of organised interests was also not of the type our modern "welfare state" is approaching but might rather very generally be characterized, instead, as an "oppressor state"; see in the Second Lecture.

Bentham, different from the physiocrats, started out with strong condemnations of the aprioristic metaphysics implied in the assumption of natural laws and conceived of his own philosophical exertions as the working out, on the basis of the empirically ascertained sensations, of general rules for public morals and legislation, i.e. precisely interferences by the state. But, by intrinsic logic, the result of this — as of any other attempt at founding moral and political views solely upon an observation of facts — was, for reasons already suggested, a relapse into the doctrine of a natural harmony of individual interests which, in its turn, carries an inextricable anti-state and anti-organisation bias. This is more clearly the situation if the analysis is focused on an ideal society not very different from the actual one, which on the whole was Bentham's approach and very definitely the approach of those authors, all of them Bentham's followers, who, thanks to the "realism of conservatism", came to determine the main trend in the development of economic theory.

To Marx, however, the society he saw was very far from ideal. He criticised

the harmony doctrine and attempted indeed to view the whole history as a sequence of class struggles, differently staged because of the changing modes of production; he dealt with the state as the instrument of oppression by the ruling classes. But he ended up by the sweet anarchistic vision of the "state of liberty" attained when, after the final revolution of the proletariat, the state would have "withered away". And the significant thing is that he never worked out a system of organised economic policies to be carried out after the revolution: the word and the notion of "economic planning", now recognised as the true shibboleths of socialism, cannot be found in his writings.

No one in the entire tradition of economic speculation within the bounds of our Western civilisation as this speculation developed since the Enlightenment, not even the wildest critics of our social order and our social theories, seems to have escaped altogether this common predilection of individualistic atomism in theory and anti-state and anti-organisation bias in practical conclusions. Our modern thinking has on the whole been developed by theorists who, with all their facilities, usually did not have the revolutionary intellectual will and powers of a Bentham or a Marx to take distance from old theories they had inherited and to dare original constructs of their own. We should therefore not be surprised to find that recent economic thinking has also tended to remain within the bounds of these vague predilections.

As our research resources have increased we have been able to intensify tremendously our empirical knowledge of the social and political institutions; but our general economic theories even, and not least, in their econometric diffusion into less accessible corners from Walras, Jevons and Edgeworth on, have largely remained faithful to the predilections. This is of particular importance, since general theories have always had a closer relation to policy prescriptions than empirical studies. The empirical studies of the institutions have meanwhile, in this climate of basic intellectual predilections, mostly either shown a tendency to adjust themselves to theory or remained strangely pointless.

The *free trade* doctrine, which I mention here as the third of the main predilections of economic theory, is usually presented as a conclusion from theoretical analysis; in reality it is, however, the matrix into which the entire analysis has been moulded. It is a more specified corollary of the assumption of harmony of individual interests and expresses that assumption's inherent anti-state and anti-organisation bias. All these general ideas are interlocking; they are indeed only differently adapted modalities of the same dominant structuralisation of thought which I am here trying to characterise.

The practical triumph of the free trade doctrine is the fact that even the severest critics of economic liberalism usually find it difficult to free themselves

from its fascination (1). Thus the motivation for an interference in trade is ordinarily presented in the form of reasons why, under special circumstances, an exception should be accepted. The free trade doctrine, in fact, has set the terms of reference not only for the theory of international trade but, more specifically, for all discussion of state interferences in the economic life and, in particular, in international commerce. The burden of proof was always supposed to lay on the interventionist.

In point of logic, this is, indeed, somewhat astonishing. As a theory, the free trade doctrine is not tenable (2). Apart from this — and accepting for the sake of the argument that the doctrine is true in some sense — the practical postulate as presented by the theorists, when emerging from their analysis, is always equipped with a large number of abstract assumptions and reservations (3). The question then arises what a general *practical* postulate for *concrete* action really means when it is delimited by *abstract* assumptions and reservations.

One of the assumptions is particularly awkward: free competition. Such a situation has never existed and the actual trends are away from it. Generally it is not even possible to decide whether a particular policy measure in a particular country would bring us nearer to, or take us further away from, the purely fictitious state of free competition. Why, then, in pure logic, should the free trade doctrine be given the benefit of doubt; why should it be the one idea to be allowed to set the stage; why should interferences be judged by the criterion whether they are justified as exceptions? Why should not the rule be simply that, as always, we should be careful to have our facts straight and our reasoning correct in terms of means and ends? These were questions I raised twenty-five years ago, and further study and experience have only confirmed me in my relativistic thoughts.

The notion of *equilibrium* is the closing link in this system of basic predilections. It is, indeed, a necessary theoretical device when giving expression and logical "proof" to the others. It has therefore a teleological purpose and importance above the simple and technical one of being a chosen theoretical tool for the analysis of social reality.

The notion of equilibrium also runs through our whole economic and social speculation for two hundred years and has until this day determined the main concepts of all the social sciences, not only economics. From what I have said it becomes understandable why there has always been an inherent

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(1) *Ibid.* pp. 104 ff.

(2) *Ibid.* pp. 129 ff.

(3) For what follows, see *ibid.* pp. 134 ff.

urge to give a positive value connotation to the state of equilibrium — as two hundred years ago to the “natural order” which from this point of view is only a special case — and to give a negative one to disequilibrium or “disorganisation”, “maladjustment”, “social lag” and “crisis”, to mention only a few of the near-synonyms adapted in various directions.

Reality was assumed normally not to be in equilibrium; but equilibrium nevertheless had a “virtual reality” as the status towards which actual reality, despite all disturbances, forever tended to approach — and which could also be utilised as a norm in forming value judgments concerning actual reality. This was the way of thinking of the physiocrats and the classical authors and the idea reached its most comprehensively elaborated refinement in the neo-classical general equilibrium theory.

Knut Wicksell once pointed out, however, that there are many alternatively possible equilibrium notions which could be useful in theoretical analysis. That used in economic equilibrium analysis of the ordinary type is but one: the stable equilibrium which may be illustrated by the hanging pendulum and which, if attained and not further disturbed, would imply that things remained unmoving.

One of the other equilibrium notions can be illustrated by a cylinder rolling on a plane surface: it may come to rest anywhere; or in entire absence of friction it would continue to roll in the same direction with unchanged speed, and that would then be its equilibrium. A third equilibrium notion is the “labile status” of balancing forces in which a pencil would remain, if one succeeded in placing it upright, on its end; the application of a push would, however, cause an accelerated movement away from the original state of equilibrium.

Many of the theoretical advances in economics in the last two generations have, as a matter of fact, been made by departing from the inherited stable equilibrium notion. Large portions of Keynesian and post-Keynesian analysis — though not the general theoretical frame — have this character. Wicksell's analysis of the cumulative and accelerating process away from monetary equilibrium when the market rate of interest was made to differ from the “natural” rate, is another example and an earlier one.

Still earlier, Marshall's theory of external economies and, indeed, much preceding analysis of increasing return, reaches outside the field controlled by the stable equilibrium notion. The earliest classical authors themselves had, besides their short-term equilibrium theory, a theory of long-term economic development — in fact they had more of it than the neo-classical authors — and part of it went outside the frame of equilibrium analysis. The present lively discussion of economic development of under-developed countries,

including the building of dynamic models as those around the analysis of capital output ratio, moves also outside the theoretical frame of the stable equilibrium approach.

The point in the First Lecture is, however, that the stable equilibrium notion has retained much of its hold over our reasoning, often more than we are always conscious of, and that, in particular, the huge and dominating structure of the theory of international trade has stubbornly remained an equilibrium theory. This is the principal reason why it cannot contain a valid theory of economic development and under-development and of international and regional economic inequality. And the stable equilibrium notion contains, and is animated by, the other main predilections mentioned above: the idea of interest harmony, the anti-state and "anti-organisation" bias, and the free trade doctrine.

## 2. — Basic Premises

All these predilections work themselves out in political conclusions which tend to be conservative in regard to the distribution of wealth and income. From the point of view of the sociology of science this should not surprise us. As I pointed out in the introduction to this Appendix, economic theory and social theory in general developed in the rich and progressive nations of the world and there under the dominating impact of the rich and progressive social classes and regions.

From the point of view of logic, which is my main concern in this Appendix, this conservative twist of the main trend of development of economic and social theory is explained by the arbitrary but effective principle of historical selection which I referred to as founded upon the "realism of conservatism". As long as social science has not freed itself from a metaphysical concept of its problem and a teleological intent and not generally accepted the method of working with explicit value premises, the conservative writers, focusing their analysis upon an ideal society more like the one we see, will actually deliver a superior explanation in causal terms of social reality.

The paradox is, however, that modern economic and social theories contain at their very fundament *ultra-radical policy premises* (1), directly emanating from the basic philosophies.

From the natural law philosophy came the doctrine of labour's moral superiority as title to property: labour was the only "creator of wealth". In

(1) For what follows, see *ibid* pp. 105 and other places cf. Gunnar Myrdal, "The Relation between Social Theory and Social Policy", *The British Journal of Sociology*, Sept. 1953, pp. 211 ff.

its modern form this idea stems from Locke; it materialized in the classical theory of real value which assumed labour as the only real "factor of production" (1).

From the same philosophy came the idea that "all men are born equal". The hedonistic psychology was, as I mentioned, already implicit in eighteenth century natural law philosophy; in utilitarianism it was elaborated to provide the empirical basis for the calculation of pleasures and pains, the arithmetical sum of which, the "general welfare", was to be maximized. This psychology contained early the idea of diminishing "marginal utility" of an income unit as the total income increased. The political assumption that in the calculation of the "general welfare" everybody should be counted as equal to everybody else was never disputed. The conclusion was also early drawn, and only further elaborated by Bentham and James Mill, that equalisation of wealth and incomes was in the interest of society.

These various streams of the ultra-radical equality postulate, "proven" in so many different ways, culminated during the Enlightenment and the idea fastened itself at the very rockbottom of Western economic and social speculation. It formed thereafter the common implicit value premise for political conservatives and radicals, liberals and socialists.

These streams have their sources much further back in mankind's history. All great religions and philosophies have, on a general plane, been egalitarian. It is a still largely unsolved sociological problem, why and how it happened that this shining idealistic vision of the dignity of the individual human being and of his basic right to equality of opportunity originated and maintained its power through untold centuries of blatant inequality and oppression.

The main line of the development of economic theory became, however, for reasons given, demarcated by the writers who were most willing to compromise in their policy conclusion with the radical tenets. Indeed, the inherited economic theory, as it now stands, is made up by their logical compromises. From John Stuart Mill on, a main device for effectuating the compromises has been making a distinction between production, including exchange, and distribution: in the sphere of production natural laws reigned and interferences could only hamper the growth of production, while distribution was the sphere of liberty where the equality postulate had its legitimate space of validity.

For more than hundred years economists have since then utilized Mill's device and felt relieved of the equality postulate by reasoning only about

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(1) *Ibid* pp. 64 ff.

production and exchange and by iterating a general reservation in regard to distribution. This is the way in which the economists have escaped their basic radical policy premises and have preserved the inherited structure of economic theory with its vague implicit notion of harmony of interests. This is how they have "proved" the free trade doctrine and how they have [protected the *laissez-faire* value load in the stable equilibrium concept. The distinction between a production sphere and a distribution sphere is, however, logically untenable<sup>(1)</sup> and this fact is, from one point of view, a main explanation why our theories are defective.

This uneasy logical compromise — and inherent logical conflict — between the equality postulate at the bottom of our thinking and the *laissez-faire* twist of our practical political inferences is, of course, not only the fate of economic theory but is the basic bewilderment of our Western civilization. It is now on the verge of developing into a paralyzing hysteria under the onslaught of the rising revolt of the under-privileged majority of mankind which is finally being reached, and becoming effectively moved by, our rationalistic equality postulate at the bottom of all our thought structures.

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(1) *Ibid.* pp. 129 ff.

# THE RELATION BETWEEN LAND REFORM IN UNDERDEVELOPED COUNTRIES AND ECONOMIC DEVELOPMENT PROGRAMS

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1. — Land Reform in underdeveloped countries ranks first among the economic and social problems which have attracted world public opinion after World War II and which have been studied by various world organizations and conferences with a view to suggest suitable recommendations. Countries catering for economic development have — in their turn — given top priority to the question of land reform in order to promote certain economic, social, political and human objectives.

The redistribution of land property through government intervention is an action which should attract the attention of world public opinion, not only because of its economic and social importance but also for the close relation between the principle of private ownership on one hand and the political and legal structure of the state on the other. Moreover, the state direct intervention for the redistribution of agricultural property has its deep and far-reaching effects on the outlook and thinking of the people as it affects the Right of Ownership which, in some countries, form a fundamental basis for the philosophy and beliefs of the masses.

If opinions agree as to the importance of land reform, they divide on its definition into two main groups. One group widens the scope of land reform to include any modification introduced to the basic systems of agriculture with a purpose to increase production or improve the farmer's conditions.

Under this definition, land reform covers any state measures concerning interference in land ownership and tenancy, rural cooperative organization, wages, and taxation. It furthermore includes technical development whether relating to the techniques of production or to providing its means, such as irrigation or drainage schemes and the use of machinery for land reclamation.

The other group limits the field of land reform to the redistribution of land property, giving as support to this definition that the term has always been used in this sense whenever the redistribution of land property took place, as happened in Mexico before World War I, in some Eastern European countries after that war, as well as in some Latin American, Asian, and Middle Eastern countries after World War II.

In this paper, the meaning of land reform is confined to the state interference for the redistribution of agricultural income in favour of the landless peasant, whether it amounts to the redistribution of property or is limited to the redistribution of agricultural income as long as it effects a substantial reduction in that proportion of income the landlord used to get before the state interference. In other words, we shall limit our study to land reform in its traditional sense as being a measure taken by the state in favour of the landless peasant whether through allowing him a chance for ownership or by increasing his share in the income from agricultural production to an extent unattainable without state interference.

2. — Owing to some political and economic reasons certain measures were taken before the first World War for the distribution of land property with a purpose to create a class of small landowners without affecting large ownerships. Some of these measures were even meant to support large ownerships and provide them with adequate labour. To stop the migration of agricultural workers to urban centres they were given small plots of land enough to tie them down but insufficient for their sustenance, and big landlords, were thus allowed the necessary labour-supply. This was the case in Russia and Eastern Prussia towards the end of the nineteenth century.

Other measures meant to increase the number of small landowners by selling them reclaimed land as was the case in Denmark when reclaimed areas were distributed in Jutland. In another case, land was purchased by the Government and resold to small farmers by instalments as happened in Ireland towards the end of the nineteenth century also.

The Bolshevik revolution of 1917 destroyed private ownership in the Soviet Union and was followed in some European countries (especially those neighbouring Russia) by a number of legislations dealing with the problem of large ownerships — Czechoslovakia (1919), Poland (1920 and 1925), Rumania (1921) and Eastern Prussia (1919). Similar legislations were promulgated in Yugoslavia, Hungaria, Austria, Spain and other European countries.

With the exception of the Soviet Union, all measures taken by those European countries were introduced to redistribute land property with a view to increase the number of small and medium ownerships and put a limit on

large ones (Latifundia). The reasons behind were mainly political, and the aim was to bar the effects of the Russian Revolution from infiltration to the masses. The task of redistributing large ownerships in East European countries was particularly facilitated by the fact that a part of big landowners were foreigners and the political gain was double.

3. — With the exception of Mexico (1910), all measures taken for the distribution of property before World War I cannot be termed "land reform", as they did not affect the economic or social order as a whole, nor did they aim to affect any change in the distribution of agricultural income. On the contrary, they catered to strengthen the bases of large ownerships.

On the other hand, the measures taken in some European countries after that war to redistribute large areas among peasants (as done in Rumania) had goals similar to those aimed at later on by land reform in underdeveloped countries after World War II, and succeeded in working out noticeable effects on the economic and social structure of some of those countries. Such measures come under the sense we mean by "land reform".

Despite their being linked with political events, the land "reforms" adopted by underdeveloped countries after the last war have in common an obvious economic nature. Land reform in Bolivia (August 1953) came out of the last Bolivian Revolution. In Egypt it was introduced by the Revolution of July 1952. In Pakistan and India land reform was a part of the general reform movement characterizing their independence. Land reform in Japan (1946) was essentially linked with the general development in her policy since the occupation of her territories by American troops. In Taiwan, land reform was dictated by her special political conditions. Yet, it should be noticed that in all these countries economic planning has become the rule and that land reform is considered as part of the general plan for economic development, not as mere limitation of ownerships or redistribution of agricultural profits. It is adopted as a means of achieving the optimum economic development.

We are not going to attempt a detailed analysis of the factors producing land reform in underdeveloped countries after World War II as they vary from country to another according to their respective conditions as regards ownership, tenancy, and the relationship between landlord and tiller. Nor are we going to give a detailed account of the different measures taken by each country. We shall only refer to the important and common steps followed to realize land reform in underdeveloped countries after the second World War, and give some remarks on the problem, limiting our study to the importance of economic factors in producing a successful land reform and the relationship between land reform and the general economic development movement.

## THE MAIN STEPS TAKEN BY UNDERDEVELOPED COUNTRIES TO ACHIEVE LAND REFORM

### A) Redistribution of Land Property :

4. — In the advanced countries of Western Europe the system of private ownership has its roots shooting far back, with a large class of small and medium landowners exploiting their own farms. In some underdeveloped countries, on the other hand, such a balanced system of ownership never existed. In some Asiatic countries there was a special class (Zamindari) who neither cultivated land nor participated in its cultivation, but used to collect rent from the actual tillers. New legislations in those countries tend, therefore, to wipe out this class and give tillers a quasi right of private ownership (India and Eastern Pakistan can be given as examples).

In some of the underdeveloped Latin American countries, land ownership was concentrated in a few hands and prohibited to either tillers or natives. In Bolivia, f.i., 4.5% of the total landowners in 1950 owned 70% of the total privately-owned land property. The Properties of the native inhabitants (the Comunidades) had been expropriated since 1900. The recent land reform in Bolivia provided for the redistribution of large ownerships which were not cultivated by their owners, and at the same time restored to the native inhabitants their communal properties, adopting in this respect a system similar to that applied by Mexico in 1910 when large ownerships were expropriated and restored to villages (Ejido).

In other countries where private ownership was already settled but badly distributed (as was the case in Egypt), land reform fixed a ceiling for private ownership, expropriating any area in excess for redistribution to small farmers in the form of full private ownerships.

5. — The importance of land reform can be grasped from the following statement relating to measures of land redistribution in some countries, showing areas scheduled for expropriation, areas redistributed, and number of families receiving land. (published by the U. N.)

## AREA OF LAND AND NUMBER OF FAMILIES AFFECTED BY MEASURES OF LAND REDISTRIBUTION

(Area in thousands of hectares except as indicated)

Country	Area Scheduled for expropriation or redistribution	Area redistributed to date of Government's reply	Number of Families receiving land
Taiwan:			
Public land .....	64	52	106.823
Private Land.....	174	—	300.000
Czechoslovakia (Acts of 1945, 1947, 1948)	4.500	1.750	350.000
Egypt (1952 Act) .....	—	187 (a)	—
Finland (1945 Act) .....	—	2.053	129.680 (b)
Germany (Federal Republic) .....	280	89	—
India (c) .....	160.000 (d)	—	—
Italy .....	700	187	39.691
Japan .....	2.441	2.383	4218.000 (e)
Mexico (1946 to 1952) .....	—	3.985 (f)	84.547 (f)
Pakistan (g) .....	595 (d)	274 (d)	278.648
Poland (since 1945).....	—	6.000	981.300
Spain (h) .....	588	—	—
Turkey .....	—	272 (i)	55.385
Yugoslavia (1945 act) .....	1.566	797	316.464

a) Thousands of acres; refers to area expropriated during the first year.

b) Land transfers. — c) Six states only. — d) Thousands of acres. — e) Cultivators.

f) Including only land actually in final possession.

g) North-West Frontier Province only.

h) Land under the National Land Settlement Institute.

i) Plus 149.650 hectares of pasture land allotted to villages.

### B) State interference for limiting land rents and ensuring the security of tenure.

6. — The problem of agricultural rents inflation is of great importance in old countries, especially where land ownership is concentrated within few hands and the agricultural population is pressing hard on land. The problem becomes more complicated when it is difficult to shift working hands from agriculture to other trades.

It should be noticed that in new countries such as the U.S.A., New Zealand, and Australia where agricultural land are adequate and shifting from farming to other trades is easy, no attempt was made to fix agricultural rents.

In European countries, on the other hand, the inadequacy of agricultural land to meet demand forced rents upward and eventually necessitated state interference to establish a balanced relationship between the privileged landowner and the tenant. In order to secure continuous and progressive cultivation, minimum periods for tenancy, automatically renewable, were

laid down. Sub-leasing was prohibited, but on the other hand, tenants may be recompensated for improvements they introduce to the land.

However, the problem of agricultural rents is more accentuated in underdeveloped countries where the cultivated areas are densely occupied by a population which cannot be easily shifted to other trades for several economic, social, technical and political reasons. To divert hands from agriculture to industry requires heavy investment of new capital. The traditional sticking of a farmer to his land renders it difficult to shift him to any other pursuit. Moreover, a great difficulty is involved in his technical training for industry in underdeveloped countries.

Political considerations play also an important part in fixing agricultural rents especially in such a country where the areas redistributed under land reform are not enough to cover all landless peasants. To create a general feeling of equality between beneficent and non-beneficent peasants, the latter has to be reconciled through lowering agricultural rents and regulating his relationship (as tenant) with the landlord.

This is why land reform in underdeveloped countries imposed rent ceilings and floor tenancy periods. Automatic renewability of tenancy, prohibition of sub-leasing, and recompensation for improvements effected by tenants have also been included (ex. India, Pakistan, Taiwan, Japan and Egypt).

In the following we shall deal with "Land reform and agricultural production", then with land reform and economic development.

## LAND REFORM AND AGRICULTURAL PRODUCTION

7. — We have already stated that underdeveloped countries are very keen about raising their standard of living through full exploitation of their resources. Any decrease, in the present level of production will threaten their already low standard of living and delay their economic development.

Agriculture is the main source of income in those countries, engaging from 70 to 85% of their total population, while agricultural products account for the greater part of their exports. The future of underdeveloped countries is therefore closely related to the future of their agricultural production.

Their governments have thus to think much before taking any measure that may affect a decrease in agricultural production. They rather try their best to increase that production.

Generally speaking, land productivity in underdeveloped countries is slightly below that of developed countries, but labour productivity is far much lower, as can be seen from the following table:

**PRODUCTIVITY OF THE AGRICULTURAL POPULATION BY CONTINENTS AND  
FOR THE WORLD (a) PRE-WAR AND 1947/48**

Continent	Yield per hectare			Yield per person in agriculture		
	metric tons		1947/48 as per cent of pre-war	pre-war	1947/48	1947/48 as per cent of pre-war
	pre-war	1947/48				
World average ..	1.24	1.30	105	0.42	0.42	100
North and Central America .....	1.07	1.50	140	1.80	2.57	143
South America ..	1.28	1.39	109	0.58	0.48	83
Europe .....	1.51	1.34	89	1.04	0.88	85
Oceania .....	1.06	1.20	113	1.94	2.38	123
Asia .....	1.26	1.20	95	0.24	0.22	92
Africa .....	0.77	0.73	95	0.12	0.12	100

*Source:* Food and Agriculture Organization of the United Nations, Monthly Bulletin of Food and Agricultural, vol. 2, No. 9, September 1949; arranged in order of yield per hectare in 1947/48.

(a) Excluding the Union of Socialist Republics.

The redistribution of property cannot alone be of any great effect in the productivity of labour, for that productivity depends mainly on technical and human factors — i.e. on factors relating to methods of production, use of machinery and the technical efficiency of labourer. It thus remains to be answered whether land reform can increase land productivity (due regard be given to the law of diminishing returns) or whether the redistribution of land property should be accompanied by other technical measures aiming at the increase of production.

8. — Those who oppose the redistribution of big land ownerships believe that this measure disregards the advantages of mass production, discourages investment, and results in less production. They also believe that if agricultural rents are fixed at lower levels than could be obtained under supply-and-demand conditions, landowners will discontinue their normal function of bearing the greater share of investment in agriculture. As a further support to their argument, they maintain that the legislator's interference to effect an arbitrary increase in the tenant's share of agricultural income weakens the care he should take in cultivation and in maintaining the natural productivity of land.

The advocates of redistribution, on the other hand, consider it as an essential factor to achieve agricultural development. A big landowner is less often the cultivator of his land, while a tenant has no incentive to maintain the natural productivity of the soil or to avoid its exhaustion. He would not invest enough on fertilizers or improvement works of a long-term nature.

The result is lower production and decreasing productivity of agricultural labour.

Some of the international economic commissions to underdeveloped countries where big ownerships were concentrated in a few hands noticed that the cultivation systems adopted tended to retard development in agricultural production.

The U.N. Commission to Bolivia in 1950 stated in its report (laid down before the land reform), that the land tenure system almost completely blocked the development of a progressive agriculture.

The I.B.R.D. Economic Commission to Iraq also noticed that most of the cultivable land was in the hands of tribal chiefs and big "absent" landlords. No efforts were paid to improve the land which used to change hands from one tenant to another year after year. The report goes on, "the system undoubtedly retards progress and then undermines the health and vigour of the rural population, limits the market for industrial production, and may in the long run prejudice the stability of the social order".

9. — The effect which the redistribution of large ownerships may work out on the volume of agricultural production and the productivity of labour cannot be generalized. Each case has its own circumstances. The problem is closely related to the optimum size of farms, which varies according to different factors including the type of cultivation, the general economic conditions, number of population, etc...

In some countries, extensive cultivation may be the most productive method as regards investment, while others are obliged by their own circumstances to adopt intensive methods which engage as many workers as possible.

It is obvious of course that the progress in production techniques affects the farm size which can be considered as the optimum size.

In countries where large landowners play no important rôle in production, the redistribution of their property does not affect the farm size as it would be already divided into small tenancies, and as a consequence, redistribution will hardly change the method of cultivation.

The redistribution of land property affects the farm size in those countries where direct exploitation prevails, whether by owner himself (as in Latin American countries), or by large tenants as had been practised in Rumania and other East-European countries before land reform. When the large farm size is more suitable to the general conditions, land reform exempts the well-exploited ownerships from redistribution. In Bolivia, f.i., large estates properly exploited by owner himself are exempted from redistribution, provided that he should use machinery. This of course is the proper method for a country well-adapted to extensive agriculture.

In brief, the redistribution of property under land reform does not necessarily affect the farm size as regards area. A wise land reform should take into consideration the state of land cultivation before the reform and maintain intact — at least for a time — those farms with high labour productivity, since the requirements of national economy dictate no change of methods.

10. — It should be pointed out that the farm size does not exclusively depend on the area of the productive unit, for we mean by the "size" the economic size. The cultivated area is undoubtedly the main factor in determining the farm size, but it is not the only factor.

The optimum farm size may be defined as the size which can provide an adequate income and a convenient standard of living to the family engaged in the farm. Such a size has its undeniable social advantages, but it may not be the economic optimum size. This latter may be larger or smaller than the size required to afford the needs of the family. If larger, the use of hired labour is advisable; if smaller, some of the family members have to find work in adjacent farms or outside the agricultural field altogether.

From the economic point of view, the optimum farm size is that which ensures optimum employment of different factors of production. In other words, it is the size at which the average cost is lowest. If we adopt this definition and take into consideration the different types of natural conditions, the difference in managerial ability, the possible changes in the techniques of production as well as in the number of population, and the general economic conditions,... then we can come to the conclusion that land reform should secure a degree of elasticity which can allow a farm to adapt its size to the changing conditions and tend always towards the economic optimum size.

Land reform can achieve this elasticity by allowing the formation of farms larger than those created by the redistribution of land property. This question is connected with the ceiling area imposed by the land reform legislation.

Moreover, the credit facilities which land reform offers to the new farms created by the redistribution of land property give them the means by which they can always adapt themselves to maintain the economic optimum size.

There is no doubt that cooperatives and other organizations formed at the land reform centres can play an important role in helping the farm achieving its optimum size.

This role should not only be that of replacing the ex-owners or private institutions as regards the services they used to render to the agricultural producer, especially in countries where land productivity has attained a high level. They should also seek to ensure the continuous progress of agricultural

production. If the techniques of production remain unchanged, the end aimed at cannot be attained without manipulating the factors of production in such a way so as to increase output. The cooperative system may be required to play an active part in production. It may also be found necessary to adopt a collective system in production if it proves to produce the optimum size. The importance of individual motives in production should not be overlooked, however.

11. — The question referred to at the beginning of this study regarding the effect of land reform on agricultural production may now be briefly answered. The repercussions of land redistribution depend on the modifications it works on the farm size. Whether these modifications are advantageous or not to production depends on the type of the farm, i.e. on the nature of the activity undertaken by the farmer and on the means which the land reform may adopt to realize the optimum size.

If a large farm is well-managed, it can realize certain advantages including the adoption of modern techniques of production; the easy acquirement of more capital; the possibility of using machinery; and the good marketing of products. In addition, where the total cultivated area is limited, large farms help economising the land which should otherwise be allotted to embankment and canalization if the area is divided into minor plots, and at the same time help to coordinate irrigation and drainage where these two aspects present important problems.

However, this does not mean that a large farm size secures success for all types of land utilization. There are many types of utilization which can best succeed in minor farms.

If an underdeveloped country is at the same time over-populated, it has to seek more chances for employment, in agriculture especially if it is difficult to turn to industry. In such a case, the large farm may limit the need for labour, not only because of its natural tendency towards mechanization, but also because it is often inclined to adopt the form of utilization where labour is least needed. A large owner may prefer pastoral pursuits to farming, or grow, say wheat, while the cultivation of vegetables is rather necessitated by the conditions of a densely populated country.

It should also be noticed that the distribution of land property does not exterminate all the merits of large farms, for these merits can be obtained through cooperative institutions which can bring the small farm to the optimum size as already indicated above.

12. — The Government interference through imposing a low ceiling for agricultural rents will not affect production except where the landlord plays

an important part in the finance of production and the guidance of farmers and is likely to discontinue playing this part with a reduced rent. Even in this case, we have first to suppose that there is no other means to fill up the gap created by the landlord withdrawal from active cooperation. But in fact, the cooperative institutions coupled with the agricultural credit facilities afforded by the state will help the producer to overcome the difficulties which may arise should a landlord reduce his care about production.

Moreover, the increase in the tenant's income will allow him better feeding and generally improve his standard of living. His productivity in agriculture is therefore likely to increase.

We have, thus, seen that the redistribution of land property and the limitation of rents are likely to increase agricultural production if farms could be brought to their optimum size; yet, this does not mean that land reform can solve the main problem of the overpopulated agricultural countries, viz., insufficient cultivable land to meet the increasing population. This problem is related to economic development in general and will be dealt with in the following pages.

## LAND REFORM AND ECONOMIC DEVELOPMENT PROGRAMS

13. — The relationship between land reform and economic development programs in underdeveloped countries can be studied from several aspects. The effect of land reform on agricultural production affects in its turn the general economic development, as long as agriculture represents the main source of income and accounts for the major part of exports. For it is this income, coupled with the receipts from exports, which will determine the prospective local investments in industry. These investments are affected by both national savings and the amount of foreign exchange that can be appropriated for the purchase of capital goods from abroad. This is of course regardless of the foreign capital and the possibility of better exploitation of idle resources if financed through credit creation within the capacity of national economy.

The redistribution of land property and its preparation for production within the new system of land tenure incur managerial and other expenditure to enable the new owners exploiting their land by the creation or expansion of public or private credit institutions, the formation of cooperatives, the digging of canals and drains, and the purchase of machinery that can suit the new system of production. Such expenses (or more accurately that part of the expenses incurred by the redistribution which leads to no net increase

in production) affects the other sectors of the economy as they represent an additional burden on the national economy. Yet, these same expenses may create, on the other hand, a new market for non-agricultural products.

The recompensation of ex-landlords may give rise to serious financial problems and create inflationary pressure. However, this can be avoided by distributing the burden of recompensation over a long period.

Perhaps the most effective relationships between land reform and the economic development appears when land reform with its both sides (the redistribution of both land and agricultural income) is carried out on a large scale in a country depending mainly on agriculture. In such a case, land reform greatly affects the way of spending national income and eventually leads to important modifications in the general economic structure of the country. These modifications should be anticipated and precautions taken in order to attain the best results. This is the aspect to which we shall confine our study of the relationship between land reform and economic development.

14. — We have already mentioned that land reform with its two sides tends to increase the income of new land owners and tenants while it decreases the income of big landlords. The general economy of the country is greatly affected in accordance with the way the increase in the income of farmers is spent. They may accordingly increase their investment in agriculture and consequently stimulate production (or importation) of fertilizers and necessary agricultural equipment. Land reform may give rise to some light industries to meet the new demand of minor ownerships on simple machinery. The general economic activity will thus increase and the investment in industry expand to cope with the needs of the new market.

On the other hand, the increment in income may be spent on consumer goods such as clothes and the local clothes industry will expand either through the increase of investment therein or through the utilization of idle capacity. Or, the increase in income may be spent on food, and the farmer will then appropriate more land for the cultivation of his family food requirements. In this case the national economy will gain no advantages; on the contrary, the increase in food consumption, if considerable, may badly affect the export trade. It may even endanger the execution of industrial plans if their success requires an expansion in agricultural output, in foodstuff, and in the receipts from exports. It should be noticed, however, that the increase in the farmer's food consumption may increase his productivity besides its social and humanitarian advantages.

15. — As regards the decrease in the income of big landlords, this may affect certain local industries and entertainment services. But as in most under-developed countries luxury goods are usually imported and travelling expen-

diture abroad represents an important item in their balances of payments, land reform is likely to improve their foreign payments position without producing a corresponding loss to the national economy as a result of reduced imports.

We should not forget either that both the redistribution of land property and the limitation of land rents are likely to divert savings to new channels of investment other than the cumulation of more land, thus producing a new source of financing economic development.

A problem that needs special mentioning is the compensation which is usually paid to landlords in the form of long-term bonds (sometimes of 30 years) to be redeemed by means of the installments collected from the new owners. This procedure means that the amount of compensation will be paid out of the agricultural income and can be channelled to investment in industrial or other activities within the economic development program. It is possible that public or private credit institutions may carry out their ordinary role of lending against these bonds to enable immediate investment in useful fields. Such loans are advantageous to the national economy under two conditions: first, they should be granted within a limit that would not lead to inflation; and secondly, this facility should be considered as a part of the economic development program so that money may not be spent on precious metal hoarding or in low-yield investment. Needless to say that money lent to ex-landlords should be carefully watched against being smuggled abroad.

However, lending against land reform bonds needs be organized only when their circulation at the stock exchange is restricted and their redemption slow. But if these bonds are allowed normal circulation and redeemed in reasonable annual proportions, other problems will need consideration. There is the problem of how to avoid the results of illegal speculation that aims at lowering the market quotations especially at the start. There is also the problem of fixing the annual redemption at a level that leads to no inflation.

16. — It is obvious that the financial effects resulting from the redistribution of agricultural income will vary in importance with the extent of this redistribution. The change in demand as we have already pointed out will affect the country's foreign trade and will consequently affect the customs receipts which usually form a main source of public revenue in underdeveloped countries. The tendency towards levellation of income will also affect the proceeds of income taxes.

From the foregoing we can conclude that land reform is closely connected with the national economy as a whole and with the general tendency towards economic development. We have pointed out in part 1 of this study that the

success of land reform depends on the ability to increase agricultural production or at least to prevent its deterioration. This ability in turn depends on what extent the national economy can substitute the ex-landlord in providing owners and tenants with material and technical aid in order to bring the new farms to the optimum size. To achieve this end, it is necessary to coordinate the general development program with land reform. If land reform requires some public works (roads, canals, etc...) the development program should cater to create public or private firms or to organize government administrations that can carry out the necessary works. If the parcelling of big ownerships necessitate a shift towards extensive cultivation, then the economic development program should be adapted accordingly. Storing houses are to be prepared for agricultural products and wider markets are to be sought through the improvement of transportation and other marketing facilities both locally and abroad. Marketing abroad is of particular importance to underdeveloped countries, as the continuous deterioration in their terms of trade is partly due to lack of organization in their export-import policy. As the more developed countries (usually exporters of manufactured goods and importers of raw materials) enjoy a rather monopolistic position both in exports and imports, underdeveloped countries can improve their terms of trade only when their economic development programs give due attention to have a well-organized trade system which can stand against the monopolistic elements in world markets. It may be necessary for underdeveloped countries to conclude agreements between themselves to secure success for what measures they may take in this respect.

The change in demand based on the distribution of agricultural income requires the economic development program to give more weight to those industrial projects which can meet the new demand.

In other words, the economic development program should be adapted as to incorporate land reform. There is no doubt that the ultimate aim of both land reform and economic development programs in underdeveloped countries is to wipe out disguised and partial unemployment and to increase the productivity of labour. These problems cannot be satisfactorily solved in underdeveloped overpopulated countries without creating new industries and increasing agricultural production. The increase in agricultural production can be attained by expanding the cultivated Area and by improving the economic yield of land through the reconsideration of crops to be cultivated and the application of different technical methods of cultivation.

18. — Before leaving these two remarks about the relation between land reform on one hand and both agricultural production and general economic development on the other, we have to stress the importance of the administra-

tive problems involved. A highly efficient administrative system is indeed required to carry out land reform. The expropriation of land, the management of requisitioned area before redistribution, the decision as to what beneficiaries are to get use of the land reform, the creation of new institutions for the help of new owners such as cooperatives and guidance centres, the management of such institutions, the control on land rents... all these are not easy problems to be tackled.

Similar problems are to be faced in the execution of the economic development program and its adaptation so as to secure success for land reform.

It is obvious that the execution of land reform will be easier when national consciousness is well-developed and the cultural standard of the farmer is adequate. For the success of land reform is closely connected with the general attitude of the countrymen. The peasant should not receive his new land or the increment in his income as a gift to be squandered. It should sink deep in the community conscience that these advantages are mere means leading to higher development and better society.

## CONCLUSION

Land reform is a common phenomenon which appears in the history of nations whenever certain conditions step in to cast light on the problems of land tenure and land rent, and whenever circumstances favour a coercive and courageous action. Such an action may be the result of a revolution or a measure to avoid an expected revolution. It may also come out when the political structure of a country is deeply changed (as happened after the liberation of Asiatic peoples) and means have to be sought in order to achieve both social and economic development, to confirm the newly acquired political freedom, and to interpret this freedom in terms of economic rights in land tenure or in land yield.

There is no doubt that the importance of land reform as a fundamental measure for development will be more emphasized when viewed from the social, humanitarian or political angles. Besides, the economic advantages of land reform cannot be denied. It leads to the reorganization of agricultural production on scientific bases and in such a way as to avoid the disadvantages of big ownerships. Under land reform, however, lower rents provide chance for tenants to develop the techniques of production without undue exhaustion of soil fertility, while the depreciation of land value diverts a considerable part of national savings towards investment in industry and trade.

Yet, land reform will not be fully effective unless it is coupled with state interference in agricultural production with a view to obtaining the optimum

farm as regards the type of agriculture, as well as the farm area, which should be adequately elastic to cope with any changes in the techniques of production or in the general economic conditions. Perhaps the most serious danger to land reform is the parcelling of property. In any case, land reform should be considered as an integral part of the general economic development program so as to secure balanced development in the different sectors of national economy, especially in underdeveloped overpopulated countries where the standard of living cannot be appreciably raised without creating new industries to absorb the surplus population.

## A. EL TANAMLI

# ECONOMIC ASPECTS OF LIVESTOCK PRODUCTION

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As it is known in mathematics one can maximize a given function subject to certain restrictive conditions. This problem of maximization is, implicitly if not explicitly, dealt with in reality among people having different major interests in life like production, consumption, etc., or people performing within different lines of activity like education, politics, medicine, etc. A consumer for instance tends to maximize his utility or, commonly speaking, happiness function subject to the means at his command related to the price of the units of the componets formulating his happiness vector. As for the producer there are three factors which are usually considered as affecting his behavior: the technological factor, the economic factor, and the institutional factor. A microeconomic analysis of an economic firm would reveal its manager's aim selecting the economic factor to be maximized and taking the other two factors as given at least in the, relative, short run. However, this approach is not adopted by the technical scientists since their profession requires them to ignore but the technological factor for maximization which is, admittedly, a complementary approach to and indispensable part of the long run dynamic production process.

Looking at the production process from this angle one may view the technology of production as a factory processing and improving to the maximum input-output relations or, synonymously, production functions. Applying economic tools to these production functions completes the overall production picture.

## **Livestock Production**

Livestock production could be analysed in a micro sense, that is, from the individual firm's standpoint, and in a macro sense, that is, from the nation's standpoint. Let us follow, therefore, each approach to show the economic implications involved in the overall problem of maximum efficiency of livestock production.

## **Livestock Production as a Private Enterprise**

Livestock production is, in a micro sense, an enterprise within the farm business utilizing agricultural resources and hence competing with other

farm enterprises for land labor and capital. Whether or not the resource manager starts up a livestock enterprise is determined by the net returns obtained from such business (including soil conservation considerations, etc.) compared with those obtained from other farm businesses over the range of the manager's economic horizon. This decision is governed by various economic theories based upon cost, price, risk, and uncertainty considerations and also by the famous biological input-output relationships (production functions).

There is, however, a simple economic device through which the resource manager can determine the scale of his livestock production, if any, relative to, say, crop production given the production functions and using a fixed amount of resource on the farm which is mainly land. This device is the iso-resource curve AB (figure 1) showing all possible combinations of two products

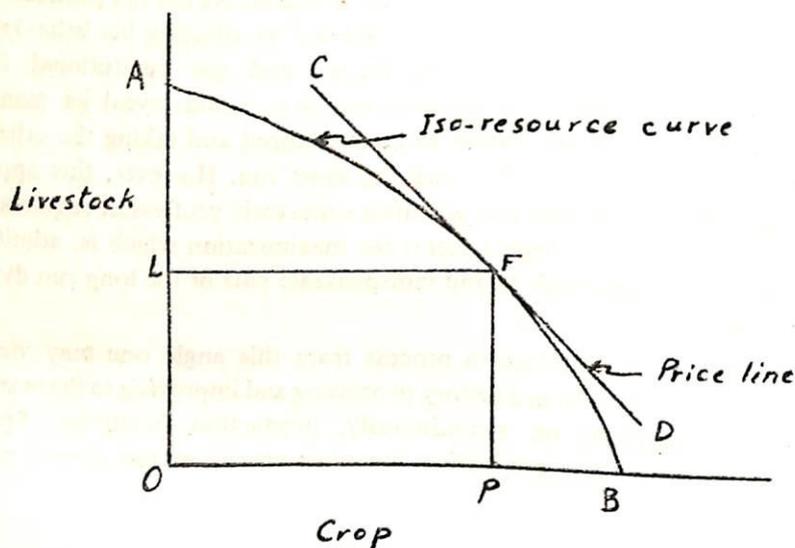


Figure (1)

that can be produced with a given amount of resource. This curve which the manager, being more economically than technologically minded, takes as given and which becomes variable through the efforts of the biological scientists is not useful by itself in solving the problem. Which combination should be produced to make the most of our resources is determined by price consideration which is represented in the price line CD. The slope of CD represents the sales-price ratio of livestock products and crop products at a given time. The point of tangency F gives us the answer which is a combination of

OL units of livestock products and OP units of crop products. The negative slope of AB shows a case of competition between livestock and crop productions. This, however, does not fully agree with reality since there is usually a degree of complementarity between agricultural enterprises, i.e., the production of one crop induces the production of the other with no additional resources. Within the livestock enterprise, for instance, there is complementarity in production between cheese and feeder stock production since some of the cheese by-products like whey are commonly mixed with concentrates in the feeder-stock ration.

Now that the manager determined the size of livestock enterprise relative to other enterprises on the farm he is confronted with the input-output relations of whatever stock he handles. Due to the inevitable fixation of some factors of production in the biological world, production functions are subjected to the law of diminishing returns. The problem of deciding on the point on the production function at which the manager stops applying inputs then arises. The optimum point of production is, again, a function of biological factor (production function) and economic factor (price line). Let us take feed, in steer fattening enterprise, as the variable factor. In fact, it is the most important factor of production to people engaged in this occupation. Taking other factors as given, figure 2 shows a hypothetical relation between feed input over and above the maintenance ration and meat output (gains in weight).

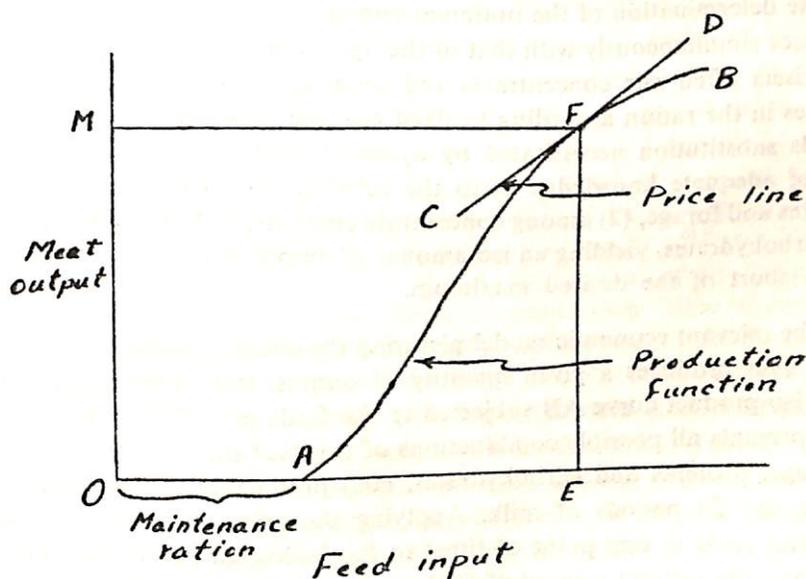


Figure (2)

The optimum level of feeding is determined by the tangency of feed-meat price line CD and production function AB at F. Thus, given the production relation and the input-output market price ratio shown in figure 2, the manager maximises his profits by feeding OE obtaining OM meat output.

The optimum level of feeding in any other line of livestock production could be similarly determined.

Dealing with more than one factor of production requires mathematical, rather than graphical, representation. One may introduce, say, milk production function for a certain breed of cows in a single regression equation containing three independent and one dependent variables, thus:

$$Y = \alpha + \beta X_1 + \gamma X_2 + \eta X_3$$

where Y stands for milk output,  $X_1$ ,  $X_2$ , and  $X_3$  stand for three factors of production, say, feed, labor, and housing condition.  $\alpha$ ,  $\beta$ ,  $\gamma$  and  $\eta$  are the equation's parameters to be estimated. The outcome of this analysis shows us the relative importance of the considered factors in milk production. This is a necessary step toward the application of factor-cost-product-price considerations. The factor with the largest coefficient enjoys, presumably, the greatest consideration.

The determination of the optimum combination of feed resources should take place simultaneously with that of the optimum level of feeding. Livestock enterprisers often mix concentrates and roughage or different kinds of concentrates in the ration according to fixed practice regardless of the possibility of feeds substitution necessitated by dynamic changes in feeds price ratios. Lack of adequate knowledge as to the substitution ratios (1) between concentrates and forage, (2) among concentrate contents, and (3) between proteins and carbohydrates, yielding an iso-amount of output, holds the entrepreneur's profits short of the desired maximum.

The relevant economic model picturing the cheapest combination of feed inputs that produces a given quantity of output, thus, maximizing profits, is the iso-product curve AB subjected to the feeds price line CD in figure 3. AB represents all possible combinations of two feed inputs (concentrates and roughage, proteins and carbohydrates, etc.) producing a given quantity of output, say 20 pounds of milk. Applying the price line CD (representing feed-price ratio at one point of time) to the biological iso-product curve we determine the optimum point of feed combination F indicating the cheapest ration needed for producing 20 pounds of milk under the prevailing price conditions.

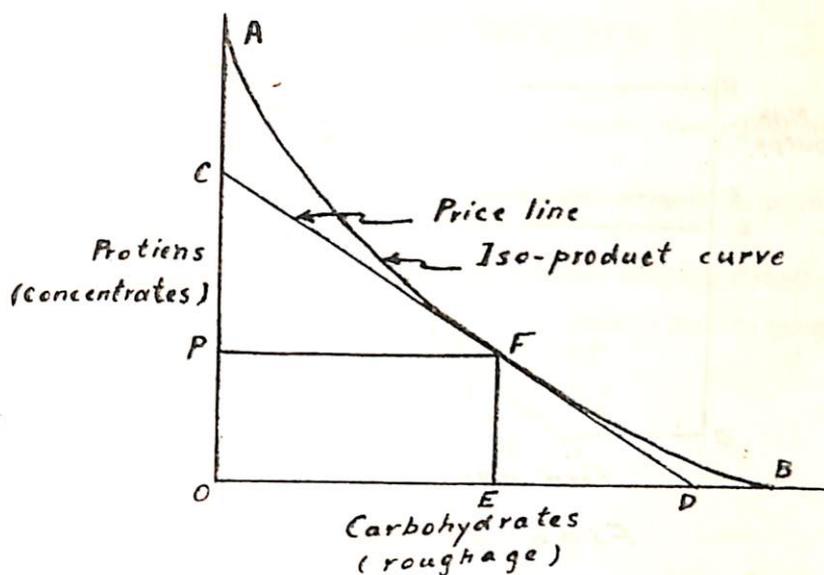


Figure (13)

### Role of Animal Breeders and Geneticists in the Efficiency Process

It has frequently been mentioned that the rational livestock producer should deal with relationships which are rooted in the realm of biological fields. Those relationships like production, iso-resource, and iso-product functions are looked upon by the resource manager as invariable except through the effort of animal breeders and geneticists and not of the animal husbandmen. A production function of a certain breed of cows for instance can be shifted upward with a change in its elasticity by improving the inherent productivity of the breed (figure 4). The same result can be achieved, however and only relatively, by the dairy husbandmen through freeing the dairy stock from diseases or varying the fixed factor of production. This, of course, is a submarginal situation and should be handled before the performance of the breeders' duty. Applying the price line to the two hypothetical production functions drawn in figure 4, we determine the optimum level of feeding on each function. The man with the low-milking herd, not knowing the nature of the production function of his cows will want, like his neighbour with the high-milking herd, to feed  $OB$  to get  $OH$ . He only gets  $OE$  with additional cost more than returns caused by moving from the optimum level of feeding  $OA$ . The intersection of the two production functions in figure 4 is justified by the assumption that high producing stock requires higher maintenance feeding level  $OD$  than that required by low producing stock which is  $OC$ .

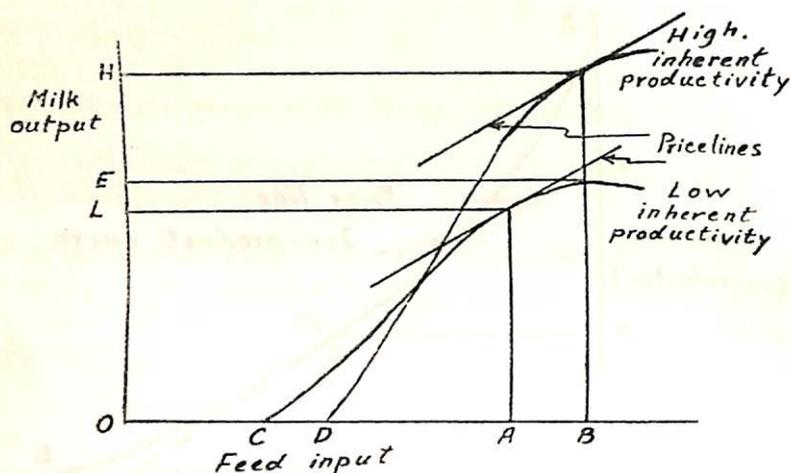


Figure (4)

Also the shape of the two production functions assumes the existence of three milk production stages, increasing, constant, and decreasing marginal productivity and a fourth stage in which the increments of milk production stop and the animal begins to gain weight. All these assumptions, however, may be hypothesized, thus subjected to empirical evidence.

#### Livestock Production as a National Enterprise

From the nation's standpoint livestock production is considered a part of the overall national production. Thus, the nation's economic goal regarding this type of enterprise is to make the most out of all resources devoted to livestock production, namely land, labor, and capital. More scientifically speaking, and in general, the average production which is the total production divided by the units of productive factors should be maximized. This, however, is not always the nation's desired goal. There are times when maximum livestock total production is sought regardless of cost considerations. Temporary emergency caused by a sudden increase in the country's population through refuge, for instance, may call for an unexpected need for additional amount of animal protein foods. The suddenness of the existence of such condition does not permit fixed resources allocated for livestock production to be adjusted to the new situation, thus, inducing the application of variable resources up to the point where total production begins to diminish. To the individual producer this process, as previously mentioned, is not economical. Production subsidies may, therefore, be given to livestock farmers to compensate the losses suffered from operating beyond the optimum point of input application.

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# PROBLEM SOLUTION CONCEPTION OF AGRICULTURAL PRICE CONTROL

by Dr. ELSAYED GABALLAH

## (A) The Problem and Method of Analysis.

At the most general level the problem investigated is the possibility of formulating the framework of principles underlying agricultural price control in order to determine more clearly the implications of scientism to the formulation of agricultural price policy. Underlying this investigation are the justifying presumptions concerning the reconstruction possibilities of the agricultural economic process by controlling the price instrument, the extensive resort to agricultural price control with the multitude of problems that such control has given rise to, and the unsettled differences regarding the criteria in terms of which farm prices should be controlled. The analysis will not be concerned with the purely marketing problems of farm products; but rather, with the production aspects of agriculture as they bear on farmers' incomes and consumers' satisfaction, and with agricultural price control as a public corrective measure.

Methodologically, the investigation will be carried out in terms of formulating the principles derivable from the characterization of the agricultural economic problems arising from the operation of the free or uncontrolled agricultural price system and the reduction of each problem by the relevant type of agricultural price control. This approach is suggested not merely by the necessity to differentiate the types of problems involved in the operation of the free agricultural price system, but also by the necessity to specify the character of the categories and their inter-relationships which obtain in the price control of each problem. With the clarification that this approach provides it would become possible to determine what to expect from agricultural price control as a policy instrument, and to settle some of the fundamental issues that has been raised over the last decade in the treatment of that controversial instrument.

Now that the focus of the investigation is the farm economic problems arising from the operation of the free agricultural price system and the possibility of their reduction by agricultural price control the question would be raised concerning the agricultural price functions which give rise to economic policy questions.

### (B) Dual Instrumentality of the Agricultural Price System.

The agricultural price system is of no concern to self-sufficient farming. It concerns only commercial agriculture-with far reaching effects on both farmers as income earners and on every member of the society as a consumer of farm products. In the capacity of an economic maximisation instrument, it integrates and regulates the specialised agricultural economic process with production, income, and consumption consequences depending on the institutional framework in which it operates. As it performs its regulatory and integratory functions it simultaneously serves as a controlling instrument of agricultural production or what may be termed as the resource allocation function of farm prices, and as a controlling instrument of agricultural income or what may be termed as the income allocation function of farm prices.

As an instrument of private economic maximization, the free or uncontrolled agricultural price system determines the structure of an enterprise agricultural organisation. The particular prices, prevailing or expected, of farm products and resources serve as guides to the individual producers who in the attempt to maximize their net positions from the cost price relationships would keep readjusting the kinds and quantities of outputs to produce, the relative quantities of the various resources to use, and the methods of production to follow. In the very undertaking of such production functions the agricultural price system also determines the distribution of agricultural income and its adjustments by prices paid to the services of the resources that enter into production. The prevailing relationships among such price payments clearly determines the pattern of income distribution within agriculture.

Though analytically separate, a close interdependence ties up the two allocative functions of the agricultural price system in a particular structural setting. In the first place, because of the fact that the use of resources is determined by expected incomes and that incomes arise as prices paid to the services of the resources used a close interdependence exists between the two price functions and the systems of allocation they bring about. In the second place, the resource allocation function of farm prices is, by implication, subordinated to their income allocation function. This relationship signifies the fact that the agricultural price system serves consumers indirectly by guiding farm pro-

duction in terms of private maximization. Alternatively stated, since the production objective is to maximize the private income position of farmers, they will be primarily concerned with the income allocation function of farm prices, and will use prices as guides to resource-use only to the extent that such price guidance is expected to maximize their net income position. In this connection sight should not be lost of the fact that for producers to maximize their private ends they have to produce the output most valued by consumers.

The maximizational capacity with which the uncontrolled agricultural price system operates and the relationship between its two allocative functions are institutional attributes that characterize it as a capitalist instrument. This institutional character necessarily reflects the institutional character of the enterprise agricultural organization for which the price system acts as the machinery of economic allocation. More specifically, the private maximizational character of the agricultural price system is a necessary implication of private property and production. In this capacity the price system acts as the market instrument of private acquisitiveness: a function that is bound to bring pressures to control it in the interest of special groups. This very maximizational character of the agricultural price system implies that as a logical necessity and with regard to the future, the system must be rooted in uncertainty and would consequently be only expectational. Such uncertainty arises from privacy of decision-making or privacy of enterprise by independent economic units: An institution that obtains as a necessary implication of private property and the pursuance of profit. Closely tied with these two institutional attributes is the subordination of the resource allocation function of farm prices to their income allocation function, and consequently the subordination of production to the maximization of private ends.

### (C) Analytical Character of Agricultural Price Control.

As a logical consequence of the interdependence between the income allocation function of farm prices and their resource allocation function the control of either function would necessarily result in the simultaneous control of the other, with a new and different system of farm resource and income allocation thereby obtaining depending on which function has been primarily controlled. More specially, this consequence means that in addition to the existence of the free agricultural price system and the system of farm income and resource allocation it gives rise to, there could exist other two agricultural price systems and their corresponding systems of farm resource and income allocation. These price and allocation systems are:

(a) The agricultural price system in which the income allocation function of prices has been primarily controlled to raise or lower farm income than what

would have otherwise been the case under the free agricultural price system. This type of price control which focuses on the income flow between the farm and non-farm sectors of the economy and to that end starts with the manipulation of the income allocating capacity of farm prices, would also result in a secondary but necessary effect, namely, the control of the resource allocation function of farm prices to the extent that the control of the income allocation function requires. This is another way of saying that for a farm output to be sold at a given price to yield a given income, the quantity of that output must be such as can be sold at that price. But as it responds to price, the control of farm output to the desired extent would involve the control of the resource allocation function of farm prices to that extent.

With both agricultural price functions thus controlled a new agricultural price system and a new corresponding system of farm income and resource allocation would emerge, with such price and allocation systems differing from the free agricultural price system and the system of income and resource allocation it gives rise to.

(b) The agricultural price system in which the resource allocation function has been primarily controlled to reconstruct the production organization of agriculture. This type of price control which focuses on the way resources should be used, and to that end starts with the manipulation of the resource allocating capacity of farm prices, would also result in a secondary but necessary effect, namely; the control of the income allocation function of farm prices to the extent that the control of the resource allocation function requires. This is another way of saying that for a given production organization to obtain, the prices paid to the services of the various resources (their incomes) must be such adjusted as would induce each resource to enter into production as would add up to the desired organization. But the control of the relative incomes to the services of the various resources to the specific income structure corresponding to the desired production organization would involve controlling the income allocation function of farm prices as would transmit to the resources used relative incomes that would add up to that specific income structure.

With both functions of the agricultural price system thus controlled a new agricultural price system and a new corresponding system of farm resource and income allocation would obtain with such price and allocation systems differing from both the free agricultural price systems differing from both the free agricultural price system and its systems of allocation, and the agricultural price system in which the income allocation function has been primarily controlled as mentioned in (a).

The above analysis of the possibilities of controlling the free agricultural price system leads to the conclusion that on account of the interrelated func-

tional duality of the agricultural price system the term "agricultural price control" is a composite conception that has to be comprehended in terms of its two analytically separate components, namely; (a) agricultural price control of farm income in which prices are primarily treated as income vehicles with the understandable result that parties to the exchange of farm products would be concerned directly as income earners with any change in the income allocating capacity of farm prices, and indirectly as farm output users with the production consequences that such income change requires; (b) agricultural price control of resource use in which prices are primarily treated as vehicles to farm production reconstruction with the understandable result that parties to the exchange of farm products would be concerned directly as users of such products with the change in the resource allocating capacity of farm prices, and indirectly as income earners with the income consequences that the production reconstruction requires.

The fact that both types of price control precipitate farm income and resource use changes should be no reason to confuse one type with the other, or to obscure the composite nature of the term "agricultural price control" which necessarily means both types unless the type of function primarily controlled is specified. For the differences between the two types are not merely structural: which function has been primarily controlled with the other function subordinately changing correspondingly, but they are as will be clarified in what follows both functional and institutional that each type of control stands not merely independent but decidedly contradictory with the other.

#### (D) Agricultural Price Solutions of the Farm Allocative Problems.

Between themselves, the two allocative functions of the agricultural price system bring about through the free operation of that system the economic problems of agriculture as it is tied to the exchange system. The nature of those problems clearly derives from the nature of those price functions; consequently, a farm income problem and a farm resource use problem could obtain with the operational content of each problem depending on the specific price solution adopted for each. Before analysing those problems and their possible reduction by price control, it is necessary to state that those problems and their solution are translatable into price terms since the policy measure adopted is a price control measure. However, the particular price relationships specifying one problem and its solution differ from those specifying the other, with the consequence that the types of measures necessary to bring about one solution differ from those necessary to bring about the other.

## 1. — Agricultural Price Control of Economic Equality :

A farm income problem would exist when the amount of income transmitted to agriculture by the free agricultural price system creates unrest on the part of farm or non-farm producers. Since farm commodity prices are the income vehicles to commercial agriculture and non-farm prices are the income vehicles to the non-farm sector of the economy, the farm income problem would find expression in the ratio of farm to non-farm prices; and the price correction of this problem consists of the social adjustment of that ratio as to yield agriculture only the amount of income considered as "just" or "reasonable". As a consequence of the political determination of the price solution of the farm income problem it would characteristically remain indeterminate. The adoption of any particular farm to non-farm price ratio, and hence the degree of income distributive equality between agriculture and the rest of the economy, would depend on the relative strength of the conflicting forces shaping the farm price legislation, with the prevailing conception of equality as a social value playing a major role in reconciling those conflicts.

Institutionally, the regulation of the income flow between the agricultural and non-agricultural sectors by controlling the income allocation function of farm prices (or agriculture's terms of trade) does not change the character of the agricultural price system as a capitalist instrument. Under such control the agricultural price system continues to serve as: (a) an instrument of special economic maximization through which farmers and non-farmers stand to gain at the expense of each other, relative to what would have otherwise prevailed under the free agricultural price system, depending on in whose interest and to what extent such control is made; (b) an allocating instrument in which the resource allocation function is subordinated to the income allocation function. The fact that collective action on the part of farmers and non-farmers is involved in such public control and that the gains realized are collectively shared by farmers or non-farmers (a situation that differs from the free agricultural price system situation where private producers try to maximize their private gains) has no effect regarding the general political economy character of such controlled agricultural price system.

Within the above general institutional framework, a particular institutional change takes place as a result of the control under consideration, namely; converting the free agricultural price system from a competitive instrument into a monopolistic one. This change which arises as a logical necessity of the arbitrary change of the income allocating capacity of farm prices for against farmers is required to counterbalance a monopolistic position that favors or disfavors farmers. Broadly speaking, farmers normally stand to lose relative to non-farmers on account of the fact that they sell their output in

a competitive market and buy their supplies in a monopolistic one. Their injury deepens over periods of increased farm technology and productivity as well as over depression periods when, on account of the agricultural cost structure and competitiveness, the same level of farm production has to be maintained. When agricultural incomes deteriorate over such periods farmers press for farm price support and the production and marketing restrictive measures that go with it to counterbalance the monopolistic privileges of the non-farm sector. On the contrary, when the demand for farm products outruns their supply as would generally occur during a war, serious inflation, and rapid industrialisation, farmers would stand to charge excessive prices if the market were left uncontrolled. Even if it were assumed that resources were available and could be channelled into farm production, output cannot be expanded before a production lag that may extend for several years. The inability to expand farm output at the same pace with the demand for it, even though inherently technical, would create a situation analogous to a monopolistic one in which production is consciously restricted. Over such periods consumers would justly press for farm price ceilings and consumption restriction to check the "temporarily — monopolistic" farm position.

The types of measures for and particular effects of agricultural price control of farm income are well treated in the literature to deserve any further treatment here. However, a significant remark concerning this control as a policy instrument is in order. The continued resort to such control in spite of its established theoretical and practical limitations arises from the fact that, politically, it is the more readily available alternative to alleviate the implications of inter-dependence between a competitive sector of the economy and other sectors that not only enjoy varying degrees of monopoly power, but also behave in such manner that threatens with periodic collapses and inflationary pressures. Agriculture finds it more practical to press for higher prices than to press for trust control, monetary stabilization and economic growth. Although fighting monopoly with monopoly would decidedly reduce the national product, its acceptance simply means that, in terms of practicability, it is more preferable to maintain equality among the various economic sectors than to a higher level of output. In a similar fashion non-farm consumers, particularly those with fixed incomes, find it more practical to press for price ceilings and consumption control than to press for inflation controls when inflation becomes politically an inevitable instrument. In such politico-economic setting, the economist accepts agricultural price control only as a political "realist, for his simplest economic notions indicate that farm price control as a policy measure does not go far behind treating the symptoms.

## 2. — Agricultural Price Control of Economic Efficiency :

A problem in the use of resources in agricultural world exist when the output forthcoming from such use as it is directed by the free agricultural price system is less than what it could have been had the available resources been most effectively guided in production. Theoretically, the perfect solution to the resource-use problem involves the reorganisation of the agricultural production system in such manner that not only no more output could be realised by any other production organisation, but also that any such reorganisation must reduce the forthcoming output. As a matter of definition the perfect resource-use solution or maximum economic efficiency is uniquely determined, with its insidious determinism arising from the fact that it obtains as the outcome of two "givens" namely, consumers' preferences, and the available quantities of resources viewed in their capacity as technical units and applied in production to achieve maximum consumers' satisfaction. Maximum output is by implication also deterministic and signifies the perfect optimality of output to consumers' tastes, with such output presumably produced by using the minimum amounts of resources technically required.

The maximum output solution to the resource-use problem originates in economic theory. It derives as an answer to the following question: It derives an answer to the following question: "If there is a given collection of resources how should they be organized in production to achieve the maximum output" ? Since the answer must be based on marginalism, (1) the particular prices involved in this solution would clearly be those specifying the marginally-adjusted production or the farm input-output price relationships that are such adjusted as to yield equal marginal returns to comparable units of resources. In price terms the agricultural resource-use problem would therefore be indicated by any discrepancy among the marginal returns to comparable resource units; and its correction requires the reconstruction of production in terms of marginalism. It goes without saying that the existence of the problem implies a reduction in output that results from the wastefulness with which resources are used; and as a consequence consumers, other things remaining equal, would be forced to pay unnecessarily higher prices.

The social agricultural price adjustment necessary to achieve the maximum output solution involves the control of the resource allocation function of

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(1) Professor F. Knight carefully states the maximizational nature of marginalism in what follows", Economic theory is concerned with the allocative aspect of economic behavior. Its entire argument comes under the single "economic principle" that the total result is maximized through allocating means among alternative channels of use (each subject to a law of diminishing effectiveness) in such a way that equal increments of means yield equal increments of ends in all modes of use". See "The Nature of Economic science in Some Recent Discussion", American Economic Review, Vol. XXIV, June 1934, p. 228.

farm prices in such manner that marginalism would obtain throughout the agricultural production organization. Such control requires the adoption of two measures, namely, farm price foreknowledge to guide the allocation of resources among alternative types of output, with firms following a "profit" maximizing behaviour and an unrestricted mobility of resources among and within firms to make possible the needed marginal resources adjustments. From the farm production system emerging profit would disappear as an economic category, but the maximum output desired by consumers would be forthcoming.

Institutionally, the political economy character of the free agricultural price system as a capitalist instrument changes with controlling its resource allocation function to achieve maximum efficiency into a socialist instrument.

This change involves, structurally, the subordination of the income allocation function of farm prices to their resource allocation function; and, functionally, a maximizational instrumentality solely in terms of the social optimality of farm production. The socialist character of the agricultural price system under this type of control reflects the political economy character of the system of allocation it regulates. The two measures required for the achievement of maximum efficiency, namely, unrestricted resource mobility and price foreknowledge are socialist measures that when adopted, would complete the socialism of agriculture. For unrestricted resource mobility means that every firm is enabled to acquire the resources it needs which implies that resources cannot be privately held but rather have to be publicly-owned with each firm enabled to obtain the variety of resources it needs in terms of marginalism. And price foreknowledge means the ending of privacy of decision-making; for when all firms know future prices they could only operate as "quantity adjusters" of resources but not as profit-seekers.

Now that the political economy character of agricultural price control of maximum resource-use efficiency has been clarified it would be unnecessary to go any further into a discussion of its other attributes as it is of no concern to any agriculture based on private property regardless of the social regulation of the latter. It must be mentioned here, however, that the maximum efficiency solution which appeals only to "economic-purists" is valid only in theory and could easily prove disastrous in practice as may be inferred from the absence of a completely socialized agriculture in any part of the world.

#### **(E) Agricultural Price Control in Contemporary Agricultural Economics.**

The analysis of the possibilities of agricultural price control of the farm allocative problems leaves no doubt regarding the differences in purpose and

conception between price control of farm income equality and price control of farm resource-use economy. The differences which are structural, functional and institutional render each type of control contradictory with the other. To be sure, on account of the absence of private property and production under a totalitarian socialism there is no place for agricultural price control of farm income to establish a balance of economic power between farmers and non-farmers; but rather there is theoretically a place for agricultural price control of farm resource-use to achieve maximum economy. Nor would there be a place in an enterprise economy for agricultural price control of maximum resource-use economy because it is not the consumers who collectively own and operate the agricultural production system solely in terms of their own preferences, but rather, there is frequently a place for agricultural price control of farm income to establish a socially desirable income balance between farm and non-farm earners. The contradiction under consideration may be summed up by stating that both types of agricultural price controls cannot be simultaneously undertaken because farm production cannot logically be simultaneously both capitalist and socialist.

Now that it is all too clear that the maximum economy value is not and cannot be the overriding social value in an enterprise economy, the question would justly be raised regarding the relevance of the concern with controlling the resource allocation function of farm prices to achieve maximum economy when dealing with the agricultural price policy of an enterprise agriculture or any system of agricultural production that is in principle based on the existence of private property regardless of the extent of the regulation of the latter. The answer to this question originates in the very development of recent agricultural economics.

Over the last fifteen years the major development in agricultural economics has been in the area of agricultural price control of farm production efficiency. Since its embryonic stage in 1940, (1) this development has so vigorously grown that by now it stands as a major school of agricultural economic thought (2). In spite of the sporadic intellectual unrest it caused the

(1) Schultz, T.W., and Jonson, G.D., "Elements of a price policy for agriculture", Memo. 5 (minco), Iwa Agricultural Experiment Station, Ames, Iwa, 1942.

(2) Schultz, T.W., *Redirecting Farm Policy*, New York, Macmillan, 1943.

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school's (1) forceful domination and extreme complexity remained unchallenged. (2) (3).

No attempt will be made here to critically analyse that school; only the institutional characterisation reached in this investigation will be applied to throw light on the way for future analysis. Boiled down to its essentials the school consists of the following propositions:

- 1) Resource allocative efficiency should be adopted as the objective of agricultural price control.
- 2) Price foreknowledge (or Forward Pricing) to guide farmer's use of resources should be adopted as a first step toward the efficiency objective, pending the development of economics and the identification of the other necessary measures to achieve efficiency.
- 3) Efficiency is politically and economically justifiable not merely in terms of its compatibility with the existing social value system but also in terms of its being the production organisation that yields maximum profits to the farmers and maximum output to the consumers.
- 4) Agricultural Forward Pricing is politically and economically justifiable in terms of both its compatibility with the free agricultural price system and its profit and output maximization effects to the producers and consumers respectively.
- 5) Deviation of agricultural production from the efficiency conditions seriously injures farmers and consumers in terms of net incomes and output respectively.

(1) Froker, R.K., "Discussion of price policy winning papers", *Journal of Farm Economics*, Vol. XXVIII, 1946.

Persons, K.H., "The Problem — Solution Basis of Forward Pricing", *Journal of Land Economics*, Vol. XXV, No. 4, Nov. 1949.

Brewster, J.M. and Persons, H.L., "Can Prices Allocate Resources in American Agriculture", *Journal of Farm Economics*, Vol. XXVIII, Nov. 1946.

(2) In an essay contest sponsored by the American Farm Economic Association in 1945, the first and second award-winning papers recommended price control of resource-use. See: "A price policy for Agriculture consistent with economic progress, that will promote adequate and more stable income from farming." By William H. Nicholls, *Journal of Farm Economics* Vol. XXVII, 4, Nov. 1945.

(3) Commenting on that development Professor William O Jones states, "This elaborate any growing structure is built of observations and theory, in approximately equal parts. Each junction of the girders of theory is bound firmly by an empirical investigation, each empirical finding is firmly tied in to the rest of the structure by one or more theoretical girders..."

....It is hard to tell just what parts of it are sound now until it has been examined much more carefully than it so far has been. This is a big job. It will require time and talent. "See" *The New Agricultural Economics*, *Journal of Farm Economics*, Vol. XXXIV, Nov. 1952, p. 446.

- 6) Agricultural price uncertainty (the opposite to Forward Pricing) injures both the producers as to the scale of their operation, the size of their incomes and profits, and the consumers as to the quantity and structure of farm output.
- 7) The logic of perfectly solving simultaneously both the production problem and the distribution problem calls for their separation, and solving the former by price guidance of production to achieve efficiency and the latter by nonprice measures but directly by income redistributive measures.

In view of the political economy character of agricultural price control of maximum allocative efficiency as reached in the above section, the following definite conclusions can be made regarding the nature and validity of the above propositions:

- 1) The efficiency recommendation is a recommendation of socializing agricultural production; hence, it cannot be adopted by any agricultural based on some aspect of private property. The term efficiency that its advocates in agricultural economics used is a connotative term that is exactly definable as the term "The Competitive Solution" which is recommended by socialists.
- 2) The Forward Pricing Recommendation is a recommendation of socializing the agricultural price system to direct the use of the still privately — owned resources in terms of consumers use of output and not in terms of producers profit. Its adoption would split the institutional structure of the capitalist system by eliminating privacy of decision-making or enterprise, and leaving private property intact. The system of political economy it gives rise to is neither capitalism nor socialism, and should not be confused with the "Mixed Economy" systems.
- 3) The economic justification of efficiency in terms of profit maximisation by the producers contradicts the institutional character of efficiency as a production system that totally eliminates profit as an economic category and liquidates the private producers to start with. The political compatibility implication of efficiency with private production as such implication arises from the maximum profit justification is necessarily misleading. As to the maximum output justification, it has already been mentioned that its validity is only theoretical and no data is available to support it. In fact the absence of a totally socialised agriculture in any country points to the grave practical difficulties that face the adoption of such organization.
- 4) The appeal to farmers in terms of profit maximization by Forward Pricing is misleading since it amounts to the contradiction that a socialist measure could enrich the capitalists.

- 5) The attack on uncertainty is institutionally a disguised attack on privacy of enterprise, and similarly the attack on a production organisation that deviates from efficiency is an attack on non-socialist production. The relevance of the economic justification supporting both attacks cannot be evaluated here. It must be mentioned here, however, that socialists have no complaint regarding the productiveness of capitalist agriculture and their objections have mostly centred on the inequality it gives rise to.
- 6) The logic supporting the adoption of the economic system mentioned in proposition (1) above, poses a new ideological theoretical weapon that economists are not yet aware of. Its full possibilities has yet to be studied particularly in comparison with the traditional socialist weapon.

The possibility of making the above conclusions rested on the identification of the institutional character of the price control under consideration. This identification brought to the surface the severe contradictions that makes it imperative to refuse the economic justification that the school used to support its propositions. The fact still remains that the complex theoretical manipulations used to obscure and justify those economic contradictions have yet to be reconsidered. And until this is completed contemporary agricultural economics in its major development will continue to pose a serious case of academic confusion that has for long been left unnoticed.

DR. EL SAYED GABALLAH

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(1) Lange, O., *On the Economic Theory of Socialism*, Minneapolis, Minnesota, 1938 in B. Lippincot, ed.



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# RELEVÉ DES PRINCIPAUX ARTICLES PARUS DANS LES REVUES EGYPTIENNES ET ETRANGÈRES

Premier Trimestre 1956

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## THE BRITISH CHAMBER OF COMMERCE OF EGYPT DIAMOND JUBILEE NUMBER

Vol. XLII, No. 30 — Cairo — March 1956

Foreword, by the President of the Chamber.

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The President of the Council of Ministers.

The President of the Board of Trade in the United Kingdom.

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#### LES RECHERCHES INTERNATIONALES

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- I — Méthodes et Résultats  
 II — Bibliographie sélective: les recherches comparatives de portée internationale sur certains grands sujets d'études.

#### DEUXIEME PARTIE

#### L'ORGANISATION DANS LE DOMAINE DES SCIENCES SOCIALES CHRONIQUES ET INFORMATIONS

- I — L'organisation dans les sciences sociales.  
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