Lexicon and Syntax of Development Cooperation:

How does Lewis Model Validate the Logic of South-South Cooperation ?

*Milindo Chakrabarti**

A developing country is characterized by dualism in their domestic economic structures with simultaneous existence of a capitalist sector and a subsistence sector.

It's about almost seven decades – 68 years to be precise – since W. Arthur Lewis published his phenomenal paper titled "Economic development with Unlimited Supplies of Labour" (Lewis,1954). About a decade before him, Paul Rosenstein Rodan published "Problems of Industrialisation of Eastern and South-Eastern Europe" (Rosenstein Rodan, 1943), wherein he argued for a big push to facilitate development in countries lagging behind form their developed peers. Even though set in the context of eastern and south-eastern European countries, his arguments caught the attention of the development economists who emerged in the intellectual frame with their contributions towards conceptualisation of development or lack of it. By 1953, Ragnur Nurkse spelt out his idea of vicious circle of poverty and argued it to be the goal of development to come out of such a poverty trap. As Rahman (1961) would argue, Nurkse, "while rightly emphasising that success in the development efforts will, in the last resort, depend upon the effectiveness of action on the domestic front, (he) at the same time makes a passionate plea for a sympathetic understanding of the problems and difficulties of the under-developed countries by the rich countries and for offering liberal foreign aid and gifts to them without which, according to (him), the poorer countries will not be in a position to break out of their age-old stagnation and initiate a process of rapid development" (Pp 1-2).

* Managing Editor, DCR and Visiting Fellow at RIS.

Perhaps, the days of "high development theory", argues Krugman (1995) lasted for about 15 years between the publication of the paper by Rosenstein Rodan (1943) and that by Hirschman (1958). While Rosenstein Rodan called for a balanced growth model to facilitate "big push" and come out of the vicious circle, propounded a decade later by Nurkse (1953), Hirschman's recipe was to initiate a strategy of big push through unbalanced growth as he argued, "If the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequilibria." The strategy of unbalanced growth is most suitable, he argues, in managing and maintaining such tensions and disequilibria across the sectors and thus breaking the vicious circle of poverty in underdeveloped countries. As Krugman (1995) puts it, "Loosely, high development theory can be described as the view that development is a virtuous circle driven by external economies -- that is, that modernisation breeds modernisation. Some countries, according to this view, remain underdeveloped because they have failed to get this virtuous circle going, and thus remain stuck in a low level trap. Such a view implies a powerful case for government activism as a way of breaking out of this trap". Thus "big push" called for breaking the vicious circle and bringing about a virtuous circle piggybacking on the trends of increasing returns to scale prevailing in the then global economy. The debate between the effectiveness of balanced and unbalanced growth to bring about development remained, even though the consensus around big push became firmer.

The operationalisation of the Marshall Plan between 1947 and 1951,officially known as the European Recovery Programme, after the Second World War might have been effective in concretising the argument for big push and emergence of development cooperation as a concept. It was a saga of horizontal cooperation, in keeping with the spirit of solidarity expressed towards the European communities that were badly devastated by the War. The effort was a huge success in terms of its impact as well. The official website of The George C. Marshall Foundation notes, "Sixteen nations, including Germany, became part of the program and **shaped the assistance they required, state by state,** with administrative and technical assistance provided through the Economic Cooperation Administration (ECA) of the United States. European nations received nearly $13 billion in aid, which initially resulted in shipments of food, staples, fuel and machinery from the United States and later resulted in investment in industrial capacity in Europe"[1] (emphasis added). Europe limped back to normalcy in a couple of decades, if not less.

There were arguments contrary to the logic of "big push", notably by Lewis (1954) who underscored the role of dualism while ignoring the role of economies of scale and circular causation and Fleming (1955) emphasising the role of intermediate goods in production in self-reinforcing development that could occur even without dualism. However, the rule of "big push" prevailed and the necessity and sufficiency of aid based development cooperation became a panacea in the rulebook of economists and development practitioners.

The belief in "big push" framed the mainstream strategies for development for more than 60 years now, till Cohen and Easterly (2009) declared "The Failure of Big Pushes to Raise Growth". They identified three unsuccessful pushes:

1. The early big push in foreign aid (especially in the most aid-intensive continent, Africa).

2. Structural adjustment (also known as the Washington Consensus) in the 1980s and 1990s.

3. "Shock therapy" in the former Communist countries. (P:2)

In the context of the failure of the so called linking of development cooperation to the ideas of "big push", it will be worth one's effort to have a relook at the relevance of Lewis model in factoring in some of the typical characteristics of a developing economy that the "big push" model ignored. Lewis argued in the very first paragraph of his 1954 article:

> *"This essay is written in the classical tradition, making the classical assumption, and asking the classical question. The classics, from Smith to Marx, all assumed, or argued, that an unlimited supply of labour was available at subsistence wages. They then enquired how production grows through time. They found the answer in capital accumulation, which they explained in terms of their analysis of the distribution of income. Classical systems stems thus determined simultaneously income distribution and income growth, with the relative prices of commodities as a minor bye-product." (p 139)*

He argued further that "Interest in prices and in income distribution survived into the neo-classical era, but labour ceased to be unlimited in supply…." Unlimited supply of labour, though not a generalised global phenomenon, was very much a characteristic feature of countries like India, Egypt or Jamaica" (p. 139), he posited and tried to build this feature into his model of development. A point to be noted in this context, is the fact that the Western European nations that gained out of the Marshall Plan were already characterised by a scarcity of labour and did not qualify to be counted under Lewis's characterisation of economies with unlimited supplies of labour. He also acknowledged this when he wrote: "It is obviously not true of the United Kingdom, or of North West Europe."

He observed that a developing country is characterised by dualism in their domestic economic structures with simultaneous existence of a capitalist sector and a subsistence sector. While the former is capital intensive, the subsistence sector is characterised by the existence of disguised unemployment – a phenomenon that does not allow the wage go beyond a subsistence level and does not hamper the production level significantly if some of them are withdrawn from this sector. He argues that flow of capital can play an important role in releasing such disguisedly unemployed labour and push them to employment in the capitalist sector. The workers would benefit from higher wages, while the capitalist sector would be benefitted with higher surplus due to higher level of production. On an assumption that such resultant surplus will be reinvested as capital, opportunities for further migration of labour from the subsistence sector to the other will be created. This process will continue until the supply of labour remains unlimited and cease as and when labour starts getting scarce. The structural dualism would disappear simultaneously, bringing about a parity in wages across these two sectors. This, according to him, is the pathway to "development"

However, Lewis did not distinguish between skilled and unskilled workers as he assumed that

> *"There may at any time be a shortage of skilled workers of any grade-ranging from masons, electricians or welders to engineers, biologists or administrators. Skilled labour may be the bottleneck in expansion, just like capital or land. Skilled labour, however, is only what Marshall might have called a "quasi-bottleneck,"if he had not had so nice a sense of elegant language. For it is only a very temporary bottleneck, in the sense that if the capital is available for development, the capitalists or their government will soon provide the facilities for training more skilled people. The real bottlenecks to expansion are therefore capital and natural resources, and we can proceed on the assumption that so long as these are available the necessary skills will be provided as well, though perhaps with some time lag."Lewis (1954) p.145*

Given the fact that the idea of human capital as a differentiated component of capital formation was yet to be developed during his time perhaps could not help him appreciate the short term importance of upgrading unskilled labour to a skilled one as a complementary necessity to augment the productivity of physical capital accumulated in the capitalist sector. Thus he asserted,

"Accordingly, in this analysis the growth of productive capital and the growth of technical knowledge are treated as a single phenomenon (just as we earlier decided that we could treat the growth of the supply of skilled labour and the growth of capital as a single phenomenon in long run analysis)". (p.153)

Chiswick (2018) finds this assumption very optimistic and rightly questions Lewis' implicit assumption that capital-formation is costless to the host developing country. Lewis's argument could not survive critiques by Schultz (1962) and Sen (1966) and soon went into oblivion may be because of empirical evidence that failed to support Lewis' assumptions, policy recommendations that were not successful, and the theory was not yielding new and useful insights. "There followed decades in which the Lewis model was virtually ignored, effectively displaced by a neoclassical approach to the economic problems of developing countries". (Chiswick 2018 P:2). The recent advances in the literature on human capital may be considered as contributed to the revived interests in Lewis and his model of development.

The proponents of South-South Cooperation (SSC), however, did visualise the role of skilling the labour force in developing countries. The beginning of SSC is distinctly marked by efforts to augment the skill sets of the citizens of fellow southern countries through capacity building exercises. Even today, a large chunk of cooperation under SSC is centred around the idea of capacity building. India's efforts at capacity building through Indian Technical and

Economic Cooperation Programme (ITEC) and other schemes are quite significant. Through such programmes it is found that the support has been increasing ever since. Starting with a modest 0.09 million USD in 1964-65, it has risen to 36.88 million in 2016-17. During 2018-19, training programmes have been planned to provide skill building opportunities in about 30 domains that include artificial intelligence, banking, finance and accounts, cyber technology, environment and climate change, petroleum and hydro carbon, power and renewable energy among others. Brazil has also engaged itself in such endeavour in an effective manner. The efforts made by Islamic development Bank, through "reverse linkage" (a review of their latest report on this issue is carried in this issue) also points to the importance of capacity building in upskilling the citizens of the global South to add to enhancement of the productivity of available physical capital that flows today not just from the traditional donors but also from their Southern partners.

It is the insight generated from the Lewis model – existence of a domestic dualism in a southern economy – that, one may argue, might have contributed to the increasing confidence in SSC to support southern partners in capacity building and thereby remove the "bottlenecks" in generating skilled labour force necessary to combine with the flow of physical capital from the developed world. This was the Southern contribution in reducing dualism, which the "big push" argument could not address to. Being abysmally low in their physical capital stock, the Southern partners, till the early 1990s, were not at all in a position to support through provision of the same. Buenos Aires Plan of Action (BAPA) also emphasized on Technical and Development Cooperation (TCDC) in terms of sharing knowledge, experience and technology. It was only since the rise of some emerging economic powers from among the global South that an increasing flow of physical capital from one Southern partner to another has become a phenomenon to reckon with. This realisation itself never pits SSC as a substitute of ODA, rather considers its role in reducing dualism as a complement to efforts at "big push" by the traditional donors.

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Endnotes

[1] https://www.marshallfoundation.org/marshall/the-marshall-plan/history-marshall-plan/

SURINAME-INDONESIA JOINT COMMISSION PROMOTES AGRICULTURE, TRADE AND CAPACITY BUILDING

The fifth Joint Council Commission between Indonesia and Suriname took place in Paramaribo on September 17-18, 2018. The objective was to recommit to strengthen cooperation that can translate into concrete results between the two countries and enhance cooperation in the field of economics towards a free trade agreement. Indonesia and Suriname also plan to enhance mutual exchange of information in the field of infrastructure and investment and to identify areas of technical cooperation. Indonesia will help in capacity building for Suriname in the field of processing of agricultural products, the development of aquaculture, and eco-tourism. Indonesia also plans to seal a free trade agreement between the Caribbean Community (CARICOM) by utilizing Suriname as a hub. The commission called for the signing of a letter of commitment between Indonesia, Suriname and the Islamic Development Bank (IsDB) in the field of reverse linkage for artificial insemination of livestock for Suriname. The two countries signed a memorandum of understanding between the Indonesia's Diponegoro University and Anton de Kom in Suriname regarding cooperation in conservation of mangrove and of processing industry and a memorandum of understanding of cooperation education and diplomatic training was also concluded.

Source: https://www.caribbeannewsnow.com/2018/09/23/suriname-indonesia-joint-commission-promotes-agriculture-trade-and-capacity-building/