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WORKING PAPER NO. 525

SHOULD THERE BE A MARSHALL PLAN FOR EASTERN EUROPE

W. ARTHUR LEWIS DISTINGUISHED ADDRESS
NATIONAL ECONOMIC ASSOCIATION
ATLANTA, GEORGIA
DECEMBER, 1989

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CALIFORNIA AGRICULTURAL EXPERIMENT STATION

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by

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Should there be a Marshall Plan for Eastern Europe? ,

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The case for massive economic assistance by the United States to Eastern European countries in support of their political liberalization rests on the following propositions: (1) it is in our self-interest to support the political liberalization sweeping Eastern Europe, both in order to win the ideological contest between the two political and economic systems and to reap the dividends of peace through changes in the level and structure of our government expenditures; (2) political liberalization without better economic performance will invite a political backlash in Eastern Europe; and (3) economic assistance is necessary to enable the restructuring to take place. I shall take the first proposition for granted and concentrate on what the experience of economic development in developing countries has to teach us about the other two propositions.

1. The Complex Relationships between Economic and Political Development

Two very different definitions of political development are found in the political science literature. One definition focusses on the degree of responsiveness and accountability of political systems to individuals, classes, ethnic and religious groups, and to economic interest-group pressures. This definition of political development equates political development with the development of Western-style parliamentary systems. It accords with popular notions concerning political development in the West, as well as with the history

¹I am indebted to Peter Berck, Edward Taylor, Dusan Vujovic and Pinhas Zusman for their insightful comments.

of political development in developed capitalist countries of the last 150 years or so.

The second meaning of political development equates political development with the efficacy of a political system, in the sense of the ability of the state apparatus to carry out effectively the programs it wishes to carry out. This notion has become equated in the literature with the concept of "the degree of autonomy of the state". Some development economists (Ranis and Fei 1988) have argued that political development in the second sense is essential to economic development. In practice, these two notions of political development have not gone hand in hand, even in market-oriented developing countries. The systematic relationships between economic and political development have differed depending on which notion of political development is used. More importantly for the subject at hand, recent political developments in Eastern Europe are increasing the political development of Eastern Europe in the first sense and reducing its political development in the second sense, at least in the short run. This, in part, is the economic and political dilemma posed by recent political events in Eastern Europe.

What can we learn from the experience of developing countries about the prospects for continued political liberalization of Eastern Europe and about how economic development and economic performance impinge on these prospects?

Economic Development and Political Participation in Developing Countries

Every political system represents a specific relationship between two kinds of elements: political and social norms, on the one hand, and political and economic institutions, on the other. Political norms translate the socio-cultural and ideological attitudes of various groups into political views concerning legitimate methods and outputs of government. Satisfaction of these

norms constitutes the basis for the government's legitimacy. Political norms relate to such matters as equity, participation and due process. Since the 1950s, political norms in developing countries have come to include economic development as an ideology as well. At the normative level, economic development as an ideology has changed the nature of what the citizenry of a country expects of its government. Once development becomes an explicit goal of government, the normative bases of government are implicitly transmuted into those of a welfare state. Governments are expected to deliver not only national security, a modicum of personal and group-security and a modicum of group-justice but also national prosperity and growth in personal and group-living standards for the different strata of society. The developmental ideology has been particularly strong in developing countries and, somewhat paradoxically, in communist countries. Marxism has a developmental ideology as its foundation.

Political and economic institutions represent a patterning of roles and structures in society. "Political institutions" describe characteristics of political systems such as the structure of authority, the nature and distribution of access to power, and the nature and distribution of access to influence over the outcomes of the political process, and the degree of autonomy of the state. "Economic institutions" describe characteristics of economies such as the significance and scope of the economic marketplace, the role and scope for economic calculus at the micro and macro level, the system of incentives, the conditions for access to factor markets, the distribution of income and assets, and the extent of economic and social stratification and its transmission across generations.

Stable government by consent is based upon a measure of correspondence between political norms, including developmental ones, on the one hand, and political and economic institutions and their outcomes, on the other. Such

correspondence confers legitimacy upon the government and enables non-coercive maintenance of order and of a structure of authority. By contrast, political change which is not imposed from the outside is the consequence of large and continuing noncorrespondences among normative and structural elements. Noncorrespondences generate political tensions whose resolution requires political, economic and social adaptations. These adaptations can be postponed for a while either by appeal to unifying symbols (e.g. external threat, such as the cold war, or nationalist or religious values), or by the use of force (e.g. Iran under the Shah, and the Philippines under Marcos). But eventually they must take place, either because otherwise further economic development is blocked or because the extent of force required to suppress the political tensions becomes unacceptable to the political and military elites themselves.

By its very essence, the process of economic development changes not only the economy and its institutions but also both the normative and the structural bases of the polity. At the normative level, economic development as an ideology expands the nature of expectations from government to include economic performance. At the structural level, economic development increases the degree of differentiation of the economy and the complexity and diversity of society. (Parsons 1951, Smelser 1963, and Adelman and Morris 1967). In addition, at least initially, different groups and sectors benefit unevenly from development (Kuznets 1955 and Adelman and Morris 1973). The national and political elites, the middle income groups, the bureaucracies, and import-substitute-producing manufacturers and workers benefit at the expense of the rest. The groups that benefit have a direct stake in the stability of the government, its structure, and in the continuation of its policies. They therefore come into overt political conflict with the groups that lose, to the extent that the latter succeed in articulating their demands upon the government.

Thus, economic development gives rise to a complex process in which the normative changes that accompany development greatly increase the demands for system-deliveries placed upon the polity and in which both the normative changes and the process of economic development make the management task of the government more complex. Integrative mechanisms do develop in the course of economic development, but only with a lag, and only in response to perceived failures in the existing structures. The effects of these integrative mechanisms are also unevenly distributed, with some "modern" integrative mechanisms which are primarily growth-oriented replacing traditional mechanisms which are often more safety-net oriented (North 1973 and Adelman 1972). Initially, the institutions for integration of individuals and groups themselves serve to increase overt tensions by permitting overt articulation of group-demands and therefore making tensions more explicit. In mid-level developing countries, political conflicts, political tensions and political instability are generally higher (Adelman and Morris, 1967). Mass communication and literacy make these tensions more visible, raise individual and group expectations, and increase awareness of inter-group inequities. The process of economic development can be represented by a dome-shaped curve depicting the systematic variations of both economic inequality and political tensions with levels of economic development. At middle levels of development, the share of income accruing to the poor is least and therefore inequality and political tensions are greatest.

Conflicts arise between groups whose economic interests differ, groups that benefit and groups that lose, age sets, and social, ethnic, and religious groups whose values differ. Tensions within individuals rise as well, since their rates of modernization in different spheres of activity are uneven, and they experience larger discrepancies between their "just expectations" and the economic and political systems "actual deliveries". In addition, the unevenness of economic

change and the dissolving of traditional social safety nets generate increased uncertainty and greater perceived insecurity, even when mean per capita incomes are rising. The more rapid the change, the higher the potential for tensions (Adelman and Morris 1967). As long as these tensions and insecurities are not resolved, they need to be managed and contained. The combination of economic development with political development of the first type increases the need for political development of the second kind.

Political systems must perform the tension-management function, both in the actual-delivery sphere and in the value/symbol-sphere. They can do so either by consent or by decree, and can operate either on the actual outputs of the system or in the symbolic sphere. All governments employ mixtures of these methods. Some governments, such as those of post-Shah Iran and of the communist countries have operated primarily in the symbolic/ideological spheres. Others, such as those of South Korea and Taiwan, have used their authority to increase actual deliveries and widen economic participation, while suppressing political participation. The particular mix of techniques of tension-management chosen has depended not only on the political culture but also on the perceived options for change. But in developing countries at middle levels of economic development, political development of the second type has generally been achieved at the expense of increased political participation, that is, at the expense of political development of the first kind.

There exists in popular perceptions a theory that economic development and democratization tend to go hand in hand, and that as one increases so does the other. Unfortunately, this "democratization" theory is not anchored in fact. Only once quite high levels of economic and social modernization have been reached in developing countries is a harmonic evolution of political development of the first type (democracy) and economic development possible; and, even at

high levels of economic development, the harmonious marriage of increases in economic development with increases in democracy requires perceived "good" economic and political performance by governments leading to reductions in discrepancies between "just aspirations" and the "actual deliveries" of the system.

The political science theories (Apter 1965 and 1973; and Huntington and Nelson (1976)) and the empirical studies of the seventies (Adelman and Morris 1973) have concluded that there is no unique relationship between democratization and economic development. The process of economic development typically expands some channels and types of participation while contracting others. But the very lack of uniqueness in the relationship between economic development and political participation provides an opportunity for choice. The wise exercise of that choice poses the major challenge for the design of development in developing countries and for Eastern Europe currently.

Adelman and Morris (1973) and Huntington and Nelson (1976) see the major choices as consisting of the tradeoffs between expanding two dimensions of equity: economic participation, as reflected in the equity of distribution of income, assets and opportunities, versus political participation, as reflected in enlarging the base of political participation, increasing the channels of participation, and developing methods of participation at lower levels of government. Empirically, the scope for tradeoffs among the two types of equity has tended to vary with the levels of socio-economic development. In the early stages of development, typical of sub-Saharan Africa, the system is low in political development of the second kind. There, a political elite that is strongly committed to radical egalitarian ideology and nation-building tends to oppose increases in political participation by all groups in order to reduce probabilities of effective opposition to its modernization, nation-building, and

reform agenda. At subsequent, but still early stages of development, expansion of political participation to a nascent economic and bureaucratic middle class tends to actually delay expansion of both economic and political participation by the lower class. Also, increases in middle-class political participation (embourgeoisement) at early stages of economic development tend to lead to the subsequent establishment of technocratic states that (as in South Korea and Taiwan) suppress working-class political participation in the interest of rapid, labor-intensive, export-oriented economic growth. A similar process occurred in East European socialist countries. There expansion of participation took the form of sharing power within the party by moving from the Leninist concept of "cadre party" to a broad based communist party membership.

At later stages of socio-economic development, typical of many contemporary Latin American countries, elites have tended to expand political participation to peasants and workers in order to quell revolts (Central America) or put pressure on the middle class (Argentina under Peron, Brazil after 1964) and continue import-substitution policies. Briefly, economic and political participation tend to go hand in hand. However, since increases in both forms of participation occur at least partly at the expense of the middle class, the alienation of the middle class and the polarization of society are the likely consequences. (Adelman and Hihn 1984) Upper and middle class sponsored military coups, right wing backlash, government death squads, centralization and oppression become likely. If they take place, both economic and political participation decrease drastically and the focus is shifted to increasing the rate of economic growth. This was the phase of the political-economic cycle in Latin America of the 1970s and in Central America today. The tradeoff became one between economic growth, on the one hand, and greater economic and political participation, on the other. If the suppression of greater economic and