E.F. Schumacher vs. Liberal Technocrats on Third World Development

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September 21, 2006

Techocratic liberals, in their analysis of American economic history, have tended to assume that large enterprises possess inherent efficiencies, and that such "economies of scale" explain their growth. Interestingly, their assumptions are mirrored even by some Austrians, who seem to think that capital-intensiveness (or "roundabout" production methods) involve unlimited, or almost unlimited efficiencies.

E. F. Schumacher effectively demolished similar assumptions by technocratic liberals in the context of Third World development. He cited the argument of Kaldor and others that

> The amount of available capital is given. Now, you may concentrate it on a small number of highly capitalised workplaces, or you may spread it thinly over a large number of cheap workplaces. If you do the latter, you obtain less total output than if you do the former.

He went on to quote directly Kaldor's assertion that "research has shown that the most modern machinery produces much more output per unit of capital invested than less sophisticated machinery which employs more people." And since the amount of capital is assumed to be fixed, this quantity sets "the limits on wages employment in any country at any given time." Kaldor's argument continues, at length:

> If we can employ only a limited number of people in wage labour, then let us employ them in the most productive way, so that they make the biggest possible contribution to the national output, because that will also give the quickest rate of economic growth. You should not go deliberately out of your way to reduce productivity in order to reduce the amount of capital per worker. This seems to me nonsense because you may find that by increasing capital per worker tenfold you increase the output per worker twentyfold. There is no question from every point of view of the superiority of the latest and more capitalistic technologies. [*Industrialisation in Developing Countries*, edited by Ronald Robinson (Cambridge University Overseas Study Committee, Cambridge, 1965), quoted in *Small is Beautiful*, p. 182]

Notice, right off, Kaldor's implicit assumption that capital is to be invested in "wage labor," rather than (say) making self-employment or small-scale cooperative production more efficient. And notice his assumption that "we" are employing "them." Needless to say, even the most "liberal" of technocratic liberals views the recent centuries' history of primitive accumulation and top-down industrialization from the standpoint of the victor. The standpoint of "liberal" development economists is essentially that of the old colonial powers: Third World countries are seen mainly as sources of raw materials and other export goods, rather than in terms of domestic production for the internal market. [Schumacher, *Small is Beautiful*, p. 216]

Schumacher administered a well-deserved intellectual beating to Kaldor, pointing out that the quantity of available capital was not in fact static, and that bringing unemployed labor into productive use, even in labor-intensive forms of production, would increase the total pool of income from which investment capital might be saved.

> The output of an idle man is nil, whereas the output of even a poorly equipped man can be a positive contribution, and this contribution can be to "capital" as well as to "wages goods." [Ibid., pp. 182–83]

The question is whether investment capital is to be obtained through the traditional method of "primitive accumulation"–i.e., robbing the laboring classes of their small property and squeezing them dry–or by enabling labor to keep its full output, and cooperatively pool its own surplus income as an investment fund to increase its standard of living over time.

Schumacher also argued that the ratio of output to capital investment was irrelevant in itself, unless one addressed the most effective ratio of capital to labor in the context of large quantities of unused labor. The ratio of output to labor might be maximized with production methods that resulted in a less than optimum ratio of output to capital investment. The goal is not the maximum return on capital investment, but to enable labor to produce the maximum possible output to support itself. [Ibid., pp. 182–84] In fact, the goal of capital investment, from the capitalist's point of view, it not necessarily to increase the return per unit of capital, but to substitute capital for labor power even when the total output is not thereby increased. The substitution of capital-intensive for labor intensive forms of production is often aimed, not at any abstract criterion of "efficiency," but at reducing the employer's dependence on wage labor. [Ibid, p. 183]

It also matters, I should add, where the "output" *goes.* It makes little difference to the dispossessed peasant how "efficient" industry is, if he is unemployed and therefore unable to buy its output under any circumstances. On the other hand, if he is employed, even in more labor-intensive (and thus less "productive" by Kaldor's standard) industry, he will be able to buy a larger portion (infinitely larger, compared to zero) of the resulting output. The products of intermediate technology more than likely are not intended for the export market, but for local consumption by those who could not afford the output of "modern" industry in any case.

And even by the standards of Galbraithian technocracy, it turns out that centralized, capital-intensive industry is by no means as "productive" as the technocrats think. When reduced distribution costs are taken into consideration, and transportation subsidies do not artificially increase the division of labor past the point of diminishing returns, we find that small-scale production for local markets, using labor-intensive techniques or multi-purpose machinery, may actually be cheaper per unit of output. Schumacher pointed out that

> a considerable number of design studies and costings, made for specific products in specific districts, have universally demonstrated that the products of an intelligently chosen intermediate technology could actually be cheaper than those of modern factories in the nearest big city. [Ibid., pp. 185–86]

Another, related argument Schumacher demolished is that centralized, large-scale industry is necessary to make optimal use of a limited supply of entrepreneurial skill–supposedly quite scarce in the Third World. Like capital, entrepreneurial skill should be concentrated in a few blockbuster projects. Schumacher responded, quite sensibly, that no such thing as generic "entrepreneurial ability" existed outside the context of the specific form of technology being used.

> Men quite incapable of acting as entrepreneurs on the level of modern technology may nonetheless be fully capable of making a success of a small-scale enterprise set up on the basis of intermediate technology… [Ibid., p. 185]

According to Schumacher, native development officials in the Third World mirror the assumptions of Western technocrats. The manager of an African textile mill, for example, explained that it was highly automated because

> African labour, unused to industrial work, would make mistakes, whereas automated machinery does not make mistakes. The quality standards demanded today… are such that my product must be perfect to be able to find a market." [Ibid., p. 194]

On the other hand, the capital-intensiveness of such production is an effective entry barrier such that production is dominated by a few blockbuster projects, likely funded with foreign aid money or World Bank loans. And the relatively small number of workers employed, concentrated in urban areas, means that the vast majority of the population will lack the purchasing power needed to buy the factory's output. Hence the manager's assumption, which he never stops for a minute to examine, that his "perfect" product is being produced for the demanding standards of the export market, or for a small urban luxury market of the comprador bourgeoisie. Were intermediate-scale production technology used, with local labor employed in much larger quantities, the more widely distributed purchasing power would likely result in a ready local market for goods produced to somewhat less exacting standards.

Elsewhere, Schumacher cited a discussion in a World Bank study of the prospects for developing small and medium-sized towns. The study made short work of the issue, dismissing the possibility on the grounds that such localities "lack[ed] the basic infrastructure of transport and services," and that "[m]anagement and professional staff [were] unwilling to move from the major cities." As Schumacher crowed,

> the proposition, evidently, is to transplant into a small place the technology which has been developed in such a way *that it fits only a very large place.* [*Good Work*, p. 48]

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