It is misleading to talk about ‘the developing countries’ as if they were all alike: the problems of India and Sierra Leone – to take two examples with which I have personally had contact – differ widely. Nevertheless, it would be wrong to say that developing countries have nothing in common and that each has to be considered separately as a special case. There are considerable differences in detail among them, but a broad scheme of analysis can be outlined, which can be applied to each country according to its special characteristics.

Analysis of the problems of these countries leads to the conclusion that external aid is desirable, preferably a free grant but, failing that, as a long-term loan or equity capital. The object of this article is not to deny that such external assistance is desirable, but rather to examine whether it is right to place a preponderant importance on it and, in particular, to see whether it should not be thought of as but one factor in a detailed overall plan. Since very few developing countries are likely to receive their full ‘requirements’ of external aid, it is worth examining methods of making the best possible use of it by the countries themselves.

First, however, let us see just why it is that so much stress is normally laid on the need for external capital. Put crudely, the argument is both simple and appealing. It is a common characteristic of developing countries that the average income of the inhabitants, measured in real terms, is extremely low. This low income enforces a low level of consumption per head and reflects a low level of productivity – i.e. a low level of real output per head of population. The crucial question for those who want to raise living standards is, therefore, what causes this?

There are a number of factors which contribute to the explanation. One might say quite simply that the people in these countries do not usually feel the same urge to work hard or conscientiously in order to earn a substantial income, as do people in the West; rather, they are content to ‘sit in the sun’ as soon as they have earned enough for
their modest tastes, or at least to take their working lives fairly easily. Or it might be said that a substantial proportion of the man-days which the labour force is willing to provide cannot be utilised because of intermittent unemployment — the result of casual daily, even hourly,hirings with little presumption of continuity. Or again it might be put that the average worker, though willing, is inefficient, so that his output is small and much of what he produces unsatisfactory.

These and other factors play some role, varying from country to country. Nevertheless, the traditional analysis generally leads to one thing as being of outstanding importance: what the economist calls 'the lack of co-operating factors'. By this he means that, even though the available workers may not be very efficient or industrious, nevertheless output could be greatly increased if they were provided with a better supply of 'things to work with'. Under this heading predominant importance is normally given to capital, meaning real capital equipment (factories, machinery, tools, etc.). A succinct summary of this view would be simply: 'Very little can be produced with bare hands alone and not much more with the rudimentary equipment available to the average worker in a developing country.' Hence the stress on increasing the amount of capital available, so that output per head can be increased 'out of all recognition' (in the view of the optimists), or at least 'very substantially' (a more realistic appraisal).

This process of raising output her head of population by providing capital equipment for workers to use can be pictured most vividly by imagining that, previously, the would-be workers were unemployed, and then a new factory is opened, in which they can produce a substantial amount per head. But the problem in developing countries is not usually one of 'unemployment' in the sense in which that term is understood in Britain — a state in which people are able and willing to work but cannot find a job. Indeed there are usually not many people who are literally unemployed in the sense of having done no work for the last week; outside a welfare state, unemployment of this kind would imply a large number of beggars or thieves. More typically, in a developing country the would-be worker who cannot find a proper job will turn to some relative who has a small business (commonly in agriculture or distribution) and who will allow him to 'dip into the family rice-bowl'; in return he will do some work in the family business, though this does not imply that its output will be increased since it is usually adequately staffed.