
Introduction

Underdevelopment and the methodological approach of Adam Smith

After the beginning of the process of decolonization, at the conclusion of the Second World War, several economists began to study systematically the problems of underdeveloped countries. These problems were considered from both the analytical and the practical standpoint – that is, with the purpose of understanding the causes of underdevelopment and of suggesting measures of economic policy intended to promote growth. A number of recommendations emerged from this work – some of which were mutually exclusive, others complementary; some of limited, others of great relevance. Economists advocated measures to promote import substitution (with protection) or to increase exports, particularly of labour-intensive manufactured goods; measures to stimulate an increase in aggregate savings as a prerequisite of investment; the speeding up of investment in human capital and particularly in education; and, more recently, elimination of the obstacles to international trade and to domestic markets for products and labour and privatization of the productive activities carried out by the state through public enterprises.

The latter recommendation has acquired new vigour after the epoch-making failure of central planning, made evident by the breakdown of the Soviet Union. At different periods

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the Soviet Union itself supported certain underdeveloped countries, attempting to introduce in them, if not a proper system of central planning, at least a system of tight regulation of prices and production. Some economists, following Marx, recommended the expropriation of the means of production to introduce a system of central planning. At the same time others suggested entering, via changes in international alliances or a revolution, the area of influence of the Soviet Union, after breaking ties with the United States: in their view, the latter, being an imperialist power, represented the main obstacle to the development of backward countries.

Putting aside the revolutionary perspective, which has failed dramatically, we can see that some of the specific aforementioned recommendations have proved to be wrong, whereas others have been applied with more positive results.

However, to overcome underdevelopment, I think that economists have to give less attention to measures of economic policy and to devote much greater intellectual efforts to the problem of institutional and organizational reforms, that require time both to be prepared and (even more so, to be carried out: there are no short cuts). The very results of different measures of economic policy are conditioned by the gradual implementation of reforms. Some organizational changes can be introduced in public administration by political leaders without new laws; changes in the organization of economic units can be introduced by entrepreneurs. Other changes, particularly institutional ones, can be introduced by means only of new laws. Such changes must occur relatively frequently, since the framework in which the market for goods, services and labour operates does not remain static, even in the short run. Changes in the legal framework are particularly important owing to their general influence: however, it is one thing when such changes are introduced piecemeal, under the pressure of specific problems, and a completely different thing when they are introduced

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according to a strategy. This is especially true in the case of underdeveloped countries that try to start or to speed up their process of economic growth. To be sure, working out such institutional and organizational reforms is the task of experts in public and private law. But economists should work hand in hand with jurists to advise on the measures best capable of promoting growth. The advice of political scientists and of sociologists is also necessary. It can be direct but also indirect – that is, as Keynes put it, by means of ‘pamphlets thrown to the wind’. Such advice is necessary, since reforms are not simply an intellectual affair: they affect the cultural values and economic and non-economic interests of social classes. Thus politicians would do well not to simply trust their intuition, but should listen to social scientists to try and reduce the risk of serious mistakes.

The reflections were the origin of a book published in Italian in 1983 and in Spanish two years later (Sylos Labini, 1983a). Some of these views were discussed in a review article written by my friend Federico Caffè (Caffè, 1983). Subsequently the Bank of Italy, of which he was advisor for many years, to honour his memory decided to promote every year some special lectures, by inviting contributions from both foreign and Italian economists. Among the former, Edmund Malinvaud, Robert Solow and János Kornai were invited; among the latter, Luigi Pasinetti, Augusto Graziani and myself. This book derives from the the lectures that I delivered in April 1993 in the Department of Economics of the University of Rome, where Federico Caffè taught for many years. However, those lectures were only the starting point: given the importance and the complexity of the question, I was motivated to work out afresh and develop the whole analysis.

The approach that I adopt here owes much to Adam Smith’s *Wealth of Nations*. In examining the conditions for economic growth, Smith had studied the historical evolution

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of a number of countries, especially but not exclusively European ones. For Smith, historical inquiry was the necessary basis for the theoretical analysis of economic processes. At the end of his analyses, Smith advocated several fundamental reforms. Of these, I will mention only five: (1) the abolition of the exclusive privileges and, more generally, of all the fetters to markets left as a legacy of the feudal system; (2) the reform of the property rights over land to make easier its mobility, both in heredity transfers and in the market – in Smith's times the persistence of feudal legal institutions were still creating serious obstacles to both types of mobility; (3) the reform of agricultural contracts; (4) a fiscal reform, to be based on four 'maxims' concerning taxes (equality, certainty, convenience of payment, economy of collection) and (5) the reform of the institutions of education.

Economists all over the world retain a great respect for Adam Smith, considered the founder of our science, which for him concerned primarily the economic development of nations. Yet, most of my colleagues do not believe that it is worth studying his *Wealth of Nations* – not to mention his *Theory of Moral Sentiments* and his *Lectures on Jurisprudence* – since for them such a study is not important to interpret the economic problems of our own time. In their judgement, having put aside the historical analysis, what is scientifically of worth in the Smithian theoretical apparatus has by now been absorbed in modern theoretical models. This view is misguided, especially in the case of the growth of underdeveloped countries, in which the institutional framework cannot be taken for granted, although this, but only as a first approximation, can be done in the case of developed countries. Today the influence of Adam Smith in the analysis of development is very limited indeed: the economists who have absorbed and made use of his lessons are very few. Few, however, but excellent: Arthur Lewis, Amartya Sen, Giorgio Fuà and Paul Streeten, whose works are entirely in the spirit of Smith.

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From Smith we can appreciate not only the conceptual importance of unifying problems belonging to different fields of research (economic history, economic theory, demography, political science) to overcome the damaging – at times even schizophrenic – consequences of the extreme division of labour that often prevails in the analysis of societies. We can also learn that, to try and interpret the economic evolution of different societies, we have to consider together three fundamental aspects: culture, institutions and natural resources.

Resources, including climate, land, forests, mines, seas and rivers, plus geographical position, condition the economic evolution of the developing countries. Yet, the abundance of certain resources has had different consequences in different countries: in some, at least in the first stage of their evolution, it performed a positive role in the growth of national wealth; in others it was the source of enormous wealth for tiny minorities while the great majority of the people remained in a state of poverty (consider, for instance, certain oil-producing Arabian countries). On the other hand, countries endowed with scarce resources have been capable of starting and sustaining a process of growth with relatively low inequality in income distribution. These contrasted results bring out very clearly the fundamental relevance of the other two factors – culture and institutions – which are to a large extent interlocked: after all, the institutions themselves are a product of culture.

‘Culture’ is intended in a broad sense. It must include the philosophical views prevailing in the country considered and the daily philosophy of the common people, and religion (certain religions, at least as they were practised in given historical periods, are favourable, others are utterly unhelpful to modern economic growth). Of course, culture includes also the organization of education and of scientific research; finally, it encompasses literature, music, arts and human and experimental sciences.

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The wealth of the few and the poverty of the many

The most serious cases of backwardness and mass poverty can be found in a number of African – and, to a lesser extent, in Asian – countries that until relatively recently were colonies of European countries or were controlled by them or by the United States. In all cases the rulers were white people.

In the nineteenth century there was a widespread rhetoric of a ‘White Man’s burden’, intended to emphasize the positive effects exerted by the colonizers – who, being in many senses more advanced, had the historical duty to help the progress of the natives. In recent times this optimistic rhetoric has often been replaced by a rhetoric of the opposite type, according to which many of the backward countries are poor because they have been cheated of important shares of their resources – an international redistribution of world resources and the exploitation of the stronger are the origin of the riches of the few and the poverty of the many. This latter conception has been and still is popular in certain sectors of the Catholic Church and among Marxian intellectuals.

Both conceptions are wrong. The abuses committed by the Europeans should by no means be belittled. The slave trade that lasted for more than two centuries involved many millions of human beings. The massacres of natives in North and South America, the forced transformation of independent workers, often members of tribes, into wage earners in several African regions, the expropriation of large areas, after the expulsion of the natives, to organize plantations or mines or create towns are only a few of the most egregious misdeeds. Yet, before the conquest of the Europeans in primitive communities life was by no means idyllic. Ethnic conflicts, tribal wars and predatory incursions were the rule, with the consequent degradation and enslavement of the losers. Moreover, during the slave trade white merchants were often fetching negroes on the coasts who had been captured in the interior and sold to them by other negroes. In fact, the characteristic

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feature of the tragedy of man has been that stronger populations have tended to overwhelm weaker, either through wars or by corrupting their leaders. This has occurred for very different reasons: to make the subjugated people the conqueror's slaves, not necessarily for economic advantage; to exterminate the inhabitants of certain territories in order to seize their land; to exterminate masses of people, simply out of hatred, or to carry out an 'ethnic cleansing'. In all this, the economic motives often are not the most important ones.

Is then Hobbes right in his motto, '*homo homini lupus*'? Certainly, he is not wrong. But the picture is not wholly black. I agree with the observations made by Smith with reference to the countries transformed into colonies:

At the particular time when these [geographic] discoveries were made, the superiority of force happened to be so great on the side of the Europeans, that they were unable to commit with impunity every sort of injustice in those remote countries. Hereafter, perhaps, the natives of those countries may grow stronger, or those of Europe may grow weaker, and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force which, by inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another. But nothing seems to be more likely to establish this equality of force than that mutual communication of knowledge and of all sort of improvements which an extensive commerce from all countries to all countries naturally, or rather necessarily, carries along with it. (Smith, 1961 [1776], book IV, ch. VII, part III)

No doubt, independence is the prerequisite for economic and civic development. Five centuries after those discoveries Smith's hopes have been realized in only a few countries. Often independence has been formal, or it has been real to only a limited extent. The road to be travelled is very difficult, but it is not entirely blocked. In certain countries, especially in South East Asia, certain intellectuals, educated in Europe, embraced the ideas of European revolutionaries to

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pursue independence by breaking any tie with capitalism. Their efforts have caused death and suffering on a large scale without significant progress on the road to civilization. However, even the tragic experiences that we have witnessed show that culture counts, for bad – as we have seen in several cases – or for good – as we have seen in others: history sometimes can teach us something.

Going back to the strict economic standpoint, it is wrong to believe that the wealth of the few and the poverty of the many depend mainly on the exploitation imposed by force and violence by the developed countries on the underdeveloped. The sharp contrast depends primarily on the different cultural evolution of the two categories of countries. The exploitation of the more powerful countries, that as a rule concerns agricultural and mineral raw materials, has played a collateral role: one can speak of exploitation owing to the ways, hinted at above, that the dominant countries have adopted to get hold of those raw materials. When such materials are obtained through the usual commercial channels, as well as when they are sold by developed countries, we cannot properly speak of ‘exploitation’. The responsibilities of the white colonizers are much more serious in destroying the cultural and organizational traditions of local communities, in creating totally artificial nations and, as we will see in chapter 6, in breaking down the demographic equilibrium without promoting but, on the contrary, hindering economic growth.

A cultural break point at the dawn of economic and civic development

A striking feature of many underdeveloped countries is the coexistence of traditional and modern components. Thus in areas of Africa and Asia we find human groups that still are in a stage of development that in present-day advanced societies could be found centuries or even thousands of years

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ago. When culture is stagnating, the whole social life and the way of living and of producing the means necessary to survive do not change, or change only marginally. Without a break point underdevelopment – both cultural and economic – can go on indefinitely. In the Middle East, in North Africa and in Europe such a break point took place at least four thousand years ago and it was a radical break, whose reasons are far from clear. It seems that in other parts of the world similar breaks took place, but they were not so old and deep. Under the influence of a process of world unification, that today is undergoing an ever more intense acceleration but started long ago, at least after the great geographic discoveries, the routine of underdevelopment has in an increasing number of areas been broken. However, after the break, often imposed from outside, the process that has been called ‘modernization’ appears to be slow and painful.

Culture develops only in societies where, given a non-negligible basis of education, political freedom prevails. In such conditions, ideas and interests conflicting with those of the rulers are not strangled by repression, and tolerance as well as persuasion – the Greek goddess Πειθώ, praised by Plato (in Latin, *Suadela*) – constitute the fundamental rules of behaviour. In societies in which political freedom is restricted, culture in general and scientific culture in particular show very slow progress, as recent experiences have demonstrated. In the long run, economic growth itself depends on the growth of culture, which conditions not only technological but also organizational and institutional innovation. Today the economy of the largest country in the world, China, is growing very fast. This growth can go on as long as it can profit from already existing technologies and adaptations or improvements embodied in machinery and equipment imported from advanced countries, where cultural growth is strong and political freedom is the rule. In the long run, however, if such freedom is not admitted, economic development is bound to slow down since such development

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is conditioned by scientific progress that, without freedom, cannot but be imitative and weak.

The market as an institutional framework originated by a long evolution

From the economic standpoint the market, which in reality presents very different configurations, is the most important of all institutions. Many contemporary economists reason as if the market were a natural – an eternal – institution, a view only recently and for only a few decades challenged by the experience of centrally planned economies. The fact that their experience broke down in failure has reinforced this conviction. But it is not true that the market is a natural phenomenon: it is the product of a secular evolution and has undergone deep changes in the course of time. The market, before appearing as an economic phenomenon, presents itself as a legal framework. The truth is that the market is not an open field and the laissez-faire policy, taken literally, is meaningless. We should say instead, '*le marché c'est la loi*': law creates the institutional embankments between which the waters of the economy can flow. Without them, water becomes marsh or generates floods. Laws can be enacted wisely or wrongly; they can fix automatic rules or leave to bureaucracies a dangerous discretionary power; they can be simple and rational or dreadfully complicated and restrictive. But laws are necessary.

The market is certainly a most powerful engine of growth. But, if it is wrong to belittle its great potentialities, it is also wrong to extol its virtues; laws have to take full account of its faults. The market works very well in the case of standardized commodities, less well with differentiated commodities. Serious problems arise with services, especially highly sophisticated services, like those of doctors and surgeons. Special problems arise in the case of the environment. Finally, we have to keep monopolistic markets well separated