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Problems Now and in the Past

by Professor Emil K  ng, St. Gall *

In some places, voices are raised today which assert that development aid is not worth the noise that is being made about it, because the industrialised countries went through exactly the same phase of development by their own, unaided efforts and still had arrived where they are now. Any development aid, so it is said, will only paralyse the determination of LDCs to aid themselves. The author discusses this assertion in the following article.

If and when there are critical voices raised against the economic failure of many LDCs, the reasons for such criticism which are adduced are frequently the following ones: The wealthy nations of the present age, one century or more ago, were in virtually the same position as LDCs are today but they overcame this difficult phase successfully without capital aid from abroad, without technological help, and "aid by trade". Why could not history repeat itself, especially as general conditions make such a transformation much easier now than then? To give a balanced reply to such arguments, it will be necessary to examine whether they are indeed easier and simpler than in the past. For this purpose it is intended to study population problems, the historical background, the state of competitive trade, the general feeling of the population about economic thought, the demonstration effect, capital formation and capital flight movements, technology, and development aid itself.

Problematic Population Growth

The answer to the first of the questions enumerated above is fairly easy: present-day LDCs are saddled with a much more onerous task than that historical Europe had to face in the past, because the speed of population growth is much faster than two or three centuries ago. The cause of this increased rate of growth is progress in medicine as well as in hygienics. Mortality in our own countries, in spite of evolving technology, still remained high for a long time, and the "hands" to be employed, clamouring for work and bread, were much less numerous. Modest population growth would, of course, be absorbed much more easily, in line with growth of general productivity, a fact which can also be proved by the relatively small sums of capital which had been

sufficient in our own past for creating new jobs, whilst e.g. in India much more capital is needed for creating employment for the thousands of people every day to avoid mass unemployment.

Moreover, the way out from the unemployment dilemma available to our own countries in the past — mass emigration — is virtually closed to LDCs today. In the past, millions of people capable of working migrated from Europe to North and Latin America, to Australia and to European colonies. This does not mean, however, that emigration was a big economic advantage to our own countries. For migrants were, to a large extent, a selection of the most enterprising human beings — which means that their initiatives were lost to the countries they left. They had usually already completed their schooling and vocational training, which their countries of origin had paid for, whilst the results of their skills accrued to the countries of their eventual settlement. It is even possible that these migrants of the past carried with them not only intangibles but also actual currency as their starting capital. Nevertheless: this represented a relief of pressure upon our local markets of labour.

Historical Background

There is another incontestable fact about the history of mind: The national economies of Europe — especially those of Protestant countries — were much better fitted at their "jumping-off" point for enabling Europe to launch the First Industrial Revolution than the LDCs of today. They had passed through the Ages of Humanism, Renaissance, and Enlightenment; rational and modern, scientific methods of thought had already been accepted and established here previously. The invention of bookkeeping had spread like a wild-fire and was the accepted system of accounting before the industrial revolution. There were mar-

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kets in existence and money circulated freely. So-called "other-worldliness" had largely disappeared, activism had replaced passive trust in God's eternal wisdom; the feudal system and medieval guilds in the towns had become so ramshackle that they fell with scarce resistance before the rise of the modern middle classes also called by the foreign word, "bourgeoisie". The old habits had been replaced by "inner-worldly ascetism" (Max Weber), economic efficiency, the praise of "self-made men", and economy in the sense of deliberate saving, all those had become the "done" thing.

But what is the cultural inheritance still dominating citizens of LDCs? Though their ideology very slowly begins to disintegrate, the prevalent motivation (e.g. in India) is the sacredness of cows, which very effectively bar the way to economic activity. Almost as strong is general fatalism for which all the ills of the world are thought to be given invariables, whilst perfection of the inner man is believed to be worthy of attainment. Animism and totemism are the creeds and forms of thought which hinder brains from accepting the principle of causality and the psychology of the research worker, understanding of technology and its application to the real world. Subsistence farming, which does not know the use of money, does not allow of striving for efficiency and profit maximisation; the effects are lethargy and the constant recitation of "mañana, mañana", instead of doing here and now what is actually needed. Added to all that are enormous gaps between the material situation of different classes, and the upper echelons indulge in senseless luxuries. How could it be surprising if, under such conditions, the transition to a Society of Effort becomes unbearably slow — much slower, at any rate, as among our forefathers?

Influence of Free Enterprise

During the past, one of the prime movers, on the way towards breaking out of the vicious circle of poverty, was without doubt free enterprise — meaning its representatives: the entrepreneurs. Actually, the profits of free enterprise, during the industrial countries' past, were the main source of the enormous savings which served to fit out jobs with their capital background. The state, then, was unable to mobilise such capital sums. The reason was: government and the state were, more or less deliberately, reduced to playing the part of a nightwatchman. Undoubtedly, the consequence was that the creation of what we now call "infrastructure" was neglected almost criminally, e.g. by leaving the slums in the industrial towns in an equally sorry state as the provision of schools or hospitals.

In principle, we do the same today, although governments are — by their own confessions — those of a welfare state and the tax burden is infinitely higher than two centuries ago. As is well known, the state, with its coercive powers to accumulate savings, wants to finance economic development. But is the government as capable as the entrepreneurs of the past to invest money profitably? A glimpse into the real world is sufficient to show us that this is highly questionable. Europe had been fortunate enough to harbour a sufficient number of personalities representing free enterprise for tackling the macro-economic tasks. Though there existed true exploitation — only the success was decisive. To defend entrepreneurs against accusations they were charged with, it must be emphasised that — in quite a different way from the former upper classes and from those in today's LDCs who waste (or wasted) their wealth in private luxury spending — they used the enormous profits gained for creating and expanding their productive assets, by which useful new jobs were generated.

Increasing Propensity to Consume

One of the effects of this novel kind of behaviour was that people became more interested — economically — in production than in consumption at that time. They were fated to show their mettle in competition, to defend or expand their market shares, to build up reserves for potentially lean future years, to open up new markets, and to cut costs. But in our days, the general inclination is to widen consumption, to maximise it — which is the fruit of the "demonstration effect". For it is now the broad masses in LDCs who can see how people in economically advanced and industrialised countries are able to live it up. With all the power at their disposal, the masses therefore demand equal treatment, without being willing to make the required sacrifices to achieve just that.

The result is envy: People get so used to demand only — which we can hear at every international conference devoted to the subject, and from every international agency supposed to serve it — without any show of willingness to help themselves. During the 19th century, to demand only would have been senseless, for there were nowhere any "wealthier" nations who then lived in satiety and comfort and could have served as an example to others. True, even then there were upper layers of society who could afford to spend much more than the poor. But what was missing, were the mass media, which would have broadcast the tiniest details even of this state of things to all, down to the lowliest cottage. This is one of the major reasons why one government after the

other will be overthrown in our time and age, because people believe that their successors will be able to create the paradise on earth. Though it is true that this inclination to permanent revolution is a constant danger to all desirable stability, which is the only solid basis for all longer-term decisions, it must be acknowledged that this "demonstration effect" is not the fault of LDCs. Only the hope for a swift and radical innovation in social relations is illusory.

Welfare State and Social Policies

However, it is true that even exaggerated hopes have their deep, ingrained causes. For it is conspicuous that there are countries where, in a certain sense, everybody is wealthy. Why should it be forbidden to anybody to arrive there, too — in case the rich ones will reveal the magic by which they have become so rich? And if the white man will not perform the desired miracle — it is the local state which might work wonders. In fact, it is generally the case that people believe that their own state is capable of doing away with all evil that exists in the world at large — not in future but here and now, not only for children and grandchildren of the living generations, but for themselves. This builds up a belief in the omnipotence of the public powers and the habit of demanding everything now, which is quite alien to the past ideology of the 19th century. Welfare state rules and regulations, which may be possible financially for rich communities, are to be introduced at once. That this means a tax burden which transcends by far the existing rates, and which understandably becomes an obstacle to further growth of free enterprise, is a banal truism. But the problems that exist become more aggravating by the existence of trade unions and their influence upon the development of wage

levels — a factor that was largely non-existent during early capitalism.

In some Latin American republics, trade unions have already become so powerful that they are able to enforce government-prescribed wages minima and general prohibitions of sacking staff. That this results in conditions, which will bring the worst evils to the poorest of the poor and which create unsurmountable obstacles to true economic development, is evident, but makes no impact on the consciousness of the masses, because there simply is no widespread knowledge of the iron laws of the economy nor of the fact that genuine progress can only be the result of hard and determined work. The ethical attitude to work of western nations is an accidental product of special circumstances, and therefore it cannot be found everywhere, but where it lacks, it becomes doubly difficult to achieve progress.

Doubtful Influence of Technology

At least in one respect, it becomes clear that present-day LDCs have a big advantage, compared to past times: technological knowledge need not be created because it exists in an easily accessible form. For example, it is present in the form of machinery, of which the research and development costs have been paid once for all by third parties, and which need only be imported. Once they are installed, the productivity of labour will rise on a potential scale. Unfortunately, this gain is not fully available, because one of its indispensable conditions is that people who operate the new machines, and especially those who will have to maintain them, have a true idea of the principles of their construction and have grown up in a society living by machines. This was true, to a high degree, of the age of the First In-

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dustrial Revolution, but certainly not of those who take over finished products of modern technology and often demand them for reasons of prestige because their products must be the most advanced and best things to get.

In contrast to all that, the 19th century saw the simultaneous development of industries producing both consumption goods and means of production. In present-day LDCs creating factories making consumption goods is the result of installing machinery, instruments, and equipment which cannot but be imported. They are designed, in most cases, to save labour which means that they are ill suited to countries with an enormous surplus of unemployed labour. In addition, they usually require a degree of familiarity with technological processes which was appropriate for industrial workers of the North but not for those of the first generation in the South.

Capital Flight and Currency Regulations

There are other disadvantages inherent in economic development, including the frequently mentioned fact that a mighty torrent of flight capital is leaving the South for the developed North, which means that these moneys are not able to fertilise the countries of their origin. It is often mentioned that the young industrialising countries of the 19th century had been in a much more favourable condition. But where would capital looking for greater security have fled then? In order to even out this situation of being disinherited, it is said that LDCs today should introduce a system of government management of currencies which would be contrary to the pure principle of currency convertibility, but would prevent capital flight.

The answer to such musings is this: as a matter of fact, no kind of currency control has yet been invented, not even the very strict German one, that has ever been capable of stemming the flight of capital funds completely. The very reason for inducing flight movements persists and is active now in LDCs. It may even be stated with certainty that non-convertibility of any currency should be a reason for investing money abroad in freely convertible bank balances, instead of investing at home. Besides, introducing currency controls is naturally only an attempt to cure symptoms and not the causes of the malady. If it was desired to obviate the causes of capital fleeing certain parts of the world and seeking certain other regions, it would be necessary to establish the rule of law in those parts from which capital is escaping at present, as well as political stability, favourable future prospects for the economy, and free movement for all investment capital, no matter where it comes from or where

it wants to go — which were the basic economic conditions — with very few countries making an exception — during the 19th century, but which are absent from present-day LDCs.

The Role of Development Aid

What has been enumerated so far, even though the list may be incomplete, must leave the impression that overcoming the 20th century's development problems is more and not less difficult than in the past, and that their causes are not, I repeat, not exclusively the fault of LDCs. But this statement has to be read together with another important one: In the past, everybody had to fend for himself, without seeing any possibility of aid anywhere, whilst, in our age, the poor can always bet on the fact that somebody, from somewhere outside their own territory, will offer them help. Is this advantage not sufficiently great to compensate, and more, in their view too for all the other, negative components of the overall balance sheet?

It is understandable that there are no hard and fast facts being reported about this situation. How could one quantify the weight of population problems, the inequality in past developments, how express the influence of free enterprise in figures that will make sense, how evaluate the attitude towards the economy or describe in indicator figures the precise effect of a welfare state and social policy to economic growth, how enter their influence into valid accounts of a balance sheet, how transform them into statistical values, or that of capital flight? The utmost that may be achievable in this field is to make careful personal statements, whose generally accepted probability will be called low.

In spite of this, it is proposed here to make a synthetic judgment, but we think that both capital aid and aid by trade, taken together, will never be able to form a sufficient counterweight against the quoted, negative influences. As to capital aid, even in the most favourable cases it is negligible. As to technical aid, it always encounters difficulties because the populations to whom it is given are being asked to jump over a gap of several centuries. Aid by trade, as a matter of fact, has only been a product of the last few years — and it is too early to judge its results. In general, therefore, it must never be forgotten that support of this type is dangerous in so far as it, almost always, paralyses the will to help oneself, instead of strengthening it. Therefore, it would be much better if aid was given in a form that makes itself superfluous in the shortest possible time. But we must never be surprised why it takes such a long time to achieve the desired development, and why it is often unsatisfactory.