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IDEOLOGY IN DEVELOPMENT THEORY:
THE NEW ORTHODOXY

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ABSTRACT

In recent years much attention has been given to the potential role of the informal sector in the economic development of Kenya. In part this emphasis has followed the observation that the informal sector uses an appropriate technology to produce an appropriate set of products. But the emphasis on the role of the informal sector also reflects concern with the inequitable path of the current strategy of growth. This working paper is essentially of a polemical nature and aims to be explicit. Some of the assumptions underlying much of the analysis and to raise the implications of a development strategy based on the informal sector as a leading sector of development.

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IDEOLOGY IN DEVELOPMENT THEORY: THE NEW ORTHODOXYIntroduction.

The question of the unequal distribution of income and the related problems of unemployment and choice of inappropriate technology has assumed increasing importance in the discussion of development problems in the East African context. A new fashion has begun to emerge which links these questions to the structure of demand and goes on to argue that one way to cope with the growing problems of underdevelopment in East Africa is to begin with the redistribution of income, thereby affecting the structure of production by increasing the demand for low-income goods which are produced with more appropriate technologies in the 'informal sector'. This will lead to greater employment, and hence a more equal distribution of income, and thus the process will become self-reinforcing.

The ease with which this new 'theory' has become the conventional wisdom in liberal academic circles is not altogether surprising, since it suggests that there is a gradual and peaceful alternative to the confrontation which it is believed could otherwise result from the present increasingly unequal pattern of development in these countries.¹ Assuming that a violent sequel and/or a period of extended 'chaos' will in fact emerge from the present momentum of development, it is indeed praiseworthy that some attempt should be made to find an alternative path of development which will minimise suffering over the years. The ILO report on Employment, Incomes and Equality represents such an attempt.²

However praiseworthy this document may be, considering that it was hastily written after a short stay in Kenya, examination of some of the ideas in the Report leads one to conclude that there are significant problems in such an approach. The ideas which follow are presented in an attempt to discuss the main proposal of the report with respect to the transition from (inappropriate) formal - to (appropriate) informal - sector production of (more appropriate) products.

i.

- 1) A few quotes from the ILO Report illustrate this point.
 "We do believe however, that without such action as we suggest the particular problems with which we have been dealing will not disappear. And nobody can say that these problems are merely like the mild toothache of an otherwise healthy person: they are more like the broken leg of an otherwise vigorous person." page 327
 "The frustration of younger people in search of opportunities - frustration instilled by their present preparation for life may lead to alienation and intolerable tensions" page 328.
 "Thus the problem may become insoluble in future, whereas it can still be avoided by timely action". Page 329.
- 2) Employment, Incomes and Equality, A Strategy for Increasing Productive Employment in Kenya, ILO, Geneva, 1972.

11 : The New Orthodoxy

The ILO Report succinctly summarises its ideas in the chapter on Technology. Two short quotes present a summarised idea of the New Orthodoxy.

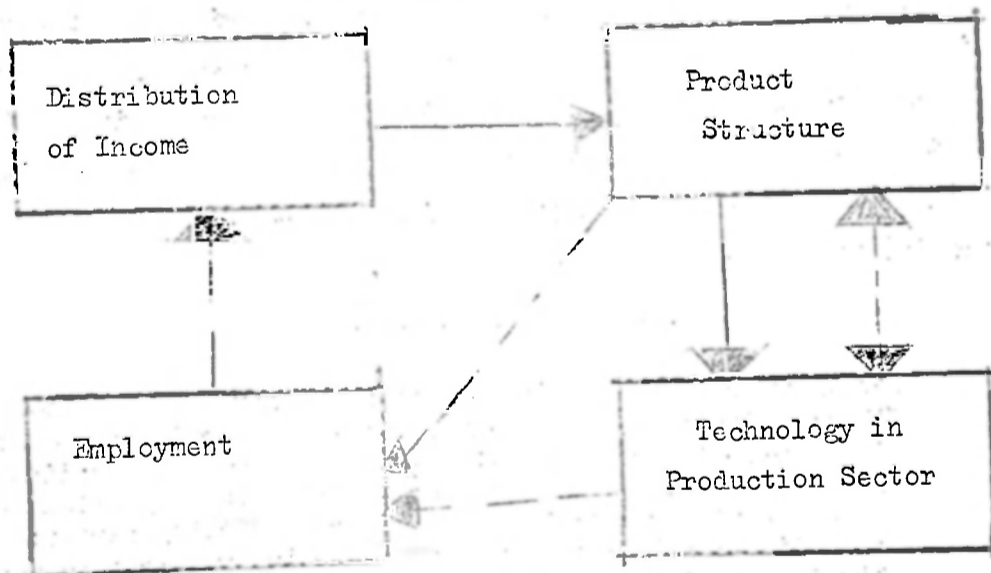
"The decisions about what to produce and how to produce what is demanded are obviously crucial, they help to determine how employment will grow in relation to output and how value added in the economy will be distributed among various income groups" (page 133)

"The kind of technology which is used...is related to the kind of products that are in demand, the demand in turn being determined by the distribution of income" (page 133)

These two interrelated ideas are represented by the chart below. The dotted lines represent the first of these two ideas. That is firstly that the choice of technology influences the nature of final output, and at the same time the structure of demand which exists will in turn influence the type of technology. Secondly, both the structure of production and employment technology used influence the structure of employment, and is the main instrument for the distribution of the country's national income, they also influence the distribution of income.

(The chart) represents a quote (which is represented by the unbroken line in the chart) which is represented by the unbroken line in the quote. This is, that it is the distribution of income which affects the structure of demand, and hence the type of technology used in the production sector.

Figure 1.



Insofar as theory is an instrument for designing policy, in that causality is ascribed, this qualifies as a

prescription which emerges from

1. Chapter 9, ibid.

The distribution of income should be made more equal. This will affect the structure of final demand and reorient demand away from high income goods produced in the formal sector to low income goods produced in the informal sector. The result of this re-orientation will be an increase in employment (and a less unequal wage structure) and thus a lessening in the inequality of income distribution thereby reinforcing the new, more equal distribution of income implemented by Government policy.

The Report then goes on to list some of the products for which there is a high degree of substitutability between the output of the formal and informal sectors respectively. The sorts of products which are mentioned are maize-flour milling, sawmills, carpentry, tailoring, tin-smithing (eg. making 'jikos' and lamps), vehicle repair and maintenance and public transport. Both formal and informal sectors produce these products. Maize is produced by large, urban-based mills as well as by small hammer-mills in the village, or small town. Furniture can be bought from smart shops in Nairobi, and it can also be bought from the 'fundi' on the roadside and so on. In each case the products will serve the same function (ie sustenance, a bed for sleeping) and in that sense the products are close substitutes. But at the same time, the products carry a different 'image', and the products of the formal sector are invariably smarter, and confer greater prestige on the consumer.

It is the discretionary income available to higher-income earners which enables them to consume these formal sector products. If this discretionary income is taken away, there will be no choice but to consume informal sector output, and at the same time the higher incomes available to the formerly poor will together increase the demand for informal sector output, thereby increasing output in the system as a whole.⁴ Thus not only is the strategy seen as an exercise in equity, but it is also as a basis for growth by a dynamic informal sector using a more appropriate technology.

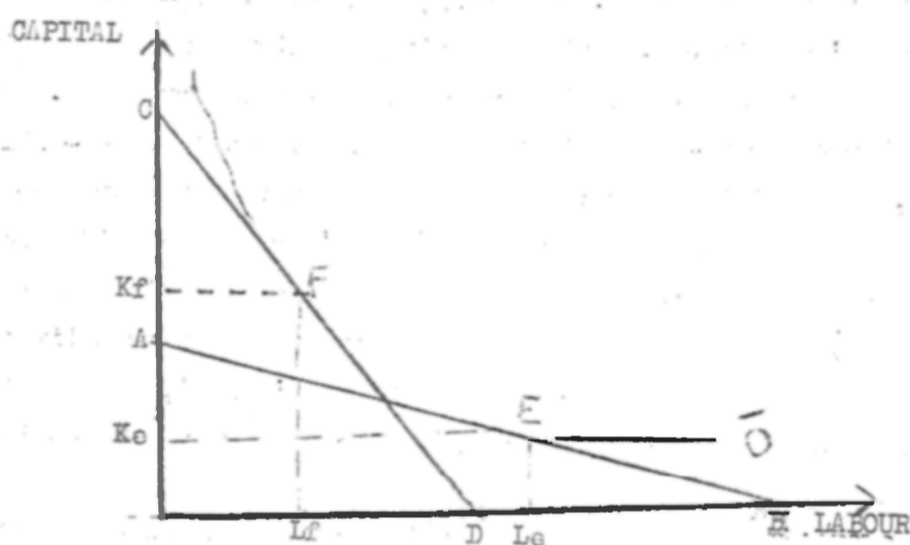
III. The Roots of the New Orthodoxy.

The theory which has been outlined represents a distinct break from the earlier orthodoxy of neo-classical analysis, which is illustrated in figure 2. In the neo-classical model it is assumed that there is a wide range of efficient techniques, producing the same product as represented by the isoquant in the figure. The factor price line for the under developed countries.

4. This is because the labour intensive techniques in the informal sector have a higher productivity of capital than the capital intensive techniques used in the formal sector. Switching production from the formal to the informal sector, therefore means that output is increased with the same (assumedly putty-) capital stock and the use of otherwise un/under employed labour.

represents a high price of capital with a low price of labour (AB), while the factor price line existing in developed countries represents the opposite case, with a high price of labour and a low price of capital (CD). The optimum points of production for the two systems are at point E for the underdeveloped economics employing L_e labour and K_e capital, and at point F for the developed countries, employing L_f labour and K_f capital (L_e, L_f, K_f, K_e).

Figure 2.



The neo-classical tenants (which are that there exist a spectrum of techniques available to produce an identical set of products and that factor-prices are determined by supply and demand) were gradually undermined by observation of the real world. The first major obstacle to this approach (within the realm of 'orthodox' economics) was introduced in the 1950's when Eckhaus in his celebrated paper argued that far from there being a range of efficient production techniques at any time there was likely to be one, or at any rate only a few efficient techniques available for the production of a particular commodity.

The second major objection to the neo-classical theory has been a more recent observation by Stewart.⁵ that one cannot really talk of constant product with different techniques of production. That is, different techniques of production may well exist to satisfy a given need, but frequently these different techniques produce a substitutable but not identical

5) F. Stewart
October 1973.

output. Therefore changing the choice of techniques may well mean changing the composition of output, even though these latter changes may not be fundamental. Since Stewart's observations were made in the content of studies on the choice of technique in Kenya, it is not altogether surprising that this latter idea should have played such a prominent part in the generation of the New Orthodoxy outlined above. (At the same time, Stewart cannot obviously be 'blamed' for any faults which exist in this new theory.)

IV. Does the New Orthodoxy Constitute a Meaningful Policy Alternative?

The new orthodoxy as outlined in the ILO Report has received a good reception in some academic circles and particularly with aid-agencies in both Kenya and in other parts of Africa. The reception from Government has been less warm and helps to illustrate that the Report's attempt to soften some of its conclusions in order to ensure a receptive treatment from Government has miscalculated the extent to which the State represents important groups in the society whose interests would not be best served (in the 'short run') if the proposals were to be implemented. The Report displays a faulty understanding of the 'political process'. The basic supposition, as we have seen is that it is in the long run interests of the those represented in the Government that inequities should not continue to increase. At the same time, it is argued, there should be some consideration given to the ideas of Sessional Paper 10 of 1965 which called for equality of opportunity in the country. The exhortation towards a set of policies which would lessen, rather than increase inequity in Kenya is based on the perception of the State that it is comprised of well-meaning technocrats who are only tenuously related to important groups in the society. This is clearly a fallacious view. For one thing, since the Ndegwa Commission civil servants have become involved in commerce and industry as well as holding their existing jobs and senior Government advisors and decision-makers thus have a foot firmly wedged in the existing system and its continued momentum. Secondly, even if this were not the case, these advisors and decision-makers could not conceivably act in isolation from the dominant classes. In the interests of 'growth' and 'stability' certain policies would remain - to stabilise the higher incomes and to increase lower incomes would 'reduce the incentive' for growth and might frighten away the foreign investment which the Government sees as such an important part of its growth strategy.

The underlying ideology of the New Orthodoxy is similar to that ⁶

6) In fact the realignment of factor prices is one of the recommendations of the ILO Report.

of those who have been arguing for years that if only underdeveloped countries would adopt a more appropriate set of factor prices, which, represented the real scarcity of capital and the abundance of labour, then entrepreneurs would move to a set of more appropriate production techniques and both output and employment would continue to grow. However well-meaning this often repeated advice has been, the suggestions remain unimplemented. The reason for this inaction is that factor prices do not occur by accident, but reflect the relevant power of certain groups in the system. Only a change in this relative power would lead to the implementation of a set of more appropriate factor prices. It is clear that moral exhortation and the call for policies which would increase growth and employment (without any consideration of relative shares) will not by itself lead to this change in relative power.

The present structure of power and income enables certain groups in the system to enjoy an extremely high standard of living and to continue maximising their own personal rate of accumulation. It is no use arguing that the interest of the society would be maximised by different set of policies, ^{government policies} are created in the interests of certain groups, not in the interest of society as a whole.

The link between formal and informal sectors.

The proponents of the New Orthodoxy dwelt at great length on the inappropriacy of formal sector technology. Observing the high levels of capital per head in this sector it is argued that there is little prospect that this sector will be able to mop-up surplus labour and that unemployment will increase rather than decrease, even with sustained economic growth. By contrast production in the informal sector takes place with every little capital per head, and the equivalent increase in output which is produced by the informal sector will lead to a significant increase in total employment. From these observations it is a short step to argue that, where the two sectors produce substitutable products, production should be switched from the formal to the informal sector. The tool for promoting this switch is as we have seen, the redistribution of income.

The idea that the informal sector should become a dynamic sector in the economy, a sector leading a strategy to faster and more equal growth is an attractive one. It is however an unrealistic strategy and the irony is that its proponents ignore the very empirical approach which gave birth to the New Orthodoxy. That is, detailed empirical studies of the informal sector are beginning to show that the nature of the relationship between the two sectors is essentially parasitical.

King⁷ points out that the informal sector is in fact a parasite on the formal sector. The examples are numerous. The bed springs used by the informal sector fundi are strips of old motor car tyres. The ubiquitous lamps used in most Kenyan homes are made from old oil tins. The jikos are made from old barrels, or iron 'borrowed' from nearby building sites.⁸ The tyres, the barrels, the tins, the 'borrowed' metal and many other of the basic inputs used by the informal sector are by-products of the formal sector. Without tyres, bed springs would be more expensive and less comfortable, without motor car oil tins the lamps would have to be fabricated from (expensive) iron sheets etc. So that the price of these informal sector products (which makes them so attractive to low income earners) would go up, the utility would probably decrease and capital per head may very well increase as well (eg if tins have to be fabricated out of iron sheets)

This observation of King's which unlike the New Orthodoxy follows from a detailed study of the informal sector, is an extremely damaging one. It suggests that with current technology there is little prospect of growth of the informal sector independent of growth of the formal sector. The former depends upon the latter for its waste materials - it is primarily a parasite. The prospect of switching production from the formal to the informal sector is therefore a rather bleak one.

Accumulation in the Informal Sector.

Leys⁹ describes the informal sector as a sector embodying super-exploitation. He leaves the argument there without clarification in order to dismiss one of the tenants of the ILO Report. It is however of some interest to follow through this point, because in so doing, we address the question of the inherent dynamism of this sector.

The reason why the informal sector embodies super-exploitation is because of the ease of access. The processes involved are simple in nature and can easily be performed with the use of only the simplest of capital equipment. The consequence of this ease of entry is that competition in this sector is intense, and with an increasing 'reserve army of labour' wages and earnings are low. As a consequence savings in this sector are also low. In many cases the small scale fundis have to borrow money for working capital, and physical capital is generally of the most simple kind.

7) K. King, New Light in Africa: Kenya's Candlemakers, mimeo

8) Of the informal sector products listed in the Report, the exception to this point is the milling of maize flour and vehicle repair and maintenance.

9) C Leys,

The techniques used in this sector are thus only replicated - increases in output result from extensification, rather than from intensification of capital. At the same time capital equipment in the formal sector is being improved constantly and technical progress assumes an increasingly capital intensive bias. The trend therefore is to make the relative profitability of production by the informal sector even lower over time. For the relative profitability of production in the two sectors to remain equal with increasing productivity of capital in the formal sector, the only alternative is to increase the rate of exploitation in the informal sector. However, because of the ease of access and the reserve army of labour, wages in the informal sector are probably already pretty close to an effective subsistence minimum.

The result of this process of super exploitation and unchanged production techniques is therefore to inhibit capital accumulation in the informal sector. Without this accumulation there is no prospect whatsoever of the informal sector becoming a dynamic growth sector. In addition, as we have seen, absence of accumulation, and technical change in the formal sector. The future of this informal sector becomes increasingly dismal over time therefore and the prospect arises that even with the low levels of capital per head, production in the informal sector may even become sub-economic due to increasing obsolescence of this equipment which may become inefficient (in the economic sense) with respect to that of the formal sector.

Labour Intensity in Production.¹⁰

There are a number of motivations underlying the call for more labour intensive techniques of production. As we have seen in the case of the New Orthodoxy employment is seen as the main instrument of distribution, and it is this which underlies the call for more labour intensive techniques of production. However there are other motivations. One may be the indignity which is associated with being unemployed (although this is partly a case of cultural ethnocentricity on the part of Western academics), and another (more positive) reason may be the inherent dignity which is derived from working with ones hands, as opposed to operating a machine.

Less abstractly, however, there are a number of disadvantages associated with production by labour intensive techniques. The main disadvantage

10) This discussion really concerns man-paced labour-intensive techniques, and not the informal sector per se. However in the current context it is the informal sector which uses labour intensive man-paced techniques and the formal sector which does not.

is that production with these techniques is primarily associated with technically inefficient equipment so that the use of more labour intensive techniques results not only in the use of more labour per unit of output but also of more capital. But assuming that efficient labour intensive techniques exist, there are two further disadvantages associated with their use.

The first concerns the variability in the rate of output. Invariably labour intensive techniques used in the informal sector are man-paced - that is, the rate at which they produce will vary between operatives and over time and effective supervision becomes of significance in the organisation of production. With the very small operations associated with production in the informal sector, this may be an insignificant problem but if the sector is to expand to serve a wider and more sophisticated market, it may become more important. Particularly from the point of view of the entrepreneur, who is less concerned with social considerations, this variability may become something of a problem.

Associated with this variability in the rate of output with man-paced labour intensive techniques is the variability in the quality of output. This may be more or less of a problem depending upon the nature of the market which is to be served. One example of this is drawn from a Kenyan tin-can factory. For many years tins were made in an essentially labour-intensive way, and the technique was man-paced. Not only did this mean that the rate of output varied between operatives, but so did the quality. These tins were being used to can pineapples for export to Europe. The problem was that the less efficiently made cans had a tendency to split open when they were unloaded and while this variability of quality may well have been acceptable in the Kenyan market, European consumers would not stand for it. As a consequence the canmaking enterprise in Kenya was forced to shift to much more capital intensive technique. It is suspected that this may well be a common phenomenon, and that even if production can in fact be switched from formal to informal sector, this will limit the market which can be served, particularly in the case of an export market.

The International Context of Accumulation.

Much of the argument of the New Orthodoxy fails to place sufficient emphasis on the international context in which accumulation takes place. The economies of East Africa, and the Kenyan economy in particular are 'open' economies, and there is a relatively free flow of products, ideas and tastes across international boundaries. The orientation of this openness is not however inward to East Africa, but predominantly points to contact with Western Europe, North America and Japan. The flow of commodities, ideas and tastes reflects this orientation.

There are two ways in which this international content of innovation influences the possibility of switching from formal to informal sector production. The first is in the sphere of production. Amongst the more significant accumulators of capital in East Africa are the Multinational Corporations. The tendency of these MNCs towards exercising full control over subsidiary operations in order to ensure control over further accumulation and monopolisation does not need detailed exposition here.¹¹ Give the nature of their operations it is extremely unlikely that these MNCs will go into informal sector type production. It is equally unlikely that they would willingly accept a reorientation of the system which is designed to shift the incentives in the system so that production is shifted from the formal to the informal sector. The MNCs and the forces allied to them are not idle participants in the system, and it is to be expected that they will bring pressure to bear if any attempt is made to bring about the suggested measures of the New Orthodoxy .

The second way in which the international context influences the policies of the New Orthodoxy has been documented by Langdon.¹² who makes the point that consumer taste preferences are transmitted from Developed countries, particularly ^{in the case of} open economies such as Kenya. Since, as we have seen, different products (albeit for serving the same function) are associated with different production techniques, a particular set of taste preferences will predetermine the technique and sector of production. It is precisely because the informal sector produces a substitute, and not an identical replica, of the formal sector product that consumers prefer the latter. The best example of this is that of maize flour. The product of informal sector hammer-mill ~~is~~ nutritionally superior and cheaper than that of the large formal sector roller mills. Yet, consumers will if at all possible be prepared to pay the extra price for roller mill flour because of the image of the product and despite its nutritional deficiencies.

The New Orthodoxy recognises this latter point. Indeed it is precisely this recognition that underlies their call for a redistribution of income in order to change the structure of demand. But the problem is that this call for redistribution is made with very little reference to relation with the world economy. Tanzania has experienced a degree of difficulty in this context - in a more open economy such as Kenya, which is more heavily dependant on the MNCs and the tourist industry, the problems would be magnified. So the prospect of dynamic accumulation in the informal sector, as is proposed by the New Orthodoxy, pales when recognition is taken of these, and other international considerations.

11) R. Kaplinsky, Accumulation and the Transfer of Technology, World Development , World Development forthcoming.

12) S. Langdon,

Conclusions.

To some extent the New Orthodoxy falls down on purely technical objections, such as King's detailed empirical observations with regard to the parasitical nature of the link between formal and informal sectors. Perhaps more telling even than this is the limited number of products for which informal sector substitutes exist. It is possible to make furniture and jikos, maize flour and lamps and a few other products in the formal sector, but is it possible to make fertilisers or radios, telephone equipment or even ploughs in the latter sector? The answer is almost certainly no.

The proponents of the New Orthodoxy would not presumably state that it is possible to produce all, or almost all, products in the informal sector. However, underlying their policy prescriptions is an inherent belief in the adaptability and potential of the informal sector. The trouble is, though that only a limited number of products are in fact specified, the rest are left open to belief. In some cases it is believed that agricultural implements may be susceptible to informal sector production, but the argument is left in a preliminary stage. It may well be the case that simple as though agricultural implements may seem to be, they require great care in production with relatively high levels of capital per worker.

Notwithstanding these technical objections to the New Orthodoxy, the problem is one of political economy and the New Orthodoxy must be seen in an ideological context. The ILO Report is quite explicit about this -- it is feared that the present momentum may be leading to confrontation in the future, so the Report proposes a shift from the inherent tendency of the system of monopolistic capitalism to a 'fairer', more 'rational' form of competitive capitalism. The failure to recognise this ideological content of the New Orthodoxy leads to a failure to specify the constraints to the prescribed policies.