ECONOMIC ALTERNATIVES CONFRONTING THE DEVELOPING NATIONS

13 March 1962

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NOTICE

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

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ECONOMIC ALTERNATIVES CONFRONTING THE DEVELOPING NATIONS

13 March 1962

CAPTAIN SMITH: Admiral Rose, Gentlemen:

For our second lecture this morning we will turn our attention to ›me of the problems of modernization which must be faced by the ıderdeveloped countries in the world.

The topic of the lecture is "Economic Alternatives Confronting the eveloping Nations."

Our speaker is the Professor of Economics and Senior Staff Mem-:r of the Center for International Studies at M. I. T., Dr. Everett E. ıgen.

Professor Hagen, it is a pleasure for me to welcome you to this ass.

Dr. Hagen, gentlemen.

DR. HAGEN: Admiral Rose, General Quill, Gentlemen:

It is a great pleasure for me to be here. The Industrial College of e Armed Forces performs an important function, and it is certainly easing to be here taking part in your activity. I am sorry that I could ıt, as I then thought, appear at the time that this topic was originally :heduled, but I take it that the slight rearrangement of the time did ıt inconvenience you so much.

I have given some thought to the content of the talk this morning on e topic assigned which might be most useful to you, and it seemed to e that what I might best do was this. Many of the underdeveloped or :veloping countries give more scope to government economic opera-ɔns, government business operations, or operations of business en-rprises, especially in the early phases of their development, than we ɔuld think wise in the United States, and more often than there seems

any logical reason for the purpose of development. Rather than state and criticize their choices, it seems to me it would be useful to you if I explained why the leaders of the countries that make these choices think that this is wise, and then evaluate the trends later at the end of my talk.

First I would like to mention a stereotype that many of us have about the underdeveloped countries. We are apt, in spite of ourselves, often to think of them as one homogeneous group, with all the people of the underdeveloped countries half hungry and crying out for rapid development. This just is not so. Not only do various countries differ with respect to their attitudes toward development and the intensity of their desire for it, but within any given country there is a lack of homogeneity and difference in interest and attitudes. So we shouldn't talk about the underdeveloped countries as one big lump in this context.

What I want to do first, then, is separate out the attitudes of some leaders in some of these countries, whom I will call for convenience, traditional leaders, from the attitudes of a couple of other sorts of leaders. In the pure case of the traditional leader, these traditional leaders are from a wealthy, landed class which has been socially and politically influential in the country for generations or centuries; around the central core of the wealthy, landed group are the professional groups, the top governmental officials, and the top military. This is the traditional ruling group.

These leaders tend to be cosmopolitan individuals. They are pleasant to associate with. They are the people that American businessmen who go down to such countries associate with, that the American military who go down often associate with, that the American college professors who go down to do research--unless they are anthropologists--associate with, too.

But, even though they are cosmopolitan and pleasant people, I think we should recognize that within their societies many of these traditional leaders have nothing to gain by sponsoring or entering upon industrialization or new economic activity. They are the top dogs, as it is, and enjoy a position which is only apt to be lessened if there are industrializing groups that arise. They really are not particularly interested in economic development. Economic development would, of course, help the "simple people" of the country, but the traditional elite often have a peculiar attitude toward the simple people.

Let me digress and say that when I talk about the "simple people" mean the peasants, the craftsmen, the local merchants, and menials the city--everybody except those we call in the social science jargon, e elite. The elite include the groups I have mentioned and the pro- ssional people of various kinds throughout the country. The elite are rhaps 1 to 5 or 6 percent of the population, and the simple people the her 95 to 99 percent.

Now, then, the traditional leaders today are rather defensive, be- use they know the world is moving and the world is criticizing them. ey obtain their positions essentially by birth, not by individual hievement and moving up a ladder, and they ask themselves, I suggest: What justification is there for our preferential position?" I am not ggesting that they ever ask themselves this question in so many words. am saying they behave as though unconsciously they ask themselves is. They conceive of themselves as different in essence from the mple folk and as having a difference that must be maintained. They t as though they feel that they would demean themselves if they pro- ded local roads and education for the simple folk, because that would ing the simple folk up and imply a sort of equality. If that were done, en the traditional elite would have nothing to distinguish themselves . And they act as though they felt that working with their hands, tting their hands dirty, working with tools, working with machines, directing industrial processes would be doing what menials do, and us making them like the menials. The elite have a repugnance to it.

I say they act as though this were true. They would deny most dignantly that this is true if they heard me talking. But this is the fect. So often they are willing to take industrialization on a platter, to speak, if it is given to them without their having to sully them- lves with it. But they will not get right in there and grub and run a ctory, and they are apt to drag their feet at reforms which would im- ove education or provide some farm-to-market roads, or remove scontent by land reform, and so on.

Their choices in life and concerning national policy are to keep at they have but to get aid money if aid money is available, with as tle action as possible. When we talk about the desire of leaders of derdeveloped countries for rapid economic and industrial develop- ent, which is a very real thing, we should exclude the group that I ll the traditional leaders.

Now let me specify. I have talked in the abstract so far. In Peru, I would say the influential leaders of the country are traditional leaders. This is true of very many of the influential leaders in Chile. Even though many of them are of families which migrated to Chile only two or three generations ago, they cling to their elite status all the more compulsively because it is new and precious to them. The dissatisfaction in Chile is such that it would not be at all surprising if in 1964 a popular front led by the Communists won a perfectly honest, open election and gained control of the country by getting the majority vote. And this I suggest is due not merely to outside infiltration but to the domestic situation. In Paraguay the same is true in general of the leaders, and of course in Haiti, to mention an extreme case. This is true, unfortunately, of Boun Oum and the men around him in Laos. Diem in South Veitnam is tinged with some of this attitude. This is a mixed case. Diem has done an excellant job of cleaning up some sort of gangster private armies. He has done an excellant job of some land reform and of settling some refugees on new land. But he wants to have his authority personal. It is not democratic. It is nepotistic. Everything must be in his hands. And he is tinged with some of what I call the traditional attitude toward the distinction between him, the elite, and the other people.

It is true, unfortunately, of many of the princes and relatives who are influential in the government in Thailand. It is true of the men around the Shah of Iran, although the Shah himself makes noises toward reform. It's an interesting question to see whether the traditional leaders will control the government's actions as they have repeatedly in the past. It is true in an extreme degree of the feudal leaders, or the prefeudal leaders of northeast Brazil--not of Brazil as a whole but of northeast Brazil, and so on. One could cite other instances.

I suggest that the feeling of the simple people in countries such as these that they are, so to speak, being spat upon is the basic source of political instability and that this will continue as long as these attitudes of the traditional elite are influential in the countries. Even if economic development proceeds somewhat and some increase in the level of living trickles down, this will not remedy the political instability as long as there is this feeling of social attitudes.

Now, I say that much about them to set them aside when I talk in the remainder of my speech about leaders who are much more interested in economic development.

For simplicity I will call the leaders who contrast to the traditional leaders, popular leaders. That is not a very good term, so don't take

ıe adjective "popular" too seriously. You will see what I mean. mong them there are the revolutionary leaders, who have a great fol- ›wing in the country because they were the leaders for independence, nd gained their positions in that way. Such leaders are Nehru, U Nu ı Burma, and Nasser in Egypt. In Nasser's case it wasn't for inde- endence. It was an overthrow of the traditional leaders in Egypt.

Africa is a special case. I am going to say something about that ›ward the end of my speech, rather than try to classify it in these roups. It is a special case because, in the course of economic devel- ɔment from tribal life to settled agricultural life, and then on to in- ıstrialization, Africa is farther back than most of the other countries.

In Brazil, for some strange reason that I am unable to understand, ıe President who resigned a half year ago, Janio Quadros, has this llegiance from many of the people. They think of him in the way that eople in a number of countries think of the men who led them to inde- endence. Why this should be I don't know, but he gets that reaction.

In a sense, many of these revolutionary leaders who have great ›llowings in their countries want development. I say in a sense, be- ause some of them, for example U Nu in Burma, certainly want to do ɔme things necessary for development. (I should talk in the past tense ɔout U Nu, since he was displaced by Ne Win a few weeks ago.) They ant the fruits of development. Often, however, they are personally ·aditional, so that they themselves don't have any feel for administer- ıg economic affairs. Often, apart from wanting development in this ıixed way, they are anti-Western and bitter toward the West. This :tterness arises from their past history and their struggle for inde- endence. In the extreme cases, of course, the bitterness is so great ıat it overrides other considerations for them, and you have a situation ıch as Castro in Cuba. The immediate target of his bitterness was the :evious regime, but we were attached to that regime in the mind of astro, and his bitterness toward us overrode his economic judgment.

There is another type of what I call the popular leader. These are ɔt revolutionary leaders. In some countries the traditional ruling group as overthrown in a more moderate or milder way, without extreme :nsion, and without an independence movement, because the countries ere already independent. Colombia is an example. The present Presi- ent, Alberto Lleras Camargo, who wants economic development, is an ıtelligent and moderate man, and in his attitude toward it, he is a good ‹ecutive. The political situation in Colombia is mixed. I won't take me to go into that. What will be true after the elections later this ear is an interesting question.

In Venezuela, Betancourt is the same sort of moderate leader who wants economic development and who himself is an able and democratic man. In the Dominican Republic the present government is moderate, but perhaps not very competent--although I have no particular knowledge of the individuals involved. In Argentina you have a mixed situation, where some leaders have the traditional social attitudes and are influential, but not entirely dominating, and you have a perpetual struggle going on.

Now, these are the two cases to be considered, the revolutionary leaders and the more moderate leaders who want development. What do they do, and why do they do the kinds of things they do with regard to government operation of economic ventures and with respect to choice of economic methods?

They face a pair of choices. One is the choice of a degree of private enterprise versus a degree of government operation. The other is the choice between individual liberty and representative government on the one hand, and on the other, disguised or open authoritarian rule. We often think of this pair of choices as closely associated. This is true in a number of cases, but it is not necessarily true. We have a number of cases of corrupt, oppressive, authoritarian rulers and rather complete private enterprise, and we have a number of cases of rulers who want development, who believe in democracy, and who think that to get development they need to have a good deal of government operation. So the cases are mixed, and you can't make any easy generalization of the association of government operation with authoritarian tendencies.

What are the cases of government enterprise and the reasons for it in various places? First, there is a feeling in many of the ex-colonial countries, especially, that private enterprise is antisocial and is contrary to the public interest. Notice I am not talking now about any doctrinaire decisions for private enterprise or socialism or communism. Life can't be divided up that neatly in these cases. But there is a feeling that private enterprise, especially large private enterprise, is antisocial.

The cause of that feeling I think is usually a history--as I say, these are ex-colonial countries--of having been treated as inferiors. The indigenous people for several or many generations have been treated as in essence inferior by colonial administrators, and this treatment has been associated with the presence of large foreign private enterprises. By a kind of emotional association, to find some scapegoat for their feeling of humiliation, by a process I won't try to spell out, but very typically, the emotion has got centered on private

:erprise, especially large private enterprise, as well as against :ir colonial administrators. They have a perfectly sincere feeling ıt comes from the guts that large private enterprise is contrary to : public interest, is antisocial,, and will exploit the people, and that portant enterprises had better be owned by government, to see that :y serve the public welfare.

There is a tinge of this among a number of the leaders in India. I / a tinge, you will notice. They are ambivalent. Nehru is ambivalent. has a tinge of this. This feeling is stronger, I think, in Krishna ·non. There are differences among other leaders. Nehru is an elligent man, well educated, and perfectly well aware of the merits private enterprise and the need for it in India, and at the same time has a tinge of this suspicion.

U Nu in Burma is an excellent example of the leader who had this ling in a considerable degree, and yet also recognized Burma's need · private enterprise and was ambivalent about what he should do. In ylon the present leaders of the government have this gut feeling, as all it.

Now, this attitude gets quite a wide popular response in many ıntries. The people in general feel this way, too, out of the same tory. Certainly, for example, I would suppose that the action of the /ernor of Sao Paulo in nationalizing or taking over the private facility the American telephone company was widely popular politically, :ause it was believed that this was an exploitative concern, contrary the public interest, and that he was ending a sort of colonial impe- lism when he did this. Brazil hasn't been colonial for 135 years, course, but nevertheless this is the popular attitude. There is this le public response, and you have to recognize this emotional attitude.

This is one reason. Very widely throughout the underdeveloped l developing countries, then, you have an attitude that utilities cer- ıly must be public. Indeed, they are public almost everywhere else the world, including the developed world, except in the United States. reover, it is felt that "basic industries" must be public--coal mining, el, petroleum, and so on. These attitudes are not arrived at by any ›cess of reasoning or mental balance or consideration. The men who /e them think they are, but they really arise from the guts, and there y are. You can't have much effect on attitudes that arise from the s by having a verbal discussion about them.

The remedy, then, is not words. I suggest that in many countries these attitudes will get milder and disappear over a period of a generation, first, as people grow up who have not experienced social humiliation, and secondly, as the countries gain self-confidence. Part of this feeling of humiliation and bitterness is uncertainty in themselves about whether they are inferior in ability. As they gain self-confidence and see that they can get ahead economically, then this attitude is apt to be diluted. Mexico is an excellent case in point. It was as recently as the late 1930's that Mexico nationalized the American oil company in Mexico. There is a monument symbolizing that in Mexico City, and seeing that monument and talking about it still brings an emotional charge to any number of Mexicans in Mexico City. Mexico today has restrictive laws which American companies down there grumble about, and properly so, but, nevertheless Americans now have enough confidence in the government so that American capital is going down there in large amounts and doing well. Mexico welcomes it, with these restrictions. The reason, I think, is that they have confidence that they can develop and they don't have to be afraid of somebody else; they are not as uncertain about themselves any more. They are not afraid of their own ability.

This, then, is one cause of this tendency toward government operation: this feeling, rather than thought, that large private enterprise, especially large foreign private enterprise, is apt to be antisocial. This feeling diffuses and gets directed at large domestic private enterprise, too.

Another source is the theory that only government planning and operation can get the economy off dead center. Let me spell that out a little. The concept, which is believed to be sound by a number of theorists of economic development in the United States, Western Europe, and elsewhere, is this: You may have a situation where, for example, a hydroelectric project just wouldn't be economic because there isn't enough market for the electricity. It would be economic if a number of enterprises using electricity were to develop. None of these industries would be economic, however, unless, say, the electric plant and some roads were built, and some of the other enterprises developed at the same time. One alone wouldn't have a market but with a number of them developing simultaneously they would create more income and there would be a bigger market. So to speak, they would take in each other's washing.

But now, no one individual can act, because one enterprise wouldn't be justified. There wouldn't be any market. But, if all these things are done simultaneously, then it will work.

Well, now, how can they all be done simultaneously? It is con-
ded that the government must not only plan them but do many of them
once, and then they will justify themselves, and the country will get
dead center and get developed. This is the way the theory runs.

Now, this is not the way economic development has proceeded his-
ically almost anywhere. I say almost anywhere. I wouldn't want to
too dogmatic about it. In general, what happens is this: Somebody
some entrepreneurship and he sees a way that he can make some-
ng better or cheaper than has been made in traditional ways. You
some small activity started. This starts to increase income and
and the market. Somebody else sees this trend going on and goes
a new enterprise that he wouldn't have thought of otherwise. He
y be projecting, you see, that things are going to increase. This
ivity makes the government feel that a large electric plant can make
ctricity cheaper than the small electric plants that some of these in-
tries have built for themselves. So you get an electric plant built.
is makes things look better to others, and these go forward. These
ps overlap and weave together. And you don't have to do everything
once to get off dead center. Things start slowly and accelerate, and
h step causes somebody else to think something will be justified.

Let me consider some historical cases. In Japan, government
rted many businesses in the early period of Japanese development
1870's and 1880's), and then sold them, when they were well es-
lished, to private enterprises. Since that time, however, Japan
been going ahead by private enterprise. It is not competitive pri-
e enterprise in the American sense, certainly. The government
the large businesses together decide in what fields investment will
But it certainly is private enterprise, and income in Japan has
n rising faster since World War II than, I think, anywhere else in
world.

In Latin America, Brazil, Colombia, and Mexico are examples
countries that are doing very well in terms of increase in income.
ir incomes are low, but, during the past generation, or since early
century, in fact--well Mexico a little later, but the other two since
ly this century--they have been doing very well. They have been
ng it by the practice I described of one thing getting started which
kes someone else think something looks good, and presently they
e a lot of things going on, each reinforcing the other and making
other succeed, because income is rising. So you have this prac-
, as I say.

But suppose that this steady improvement is not happening in your country, and you are on dead center. There is little rise in income and things look the way they looked 40 years ago. If you were a national leader what would you do? You can't get private enterprise activated by passing a law, but perhaps you can get the government to do many things and hope that all these things together will work. So one can easily see the line of reasoning which leads to a lot of government activity.

This cause is closely related to the next one--simply a lack of private enterprise in the country. By enterprise, here, I mean the human attitude that causes people to be entrepreneurs and get things going. Development needs capital and it also needs enterprise. An entrepreneur, an enterpriser, is a man who, (1) likes to work with tools or machines or the supply of materials or markets. He doesn't think this is grubby. He thinks this is stimulating. And (2) he finds it stimulating to attack the problems which arise. His attitude contrasts with the traditional attitude, which is: (1) not only that working with one's hands or with tools, running a business, is a grubby and demeaning activity, but that (2) facing a problem creates anxiety in the individual. A problem is not something that one can solve and show one's ability; it is something that makes one anxious, so one would rather pass the decision up to some authority above one.

Now, that attitude exists to a much greater extent among the private individuals in many underdeveloped societies than in the technically more advanced countries. Why it does is a complex, psychological question, which I won't try to answer here. But it does. Where there isn't any private enterprise and nothing has happened because nobody is getting the lead out and starting to make things go, if you were a government leader, what would you do? Well, you would think that "The government had better do it."

When you think this way, what often happens is this: The government builds some factory and there aren't any entrepreneurs to make them run, either. A factory doesn't run any better without some entrepreneurship at the top just because it is government-owned. So some are built and they don't contribute to the country's development. In fact they are a drag on it and have to be supported and subsidized out of tax funds, because they are run so inefficiently, because they haven't got real entrepreneurship at the top. But, nevertheless, you can see that a leader may think, "We've got to do something because private enterprise isn't doing anything."

This mix of reasons are the reasons for government activities in lot of countries--in southeast Asia, for example, and in Ceylon, I ıink, although I am not sure about that case--and there is a demand ɔr similar action in some Latin American countries that are not doing o well.

We have then a set of reasons which lead to a good deal of governıent operation of activities, not through any doctrinaire, political iewpoint or ideological viewpoint. There is that, too, among some ɜaders. But because of some of these other reasons there is the idea ıat only coordinated action will get the countries off dead center, and nly the government can do the coordination, and because nothing is appening in private activity the best thing is to try to see if something annot be started through public activity. When you consider these ttitudes, the degree of government operation in a number of countries ; much more understandable.

This last case is in an extreme degree the case of Africa south of ıe Sahara. There is plenty of enterprise of a sort in the African ɔuntries south of the Sahara. From anybody who has lived there very ɔng you can get tales of the traders. There is the illiterate woman who ɔw runs a $300,000 a year business collecting some native item and ıarketing it, or else having a lot of people make little statues for the ɔurists, or what not, and has a business that ramifies over 100 miles. ou can hear tales like this in almost any African country.

But this talent isn't widespread enough or general enough to provide broadly based technological progress and economic change. In some ɔuntries, the people are hardly settled down to tribal life, much less) agricultural life. The governments say they must modernize, and onder how they can modernize. They say they must do something about . So I expect we'll have similar developments in a number of African ɔuntries.

There's one last reason for some rather foolish government ecoɔmic projects in a number of countries: a rather desperate need for symbol of modernity. Let me take Burma as an example, since my ɔngest experience in underdeveloped countries was two years in Burma.

I think that an explanation of some of the Burmese Government ctivities is this: The Burmese leaders felt bitter and humiliated, withıt recognizing it themselves (these are rather unconscious feelings); ılt they had been trod upon, had been treated as inferiors. They felt

their religion had been derogated by the British. (It happened to be the British. The British are among the best of the colonial administrators, so I am not singling out the British, except by accident.) The British walked on the Burmese temple grounds with their boots on, and cast aside Burmese traditional laws, and set up systems of land ownership which violated ancient Burmese rights, and treated the Burmese as inferior. Some Burmese leaders today feel a tremendous need to attain dignity, and they feel that the way to get dignity is to get power. What gives you power? Power is associated with industry. I would suggest that a couple of the foolish industrial projects in Burma are due to the fact that leaders had to see something industrial that was the symbol of power, and had to see it quickly, and this need just overrode their judgment. So you have a steel mill where the economic justification for it is just so far from existing that it isn't even a close decision. You find this sort of thing, where rational discussion of the advantages or disadvantages of projects somehow just runs into an invisible wall, a certain compulsive insistence on the project, and as an adviser you can't penetrate it and communicate with the government leaders. I think there is no better explanation for this than a desperate need for some symbol of modernity and industrialism, so that the leaders can feel they are going to get more respect because now they are modern, too. They can see those big smoke stacks on their factories.

Now, against these reasons for some activities that are a little foolish from a pure economic viewpoint, let me contrast the necessity for planning, in a different sense, in any country which is developing, without regard to whether it is highly private enterprise or whether there is a good deal of government operation.

The government in any developing country must plan in several senses. First of all, if it is building roads or planning a hydroelectric development, or urban facilities, it needs to ask: Will the electricity be available when the industry that is beginning to develop in that region needs it? Will there be roads when the traffic requires them? It has to plan its projects, that is, to be complementary with private development. If it doesn't look over the whole economy and see what private development is going on, presently it will find that there is need for electricity in a project next year and construction of the power plant, which will require four years, hasn't been started yet.

So, first, you need planning in order to see that government activity will provide the necessary complements to private industrial activity. Secondly, you will need planning because the government projects will use a good deal of resources, and if you don't try to estimate how much

anpower and material resources are going to be used in private eco-
›mic activities, you may find that the government is doing so many
·ojects and spending so much money that there just isn't enough left
r private investors who could use it with advantage to the country.
ıe attempt of everyone to get labor and resources will cause inflation.
: on the other hand it may be that there isn't enough private-plus-public
:tivity, and there is unemployment. But the former situation is perhaps
ore apt to arise.

What should be done in that case is either to cut back on some of the
·vernment projects, or, if the government projects for roads or schools
utilities seem more important than some private economic activity,
en taxes ought to be raised or credit tightened to cut down private in-
me and spending, so that there will be room for the government proj-
ts. There must be a judgment of how high the level of private activity
apt to be and how important it is relative to government projects, in
der to make a sensible allocation of resources, by fiscal and mone-
ry devices, between them.

The same sort of decision must be made concerning foreign ex-
ange. Any developing country is apt to be short of foreign exchange.
addition to the usual exports and imports, it wants imports of capital
ods and materials for development projects. These added demands
e apt to create more demand for imports than the country can finance.
so, it must decide whether some government projects are going to be
t back. Because if the foreign exchange is used for materials for them,
ere won't be enough for private investment. Or are the government
ojects more important, so that foreign exchange should be used for
em at the expense of private imports?

If there is no planning--if officials just go ahead with the govern-
ent projects without planning, they will find the country has run short
foreign exchange without any anticipation of it or any systematic
ethod of coping with it. So that one ought to distinguish between gov-
nment direct economic activities and government planning. Govern-
ent planning in the wider sense is like what the Council of Economic
visers, the Bureau of the Budget, and the Federal Reserve System
in the United States every year, and any sensible governmental
eration in an underdeveloped country will include it.

In the Indian second 5-year plan, for example, in the third year or
of the plan, India began to run out of foreign exchange a lot faster
ın she had expected to, the reason being that the expansion of income
sulting from the moderately successful first 5-year plan and the

beginning of the second, had stimulated so much private investment that private investors were buying a lot more imports and using a lot more foreign exchange than had been anticipated. In other words, the planning wasn't perfect. Private activity was more vigorous than had been expected. So India cut back on government projects quite a bit, which I think in that case was the proper decision. It might also have been proper to force cutbacks in some private projects by just not making foreign exchange available in some cases.

Now, with this digression about planning, let me discuss the trends that are visible concerning government economic activity in developing countries. Before I do so, however, let me suggest that I may have given you an exaggerated impression. I don't mean to imply that all over the underdeveloped world all of the new activity is being done by government. That's an exaggeration. What I wanted to do was give you a picture of why often there will be insistence that there must be a government steel mill, and they will want United States aid for it, and there must be government petroleum exploration, and so on, so that you can see the source of attitudes which cause this.

I am digressing for a second, but let me say that in many cases I think it would be in the United States interest for us to provide aid for those governmental operations. If we don't, that doesn't mean that they will be private operations. It simply means that these countries will be alienated from us. I think it would be desirable, for example, that the United States should provide aid for the government-owned petroleum corporation of Brazil to do exploration work. Every Brazilian and most other Latin Americans believe firmly that the reason we haven't done it so far is that the petroleum companies of the United States control public policy and, wanting to make more profit, keep the Government from giving aid for that purpose. Since the petroleum exploration is desirable, and since Brazilians will have these gut feelings until a new generation with more self-confidence has grown up, I think we should let them use our aid for a governmental enterprise, in order to avoid misconceptions about our purposes in aiding them.

Now, what possible trends are there? I think that these attitudes will continue for a decade or two, because the bitterness of personality is built into the guts and it isn't going to thin out until you've had a new generation coming along. I suggest that this degree of government operation or the tendency toward it offers little danger to American public policy so long as it is associated with representative government

and freedom of individual expression at the ballot box and elsewhere, as it often is.

As I say, you have a fair tinge of this in India. You have it in other places. It's not at all incompatible with political freedom and alliance with the West. It means some suspicion, hostility, and bitterness toward the West, but that's not the same thing as alliance with our enemies.

The more the United States understands this and aids development in a number of such countries with these tendencies, the more apt you are, I think, to get development without more authoritarian measures, because, if we don't aid these countries they will have the usual emotional explanation of this and turn elsewhere for aid.

Furthermore, the remedy is the gaining of confidence in themselves. Again I suggest that 20 years from now--not 5 years from now but 20 years from now--in countries where development is under way, you are going to find these attitudes a lot thinned out because they've got more self-confidence and they can afford to trust private enterprise more.

So this leads to conclusions for American foreign policy and American aid policy which I won't elaborate but which are perfectly obvious from what I have said so far. I have talked long enough, and I shall stop at this point.

Thank you.

CAPTAIN SMITH: Dr. Hagen is ready for your questions, gentlemen.

QUESTION: Dr. Hagen, what can you do when the government builds things and you still have no entrepreneurship? Can you hire management from other countries or would the national feeling prevent it.

DR. HAGEN: The only thing you can say in general about this is that this depends on cases. You can always hire management to a limited extent if the government officials are willing. However, there certainly is a limit. In other words, if there is one enterprise where in effect "foreign advisers" are running the thing, OK. If there are two or three, presently you reach a limit in many of these countries,

because the incursion of foreigners gets under the skin. But you can certainly do it in a small number of cases if the government officials don't feel so suspicious that they won't allow it.

There is another attitude, too. The people of these countries are apt to feel that the salaries that they have to pay for these foreign advisers are outrageous and exploitative. Of course they are four, five, six, or eight times as high, perhaps, as all but the top officials get in their local scale of salaries. These are the salaries that they are going to have to pay to anybody from, say, the United States who is good, because incomes at home in the United States are high. But the officials of underdeveloped countries are reluctant to approve this. The outcome depends on how strong these feelings of the government officials are, and how able they are to detach themselves and be intelligent about the benefits of making that plant run.

Well, I can't generalize any more than that. Let me add, by the way, that in Burma, for example, there were two technically very capable textile men from New England who came out there to be advisers to a Burmese state cotton and spinning and weaving mill, and they both went home after 2 to 3 years. They were nervous wrecks. They couldn't make the plant run well in Burma. There were problems, cultural problems, relationships between individuals, the board of directors finding it improper to delegate authority, and all this sort of thing. So advisers must be much more than merely technical ones if they are going to make enterprises run well.

QUESTION: You described the traditional type of leaders, and you associated this with many countries of Latin America. Having this in mind, then, what would be your views as to the effectiveness of the Alliance for Progress in such a setting?

DR. HAGEN: The Alliance for Progress proposes that there must be certain social reforms and indications of effective action on the part of the government if the aid is to be granted. This is both very difficult and very essential, precisely for the reasons I suggested and because of the problems you are implying in asking the question. Let me say that Chile is rather a test case. Chile either has adopted or is adopting a measure for land reform, of which I have seen only a 2-or-3-sentence description, but clearly it isn't very comprehensive. They don't have an effective progressive tax law. There are a lot of things they haven't done that they might do about education and local roads. They have said, "Now, look; we are adopting a law; we are

preparing a long-term development program (on paper that is). We ıave done these things. Now we qualify, and we need $300 million (or something like that)." If they can get it without any more than paper ıction, and if there are a couple other such cases, then the theory of :he Alliance for Progress that to get aid you've got to show that you are ıelping yourself is going to break down, because there will be too many ɔrecedents against it.

So these early cases surely are important test cases, with Chile ımong them, to show whether we do insist on some real evidence of ıction. It is very difficult, as I say, simply because there are limits :o the extent to which you can bring about the action you desire. You :annot make leaders of a country adopt social reforms they don't be-ieve in, that they perfectly, sincerely, don't believe in, unless there ıre some important groups within the country who do believe in them, ınd you are bolstering one set of attitudes in the country as against ınother set of attitudes. So it's a complicated problem, and I guess hat is all I can say.

QUESTION: Doctor, do you think that the military assistance ɔrograms to underdeveloped nations are a help or a hindrance to these :ountries?

DR. HAGEN: Again it depends on cases. I think both. It is quite ɔossible to have such a large military assistance program in a certain :ountry that it diverts the energies of a lot of leaders and young men in he country away from what they might be doing in economic develop-nent, retards economic development, creates frustration, and in 10 ɔr 15 years gives the country to the Communists because of the frus-ration developed by not getting ahead otherwise.

On the other hand, it is quite possible that a military assistance ɔrogram in addition to providing the shortrun safeguard that the coun-ry needs will provide training, material facilities, and bases for conomic development. So I think that it can be cooperating and helpful ı economic development, and it can be retarding. It just depends on he supply of talent and manpower in the country; and on the shortrun nd longrun situation that may be developing in the country; on how rgent the military need is; etc. So I don't think there is any general nswer.

QUESTION: Dr. Hagen, you have mentioned government owner-hip of what we may now consider private industry is not necessarily

incompatible with political freedom, but it may well be incompatible with the most rapid economic growth. It forestalls, for example, the taking of tax measures which would encourage private industry, or the removal of such things as fixed prices which would hinder the installation of private industry. Will you comment on that?

DR. HAGEN: Yes. I realized after I finished the talk that I had in passing down my notes skipped the paragraph where I meant to say that. A government project may have no justification on economic grounds, because it wasn't decided on on careful economic grounds. Once it is adopted there may be a policy of keeping prices down, of paying high wages, etc., and altogether, the project may be wasteful and may retard economic development.

Now, this will be done in some cases. Secondly, this raises questior of United States aid policy that are in addition to the questions that I indicated before. We may appropriately refuse aid for some such projects--but in doing so we may generate a feeling that we are "imperialistic," etc. We have to recognize these complexities and look at the individual cases.

QUESTION: Dr. Hagen, which of the underdeveloped countries do you think will make the most economic progress, say, in the next decade, and can you give us some reasons why you think this might happen?

DR. HAGEN: First, there are a number of Latin American countries that are markedly ahead of the Asian countries, to say nothing about the African countries. Other than the Union of South Africa and the Rhodesia which are both under European control, the African countries are behind. A number of the Latin American countries are well ahead both in terms of per capita income and in terms of rate of change in per capita income. The average per capita income in all of Latin America, from Mexico down to the tip of the continent, is between two and one-half and three times that in free Asia. Furthermore, as I indicated, in Brazil, Colomb and Mexico this is rising quite steadily. In other words, they are making progress. In Argentina and Chile it has risen in the past. Argentina and Chile were having their troubles in the last decade and they were falterin but I think probably they will go ahead again.

So, as a gross answer to your question, I would say some countries in Latin America. In saying that, I omitted Japan from consideration. I think of Japan as underdeveloped in the sense of having fairly low income. But it is industrialized, it is a technologically progressive country, and

hink of it as being in a different category, out of the woods and going ead.

So that's the large answer. Now, to pinpoint it more--well, that's difficult question. I would suppose that India is apt to progress quite tisfactorily. Per capita output in India seems to have been rising at ite a good rate during the past 10 years. When I say "quite a good te" I regard a per capita increase of 2 percent a year as very satis-ctory indeed. Let's not talk about spectacular cases of 5 or 6 percent year, or even more, such as Japan has. A country where per capita tput increases by 2 percent a year and continues to get a compound-erest effect that does wonders in a generation.

I would suppose that, of the countries outside of Latin America, lia is apt to make the best showing. This is merely a projection of cent trends. All I am doing is looking at what has happened in recent ars and thinking of what I think the prospects are.

Again, I must correct myself. I should undoubtedly include Taiwan, ere the rate of progress, the rate of increase of per capita output per ar, has been higher than that in the Latin American countries. Taiwan s done very well indeed. This progress has occurred in spite of high pulation density. I don't see any obvious reason why it should not ntinue.

I guess those are the cases I would cite. As I say, I can't do much to the reasons, except to say that I am really just projecting the cent past rather than doing anything more fundamental.

QUESTION: Doctor, you mentioned some cases of traditional lead-s who don't relish reforms and industrialization, because they have hing to gain. What is necessary for this group to appreciate the nificance of previous history? The very advanced misplaced attention t is supposed to accompany a revolution with the acquisition of their perty and wealth will probably occur unless they change their ways d attempt to assist the lower classes.

DR. HAGEN: You people do not ask easy questions. This is as ficult as the several others that have been asked. First, I don't think t a change in their attitudes can be accomplished by intellectual dis-ssion, and that in a couple hours or several weeks you can make a aditional" man see that something he has not previously believed in going to be more beneficial, so he changes his attitude. His attitudes

are deeper seated than this, and are not amenable to this kind of discussion.

Thus, a number of individuals that I could name in some Latin American countries, traditional leaders, just take for granted that the people I have called the simple people are a different kind of people from them. No amount of intellectual argument can change that attitude any more than it can change the fear that, say, a typical American young woman has of a mouse or a snake. And, by the way, I think that's quite an apt comparison. I think the roots and the depth of such attitude are quite comparable, strange though that seems.

Secondly, in no country, I suppose, are these traditional attitudes undiluted. That is to say: Not everybody is like that. Deviants appear among the traditional elite. People have a different view of life. By and large, people who are effective economic innovators tend to have a different view.

Let me turn to psychology a little and suggest that a person is an effective entrepreneur only if he is able to put himself in someone else's place and judge how the other person is thinking about things, and thus see how he can operate best. Unless he has what we call empathy, or the ability to consider someone else and judge his viewpoint in order to deal with him,--to manipulate him in the good sense of that word--he is not apt to appreciate the attitude of the simple people, which you have to do to be more favorable to social reform as well. These two things tend to go together.

That doesn't lead me too far, except to say that this is a slow process. In some cases this is the history of the Bourbons all over again. It was said of the Bourbons: "They remember nothing and they forget nothing." I am afraid there are some traditional leaders of which that is true and they will cling to their attitudes. If this is widespread enough, you will get more revolutions like that in Cuba.

I may add, I would be surprised if we didn't have (I am doing a law-of-averages statement now--I have no particular country to name) one or two such radical takeovers somewhere in Latin America during the next 5 or 10 years. I would be surprised if everywhere we got enough moderation of attitudes to provide the changes which relieve some of the tensions.

What can the United States do? We can try to help the groups in a ıntry who are interested in economic development. As economic velopment moves forward, that helps to relieve tensions a little. It esn't change the attitude of the dyed-in-the-wool traditionals, but they e never all of the people anyway, as I have said. We can try to bring essure and inducements for social reform, social reform in the kinds things I have mentioned--improvements in education, land reform ere pertinent, local roads, and this kind of thing. Where there are oups in a country pushing for them, we bolster one group against other, and this may have some effect.

Then we will not be changing the attitudes of some individuals, but will be changing the balance of influence in a country. These are things we can do. Otherwise I think we have to let time take its ırse and hope that there are not so many unenlightened that they in- it on policies that lead to trouble while we try to alleviate it by help- people with other attitudes.

Well, again, this is not a very satisfactory answer, but you ask ficult questions.

QUESTION: You just mentioned that it will take years for the elite change their attitudes. Meanwhile, the international hot money sit- ion will persist through those years. Do you feel that the amount of money is sufficient so that some international agency such as the er-American Bank should try to attract it and in turn reinvest it in ıth America under diversified programs and guarantees to the indi- lual depositers? Or do you feel that it is being invested in Switzer- ıd and New York and replacing other investment funds that way, and obably in the long run it may not differ which way it is handled?

DR. HAGEN: Any real answer to that calls for numbers, and I rtainly don't feel sure about the numbers. Let me say that obviously some extent this is a problem. Obviously the prevention of this ıst be more by the individual government involved, which tries to that the foreign exchange is sold to the central bank and that the ex- rter is paid in the local currency. Obviously, also, this is not com- tely successful in many places.

Now, whether, say, an inter-American development bank could ract this money, let me say that I doubt this. If the inter-American velopment bank were to attract the money the holders would have to ntify themselves. That is to say, the people would have to come

forward and deposit their money. As soon as they do, they are admitting that they are violating their national laws, and I just don't think they would do it. I don't think that often the money is invested productively abroad, in a way that benefits the country where it originates. Its flow abroad is a net loss. How big the problem is in various countri I wouldn't attempt to say.

QUESTION: Doctor, in the discussion of the underdeveloped countries, particulary in the Asian countries and Africa, and maybe not so much in Latin America, everybody is starving to death, and yet you hear very little about the agricultural policies. Everybody must be industrialists. Where do you feel the agricultural policy fits into the problem of trying to get these countries off the ground?

DR. HAGEN: Let me cite India as an example. First, everybody wants to be industrial. Industry has more glamour than agriculture. In fact, in the early stages private people with real entrepreneurship, as well as government people, are apt to go into industry because it is a new thing and they think it has more opportunity. Therefore, often, in these attempts at quick development, you do get early starts in industry.

By the way, in England, for example, and in Germany and Western Europe, historically you got the first changes in agriculture. But, nevertheless, now in the drive for quicker change, you don't

The Government of India in the first 5-year plan talked a good deal about the need to develop agriculture and increase the food supply, and gave a fair amount of emphasis to it, and there was some progress. There were some improvements in yields. Some of them were attributable to the weather, but by no means all.

In the second 5-year plan, probably motivated by China's rapid industrialization, the great emphasis was on industry. The big money in the government's expenditures was to go into industry and into aid to industry.

Now, in the third 5-year plan, India recognizes that she has got to be growing more food herself. There are more words about agriculture in the plan, but not a great amount of money is being put into agriculture. The hope is that in agriculture results can be got by community development and by education without putting in a lot of capital. In my judgment, the expectations are too optimistic. Not enough money is being put in.

In this case India is saved by the fact that there happens to be a ıntry in the world which somehow finds it both easy and attractive to ıke up for any deficiency in agricultural supplies that any developing ıntry happens to have. In other words, the United States is uniquely ıipped to provide food without political resistance in the United States--fact quite the contrary--which is very advantageous to the developing ıntry that has an agricultural product shortage.

But I would think that having found that these easy, cheap measures stimulating further increase in agricultural productivity in the third ɣear plan period are not enough, in the next period, after the end the third 5-year plan just starting, the Indian leaders will recognize .t they've got to put important money into agriculture and they will go · it in a way that is apt to be more adequate than what they are doing w.

Now, this is an example of what is apt to happen elsewhere. There apt to be early emphasis on industry. Then there is apt to be, in ıntries that aren't food exporters, the realization that they've got to ɣe more agricultural products. Very often the United States in the antime is apt to provide surplus agricultural commodities and make the deficiency. Then later the country will go into agriculture.

As income rises people eat more agricultural products, or they eat ·icultural products that take more effort to raise. That is, the type things they eat changes, and it calls for more effort in agriculture.

Also, as they industrialize domestically, the market for industry, t is going to continue to expand, has to be one outside of industry, well as in industry itself. There has to be rising agricultural income provide a market to stimulate your further industrial expansion.

This has to be balanced, but it doesn't have to be balanced in the ›rt run, because there are always exports and imports to take up the ck. I think the United States so far as it can in its aid programs ›uld stimulate attention to agriculture in many countries, but I don't ;ard lack of this as a dangerous deficiency in the planning, simply :ause we have the loophole of imports of United States surplus com-dities.

QUESTION: Doctor, how do you assess this recent development of ividuals moving in on these large landholders of South America? Is s the beginning of a fourth social evolution?

DR. HAGEN: No, I wouldn't think that. This has happened other places. The reasons for this are clear enough. The first is just plain economic. You just want more land to grow more things. Also this is a way of sort of venting that bitterness and hostility. This gives them some emotional release as well as an economic gain. It indicates the serious social situation, not merely because of economic factors but because of tension. But that it's sort of a new type of social-political evolution, no, I wouldn't think that.

I think land reform in the sense of provisions which will give owner ship to many renting peasants or peasants working on estates now, is important in many countries. In some cases it is apt to have a short-run adverse effect on agricultural productivity, not necessarily a short-run beneficial effect. If the peasant is already working the land in a small plot, and all you do is provide him ownership where he has been renting--I don't mean confiscate it and give it to him--and you are not changing methods, the shortrun effect is apt to be beneficial. But where land reform divides up land that was worked in larger units, the shortrun effect may well reduce production.

It may be desirable even in those cases because of the social-political effect, but you've got to recognize the economic difficulty. But, in any case, whatever the situation is, and however extreme the tension is that these movements indicate, I don't see any reason to classify it as some new classification of social development--no.

CAPTAIN SMITH: Gentlemen, our time has run out. Dr. Hagen, in behalf of the Commandant, the faculty, and the students, thank you very much, sir, for coming down here today.

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