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Reflections on Development Economics: An Interview with Keith Griffin

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Reflections

Keith Griffin

Interviewed by James K. Boyce

Keith Griffin is Emeritus Distinguished Professor of Economics at the University of California, Riverside. Prior to joining the faculty there in 1988, he was President of Magdalen College, Oxford University, where he became a Fellow in 1965. He studied economics as an undergraduate at Williams College in Massachusetts and received his PhD at Oxford University. He began his career as a development economist in Chile, where he taught and did research for two years. His first book, *Underdevelopment in Spanish America* (1969), is a product of this period and strongly reflects the 'structuralist' tradition in Latin America. His interests then shifted to rural issues (land reform, communal tenure systems, and the green revolution), leading to his book *The Political Economy of Agrarian Change* (1974). Always a critic of orthodoxy, he has maintained that there are many paths to development, a point of view reflected in his book *Alternative Strategies for Economic Development* (1989). He visited China for the first time in 1979 and over the next two decades he published books and articles on China's rural economy, the distribution of income, and the transition from central planning to a more market-oriented economic system. Following the collapse of the Soviet Union, he extended his research interests to Mongolia and several low-income former republics of the USSR, where he was an outspoken critic of 'shock therapy', arguing that the transition economies instead should learn from China and adopt a strategy of sequential reform. He has worked with a number of international agencies, including FAO, the United Nations Research Institute for Social Development, ILO, the OECD Development Centre, and UNDP.

JB: What made you become a development economist?

KG: I have always had strong international interests. Much of my childhood was spent abroad — in Cuba, Argentina, England, Colombia and Japan — and I enjoyed living in different countries, learning foreign languages and having friends of different nationalities. Perhaps I should add that I was born in Panama and although the family left when I was only two months old, I have always been pleased that I was born in Panama proper and not in the Canal Zone where my father was stationed as a young army officer.

When I went to Williams College in Massachusetts as an undergraduate I knew that I wanted to major in economics and thought that I would eventually have a career in international business. While at Williams, however, my interests changed, in part because my political convictions began to move to the left and I became interested in problems of racial injustice, decolonization in Africa and, more generally, problems of poverty and inequality in the United States and globally. The economics department at Williams was very good and several members of the department were doing research in the new field of development economics. Two teachers in particular had a strong influence on my decision to become a development economist: Emile Despres (who taught international economics) and Bill Gates (who taught an outstanding course in development economics).

I decided to do graduate work in economics in Britain and went to Balliol College, Oxford. Development economics was especially strong at Oxford and at Balliol I was fortunate to have Paul Streeten and Thomas (later Lord) Balogh as my supervisors. Streeten was an excellent theorist and methodologist and Balogh was said to have the best ‘nose’ or intuition in economics; between them, and others at Oxford, I received very good training in development economics.

JB: Your encounters with the World Bank date from your work with the FAO in North Africa in the 1960s. What were your first impressions of the Bank? How would you say it has changed over time? In terms of human development, has the World Bank been part of the problem or part of the solution?

KG: Eighteen months after leaving Oxford I was given an opportunity to work with Thomas Balogh in Algeria as an FAO advisor on agricultural planning. When the World Bank sent its first mission to Algeria, I was temporarily seconded to that mission and among many other things I was asked by its head to conduct a cost–benefit analysis of an irrigation project. It was a disillusioning experience. The head of the mission was not a technically competent economist and in particular he was not familiar with the proper treatment of ‘sunk costs’, did not understand the difference between marginal and average rates of return on investment and was unfamiliar with the idea of ‘shadow prices’; he insisted that even in a highly distorted labour market the market wage should be used to evaluate labour costs. I was astonished at his ignorance, but he would go on to become a vice-president of the Bank.

There was another issue that confronted the World Bank mission, namely, compensation to the French colonists for the land and other property they left behind when they fled Algeria at the time of independence. My position was that compensation was unnecessary. The

Muslim Algerians had fought a long and cruel war for the right to govern themselves and to recover the land that had been taken from them by the colonialists. They had paid a very high price in blood — one million dead — and it was absurd to claim that they should pay financial compensation as well to buy back the land that had been stolen from them in the first place. The position of the head of the World Bank mission was that property rights had to be respected and until compensation was paid, he would not recommend that the World Bank create a loan programme of any sort in Algeria. Evidently property rights trumped human rights.

Nine years later I worked briefly for the World Bank as a consultant on land reform in Morocco. One of my tasks was to examine ex-post the consequences of an irrigation project financed by the Bank. Prior to the initiation of the project, the distribution of land ownership was very unequal. The formal project document between the Bank and the government, however, contained an explicit clause requiring the government to implement a redistributive land reform so that most of the benefits of the irrigation project would go to the poorest farmers within the irrigation perimeter.

The actual outcome of the project was the opposite of what had been intended. The large farmers had obtained advance knowledge of the government's investment plan and had bought out the smallholders, paying a price that reflected the value of the land under semi-arid conditions rather than the much higher value of irrigated land. The smallholders had been cheated and the distribution of land after the project was even more unequal than it was before the land reform. The World Bank was an accomplice in increasing inequality.

I urged that the Bank protest to the government and insist that the agreement be enforced, that is, that the land be redistributed to favour smallholders. The Bank's position was that it was too late to do anything and there was not even a murmur of protest. Once again, I was disillusioned by the World Bank.

These events occurred in the 1960s and 1970s and the Bank has changed quite a bit since then. Its economists are highly competent technically. It has widened its range of activities to include not just infrastructure and, later, agriculture but also education and health projects. It has taken into account the impact on the environment of its projects and it has at least paid lip-service to issues of poverty and, occasionally, inequality. My view, however, is that the Bank is essentially an instrument of its major donors, the United States and other rich countries. And of course the Bank is a bank; it is not a charitable organization. Its contribution to a reduction in global poverty has been negligible and its contribution to a reduction in globally inequality has been zero. The Bank has often recommended in developing countries that publicly owned assets and redistributive

programmes should be privatized. The Bank should take its own advice and allow itself to be privatized.

JB: Forty years ago, your critique of foreign aid on the grounds that it could have negative effects on economic growth and domestic savings provoked a great deal of controversy (Griffin, 1970; Griffin and Enos, 1970). Almost three decades later, an econometric analysis by the World Bank (1998) concluded that aid does indeed negatively affect growth in countries with ‘poor policy’ but that it has a positive effect in countries with ‘good policy’. Is this a vindication of your critique?

KG: Yes, my views on foreign aid have been controversial. The early criticism was that aid tended to reduce the domestic savings rate and could have a negative effect on the rate of growth. I would add that aid could also reduce interest rates (thereby encouraging greater capital intensity of production and discouraging employment of labour) and lead to an appreciation of the exchange rate (thereby discouraging both exports and import substitution). More important, foreign aid has tended to accentuate inequality (since most of the benefits are captured by the non-poor) and it has strengthened whatever government happens to be in power (since most aid is given to governments rather than to private institutions and persons).

The empirical evidence that has been published since I first began to write about foreign aid has been voluminous — far more than can be justified by the modest importance of the subject — and in general the evidence supports my critique. It is indeed true that ‘good policies’ that channel foreign aid into higher investment rather than increased consumption will promote faster growth; countries with ‘poor policies’ which, for example, borrow from the World Bank and use the resources thus obtained to raise consumption are likely to experience debt servicing problems and lower rates of growth. In other words, countries which can use foreign aid efficiently do not need it. They can attain their development objectives with domestic resources. Countries which cannot use foreign aid efficiently do not benefit from it. They become indebted, they experience more capital flight, they become more corrupt and, ultimately, they become more underdeveloped. China and Haiti are extreme examples of the two possible outcomes. Afghanistan, I predict, will become the next aid scandal.

JB: On the dedication page of *Growth and Inequality in Pakistan*, the book you edited with Azizur Rahman Khan (1972), there is a quote from Aristotle: ‘In human societies, extremes of wealth and poverty are the main sources of evil’. Apart from the intrinsic virtue of fairness, what are its instrumental virtues?

KG: Fairness should, of course, be virtue enough for equality, but many have argued that there is a conflict (or trade-off) between equality and efficiency or between equality and growth. Hence the debate about the possible instrumental virtues of equality. The sceptics claim that the best way to reduce poverty is to concentrate on increasing the rate of growth rather than on reducing inequality in the distribution of income and wealth. An attempt to reduce inequality, they argue, actually would be harmful. Others, like myself, argue that growth does not necessarily reduce poverty for all the heterogeneous groups that live in poverty. Pakistan is a case in point. Moreover, given the high degree of inequality in most developing countries, the quickest way to reduce poverty is to radically improve the distribution of income and wealth. Even if growth does eventually raise everyone out of poverty, it does so rather slowly in most cases.

So far I have implicitly accepted the conventional notion of poverty as an absolute concept. Poverty refers to a lack of food or inadequate nutrition; or poverty refers to an inadequate bundle of specific goods and services or failure to satisfy 'basic needs'; or poverty refers to inadequate income, such as an income per capita of less than US\$ 2 per day. While these definitions of poverty may be useful for some purposes, I believe that poverty is essentially a relative concept. Poverty is not a relationship between a person and a specific quantity of food, or a specific bundle of basic needs, or a specific level of income: it is a relationship between one person and the average well-being of that person's reference group, e.g. the village or county or province or country where that person lives. And in a fully globalized world with rapid communications and speedy transport, the reference group could be the world as a whole. Be that as it may, if one accepts that poverty is relative, then poverty and inequality are closely related, although they are not the same thing. Indeed poverty is related to the lower tail of the income distribution curve. From the perspective of a national policy maker, it makes sense, say, to define the poor as those who have less than one half the median income. Given this definition, growth (however rapid it may be) which leaves the distribution of income unchanged, will leave the incidence of poverty unchanged. The only way to reduce poverty is to reduce the number of people who have less than one half the median income.

Now, returning to your question about the instrumental virtues of equality, there is quite a bit of evidence that a high degree of inequality, far from encouraging growth, is in fact an obstacle to growth. For example, there is evidence that countries that begin to develop with an initial high degree of inequality in the distribution of income grow more slowly in subsequent years than countries where income inequality is more moderate. Compare, for instance, Taiwan (low inequality) with Colombia (high inequality). Similarly, high initial

inequality in the distribution of income appears to be inimical to a rapid expansion of human development — a measure of development that includes not only physical output (GDP) but also educational attainment and life expectancy at birth. There is also evidence that a high degree of inequality in the distribution of landownership is an obstacle to rapid growth of output and income. Since land is the most important asset in many low income countries, this finding suggests that a more equal distribution of wealth helps to accelerate economic development.

Then consider education, an important component of human capital and for most people their most important productive asset. First, primary and secondary school enrolment rates are positively correlated with the rate of economic growth: the higher the enrolment rates, the faster the rate of growth of average incomes. More surprising perhaps, it appears that the profitability of investments in education is higher than the profitability of investing in physical capital such as plant and equipment, infrastructure, office buildings, etc. Moreover, the returns on investing in primary education exceed the returns on investing in secondary education, and the returns on investing in secondary education are higher than the returns on investing in tertiary education. That is, within the education sector, the more equal and widespread the investments, the higher the returns on that investment and the faster the rate of growth. What is true of investments in education is equally true of investments in health. For example, the returns on investments in primary health care are much higher than the returns on investments in urban hospitals.

The instrumental virtues of equity are especially important when it comes to women. In almost all low-income countries there is a high degree of discrimination against women. They suffer from inequality more than any other large group of the population. Yet investment in the education of women can be especially productive. It increases their income-earning potential; it lowers the fertility rate and hence the pressure of population upon resources; it lowers the infant mortality rate; and it increases child health and nutrition. In other words, investing in women benefits everyone. If one can do only one thing to reduce inequality and promote economic development, I would choose to invest massively in the education of women.

Notice that I have switched from talking about equality of incomes to equality of assets. The more widespread the ownership of assets, the more people there are who will have access to the banking system and who can borrow to finance investments — in both physical capital and human capital. Equality of wealth, in other words, reduces the credit constraint on development, and hence increases investment, the growth of output and the average standard of living. In addition, those who own assets tend to have a higher rate of savings (and investment)

than those who do not possess any assets, even if their income is the same. A small peasant landowner, for example, can invest in his farm whereas a landless agricultural worker with the same income has no outlet for his savings (except perhaps the purchase of gold jewellery) and hence has less incentive to save.

I am not sure I have touched upon ‘the main sources of evil’ Aristotle had in mind when he deplored ‘extremes of wealth and poverty’ — he was probably thinking of inequality as a cause of high crime rates, social divisions and civil conflicts — but for those who think that fairness is not enough, there is plenty of evidence now that equality has many instrumental virtues as well.

JB: How would you define ‘left’ and ‘right’ in development economics? Where do you situate your work on this spectrum?

KG: I have been called everything from a CIA spy (by a left-wing newspaper in Chile) to a communist. Kermit Gordon, a teacher of mine at Williams, once described me to a colleague as one-third Despres, one-third Balogh and one-third Marx. The comment was intended to be a joke, but that is as good a description of me as any other I have heard. Certainly I am a man of the left, but the left to me has always been about equality. It is not about public as opposed to private ownership of the means of production nor is it about planning as opposed to the use of the market. It is about creating a more equitable society. The nature of the ownership regime and the role of the price mechanism should be seen as means to broader ends and not as ends in themselves. Free enterprise should not be confused with freedom and regulated markets should not be confused with communism.

During my early years as a development economist I was primarily concerned with the distribution of income and believed that a combination of progressive taxation and government expenditure policies strongly biased in favour of the poor would suffice to bring about greater equality. Gradually, however, I began to doubt the wisdom of my position and today I am much more concerned about the distribution of productive assets. The reasons have much to do with leakages and sustainability. Progressive tax policies tend to become undermined by tax exemptions, tax credits and poor tax enforcement which favours the rich. Eventually a progressive tax system leaks like a sieve. The same thing happens to progressive expenditure policies. They are captured by the rich and the middle classes. This is true of education and health policies and even food rationing schemes. Moreover, progressive tax and spending policies are under continuous attack by the minority of the rich, they tend to become weaker with each change of government and ultimately are unsustainable.

I have always advocated land reforms which favour the poor and by extension I favour a redistribution of all forms of natural

capital, including water rights, fishing rights and rights to harvest forest products. There are enormous possibilities for redistributing human capital to benefit the poor, including not just education and health programmes but also family planning services, child care and nutrition programmes, research and technical assistance programmes. Physical capital, too, can be redistributed and I am particularly interested in programmes that make it possible for the poor to own their own homes both in the rural areas and in urban slums. Home-ownership not only provides a secure place to live, it also provides collateral which gives access to credit and space to start a small business. More generally, the promotion of small and informal sector enterprises would help to improve the distribution of physical assets.

Governments often favour large capitalist and state-owned enterprises, through direct subsidies, cheap loans, protective tariffs and quotas, and tax holidays, while they simultaneously obstruct the growth of small, informal sector enterprises through a myriad of laws, regulations and rules, police harassment and demands for bribes. A reversal of these policies would increase equality, encourage faster growth and improve efficiency in the allocation of resources. A redistribution of productive assets has an advantage over measures to redistribute incomes in that they are often once-and-for-all measures which can be quite difficult to reverse. They are subject to fewer leakages and are more sustainable.

So far, I have been talking about 'vertical equality', i.e., changes in the distribution of income and productive assets between the rich and the poor. I have also been concerned about what is sometimes called 'horizontal equality', such as regional inequality between the former West and East Pakistan, rural-urban inequality in China, and widespread gender inequality. Left-wing development economists have no shortage of issues to address!

JB: When you published *The Political Economy of Agrarian Change* (1974), with its critique of the distributional impacts of the 'green revolution' in wheat and rice agriculture, how was it received by the profession? In the book you drew a distinction between 'landlord-biased' and 'peasant-biased' technological change, but you have also argued that world hunger is fundamentally a political problem for which there is no technological fix. Over your career, how much progress have you seen in agricultural development policies?

KG: My book on the 'green revolution' was controversial. The reason, I believe, was largely political. Improved technology in basic food-grains, wheat and rice, was seen as the solution to world hunger and this, in turn, was seen as a solution to widespread unrest in developing countries, increased social conflict and revolutionary upheaval. The 'green revolution' was an alternative to a 'red revolution'. Indeed,

the American plant breeder, Norman Borlaug, was awarded the Nobel Prize for Peace in 1970 for developing high-yielding varieties of wheat in Mexico. American plant technology was designed to defeat Fidel Castro in Latin America and Ho Chi Minh's dominos in Southeast Asia. Anyone who doubted this was on the wrong side.

The book was written largely while I was a consultant to the United Nations Research Institute for Social Development (UNRISD) in Geneva. It was part of a major project headed by Andrew Pearse, and Andrew readily agreed to my request that my British publisher, Macmillan, be allowed to publish it. Very shortly before the book was to appear in print, however, the American director of UNRISD wrote to me in Oxford to say that permission to publish had been refused. He gave no reason for the refusal, but Pearse and I surmised that the political implications of parts of my analysis in *The Political Economy of Agrarian Change* were unpalatable. My editor at Macmillan wrote to UNRISD saying they intended to go ahead with the publication of the book and that if UNRISD wanted to sue them, they were of course free to do so. Macmillan would defend the case on grounds of academic freedom and opposition to censorship. UNRISD quickly relented and the book went ahead as planned. The US edition was published by Harvard University Press and there were Spanish and Hindi editions as well. Ironically, in 1988 I was appointed chairman of the Board of UNRISD and served until 1995. A few years after the book was published I was the narrator of a BBC 'Horizon' film on the green revolution and the documentary, in turn, was the subject of a book by the sociologist Roger Silverstone with the ambiguous title of *Framing Science*.

My critique of the green revolution was well received by the profession of development economists. More important, after initially being rather defensive, the profession of plant breeders came to accept much of my argument. Some critics believe that my work on the green revolution is an attack on science and scientists. What I am really criticizing, however, is a peculiar American conceit that there are technological solutions to deep seated social and political problems. The scientists were being asked to do too much, namely, to solve problems which are not scientific in nature. One should no more imagine that an improved seed could solve the problem of world hunger than one would imagine that a communications satellite could solve the problem of mass illiteracy. There is plenty of food in the world. Hunger exists because the poor do not have enough income to purchase enough food to satisfy their hunger. The problem, in other words, is insufficient effective demand for food, not insufficient supply, and the solution will require greater equality in the distribution of income.

The scientific research strategy behind the early green revolution can be criticized for being ‘landlord-biased’ and developing high yielding varieties suitable only for those who had access to good irrigation facilities and plenty of working capital. An alternative strategy was in principle possible, namely, a ‘peasant-biased’ strategy. Such a strategy would have attempted to breed varieties which were resistant to drought (and hence were less dependent on irrigation), or which had a genetic resistance to disease (and hence required fewer agro-chemicals) or which were less dependent on nitrogen fertilizer for higher yields (and hence reduced the need for working capital to buy fertilizer).

The scientists have responded to their critics. The claims of a revolutionary increase in foodgrain production have been abandoned and the rhetoric has been toned down. More important, there has been a change in the research strategy of plant breeding: more emphasis is now placed on the search for ‘peasant-biased’ technical change. Furthermore, recent advances in the natural sciences have made it easier for scientists to breed plants with particular desired characteristics. All this is to be welcomed, although the new techniques for genetically modifying plants raise new issues that have yet to be resolved. The fundamental problem remains, however: there is no technological fix for what is essentially a political problem.

JB: In the mid-1970s you went to Geneva to head the Rural and Urban Employment Policies Branch at the ILO. How did the Cold War affect the policy space for serious policy analysis at the time? How much — or how little — has the end of the Cold War changed the situation?

KG: The specialized agencies of the United Nations system are partly diplomatic institutions and partly technocratic institutions, and this creates problems for all of them. Diplomacy requires that distinctions are blurred, that inconvenient facts are ignored and that conflict is avoided by seeking compromises. The technocratic function, in contrast, often requires a sharpening of distinctions, close attention to facts and the encouragement of debate and even disputes in an attempt to come closer to the truth.

This problem of reconciling diplomacy and technical advance is particularly acute in the International Labour Organization. One reason for this is its mandate, namely, the improvement of pay, employment and working conditions of ordinary working men and women. The mandate is inherently political and gives rise to clashes of interests, bitter disputes and class conflict. Another reason is that the governing body of the ILO is unique in the UN system in that it is composed of representatives of the member governments (almost always from the Ministry of Labour), trade unions (who mostly represent the interests of industrial workers) and businesses (who mostly

represent the interests of large transnational corporations). This structure of governance dates from the end of the First World War when the ILO was created to deal with the social unrest resulting from the slaughter of working people during that war.

The branch I was asked to head in the ILO was concerned primarily with rural development and hence had little support on the governing body, since Ministries of Labour, industrial trade unions and transnational corporations had neither knowledge of nor interest in problems of rural development in low-income countries. The urban side of the branch, which concentrated on the informal sector, also fell outside the ILO's customary field of activity, since informal sector workers were not unionized and informal sector enterprises were too small to be of interest to representatives of transnational enterprises. We stuck out like a sore thumb in the ILO and the problem was aggravated by my decision that the branch would be 'mildly subversive' by actively pursuing the interests of the poor, the exploited and the disadvantaged in developing countries.

Our largest research project in the branch was organized by Aziz Khan and myself. We decided that we would examine the hypothesis that in many parts of Asia the standard of living of segments of the rural poor had declined, even in countries that had experienced a positive rate of growth. That is, growth alone was not sufficient to ensure that all would prosper. Some redistributive interventions by the state might be necessary. We conducted eleven case studies in eight Asian countries, including a study of China by Aziz Khan himself. The study of China was pioneering. Although China was a member of the ILO, as far as I know, there had never been a single case study conducted by the ILO or sponsored by the ILO of the world's largest country!

The results of the research project essentially confirmed the original hypothesis. The evidence indicated that the standard of living of the poorest groups of the rural population throughout most of South and Southeast Asia had declined during the 1960s and early 1970s. The increase in poverty was not due to a lack of economic growth, for only in Bangladesh had average incomes failed to rise. Poverty increased because a high degree of inequality in the distribution of income and productive wealth made it possible for the relatively well off to capture most of the benefits of growth.

The ILO would not allow the book presenting our research findings to be published commercially or by a university press, but it did agree to publish the volume itself. Problems began to arise when the editor in the publications division of the ILO suggested numerous small changes, all of which seemed to be designed to tone down the volume in order to reduce its political impact in member countries. In two instances there was actual censorship. First, Taiwan was mentioned

as a country where land and other resources were evenly distributed and consequently where impoverishment of the rural poor had not occurred. It was an example of success, but we were not allowed to say so. As far as the ILO was concerned, Taiwan did not exist and one could learn nothing from its experience. Second, and even more absurd, despite the fact that China was the only case study where we found no tendency for rural incomes to decline, we were not allowed to entitle that section of the book 'China: The Great Exception'. Although China was a member of the ILO, and the conclusions of the case study presumably would please the Chinese government, we were not allowed to say that China was an exception to our general findings. The reason for this, I assume, is that our results would be unwelcome by one or more of the other members of the ILO.

A big event at the ILO during my time there was the 1976 World Employment Conference. I helped to write the Director-General's report to the conference, where the 'basic needs' approach to development was presented. The report provoked a lot of debate, but the group of 77 (the developing countries) and the Europeans supported it. There was, however, one holdout: the United States. The Americans thought the report was too radical. They objected to the emphasis on public investment in public goods (health, education, transportation) and, above all, on the redistributive element in the basic needs approach. Hours passed. The clock was stopped at one minute to midnight, when the conference was to be brought to a close, and still the Americans refused to support the Director-General's report. Finally, the Canadians succeeded in persuading the United States to go along with the report, on the understanding that the Director-General would consider carefully how he intended to implement the report. In effect, the basic needs approach in the ILO was dead on arrival.

During the Cold War the United States used its influence within the ILO — which was considerable since the US was the largest contributor to the regular budget — to shift the political spectrum even more to the right than it was already, to oppose 'mildly subversive' research (the Swedes financed most of the research in my branch), and especially, to prevent advocacy of policies intended to improve the distributions of income and wealth. I cannot say whether the situation has changed today, but during the 'great recession' of the last few years the ILO has been conspicuously silent in defending the cause of working people.

JB: When you first visited rural China in 1979, the commune system was still intact, although the debate on reforms was beginning. What were your impressions at the time? In hindsight, do you think that the communes provided a viable platform for future growth, or would

you side with critics who argue that they were a misguided waste of time and resources?

KG: I have long believed that in principle communal tenure systems (cooperatives, collective farms, worker self-managed farms and Chinese communes) can be effective institutions for promoting comprehensive rural development. My visit to China in 1979 to study its commune system confirmed my opinion. The commune was a multi-purpose institution. It engaged not only in agricultural production, but also in promoting rural industries, providing social services such as health, education and child care, mobilizing seasonally underemployed labour on labour-intensive construction projects, and redistributing income in favour of poorer households. The richest communes even provided pensions for the elderly.

Compared to other developing countries, the Chinese communes were highly successful in achieving high levels of investment, thanks to their collective accumulation funds. They were also highly successful in providing year round full employment, thanks to their ability to mobilize and organize labour for infrastructure projects (rural farm-to-market roads, bridges, irrigation, field terracing, reforestation, etc.). And they were extraordinarily successful in countering urban bias by breaking the tight association one finds between industrialization and urbanization. High rates of investment, rapid expansion of rural infrastructure and rural industrialization transformed the Chinese countryside and, incidentally, made it much easier for rural areas to respond to market forces when price liberalization and other economic reforms were introduced in the late 1970s and 1980s.

There were weaknesses in the commune system, but I believe that the communes could have been reformed rather than dismantled had the policy makers been so inclined. The work-point system for the payment of labour could have been reformed to improve efficiency. The compulsory quota delivery and agricultural pricing system could have been altered to improve agriculture's terms of trade and stimulate production. The requirement that each commune be self-sufficient in foodgrains could have been relaxed so that communes could take full advantage of their comparative advantage. And finally, the three-tiered structure of the commune — production team, production brigade and commune level production — could have been modified to include at the base of the system private plots and other so-called sideline activities. It is a pity, I think, that private plots and sideline activities were regarded as residual activities from a previous capitalist economic system, and as undesirable in principle. Had they been formally incorporated into the commune system as a fourth tier, the Chinese commune could have increased agricultural output dramatically.

Instead of reforming the commune system in the ways I have outlined, the authorities chose to abolish it and create in effect a small

peasant farming system. This massive land reform has been a brilliant success, although it, too, has its problems and weaknesses.

JB: What do you see as the key problems and weaknesses of China's new system?

KG: The Chinese commune was what is sometimes called a 'total institution'. It performed many functions: agricultural and industrial production, creation of employment, provision of basic social services, local government administration and even the local militia. The dissolution of the commune system therefore required a complete reorganization of rural life and livelihoods. Collective agriculture was successfully replaced by a small peasant farming system. The commune- and brigade-level enterprises gave way to private rural industry, cooperatives, local government owned enterprises and mixed enterprises. Rural industrialization continued to expand rapidly.

Other functions of the communes, however, were not replaced by equally successful new institutions. Educational and health services, for example, deteriorated in some regions and in general rural social services lag far behind those available in urban areas. The mobilization of underemployed and seasonally unemployed rural labour for the construction of rural infrastructure, so successful under the commune system, ceased entirely. This led to an acceleration of rural-to-urban migration and the creation of an urban underclass that is unregistered and consequently not entitled to the benefits and rights enjoyed by officially registered urban households. The mechanism for intra-commune redistributions of income disappeared and despite the highly egalitarian distribution of land, rural income inequalities increased. Rural-urban income inequality increased dramatically.

Post-reform local government, despite half-hearted attempts to introduce elements of village democracy, became even more authoritarian than under the commune system. Land was arbitrarily confiscated by local authorities for industrial purposes. Taxation was arbitrarily imposed, sometimes thinly disguised as voluntary 'contributions'. Air and water pollution from rural industry increased sharply and sometimes lethally. Peasant unrest is widespread. In summary, the institutional transformation of rural China is still a work in progress.

JB: You were involved in the early years of the UNDP's *Human Development Report*. How much impact has this annual report had on policies in developing countries?

KG: I don't know what impact, if any, the publication of UNDP's annual *Human Development Report* has had on social and economic policies in developing countries. But I do know that the human development approach has affected debate among development practitioners,

influenced development targets and goals of the United Nations itself and led to a shift of priorities and policies within the United Nations Development Programme. Perhaps the greatest effect has arisen from the preparation and publication of human development reports in many individual countries. These country reports have given people in government and civil society an opportunity to analyse their own society from a human development perspective and a chance to make policy recommendations. Whether the many national discussions stimulated by the country reports have led to changes in actual policies is unknown, at least by me, but it would be surprising if discussions of, say, the desirability of investing in human capital or the advantages of creating more opportunities for women or the expected high returns from expenditure on applied research had no positive effect on development policy at all.

Your question implicitly raises the issue of what is the role of a foreign advisor in influencing government policy in a country which is not his own. I do not think it is my job to tell another country what to do. I have strong opinions on policy and I do not hesitate to express them forcefully, but the government must decide what course of action to take and must accept responsibility for the consequences of its policies. I see my job as offering a 'second opinion', an alternative to the analysis and policy recommendations presented by more conventional advisors representing bilateral and multilateral aid agencies. I want to participate in the policy debate and if possible give a voice to the poor, the disadvantaged and the silent. I am openly on the side of the underdog. But if my advice is rejected, I am not affronted, although I would be less than human if I were not a little disappointed.

JB: Your book with Jeffrey James, *The Transition to Egalitarian Development* (1981), laid out a set of human development strategies. Why have these still not come to pass?

KG: *The Transition to Egalitarian Development* was written before the human development strategy came on the scene. The research question we asked ourselves was what problems would arise, and what policy responses could be adopted to meet those problems, if a government were determined to radically redistribute income to satisfy basic needs and eliminate poverty in a short period of time. We argued that the poor are not a homogeneous class but heterogeneous groups of people with different occupational, demographic and locational characteristics. As a result of this, policies which benefit some groups of the poor will harm other groups. Moreover, once a redistribution of income has occurred, a series of acute disequilibria are created which, if not managed properly, could undermine the entire reform effort. A change in the distribution of income will alter the composition of

demand. In particular, the demand for food and other wage goods will rise and if the supply of wage goods is inelastic in the short run, as is likely, prices will rise sharply and possibly create very rapid inflation. Direct controls over prices and quantities may therefore be necessary during the transition period: reliance on the price mechanism alone may lead to disaster. We also argued that a redistribution of assets on a large scale would be essential if the share of the poor in total income is to increase significantly and rapidly. The reason for this is that the distribution of assets is the primary determinant of the distribution of income and of the process by which incomes are generated. Hence if a government wants to reduce inequality and alter income generating processes, the ownership and control of productive wealth will have to be altered. The book thus underlined the radical nature of a basic needs strategy of development.

You ask why redistributive strategies of the type we advocate did not come to pass. The short answer is that they were overtaken by the Thatcher/Reagan revolution. Income redistribution was removed from the development agenda and emphasis was placed on the alleged virtues of free markets. Our book was put on the library shelf and was seldom read. This is a pity, I think, because the issues we raised and the solutions we proposed were relevant to another transition that occurred a few years later, namely, the collapse of the Soviet Union and the transition in the former socialist republics from central planning to a more market oriented strategy of development.

JB: In your writings on the transition from central planning to more market-based economies, you argued for macroeconomic stability but at the same time attacked two of the main conventional strategies in pursuit of this goal: ‘shock therapy’ and inflation targeting. What are the alternatives?

KG: Maintaining macroeconomic stability is essential during the transition from central planning to a more market-oriented system. In Soviet-type economies prices are arbitrarily fixed by the planners. They play no allocative role: resources are allocated in quantitative terms in accordance with plan priorities. Both consumer prices (e.g., food) and producer prices (e.g., oil) are low and almost all products in effect are rationed. In addition, monetary balances tend to be very high since ration coupons rather than money determine the quantities buyers can obtain. This is the so-called monetary overhang.

In such circumstances, if prices are liberalized rapidly and across-the-board, the result is likely to be very rapid inflation. Prices will rise at different and changing rates in different markets. Relative prices will therefore be unstable and unpredictable. Producers will find it difficult to design and implement production plans. Investment will collapse and output will enter a downward spiral. Shock therapy and

inflation targeting (or tight monetary and fiscal policies) will produce a catastrophe.

For example, in the former Soviet Union the peak annual rate of inflation was 1,353 per cent in the Russian Federation (in 1992), 4,735 per cent in the Ukraine (in 1993) and 2,200 per cent in Belarus (in 1994). Between 1990 and 1997 real GDP declined by 42 per cent in Russia, 58 per cent in Ukraine and 34 per cent in Belarus. Inequality and poverty increased dramatically.

None of this need have happened. In China and Vietnam macroeconomic stability was maintained, the rate of investment increased and growth rates accelerated. One reason for this is that in both countries price liberalization occurred only partially and in stages during the early years of the transitions. For example, price controls and quota deliveries were retained for many commodities so that consumers could obtain their customary supplies of wage goods and producers could obtain their customary supplies of material inputs in order to maintain production at pre-reform levels. Above-quota output, however, could be sold on the free market at whatever price market forces determined. This 'dual price system' has several advantages. It prevents real wages from falling and poverty from increasing. It prevents the costs of production in enterprises from rising sharply in response to changes in relative prices and it ensures that supply chains are not disrupted by a breakdown in the input supply system. This helps to maintain aggregate output and employment. The dual price system also creates strong incentives on the margin to increase production because above-quota output can be sold at a high price on the free market rather than at the low quota price. This helps to stimulate growth while preventing rapid inflation.

Managing a disequilibrium system is not without problems. The dual price system, for instance, encourages corruption. Firms have a strong incentive to engage in arbitrage by purchasing products at the low quota prices and reselling them at the high free market prices. The dual price system also creates price distortions since neither the quota price nor the free market price is a long-run equilibrium price. Experience has shown, however, that these disadvantages are outweighed by the advantages of sequential reform, a disequilibrium system and dual prices during the transition. It is a great pity that despite the fact that the Chinese reforms began ten years before the transition in the former Soviet Union, the countries of the former Soviet Union ignored the Chinese experience. A great deal of suffering could have been avoided.

JB: A recurring theme in your work is scepticism about the virtues of the market, tempered by scepticism about the virtues of the state. How do you recommend striking the balance between the two? Are

‘public–private partnerships’ part of the solution, or have these become a euphemism for using public funds to subsidize private profits?

KG: Development economists deserve credit for emphasizing the limitations of free markets: lack of competition in many markets, the importance of public goods, the influence of the distribution of income and the resulting composition of demand on the set of relative prices, and the pervasiveness of positive and negative externalities. Market failures are ubiquitous: free market prices seldom reflect all of the benefits and all of the costs of market transactions. Almost everything one does affects more people than just the buyer and the seller. Indeed, even non-market activities generate externalities. For example, I derive pleasure from your garden when I walk past your house.

Thus in principle a case can be made for government intervention in almost all markets, through taxes and subsidies, controls, regulations and prohibitions, and through the creation of state enterprises to undertake production and distribution. If intervention were costless, and the objective is to maximize allocative efficiency, one would argue that no market should be entirely free! Scepticism about the virtues of a free market is entirely justified. We know, however, that state intervention is costly and hence one must carefully balance the costs and expected benefits of intervention. The costs can be remarkably high. Consider the prohibition against the production and consumption of marijuana. The cost of law enforcement has been high and the prohibitions ineffective: both consumption and production have increased. So, too, has crime, violence and the imprisonment of large numbers of petty criminals. The prohibition against the consumption of marijuana has inflicted a cost on many ill people who have been deprived of the opportunity to use marijuana for medicinal purposes. Market failure in this case surely has been exceeded by a large margin by the cost of government failure. Intervention has made matters worse rather than better.

Government failure in fact is exceedingly common. It arises from poor diagnosis of the problem to be addressed; poor design of policy interventions; corruption of enforcement officials, such as bribery of civil servants and politicians; and capture of the regulatory agencies by the industry to be regulated. We can add to this list expenditures by the regulated industry on advertising (to persuade the public that regulation is undesirable and unnecessary), lobbying (to persuade legislators to amend the law by introducing loopholes and deleting the most restrictive provisions), and on legal fees (to challenge the interventions repeatedly in courts of law). Along the way the public good is transformed into private gain. Scepticism about the virtues of the state is entirely justified. Even in socialist states of the communist variety, where the interests of the working class were said to be paramount, state failure was severe. Industrial pollution from state

owned enterprises, for example, was far higher than in the advanced capitalist economies.

What is the solution? In developing countries the state should concentrate on doing relatively few but important things well and leaving the rest to the market. Exactly what should be the responsibility of the state will depend on its capacity, competence and integrity, but my shortlist would include public goods and those activities which generate the largest positive externalities (education, health) and the most important negative externalities (interventions to protect the environment). Anti-monopoly and foreign trade policies could be used to ensure that most industries are reasonably competitive, and within this overall framework market forces could be allowed to operate.

JB: You have advocated freedom for labour to migrate across international borders. How can this be reconciled with efforts to safeguard living standards for the working class in the industrialized countries?

KG: I am an advocate for open borders and the freedom of workers to seek employment wherever it can be found. It is especially important that low-skilled workers in low-income countries should have as many opportunities as possible to raise their standard of living. Moreover, when a low-skilled worker from a developing country migrates to a developed country, both countries benefit. The migrant benefits from higher wages and longer employment. Those left behind benefit from the receipt of remittances. The distribution of world incomes improves because the migrant moves from a low-wage job in a low-income country to a higher (but still below average) wage in a high-income country.

The host country also gains. Migrant workers raise total output in the host country. This additional output is divided between the low-skilled migrant (who receives, say, the value of his marginal product) and the non-migrant population in the host country (who receive the difference between the value added produced by the migrant and his wage). In other words, migrant workers produce a 'surplus' that accrues to society as a whole. Everyone, potentially, could gain.

The benefits to the host country are not limited to a higher level of output and incomes. Migrant workers have a higher rate of savings than the non-migrant host population. These savings can finance a higher rate of investment and growth and hence the income benefits accumulate over time. In addition, immigrants tend to be more innovative, more entrepreneurial than the host population; they are more inclined to start up small family businesses and to introduce new products and services. This increases the dynamism of the economy and makes society as a whole more cosmopolitan.

If one takes a narrow view and focuses exclusively on the public finances, here again the migrants make a net contribution to the rest

of society. Low-skilled migrant workers tend to be relatively young and healthy and are often single (or they leave their family behind, at least initially, in the home country). Consequently, they tend to pay more in taxes than they receive in public services such as health and education. Precisely because they tend to be young, migrant workers reduce the dependency ratio in the host country and thereby make it easier for governments to finance publicly funded pensions. There are thus many benefits to the host country from the free migration of low-skilled labour.

Critics of migration often argue that a large inflow of low-skilled workers will depress wages in the host country and worsen the distribution of income in the host country (even if it reduces inequality in the world as a whole). While there is a grain of truth in this criticism, one must not exaggerate it. First, low-skilled migrant workers often do not compete directly with the rest of the host country working class. If migrant workers were not available to tend gardens, they might well be replaced not by host country workers but by unpaid family workers (as in my childhood). If migrant child minders were not available, they might well be replaced not by hired nannies but by stay-at-home mothers or grandmothers (to the disadvantage of both). If seasonal migrant labour were not available for farmers, it is unlikely it would be fully replaced by host country workers. It is more likely that agricultural output would decline and food would become more expensive (to the disadvantage of everyone). Second, given that migrant workers produce a 'surplus', it should be possible to compensate low-skilled non-migrant labour for any decline in real wages. Compensation could take the form of additional expenditure on education, vocational training and re-training programmes. Finally, if it is the case, as I argue, that the immigration of low-skilled workers is likely to increase the rate of growth, this will increase the demand for host country workers and raise real wages. The negative impact of migration on the working class in the industrialized countries is therefore likely to be small and of short duration and on balance the net benefits are likely to be substantial.

- JB: You have devoted your career to advancing new ideas in development. How do you feel now about the power of ideas in challenging vested interests?
- KG: Ideas are powerful. Good ideas may not be persuasive in the short run, but they eventually drive out bad ideas, and when that happens, vested interests are weakened and sometimes defeated entirely. It is easy to become frustrated by the slow pace of progress, but looking back at my career in development economics over more than forty years, there is no doubt that conditions have improved for a great many people. European colonialism and imperialism have disappeared,

replaced in part by American global hegemony; Soviet imperialism has nearly vanished, although many of the successor states are authoritarian. Human freedom has increased and the number of independent countries has grown enormously, even though it remains true that we still have a long way to go when it comes to human rights, individual freedoms and a satisfactory balance between national independence and global interdependence.

Economic growth has been unprecedented and average incomes have risen in most regions of the world. Parts of sub-Saharan Africa are the great exception. Global poverty rates as conventionally measured have declined, thanks above all to the huge reduction in poverty in China. India, too, has begun to make remarkable progress. Because of the large size of India and China, what happens in these two countries largely determines what happens to the incidence of poverty in the world as a whole. Progress elsewhere has been disappointing, particularly in Africa, the Middle East and the low-income, ex-socialist countries of the former Soviet Union.

Faster growth has been accompanied by increased inequality in the distribution of income in most low-income countries. Because of this, the effect of accelerated economic growth on the incidence of absolute poverty has been less than it could have been. From a global perspective, however, the sharp acceleration of growth rates in China and India is beginning to reduce inequality in the global distribution of income. This is a remarkable change and one that I greatly welcome.

Large strides have been made as well to increase human development. Since achieving their independence, most developing countries have implemented public policies that have succeeded in improving health and education services. Life expectancy has increased dramatically. Infant mortality rates have fallen, as has the death rate and the incidence of disease. Fertility rates have declined very sharply and this has resulted in slower population growth rates. Fears of a Malthusian crisis have proved to be unjustified. Illiteracy has declined everywhere, although much still needs to be done to increase the quality of secondary education and access to it, particularly for girls. Indeed, discrimination against women remains a great problem and is an obvious priority for action. The struggle against poverty and inequality in all its forms continues, but it is very satisfying at the end of my career to be able to say that progress has been achieved; the struggle has not been in vain.

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