

# Characteristics of developing countries



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The theme of this essay is: the importance of a study of other semi-developed countries as they struggle for economic growth, the elimination of mass poverty and, at the political level, for democratisation and the reduction of reliance on coercion. New countries are finding their voices in all sorts of ways and are managing to interest an international audience.

South Africa is not least among them; contemporary international consciousness of the travail of our particular path towards modernity testifies at least to a considerable national talent for dramatic communication and (for those who care to look more deeply) a far from extinct tradition of moral conscientiousness. One aspect of this flowering is a rapidly growing crop of social scientific studies of semi-developed countries of which this university is fortunate to have a substantial collection, contained mainly in the library of Jan Smuts House.

From this literature, one can extract five themes of particular interest. The first is the problem of uneven development and effective national unification, especially in deeply divided societies. Capitalist development has impinged on semi-developed countries from outside rather than transforming slowly from within, incorporating different groups in different ways. Particular problems arise when differential incorporation coincides in substantial measure with boundaries between ethnic groups.

If Donald Horowitz's remarkable study of ethnic groups in conflict is right, more energy goes into attempting to maximise differences in the welfare of in groups and out groups than into maximising their joint welfare, with adverse consequences for the possibilities of building the national political

and economic institutions required for development. Gordon Tullock has argued that this is an additional reason for preferring market-based rather than state-led economic growth in deeply divided societies. In itself it is, but the secondary effects of different paths on distribution have to be taken into account.

In so far as they lead to worsening differentials between groups, the possibility of heightened conflict is created. The only long-term hope is to make ethnic boundaries less salient; the happiest outcome would seem to be when ethnicity becomes decorative in a high income economic environment. This is likely to be the work of decades, perhaps of centuries; even so, appalling retrogressions always seem to remain possible. The consequence of deep divisions is that there is likely to exist an unusually large number of prisoner's dilemma situations. The prisoner's dilemma arises when partners in crime are apprehended and held separately. The prisoners will be jointly better off if they do not inform on each other, but each prisoner will be better off if he informs on the other, while the other does not inform on him. Attempts at individual maximisation may lead to both prisoners informing on each other which leads to the worst joint outcome. The dilemma arises because of the absence of the opportunity for co-operation. ) Under such conditions, negotiation skills are at a premium.

There are also advantages in the acceptance of a deontological liberal philosophy which (in the shorthand of political philosophers) places the right over the good. This involves seeking to regulate social relations by just procedures while leaving individuals as free as possible to pursue their own, diverse conceptions of the good life. Such an enterprise has a better chance

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of success if its conception of justice implies that attention should be paid simultaneously to the reduction of poverty. The analytical Marxist, Adam Przeworski has analysed analogous problems which arise in the case of severe class conflict.

In his view, social democratic compromises are held together by virtue of the propensity of capitalists to reinvest part of their profits with the effect of increasing worker incomes in the future. Class compromise is made possible by two simultaneous expectations: workers expect that their incomes will rise over time, while capitalists expect to be able to devote some of their profits to consumption. In conditions of severe class conflict, these expectations about the future become uncertain, time horizons shorten, workers become militant, capitalists disinvest and political instability results.

Three forms of resolution are available: stabilising external intervention, negotiation or renegotiation of a social contract or the strengthening of the position of one or other class by a shift towards conservatism or revolution. Przeworski's sternest warnings are to Marxists who assume that revolution and the introduction of socialism is the inevitable outcome of a crisis. The second theme in the literature on semi-developed countries has to do with their position within the world economy. Three related sub-themes can be identified.

Firstly, there has been a debate about the forms and limits of the diffusion of industrialisation. Dependency theory – now somewhat out of fashion, since its predictions of severe limitations on industrialisation in developing countries have been falsified – asserted that relationships between

developing and developed countries are such as to keep the latter in perpetual economic subordination. The contrary thesis – that advanced industrial countries have had to deal with increased competition arising from quite widespread diffusion – now seems more plausible.

Lester Thurow, for instance, has argued that the increase in inequality in the United States since the late 1970s is not to be attributed either to the Reagan administration's tax welfare policies nor to demographic change, but to intense international competitive pressures coupled with high unemployment. Secondly, some theorists have asserted that a process of the "globalisation of capital" unprecedented opportunities for international movement of short-term and long-term capital – has removed the possibilities of national reformism (i. e. less compromise reached at the level of the nation state) and is ushering in a period of global class conflict. If there is any truth in this hypothesis at all, it would have to be qualified both by a careful study of precisely how the capital (and trade) flows of the 1980s differed from those of earlier periods and the sorts of changes in national policy choices capable of delivering a broadly-based rise in living standards which follow from these differences. Even if some options may have disappeared, it does not follow that new ones are not available.

Finally, there has been a preoccupation with the problems of structural adjustment (in both developed and developing economies) necessitated by a changing international environment. Structural adjustment is a subject for both economic and political analysis. At the economic level the issues of maintaining macroeconomic balance, changing industrial and manpower policy and protecting the poor against a period of deflation which is – or

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seems to be – necessary in many cases, all have to be considered. Political problems arise when it comes to the distribution of the burdens of adjustment and the creation of new capacities for development.

Lack of ability to handle structural adjustment problems can lead to a variety of outcomes, from the shifting of a large part of the burden of change to future generations (as both the United States and Brazil have done in recent years), to loss of control at the macroeconomic level leading to rapid drops in living standards, hyperinflation and/or defaults on international obligations, political instability and even regime change. Identification and study of the capacities available to avoid undesirable outcomes are of considerable interest.

The third theme in the semi-developed country literature is that of the relationship between economic inequality and political conflict.

Characteristically, semi-developed countries have more unequal distributions of income between households than developed countries. It used to be thought that inequality peaked at the intermediate stage of development, partly because of limitations of the spread of education (and therefore of human capital) and partly because low-paying sectors continued to account for a substantial proportion of employment.

Recent evidence has thrown doubt on the view that inequality necessarily increases during the early stages of development; it is much clearer that it tends to decrease during the later stages. The relationship between economic inequality and political conflict is also complex: studies of cross-national correlations between indicators of the two phenomena have led to

unclear, even contradictory results. One reasonably robust result is that revolutions at a relatively early stage of development have much to do with inequality in land holdings. But coherent findings in semi-developed countries are virtually non-existent.

Part of the reason for this is mindless number-crunching with insufficient attention paid to the theoretical tradition dealing with conflict and revolution. There is probably quite a lot to be said, for instance, for the Hobbesian view that the proximate cause of violent conflict is itself political in the form of the weakening of the power of the state. Economic factors may also matter, but among these, income distribution may be relatively unimportant and improvements may play as significant a role as deterioration. Rational actor models of regime change have recently appeared in the political science literature.

John Roemer, for instance, conceives of revolution as a two person game between the present ruler (whom he calls the Tsar) and a revolutionary entrepreneur, whose name is Lenin. In his attempt to overthrow the Tsar, Lenin can propose redistribution of the fixed pie of income. The Tsar can announce a list of penalties which define what each agent who chooses to join Lenin will forfeit, should the revolution fail. Each possible coalition of the population has a probability of succeeding in making the revolution, depending on its size and composition.

Lenin chooses the income redistribution which maximises the probability of overthrowing the Tsar and the Tsar in turn chooses the list of penalties which minimises this maximum value. The solution to this minimax game defines

the instability of the regime, i. e. the probability tht it will be overthrown.

From game theoretical results, Roemer is able to draw conclusions about the strategies of the players according with experience. For instance, the Tsar will treat the poor harshly and let off the rich lightly if the conditional probabilities of revolution by coalitions are the least bit sensitive to the penalties announced.

Lenin, on the other hand, will only propose a progressive redistribution of income as his optimal strategy under some circumstances. Highly probable revolutions are highly polarised revolutions. Lurking in this literature is also the issue of whether a coherent distinction can be made between revolutions and other forms of regime change, but exploration of that issue would require a lecture of its own. The fourth theme in the semi-developed country literature concerns the bearers of the capacities for economic development. In no society are these likely to be located wholly within the state or within the private sector.

Instead, rather complicated networks able to mount major initiatives may straddle both the public and private sectors. In some semi-developed countries described as “ bureaucratic authoritarian”, it may even be the case that some parts of the state continue to act with leading components of the private sector to manage economic development, while other parts of the state induce periodic crises by losing macro-economic control. Two debates in political science are relevant here. The first concerns the nature and functions of civil society.



In its classical use by Adam Smith and Hegel, civil society refers to a social system sufficiently productively advanced and regulated by morality and law to be able to support both the division of labour and the institution of private property. Hegel throws in the police and the civil service as regulators of last resort for good measure. The term “civil society” has been taken up in recent South African debate, sometimes in a rather quaint fashion – one contributor to a recent seminar defined it as consisting of the trade unions, civics, the SA Council of Churches and the Kagiso Trust!

Marxists have criticised liberals for representing the interests of a part as the good of the whole; liberals, it seems, are not the only people capable of making that mistake. A more interesting redefinition of the term has been proposed by Michael Lipton who reserves for it institutions forming neither part of the state nor part of the market, but whose influence may make both state and market function more efficiently. The original definitions are probably the most useful; in terms of them, the strengthening of civil society is indeed a prerequisite for development.

It amounts to developing new specialisations, to building institutions with new capacities and to creating the attitudes and legal framework necessary to support these endeavours. Much of the time, these changes will evolve from existing resources and capacities. But there are also periods of rapid and discontinuous change in which the positions of major groups within societies are fundamentally changed. This amounts to a social and economic revolution, which may or may not be accompanied by a political revolution.

At the analytical level, the classical Marxist conflation of the social, economic and political processes is a serious distortion. At the political level, versions of the Marxist formulation have been used to represent the most grinding political oppression as inaugurating social and economic emancipation. The second political debate is about corporatism. This refers to a situation in which powerful organised interests play a major role in political life as opposed to individuals organised into political parties in a liberal democratic system.

Indeed, to the liberal ear, the term " corporatism" has an authoritarian sound about it. Powerful organised interests, of course, exist in liberal democracies but these function as interest groups with no formal political status.

Corporatism emerges when political institutions are shaped to include them. An important distinction needs to be drawn between democratic corporatism where these arrangements are subject to choices made by the electorate in regular elections and authoritarian corporatism where they are not.

Fascist Italy and some Latin American countries provide examples of the latter and the European democracies examples of the former. The mildest form of corporatism is probably tripartite institutions comprised of trade unions, employer organisations and state departments. These participate in the determination of macroeconomic and/or labour market policy in advanced industrial countries, the whole process being described as that of a " social contract".

Democratic corporatism is subject to changes depending on changes of opinion within the electorate; particular forms put together by left of centre

governments are often modified or dissolved by succeeding conservative governments. Authoritarian corporatism, on the other hand, produces an oligarchical system based on deals between elites which sometimes deliver stability and economic growth, quite possibly for long periods of time, but which are not subject to popular approval. Indeed, they are characteristically accompanied by a substantial degree of repression.

In this way they contain divergences of interest which would rip liberal democracies apart. Even in democracies, corporatist arrangements display a degree of inertia; it appears from the recent literature that the welfare state has been more resistant to conservative dismantling in European countries in which corporatist arrangements have been well developed. They also deliver control; it has also been suggested that corporatist structures (as well as a highly competitive configuration) in the labour market result in lower real wages than collective bargaining between employers and industry-wide trade unions.

Democratic systems in which linguistic, religious and ethnic identities perform the function of corporations are referred to as consociational and have some of the same authoritarian logic as corporatist systems. The final theme of interest in the literature on semi-developed countries is that of the transition from authoritarian to democratic rule, the subject of a major scholarly enterprise directed from the Woodrow Wilson International Centre at Princeton University about a decade ago.

Alfred Stepan pointed out that there are a number of distinctive paths leading to democratisation: in some, warfare and conquest play an integral

part, as in Europe after the Second World War. Here, three sub-cases can be distinguished: internal restoration of democracy after external conquest, redemocratisation after a conqueror has been defeated by external force, and externally monitored installation of democracy. In others, the termination of authoritarian regimes is initiated by the wielders of authoritarian power themselves.

In yet others, oppositional forces play a major role in terminating authoritarian rule via diffuse protests by grass-roots organisations, general strikes and general withdrawal of support for the government, by the formation of a grand oppositional pact, possibly with consociational features, by organised violent revolt co-ordinated by democratic reformist parties or by Marxist-led revolutionary war (though the latter has usually led to the installation of an authoritarian successor regime).

These are all ideal types with rather different dynamics; any actual process is likely to contain elements of more than one ideal type. In a companion piece, John Sheahan observes that economic policy in support of democratisation must meet two conflicting requirements. On the one hand, economic growth requires the ability to limit claims which would seriously damage efficiency or outrun productive capacity. On the other, policy must deliver sufficient fulfilment of the expectations of politically aware groups to gain and hold their acceptance.

Both external economic circumstances and internal political conflicts are capable of rendering impossible the striking of a viable balance between these requirements, with the result that the process of democratisation

aborts. The position is complicated in countries which have a long history of import substitution resulting in high levels of protection but which now need to re-orient themselves in order to promote exports. In such cases, the timing of structural adjustment and increases in domestic demand pose tricky problems of economic management.

The overall objective must be to permit the most rapid and broadly based rise in domestic demand while maintaining external balance, subject to the constraints arising from the structure of the domestic labour market. Part of successful management must involve the greatest possible exploitation of new willingness to co-operate induced by the democratisation process itself. Adroit proposals are needed which reduce initially high risks and increase incentives to support economic growth among the principal parties at each stage in the process. Some reconceptualisation of interests is essential.

Intelligent international support allowing constraints to be relaxed at crucial junctures is also of considerable importance. It is sometimes supposed that the transformation of an authoritarian regime into a democracy is a fragile process, for the success of which a range of necessary conditions has to be present. In particular, it is argued both that a democracy has small chance of survival if it does not deliver social and economic improvements for the population at large and that democracies are unable to administer the economic medicine required by crisis conditions.

A recent study of Latin American countries since 1982, however, finds that democracies not only handled economic crises as effectively as authoritarian regimes; they also achieved a far better record of avoiding acute crises in

the first place. The puzzle turns out not to be the fragility of democracy, but its vitality. The suggestion is that both the behaviour of political elites and their followers has been misdescribed. On the one hand, democratic governments that displace highly repressive or widely discredited authoritarian regimes may count on a special reserve of political support and trust to carry them through economic crises.

On the other, elected officials may understand the self-defeating nature of enhancing their legitimacy by delivering material payoffs to the bulk of the population, even at the cost of financial disaster. So far, this lecture has not been about South Africa, but has been concerned to identify intellectual resources which might be used when thinking about South African problems. Time permits only a sketchy application of some ideas to our present circumstances. Let me start from the economic side.

One of the more encouraging features of our economic evolution in the last few years is that, although real per capita incomes have declined, the evidence suggests that the distribution of income has improved to such an extent that the proportion of households in poverty did not increase in the years between 1985 and 1990 and probably declined slightly despite a drop in real per capita incomes. The burden of the decline has been borne by the relatively well-to-do if not by the very rich. This trend is unlikely to be sustained in the face of further economic decline.

On the contrary, the prospects for the poor will be served by rapid economic growth; far from there being a conflict between growth and equality in South Africa, the two processes will reinforce each other, especially given

appropriate policies. In the light of the importance of a widespread improvement in standards of living to the sustenance of the process of democratisation, it is in the interests of all parties who desire a negotiated settlement to support developments which increase growth. But where is this growth to come from?

All the contemporary evidence suggests that the balance of payments is critical. It is possible to argue in theoretical terms that there ought to be no such thing as a balance of payments constraint. But there is no policy purchase to be had from a static comparison between our present situation and a superior one. A path from the one state to the other has to be specified. There are two difficulties in doing so. Firstly, the path to a better state depends on what other countries are doing. Prisoner's dilemmas certainly exist at the level of international trade as the very existence of the GATT system testifies.

Secondly, since the process has to be supported politically, the distribution of the costs of adjustment borne by domestic actors has to be taken into account. Either the costs have to be imposed unilaterally by the exercise of political power or compensation has to be negotiated, assuming sufficient gains from liberalisation have been captured domestically. Studies of interest group battles over the determination of the various aspects of balance of payments policy is certainly a topic in political economy.

Another major determinant of macroeconomic policy in recent years is the desire of the state not to make itself vulnerable to international sources of political pressure through loss of control over external balances. This would

have meant risking the loss of control over the timing and extent of concessions. Monetary policy, for instance, has been mainly discussed in terms of domestic variables, notably the rate of inflation. But avoidance of adverse developments on the short-term capital account must always have been a major consideration.

Here, analysis of domestic interest groups does not help at all; it will take favourable developments on international markets or purposeful risk reduction to permit a more expansionary policy. The second issue involves efficiency gains from improved taxation and expenditure policy. So far, a discussion of the economic role of the state has largely consisted of old-fashioned arguments over size and ownership, which have been driven by (often imaginary) conceptions of political interest.

But a determined effort to raise popular living standards will require quite a different approach. Its principal component will be a restructuring of government expenditure, particularly that relating to social services, urban infrastructure and rural development in order to create new opportunities for formerly discriminated against or excluded groups. As Professor McGrath has observed, there are more gains to be had from restructuring the expenditure side of government economic activity than from changes on the revenue side.

There are both normative and positive approaches to this question. The positive approach would observe that the restructuring of state expenditure is already under way and would seek to relate it to two developments, significant from the point of view of public choice theory: first, the lowering



of the income of the median voter associated with the introduction of the tricameral parliament and secondly, the rise in power of the extraparliamentary movement.

The latter has led to a growing expectation of its political incorporation via the universal franchise leading to an anticipatory set of adjustments. A normative approach could be based on an investigation of what is required to minimise an appropriate measure of poverty. At the political level, an advance in the positive account of what our political system is becoming is most urgently needed. Accounts of competing normative positions and the similarities and differences between them abound.

So do narrative accounts of particular political episodes. But a deeper analysis of fundamental concepts – power in its various aspects, the nature and dynamics of transition, the incentives facing various actors and their strategic choices, the real scope and prospects for legality and, above all, whether steering capacities are being lost or gained by the political system – virtually all remain to be carried out in a convincing fashion.

On the quality of the terms on which the new public order is created will depend the efficacy with which the private sector can function and evolve. For this reason and because it requires rather more than animal spirits, it is the quality of what goes on in the public sector that is the test of the degree of civilisation achieved in any society. History may be servitude, history may be freedom. Liberalism is nothing if not the defence of freedom. The South African liberal tradition has two components, borne by two rather different social groups.

Business liberalism presents a robust, generally optimistic face (though subject to a degree of affective disorder during the recessionary phases of the business cycle); all things considered, it has done quite well during the past decade, playing a considerable role in the dismantling of coercive political structures. But business liberalism represents only a part – essentially the material progress part – of a rich tradition. It has been left to an always fragile – and now almost extinct – missionary and philanthropic liberal tradition to try and interpret its cultural aspects.

The clearest defences of this part of the liberal tradition in South Africa have been the most poignant contrasts of visions of freedom with the imposition of new forms of servitude – a missionary bishop denouncing colonialism in its most brutal, shortsighted form, a professor of philosophy foreseeing with harsh clarity the consequences of the political rise of Afrikaner nationalism. Against the intolerant, coercive forces in our midst, liberalism would do well to take its stand on the two central concepts of Immanuel Kant's moral philosophy: individual autonomy and universalisation.

Unshackling individual fates from state-imposed racial identities is a great step forward to the achievement of individual autonomy. But the liberal programme will not be realised if social structure continues to dominate individual capacities in determining what people may become. The creation of an open political system and attending to poverty are both central. There are many who claim that the denial of the former is an essential requirement for achieving the latter. Neither international experience nor a close reading of our domestic circumstances support such a view.

Universality – equality of respect – is always and everywhere a greater problem, since, unlike autonomy, it is not an interest but an acknowledgement of the interests of others. Great cultural heterogeneity makes it even harder to achieve; in South Africa, moreover, the destructive logic of ethnic conflict (which militates against the habit of counting “ each person as one”) has not yet come to an end. There are many fields of action, many forms of life; the prospects for liberalism now depend on people coming to see attachment to their own fields of action in a broad enough perspective not only to tolerate others, but to enjoy them.