Some Reflections on Economic Development

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The underdeveloped countries present a great moral challenge to themselves and to the rest of the world—the challenge of unnecessary poverty. Man needs philosophers to warn him against riches, but poverty carries its own warnings, for the fruits of poverty are high death rates, especially among babies and children; drudgery especially for women, who are worn out by the time they are 30; illeteracy, ignorance and superstition. We do not make men happier by abolishing poverty. What economic development does is to give man more control over his environment, and thus to increase his freedom. As we all know, freedom is a dangerous gift, but it is freedom which distinguishes man from the animals; freedom to control his environment, and to a lesser extent, freedom to control himself. The challenge which economic development presents to us all is that of using our rapidly accumulating store of knowledge to lift ourselves and our fellowmen that much more above the level of the animal world.

The techniques are relatively simple, and are now widely known. Economic development requires science, capital and trained personnel, all of which are easily provided. Think of the most backward part of the world known to us. If gold were discovered there today, within ten years it would be a flourishing community, with roads, schools, hospitals, libraries, and all the other badges of civilisation, cinemas, night clubs and the rest. We all know very well that wealth can be produced if you assemble science, capital and train people. The problem is how to bring these factors to play in situations where the object is not to raise gold, but merely to help people to develop natural resources of less spectacular attraction.

The problem boils down into two parts: how to find money, and how to use money correctly.

It boils down to a matter of money, since, if there is enough money, and the will to use it correctly, you can buy everything else that is required for this job—science, capital and training. Any country can train its people in schools and other institutions. This takes a long time. Meanwhile, it can buy people from outside, to work as scientists and administrators, as most of the independent countries of West Africa now do of their own free will. Given the money, and the will to use it correctly, the only obstacle to economic development is time.

How much money is involved? This depends on the rate of growth which the economy wishes to attain. If the ambition is to grow as rapidly as the countries of Europe and North America have grown during the past century, the desired growth rate is about 2 per cent per head per annum. Allowing for population growth, this in most of the poorer countries means that national output should grow by about 4 per cent per annum. Higher rates than this are stated as objectives in some development plans, but 4 per cent is so difficult to attain that it is really quite an ambitious target.

Economic growth at about 4 per cent per annum requires that a country

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withhold from personal consumption about a quarter of the national output. One half of this or about 12 per cent of national output, is needed to provide an adequate framework of public services, the other half is required for capital formation. The need for capital formation, or investment, is familiar; a word should be said about the framework of public services.

The governments of these countries ought to spend every year about 3 per cent of national income on education, 2 per cent on public health, 3 per cent on economic services such as communications, agriculture, and geology; and about 4 per cent on general administration and welfare. This cost, aggregating 12 per cent of national income, is somewhat higher than in the more developed countries, who can provide the same range of public services more intensively for 10 per cent of national income. This is mainly because the average public servant is paid more in relation to average national income in a poor than in a rich country—a fact which mainly reflects the shortage of educated persons. Expenditure on the public services is just as necessary to growth as is capital investment. Law and order, education, agricultural extension, geological survey, public health and such services are foundations of economic growth.

As for capital investment, no catalogue is necessary. The most urgent need of most developing countries is for better transport, especially roads and harbours. The next priority is water—its conservation for agricultural, industrial and domestic purposes. Then there is the tremendous need for capital for housing in all our rapidly expanding cities. Many people think of capital primarily in terms of manufacturing industry and electric power, but even in the most advanced countries less than one-third of capital investment is in factories. Public services, utilities and housing are the great eaters up of capital investment, without which other productive activities could not take place.

Given the will, the remaining obstacle to economic growth is lack of money. Nowadays in most underdeveloped countries people know what economic growth requires; the difficulty is to make available the quarter of the national income which it costs. Personal consumption, which should only be 75 per cent of the national income, is nearer 85 per cent, leaving for the public services and for capital formation together only about 15 per cent instead of the 25 per cent which they need. How is this transition to be effected?

The problem is not new. The countries which are now developed have all had to make this transition during their "industrial revolutions" or "take-off periods". In the Soviet Union the transition has been achieved in effect by taxation which is a form of compulsory saving. Elsewhere it came automatically, over a fairly long period, as a by-product of the rise of a capitalist class to dominance in the economic system.

Capitalists are distinguished from other dominant classes by their passion for saving and for productive investment. Earlier dominant classes had different ambitions. Priestly classes saved, but they invested their wealth more usually in monuments and churches than in factories and farms. Landowners saved, but in their heyday they used their savings to buy more land, rather than to invest in improving land, and the persons from whom they bought were usually selling in distress to finance consumption. Nowadays landowners in developed countries have learnt to behave like capitalists, but elsewhere landowners are still not prone to productive investment. The capitalist was the first dominant type to make saving and productive investment into a religion of life.

As capitalism develops within a backward economy, the proportion of the national income accruing as capitalist profits increases all the time, and so the share of the national income saved and invested grows automatically all the time, until the economy is fully converted to capitalism, when the share of profits in the national income is stabilised. All the countries now developed have gone through this process, except the U.S.S.R.; and the countries now in line for development can tread the same path if they so desire.

For the most part they do not so desire. This is not primarily because of anti-capitalist ideology. Most of the leaders of new states proclaim some sort of socialist leaning, but within a year or two of taking office their desire for development proves stronger than their antipathy to capitalism; and they adopt programmes for stimulating private capital investment; for stimulating even indeed the foreign private capital investment which they have hitherto denounced. Their main objection to relying solely on the growth of private capitalism is that it is so slow. By this method it may take anything up to a century to raise the rate of domestic saving from 5 to 10 per cent. Most political leaders want quicker results than this.

Taxation provides a more rapid alternative. If 20 per cent of national income is raised in taxes, of which 12 per cent is spent on government services, the other 8 per cent, added to 5 per cent of private saving, makes a respectable level of capital formation. Countries which have followed this path in recent years include Ghana, Burma, Ceylon and China.

This relatively high level of saving out of taxes, 8 per cent of national income, accords very well with the modern pattern of demand for capital. For nowadays half of investment is done by public agencies anyway, in electric power, communications, water supplies, schools and other public services; so there is no longer need to rely on private savings for financing investment of this kind. In addition, many private investors look to public agencies for finance, whether for private housing, for agricultural credit, or for manufacturing industry. So it is quite appropriate for the major part of saving to be done on public account.

Neither can it be said that 20 per cent is too much of the national income to take in taxes. Developed countries take 30 per cent and more. In Asia and Latin America the distribution of income is even more uneven than it is in Europe or North America. The top 10 per cent of the population gets 40 per cent of the national income; landlords think nothing of taking half the peasants' produce as rent. There is a large surplus over and above what the masses of the people receive for their personal consumption, and is not too much to ask that some of this surplus be mobilised for economic development. Admittedly it cannot be done all at once. But there is no technical obstacle in the way of raising the share of taxes in the national income from 10 to 20 per cent over a period of ten years.

This can be done even in egalitarian countries, such as we find in West Africa, where land is plentiful, and where there are very few rich persons. Output is growing in these countries anyway; so it is possible to raise the proportionate share of taxes in national income over a period of time without actually reducing the absolute level of consumption per head.

What is lacking in most of these countries is not the means but the will. For what is involved is that political leaders should give priority to economic development over their other pursuits, at least to the extent of agreeing not to use the strains created by development policies as weapons for attacking each other. But no such priority is accorded. Most political leaders in the new states find other issues much more exciting than economic development, and also more rewarding as possible sources of political power.

It is clear that a number of the new states have an awkward stage to pass through, during which their affairs will be dominated by men who are mainly interested in preserving the privileges of their own group; or in tribal, religious, racial or language disputes; or simply in military adventure. For a number of these states their very existence as nations will be at stake, whether because they are menaced by external aggression or because of tensions within themselves, leading to civil war or disintegration. Even some countries which have no deep tribal or other divisions seem likely to stultify themselves by an over-production of irresponsible politicians. Politics is exciting to young countries, and politicians in these countries have attracted to themselves all the glamour which was previously reserved for priests and kings, not excluding the military parades, the salutes of guns, the yachts and the country houses. We must resign ourselves to the fact that many of the newly independent countries will be too preoccupied with other matters to give to economic development the priority which it needs.

However, in quite a few of the poorer countries the men who have come to the top do put development first, and are struggling against odds to keep it there.

They have to struggle, in the first instance, against other leaders who distrust the materialism of the modern secular state, and whose appeal is to preserve old cultural traditions, tribal customs, or religious rules.

Next, they have to struggle against those who wish to break up the state into segments, according to language, tribal, or religious differences. And on the other hand, they have equally to struggle with their own impatience with such matters. For, while it is obvious that most African countries can only hurt themselves by disintegrating into still smaller political units, it is equally obvious that most African states can hold together democratically only on the basis of a loose federal constitution, and that strong central governments can be maintained only by the methods of dictatorship.

Thirdly, the new rulers have to struggle against the results of their own anti-foreign propaganda. In the course of fighting for independence, most nationalist politicians have denounced everything foreign, whether economic, political or cultural. But, on attaining independence, they find they need foreign help, foreign administrators, foreign industry, and foreign aid. To pass from blasting all foreigners to wooing foreigners with tax concessions requires a high psychological adjustment, which only the cleverest politicians accomplish rapidly and smoothly.

And finally, if the new leaders are to raise in taxes the money which is needed for development they are menaced by opposition politicians who will unscrupulously exploit this or any other issue to make the government unpopular.

In the advanced countries there is an independent public opinion, not dependent on political favour, which keeps politicians in check by criticising and ridiculing their more extreme tactics. This is not the case in most underdeveloped countries. In such countries a political leader who is trying to pursue economic development by democratic means has to rely to a greater extent on his own personal activities. Small wonder that the new nations seem to be abandoning democratic processes one by one. Small wonder too that in so many the generals prove to be so much more sensible than the politicians, since in many of these countries the army is the most modernized, the best educated and the most democcratic institutions in the country, in the sense of having the healthiest respect for individual merit. In the western world we are used to expecting the army to be behind the rest of society in such matters, but Asian and African army officers tend to be in advance of their societies.

What are the conditions for success on a democratic basis? Here we must look to political science, which is the most underdeveloped of the social sciences. Nobody has any formula which can ensure that a country will be governed well, but observation suggests at least three aids to stability.

First, if there is a well educated professional civil service, it will carry on through thick and thin, however bad the politicians may be. This is a good formula for stability, as the remarkable progress of France during the last 15 years testifies so well. The professional civil servant is trained to believe in the benefits conferred by roads, schools, hospitals and other public services, and will usually throw his weight on the side of expansion, Parkinsonian or otherwise. But there are even countries where this formula will not work, because the politicians refuse to allow an independent, professional civil service to be created. After all, the process of attaining political independence is essentially one of substituting the rule of politicians for the rule of civil servants, so it will take some time to persuade new countries that good government depends more upon the quality of the civil servants than it does upon the quality of the politicians. In any case a good civil service may ensure expansion of the public services, but it does not ensure democracy.

A second situation where democratic progress is possible, is where a great charismatic leader emerges, who can carry his country with him, while maintaining democratic rules—men like Nehru, or Ben Gurion, or Munoz Marin. Unfortunately charisma works both ways: there are bad charismatic leaders just as there are good ones. And even the good ones tend to have one serious failing, namely that charismatic leaders seldom leave behind someone who fits their shoes, so their departure is liable to be followed by muddle. But we must be thankful for small mercies; while they are with us, good charismatic leaders help to lay foundations of ordered progress.

The third situation is where a leader, charismatic or not, is good at party organisation. In most elections good party organisation counts for more than a good party programme, and in most of the new countries where one party has secured a good majority at the polls, the reason is that hard work has been done to build a party cell in every village, often on the lines of Henry Long. Unfortunately, statesmen of high moral calibre tend to be bad at party organisation, because party organisation usually involves bargains and compromises and blackmailings of a kind which is uncongenial to their spirits. Bad politicians are better at organising parties than are good politicians. A country like Puerto Rico, where first class statesmanship combines with first class party organisation, is comparatively rare.

The object, in the long run, is to create an independent public opinion which will force politicians to act and speak with relative sense if they wish to be supported. But the way to this, in the short run, is for good men to atain power, whether by charismatic appeal or by party organisation, and imprint their attitudes upon the public mind. In most of the underdeveloped countries the political tradition of the ordinary man is to find out who is in power, and vote for him. Thus bad government tends to perpetuate itself but so equally well does good government, if good men are in the saddle long enough to train the public to understand the mainsprings of democracy.

The upsort of what I am saying is that while it is quite easy to see what must be done to promote economic development, it is very difficult to get it done, especially so within a democratic framework. A great many of the underdeveloped countries of the world do not have the political conditions which are necessary for economic progress, and are not likely to have these conditions for some time.

Meanwhile, the outside world can and should help those countries which are trying to help themselves. I said earlier that the poorer countries could finance economic growth themselves, by raising their tax rates from 10 to 20 per cent of national income, which is a moderate level. However, this takes time, and the pain of the transitional period would be eased by external assistance. Money from outside permits the national income to grow more rapidly, and therefore provides a bigger surplus out of which taxation can be levied without pressing on current levels of consumption.

These countries need both loans and grants. Loans are now available in plenty, from the World Bank, or the American lending agencies, or other sources. It is equally important to provide money for services which cannot be financed by borrowing because they yield no financial return—for services such as education, research and survey, or public health. Ideas of foreign aid have swung in recent years more and more away from grants towards loans, and this is a mistake, since the need for improvements in education, in surveys and in other public services is just as great as the need for investment in revenue-yielding enterprises.

However, whatever form aid may take, the point of aid must be to render further aid unnecessary. Nobody is proposing permanent charity form rich to poor countries; what we are proposing is a breathing space—a period of temporary assistance during which the poorer countries will be able to raise their own contributions from 15 to 25 per cent of national income. It follows that the object can be achieved only if aid is made conditional upon progress to this goal. For example one could put external aid on a matching basis—such as, for every one per cent by which the domestic effort exceeds 15 per cent, there will be one of external aid, up to a maximum aid of say 5 per cent of national income. Thus countries will have the incentive to increase their own domestic efforts, and those who do not choose to make an effort will not receive assistance. At present the countries which receive the largest amounts of aid are also the countries which do least to mobilise domestic resources for development. This is hardly a healthy state of affairs.