economic class struggle has been transcended by the interest of everyone in recapturing his humanity; this is the meaning of the rejection of class and economic interest by the children of privilege, the new generation.[77]

And with this interpretation, Reich can afford to be unshakably hopeful, for he does not believe that parents will turn against their children in any serious way. And even if they do, how long can they remain in power? Time is on the side of the young.

Reich was writing before the shoot-out at Kent State, of course, but apart from that, by now we will be deafened with the echoes of the past. Even Reich must take note of them: "The possibility of a change of consciousness is therefore not the subject for cynicism it may have been in 1848."[78] Once again we hear that impersonal institutions hold us spellbound, that there are no classes, only generations, in opposition to one another, that a consumer revolution is all that is necessary, that an emotionally and intellectually satisfying life is only a thought or two away. Here is the *Grüning* of America. The great debate goes on as we tread warily on the ground of social change, but the voices calling for the most at the lowest cost have a familiar ring.

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77 Charles A. Reich, *The Greening of America* (New York, 1970), pp. 305, 310–11.
78 *Ibid.*, p. 310.

THE POLITICAL ECONOMY OF LABOR TRANSFER*

JOHN WEEKS

THE PROCESS of economic development has historically led to the decline in quantitative importance of the agricultural sector of the economy. Consequently most models of development have given special attention to the process of labor transfer from agriculture to other sectors of the economy. This transfer of labor has characteristically been treated by economists as a timeless, mechanical process, with no reference to its actual social and economic sequences.

I shall analyze the process of labor transfer within the context of the W. Arthur Lewis model of economic development with unlimited supplies of labor, and I shall deal primarily with the Fei and Ranis version of the Lewis model. I restrict myself to these models because of the major influence they have had on the approach of economists to the problem of labor transfer. I shall deal with this model of labor transfer in its heuristic, mechanical, and timeless context, without dealing with the realism of the assumptions made. I shall, however, examine the political and economic implications of the assumptions.

In Section II, I shall show that success in labor transfer, and therefore successful development in the Lewis-Fei-Ranis model, requires that the wage in the industrial sector remain constant during the initial period of labor transfer. I shall demonstrate that constancy of the industrial wage does not follow from the economic assumptions of the model. In Section III, I shall deal with the non-economic mechanisms used by Fei-Ranis to enforce this constancy.

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These mechanisms make the model one, not of development through surplus labor, but of development through labor exploitation. Lewis stated that his famous essay was "written in the classical tradition, making the classical assumption, and asking the classical question: ". . . given an unlimited supply of labor, how does production grow over time?" To the extent it is in this classical tradition, it is part of the Marxian tradition of economic development through surplus extraction and labor exploitation, not in the marginalist tradition. Consequently, the model developed by these three neoclassical economists demonstrates to as great an extent as any Marxist, the "relevance" of Marxian economics and a striking synthesis of Marxist and neoclassical thought. My conclusion is, therefore, that while the model is presented in a marginalist framework, it is in fact a Marxian model of surplus extraction and class conflict. Finally, in Section IV I discuss the political and methodological biases which lead the authors to advocate labor exploitation.

II

Classical economists treated labor as unlimited in the sense that it could be continually recruited to a growing industrial sector at a constant wage at subsistence level. For non-Marxists this was the result of rising fertility when the real wage rose, thereby expanding the labor force and driving the real wage back toward subsistence —the Malthusian trap.[1] In Marxian analysis the labor-saving nature of innovation combined with the desire of capitalists to increase surplus value created a "reserve army of the unemployed" providing continual downward wage pressure. Thus classical economists viewed the constancy of the real wage at subsistence as a long-run phenomenon, while allowing wide short-run fluctuations around this level.

Lewis, writing in the classical tradition, assumed the existence of unlimited labor in developing countries to be a result of a different mechanism. He argued that labor-land and labor-capital ratios are so high in developing countries that given the existing techniques of production, part of the labor force is absolutely redundant. He thought (incorrectly) that this redundancy would result in an unlimited supply of labor at a constant wage as a *short-run* phenomenon, as opposed to the long-run classical tendency toward unlimited labor supply.

In the Fei-Ranis version, as in Lewis' model,[2] the underdeveloped economy is divided into two sectors. One sector of this "dual" economy, the "agricultural" or "traditional" sector, is characterized by surplus labor (marginal product of labor is zero), unchanging techniques of production and no net saving.[3] The other sector, the "industrial" or "capitalist" sector, is characterized by labor being efficiently employed up to the point where the price of the marginal product of labor equals the sum of the wages plus the high profit levels required for the high reinvestment rates of the capitalists.

The problem in this labor-surplus economy is misallocation of resources, and the solution is labor transfer. The entire analysis is reduced to an examination of the conditions under which this transfer will occur. In this timeless, mechanical context, the transfer of labor is determined by the rate of accumulation in the capitalist sector and the level of wages at which labor can be attracted. These are, of course, related, since the rate of the profit, which is the source of capital accumulation, is defined as the residue after wages are paid. The higher the wage, the lower the profit share at any moment in time. Since capitalist enterprise is assumed to be profitable and capitalists are assumed to reinvest their entire share, the only determinant of the rate of industrial expansion needing analysis is the industrial wage.

I now turn to the analysis of the industrial wage level. Agricultural income is assumed to be distributed equally and workers are assumed to respond at the margin to material incentives. Therefore the minimum transfer price of labor is equal to the average agricultural income, which is assumed, for convenience, to be at subsistence level.[4] If agricultural income rises, the industrial wage must

1 W. A. Lewis, "Economic Development with Unlimited Supplies of Labor," reprinted in A. N. Agarwala and S. P. Singh (eds.), *The Economics of Development* (New York, 1963), p. 400.

2 John C. H. Fei and Gustav Ranis, *Development of the Labor Surplus Economy: Theory and Policy* (New York, 1964).

3 These assumptions, which imply that development is to occur with no improvement in agriculture, make the relevance of the model questionable from the outset.

4 "The wage which the expanding capitalist sector has to pay is determined by what people earn outside that sector. . . . [In] economies where the majority of the people

rise, or workers will flow back to the traditional sector, attracted by a higher income and consumption level. If the agricultural wage is constant, it follows from the marginalist assumptions that the industrial wage is constant. This, in fact, is the definition of an "unlimited supply of labor."

> The supply of labour is . . . "unlimited" so long as the supply of labour exceeds the demand. . . . New industries can be created, or old industries expanded without limit at the existing wage . . . shortage of labour is no limit to the creation of new sources of employment.[5]

While Lewis assumed that the industrial wage would have to be a bit higher than agricultural average income to attract labor, Fei and Ranis treat them as equal in exchange value. Therefore, at the outset of labor transfer, the agricultural wage is at subsistence level and the industrial wage is equal to it in real terms.[6]

Though the industrial wage determines the profit residue, Lewis took its constancy during the stage of absolutely redundant labor (marginal product of labor equal to zero) as self-evident. Fei and Ranis are equally sanguine, proceeding in their analysis as if a constant industrial wage were the automatic result of the MPL=O in the traditional sector.

> . . . It is intuitively obvious that the existence of a pool of redundant agricultural workers constitutes a potential source of labour supply for the industrial sector, preventing a rise in the industrial real wage. . . .[7]

The logic is that since the marginal product of agricultural labor is zero, transfer of labor to the capitalist sector does not reduce the total output of the agricultural sector. Since the labor force is

are peasant farmers, working their own land . . . we have . . . [an] objective [wage] index, for the minimum at which labour can be had is now set by the average product of the farmer; men will not leave the family farm to seek employment if the wage is worth less than they would be able to consume if they remained at home." Lewis, *op. cit.* p. 409.

5 *Ibid.*, p. 403.

6 ". . . Changes in the demand for industrial workers cannot appreciably affect the level of industrial wages since the existence of a pool of disguised unemployed in the agricultural sector serves to cushion the impact on the industrial wage. Any tendency for the real wage to increase . . . will be thwarted by the flow of agricultural workers to the industrial sector. The industrial real wage . . . therefore has the same exchange value as [average rural income]." Fei and Ranis, *op. cit.*, p. 157.

7 Ibid., pp. 18–19.

the same before and after transfer, and the total wages fund or agricultural surplus is the same before and after transfer, average income does not change and the industrial wage is constant.

If we accept this line of logic, the process of the development of the labor surplus economy is self-evident. Initially, the capitalist sector has some endowment of capital. The capitalists hire transferred agricultural workers up to the point where their marginal contribution to output equals the industrial wage. The necessary consumption goods for these transferred workers is provided by the agricultural sector from the surplus of products resulting from the reduction in the agricultural labor force. Capitalist output is divided into profits and wages, and the entire profit share is reinvested, increasing the demand for labor (shifting out the marginal product of labor curve) and expanding capitalist employment. This process can be called "Stage I," during which the marginal product of labor in agriculture is zero. Total agricultural production is constant throughout as unproductive workers are transferred to the capitalist sector at a constant wage. The capitalist profit share increases throughout the stage, is completely reinvested, and capital accumulates at the maximum rate.[8]

Stage II begins at the point where the marginal product of labor in agriculture becomes positive, called the *shortage point*. Further transfer of labor reduces total agricultural output, thus causing the price of agricultural goods to rise—the terms of trade between agricultural goods and industrial goods move in favor of the former; industrial real wage costs rise as agricultural goods become scarce. This reduces the profit share and the rate of capital accumulation, slowing down the rate of expansion of the capitalist sector; throughout this stage the marginal product of labor in agriculture is positive (labor makes a positive contribution to production at the margin), but less than the wage (agricultural average income).

Stage III begins when the marginal product of labor in agriculture equals the agricultural wage; this is called the "commercialization" point. In effect, both sectors are now "capitalist," in the

8 Since the rate of capital accumulation is determined by the rate of profit, and the rate of profit is the residue after wages are paid, the maximum rate of profit occurs when wages are a minimum. Wages cannot by assumption fall below "subsistence."

sense that profit maximization characterizes both; labor is now allocated efficiently.

It is important to note that Fei and Ranis view the constancy of the agricultural and industrial real wage during Stages I and II as "natural," in the sense of being the result of impersonal market forces.

> The dualistic underdeveloped economy will follow a path of *natural austerity* as income increases are channelized [*sic!*] automatically toward entrepreneurial saving classes; with the market for industrial consumer goods consequently not expanding markedly, such savings must be channelized [*sic!*] toward the capital goods rather than consumer goods industries.[9]

We saw that when in Stage II the industrial wage began to rise, the expansion of the industrial sector slowed down at an increasing rate. In fact, the authors see a rising industrial wage as the most important danger to successful development. Yet a constant industrial wage does not follow from the logic of the model. If a constant industrial wage is "intuitively obvious," then we have been provided with an excellent example of the dangers of relying on intuition.

There are at least two reasons why the industrial wage would tend to rise *from the outset* of the labor transfer process. The first is that the arithmetical average agricultural income, which sets the transfer price of labor, and thus the industrial wage level, is defined as

$$\text{AAY} = \frac{\text{Total Agricultural Production}}{\text{Total Agricultural Labor Force}}$$

By definition, the process of labor transfer reduces the denominator while the numerator remains unchanged; therefore AAY rises. While it may seem obvious that a pool of redundant labor would keep the industrial wage from rising, this clearly is not the case, because labor transfer results in the same quantity of output being distributed among fewer people.

The second reason why the industrial wage would tend to rise follows from the definition of underemployment. Within the framework of the Rei-Ranis model,[10] there are several possibilities.[11]

First, it is possible that the alleged redundancy of labor involves idleness on the part of an identifiable portion of the labor force. Now this possibility can be rejected out of hand. If this were the case, we would not be dealing with underemployment, but with unemployment (or to be redundant, "open unemployment"). Yet at several points, this is what the authors seem to imply. When discussing the process of labor transfer, they suggest that:

> We may think of these transferred workers—in the simplest case already referred to—as initially consuming only agricultural goods and carrying their bundle of food [equal to the average agricultural income] along with them as they move from sitting *idly on the land* to engaging in rural road construction projects.[12]

At other points, they speak of a "pool of redundant labor."[13] This clearly implies individually idle workers. "Idle" or "idleness" further implies that the condition is involuntary—the workers would be willing to enter into productive employment if it were available. Otherwise they do not serve the role of cushioning wage increases in the industrial sector.[14] It would be convenient for the model if such an agricultural "reserve army" existed, but unfortunately such a view of rural idleness is indefensible empirically. No study of rural employment has uncovered any significant degree of involuntary

9 *Ibid.*, pp. 116–17. Emphasis added.

10 It is open to question whether "underemployment" or "disguised" unemployment have theoretical or practical meaning by *any* definition. I shall not enter into this debate except tangentially. For an excellent discussion, see Gunnar Myrdal, *Asian Drama* (New York, 1968), Chapter 21, Appendices 6 and 16.

11 A group of United Nations experts defined disguised unemployment as "those persons who are so numerous, relatively to the resources with which they work, that if a number of them were withdrawn for work in other sectors of the economy, the total output of the sector from which they were withdrawn would not be diminished even though no significant reorganization occurred in this sector, and no significant substitution of capital." United Nations, *Measures for the Economic Development of Under-Developed Countries* (Report by a Group of Experts appointed by the Secretary-General of the United Nations), New York, May, 1951. This definition begs the basic question of labor transfer by not dealing with the conditions which will induce workers to make the transfer.

12 Fei and Ranis, *op. cit.*, p. 207. Emphasis added.

13 *Ibid.*, pp. 18–19, 157.

14 Idleness results in downward pressure on wages only if workers are continually trying to remedy the situation by seeking work. If the idleness is voluntary, there is not "underemployment" in the Fei-Ranis sense, because the idleness represents a conscious choice of leisure.

idleness on the part of an identifiable segment of the population.[15]

Alternatively, there may be disguised unemployment in the sense that everyone is working, but part of the labor time or effort expended contributes nothing to output.[16] This, indeed, would be a strange situation, because we must conclude from such behavior either a) that rural workers labor doggedly in the mistaken belief that they are being productive when they are not in fact, or b) they are aware that part of their labor time is unproductive, but continue to "go through the motions" anyway. Neither conclusion is very satisfactory on economic or any other grounds.[17]

The only definition of disguised unemployment which has empirical justification or logical consistency is that supplied by Hla Myint—labor is so abundant in the agricultural sector that all workers cannot be productively employed for an arbitrarily set "normal" working day, month, or year; therefore the entire labor force is idle part of the time judged by this arbitrary norm.[18] As Myint points out, this does not mean that labor transfer results in no decline in output, because if some workers are transferred, the remainder must work longer hours to make up for their missing comrades; unless we drop the marginalist assumptions about rational behavior, it requires material inducement to get workers to labor harder and/or longer. Increased material inducements in agriculture require increased material inducements in industry, since labor transfer will occur only if the industrial wage is at least equal to the agricultural wage.

Using assumptions of the model, I have shown that the industrial wage will tend to rise from the outset of labor transfer (throughout Stage I). Therefore, the economy will not industrialize, since the labor surplus in the general case fails to develop.

How is it then that Fei-Ranis treat the industrial wage as constant throughout their analysis, repeatedly stressing that this is necessary for "success"? This treatment is possible only by an *ex machina* assumption of constancy of the agricultural wage which renders the model trivial or by advocating coercion of the peasantry to *enforce* constancy. The first is trivial because it explains nothing. The model purports to explain the conditions under which industrialization will occur. We are told that industrialization will occur if labor transfer proceeds at the maximum rate, and this will happen if the industrial wage is constant. We require no model to tell us this—for all it says is that if capitalists invest all of their profits, capital accumulation will occur at the maximum rate if capitalist income grows at the maximum rate—this occurs by definition if the wage does not rise (it is at subsistence, so cannot fall). The model is interesting only if it specifies the *conditions* under which the industrial wage is constant. To *assume* the industrial wage is determined by the agricultural wage and to proceed to *assume* the agricultural wage constant is just a roundabout way of assuming that industrial wage itself is constant, which is to assume the conclusion—success in development. Yet at points the authors seem to do this.[19]

The authors are, however, aware of the unsatisfactory nature of this approach, at least implicitly, and for most of the book they rely on a political framework which will assure constancy of the agricultural wage in spite of market pressures to the contrary. As is the case with the treatment of surplus labor, every other crucial element of the model requires political assumptions, or the result is a descriptive model, not an analytical one. Even if the industrial wage is constant, rapid expansion of the industrial sector is possible only if reinvestment rates are high. This is assumed to be the case in the model. Again, this renders the model completely trivial. In a world

15 See, for example, Myrdal, *op. cit.*, Appendix 16; ILO Mission, *Draft of a Preliminary Request to UNDP by the Government of Nigeria to Finance a Pilot Project for Rural Employment*, (Nigeria, 1967), Volume 2; and Nurrel Islam, "Concepts and Measurement of Unemployment and Underemployment in Developing Countries," *International Labor Review*, LXXXIX, 3 (March, 1964).

16 "A number of people are working on farms or small peasant plots, contributing virtually nothing to output. . . . There is no possibility of personal identification here, as there is in open industrial unemployment. . . . In an overpopulated peasant economy, we cannot point to any person and say he is unemployed in disguise. No one may consider himself idle." Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, (Oxford, 1961), p. 33.

17 Myrdal, *op. cit.*, pp. 2050–2054.

18 Hla Myint, *The Economics of the Developing Countries*, (New York, 1965), pp. 86–90.

19 Early in the book they write: "A basic thesis of this volume . . . [is] that the labor surplus characteristics of the economy imply that consumption demand by agricultural workers . . . cannot and will not be significantly raised as long as there exists a redundant agricultural labor force." Fei and Ranis, *op. cit.*, p. 32, footnote 14. It is misleading to call this a "thesis." Since it does not come out of the logic of the model, it is an *ex machina* assumption.

in which the industrial sector of most developing countries is owned by foreign monopolies, this assumption brushes aside one of the major problems of development.

It could be argued that a country with an aggressive, innovative entrepreneual class such as the one operating in the Ranis-Fei model is not underdeveloped at all. Certainly an entire literature is devoted to the problem of how indigenous entrepreneurs arise; thus a model which assumes away this problem is of a dubious value.

Given (by *ex machina* assumption) a constant industrial wage and a high reinvestment rate by energetic entrepreneurs, it is quite important to know at what point expansion of the industrial sector begins; that is, the initial endowment of capital is important. If the industrial sector is very small, decades may be required before the rate of employment absorption can match population growth, much less reduce absolutely the numbers in agriculture. Industrialization which can reduce the absolute size of the agricultural sector in the foreseeable future may, therefore, require a large initial injection of capital. Ranis and Fei tell us nothing about how this capital is to be obtained.

Ranis-Fei tell us very little at all. Each of the crucial elements of the model—constancy of the industrial wage, high reinvestment rate, an aggressive capitalist class, and a sizable initial capital stock—are introduced *ex machina*. This is nothing more than a list of the characteristics of a successfully developing country. In the general case, as we have seen, the industrial wage is not constant, but rises from the outset, reducing the potential reinvestment surplus (potential *vis-a-vis* a constant industrial wage); there is no reason to believe that high reinvestment rates will materialize; aggressive entrepreneurship is necessary but unlikely to occur; and a large lump of initial capital is called for but unlikely to be forthcoming. In short, the ingredients of successful development as described are beyond the capabilities of typical developing countries.

However, allowing all of these unrealistic assumptions, we see that the model still does not lead to successful development, because the constancy of the industrial wage does not follow from the economic assumptions made. In the following section I deal with the explicit political framework necessary for the model to produce successful development.

III

Fei-Ranis assume constancy of the agricultural wage and thus of the industrial wage through a model of labor exploitation and class conflict within a neoclassical framework. This conclusion follows directly from the assumptions of the model.

As the authors point out, transfer of labor at a constant wage requires the simultaneous transfer of the quantity of foodstuffs which the worker consumed before his transfer to industry. This involves changing the agricultural sector from an exclusively subsistence sector to a cash crop sector and is viewed as automatic and described by the term "natural austerity."[20] The transfer of foodstuffs is described as follows:

> On one side of the [intersectoral product] market are the owners of the agricultural surplus as sellers of agricultural goods. On the other side are the newly allocated industrial workers, who may be thought of as possessing their wage income in the form of industrial goods and as anxious to exchange these goods for agricultural consumer goods. . . . When transactions are completed, the newly allocated industrial workers find themselves in possession of agricultural goods which they consume. Thus we see that the intersectoral commodity market serves as an indispensable vehicle for transforming the subsistence consumption bundle of the redundant agricultural labor force into a wages fund for the newly allocated industrial workers.[21]

It is clear that if this transfer of foodstuffs is to occur at a constant level of agricultural income (as required by the model) by *exchange through markets*, then the owners of the surplus and the transferred workers cannot come from the same portion of the population—otherwise the constant agricultural wage would rise. If the surplus created by the exit of agricultural workers is owned by peasant producers, their incomes must go up as a consequence of labor transfer. If the remaining agricultural population exchanges through markets the entire surplus, to be used as an industrial wages fund, the problem is not solved—peasants' increased income

20 The transformation of a subsistence agricultural sector into production for sale requires development of marketing networks, as well as expenditure on transportation facilities, not to mention attitudinal changes. The authors ignore these problems, treating the transformation as automatic and costless.

21 *Ibid.*, p. 33.

is now made up of agricultural and industrial goods, but it is still higher than that of industrial workers. This violates the basic assumption that workers will not transfer unless the industrial wage at least equals average agricultural income. Therefore, the exchange can never occur if peasants own the surplus.

This allegedly "automatic" transfer of foodstuffs for industrial goods through markets, which plays such an important role in the Fei-Ranis model, requires a rigid class structure in rural society, with a division between the owners of the surplus and those who toil on the land. We are dealing not with the "development of the labor-surplus economy" but with the "development of the landlord-dominated economy." This is a classical Marxian point of view, in which the surplus of the economy is realized or extracted as a consequence of the division of society into economic classes. While the authors argue that the size of the agricultural surplus (thus of the industrial wages fund) is determined by purely economic variables,[22] this clearly is not the case. The size of the extractable surplus is determined by the pattern of ownership of land. If the land tenure system is one characterized by many small peasant-owned plots, the surplus created by the exit of redundant rural workers will lead to a rise in peasant income and consumption, which leads to rising industrial wages and falling capitalist profits.

The authors implicitly recognize this, and throughout the book present their model in the context of an agricultural economy in which land is in the hands of a few large-scale landlords. Commenting on the process of surplus extraction by landlords, they say,

> The quality of this performance must obviously depend on whether or not large numbers of individual economic agents in both sectors of the economy can be persuaded, coerced, or somehow motivated to take proper actions.[23]

To insure there is no ambiguity, the "proper action" for peasants is made explicit:

> What is "equitable" is for the masses to consume as little as possible without starvation or complete loss of incentive so that the economy can grow as fast as possible.[24]

22 *Ibid.*, p. 162.
23 *Ibid.*, p. 151.
24 *Ibid.*, pp. 270–71.

The authors make it clear that this is not only "equitable" but value-free as well:

> This squeezing of the agricultural sector for the benefit of the industrial sector was seen to be the result of logical necessity—bereft of all ethical connotations—in the context of meeting the real resource requirements of growth in a predominantly subsistence economy.[25]

We are dealing with a marginalist translation of the Marxian model of capitalist development through "primitive accumulation."[26] Industrialization occurs through appropriation of the economy's surplus by the ruling capitalist and landlord classes. The surplus does not emerge as an economic phenomenon in the absence of division of society into economic classes based on property ownership and control. In the absence of class stratification, the surplus is consumed by the peasant masses. The appropriation of the surplus, in turn, generates class conflict, since coercion by landlords is necessary to prevent market forces from generating a rise in consumption by the masses. The process of development is one of growing relative impoverishment for the masses as their incomes are held at subsistence while capital accumulates.

If we define labor exploitation as forcing someone to work for the benefit of others, then we clearly have a model incorporating labor exploitation. Peasants are forced to work harder at a constant wage level to produce a surplus entirely appropriated by the landlord class.

Or at a lower wage level. At one point we read,

> As long as the [constant agricultural income level] lies above the minimum caloric levels of food intake it may, of course, be possible to alter the social consensus about the institutional wage, reduce [the institutional wage], and thus "stretch" the available agricultural output over more reallocated workers.[27]

This suggestion makes it clear that the crucial element in this

25 *Ibid.*, p. 267.
26 Primitive accumulation is the term Marx used to describe the sources of capital accumulation in the early stages of capitalist development before capitalist enterprise was sufficiently strong to generate capital for expansion internally. The sources he gave were: plunder of colonies, piracy, and exploitation of the yeoman peasantry. Only the last is relevant to the Fei-Ranis model.
27 *Ibid.*, pp. 210–11.

model of surplus extraction by the landlord class is not surplus labor, but labor exploitation. If agricultural labor cannot be coerced to work harder for the benefit of the landlord class, labor transfer does not occur no matter how great the labor surplus is.

The reason for this is that the existence of a labor surplus does not automatically result in a flow of labor to the capitalist sector at a constant wage. It merely determines whether the process of exploitation of the peasantry need occur at a constant or falling average agricultural income level. If there is surplus labor, the landlord class can extract a sufficient industrial wages fund with no reduction in average rural consumption. If there is no surplus labor, the expansion of industry can still occur at a constant wage; landlords need only to "squeeze their tenants" (to use the authors' term) a little harder, reducing rural consumption levels. In any case, it is unclear why landlords would be so benevolent as to "squeeze" or exploit peasants only to the subsistence level. As long as the coercive force is present to facilitate exploitation and appropriation of the surplus, the rational landlord should seek to coerce to the limit of his powers. Recall that this "squeezing" is judged as equitable. Squeezing the tenants to below subsistence would, of course, result in declining life expectancies, rising mortality rates and decreased energy and work effort. No doubt some value-free analysis of the trade-offs involved has been or will be devised.

The logic of the labor-surplus economy has run its course. In order for the economy to grow as fast as possible the masses are forced to work harder and be held at subsistence in order to redistribute income to the investing and ruling classes. This is judged as necessary and void of normative judgments. Even the long awaited "shortage point," where the absolutely redundant labor has been absorbed, and the terms of trade turn against the industrial sector, is viewed with alarm.[28]

Though disagreeing as to whether a mixed capitalist system would best achieve it, certainly the Soviet leaders of the 1930s would have agreed that "what is equitable is for the masses to consume as little as possible . . . so that the economy can grow as fast as possible." And I might add, whether those consuming as little as possible like it or not. Either through the Fei-Ranis system of landlord coercion or the Soviet Union's system of direct state coercion, it will be insured that the masses can do nothing about it.

It is profoundly disturbing that a model embodying such contempt for the masses of the population in developing countries could be presented by the authors and accepted by the economics profession as value-free social science. The power to decide how to determine the trade-off between present and future income is taken out of the hands of the mass of the population, because in its ignorance this "lumpen proletariat" would choose only to gorge itself in present consumption, "dissipating society's precious investment fund."[29] No concern is given to positive incentives to encourage the masses to improve their own condition.[30] Development is organized and enforced by a ruling elite that receives all the benefits. All discussion of incentives refers to landlords; how can they be encouraged to extract a larger surplus?

We are warned that government taxation of landlords is a dangerous policy because it may result in disincentives to increase surplus extraction. But no concern is expressed over the disincentive effects of the private confiscatory taxation by landlords of the masses through surplus extraction. The value biases are clear. While Fei-Ranis recognize that it is possible to achieve the same appropriation through government action (which is no more savory in human terms), they exclude this possibility a priori:

> Relative to the type of underdeveloped economy we are dealing with, . . . the mixed capitalist system, solutions dealing with the extinction of the landlord class with or without replacement may be neglected.[31]

28 *Ibid.*, pp. 208ff.

29 *Ibid.*, p. 271.

30 At one point the authors do mention the possibilities of positive incentives for the masses: "The traditional way of life can be supplemented by a more positive approach through the opening up of new horizons for the agricultural worker. If, through the introduction of new incentive goods . . . the mass of workers becomes aware for the first time of the existence of a relationship between their daily toil and a personal or family improvement, this particular link may be considerably strengthened." *Ibid.*, p. 42.
This possibility is ruled out by the assumptions of the model, at least in Stages I and II. It is therefore puzzling why it should be suggested.

31 *Ibid.*, p. 45. A partial exception to this rule is recognized, however: "In situations in which landlords are unwilling or unable to 'squeeze' their tenants, or really do constitutionally (*ex ante*) prefer luxury housing to industrial undertakings, the

IV

Stripped of all its sophisticated veneer, the model is a "value-free" justification and endorsement of forced industrialization. If such a model had been presented in a context of a centrally planned economy, no doubt economists would have attacked it as coercive and authoritarian. But because it was presented in a context of "mixed capitalism," it has been accepted as value-free. The reasons for this arise from the methodological bias and cold war myopia of Western economists.

While economics seeks to be a science of human behavior, its analytical categories abstract from the human element in economic relationships. When we use the term "labor," its real-world counterpart is men, women, and children involved in the social process of making their lives meaningful. Yet we treat this social process of "work" as if it can be separated from the human beings engaged in it.[32] We treat human labor as a disembodied basic energy input existing for the instrumentalist purpose of producing output. The logical consequence of this is to treat consumption as the cost of maintaining this energy source. Fei-Ranis merely go one step farther—the cheaper the cost of maintaining it the better. The less of the economy's output this energy source uses up to maintain itself, the more of the economy's output is left over for expanding other sources of productive inputs. Since "labor" is not viewed as human beings, but as an abstraction, "value-free" policy recommendations can be presented which lead to frightening conclusions in the name of "development" and "growth." It can be blandly suggested that we find equity in forcing the mass of the population to subsistence level and holding them there indefinitely (presumably until members of the capitalist or non-capitalist elite judge the sacrifice as sufficient). This is the logical conclusion of treating human beings as "primary inputs" or "homogeneous labor."

This treatment of human relationships is integral to cold war ideology and characterizes thinking by both "Western" and "Eastern" economists. One cannot understand the Fei-Ranis model outside of the context of anti-communism. The model is an attempt to show developing nations, to quote President John F. Kennedy, that "they could meet their economic problem without engaging in a Marxist form of government." The strong anti-communism is continually revealed between the lines, emerging periodically in the form of pseudo-scientifically derived warnings against expropriation of landlords and taxation of the ruling classes, as well as references to Soviet failures in agricultural development. The moral of the model is clear—in order to achieve rapid economic growth no major institutional change is necessary in those countries where the distribution of wealth is appallingly unequal.

This conclusion is a theoretical complement to the general foreign policy of supporting reactionary and oppressive regimes and should be recognized as such. It purports to show that one is championing the cause of economic development only when supporting landed aristocracies, as in Latin America. Therefore those who call for agrarian revolution or even reform to redress the present distribution of wealth have moved into the land of value judgments. Indeed such reformers and revolutionaries would upset the class structure which itself facilitates development.[33]

This methodology and cold war ideology combine to provide a particularly myopic view of coercion. In spite of everyday evidence to the contrary, most economists in the West act as if coercion arises only from governments—government controls are coercive, the absence of government controls is freedom. Surely Fei-Ranis must be wearing remarkably restrictive blinders of this type to present a model based on surplus extraction through coercion, and yet say:

> Any evaluation of the potentialities of growth-promoting activities in this context must, of course, always be viewed relative to the social consensus on the desirable political framework—the tolerance for government

government may have an important role to play in attempting to lay claim to as much [of the agricultural surplus] as possible." *Ibid.*, p. 54.

32 For an excellent discussion of this point, see Karl Polanyi, *The Great Transformation* (New York, 1944), Chapter 6.

33 The Fei-Ranis route to development faces problems when there is no landlord class, as is the case in much of Africa. This absence could be remedied by the creation of such a class where none exists, of course. This possibility cannot be rejected out-of-hand. The French colonial government successfully carried out such a policy in Indochina in the late nineteenth and early twentieth centuries. See Joseph Buttinger, *Vietnam: A Dragon Embattled* (London, 1967), Vol. I, pp. 174ff. Since it has been assumed that landlords are required to generate successful development, it presumably follows that to advocate creating a rural class structure is "bereft of all ethical connotations."

controls. . . . For purposes of this book . . . the typical labor surplus economy's choice may be assumed to take the form of a mixed capitalist system.[34]

No concern is given to the tolerance of private controls. This, I would argue, is because government controls would infringe on the privileges of the ruling landlord and capitalist classes, while private controls infringe only on the meager privileges of the masses. Given the Cold War bias of Western economists, the latter is preferable to the former and therefore its coercive aspects are ignored.

The logical implications of the Fei-Ranis model, implications which in their book are all but lost in technical terminology and euphemistic jargon, are not unique to this model. They are the consequence of implicit value judgments. The Fei-Ranis model is an excellent example (but only one example) of what has been pointed out by many writers—a dichotomy cannot be drawn between normative and positive economics.[35] A model that begins with an apparently "value-free" concept of "disguised unemployment" proceeds through a series of value-loaded steps to advocate coercion and exploitation. The reason for this is clear. "Disguised unemployment" is not a value-free concept,[36] nor are any of the concepts economists use, if they are to be meaningful. In order to be meaningful, values must be explicitly recognized, for they are always *implicitly* present. Therefore, the error of the authors is not that their model incorporates value-loaded concepts or that they have made value judgments as to the proper cause of development. It is not possible to do otherwise. My critique is that they have failed to recognize that they have done so, and have presented their model as value-free, which it is not. This is of major importance, for it is only by dealing with value judgments that one can understand the implications of economic analysis. We can hope that had the authors done so, they would have recoiled from their conclusions.

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34 Fei and Ranis, *op. cit.*, p. 50.

35 Two authors who have maintained this consistently (though their arguments have largely fallen on deaf ears within the economics profession) are Gunnar Myrdal and C. E. Ayres.

36 For an excellent discussion, see again, Myrdal, *op. cit.*, Appendix 6, Chapter 21.

REVIEW ARTICLE

THE CONSTRUCTIVISTIC STRUCTURALISM OF J. PIAGET*

Although structuralism has been fashionable for quite a while, the books of structuralists are as a rule written in an inaccessible, not to say esoteric style, many of them running to hundreds of pages. Readers will therefore welcome the appearance of Jean Piaget's little book† on the general theme of structuralism in the *Que sais-je* series, which aims not only to give the present state of the subject, but to give it in a popular form. In the latter respect I fear the reader will be disappointed. The author demonstrates that he has exhaustive knowledge of the subject, but he has not succeeded in presenting it on a sufficiently elementary plane for all its parts to be comprehensible to those who have not worked with structuralist writings, such as the other books of Piaget himself. All too often the author gives definitions that do not shed light on the basic terms they contain, those that the reader could not be expected to know. To give one example among many: With reference to Chomsky's conception of linguistic structure, we read:

> In the first place, it is possible to obtain by a recursive method a set of rules for rewriting (*reécriture*) in the form $A \rightarrow Z$, where A is a symbol of a category (sentence, etc.) and Z a chain of one or more symbols (new category symbols or terminal symbols). By applying the transformation operation to chains of non-terminal symbols we obtain derived expressions (*énoncés dérivés*) and the totality of such transformations constitutes generative grammar, "grammar capable of immediately establishing links between semantemes and phonemes in an infinite number of possible combinations."

The only commentary that Piaget supplies to this definition is that "this procedure is authentically structuralist." It may be too much to ask for absolute clarity and accessibility to the laity in a book that aims at dealing with structuralisms in such diverse fields as mathematics, logic, physics, biology, psychology, linguistics, social science (ethnology, economics, etc.). At any rate, Piaget is often in the position of Fontenelle, writing to explain the theories of Descartes and Newton to the ladies of

* Translated from *Studia filozoficzne*, 1970 (6), pp. 128–31.

† Jean Piaget, *Le structuralisme* (Paris, 1968).