Introduction

Underdevelopment in Theory and History

Most of the theorizing on economic development has been done by economists who live and were trained in the industrial West. Some economists, in fact, have written about the underdeveloped countries before they have seen them,¹ and others—although they may have visited an underdeveloped country—write as if they have seen only the capital and perhaps a few of the other major cities. Almost all of these economists, moreover, are ignorant of much of the economic history of the countries about which they are theorizing. Thus many writers on the poverty of nations have suffered from two serious handicaps: lack of knowledge about the broad historical forces associated with underdevelopment and ignorance of the institutions, behaviour responses and ways of life of the largest sector within the underdeveloped countries, the rural areas. Research now available or in progress is gradually reducing our ignorance of the causes of underdevelopment and the conditions under which most of mankind lives. It is almost certain that once additional evidence is accumulated many of the theories of development proposed in the last two decades will have to be abandoned.

Theories of Dualism

Perhaps the most pervasive theory is that of the dual economy. There are numerous models of economic dualism, but their common feature is the division of the economy into two broad—largely independent—sectors.² The names given to these two sectors vary.

¹ The most candid confession is by C. P. Kindleberger: 'This book is written by one who has not been there.' (Economic Development, McGraw-Hill, 1958, 1st edition, p. ix.)
² The most frequently cited authors in this literature are W. Arthur Lewis, 'Economic Development with Unlimited Supplies of Labour', Manchester School, May 1954, and 'Unlimited Labour: Further Notes', Manchester School, January
In some cases the division is between a ‘capitalist’ and a ‘non-capitalist’ sector (Lewis); in other cases it is a division between an ‘enclave’ and the ‘hinterland’, between a ‘modern’ and a ‘traditional’ sector or society or more generally, between ‘industry’ and ‘agriculture’ (Jorgenson).

The two sectors are separate and radically different. The ‘modern’, ‘capitalist’, ‘industrial’ sector is receptive to change, is market oriented and follows profit maximizing behaviour. The ‘traditional’, ‘feudal’, ‘agricultural’ sector is stagnant; production is for subsistence; little output passes through a market; the leisure preferences of producers are high and they do not follow maximizing behaviour. Unemployment, although ‘disguised’, is assumed to be widespread throughout the agricultural sector and, indeed, the marginal product of labour is zero if not negative. Income is at a subsistence level, which is variously interpreted as either a physiological or a culturally determined minimum.

The methods of production are very different in the two sectors. ‘The output of the traditional sector is a function of land and labour alone; there is no accumulation of capital ...’ In the manufacturing sector ‘output is a function of capital and labour alone’. The only link between the two sectors is a flow of unemployed labour (of homogeneous quality) from agriculture to industry. No flows of capital or savings are permitted—since production in the agricultural sector is done without the use of capital, and entrepreneurs are not allowed to engage in activities in both sectors—since motivations and behaviour in the two sectors differ. The economy is essentially


5 Leibenstein defines the subsistence level as one where ‘equality between high fertility and high mortality rates exist. These are the maximum rates consistent with the survival of the population’. (H. Leibenstein, Economic Backwardness and Economic Growth, John Wiley and Sons, 1960, p. 154.)

6 W. Arthur Lewis, op. cit.


8 Ibid., p. 292.
a ‘non-capitalist, enclavish’ sector of agriculture.

The ‘modern’, market ‘traditional’, sector for subsistence preferences of behaviour, is widespread marginal product level, for a culturally two sectors. And labour manufacturing one. The only paid labour (of kind). No flows of agricultural mana are not ce motivations is essentially Surplus Economy: The Development of Agricultural Economic Papers, Cambridge University

gy between high rates consistent Backwardness Development of a

closed and growth occurs through a transfer of labour from agriculture to industry in response to demand generated by capitalist businessmen reinvesting their profits. This process continues until all the disguised unemployed are eliminated, labour becomes scarce and the traditional sector is forced to modernize.

Dualistic models of growth, sometimes explicitly but more often implicitly, have constituted the basis on which broad development strategies have been created. The general neglect of agriculture and the bias in favour of industry, which until recently have been such a notable feature of development policy, stem directly from these models. Moreover, within agriculture, the concentration on large commercial farmers (who may be considered to belong to the modern sector) reflects the opinion that small peasants will not respond to ordinary economic incentives. Similarly, within industry, the concentration on manufactured consumer goods which use imported inputs and the failure to take advantage of opportunities to process locally available raw materials reflects the belief that the ‘traditional’ sector is incapable of supplying the ‘modern’ sector with the inputs it requires.

The assumptions on which dualistic models are constructed are highly suspect. First, there is very little evidence of widespread unemployment throughout the year. There may indeed be pronounced seasonal unemployment in some countries, although even this has been denied in at least one densely populated underdeveloped country. The usual pattern, at least in countries where imports of cheap manufactured goods have not destroyed the handicraft industries, is for seasonally available rural manpower to be fully engaged in non-agricultural activities—leather work, food processing, textile spinning and weaving, etc. There is little surplus labour. Secondly, the assumption that rural incomes or wages exceed the marginal product of labour (even if the latter is not zero) could be correct only if there are no commercial farming activities whatever (e.g. share cropping, fixed rental farming), no employment opportunities outside the (extended) family farm and if all farm...
labour is provided by members of the family.\textsuperscript{12} Our knowledge of tenure conditions (e.g. the interdependence of latifundia and mini-fundia in Latin America), the role of migrant labour (e.g. in Africa) and the practice of small farmers of hiring labour during the peak of the harvest season (e.g. in Asia) contradicts the assumption of the dual economy model. In other words, there is no reason to suppose that rural labour receives more than its marginal product. If there is a discrepancy between opportunity costs and incomes this is more likely to be due to the presence of monopolistic market power than to non-maximizing behaviour or a work-and-income-sharing ethic.

The presumption that members of the 'traditional' sector of a dual economy are not maximizers is used to explain the alleged fact that labour supply curves are backward sloping and that peasants will not increase output when profit opportunities arise. In other words, dualistic models tend to suppose that if wages or farm prices increase the response will be to reduce the supply of labour or agricultural output. This view is clearly presented by a Dutch economist, J. H. Boeke:

'When the price of coconut is high, the chances are that less of the commodities will be offered for sale; when wages are raised the manager of the estate risks that less work will be done; . . . when rubber prices fall the owner of a grove may decide to tap more intensively, whereas high prices may mean that he leaves a larger or smaller portion of his tappable trees untapped.'\textsuperscript{13}

The extraordinary thing is that there is absolutely no empirical evidence to support the view that labour will work less if paid more. Indeed there is much evidence to the contrary. It is probable that the backward bending supply curve is a myth left over from the colonial era when the colonized peoples frequently were forced to offer their services to Europeans in order to earn sufficient cash income to pay their taxes. Obviously, in such a situation, if wages are raised, taxes can be paid more easily and the volume of labour services offered to the colonialists will correspondingly decline. Thus this third assumption of dualistic models—the perverse response of workers to wage incentives—must be dismissed.

Fourth, a large number of detailed econometric studies have

\textsuperscript{12} A useful discussion of some of these issues is found in A. Berry and R. Soligo, 'Rural-Urban Migration, Agricultural Output, and the Supply Price of Labour in a Labour-Surplus Economy', Oxford Economic Papers, July 1968.

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demonstrated beyond a doubt that the assumption that farmers in underdeveloped countries do not respond to price signals is untenable. We now know that Punjabi peasants, whether Hindus in India or Muslims in Pakistan, respond actively to agricultural policies. Thai farmers, under appropriate conditions, will introduce new crops and new technologies. African farmers can be induced by pricing policies to improve the quality of the output of their tree crops. If in many countries the rate of growth of agriculture is too low the explanation should be sought not in the motives, values and behaviour of the inhabitants of rural areas, but in land tenure conditions, in the distribution of economic power and in government policy.

Finally, the assumption that peasants cannot save because they are too poor must be questioned, even if sufficient information is not yet available to reject it completely. Nurkse presumes that savers are found 'mostly among the urban classes' and that 'peasants are not likely to save... voluntarily since they live so close to subsistence level'. Lewis argues that only capitalists save and the reason savings are low in the underdeveloped countries is because the capitalist sector (and hence the proportion of income received in the form of profits) is small.

Unfortunately, data to test these hypotheses are very scarce. One study of rural and urban incomes and savings habits in East and West Pakistan is worth mentioning, however, despite the fact that the quality of the statistical information is rather poor.

The two wings of Pakistan are separated by a thousand miles of

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17 P. T. Bauer and B. S. Yamey, op. cit.

18 R. Nurkse, op. cit., p. 37.

19 Ibid., p. 43.

20 'Economic Development with Unlimited Supplies of Labour', loc. cit. Jorgenson assumes that 'saving is equal to total profits in the industrial sector' (op. cit.).
Indian territory. East Pakistan is the poorer of the two wings, average personal income *per capita* in 1963/64 being Rs.305 in rural areas, Rs.509 in urban areas, and Rs.316 for the Province as a whole. In West Pakistan *per capita* income was Rs.373 in rural areas, Rs.515 in urban areas and Rs.406 on average. Thus personal incomes in West Pakistan were about 28 per cent higher than in East Pakistan. What is noteworthy is that personal savings (expressed as a percentage of gross personal income before taxes) in the rural areas of Pakistan were higher than in the urban areas and that rural savings in East Pakistan were higher than in West Pakistan. When private corporate saving is added to personal saving, so as to obtain a measure of private saving, it turns out that urban areas save more than rural but that East Pakistan still saves more than West Pakistan. In general, ‘rural areas . . . appear to have contributed at least three-fourths of the total private savings in the country’.  

*Table I*

**PERSONAL AND PRIVATE SAVINGS IN PAKISTAN**

<table>
<thead>
<tr>
<th></th>
<th>Gross Personal Savings as per cent of gross personal income</th>
<th>Gross Private Savings as per cent of gross private income</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Pakistan, rural</td>
<td>12.0</td>
<td>12.0</td>
</tr>
<tr>
<td>East Pakistan, urban</td>
<td>9.9</td>
<td>13.9</td>
</tr>
<tr>
<td>East Pakistan, combined</td>
<td>11.8</td>
<td>12.2</td>
</tr>
<tr>
<td>West Pakistan, rural</td>
<td>9.2</td>
<td>9.2</td>
</tr>
<tr>
<td>West Pakistan, urban</td>
<td>6.7</td>
<td>12.5</td>
</tr>
<tr>
<td>West Pakistan, combined</td>
<td>8.8</td>
<td>10.5</td>
</tr>
<tr>
<td>All Pakistan, rural</td>
<td>10.9</td>
<td>10.9</td>
</tr>
<tr>
<td>All Pakistan, urban</td>
<td>7.4</td>
<td>12.8</td>
</tr>
<tr>
<td>All Pakistan, combined</td>
<td>10.2</td>
<td>11.3</td>
</tr>
</tbody>
</table>

*Source: A. Bergan, *op. cit.*, pp. 185 and 186.*

Clearly one cannot reject the hypothesis that the ‘traditional’ sector does not save on the basis of a single study of one country in one year, but enough information has been provided to create a certain amount of doubt as to the validity of theories which are dependent upon this assumption. Indeed it now seems most unlikely that the assumptions of the model of economic dualism—and particularly the assumptions about the extent of rural unemployment, the rela-

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In rural areas, average per cent of gross private income
12:0
12:2
9:2
12:5
10:5
10:9
12:8
11:3

The tendency of wages to the marginal product of labour, the willingness of peasants to save, and the response of workers and farmers to economic incentives—can withstand empirical scrutiny.

One can always maintain that the assumptions of a theory are less important than its predictions and that it is more important to foresee the development path of an economy than to describe accurately its structure and behaviour patterns. Let us, therefore, briefly examine the trends and tendencies the dual economy models would lead one to expect.

The most obvious feature of these models is the tendency for real income in the agricultural sector to remain constant. It cannot rise because there is surplus labour and it cannot fall because incomes already are at a subsistence level. Given that the marginal product of labour is zero, it must follow that all available amounts of land are fully utilized, otherwise it is very difficult to understand why the surplus labour does not combine with uncultivated land. If labour is redundant and land is fully utilized any increase in population will lead to falling per capita incomes—unless the increase in population is exactly offset by technical progress. The technical progress may not be of the embodied type, however, because capital accumulation in the ‘traditional’ sector is assumed not to occur; thus the increase in technical knowledge must be entirely disembodied, i.e. it must fall like manna from heaven at precisely the rate of population increase.

These, in fact, are the assumptions many development theorists make. Jorgenson, for example, assumes that his production function ‘will shift over time so that a given bundle of factors will generate a higher level of output at one date than at an earlier date’. He also assumes ‘that so long as there is disguised unemployment population expands at the same rate as the growth of agricultural output’. Thus per capita income in the agricultural sector cannot fall by assumption, and since the modern, industrial sector is assumed to be increasing its relative importance in the economy the per capita income of the nation as a whole must rise.

Dualistic theories thus make three specific predictions about the development path of an underdeveloped country: first, aggregate per capita income will rise; second, agricultural output will increase at the same rate as the population; and, third, per capita income in rural areas will remain constant. What evidence is there that these predictions are generally correct?

23 Ibid., p. 293.
In the first place, there are several areas in which *per capita* income has declined. In Africa north of the Sahara, for example, gross domestic product *per capita* declined by 0·3 per cent a year between 1960 and 1967. Looking at individual countries over the period 1960–1966, GNP *per capita* grew at an annual rate of −0·1 per cent in Ghana, −0·5 per cent in Morocco, −2·6 per cent in Rhodesia, −0·4 per cent in the Dominican Republic and −1·4 per cent in Uruguay.\(^{24}\) Evidently, a few countries are engaged in a process of underdevelopment which dual economy models are incapable of explaining. It is quite likely, as we shall see below, that if the economic history of today’s poverty-stricken nations were examined it would become apparent that many of them descended into underdevelopment from a level of material prosperity and social wellbeing that was once considerably greater than that observed at present.

Next, there is abundant evidence that in many countries agricultural output, and particularly production of food for domestic consumption, has failed to keep pace with the rate of population increase. Comparing 1966 with the average of the period 1957–1959 it appears that *per capita* agricultural production had declined in the following countries: Algeria, Burundi, Congo (Kinshasa), Liberia, Malagasy Republic, Morocco, Rwanda, Tunisia, Uganda, Iran, Iraq, Egypt, India, Burma, Cambodia, Indonesia, South Vietnam, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Haiti, Paraguay, Peru, Trinidad and Tobago.\(^{25}\) Clearly the theories of dualism have failed this simple test on a massive scale.

Finally, there is the question of whether *per capita* incomes in rural areas have remained constant. We argue in Chapter I below that there is some evidence that rural incomes have been falling in several Spanish American countries. It is possible, of course, that our data on Spanish America are wrong or that for some reason this area constitutes a special case. Hence it is worth considering briefly what is happening in another country in a rather different part of the world.

In 1965 it was suggested, on the basis of the then existing statistical information on the *per capita* availability of foodgrains and average rural incomes, that despite the rapid growth in GNP and *per capita* income that Pakistan has enjoyed, particularly during the Second Five Year Plan, ‘the vast majority of the Pakistani population


\(^{25}\) Ibid. Also see FAO, *The State of Food and Agriculture*, 1967.
probably have a lower standard of living today than when the country achieved its independence in 1947." Two years later additional evidence became available which showed that per capita agricultural output in East Pakistan declined from Rs. 197 in 1949-50, to Rs. 184 in 1954-55, and finally to Rs. 174 in 1959-60; it then increased to Rs. 188 in 1964-65 but was still lower than the level achieved in the earliest recorded period. Exactly the same pattern was followed in West Pakistan except that by 1964-65 per capita agricultural output had fully regained the previous peak. Clearly a strong presumption exists that the standard of living in rural areas, particularly in East Pakistan, has declined in the last two decades.

The author of a more recent study has investigated in great detail the trends in rural incomes in East Pakistan since 1949. According to the evidence collected by Mr Bose agricultural value added per head of rural population declined from Rs. 200.5 in 1949/50-1950/51 to Rs. 182 in 1962/63-1963/64; in the same period agricultural value added per head of agricultural population declined from Rs. 229 to Rs. 202.5 and per capita rural income declined from Rs. 272.5 to Rs. 268.5. Because of increased population density in rural areas the number of landless male workers seeking wage employment rose from 14.1 per cent of the male agricultural labour force in 1951 to 19.4 per cent in 1961. The real wages of these landless agricultural labourers declined from an index of 100 in 1949 to 82.3 in 1966.

In view of this evidence it seems rather pointless to construct a model of an underdeveloped economy in which the central feature is the constancy of real incomes in the largest sector. Ironically, it was during the period of falling rural incomes in Pakistan that two visiting economists published the first version of their model of a dual economy based on the assumption of a fixed 'institutional or subsistence level of real wages in the agricultural sector'. The Fei and Ranis model subsequently became famous, particularly in the

29 *Ibid.*, Table 1. The data are expressed in constant prices of 1959/60.
30 *Ibid.*, Table 3.
31 *Ibid.*, Table 4.
United States, but in its country of origin it remains pathetically irrelevant.

It is conceivable, however, that some theorists would claim that models of economic dualism are not really concerned with the agricultural sector but are concerned with describing the pattern of growth of the modern industrial sector. In other words, it might be claimed that the dual economy models put a spotlight on one—often very small—sector and leave the rest of the economy in relative obscurity. If this is the correct interpretation, the validity of the theory should be tested by comparing its predictions with the performance of the 'modern' sector, and the 'traditional' sector should be ignored.

A prominent characteristic of the dual economy cum surplus labour theory is the lack of employment opportunities in agriculture and the growth of employment opportunities in the 'modern' sector. This is a fundamental asymmetry in the model, and it is this difference in the treatment of the growth and employment potential of the two sectors which determines the development path of the economy. Given the structure of the model it is obvious that development can occur only through a process of capital accumulation in the 'modern' sector and the absorption of labour in industry. In other words, the proportion of the labour force occupied in industry should increase, and in the classical version of the model 'the rate of growth of manufacturing employment is, of course, equal to the rate of growth of manufacturing output'.

These hypotheses are contradicted by a great deal of empirical evidence. Nowhere, I believe, has industrial output and employment increased at the same rate; there has always been some increase in the productivity of labour in industry. More important, there are many countries in which the proportion of the labour force employed in industry has increased much less than the theory would lead one to

34 In Chad the non-agricultural labour force is 8 per cent of the total, in Kenya 12 per cent, in Thailand 18 per cent, in Nepal 8 per cent, in Yemen 11 per cent and in Haiti 17 per cent.
35 This rationalization certainly does not apply to Fei and Ranis who criticize Lewis for treating the agricultural sector 'more or less as an afterthought' while claiming that their model 'gives a more explicit treatment to the agricultural sector'. ('Unlimited Supply of Labour and the Concept of Balanced Growth', *loc. cit.*, p. 29)
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expect (e.g. Turkey and Malaysia), others in which the relative size of the industrial labour force has remained constant (e.g. Egypt), and still others in which the proportion has even declined (e.g. Cyprus). As we shall see in Chapter I (Table 1:3), in a few Spanish American nations there was a smaller proportion of the labour force employed in manufacturing in 1960 than in 1925.

Table 2

PERCENTAGE OF THE LABOUR FORCE
EMPLOYED IN INDUSTRY, SELECTED COUNTRIES

<table>
<thead>
<tr>
<th></th>
<th>Circa 1950</th>
<th>Circa 1960</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicaragua</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Turkey</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Pakistan</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Malaysia</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Egypt</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Panama</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Paraguay</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Chile</td>
<td>31</td>
<td>30</td>
</tr>
<tr>
<td>Ecuador</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>Peru</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Cyprus</td>
<td>33</td>
<td>27</td>
</tr>
</tbody>
</table>


In a few countries, especially in Africa, there has been a decline not only in the proportion of the work force employed in industry and the ‘modern’ sector, but in the absolute level of employment in non-agricultural activities as well. Output of the ‘modern’ sector has increased while employment has fallen. For instance, between 1955 and 1964 the trend rate of increase of non-agricultural employment was —1.0 in the Cameroons, —0.5 in Kenya, —0.7 in Malawi, —0.4 in Tanzania, —0.1 in Uganda and —0.9 in Zambia. The dual economy model is incapable of explaining these trends.

The theories we are examining make predictions not only about the level of employment in industry, but also about the aggregate rate of savings and investment in the economy. Arthur Lewis asserts that an understanding of how the savings and investment ratios rise from 4–5 per cent to 12–15 per cent of national income is the ‘central

problem in the theory of economic development’. His explanation of the rise is in terms of a redistribution of income from the 'subsistence' to the 'capitalist' sector. Similarly, Professor Jorgenson's model implies that 'if the proportion of manufacturing output to agricultural output increases, the share of saving in total income also increases'.

Once again, there is statistical evidence that suggests that there is no simple association between a growing modern, capitalist, industrial sector and rising savings and investment. For instance, in Colombia between 1953 and 1965 industrial output rose from 15.5 per cent of GDP to 19.0 per cent, while the gross investment ratio declined from 16.5 to 16.0 per cent. Similarly, in Guatemala between 1950-51 and 1962-63 the share of industry in GDP rose from twelve to fourteen per cent, while private savings as a per cent of net national product declined from 2.6 to 2.3. The same phenomenon has occurred in Brazil: during the period 1946-48 to 1958-60 industrial production increased from 21 to 34 per cent of GDP and the ratio of gross domestic savings to GNP declined from 16.4 to 16.0 per cent. Indeed it appears that the savings ratio in Brazil has remained roughly constant since at least the late 1930s. The lack of a strong positive correlation between the degree of industrialization and the domestic savings ratio is not, of course, peculiar to Latin America; a similar lack of association can be found elsewhere. For example, in Turkey between 1954 and 1965 industrial output rose from thirteen to fifteen per cent of GDP, while the gross investment ratio—despite the availability of considerable amounts of foreign aid—fell from 14.5 per cent to 13.0 per cent of GDP. Thus once more the predictions of the theory are refuted by the facts.

In summary, dualistic models of development make an unhelpful division of the economy into a 'traditional' and a 'modern' sector. The assumptions of the theory regarding the characteristics of the 'traditional' agricultural sector are not credible and, indeed, can be shown to be erroneous by even the most casual empiricism. The predictions of the theory are likewise incorrect. It has been demonstrated that in not a few countries the growth of national income per capita, the level of rural wages, the expansion of agricultural output, the evolution of employment in industry and the behaviour of the

38 'Economic Development with Unlimited Supplies of Labour', loc. cit.
39 'Surplus Agricultural Labour and the Development of a Dual Economy', loc. cit., p. 310.
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aggregate savings and investment ratios have differed markedly from what the theory would lead one to expect. In almost every conceivable way the theory fails to conform to the reality of a great many underdeveloped countries.

In many respects this theory of growth and development is curiously static and a-historical. Models of the dual economy assume a given and constant subsistence wage rate, a given pool of disguised unemployment and unchanged, i.e. ‘traditional’, agrarian institutions. The real problem arises, however, when population growth rates exceed the capacity of the economy to adjust its institutions (e.g. land tenure), attitudes (e.g. toward birth control) and composition of output (e.g. the degree of industrialisation) so that real wages fall, seasonal unemployment in agriculture increases and the proportion of the labour force employed in large-scale industry declines or at best remains roughly constant. One cannot even begin to analyse these problems if the conceptual framework being used is one of static, unchanged, constant ‘subsistence’ incomes and ‘traditional’ institutions, values and modes of behaviour.

STAGE THEORIES

Economic history, and theories firmly based upon historical knowledge, would appear to be essential in understanding the nature of underdevelopment. Unfortunately, however, most of the theories which claim to view development in historical perspective begin by assuming that the underdeveloped countries are in a ‘low-level equilibrium trap’. This presumption, of course, largely precludes endogenous change, since the very essence of an equilibrium position is absence of movement.

A common procedure is to assume that all nations, rich and poor, were once equal, i.e. suffered from an equivalent degree of poverty and state of underdevelopment. The implications of Kuznets’ findings that ‘the present levels of per capita product in the underdeveloped countries are much lower than were those in the developed countries in their pre-industrialization phase’ have been totally ignored. Instead economists have argued from an assumption of equality when inequality obviously exists. Professor Leibenstein could not be more explicit. In defining ‘the abstract problem’ he says, ‘We begin

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with a set of economies (or countries), each 'enjoying' an equally low standard of living at the outset . . . . Over a relatively long period of time (say, a century or two) some of these countries increase their output per head considerably whereas others do not. 43 This being so, the thing to do is determine how today's wealthy countries escaped the 'low-level equilibrium trap', and then apply the lessons to the backward countries which were left behind.

The most self-conscious attempt to do this is found in Rostow's book, The Stages of Economic Growth: A Non-Communist Manifesto. The terminology and analytical categories employed in this book, although severely criticized, 44 have permeated Western thinking on development problems. 45 The reasons for this have more to do with sociology than economics.

Rostow believes that all countries pass through five stages. The initial stage is called 'the traditional society' and its features are similar to those of the 'non-capitalist' sector of dual economy models. Next comes a 'preconditioning' stage, followed by the 'take-off', the 'drive to maturity' and, finally, an 'age of high mass-consumption'. How a nation gets from one stage to another is unclear, since all Rostow presents, in effect, is a series of snapshots which freeze the development process in five different moments of time. What is clear, however, is that the present 'traditional society' stage is the initial stage, and that development occurs essentially as a result of internal efforts which are largely unaffected by the workings of the wider international economy.

As Gunder Frank has stressed, Rostow's theory 'attributes a history to the developed countries but denies all history to the underdeveloped ones'. 46 Rostow neglects the past of the underdeveloped countries but confidently predicts a future for them similar to that of the wealthy nations. In this respect Rostow's views differ little from the Marxist doctrine that 'the most industrially advanced country presents the less advanced country with the image of its future'.

Marx and Rostow notwithstanding, it is exceedingly improbable

43 H. Leibenstein, op. cit., p. 4. Italics in the original.
45 For instance, in presenting their dualistic model Ranis and Fei claim that Rostow's 'well-known intuitive notion has been chosen as our point of departure'. ('A Theory of Economic Growth', loc. cit., p. 533).
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qually low a period of increase their countries' lessons

Rostow's Manifesto. In this book, he is thinking on how
to do with

tages. The advantages are the core of an economy which
the 'take-off' is, in turn, mass-consumption. Indeed, in
society' stage as a result of the changing world.

According to the underdeveloped world, the agriculture economy of the spice islands, the domestic industries of large parts of India, the Arab trading-economy of the Indian Ocean and of the western Pacific, the native societies of West Africa and the way of life in the Caribbean islands and in the vast areas of the two vice-royalties of Spanish America [were] all deeply affected by the impact of Europeans ... The results [of European expansion] on non-European societies were ... sometimes immediate and overwhelming. ... {47}

The expansion of Europe throughout the world was an outcome of the competition among mercantilist-capitalist states for trading advantages. This competition was both peaceful and violent and its object was to obtain monopoly control of the most lucrative trading areas. In practice the quest for monopoly control led inevitably to the forceful acquisition of colonies, satellites, dependent territories and spheres of influence. But the initial impulse, from the time when

{47} A typical view is exemplified by Trevor-Roper's arrogant assertion that 'the history of the world, for the last five centuries, in so far as it has significance, has been European history'. (The Rise of Christian Europe, 1965, p. 11.)


U.S.A.—3
the Portuguese first began to explore the Orient, was to dominate trade, not to gain territory; that came later. 'The object of Portuguese colonization was not the possession of the Indies themselves, but of the trade of the Indies. Their approach was based on a concept of a mare clausum, secured to them under papal authority, which should save them from the inroads of other Christian states, and on a system of forts and garrisons which should save them from native opposition.' The Portuguese had no wish to engage in production but 'merely to divert to their own sea-routes a trade which was based on a competent native economy. Their purpose was to make the king of Portugal the only merchant trading between India and Portugal'.

Ironically, it was the combination of Europe's military superiority and her relative material poverty which shaped events in the early phase of European expansion. Western ascendency was made possible by advanced military technology and it was made necessary by the inability of Europe to engage in trade on equal terms with the wealthy nations of the East. Asia had much that Europe wanted but Europe could offer almost nothing that was desired in Asia. As Professor Rich has said, 'the spice trade was conditioned by the fact that the Spice Islands wanted very little of the produce of Europe save firearms'.

An historian of Indonesia notes that 'when the first Dutch merchants and sailors had come to the island world of the Indies, they had been amazed by the variety of its nature and civilization, and the more observant among them had recognized that southern and eastern Asia were far ahead of western Europe in riches as well as in commercial ability and mercantile skill'. Similarly, an historian of the Middle East has written that 'when Islam was still expanding and receptive, the Christian West had little or nothing to offer, but rather flattered Islamic pride with the spectacle of a culture that was visibly and palpably inferior'. Europe's subsequent ability to dominate the rest of the world depended not upon her cultural superiority or economic strength but upon two technological breakthroughs: the construction of large ocean-going sailing vessels and the development of gunpowder and naval cannons. Indeed,

50 Ibid., p. 368.
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Europe owed a great technological debt to the rest of the world, and particularly to China. Without Chinese science the industrial revolution would have been impossible.\textsuperscript{54} It was European advances in specific military techniques rather than general progress in the peaceful arts of civilization which enabled her to establish hegemony in Latin America, Asia and Africa.

In the early period of expansion, in fact, a large volume of trade between Europe and the rest of the world would have been impossible because of the European tendency to run a substantial balance of payments deficit. If Europe was to obtain the products from the East which were desired she either had to force down the price of oriental products or increase the demand for goods which Europe could supply. In practice she did both. The Dutch, for instance, exacted an annual tribute in spices; for other crops they enforced compulsory deliveries at favourable prices. The English destroyed the Indian textile industry and then proceeded to supply India with cotton goods from Great Britain. How Britain was to finance the imports of tea from China presented great problems, for as the Chinese emperor said to George III, ‘our celestial empire possesses all things in prolific abundance’ and, presumably, therefore, China had little need for English goods. This knotty problem was finally resolved by forcing opium on the Chinese and encouraging addiction. This created a large demand for the drug which the East India Company was able to supply from Bengal. The Chinese made many vain attempts to restrict the trade. Finally, Britain forced China to permit the trade and fought the Opium War of 1839–42—‘a war that was precipitated by the Chinese government’s effort to suppress a pernicious contraband trade in opium, concluded by the superior firepower of British warships, and followed by humiliating treaties that gave Westerners special privileges in China’.\textsuperscript{55}

It is still a matter of debate whether domination of the rest of the world was the vital ingredient in Europe’s recipe for rapid economic growth. There is little doubt, however, that resources were transferred to the West, and especially to Great Britain, on a massive scale. British India had a large trading surplus with China and the rest of Asia. These surpluses, in turn, were siphoned off to England through the (politically established and maintained) Indian trading deficit with Britain, through the “Home Charges” — i.e. India’s pay-


ments for the privilege of being administered by Britain—and through the increasingly large interest-payments on the Indian Public Debt. Towards the end of the [nineteenth] century these items became increasingly important. Before the First World War “the key to Britain’s whole payments pattern lay in India, financing as she probably did more than two fifths of Britain’s trade deficits”. 56

Going back still further, the East India Company, according to Keynes, had its origin in privateering. ‘Indeed, the booty brought back by Drake in the *Golden Hind* may fairly be considered the fountain and origin of British Foreign Investment. Elizabeth paid off out of the proceeds the whole of her foreign debt and invested a part of the balance (about £42,000) in the Levant Company; largely out of the profits of the Levant Company there was formed the East India Company, the profits of which during the seventeenth and eighteenth centuries were the main foundation of England’s foreign connections; and so on. In view of this, the following calculation may amuse the curious. At the present time (in round figures) our foreign investments probably yield us about 6½ per cent net after allowing for losses, of which we reinvest abroad about half—say 3½ per cent. If this is, on the average, a fair sample of what has been going on since 1580, the £42,000 invested by Elizabeth out of Drake’s booty in 1580 would have accumulated by 1930 to approximately the actual aggregate of our present foreign investments, namely £4,200,000,000—or, say, 100,000 times greater than the original investment. We can, indeed, check the accuracy of this assumed rate of accumulation about 120 years later. For at the end of the seventeenth century the three great trading companies—the East India Company, the Royal African and the Hudson’s Bay—which constituted the bulk of the country’s foreign investment, had a capital of about £2,150,000; and if we take £2,500,000 for our aggregate foreign investments at that date, that is of the order of magnitude to which £42,000 would grow at 3½ per cent in 120 years’. 57

The Keynesian calculation is indeed amusing (particularly to an Englishman!) and well illustrates what Rostow calls ‘the march of compound interest’. 58 We cannot tarry here, however, for we are concerned not with whether European expansion enriched the West, but with whether it impoverished the rest of the world. It is conceivable


that the benefits to Europe of its hegemony were slight and accrued in
the form of temporarily increased consumption (rather than greater
investment and growth), while the costs of her dominance were
heavy and fell primarily upon the dependent countries. It is to this
final question that we now turn.

FRAGMENTS OF HISTORY

The concept of 'underdevelopment' as it is used in this book is all-
inclusive. It refers to a society's political organization, economic
characteristics and social institutions. Poverty is neither a synonym
for underdevelopment nor a cause of underdevelopment; it is only
symptomatic of a more general problem. Poverty, in other words,
forms part of a culture. Oscar Lewis had the following to say about
this culture: 'The culture of poverty is both an adaptation and a
reaction of the poor to their marginal position in a class-stratified,
high individuated, capitalistic society. It represents an effort to cope
with feelings of hopelessness and despair... Most frequently the
culture of poverty develops when a stratified social and economic
system is breaking down or is being replaced by another... Often it
results from imperial conquest in which the native social and
economic structure is smashed and the natives are maintained in a
servile colonial status, sometimes for many generations'.

As Lewis is the first to recognize, however, the culture of poverty
is not identical in all settings; the slums of Puerto Rico produce a
different culture from those of Mexico City; the culture of poverty
varies from place to place and from one era to another. The culture
both shapes and is shaped by a people's history. It is for this reason
that the differences between the developed and the underdeveloped
countries cannot be explained exclusively in statistical terms; the two
types of countries differ qualitatively as well as quantitatively. For
similar reasons, it is almost certainly incorrect and misleading to
assume that the circumstances of today's underdeveloped countries
were always the same. Yet this is the view that at present prevails.
Nurkse's notion of the 'vicious circle of poverty'—the proposition
that 'a country is poor because it is poor', and presumably always
has been—expresses the conventional doctrine perfectly. As an
alternative approach one might advance the hypothesis that the well-
being of today's poor countries was not always so low and that their

61 R. Nurkse, *Problems of Capital Formation in Underdeveloped Countries*,
Oxford University Press, p. 4.
descent into underdevelopment did not occur independently of what was happening in the rest of the world.

It is our belief that underdeveloped countries as we observe them today are a product of historical forces, especially of those forces released by European expansion and world ascendancy. Thus they are a relatively recent phenomenon. Europe did not 'discover' the underdeveloped countries; on the contrary, she created them. In many cases, in fact, the societies with which Europe came into contact were sophisticated, cultured and wealthy.

This is well illustrated by the case of Indonesia, an archipelago which today includes about half of the inhabitants of South-East Asia and the region which formerly acted as a magnet to Western traders and precipitated European expansion. At the beginning of the sixteenth century Indonesia was a prosperous region. 'Local emporia were the equal of anything Europe had to offer: indeed Malacca was at that time regarded by Western visitors as the greatest port for international commerce in the world, clearing annually more shipping than any other.'62 The Dutch, operating through the Netherlands' United East India Company, aimed first to establish a monopoly of trade with the region. This aim was accomplished by 1641. They next established a monopoly over the purchases of the output of the islands. Finally, in the eighteenth century, the Dutch established a system of forced deliveries, forced cultivation and even the legal obligation to grow specific commercial crops on peasant holdings. Specialization was not dictated by the market but by the Company. As a consequence of this so-called Culture System 'so little time was left to the Javanese for the cultivation of food crops that serious famines occurred in the eighteen-forties. The fertile island had been transformed into a vast Dutch plantation, or, from the point of view of the people, a forced labour camp'.63

Agriculture was not the only sector that was adversely affected. The Dutch systematically discouraged and prevented local enterprise outside agriculture, and even brought in Chinese as ubiquitous middlemen. Java's indigenous commercial and industrial activities were utterly destroyed: ship building, iron-working, brass and copper founding all disappeared; weaving and peasant handicrafts declined; the merchant marine vanished and the merchants devoted themselves to piracy.

By the beginning of the present century the Indonesian economy was in a state of crisis and the Dutch government announced its

63 Ibid., p. 47.
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intention in 1901 to 'enquire into the diminishing welfare of the people of Java'. Some indication of the extent to which the well-being of the people had declined is provided by Mr Caldwell’s figures:

Table 3
AVERAGE ANNUAL RICE CONSUMPTION
PER HEAD IN JAVA AND MADURA

<table>
<thead>
<tr>
<th>Period</th>
<th>Quantity (kilogrammes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1856–70</td>
<td>114.0</td>
</tr>
<tr>
<td>1881–90</td>
<td>105.5</td>
</tr>
<tr>
<td>1891–1900</td>
<td>100.6</td>
</tr>
<tr>
<td>1936–40</td>
<td>89.0</td>
</tr>
<tr>
<td>1960</td>
<td>81.4</td>
</tr>
</tbody>
</table>

Source: M. Caldwell, op. cit., p. 21.

Indonesia’s experience was not unique. Indeed, President Roosevelt’s comment to Lord Halifax in January 1944 that the French had possessed Indochina ‘... for nearly 100 years, and the people were worse off than they were at the beginning’ is applicable to Asia as a whole. In some cases the destruction of the indigenous society was largely inadvertent. The decimation of the population of the South Pacific islands through the introduction of alien diseases is an example of this. In other cases the destruction of the native economy and its institutions was deliberate. A second great example of this is India.

As late as the early seventeenth-century India was more advanced economically than Europe. She had a fairly large manufacturing sector which produced mostly luxury goods—including gold and silver objects, plus glassware, paper, iron products and ships. Many of these items as well as cotton cloth, silk, indigo and saltpetre were exported to the West for payment in bullion. The decline of India’s industry was due to a combination of several factors: technical progress in Europe associated with the industrial revolution, domination of the East India Company and the imposition of the free trade doctrine under unequal conditions by the British. After 1833 the process of de-industrialization was accelerated and emphasis was placed on developing cash crop agriculture for export. Industrial decay was complete by the 1880s.

Parallel to the destruction of the manufacturing sector, agricultural institutions were profoundly altered and the economic wellbeing of rural inhabitants declined. Throughout the nineteenth century the proportion of the total population dependent upon agriculture increased, and the proportion of the rural population composed of agricultural labourers also increased. Data from the Madras Presidency of South India indicate that the real wages of agricultural labourers (measured in seers of common rice) declined sharply even as late as the last quarter of the last century. In only one of the seven districts for which data are available did real wages actually rise; in the others they declined from 13 to 48 per cent.

**Table 4**

**Change in Real Wages of Agricultural Labour in Seven Districts of South India,**

**Average 1873–75 to Average 1898–1900**

<table>
<thead>
<tr>
<th>District</th>
<th>Change per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ganjam</td>
<td>-43</td>
</tr>
<tr>
<td>Vizagapatam</td>
<td>-48</td>
</tr>
<tr>
<td>Bellary</td>
<td>-20</td>
</tr>
<tr>
<td>Tanjore</td>
<td>+29</td>
</tr>
<tr>
<td>Tinnevelly</td>
<td>-40</td>
</tr>
<tr>
<td>Salem</td>
<td>-13</td>
</tr>
<tr>
<td>Coimbatore</td>
<td>-39</td>
</tr>
</tbody>
</table>


Conditions in the rest of India were roughly comparable. René Dumont summarizes the experience of Bengal as follows: 'On 22 March 1793 Lord Cornwallis and the East India Company proclaimed that zamindars and talukhars (the men who had been charged with the collection of tribute) would henceforth be considered as permanent and irrevocable owners of the lands on which they had gathered taxes. This proclamation had far-reaching consequences. Of course, it is easy to see that the East India Company regarded it both as an improved way of obtaining a better return of tributes, and also as an easy means of making firm allies. But they never realized that, in depriving the peasant of his traditional and permanent right to occupy the land, they were making him, throughout the greatest part of India, a slave of new owners; and that exploitation of the peasant now took the place of exploitation of
resources. Rural societies were not only compelled to pay taxes, but also rents which demographic development soon made outrageous; some peasants took to running away. A new law gave the zamindars the right to catch them, and this completed the dismemberment of traditional rural society. On the one hand great landowners; serfs on the other; the former with no incentive to improve the land; the latter with no means to do so. 66

The conversion of tax collectors into landlords, the emphasis on production of cash crops for export, and the population explosion which began at the end of the nineteenth century were jointly responsible for the final disaster. The mass of the people were reduced to a subsistence income which hovered precariously above the famine level. Using 1900–01 as an index base of 100, agricultural production per capita had declined to 72 a half century later, while production of food per capita had plunged to the miserably low figure of 58. 67

None of the preceding discussion should be taken to imply that all of the underdeveloped countries were once wealthy societies and advanced civilizations. Some of the peoples with whom the Europeans came into contact were, of course, relatively primitive. But nearly all of the people encountered in today’s underdeveloped areas were members of viable societies which could satisfy the economic needs of the community. Yet these societies were shattered when they came into contact with an expanding Europe. The manner in which the indigenous societies were destroyed varied from one region to another and depended upon the precise form taken by European penetration and the wealth, structure and resilience of the native civilization. Although the method of destruction varied, the outcome was always the same: a decline in the welfare of the subjugated people. Writing about Africa, Professor Frankel notes that attempts at modernization under colonialism are ‘in greater or lesser degree accompanied by increasingly rapid disintegration of the indigenous economic and social structure. However primitive those indigenous institutions may now appear in Western eyes, they did in fact provide the individuals composing the indigenous society with that sense of psychological and economic security without which life loses its meaning’. 68

Although our knowledge of African history is rudimentary, it is perhaps correct to say that no continent has felt the impact of European expansion more thoroughly than Africa. The introduction, especially by the Portuguese, of large-scale trading in slaves during the sixteenth century completely disrupted West Africa from Guinea to Angola.\(^{69}\) Slavery created chaos in vast areas of the continent. The population declined; wars among formerly peaceful tribes were incited; the native economy fell into decay; and the social organization of the community and the authority of the chief frequently were corrupted. The entire way of life in Africa was altered. 'The increased demand for slaves arising from the plantation owners of North and South America in the seventeenth and eighteenth centuries was responsible for depopulating large parts of Africa, and for degrading what had once been settled agricultural peoples back to long-fallow agriculture or nomadism'.\(^{70}\)

The slaughter of the indigenous people and the depopulation of the land did not cease with the end of slavery, however. In 1919 the Belgian Commission for the Protection of the Native estimated that the number of inhabitants of the Congo had declined by as much as 50 per cent since the beginning of occupation forty years earlier. In South-West Africa during the German-Herero War of 1904 General von Trotha, after the campaign was over, issued his notorious Extermination Order which required every Herero man, woman and child to be killed.\(^{71}\) As a result of this the tribe was reduced from 80,000 to 15,000, and today it has regained only half of its former strength.

As pervasive as slavery and indiscriminate slaughter may have been, they can hardly be considered the typical pattern of European penetration in Africa. One must also consider the more 'normal' economic activities of colonization and mineral extraction. One cannot, of course, accurately describe in a few paragraphs all the forms which colonialism adopted in North, East and Southern Africa, but it is possible to reconstruct a simplified scheme of the effects of European activity upon the indigenous society.


\(^{70}\) Slave raiding in Eastern and Central Africa had been introduced earlier by Arab traders operating out of Zanzibar and Khartoum. This naturally disturbed the native economy and society, but the effects were insignificant in comparison with the devastation created by European and American slaving expeditions.


INTRODUCTION

The process began with the acquisition of all the good land, mineral deposits and water resources by the colonialists. Excluding West Africa, this was nearly a universal phenomenon, and was not confined to the acknowledged cases of white settlers in Kenya, Algeria and the Republic of South Africa, but was also prevalent in less prominent places. For instance, the Bechuana tribes of Botswana were continually forced to give up their most productive lands in the south and northwest in order to avoid becoming a colony and to maintain their status as the Bechuanaland Protectorate. In Liberia the descendants of freed slaves (Americo-Liberians) have installed themselves as aristocratic absentee landlords of rubber farms, have required the indigenous people to supply one fourth of the labour supply gratis, and pay the remainder four cents an hour or less. The mandate territory of South West Africa is a classical example of Europeans monopolizing the land. ‘Whites, though only one in seven of the total population, enjoy the exclusive use of two-thirds of the land.’

Having lost the best lands, the indigenous population was then confined to the less desirable and more remote areas—the ‘bush’, Reserves, the veld or Bantustans. The high population densities led inevitably to increased erosion, declining yields of food crops in native areas and falling consumption levels. Colonialism in Africa—like that in Latin America, as we shall soon see—led to underemployment both of land (in the European areas) and labour (in the

<table>
<thead>
<tr>
<th>Year</th>
<th>Cereals (kilos)</th>
<th>Cattle (head)</th>
<th>Sheep (head)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1863</td>
<td>1000</td>
<td>n.a.</td>
<td>4.5</td>
</tr>
<tr>
<td>1911</td>
<td>377</td>
<td>0.2</td>
<td>1.5</td>
</tr>
<tr>
<td>1938</td>
<td>231</td>
<td>0.1</td>
<td>0.8</td>
</tr>
<tr>
<td>1954</td>
<td>202</td>
<td>0.1</td>
<td>0.7</td>
</tr>
</tbody>
</table>


72 E. S. Munger, Bechuanaland, Oxford University Press, 1965, Ch. II.
74 R. First, op. cit., p. 142.
African areas). Per capita food consumption, at least in some cases, has fallen over a considerable period of time. For example, food consumption in Algeria was perhaps between five and six times higher in 1863 than it was in 1954.

It was not sufficient, however, simply to dispossess the natives of their land and confine them to Reserves. The colonial economy—particularly the mines—also required cheap manpower; the Africans had to be compelled to emigrate and work for the Europeans. In some cases, e.g. in the Belgian and Portuguese colonies, the authorities relied to a great extent on forced labour. In most of the other colonies, however, a more subtle device was used—fiscal policy. A high tax, payable in money, was imposed on the natives. This forced them to enter a monopsonistic labour market and work for the white men at extremely low wages in order (i) to pay their taxes and (ii) to supplement the declining income obtainable from indigenous agriculture. Positive inducements in the form of incentive goods also were occasionally provided. Often this was unnecessary, however. A common technique, as in Basutoland, was to assign the responsibility for collecting taxes to the chief and allowing him to take a rake-off. In this way the authority of the chief was used to favour the ambitions of the colonialists rather than the interests of his own people. The system of colonialism and indirect rule was designed to generate abundant supplies of cheap unskilled labour for Europeans who monopolized all other resources. The material wellbeing of the African was systematically lowered and his institutions were intentionally destroyed. It was this process of impoverishment and growing degradation which contributed to the urgent demands for independence in the late 1940s. By this time Africa and the other underdeveloped countries had gone through a lengthy period of growing misery which culminated in the collapse of primary commodity prices in the 1920s, the world depression of the 1930s, and the Second World War of the first half of the 1940s. The crisis of colonialism was not exclusively or even primarily a political crisis; its roots lay in the inability of the colonial system to generate economic progress and distribute it equitably.\(^{75}\)

Even this rather superficial discussion of conditions in Africa and Asia should give us a broader perspective from which to consider the historical origins of underdevelopment in Latin America, the region which embraces the Spanish American nations with which we shall be directly concerned in later chapters. In general, colonialism in Latin America, as in the rest of the world, was a catastrophe for

\(^{75}\) See B. Davidson, *Which Way Africa?*, Penguin, 1964, Ch. 6.
cases, the indigenous people. In the areas of more primitive civilization the population virtually disappeared within less than thirty years. In the areas of advanced civilization the people were completely subjugated.

Spanish penetration of Latin America began in the Caribbean area. There they encountered Arawak, Carib and Cueva tribes with large populations tilling the soil in permanent clearings and on conucos. The native culture in the West Indies and on the Isthmus was not as advanced as some other civilizations, but the tribal societies were well organized and the economy was perhaps as productive as that of Indonesia. Yet within a generation the indigenous society and economy had been ruined and the native population had virtually disappeared.76

The Spaniards gained control over the natives by breaking their political structure. The Chiefs were liquidated and the rest of the community were allocated to individual claimants. These allocations were originally called repartimientos and subsequently formed the basis of the encomienda system. These colonial institutions, in turn, were the origin of the latifundia system, under which individual rights to labour services were transformed to include the land as well. One of the features of the repartimientos was that the number of natives allocated to a Spaniard depended upon how much work he could extract from them, i.e. originally, how much gold for export he could get them to produce. In this way strong incentives to exploit labour were created.

The combination of brutality, slaughter, high tribute, slavery, forced labour for gold mining, destruction of the social framework, malnutrition,77 disease and suicide led to the extinction of the indigenous population. It has been reckoned that at the approach of the Spaniards, in 1492, total Carib population in Hispaniola was about 300,000. By 1508 it was reduced to about 60,000. A great decline had brought it to about 14,000 by 1514, as serious settlement began; and by 1548 it had reached a figure which indicated virtual extermination, about 500.78 The population of the other islands

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76 See C. O. Sauer, The Early Spanish Main, University of California Press, 1966, especially chapters III and VII.
77 There was never a deficiency of cassava bread and sweet potatoes on the islands. Malnutrition occurred after the Spaniards suppressed native fishing and hunting and the supply of protein and fat declined.
78 E. E. Rich, 'Colonial Settlement and its Labour Problems', loc. cit., p. 319. The author adds that 'European diseases had played their parts in this decimation of the Carib population, but the main cause was without doubt a passive revulsion from the changes which white occupation brought.'
declined even more rapidly. The Bahamas lost their population first. Puerto Rico was decimated in little more than a decade, and Cuba followed soon after. By 1519 Jamaica was almost uninhabited. Those who survived were a pitiable lot. 'A well-structured and adjusted native society had become a formless proletariat in alien servitude.

As the population declined the comocos on the islands were abandoned and the terrain became rangeland for cattle and pigs; in Central America the continuous savanna reverted to a tropical rain forest. The Spaniards responded to the labour shortage by introducing extensive grazing on their estates. The few natives who managed to escape fled to the jungle and adopted the slash-and-burn shifting agriculture that can still be observed today.

A similar story may someday be told, perhaps, of the sparsely settled regions of the Amazon basin. It is usually assumed that this region was inhabited by extremely primitive people: this assumption, however, may well turn out to be incorrect. The inhabitants of this area may once have had a more advanced civilization and a higher standard of living than is currently believed. A noted anthropologist who has had considerable research experience in Brazil, Claude Lévi-Strauss, is too cautious to advance a positive hypothesis, but the question he poses is worth pondering. 'Is it not also possible to see them [the tribes in Brazil] as a regressive people, that is, one that descended from a higher level of material life and social organization and retained one trait or another as a vestige of former conditions?'

We do not know what the answer to his question is as regards Brazil, but in the two cases of Mexico and the Inca Empire the answer is clearly 'yes'. Space does not permit us to recount the downfall of the Aztecs. Let us only note that the native population of Mexico was decimated. From about 13 million at the time of the Spanish Conquest, the population had declined to about 2 million by the end of the sixteenth century.

In the Inca Empire, which covered a very large portion of Western South America, the impact of the Spanish was not quite so fatal, yet it is still true that one of the greatest tragedies in Latin America was the destruction of this civilization. The Spanish Conquest of Peru was accompanied by profound social, institutional and demographic changes. The wars, the epidemics and the fierce exploitation of the

Indians reduced the indigenous population by a half to two-thirds.\textsuperscript{81} It was only towards the end of the nineteenth century that the Indian population began to increase again, and it is now estimated that this population only slightly exceeds the number of inhabitants of the Inca Empire. The catastrophic decline in population was accompanied by the utter ruination of the Andean civilization. Cities vanished; the communal customs of the Inca became an historical curiosity; terraced hillsides were abandoned; agricultural productivity declined. The survivors of the conquest became a miserable, starving, diseased and disorganized mass of humanity. In short, they became an underdeveloped people.\textsuperscript{82}

The new civilization constructed from the debris of the earlier indigenous society was markedly different. The colonizing Spaniards and their descendants enslaved what remained of the indigenous population. Indians were sent to the mines by the thousands to extract the mineral wealth of the continent. Following the precedent established in the Caribbean, the best lands were appropriated and huge estates were distributed to the favoured few. The great mass of the underprivileged, on the other hand, were pushed on to the mountain slopes where they attempted to eke out a living on small plots. In this way the distinctive economic system of Spanish America—the latifundia-minifundia complex—was created.

The essential feature of the new economic system was the monopolization of land. This by itself was sufficiently important to shape the social and political relationships of the colonial civilization, since in a predominantly agricultural economy one's livelihood depends almost entirely upon access to land. Exploitation did not stop here, however. Water rights were tightly controlled by the large landowners; the majority of the population had very little access to credit; rural education was practically non-existent. Thus the latifundia acquired a monopoly of the major factors of production—land, capital, water and technology, and its position as virtually the

\textsuperscript{81} In Latin America as a whole Colin Clark estimates that the population declined from 40 million in 1500 to 12 million in 1650. (\textit{Population Growth and Land Use}, p. 64.)

In North America the indigenous population was not very large, but the Indian was destroyed never-the-less. A former \textit{us} Commissioner of Indian Affairs has described in detail how 'a policy at first implicit and sporadic, then explicit, elaborately rationalized and complexly implemented, of the extermination of Indian societies and of every Indian trait, of the eventual liquidation of Indians, became the formalized policy, law and practice'. (John Collier, \textit{Indians of the Americas}, Mentor, 1948, p. 103.)

\textsuperscript{82} The classic study of this process is W. H. Prescott, \textit{The Conquest of Peru.}
only large employer gave it a strong monopsoristic position in the labour market as well. The economic power of the minifundium was nil; its role in the system was to provide an abundant supply of cheap, unskilled labour.

Low productivity and an unequal distribution of income were inevitable characteristics of the new social and economic system. The universal syndrome of the latifundia-minifundia complex was the continuous pressure upon the Indians to move to poorer lands, the consequent accelerated erosion of the mountain slopes, falling yields of food crops on the subsistence plots, and a decline in consumption standards of the mass of the population. In contrast to the intensive agriculture of the minifundium and its declining productivity, the latifundium adopted highly labour extensive techniques of production and the large landowners were able to prosper at the expense of the rest of the community. Thus it was the social and political systems imposed by the colonists, in combination with the demographic changes which followed the Conquest, which were responsible for creating underdevelopment in Spanish America. One cannot explain the poverty of the region today without referring to the region’s history.

CONCLUSIONS

Underdevelopment as it is encountered today in Spanish America and elsewhere is a product of history. It is not the primeval condition of man, nor is it merely a way of describing the economic status of a ‘traditional’ society. Underdevelopment is part of a process; indeed, it is part of the same process which produced development. Thus an interpretation of underdevelopment must begin with a study of the past. It is only from an examination of the forces of history—i.e. of the historical uses of power, both political and economic—that one may obtain an insight into the origin of underdevelopment.

The study of the uses of power in the past must be complemented by an analysis of the distribution of power in the present. The opportunities for development are conditioned by the functioning of the world economy in which the underdeveloped countries find themselves. There are some international economic forces which obviously tend to stimulate development, but there are many other forces which perpetuate inequalities and tend to retard development. It is argued below, especially in the concluding chapter,83 that the transfer

of ideas, knowledge, factors of production and commodities may all increase rather than decrease the obstacles to development.

The internal barriers to development—e.g. inappropriate institutions, attitudes and values—are as important as the external obstacles. Moreover, as we argue in Chapter I, the types of barriers one finds, and their strength, frequently are related to the way economic and political power are distributed within the country. The concentration of purchasing power and the instruments of legitimate political force in a few hands, and the use to which this force is put, inevitably affect a country's aggregate economic performance and the welfare of its inhabitants.

Broadly speaking, the object of development policy is to turn historical constants into variables. Occasionally this can be achieved merely by changing the pattern of expenditure and the composition of investment. For example, the government might spend more of its revenues on rural education and less on central administration; investment in military installations might be reduced and expenditures on directly productive activities increased. In many cases, however, policy in underdeveloped countries cannot be concerned exclusively with allocating resources in the usual sense; it must also be concerned with creating new institutions and reforming existing ones. The major purpose of development planning, in fact, is to undertake the required structural transformation of a country in a conscious, explicit, orderly and rational manner.

The essence of development is institutional reform. This process of institutional reform can act as an independent variable stimulating growth, e.g., an educational reform can stimulate growth by increasing the supply of relevant skills and improving the quality of the labour force. Alternatively, institutional reforms may be a prerequisite to development, e.g., large-scale investment in some minifundia zones may be virtually impossible unless fragmented land

84 In most of the literature on growth and development institutional reforms are ignored; in other cases reforms are treated in a purely formal way. For example, Mrs Adelman writes her production function in the form \( Y = f (K_t, \ldots, U_t) \), where \( K_t \) is the stock of capital at time \( t \) and \( U_t \) is the 'socio-cultural environment'. By differencing the production function one can determine the effect of institutional reform,

\[
\sum_{g=1}^{w} \frac{\Delta Y}{\Delta t} \cdot \frac{\Delta U_j}{\Delta t}
\]

This last expression, however, increases our knowledge of the role of institutional reforms by precisely zero. It tells us that if reforms lead to increased output, they lead to increased output; and if they don't, they don't; A more trivial result is hard to imagine. (See I. Adelman, *Theories of Economic Growth and Development*, Stanford University Press, 1961, Ch. 2.)
holdings are consolidated. Most important, institutional reforms may be complementary to other development policies and increase their effectiveness, e.g. a reorganization of the government’s administrative machinery may be essential if development policies are to be properly formulated and implemented.

The three reforms we have mentioned—of the educational system, land tenure and public administration—are just a few of the many that are required. Furthermore, most of these reforms are linked to others. For example, the government administration cannot be improved unless the educational system is altered; education reform is contingent upon increased tax revenues; tax reform is impossible unless the political power of the wealthy is reduced and this, in turn, requires a land reform. The outcome of such a series of reforms is little short of a revolution. This is what Paul Baran meant when he said that ‘economic development has historically always meant a far-reaching transformation of society’s economic, social, and political structure’.