

# Gunnar Myrdal

NOBEL LAUREATE GUNNAR MYRDAL was born in 1898 in the village of Solvarbo in Sweden. He received the degree of Doctor of Law in economics from the University of Stockholm in 1927, having written his dissertation on price formation under economic insecurity. Since then he has been the recipient of more than thirty honorary degrees.

His many offices and honors include Lars Hierta Chair in Political Economy and Public Finance at the University of Stockholm, 1933–39; Senator, Swedish parliament, 1935–38, 1943–47; Chairman, Postwar Planning Commission, Sweden 1943–45; Minister of Commerce, Sweden, 1945–47; Executive Secretary of the United Nations Economic Commission for Europe, 1947–57; Professor of International Economics and Director of the Institute for International Economic Studies, University of Stockholm, 1961–65. In 1974, Myrdal received the Nobel Memorial Prize in Economic Science.

After ten years with the Economic Commission for Europe, he undertook a ten-year study of development problems in Asia that resulted in the publication of his monumental *Asian Drama: An Inquiry into the Poverty of Nations*, 3 vols. (New York: Pantheon, 1968). Earlier books that related to development include *Economic Theory and Underdeveloped Regions* (London: Duckworth, 1957; Methuen, 1963), also issued as *Rich Lands and Poor* (New York: Harper, 1957); and *An International Economy: Problems and Prospects* (New York: Harper, 1956).

Among his other books are *Monetary Equilibrium* (1931; translated, London: William Hodge, 1939); *An American Dilemma: The Negro Problem and Modern Democracy* (New York: Harper, 1944); *The Political Element in the Development of Economic Theory* (London: Routledge and Kegan Paul, 1953; Swedish original, 1930); *Value in Social Theory: A Selection of Essays on Methodology*, Paul Streeten, ed. (London: Routledge and Kegan Paul, 1958); *Beyond the Welfare State* (New Haven: Yale University Press, 1960); *Challenge to Affluence* (New York: Vintage, 1962); *Objectivity in Social Research* (New York: Pantheon, 1969); *The Challenge of World Poverty: A World Anti-poverty Program in Outline* (New York: Pantheon, 1970); and *Against the Stream: Critical Essays on Economics* (New York: Pantheon, 1973).

His contributions have been especially notable in the study of racial problems, in methodological questions related to value premises and the political element in economic theorizing, in his institutional approach to social problems, and in his critique of conventional economic theory applied to developing countries.

# International Inequality and Foreign Aid in Retrospect

THIS PAPER is directed toward rendering an account of growing pangs of conscience.<sup>1</sup> At the beginning of my research interest in the development problems of underdeveloped countries, I gave unqualified support to the idea that the developed countries should give financial assistance for their development. In my own country, Sweden, I had been active in urging a relatively generous and untied aid program for this purpose. Development aid gradually reached the level, sometimes internationally declared to be a goal, of 1 percent of the national income, and it was planned to reach even higher in the future. Recent happenings in the underdeveloped countries and in the world at large, however, have caused me to doubt whether I was right. Political problems have regularly a moral kernel, and questions of aid are essentially dependent upon moral judgment.

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I do not belong to the true pioneers who, immediately after the war, when the avalanche of liberation from colonial bonds began, and sometimes even in advance of this revolutionary change in the world's political situation, took up the study of the development problems of underdeveloped countries. After returning to Sweden in 1942 upon completing my work on *An American Dilemma*,<sup>2</sup> I became fully occupied in governmental planning activities and, as minister of trade after the war, in guiding Sweden's role to restore trade and financial relations in Europe. My thoughts about the underdeveloped countries on other continents were hazy and not much in focus.

In early 1947, however, I left Sweden to become executive secretary of the United Nations Economic Commission for Europe (ECE). Development problems then came closer. For one thing, some countries, particu-

1. The personal and autobiographical direction of my paper has been chosen in agreement with the editors of this volume and actually on their advice.

2. New York: Harper, 1944.

larly those in eastern and southern Europe, were relatively poorer than others. This had to be accounted for in the secretariat's *Annual Economic Surveys*. But by common agreement their development problems were not considered in such a way that the question of financial assistance was raised.

More important for directing my interests to the development problems in Asia and other non-European underdeveloped countries was the close cooperation with the secretariats of the two other economic commissions which soon came into existence for Asia and Latin America. In connection with this cooperation I had the opportunity to make long journeys, particularly in South Asia. I also traveled widely in the Middle East. When Israel, as a member of the United Nations, used its right to participate in the ECE to assist its efforts in opening up trade to European countries, I was active in attempting to draw also the Arab countries into such participation. Together with colleagues in the ECE's secretariat I also spent some time in and made a special study of the regions in the U.S.S.R. bordering on South Asia. My main interest in that study was how the development of those initially underdeveloped districts had been financed within the general budget of the U.S.S.R., which in fact implied development aid on a large scale given within one state.

When in these years I came to approach the problem of the great poverty in the really underdeveloped countries outside Europe, it was natural for me, with my background in Swedish political life, to look upon their economic underdevelopment as a problem of international distributional inequality. We should strive towards creating more of a "welfare world," just as I had been active in helping Sweden come closer to the ideal of a welfare state.

The four lectures I gave in Cairo in 1955 at the invitation of Egypt's Central Bank, published in edited form under the title *Economic Theory and Underdeveloped Regions*, were focused on the international problems of maldistribution.

In that early work, on the basis of Knut Wicksell's hints of "circular and cumulative causation," I showed how in the absence of counteracting policies inequalities would tend to increase, both internationally and within a country.<sup>3</sup> The welfare state that was coming into existence in the rich countries was the result of such policy interventions. I also discussed the biases against the poorer countries in the inherited theory of international trade, particularly the unrealistic idea, then becoming prevalent among economists, that trade in commodities worked for the equalization of factor prices, more especially of wages.<sup>4</sup>

In this and in other early writings of mine there was no thought that the

3. *Economic Theory and Underdeveloped Regions* (London: G. Duckworth, 1957), chaps. 2 and 3.

4. *Ibid.*, chap. 11.

existing great inequality of resources and power within the underdeveloped countries themselves could be part of the explanation of their underdevelopment. This was the time when development was generally simply defined as "growth," which is still often the case among economists, and when increasing internal inequalities were even assumed by some economists to be an inevitable result of growth, an idea I have never shared. On the contrary, I have always seen greater equality as a condition for more substantial growth.

[2]

This was how far my thinking on development and underdevelopment had reached when in 1957 I resigned from my employment with the United Nations in order to give full time to a study of the development problems of the countries in Asia south and west of China and Russia, with the main emphasis on India. That study came to take a much longer time than I and the Twentieth Century Fund, which provided research support, had reckoned. It resulted in *Asian Drama*.<sup>5</sup>

In this study I was brought back to the institutional approach, which twenty years earlier I had been forced to apply when I had innocently undertaken my study of the Negro problem in the United States. I had then rapidly found out that I faced an analysis of the entire American civilization from the point of view of the working and living conditions for the most disadvantaged large group of the American population.

The glaring contradictions between people's conceptions of the race problem in America, which were reflected in the huge literature, both popular and scientific, made me take more seriously my understanding that things look different depending upon where you stand. I had to work with explicit value premises. In *An American Dilemma* they were specified for different problems and all subordinated to what I called the American Creed of liberty and equality of opportunity in the pursuit of happiness.

The "modernization ideals," proclaimed with varying completeness by the intellectuals and governments in Asian countries, were clarified and specified to be used as value premises for the new study. What had often been declared to be inherited "Asian values" were taken into account and, when needed, integrated into the development goals.

The institutional approach meant enlarging the study to include what in a summary way I referred to as "attitudes and institutions." They were found to be largely responsible for those countries' underdevelopment and would have to be changed in order to speed up development.

Methodologically, *Asian Drama* became in a sense a replica of *An American Dilemma*. I retained my predominant interest in the equality

5. New York: Pantheon, 1968.

issue, though in the new study it was directed toward the internal conditions in the underdeveloped countries.<sup>6</sup>

In the 1920s and 1930s, when my research and policy work had focused on conditions in Sweden, I held the view that an equalization in favor of the lower-income strata was also a productive investment in the quality of people and their productivity. And I found support for this opinion in comparisons of different rich nations' growth statistics. It seemed clear that income equalization would have an even greater effect in this direction for underdeveloped countries, where the masses of people are suffering from very severe consumption deficiencies in regard to nutrition, housing, and everything else. *The productivity of higher consumption levels stands for me as a major motivation for the direction of development policy in underdeveloped countries. Higher consumption levels are a condition for a more rapid and stable growth.*

In underdeveloped countries such a redistribution of income cannot, however, be carried out by taxing the rich and transferring money to the poor via social security schemes and other such measures to raise their levels of living. The poor are so overwhelmingly many, and the wealthy so relatively few—and tax evasion among them so common. What is needed in order to raise the miserable living levels of the poor masses is instead radical institutional reforms. These would serve the double purpose of greater equality and economic growth. The two goals are inextricably joined. This implies a fundamental difference from developed countries, where the two goals can be, and often are, pursued separately.

[ 3 ]

And so a major part of *Asian Drama* came to deal with the political issues of changing institutions, which were then, as now, avoided by most ordinary economists in their writings on development. The book had to include chapters on population and population policy, landownership and tenancy, conditions of illness and health, education for different strata and in different localities and its quality, and so on. I became the first economist to write about the "soft state" and to have a chapter on corruption, in which I showed how its prevalence was hampering economic growth. Corruption worked in the interests of the rich and powerful, even if it permeated the whole society. Taking all these other things into consideration made the book very bulky, particularly as I was driven to devote much space to methodological explanations in the text and in a number of appendices.

6. For a very condensed recent summary, see my contribution to *The World Economic Order: Past and Prospects*, Sven Grassman and Erik Lundberg, eds. (New York: St. Martin's Press, 1981), chap. 14, "Need for Reforms in Underdeveloped Countries," pp. 501–25.

The book tended to contain relatively few numbers. This was not because I am averse to quantification of knowledge. But the institutional facts are very complicated and cannot be easily reduced to statistical measurement; they have to be described in a less precise form, particularly in a study of general conditions in a whole country. Moreover, institutional research could not rely on the concepts used in ordinary economic literature and borrowed from studies of developed countries: such concepts as income, savings, supply, demand, and prices, all within markets and all in aggregate or average terms. These concepts were seldom adequate to deal with reality in underdeveloped countries.

The widely used concepts of unemployment and underemployment, for instance, have in the underdeveloped countries no precise meaning, except for narrow sections and even there only with reservations. Without a developed labor market in which the workers are split up according to occupation, have knowledge about a market, and are actively seeking employment, the larger part of the actual "worklessness" of people cannot be categorized in these terms.

[4]

The India I saw immediately after liberation and the cruel collisions of partition was in many ways a country that could look forward with hope and confidence to the future. Great Britain under Prime Minister Attlee had given India its freedom without waging a colonial war, unlike the other metropolitan countries in Europe. The Indians were left free to feel that their independence had been won by a struggle that on their part was bloodless and backed by the people. Like Pakistan, India had not been invaded by the Japanese during the war, as had many other countries in the region. The Indian soldiers who had fought under British command had done so abroad.

India inherited a civil service that included a number of native Indians who were trained, organized, and effective. Toward the end of the British raj the civil service was almost free of corruption. The corruption that still existed was among lower Indian officials, particularly in the countryside. The higher civil service had indeed often protected the common people from injustices.

Representative assemblies had been established in colonial times, even if their powers were limited. For more than half a century royal commissions had been set up to prepare reforms, for instance in the field of education, though their recommendations had not so often been carried out. That was a tradition that free India could continue to follow.

In spite of its own great financial difficulties after the Second World War, Britain even paid back some forced credits it had taken from India during the war. Since liberation had finally been won through agreement,

established trade relations with the old mother country could be carried on without interruption.

The population explosion that came with the rapid spread of modern, cheap medical technology was, however, not foreseen. As in other underdeveloped countries, that difficulty was not part of the expectations until the censuses around 1960. But in India, even before independence, studies and proposals for spreading birth control had been initiated, and the idea of controlling population growth had been accepted by Indian intellectual leaders.

With Jawaharlal Nehru at the helm as prime minister, great and apparently successful initiatives were taken in many fields. They were all in the direction of democracy and equalization. The princely states were integrated. India rapidly furnished itself with a new constitution, founded upon the principle of general suffrage for both men and women.

Preparing for further advances in the egalitarian direction, a set of "directive principles" was added to the constitution. But in the constitution itself caste had already been abolished and forbidden. Local government by panchayats had been established. Family legislation had been modernized, so radically that it could hardly be understood by the villagers.

And India began its five-year plans. The Planning Commission had been instituted in 1950 and was linked to the directive principles. Nehru took the chairmanship himself and wrote at the outset a brief introduction, stressing the egalitarian purposes of Indian policies.

Nehru had set out on his personal educational campaign, sometimes speaking several times a day and often to large groupings of common people. India should become a "classless" society on the basis of cooperation. Land reform had been announced to give "the land to the tillers." Education should be radically reformed with the main goal rapidly to make the whole population literate.

This was the mood when I first saw India rather soon after independence. It was then definitely heading in the direction of egalitarian ideals.

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But when I arrived for my study at the end of 1957, things had changed and continued to change in a less encouraging direction. Nehru, like the aging group of the "Servants of India" who had promised themselves to think not of their own interests but of India's future, had not changed his ideals but saw the overwhelming difficulties of realizing them. Soon Nehru himself even planned to leave his post as prime minister and become an itinerant preacher of his gospel in the spirit of Mohandas Gandhi. He was persuaded to retain his political responsibilities and he continued his



educational campaign for a democratic India, but he had fewer and fewer possibilities to pursue his ideals.

From the beginning Indian society was, however, very unequal. In colonial times the metropolitan power had almost automatically allied itself with privileged groups in the colony and often created new such groups. To support its reign, the colonial government had an interest in upholding and even strengthening the inherited inegalitarian social structure.

The upper strata, still holding the real power after independence, were a very diversified crowd, ranging from the big industrialists, higher officials, and teachers in secondary and particularly tertiary schools to the landowners and moneylenders in the villages and local officials in collusion with them. The political parties and particularly the Congress party became increasingly financially dependent upon the few wealthy.

Reforms of the basic economic and social structure were not carried out or they were truncated. I remember how once a radically inclined member of Parliament characterized a new tax law as "a tax-exemption law."

Driving out the British in the Gandhian fight for Indian freedom had been a simple issue that could be easily understood and accepted by almost all, even the poorest and most simpleminded. But the new issues that were raised by the demands for reforming independent India were all very complicated and less easily understood by the broad masses of people. They were better understood by the rich and powerful who felt their interests threatened. The poor, whose interests should be protected, were easily deceived and split.

A land reform was a complicated affair in a country with so much tenancy of various sorts and with such a huge group of landless people, most of them of lower caste. Even independent farmers with only very small plots could be mobilized against land reform, although it was not their land that would be taken to give to the totally landless. A gradual increase in population created difficulties, particularly in heavily populated regions. And many other issues split especially the poor and uneducated classes.

Caste, and caste feelings, remained a reality even though abolished by law. In addition, even after separation from Pakistan, India had a huge Moslem population with different ways of life. Tensions of caste and religion remained and sometimes resulted in violent clashes. Such splits clearly hindered efforts to unite poor people to press for reform in their common interest. The spread of corruption in a cumulative way was another obstacle. The big bribes went to people in the upper strata, who could in turn afford to bribe political parties and their individual representatives.

India is rightly called the world's largest democracy, and its government depends upon a Parliament elected by the people, whose participation is

on a higher level than, for instance, in the United States. But the Parliament, as I pointed out, is not looking after the interests of the people. And so India remained unreformed or achieved only severely maldirected reforms. Not carried out were the more fundamental reforms needed to democratize the very unequal society inherited by free India.

The other countries in the region that I had set out to study were very different from India and also differed among themselves in regard to the time they gained their freedom, the way they got it, and the economic levels from which they started. I did not find it possible to use a simple, common model for their development, except that they, like India, generally abstained from carrying out the institutional reforms which should have raised the consumption levels of the poor and thereby also their productivity.

An exception is tiny Singapore, one of the few states in the underdeveloped world which has actively fought corruption and also pursued an effective housing policy. But Singapore has had and still has an average income level perhaps ten times higher than that of India. It may also be significant that the Chinese are a majority in Singapore.<sup>7</sup>

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In my work on *Asian Drama* I held to the end my institutional approach and the modernization value premises, together with my conviction that

7. Since the completion of my study, a few small economies north of my region have, together with Singapore, had a rapid economic development, namely Taiwan, the Republic of Korea, and Hong Kong. In the economic literature this has commonly been attributed to their being more export-minded and less inclined to hinder imports.

In my view, expressed in *Asian Drama*, the problem in all the poor countries of the region was not that because of the scarcity of foreign exchange they tried to restrict imports, especially of less necessary commodities. Instead, the problem was that under the pressure of business interests they did not counter the direction of their industrial development, as they should have done, by regulation or special taxes. Their import restrictions came thereby to stimulate their production of the less necessary commodities for domestic use. This of course hampered production for export.

For political reasons, Taiwan and Korea from the beginning received tremendously more aid per head from the United States than did India and other countries in the region. This decreased their need to depend on import restrictions. In addition, the United States forced them to adopt a radical land reform policy—as it had done in the defeated Japan, for which the Japanese can now be grateful. During the first few years after the war America was very radically inclined as far as these economies were concerned. This explains their greater freedom to invest in export industries. To do this they did not need to be especially export-minded.

Moreover, all these small economies had been for long periods under Chinese cultural influence. Unlike India and most countries in the region, they had never suffered much from the divisive systems of caste and religion. If in China a poor boy from a village did succeed in getting into an educational career, which of course seldom happened, at the end he was a mandarin, and nobody ever asked from what sort of people he came.

egalitarian institutional reforms to raise the consumption levels of the poor would be the condition for a more rapid development by increasing the productivity of their people. When I later wrote *The Challenge of World Poverty*,<sup>8</sup> I still adhered to this view, as I do today. That book was indeed an effort to condense my earlier, more intensive research into a shorter volume with a definite stress on the policy issues. It thus contained chapters on the institutional approach, the equality issue, land reform, population, health, education, the "soft state," and corruption.

In this new book, however, I also dealt with the responsibility of the developed countries. I criticized their trade policies, and particularly their aid policies. After having informed myself about conditions and policies affecting Latin America and Africa, I widened my criticism to include those regions and their relations with the developed countries.

During the past ten years I have been working on other problems. Under the influence of that type of conservatism from which social scientists are not exempt, I am afraid that whenever I had to explain my views on the development problems of underdeveloped countries, I came to repeat what I had in greater detail formulated in my earlier works. Fresh thinking that could change my views I have done only in regard to the aid problem; otherwise—and I feel with good reason—I have retained my views from earlier periods.

My new thoughts on aid to underdeveloped countries have been formed under the influence of what has happened in the course of the present world crisis and its influence on both developed and underdeveloped countries. I find it therefore practical first to sketch what has happened to the underdeveloped countries in the present world crisis.

I have always felt skeptical about the reliability of the figures on economic growth in underdeveloped countries that are widely quoted in the literature. My skepticism is founded upon what I have seen of how the primary material for these statistics of average real income per head is collected, then summarized into an average figure for an underdeveloped country, afterwards translated into dollars according to a nominal exchange rate, and published by the United Nations Statistical Office.

These figures certainly cannot be expected to understate what has actually happened. It is therefore significant when the 1982 *UN Report on the World Social Situation* concluded that 1981 was the first year in a quarter of a century for which the figures do not show growth. The development since then has surely not made for a change in a positive direction.

The depression in the industrial developed countries is a trend that has not been broken. It has of course tended to hurt the underdeveloped countries by decreasing the demand for their exports of raw materials and still more of industrial goods. At the same time, the tremendously in-

8. New York: Pantheon, 1970.

creased prices of oil have been burdening the great majority of underdeveloped countries who depend upon imported oil.

They have been compelled to seek credits in the capital market, and their indebtedness has grown rapidly. In this credit market the interest rates have been rising, which has worsened still more their balance of payments. Many underdeveloped countries soon reached the level of indebtedness at which they find it difficult to pay interest and amortization. New credits in addition to what they need for that purpose have become increasingly difficult to obtain, and if granted they would only increase the burden of repayment for the future.

I am referring to the great majority of underdeveloped countries that have little or no oil at home. The small oil-producing countries on the Persian Gulf and a few others in a similar situation are outside this discussion.

But some new oil-exporting underdeveloped countries such as Nigeria and Mexico have handled their oil incomes in a squanderous way that has left their large agricultural regions in continuing or increasing poverty and has permitted commercial centers to explode in all sorts of speculative adventures. As a result, they have brought themselves to financial collapse.

Meanwhile, secular changes that are independently tending to hold back underdeveloped countries are continuing as trends. The population explosion goes on. Despite some progress in the spread of birth control in a few countries, which will be increasingly difficult to sustain when poverty is increasing, population growth will continue for decades on about the same levels because of the youthfulness of the present population. In particular, people who will be of working age until at least the turn of the next century are already born. Another secular trend causing increasing difficulties in many underdeveloped countries is rapid deforestation, which destroys the soil and has undesirable effects even on the climate and population growth.

Development efforts have regularly been directed to building up the modern industrial sector, although everywhere it can employ only a minimal part of the total growing work force. Most of the people in the growing city slums who have not been born there are not needed for further industrialization; they are simply refugees from an overpopulated agricultural sector. In agriculture the productivity of land and man remains mostly low and leaves the landless in particular without work for part or all of the year.

The result is increasing mass poverty. Famine becomes an ever more crushing problem. There are indications that the children of the poor who survive starvation come to suffer from retarded brain development and will become a hopeless subclass of mental cripples. This increases the damage caused by the lack of primary education or by schooling that is insufficient or maldirected.

As I see it, poverty in the underdeveloped countries is now almost

everywhere increasing and becoming extreme. Robert McNamara, formerly president of the World Bank, established the habit of talking about "absolute poverty." I anticipate that it will become steadily even worse, especially in the poorest of the poor countries. The poverty-stricken are, I am afraid, now becoming a growing portion of the population in all underdeveloped countries.

In addition, conflicts and even open warfare among nations have been and are becoming more common in large parts of the underdeveloped world. Generally speaking, underdeveloped countries are carrying heavier and heavier costs for weapons, even if they are subsidized by the superpowers. Governments in underdeveloped countries are more and more getting into the hands of the rich and powerful. And large parts of the underdeveloped world are now under military dictatorships.

While all this is happening, financial aid rendered by the developed countries is kept on a very low level and has recently been shrinking. The sometimes proclaimed aim of raising it to 1 percent of the national income or 0.7 percent of the gross national product in the developed countries has been fulfilled only by the small Scandinavian countries and the Netherlands. Even in these countries it is now tending to fall. The principle of keeping aid untied from exports from the aid-giving country is gradually being given up even in Sweden. The big industrial countries hold their official aid on a much lower level. In particular, aid from the United States is not distributed according to needs but according to U.S. interests in the Cold War.

In view of the enormous and growing needs in the underdeveloped countries and the small amount of money coming from the developed countries, my conclusion must be that any aid which is made available should be directed to help the increasing masses of poverty-stricken people in the poorest countries and in other underdeveloped countries. Aid should also be made available to the victims of catastrophes that are so much more common in these countries.

*The need for aid is continually growing, and I would certainly not make any recommendation to lower the appropriations for aid but would continue to ask for more.* But the only "development aid" I would find room for under present circumstances would be directed to the simplest and least costly measures to increase food production, to provide sanitation facilities and to increase their utilization, generally to supply pure water, and also as far as possible to improve health care, particularly for poor families, and to give their children somewhat more of better schooling. This together with securing the availability of contraceptives could well claim the whole part of any so-called development aid. Whatever additional aid could be available will be needed for provision of food.

I am of the opinion that we should discontinue aid for industrial projects, particularly large-scale ones. (Money for such projects decreases the funds available for assisting the poverty-stricken masses.) In any case,

such matters should not be handled by the particular administrations set up for planning aid to the underdeveloped countries, but should be left to the ministries of trade and foreign affairs of the donors.

I do not think that such a change in the direction of aid would go against public opinion in developed countries, if people there were better informed. Not only in Sweden but everywhere in the rich countries, much of the propaganda for their giving aid stresses how the utter poverty among masses of people in underdeveloped countries hurts the children. Photographs of their unhappy faces and swollen stomachs are widely used. It is only when the aid problems move upward to governments and parliaments that they come under the influence of business interests.

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In the underdeveloped countries governments are everywhere in the hands of upper-class elites, even in countries that are not under military dictatorship. It is with the governments in power that all business deals have to be negotiated and concluded. And it is with them that even aid matters have to be settled. It has been pointed out that as a result poor people in developed countries are taxed to "aid" rich people in underdeveloped countries.

In recent years underdeveloped countries have more and more established a common front toward the developed nations, even in regard to aid. They demand that the direction of aid and its utilization should be their business, and that the aid projects should fit into their planning. These requests have largely been accepted by the aid-giving countries, who have begun to speak about their aid as "cooperation."

Given the undesirable qualities of the governments in most underdeveloped countries, I think this concession is wrong. I believe that the voters in aid-giving developed countries, if properly informed, would agree with me in demanding more control over how their aid is used and where the money is going. I am well aware that such control is very difficult to exert.

Unofficial organizations in developed countries, such as the Red Cross and various religious and humanitarian organizations, have often been more successful than government agencies in keeping their activities in underdeveloped countries free from side influences from their governments. In my opinion, they should be utilized to a larger extent for handling even official aid.

To sum up, the aid-giving governments should insist upon effectively controlling the use of aid in an underdeveloped country. They should do so even if it would increase the costs of administering aid. In developed countries such guarantees would increase the willingness among ordinary people to give aid. If that type of aid-giving in the interest of the poverty-

stricken ever came to be common practice, it would even be one element encouraging more democratic rule in some underdeveloped countries.

For these reasons, I now criticize myself for not having changed my views on aid to the underdeveloped countries until the shocks experienced in the present world economic crisis.

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I will end by commenting upon two proposals for improving the situation in underdeveloped countries, which to me seem rather futile. Facing the situation of increasing mass poverty in underdeveloped countries, the Brandt Commission in 1980 proposed a massive transference of capital to them from developed countries.<sup>9</sup> It would allow these countries to increase their import of development commodities and thereby make possible higher production and employment. It might also increase the import of consumer goods to still the hunger of the people if the governments wanted to do so. Underdeveloped countries are always pressed to utilize every means they can to increase their imports. At the same time, it would also increase employment in the rich developed countries and the utilization of their production facilities. Such capital transference would thus be mutually advantageous.

This proposal agrees with the advice of most professional economists, at least in Western Europe and probably also in the United States, who urge their governments to cooperate in an expansionist economic policy. This advice has not been followed. We have seen less and less of international economic cooperation, while international interdependence has become greater than ever. We have never had so many international conferences for international cooperation and never so little of it. The explanation is stagflation, which is a new phenomenon. All countries have to fight inflation and unemployment and are then compelled to take policy measures hurting each other.

The only originality in the proposal by the Brandt Commission was that the new cooperation should be between two groups of countries, the developed and the underdeveloped. The report met with much sympathy in the world but did not lead to action on the part of the developed countries. Three years later the commission delivered a new report.<sup>10</sup> It showed that in the years since its first report the situation in underde-

9. Report of the Independent Commission on International Development Issues (Brandt Commission), *North-South: A Programme for Survival* (Cambridge, Mass.: MIT Press, 1980).

10. Brandt Commission, *Common Crisis: North-South Cooperation for World Recovery* (Cambridge, Mass.: MIT Press, 1983).

veloped countries had severely worsened. The second report also commented upon the very serious situation in the international currency and credit system, and pointed out how some underdeveloped countries were near bankruptcy because of their inability not only to get more credits, but also to amortize and pay interest on old debts.

On this point the Brandt Commission was in line with rescue actions that were already on their way. The report insisted upon speeding up these actions and urged an increase in the funds to be made available to the International Monetary Fund and also to the World Bank. This proposal may have greater influence on what actually will happen, as it is in line with policies already being pursued in the interest of the developed countries and their banks which have given these large credits. By itself, however, it will hardly make more fresh money available to the underdeveloped countries.

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For a still longer time underdeveloped countries have joined together, rather independently of what type of government they have, to press for improvements in their economic relations with developed countries. The United Nations Conference on Trade and Development was an early outcome of these strivings. Against much resistance it has reached certain results in some minor questions.

More recently the underdeveloped countries have raised their protest and demanded a "new international economic order." One world conference after another has been convened to consider that demand. There has not been unanimity among the underdeveloped countries on what that new world order should imply, however, and the concrete content has been rather unclear. But one of the demands has been more aid.

Some developed countries have expressed sympathy for these strivings and even used them for announcing small adjustments in their aid policies. Sweden, for instance, has remitted some credits, which were, however, already written off its own accounts. As the world economic crisis has continued, I fear that these conferences will remain fruitless. At the Cancun meeting in 1981, called together on the advice of the Brandt Commission, even the United States was pressed to agree to a new meeting of this type under the United Nations, but it has still not materialized.

Although the developed countries are not prepared to make any substantial concessions in their economic relations with underdeveloped countries, they generally show their politeness by never asking whether the underdeveloped countries do not need a new order at home.

Under these conditions, by directing their interests so exclusively to this rather inconsequential issue, the underdeveloped countries have, I believe, turned demands for a new economic world order into a sort of alibi for not



reforming the way in which they are governed. Any concessions they might win at these conferences are very small compared with what they should be able to win both economically and socially by the internal reforms I have emphasized in this paper.

Intellectuals, and particularly the academics, whose duty it should be to press for internal reforms, are drawn into putting the blame entirely on those other-worldly international problems. In so doing they escape from being the useful rebels they should be in countries ruled as they are.

# Comment

Hla Myint

PROFESSOR MYRDAL BELIEVES that economic growth in the underdeveloped countries has been much less than is stated in the official statistics; that in fact mass poverty “is now almost everywhere increasing and becoming extreme”; and that this is the result not only of the short-run world depression but also of a number of secular factors, notably the continuing population explosion. He traces the root cause of this to the failure of the elitist governments of the underdeveloped countries to carry out radical institutional reforms to counter the cumulative tendency of the free-market forces to aggravate the existing “great inequality of resources and power within the underdeveloped countries themselves.” He now feels that aid to the underdeveloped countries should mainly take the form of what may be called “relief aid” to alleviate mass poverty and catastrophes rather than the conventional type of “development aid” directed toward large-scale industrial projects. He describes his paper as “an account of growing pangs of conscience” for not having changed his views on aid “until the shocks experienced in the present world economic crisis.”

My comments will be made under three heads. (1) I shall suggest that Professor Myrdal has taken too pessimistic a view of the progress achieved in the past decades by the underdeveloped countries, before the deepening of the current world depression, and that, although there is no ground for complacency, he may well be taking too gloomy a view of the longer-run secular factors. (2) I agree with him that the poor economic performance of many countries is attributable to a failure to undertake internal economic reforms, and I would not myself be too polite to ask “whether the underdeveloped countries do not need a new order at home.” Where I disagree with him is with his exclusive emphasis on internal income equalization while denying the need for more outward-looking policies toward foreign trade and foreign investment. (3) I can wholeheartedly support his views on aid in sections 7 and 8 of his paper. I also agree with him on the need to distinguish relief aid from development aid.

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## [1]

Although I have some sympathy for Professor Myrdal's skeptical attitude toward official national income figures, I believe that the broad dimensions of economic growth in the underdeveloped countries are reflected fairly convincingly in the figures provided by the annual *World Development Reports* or in a compilation such as David Morawetz, *Twenty-five Years of Economic Development, 1950 to 1975*.<sup>1</sup> Professor Myrdal is incorrect in thinking that the per capita income figures of the underdeveloped countries, translated into dollars at the nominal exchange rate, "certainly cannot be expected to understate what has actually happened." A well-known study has shown that an underestimation of the real income is likely to occur because of the undervaluation of the non-traded output. "When the totality of the developed market economies is compared with the entire group of developing market economies, average real per capital GDP of the former is 6.4 times that of the latter rather than the more than 13-fold ratio produced by exchange conversions."<sup>2</sup> In fact, a country like India is likely to suffer from a large underestimation of its real GDP per capita both because of its relatively low level of income and also because of a low ratio of foreign trade to GDP. The rise in real income implied by the growth rates is also reflected in the declining infant mortality and rising life expectancy among the low-income countries during the period 1960–75.

Although the burden of population growth in the poorer sections of the people should not be underestimated, I believe that Professor Myrdal is painting too gloomy a picture of the overall demographic situation of underdeveloped countries. Simon Kuznets, after a more systematic empirical analysis, came to a different conclusion: "Thus, one could hardly argue that in much of Sub-Sahara Africa, Latin America and even Asia, a reduction of population growth to, say, a tenth of a per cent from the current annual rate would significantly alleviate the acute growth problem."<sup>3</sup>

Most economists would nowadays accept the World Bank's estimate that during the period 1950–75 the per capita income of the underdeveloped countries grew by almost 3 percent a year, an impressive achievement in the face of a rapid population growth of over 2 percent (*World*

1. Since 1978 the *World Development Report* has been published annually for the World Bank by Oxford University Press, New York. Morawetz's book was published by Johns Hopkins University Press, Baltimore, Md., 1977.

2. Irving B. Kravis, Alan Heston, and Robert Summers, "Real GDP per Capita for More than One Hundred Countries," *Economic Journal* (June 1978), p. 241.

3. Simon Kuznets, *Population, Capital and Growth* (London: Heineman Education Books, 1974), p. 39.

*Development Report 1978*, p. 3). But this is rather damaging to the older theory of the “vicious circle,” and one cannot help feeling that Myrdal’s skepticism of the official growth statistics arises from his implicit faith in the theory of “circular and cumulative causation,” which has permeated his work from *American Dilemma*, to *Economic Theory and the Underdeveloped Regions*, and thence to *Asian Drama*. I shall turn to this theory for the next part of my comment.

[ 2 ]

Myrdal regards his *Economic Theory and the Underdeveloped Regions*<sup>4</sup> as the application of the principle of cumulative causation of inequalities at the international level and his *Asian Drama*<sup>5</sup> as the extension of the same principle to internal inequalities within the individual underdeveloped countries. In this [*Economic Theory*] and in other early writings of mine there was no thought that the existing great inequality of resources and power within the underdeveloped countries themselves could be part of the explanation of their underdevelopment.” In *Economic Theory* (p. 55), he wrote: “Basically, the weak spread effects as between countries are thus for the larger part only a reflection of the weak spread effects within the underdeveloped countries caused by their low level of development attained.” I take this to mean that the low level of the domestic economic organization is determined *spontaneously* by the natural factors. It was only in *Asian Drama* that he extended the principle of cumulative causation to the policy-induced internal inequalities generated by a failure to carry out radical institutional reforms.

On re-reading Myrdal’s *Economic Theory*, I find that his mechanism for the cumulative inequalities at the international level is very sketchily formulated. There was the hypothesis of the weak spread effects because of the underdeveloped state of the domestic framework: “the ‘natural’ play of the forces in the markets will be working all the time to increase internal and international inequalities as long as its general level of development is low”; there was a reference to Folke Hilgerdt’s argument that the gradual filling of the “empty spaces” of the world by labor and capital from Europe has not reduced population pressure in Asia’s overpopulated regions; and there was the criticism of Samuelson’s factor price equalization theory (*Economic Theory*, pp. 61 and 147–49). I believe that the easy target offered by Samuelson’s highly formalized model led Myrdal to throw away the baby with the bath water. This is rather a pity because I believe that when sensibly reinterpreted, the Heckscher-Ohlin factor pro-

4. First edition, 1957; hereafter referred to as *Economic Theory*, with page references to the University Paperbacks edition (London: Methuen, 1965).

5. New York: Pantheon, 1968.

portions theory contains an important kernel of truth for the underdeveloped countries. What repels Myrdal (and also myself) is the highly simplified assumptions of the standard trade model of the domestic economy, which amount to an implicit presupposition of a fully developed institutional framework providing a determinate production possibility frontier with the "given" resources and technology. Myrdal rightly starts from the low level of development of the domestic economic organization, but uses it as the basis of his case against freer trade and an outward-looking policy toward foreign investment because he believes that underdevelopment weakens the spread effects. I, on the other hand, would argue that the very underdeveloped state of the domestic economic organization means that we are somewhere within the production possibility frontiers with a greater potential for gains from a more outward-looking policy toward foreign trade and investment than in a fully developed economy.

Myrdal favors a protectionist policy, combining egalitarian domestic reforms with domestic industrialization policies—the resultant internal domestic disequilibrium being insulated from the world market forces by tight economic planning and controls. Myrdal would say that there is something wrong with an underdeveloped country which is *not* suffering from a balance of payments disequilibrium.<sup>6</sup> The conventional neoclassical free-trade economist would insist on appropriate domestic economic policies: an equilibrium exchange rate policy supported by appropriate fiscal and monetary policies and correct pricing of products and factors of production. The neoclassical economist would not neglect public investment in social overhead capital, but since he implicitly starts from a fully developed organizational framework and is concerned only with the correction of the distortions in the allocation of resources with reference to that framework, he tends to ignore the further problem of developing an appropriate organizational framework.

I would go along with the neoclassical economist in stressing the importance of appropriate domestic economic policies, but I would go further and say that the problem of strengthening the organizational framework to enable a country to take advantage of its potential comparative advantage also requires attention. The organizational requirement is *not* exactly symmetrical or neutral for a labor-abundant underdeveloped country compared with a land- or capital-abundant developed country. Comparative advantage offered by an abundance of land and capital can be pursued on the basis of fairly large-scale units of production, whereas comparative advantage offered by an abundant labor supply can be more effectively pursued on a small-scale basis. But catering to the economic needs of a large number of dispersed small-scale units creates an extra demand on the capacity of the domestic economic system to provide an

6. *An International Economy* (London: Routledge and Kegan Paul, 1956), p. 270.

adequate network of marketing and credit and information. Not every labor-abundant underdeveloped country, even if it were following appropriate domestic economic policies in the conventional neoclassical sense, would be able to comply with these extra organizational requirements. In this context the outward-looking economies (such as Taiwan), which have succeeded in expanding labor-intensive manufactured exports, offer both a vindication of the factor-proportions theory and examples of how appropriate institutional innovation and adaptation may utilize the potential comparative advantage of labor-abundance. In brief, they deliberately encouraged a dispersed pattern of industrialization, in which a decentralized labor-intensive type of small-scale industry operated in close proximity with a dynamic and labor-intensive agricultural sector. This enabled the rural labor supply to be tapped cheaply and flexibly on a part-time or seasonal basis and on a daily community basis in addition to the normal migration to the towns and cities.<sup>7</sup>

This type of institutional innovation, which enables a labor-abundant underdeveloped country to realize its potential comparative advantage from foreign trade, I consider a more potent method of reducing income inequality within a country than Myrdal's proposal for radical institutional reforms combined with an inward-looking policy toward foreign trade and investment. Indeed, it is difficult to be sure what these radical institutional reforms might be. Myrdal candidly admits it is not feasible for underdeveloped countries to redistribute income through taxation or for a densely populated country like India to redistribute land, since there are so many landless people relative to the available land (*Asian Drama*, p. 1380). In contrast, the institutional innovation of the Taiwan type (leaving aside Taiwan's land reforms), combined with the standard neoclassical domestic economic policies, might have helped India to expand its labor-intensive manufactured exports and to defend its textile export markets against the inroads of the East Asian competitors. If India had been able to follow these export-expansion policies, there would have been a markedly greater expansion of employment opportunities for the poor and higher wages for them. Myrdal is of course quite aware of this as a theoretical possibility, but has always been prone to export pessimism. In *Asian Drama* (p. 1203) he wrote: "In general, however, the obstacles to export promotion in manufactures are so great that import substitution usually offers a more promising prospect."

Looking back at the economic performance of the countries considered in *Asian Drama*, I believe that export expansion policies have turned out to be a more promising path toward raising the income levels of the poor than domestic income equalization policies combined with import-

7. See my paper, "Comparative Analysis of Taiwan's Economic Development with Other Countries," *Academia Economic Papers* (Taiwan: Academia Sinica, March 1982).

substitution policies. India, Sri Lanka, and Burma may be regarded as “inward-looking” among the countries considered by Myrdal, and among these South Asian countries Sri Lanka has perhaps gone furthest with internal income equalization policies. In contrast, the Southeast Asian countries, such as Thailand, Malaysia, and the Philippines, have followed more outward-looking policies toward foreign trade and investment. The South Asian countries and the Southeast Asian countries started from approximately the same level of incomes in the 1950s. But after two or three decades, the differential rates of growth associated with the inward- and the outward-looking policies have resulted in a wide divergence of per capita income levels. The Southeast Asian countries now belong to the middle-income countries with per capita income levels two or three times higher than those of the low-income countries of South Asia. On the basis of available information, it is reasonable to conclude that the poorer people in Southeast Asian countries have improved their income levels relative to the poor of South Asia.<sup>8</sup> This does not take account of the spectacular success of the outward-looking policies of the Gang of Four: Singapore, Hong Kong, Taiwan, and Republic of Korea, which Myrdal assigns to a footnote. I believe that, like some other commentators, he tends to exaggerate the role of U.S. aid and land reforms in Taiwan and Korea while underrating the role of their domestic economic policies.<sup>9</sup>

[3]

I can wholeheartedly support Myrdal’s criticisms of the current arguments and practice of aid-giving set out in sections 7 and 8 of his paper. I have long felt the necessity of distinguishing the “need criterion” from the “productivity criterion” in aid-giving, criteria that have been blurred by the popularity of “soft loans” supported by soft arguments. Much confusion has arisen from a failure to distinguish five different concepts of aid. (1) First there is “relief” in the form of consumer goods designed to alleviate acute suffering in the short run. This is what Myrdal is emphasizing now.<sup>10</sup> (2) Then there is the Marshall Plan type of “reconstruction aid”

8. A further analysis of the relation between export expansion and income distribution is given in my paper, “Economic Development Strategies of the Southeast Asian Nations and an Assessment of Their future Prospects,” for the conference on “The United States, Japan and Southeast Asia: The Issues of Interdependence” sponsored by the East Asian Institute and the International Economic Research Center of Columbia University.

9. For a more systematic assessment, see Walter Galenson, ed., *Economic Growth and Structural Change in Taiwan* (Ithaca, N.Y.: Cornell University Press, 1979), particularly chap. 7 by I. M. D. Little.

10. Myrdal’s present position is similar to the position I took in my paper “An Interpretation of Economic Backwardness,” *Oxford Economic Papers* (June 1954). I

to repair war damage; this is the "R" in IBRD (International Bank for Reconstruction and Development) and is still relevant given the continuation of serious warfare in Lebanon and many countries in Africa, Asia, and Latin America. (3) "Stabilization aid" is given to ease the shorter-run balance of payments problems; the rationale is to help a country make appropriate adjustments that, by switching resources, will reduce the trade deficit. This may be distinguished from (4) the longer-run "development aid" proper, in the form of investible resources, designed to ease the shortage of domestic savings and to alleviate chronic, as distinct from acute, poverty. (5) Finally, there are various types of aid given, not for the benefit of the aid-receiving countries, but to further the selfish political and economic goals of the aid-giving countries, including aid as a hidden subsidy for their exports. I share Myrdal's distrust of the "global Keynesianism" of the sort underlying the first Brandt Commission report, designed to relieve depression in the advanced countries suffering from "stagflation."

Myrdal used to be a staunch advocate of multilateral aid; I presume that he has now switched over in favor of bilateral aid in which the aid-giving country could control how the aid is used to ensure, not so much an adequate economic rate of return from the chosen project, but an adequate moral rate of return in the relief of poverty. He suggests that aid should be channeled through the ministries of trade and foreign affairs rather than specialist aid agencies. But I must confess that I am still skeptical as to how far official aid is capable of reaching the poor after it has gone through the double filter of the governments of the aid-giving and the aid-receiving countries, each naturally pursuing its own political and economic goals.

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suggested there that "rather than waste huge sums of money by investing in projects which cannot be justified on the strict productivity principle, it were better to distribute them as free gifts of consumers' goods and services among the poor of Africa." In that paper I also talked about the "disequalizing factors" arising from the free play of the market forces, but this is not the occasion to elaborate the differences between my concept and Myrdal's concept of "backwash" and "spread" effects.