Concentration on structural change has done little to help the world's poor

Liberation Street

Robert J. White

One November afternoon in the heart of a Third World city a farmer began the difficult exercise of leading his horse through a half-circle. It was difficult because the cart drawn by the horse required a sizable turning radius, because the farmer made the turn while responding to a traffic policeman's choleric gestures, and because no man or horse can be complacent when conducting such a maneuver on the pavement of Sharia Tahrir against onrushing waves of automobiles. Like many other Egyptian place names this one has political significance. Sharia Tahrir means Liberation Street—which would be an equally ironic designation for another street on another continent in another part of the Third World.

This other street—a Peruvian street—is made of sand. It could be distinguished from other sand streets in other squatter settlements by a church, by a market, and, one March day, by a dog. The church, donated by Bostonians in the 1960's, is as impressive now as it must have been when new. Its graceful contemporary spire is especially striking, rising above mud-brick houses nearby and above the tents of a market directly across the narrow street. That morning, vendors were selling food from mats on the ground beneath the tents. In the street lay a dog as tan as the sand and as dry, baked in death for days, inoffensive now and forgotten. The settlement honors the church. It is called Ciudad de Dios, City of God.

I decided that the frightened horse in the center of Cairo and the dessicated dog on the outskirts of Lima said almost as much about global development, or lack of it, as the books I had read and the experts I had consulted. The Peruvian dog is the numbness with which the world's poor must often, of necessity, view their surroundings; they are preoccupied with survival. The Egyptian horse is an old culture overwhelmed by the new, with little of modernity's benefit and much of its curse.

These are also metaphors for the enormous gap between development theories and their application, a gap that may be wider and harder to span than the familiar one between rich and poor. Many of the theories envision rebuilding basic political and economic structures. There are calls for more democratic governments to reflect the popular will, or for more authoritarian governments to enforce the discipline of development. Some say that capitalism is demonstrably the route to prosperity; others say that Third World needs can be met only through socialism. The list could go on, but I think it likely that the question of how a variety of development techniques can be applied in a variety of political and economic systems is more important than the attempt to decide on the ideal structure.

There does have to be general agreement on several broad principles: that Third World poverty is of more than altruistic concern to the relatively affluent in *both* developed and developing countries, and to policymakers in both; that improving the lot of the world's poor is not hopeless; and that accomplishing that task requires less dogmatism and self-righteousness than leaders of rich and poor countries often display.

Glimmers of such a consensus have begun to appear. In 1974 the poor countries of the south drew on OPEC's example to insist on new rules for the development game. The response from the key country in the North—the United States—had only a thin veneer of tolerance over deeper layers of disdain and hostility. But different attitudes appeared in 1975. That September, the Seventh Special Session of the United Nations became the setting for serious negotiations on the Third World demand for a New International Economic Order.

The Session produced a resolution on the framework for further talks on major Third World concerns: trade, resource transfers, science and technology, industrialization, food and agriculture, and cooperation among developing countries. That the North-South dialogue has since remained just that—dialogue rather than implementation of global changes—does not mean it has failed. True, the Paris talks on economic cooperation did end inconclusively in June, 1977. And a U.N. Committee of the Whole, which became the next forum for North-South talks, did adjourn in disagreement this year. But both sides seem willing to continue seeking solutions. That is a form of success.

Moreover, there is substantial evidence that the problem of those living in absolute poverty is manageable, at least financially. Mahbub ul Haq drew on World Bank

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studies in his book *The Poverty Curtain* to estimate that $125 billion spent over ten years ought to provide "basic minimum needs to all mankind." In a later book Roger Hanson suggested upwards of $10 billion a year for perhaps two decades.

Official aid from industrial countries now approaches $14 billion annually, but Hanson points out that half of it goes to middle-income countries and for programs other than those that provide basic nutrition, housing, and the like to the poorest of the poor. So the financial problem is far short of staggering. Even allowing for large margins of error in estimates; even assuming that all the antipoverty money came from outside the poor countries (some, surely, would come from within them); even anticipating future recessions and further inflation, additional resources of, say, $5 billion to $15 billion a year should be fairly readily available.

There is also increasing evidence that the North's economic self-interest would be directly served by a concentrated attack on global poverty. As James Grant and John Sewell of the Overseas Development Council summarize the findings, "An expanded cooperative effort that gave priority to addressing basic needs could not only make the world more just and equitable, but also far more efficient."

United States trade with nonoil, developing countries is already a quarter of its total world trade, exports and imports, including trade with OPEC. Grant and Sewell argue that the greatest untapped reservoir of productivity and the greatest potential for increased purchasing power are in the world's poorest billion people. In other words southern countries will not only continue to be important suppliers of raw materials needed by the North and a growing market for northern exports but also have the potential for producing a variety of manufactured and semi-manufactured goods (not just shoes and textiles) for export to one another and to the North. Given a reduction in trade barriers and improvements in adjustment assistance to import-affected domestic industries, benefits should accrue to North and South alike.

In principle, then, Haq's "poverty curtain" can be lifted. But if the North is largely responsible for providing the money, its effective use depends on leading actors behind the curtain in the South. "Most of the required changes," says Haq, "lie right within the control of the Third World." A similar point emerges from the monumental U.N. study headed by Wassily Leontief. Note the order of priorities in the summary, which says that two general conditions are necessary to insure accelerated development in the Third World: "First, far-reaching internal changes of a social, political and institutional character in the developing countries, and second, significant changes in the world economic order."

I went to the Third World to explore the possibilities of such internal and external changes. As terrain for the six-month expedition I chose Egypt and Peru, neither one a worst-case development example, but each a country with abundant poverty. Both had experienced oligarchical domination, and both had reacted to it with bloodless revolutions—Egypt in 1952, Peru in 1968. Both revolutionary governments instituted sweeping social reforms, notably the redistribution of agricultural land and the nationalization of major industries.

It is tempting to push the similarities further, but of course the differences are profound: topographic, ethnic, cultural, and more. Although a case can be made that economic colonialism continues on both continents, political colonialism ended in South America in the nineteenth century; in the Middle East in the twentieth. Peru has not fought four wars in the past thirty years, as Egypt has, but neither does Peru have a generous Saudi treasury nearby (or, for that matter, economic aid comparable to the huge U.S. program in Egypt). And Egypt, with per capita income around $350, is roughly half as rich (twice as poor?) as Peru.

Before I left the United States everyone warned me to beware of figures; in such countries they are seldom reliable. Heeding the warning, I will not dwell on data here beyond one further comparison. It is a useful way to illustrate why the recent economic history of each country can fairly be described as a crisis. The figures concern foreign debt, which for all developing countries has shown a spectacular increase: from less than $50 billion in 1970 to something over $200 billion now. Egypt and Peru do not account for much of the total. But in proportion to their resources they are two of the most heavily burdened.

Poor countries borrow to build things for national development: factories, irrigation systems, roads, power plants. Sometimes they borrow to buy military hardware. Or to buy food, at rising world prices, for sale at low cost to populations that are growing in size but not in individual purchasing power. Low domestic food prices discourage domestic food production; that, in turn, further increases import reliance. Many developing countries also increased their borrowing when oil costs suddenly quadrupled.

In theory increased export earnings should generate the foreign exchange to pay interest and amortization on the debt. One way of measuring performance is to compare a country's annual payments on its public foreign debt with its export earnings. In many cases results have been encouraging. An analysis for the Overseas Development Council by Gordon Smith compares the debt-service ratios of twenty leading developing countries that are not oil exporters. The ratios for most of them were fairly constant from 1965 to 1973. Since then the jump in oil prices and the ensuing recession led those countries to borrow heavily to meet payments deficits. But many also increased their exports and, in regard to debt, benefited from inflation. That is because money paid in the past has less value when repaid now, after inflation.

Egypt and Peru are interesting exceptions to this pattern. First, unlike most other countries on Smith's list, the ratio of their debt payments to their export earnings has risen—that is, worsened—steadily since 1965. Second, also unlike most of the others, their ratios took a sudden jump between 1971 and 1973—*before* the OPEC oil-price increase.

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The ratios of debt service to export earnings for Egypt were 15 in 1965, 19 in 1968, 20 in 1971—and 35 in 1973. Ratios for Peru in the same years were 7, 15, 20—and 32. A U.S. embassy report showed Egypt's ratio rising to 55 in 1976, a desperate time for that country, even with annual injections of nearly $1 billion in U.S. aid and about twice that amount from Arabian Peninsula oil states—this in an economy whose gross national product is no more than $14 billion. According to the *Wall Street Journal*, Peru's debt payments this year would have reached a disastrous, Egyptian-style 55 per cent of export earnings if creditors had not agreed to rescheduling.

The similar trends of their debt-service ratios means that Egypt and Peru are in similarly deep trouble. But the causes of their troubles are different. After the 1973 Middle East war Egypt expanded its exports substantially, but imports rose faster. Most of the resulting deficit was financed from abroad, a good part through high-cost, short-term loans.

Peru, on the other hand, is what Albert Fishlow calls a classic case of "debt trap." The military government borrowed heavily to develop export industries that, it later appeared, would never produce the anticipated bonanzas. For example, a billion dollar trans-Andean pipeline was built to carry oil from the Peruvian jungles to the Pacific. But oil reserves proved far less abundant than estimated in the early 1970's.

While the Peruvian Government was borrowing and investing in dozens of additional projects—including impressive buildings and staffs to fill them—other adversities occurred. One was overfishing and a change in ocean current, which all but eliminated the anchovies once abundantly available off the Peruvian coast. Anchovies are ground into fishmeal, a valuable animal-feed supplement, and Peru was once the world's leading fishmeal exporter. Another setback came after the 1974 commodities boom when there was a steep drop in the price of copper—another major Peruvian export. The world surplus still keeps copper prices low. Nevertheless, Peru's exports in the past three years have edged upward. Its imports still are greater than exports. But in contrast to Egypt, Peru has narrowed its annual trade deficit by gradual reductions in imports. That helps, but not enough. The "trap" is the accumulated debt from the past, with insufficient current earnings to service it.

The two countries have also moved in different, nearly opposite, directions of economic philosophy. Marie-Eve Mulquin of Catholic University in Lima neatly explains the Peruvian paradox: "On the one hand, independence from foreign interests has been gained by nationalization; on the other, it has been lost by the increasing necessity of foreign financing." After a longer experience with state capitalism Egypt now not only relies heavily on foreign financing but welcomes foreign interests. Mohamed Hassanein Heikal writes critically of "the assumption that Egypt's sick economy could be cured by a dose of foreign capital and local private enterprise." The former editor of *Al Ahram* says this has bred "new parasitical groups" that add nothing to the country's national wealth and productive capacity.

These analyses would seem to support Michael Harrington's sad and elegant diagnosis: that Third World nations "are condemned within the present structure of the world market to a labor of Sisyphus. They progress into their own inferiority, they grow into further dependency." Nevertheless I am skeptical. I share many of the views Harrington expresses in his *Journey to the World's Poor*, but not that one. My own more limited journey left me doubting that underdevelopment is perpetuated primarily by "structure"—market structure, political structure, or even economic structure. I do not suggest that changes are unnecessary; for instance, there is good reason to believe that price-and-supply stabilization on basic commodities (a central plank in the platform for a New International Economic Order) would bring gains to developed as well as poor countries. I do suggest that concentrating on structural change may itself be a Sisyphean labor, which consumes great energy but does not help the world's poor.

Other steps are essential. In a new book on income distribution and growth Charles Frank and Richard Webb describe what needs to be done. Improving the lives of the poor, they say, "is less a matter of basic power structures or regime types; instead it involves attitudes, perceptions, secondary political structures, administrative behavior, and market complications—distortions and backlash effects that are the inevitable results of attempts to modify market outcomes within a market economy." Frank and Webb remind us of the frustrations encountered by reformers within, as well as beyond, the Third World: "This lesson has been learned the hard way, through the disappointing experience of numerous reformist and radical governments and the frustrated reform efforts of the aid agencies."

In earlier studies Webb found that Peru had a lower percentage of national income going to the poorest people, and a higher percentage to the richest, than was typical in Third World countries. He found that redistribution efforts by the pre-1968 elected government ("reformist") and by the successor military government ("radical") benefited those who were reasonably well off already—employed factory workers, for example. A less radical Peruvian military government took power three years ago. It has reluctantly applied the austerity measures demanded by the International Monetary Fund, accepting what experts delicately call the "social cost." Social cost means hunger, strikes, loss of earning power. In this "trickle-out" style of nondevelopment everyone is becoming poorer—or nearly everyone. A popular cartoonist portrays one Peruvian asking another, "Is the austerity general?" His friend replies, "No, only civil."

I was told in Cairo that poor though Egypt is, its income distribution is more equitable than the average. Better than, say, that of France. But in France the richest 10 per cent get nearly a third of the income and the poorest 10 per cent get a fiftieth. Whatever may be the figures for Egypt, it is evident that some relatively small fraction of the forty million Egyptians are reaping extraordinary benefits from the money washing in and out of the country, and that most are no better off than before. After five years in Egypt, John Waterbury wrote: "The rapaciousness and profit hunger of the new class have probably been overdrawn, but not much."

This is not the kind of language used by national leaders to explain their troubles. Last December the Peruvian president laid the blame for his country's financial straits on "the economic structure of the world today." A good many of his seventeen million citizens see greater problems with economic structure at home. In the mountain city of Huancayo a weaver last year hired a few people to expand her business, ran afoul of labor and tax laws, and quit. In another mountain city a Cuzco worker complained that "government is an octopus; its tentacles reach everywhere." A Lima economist spoke of worker participation in industrial management, of "social property," and of revolutionary change. "They were false," he said. "The military didn't want to relinquish control."

Nor do most leaders welcome criticism. Egypt's reclamation of nearly a million acres of desert land for agricultural use is considered a net economic loss. When the minister of agriculture spoke of reclaiming another two million acres, I asked how that would be economically feasible in view of past results. Foreign and private investors would provide the money, he said. But it is hard to imagine that happening, and it is hard to see how countries like Egypt will overcome the problems of "attitudes, perceptions, administrative behavior, and market complications" to which Frank and Webb refer.

That is the frustration that makes radical solutions appealing. Gustavo Gutiérrez, the Peruvian priest who eloquently preaches (and practices) the theology of liberation, has written that "only a radical break from the status quo, access to power of the exploited class and a social revolution that would break this dependence would allow for the change to a new society, a socialist society—or at least allow such a society to be possible."

But experience teaches that the exploited are readily converted to exploiters when given the opportunity, and it teaches caution when dealing with ideas of human perfectibility. "Even if revolutionary forces do come to power, this is no guarantee that they will solve the absolute-poverty problems," writes Gunnar Adler-Karlsson in *Reducing Global Inequities*; ". . . once in power, they may simply become corrupted by it and by the economic possibilities that derive from it."

Egypt and Peru have had social revolutions—genuine, well-intentioned, far-reaching revolutions. Failure may be too strong a word to characterize them, but in terms of justice for the poor they can hardly be called a success. New social blueprints would be welcome, but I doubt that there are architects to draw them. What Waterbury has said of Egypt is probably true of other poor countries: "There is very little agreement as to what went wrong and consequently as to how to put things right."

Then what is to be done? At one end of the scale are the resources necessary to meet the basic needs of the world's poorest, and a growing conviction that those needs deserve first priority. There are also signs of awareness in the North that its continued security and prosperity are linked to the welfare of the South, and that certain changes in the international economic system could work to the advantage of both North and South.

Thus one part of the answer is encouraging. Developed countries have the means, and may find the will, to carry out their share of a new global bargain. Developing countries have the will, and may find the means, to carry out their share. The other part of the answer is less promising. Powerful groups in both rich and poor nations may have neither the will nor the ability to liberate the poor. I think of a sign by a highway in southern Peru: "National Police Control Station, Courtesy of Coca-Cola." I think of an Egyptian professor who earns as much in one year consulting in an oil state as he would in a lifetime of teaching at home; who rents his ample house in Cairo for additional income and periodically "visits his money" in Europe.

Although I saw many bright, dedicated, hard-working, underpaid aristocrats, I think Harrington's analysis on this point is generally correct: The upper classes in poor countries base their living standards "on those of the affluent in the richest economies. They satisfy their desires in one of two ways, both of them antidevelopmental." One way is the importing of luxury goods. The other is the promotion of import substitution, which means that the same goods are produced locally. Yet the people who are exceptions to that generalization may prevail. There are plenty of Egyptians as perceptive as Heikal, if not as famous, who are equally concerned with "parasitical groups." Plenty of Peruvians have similar concerns, as do others in the Third World. But they may have to pull nontraditional levers of power to give their concerns force.

The challenge is to engage the best of the élites in serious reform, to work around the worst of them, and to tap the vast, other talents in the Third World. Studies of social change in rural Peru have dispelled the myth of the passive peasant. Egypt's wealth, and in a sense its problem, lies in the superabundance of talent, which leaves too few jobs for too many people and encourages skilled Egyptians to emigrate. One can undoubtedly draw similar conclusions about other developing countries.

Six months in the Third World inspired no wondrous solutions to be offered here. That may be a sign of wisdom, as I like to think, or merely of incomprehension. But it seems to me that if the right resources can be put into the right hands, there is hope. Some of this is being done, and with a welcome modesty on the part of agencies that recognize they are only touching the edges of poverty problems. Unfortunately financial crises in countries like Egypt and Peru have tended to eclipse and sometimes overwhelm development efforts.

Still, the efforts are worthwhile, and I think they can succeed. It would be comforting to envision a major global reform for eliminating poverty. Instead, I suspect that the need is for a lot of small but important reforms in widely different societies under widely different political philosophies. This is where "small is beautiful" applies.