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Development or Under-Development? ¹

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Lausanne et San Fransisco

Once upon a time, there was a country known far back in history for its riches and for its independence; probably the country with the longest record of independence of any country in our world. A country which throughout the worst part of the colonial era succeeded in fighting off invaders. A country with no better or no worse a record than that of any so-called civilized nation as far as liberty and freedom of its inhabitants are concerned. Yet, a country with a most remarkable difference, there was no record of its ever having known famine, famine as has been known in Europe, in Asia or in the pre-Columbian Americas where entire civilizations disappeared following what is now presumed to have been plagues of insects such as grasshoppers, which even now are barely under control in Central America. Furthermore a country which received the blessing of Christianity long before even Western Europe. All in all, if ever a country should have merited to be called a happy country, this was it, according to what the so-called civilized people define as happiness: monotheistic religion, independence, a full stomach, and something more which we seldom have, time to enjoy these blessings. But who, being so fortunate would not awaken jealousy, even amongst us, developed and civilized people? Thus it came about, very late it is true, that an enlightened people, with a brave dictator at its head, decided that such bliss was immoral, could not exist any longer and that it should be replaced by bloodshed and tears such as we all encounter while earning our daily bread, so that this country could become as civilized as we are. It is not our purpose to pass judgement on the merits of the case, or on its moral aspects. We are merely economists, concerned with problems of economic development in the so-called developing world, but at least one aspect of this enlightened crusade by this developed people in favour of this happy country falls within the purlieu of our professional interest. As we said earlier, this country had never known famine throughout its recorded history. The reason was simple. While diseases and other natural

Note de la Rédaction : Il n'est pas coutumier de publier dans la *Revue économique et sociale* des articles en langue étrangère. Nous avons cependant estimé que celui de M. Spiro méritait d'être soumis à nos lecteurs dans sa version originale, qui est pleine de nuances. L'auteur, qui est d'origine suisse, a été l'un des conseillers de la Banque Internationale pour la Reconstruction et le Développement pendant de nombreuses années et a acquis, à ce titre, une très grande expérience des problèmes des pays non industrialisés, que ce soit en Amérique latine ou en Afrique. Fort de cette expérience, M. Spiro est en mesure de porter un jugement personnel, parfois cru, sur les difficultés rencontrées dans les efforts entrepris en vue d'accélérer le développement économique et social des pays non industrialisés. Il s'agit donc ici d'un témoignage personnel, fondé sur des faits vécus. La franchise de la critique dénote l'immense intérêt que l'auteur porte aux problèmes du sous-développement. Ses remarques, écrites avant la conférence de New Dehli, démontrent combien il est nécessaire de procéder de temps à autre à un diagnostic approfondi et lucide des rapports entre régions riches et régions pauvres.

causes kept the population within the capacity of the simple ecology which sustained it, those who survived had the wisdom to keep their principal resource constantly available. Their agriculture was very primitive but their soil was protected from man-made erosion and kept producing year after year enough to keep them in food and well being. But the civilized invaders knew better. Furthermore they had to alleviate their own recurring shortages of food for their ever increasing population. After all, being civilized they could allow this to happen even at the expense of others. Thus, having subjugated the country of our tale, they lost no time in introducing their advanced culture and methods. They saw for instance a wide plain, flat from one end to the other and covered with rich grass. They decided without further ado that it would be an ideal area for the production of some of the wheat that they so sorely needed, instead of merely feeding a small number of indifferent cattle. At the appropriate time, the plough was set to this plain, drawn by the most modern mechanized equipment. Seed drills were brought and the land planted with wheat. Then the rains came, tropical rains falling in torrents, followed by the sun. Our enlightened invaders waited with great expectations for the green shoots to make their appearance. But strange to say, instead of green shoots, they got a large plain of baked clay, baked so hard that no shoots of wheat or any other plant for that matter, could push through the now thoroughly hardened surface of the soil. And thus it remains after exactly thirty years. Should tourism ever develop to a large enough extent, this plain could provide hard surface tennis courts perfect enough to satisfy the most exigent of players. For the past twenty years, an enormous amount of ink has flowed about the merits of development and the need to bring all the nations which had for so long been subject to the beneficial influence of colonialism, external or internal, under new systems which would, as if by magic, fulfil their great expectations. And, fresh from the experience gained while colonizers, we all ex-colonialists or blood brothers thereof, ran back to the fields which we had only so recently been asked to leave to bring something new, something marvellous, the panacea sought for centuries by all the alchemists, not gold, but technical assistance. We, who had so brilliantly failed while rulers, all of a sudden had all the solutions as experts. Once again, we must claim certain exemptions, being economists, to pass judgement on certain aspects of this our answer to the great expectations of the formerly exploited people. It is not our task, to pass judgement on the internal colonialists who learned their lessons so well from their former masters and rulers, that they see first and foremost their own interests before those of their co-citizens, not to use this ugly word « subjects », be it at the point of guns or other implements of intimidation, such as the benevolent church. No, we wish to limit ourselves to economic facts to illustrate our thesis about the fallacies of the big words and claims about “ development ”, the magic word of the second half of this twentieth century.

Recently, while visiting Central America as one of these famous technical experts, we had the opportunity of travelling along a fairly lengthy sector of the Panamerican highway as well as on newly completed access and side roads. This was a region which we had already visited on several occasions since the early fifties, at which time we had been struck by the fact that most of the newly built roads were often impassable because of widespread slides in many of the cuts. Talking then with civil engineers about the causes of this problem, we were told that the angles of cut were generally too steep, very well adapted to arid, semi-arid regions or regions with well distributed precipitations, but not to areas with heavy tropical rainfall as is the case in Central America even though the overall rainfall over a period of time may not be very different. These engineers explained that since there was a dearth of road building contractors in Central America, all the contracts had been let, at the insist-

ance of the institutions or countries providing the financing, to North American firms, most with much experience in road building in the Western United States or in the Near East. Based on this experience, they had all submitted bids including a minimum of earth removal which implied very steep cut angles. One would have thought that the experience of this early period would have served to teach some lessons and that the earlier mistakes would have been avoided, even at the risk of higher building costs but much lower maintenance costs later. But no. Foreign knowhow imported for the occasion did not adapt itself to the local conditions and the newly built roads along which we now travelled were subject to the same conditions as the earlier ones. This illustrates how well developing nations can learn what is not suited to them, and stick to it. Mother Hubbard all over again.

On this same trip the opportunity arose of visiting a meat packing plant. As everyone knows, packing plants require a great quantity of water to keep everything clean, a situation calling at least for adequate protection for one's feet. Lo and behold, there was nearby a retail outlet of the local national development institution, ready to offer to one and all, be they farmers having to cope daily with the deep mud prevalent during the rainy season, or to tourists such as ourselves, adequate footgear made in one of the neighbouring countries. An integration industry with knowhow (and perhaps even capital participation) from one of the benevolent developed nations lending — and when could this word lending be more aptly employed?—its assistance to local development. We did not hesitate for one second and for a price which would not have surprised a shopper in a developed nation, we purchased a pair of vulcanized boots. Thus equipped, we went to visit our meat packing plant. Everything was fine, plenty of water to keep everything clean, but was it fate, we witnessed a scene which frankly reduced our meat consumption in the said country quite seriously. The plant, having been bought secondhand, at no bargain price, from a developed nation, had some defects which, in the rush of installation, had not been corrected. For instance, the door of the chute, where the steers were being killed very humanely with a .22 shot in the brain, opened because for once an animal went too close to it before the man in charge had time to fire his gun. The result was a live steer on the platform doing a macabre corrida with the carcasses in the course of being bled and processed. But this is not the point of the story. You who buy meat need not know how it has been processed, nor of the ludicrous scene with all the butchers running from the horns of the poor beast which was completely at the end of its wits. No, the point is that within a few hours of having purchased the beautiful boots, vulcanized according to the latest knowhow, the said boots miserably broke up into their component parts, uppers and soles going their separate ways. Now, the fact that this happened to us, with the means of acquiring another pair without too much damage to our exchequer did not matter too much. But to the farmer or the workman who bought such a pair of boots costing him close to one month of his earnings, this would be another matter. What could he say? Isn't industrialization the solution to all the ills of underdevelopment? How could he complain about the product of an industry established at great cost to the benevolent lender of knowhow and capital for the greater benefit of his country? After all the investor got his dividends, got paid for his knowhow, and many workers received wages which they could use to purchase boots they themselves had contributed to manufacture, ... and throw them away when they fell apart, thus creating an ever increasing demand, and a vicious circle.

This is merely an illustration of a very serious defect in this particular aspect of technical assistance: industrial knowhow, as all too often quality controls which have become an absolute necessity in developed nations in the face of critical consumer reactions and the

threat of competition, internal and from imports, are non-existent in developing nations, and foreign investors as well as national ones who benefit from special protections, fail to establish such controls leaving the consumer with no alternative other than a boycott, something very difficult to carry out effectively. The very heavy passenger air traffic between South America and Miami, where one can watch wealthy South Americans returning to their countries loaded with all sorts of consumer goods, often also manufacture under the same brand names in their own country, confirms the lack of confidence which the Latin Americans have in the products of their own industries. They are aware of what lies behind the advertising for the products which they themselves often manufacture, and they do not trust it. But then, they earn enough from their investments, producing shoddy at high prices, protected by high tariffs, often obtained thanks to their political influence, to pay the price of a trip to the US or to Europe, to purchase what they need. Pedro Gonzalez, the factory worker or the poorly paid white collar employee cannot afford such a trip and it is he who pays in the long run.

Another interesting aspect of "development", as seen from the economic point of view, is that of social security and social benefits. It is a question of national prestige for all developing nations to adhere to all international conventions which aim at improving the welfare of their workers, irrespective of cost or practicability of application, while so-called developed nations hesitate or even often fail to ratify such conventions. This leads at times to ludicrous situations. Let us take the case of one country in the northern part of South America which introduced not only the very laudable principle of minimum industrial wages which ipso facto established not a floor, but a ceiling on wages, but also the concept that industrial wages in small and medium scale industries should be lower than in larger ones. Once again the idea was praiseworthy, namely to give smaller enterprises a fighting chance of competing in the market place with the lower cost of quantity production. Strangely enough, far from serving this end, this piece of well intentioned legislation backfired in as much as smaller industries became the training ground for labour for the larger enterprises which, by offering no more than the differential between wages paid by the smaller enterprises under law and the minimum they themselves had to pay, could drain all the skilled manpower trained at high cost by the smaller firms. It took all the persuasion we could muster to convince some small entrepreneurs to raise their wages to the level of the minimum paid by the larger firms to retain their labour force, thus reducing materially the cost resulting from a high labour turnover, at the same time increasing their productivity. However, the law is still on the books and the bigger, politically powerful industrialists, have no intention of allowing it to be removed.

Then there are the many laws protecting workers from summary dismissal. In the course of carrying out a widespread survey of small and medium scale industry in a number of Latin American countries, we ran into the strange fact that the official industrial census indicated a very low level of industrial employment in the smaller categories of enterprises. Investigating this question at the grass root level, we found that smaller enterprises register only a very small percentage of their work force as regular employees or workers in order to avoid the prohibitive cost of the dismissal premium when they need to reduce employment due to factors often beyond their control. The remainder of the work force is employed under contracts, when under contract at all, for periods shorter by a day or two, than the minimum necessary for the worker to obtain tenure. Thus, once again, a very well intentioned measure has had exactly the opposite effect. By trying to provide too much for them, the government leaves a large percentage of industrial workers without any

effective protection against arbitrary dismissal. And the list of other examples could easily be expanded with similar cases. But meanwhile, political candidates can make hay from the fact they have placed on the books utopian codes, never bothering about whether or not they are counter productive. Who is to criticize, as even labour leaders, be they from the left or from the right, or from anywhere in between, benefit from these codes. Human nature is the same everywhere and it would take the foresight of the very respected senator from Texas who, as the story has it, dropped each January 3rd in the hopper of the US Senate, the project of a bill which, due to his seniority always received the favoured number S. 1, but which never even reached committee consideration and for a very good reason. The preamble of the project stated that since it was human nature to try to evade the provisions of laws being voted by this august chamber, it would be far simpler to legislate a change in human nature which would then eliminate the need for further legislation. Much is being said about the need to do now what was not done during the entire colonial era, namely train an adequate number of people in the developing nations themselves to establish first a capable level of government, as well as enough technicians to efficiently man industry and agriculture, and the concomitant infra-structure. Large scale efforts are being made to realize such a programme, but what are the results? The cost of training a technician in a developing nation is generally lower than in a developed one and many programmes have been started or expanded locally. However a heavy percentage of the newly trained technicians are attracted away from their own country which they are supposed to be helping, by the lure of far higher earnings abroad. And whenever such technicians are trained in a developed country, they adapt themselves very easily to the higher standards of living and, even if they are willing to return to their own country, find it not only very difficult to accept the existing lower standards, but also to adapt the techniques learned abroad to their own conditions. The results are nearly always the same: heavy discontentment, with the blame laid at the door of the foreigners. This leads us to the concept of the scape-goat so prevalent in the developing world as the general face saving device and means to avoid ever having to admit being at fault. Three years ago, the newly appointed minister of finance of a newly elected government in South America analyzed the ways in which his government could surmount the internal problems it had inherited from its predecessors as follows:

1. The government of the United States should increase its direct financial assistance to the government itself.
2. Foreign investors should increase their investments in the country.
3. The Alliance for Progress should increase its activities in the country.
4. Foreign investors should have a better understanding of the aims of the government and be ready to make greater sacrifices.

Of efforts to be made by the nationals themselves, not a word, even though this particular country is known to have not only sizeable deposits in foreign banks, but sees each year an amount at least equal to that of foreign aid received, leave the country, legally and illegally. Where should human nature be changed? It may be a very broad generalization to make to say that in those areas where colonialism did not affect the grass roots of existing civilizations, the will to develop is stronger than in these countries where existing structures were completely destroyed, such as in Latin America. Self-help is not very apparent, in spite of all the wonderful stories filling the many propaganda sheets emanating from the Western

Hemisphere, North and South. In such areas, effective foreign assistance is rarely welcome, if it is to be anything else but advisory, except naturally if it comes in the form of money without strings attached.

Yes, money, or the lack of it, seems to be the source of all difficulties. While carrying out the small industry survey mentioned above, we had the opportunity of visiting literally hundreds of enterprises and talking with their owners. Answering our first question as to their principal problem, they invariably answered: financial. Yet, after an hour or so of conversation, of a visit through their plant, it became clear that in most cases money was but a secondary factor in the difficulties encountered. More often than not, the entrepreneurs had no knowledge of appropriate production techniques and they did not even know how to use the equipment available. They knew little of procurement of raw materials, often having to pay higher prices for third quality staple goods than bigger enterprises for first quality, or of plant management and marketing. But when mention was made of the possibility of calling on outside assistance to remedy these conditions, there was immediately a very strong resistance. Many programmes of management training have been established in various countries, precisely to help entrepreneurs overcome such difficulties. Statistics of attendance are impressive, but once one analyzes the qualifications of those attending, it becomes another story. The roll is made up of government employees, or employees of larger enterprises anxious to show their interest in bettering themselves, or representatives of larger enterprises wishing to make a show of goodwill. But of small and medium entrepreneurs, those most in need of training, very few. And then there are the courses to prepare people for project appraisals. Whereas the principle need is for the financing of smaller projects with which a certain degree of technical assistance may be offered as part of the credit, the courses generally begin with a typical example: How to appraise a cement plant project for \$ 20 millions.

And there are the regional development banks, staffed largely with representatives of their developing member states, political refugees and such. They too resent calling on expert knowhow. Thus many projects are approved, but how many are carried out in full, or in time?

It is true that it is not always the fault of the lending institution that projects remain at a standstill. Not long ago, we were invited, with a certain urgency to go and spend a few months in a southern Latin American country which had received a number of credits to develop its small and medium scale industries and thus diversify an economy geared towards exports of a limited number of agricultural products. These credits had been on the books for several years already without having been drawn upon at all. It was not due to a lack of demand from industrial firms, but to the lack of organization on the part of the intermediary institution which had no experience in industrial credit, except for very large projects for which it called on local technical consultants for appraisal, a technique which is not applicable for smaller projects because of its high cost. The only appraisal technique known to this institution, was thus that of the cement plant project, entirely inadequate in the circumstances. Within a very few months, we had developed the techniques required for the new type of lending, trained the staff necessary to apply them and established a backlog of some fifty projects suitable for financing. Enthusiasm was running high both in the country itself and among the foreign lenders, until we began to run into an entirely unforeseen difficulty, that of bringing the intermediary bank to approve the loan requests developed and appraised by the newly formed team of industrial expansion officials in the bank itself. The board of the bank consisted of five members, three from the majority party in control

of the government and two from the opposition. For some reason, two of the majority board members were always abroad during our stay and thus the president of the bank did not dare submit a single project to a board in which he no longer held the majority, for fear of seeing his proposals rejected. To this day, the foreign credits are still unused, to the best of our knowledge. This did not deter a regional development bank from insisting on making a new credit available to this intermediary institution, this time for feasibility studies. As studies generally do not require the taking of final decisions, there is a faint possibility that this credit may be used, but to what end?

An important element in the process of non-development of the developing world is that of the prestige which technicians and politicians, in about equal proportion, can acquire by participating in official missions going abroad to present the development plans of their country, solicit loans, negotiate loans, or attend some seminar or reunion related to development. This is really an endless topic, and the less one knows about it, the more there is to say. It is however not only a question of prestige, but very often a very important economic asset. While officials of international agencies receive while on travel duty a per diem which barely covers expenses, developing nation officials receive munificent subsistence allowances, as much as four times that of the international functionaries, not to mention regal representation allowances. After all, they have to put up a good front, stay only at the best hotels, and support the caviar and champagne industries, while at the same time acquiring substantial quantities of consumer and durable goods which they can bring back with them duty free, travelling as they do on official or diplomatic passports. We know of some exceptions, of some dedicated fellows to whom accomplishments are more important than the show. We must refrain from mentioning their names as they might be called spoilsports by their colleagues.

All this leads one to ask: but what can be done? Isn't there a solution, isn't it possible to meet, at least part way, this revolution of greater expectations of which Paul Hoffman spoke so much? The answer is yes, there is an answer, and not necessarily only that offered by the respected senator from Texas in his time. It looks now as if "development" is a word game, a game of pretending on both sides of the world. On the side of the developed world, we pretend that we wish to help others when in reality it is ourselves that we wish to help, opening markets for our industrial production. On the side of the developing world, there exists the delusion that by words alone everything can be solved, that deeds are only the problem of the developed. Pretend, pretend and pretend again, this is all too often the motto of the developing world. Why not instead a grain of realism, of honesty? But while the diagnostic is simple, no pill has yet been invented which would help reduce delusion on a national scale, as exists amongst the so-called elite of developing nations. However, since our own do-goodism places us in the category of those with a mote in their eye, we would do well to also say our mea culpa. It would be interesting to see what would happen if we could do it.

