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SOME CONCEPTUAL ASPECTS  
OF INTERNATIONAL ECONOMIC  
DEVELOPMENT OF  
UNDERDEVELOPED TERRITORIES

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# SOME CONCEPTUAL ASPECTS OF INTERNATIONAL ECONOMIC DEVELOPMENT OF UNDERDEVELOPED TERRITORIES

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## I. INTRODUCTION

**M**ANY attempts have been made to define an "underdeveloped" country, region or community. All the definitions known to me leave much to be desired. The difficulty consists in the fact that while development is not necessarily a measurable it is always an evolutionary process; while the forms or symbols under which it is subsumed frequently remain, or appear to remain, the same, the "realities" to which they correspond are altered.

Indeed, to speak of development, or lack of it, at all, is to assume that the society to which the term is applied is proceeding, or is failing to proceed, in a certain direction—towards a preconceived foreseeable goal or end, the attainment, or partial attainment, of which will indicate a more desirable state of affairs than that now being experienced, or than that which the society experienced in the past. In other words, to speak of the process of development is to assume, or imply, consciously or unconsciously, certain standards or criteria of such development.

Whether a society is regarded as economically developed or underdeveloped will depend, therefore, on the specific criteria of development applied by the observer, and the position occupied by him. They will vary according to whether the observers are within or outside the society; whether they are or are not also actors in it; whether they comprise the whole, a large, or a small part of it; whether they apply criteria based on their own experience, or criteria borrowed from others; whether such criteria are based on the past, or rest on utopian conceptions of the unrevealed future; whether they appeal to the reason or judgment, or the whims or appetites of their fellow men; whether to the "lessons of history" or, like the prophets of old, to transcendental values and the word of God.

As Schumpeter wrote about capitalism, it is well to remember that the fate of a particular society "is not a question of the merits or demerits

we may individually see in it. Our judgment about these is a matter of personal or groupwise preference that depends on interests and ideals largely determined by our personal or groupwise location in the social organism. What we mean when we say that we are for or against capitalism" [or as I here suggest "for or against" a particular stage of economic development] "is that we like or dislike a certain civilization or scheme of life. . . . But civilizations are incommensurable. Even if we agreed to neglect those cultural aspects, which are what really matters to us, and to make the 'desirability' of retaining or eliminating capitalism turn on some purely economic criterion—such as comparative productive efficiency—we should never agree about the result. For even if those extra-economic and largely extra-rational preferences did not prevent us from admitting that any criterion could ever tell against the alternative we have chosen to espouse—which they no doubt would in most cases—we should immediately challenge a criterion that did. No amount of honest intention to place oneself on the standpoint of the public welfare or of the nation's interest avails against that. For the point is precisely that these words carry different meanings for different minds. The only thing we can do in something like a scientific frame of mind is therefore to try to visualize, irrespective of our wishes, the actual situations which may be expected to emerge and the relative power of the groups which will be in a position to assert their interests and ideals in handling those situations."\*

But let us not forget that history is the record of social action not of passive observation. Indeed, the belief (which I do not share)\*\* that development is merely a "rational" process of social choice and hence that it is above all a question of social *will*, and determinate action based thereon, lies at the root of the outlook of the modern Western World. The history of social development—development as social history—is the story of the ambivalent role of man in search of freedom to choose the ends of action and of conscious or unconscious desires to impose those ends on others, or have them imposed upon himself—either for what he believes consciously or unconsciously to be for his sake or for theirs; either out of conviction that he *knows* or has had revealed to him what is good for them, or as a rationalisation for what he rightly or wrongly conceives to be good for himself.

\* Joseph A. Schumpeter, "Capitalism in the Post War World" in *Postwar Economic Problems*, edited by Seymour E. Harris, McGraw-Hill Book Company, Inc., 1943, p. 113. Quoted with permission of the publisher.

\*\* I am not here concerned with either the validity or the philosophical implications of that belief.

## II. "INCOME AGGREGATES" AS CRITERIA OF INVESTMENT AND DEVELOPMENT

It is of importance to probe behind the symbolisms in which the criteria of development we consciously, or unconsciously, apply are clothed.

It is clearly not possible within the compass of this essay to examine the many different criteria of development which have been suggested, or of the large number (many of them contradictory in themselves),\* that have been made use of by national and international agencies. What I shall attempt here has a more modest aim. It is to examine some conceptual and praxiological aspects of *investment*, and particularly foreign investment, as a means of furthering the development of "underdeveloped societies." Underlying nearly all current discussions of this problem are two assumptions: (a) that international policy should be directed to raising the income per capita of the inhabitants of underdeveloped societies, and (b) that one of the main pre-requisites for doing this is to stimulate investment from abroad in them.

\*For a critical analysis of current criteria of development I would refer the reader to Professor Jacob Viner's "Lectures on the Theory of International Trade," given at the Fundação Getúlio Vargas, National University of Brazil, Rio de Janeiro, July-August, 1950 and Published in Portuguese Translation in *Revista Brasileira De Economia*, Ano 5, Número 2, June 1951. I would draw particular attention to the following challenging statement in Lecture VI. "Let us suppose, for instance," writes Professor Viner, "that a country which has embarked on a program of economic development engages in periodic stock-taking of its progress, and finds not only that aggregate wealth, aggregate income, total population, total production, are all increasing, but that per capita wealth, income, production, are also all increasing. All of these are favorable indices, but even in combination do they suffice to show that there has been 'economic progress,' an increase in economic 'welfare,' rather than retrogression?"

"Suppose that someone should argue that the one great economic evil is the prevalence of a great mass of crushing poverty and that it is a paradox to claim that a country is achieving economic progress as long as the absolute extent of such poverty prevailing in that country has not lessened or has even increased? Such a country, nevertheless, might be able to meet all the tests of economic development which I have just enumerated. If population has undergone substantial increase, the numbers of those living at the margin of subsistence or below, illiterate, diseased, undernourished, may have grown steadily consistently with a rise in the average income of the population as a whole. . . .

" . . . Were I to insist, however, that the reduction of mass poverty be made a crucial test of the realization of economic development, I would be separating myself from the whole body of literature in this field. In all the literature on economic development I have seen, I have not found a single instance where statistical data in terms of aggregates and of averages have not been treated as providing adequate tests of the degree of achievement of economic development. I know, moreover, of no country which regards itself as underdeveloped which provides itself with the statistical data necessary for the discovery of whether or not growth in aggregate national wealth and in per capita income are associated with decrease in the absolute or even relative extent to which crushing poverty prevails."

These assumptions may or may not be correct. But this is not a matter with which I am immediately concerned. What I am concerned with is the basic implication that low or high "incomes" per capita or low or high aggregate "incomes" do in fact provide *criteria* for investment policy in relation to "underdeveloped territories" at all. I believe it is significant that the current literature on the relation between aggregate "income" and investment makes use of terms like gross or net national "income" per head *as if* the word "income" in such expressions has a similar connotation as a guide for investment decisions as it has, or had, in a money-exchange economy for a private entrepreneur or promoter. In other words, it uses aggregate "income" as an accounting symbol and as a rationale for economic policy. There is yet another use of the word "income" in this context which implies that changes in aggregate "income" can be regarded as indicating, and indeed as "causing," changes in "welfare" in the same direction. This, as I hope to show, is not only logically fallacious but further undermines the usefulness of such concepts as aggregate "income" as criteria of investment policy.

It is I believe basic to the problems considered in this essay to realise that the "income" criterion of investment applied by a private entrepreneur has little in common with the use of national, regional, or other collective income aggregates as criteria of investment and social action. In using the term entrepreneurial investment I mean the placing of capital at risk in order to obtain a net monetary return or, more exactly, a net increase in the value of the capital which increase can be converted into money. The rationale of private or "business" investment, i.e. the investment of money made by the entrepreneur or a "legal" entity acting as such (and independent within the field of action for which it has been set up), is made with the sole object of deriving an income or profit from that investment in an accounting sense. Such income, or profit, or monetary return, consists in the net *increase* in the value of the capital and is nothing other than this in so far as the entrepreneur is concerned. In fact strictly speaking there is no such thing as a *flow* of income from an investment of capital. The income arises from the increase in the *value* of the assets and their disposal (in whole or part) from time to time. A profit and loss account covers a period between the dates of two Balance Sheets and is only a detailed reconstruction of how the capital accounts changed within the period of time so chosen.

Capital and Income are—as Irving Fisher stressed long ago—logically exclusive terms; when income is received by the investor he must decrease his capital to an equal extent. Income thus represents a "decrease" of the capital value attained at that time—an exchange

of that portion of the capital, which is "detached" from it, for money or for a money equivalent.

All this is of course well-known. Yet the fallacy persists\* that the word "income" can be used to express something other than a "return" to capital, i.e. something other than an accounting relation, and can "measure" the services, satisfactions, or pleasures yielded by a good (e.g. a piano, or a piece of bread). This is what Irving Fisher tried, I believe fallaciously, to "account" for as "psychic income"; which I have argued cannot be so recorded in accounting terms at all.\*\*

Similarly the concept of an "increase" in "income" as yielding, and as "causing" an increase in "welfare" (in the sense of a subjective counterpart to the "recorded" income), is also logically untenable. To identify, or seek for, a functional relationship between "income" and total welfare is as logically fallacious as to identify the points scored in playing a game with the "value" of the game to the player. It is not a change in the National Dividend, or measurable net money income, which causes a change in "welfare." It is a change in what is by habit, custom or belief, regarded by the society as constituting welfare, which determines the nature, and frequently the amount, of the national dividend itself. It is the ultimate (conscious or unconscious) purposes for which the "events" we call "income" are desired that determine the nature and extent of the forms in which "income" will be incorporated. We cannot therefore compare "income" aggregates for different societies, or even "evaluate" income in them, without taking into account the social purposes and "value" system which govern the production of income. A society which glorifies war will have a different "system or concept of welfare"—a different "scale of values" and hence different concepts of what is "income"—from one which desires peace.

The belief that income aggregates, for societies greatly differing in their structure and ideologies, can be compared, and that breakdowns of these statistical abstractions, such as, for example, net "income," "con-

\* See my "Psychic and Accounting Concepts of Income and Welfare." *Oxford Economic Papers*. February 1952. See also my "Concepts of Income and Welfare in Advanced and Underdeveloped Societies—With Special Reference to Intercomparability of National Income Aggregates" which was submitted to the 1951 meeting of the International Association for Research in Income and Wealth and is to be published in its proceedings.

\*\* Thus to say that an investor who invests capital in buying house "A" rather than house "B" although both houses cost the same, have the same market value, and yield the same net money income, is obtaining an additional "income" because he has what he thinks is a better view from "A" than from "B" is not a correct use of the word "income." Such "subjective" income is not "income" in an accounting sense. Whatever its importance it has no relevance to the pure act of private investment for which the basic criterion is the achievement of a net increase in the value of the capital which increase can if desired be "detached," i.e. exchanged for money.

sumption," "saving" and "investment" per head are useful for comparative purposes rests on a peculiar assumption. It is assumed that if we can "measure," in money terms, the goods and services which make up the "income" of these collectivities or individuals, we can infer also the private values or criteria, the inner stream of consciousness, the satisfaction or "utility"—in short, what Irving Fisher called the psychic income—which these individuals, *irrespective of the society to which they belong*, enjoy. It is implied therefore that international comparisons of income are meaningful precisely because such comparisons refer to an abstract entity—to "income" dissociated from the specific social context in which it is embedded. It is therefore further implied that the basic criterion and objective of development is the increase in, and, indeed, the maximisation of, "aggregate" national or "collective" net money "income"; it being assumed, *ex hypothesi*, that this statistical abstraction will indicate a "real" increase in welfare, and provide both a measure of, and the target for "progress." Indeed, the uncritical use of such statistical aggregates has gone so far that it is frequently even implied that a country, a society or even a continent with a "high" net money income per head can "afford" to "give" some of this "income" to a society with a "low" per capita income in order to redress the balance; as if all that this would imply would be the mere transfer of such "income"—much as a person transfers "income" from one bank account to another.

But the use of the word "income" in this abstract sense either as a collective aggregate, or as an individual entity, is unwarranted. The term "income" is a purely accounting term, and can only express an accounting relation. We cannot compare the accounting relations or ratios recorded in one society with those relating to accounting symbols in another, with a different social and economic framework, and a different system of economic and social values. We cannot, therefore, assume that what appears to be "income" in one society can be compared with "income" recorded in another. The "income" which we can "grasp" (because it is publicly recorded in exchange transactions on the market) is an accounting relation and not an abstract psychic entity. It follows that what will be so recorded in the two different societies will (assuming that both do indeed have an overall system of market valuation, which, of course, is by no means necessarily the case) differ in its significance according to the nature and ideals of the society itself.

The purpose of the foregoing necessarily condensed argument has been to expose the fallacy that an increase (or decrease) in "national" or "collective" measures, such as aggregates of "money income," implies an increase (or decrease) in some counterpart entity—e.g. in "wel-



fare" etc. Such aggregates cannot be a "correct" criteria of investment decisions. For what is involved in a change in income is (by definition) a change in the "welfare" pattern itself. It is what societies regard or desire "income" to be, and the forms in which they produce or receive it (whether in guns or butter, temples or trinkets, work, leisure or indolence) that *ipso facto* constitutes the "welfare" or "ill-fare" they have chosen. The argument that "income" is one thing, but that "welfare" is another (a counterpart to it), rests on a common category mistake based on fallacious reasoning. From the point of view of the development of underdeveloped societies it is a particularly serious fallacy. It leads to the dangerous belief that the purpose of investment is to increase "aggregate income"; whereas the real problem is to discover *what "income" is to consist in*: what changes in social demand, in social institutions, habits and beliefs should, and can be, induced to make the investment effective for such new purposes; and which of them will be socially tolerable and economically perpetuating.

There is a further serious shortcoming in the use of these "income" aggregates *as if* they were automatic and trustworthy criteria of development and investment policy: These aggregates are only statistical estimates of events which lie wholly in the past; they are abstractions which cannot serve as a guide to future action. They are therefore not adequate criteria of *calculation*. To say for example that more investment is required to increase the "aggregate income" of a society is like saying that we must spend more money in order "to cure disease." "To cure disease" is a laudable slogan not a specific objective; it cannot fulfill the requirements of a criterion of action. It is not a possible criterion of action because it does not tell us what "disease" consists in. Moreover it does not tell us which of the many alleged or real diseases shall (or shall not) be cured, and at what cost, e.g. whether *at the expense* of better housing (which might prevent some "disease"); or at the expense of old-age pensions which might keep old people alive longer; or at the expense of food subsidies to reduce the infantile death rate; or at the expense of "defence" to safeguard the whole population against its neighbours; or at the expense of agricultural research to protect its food supply against the ravages of insect-born pests. To argue that capital investment is required in an underdeveloped country to increase the "aggregate incomes" of the population is to postulate a similarly impracticable criterion of action. To use the word "income" to describe abstract collective aggregates is to overlook the fact that in a society in which "income" is increasing the goods and services which compose that "income" must be changing. But how are we to "measure," and compare, the aggregate incomes in two societies when the pattern of

behaviour and wants *are* changing and are *made* to change? What are the changes we are to select and foster? How are we to "know" or "judge" whether individuals previously living as, let us say, subsistence "peasants" in a non-market economy have had an increase in "income" when they are transplanted into an urban or industrial environment, in which their recorded money "incomes" appear to be higher, but we know nothing of the extent of the other non-measurable types of "income" which they have lost in the society from which they have been removed or which the process of change has destroyed?

As Professor Mises has so well expressed the matter: "The impracticability of measurement is not due to the lack of technical methods for the establishment of measure. It is due to the absence of constant relations. If it were only caused by technical insufficiency, at least an approximate estimation would be possible in some cases. But the main fact is that there are no constant relations. Economics is not, as ignorant positivists repeat again and again, backward because it is not 'quantitative.' It is not quantitative and does not measure because there are no constants. Statistical figures referring to economic events are historical data. They tell us what happened in a nonrepeatable historical case. Physical events can be interpreted on the ground of our knowledge concerning constant relations established by experiments. Historical events are not open to such an interpretation."\*

The point is that if we *assume* that there is *agreement* on what additional "incomes" are to be produced and in what form; if we assume further that the type, nature and extent of "investment" which will produce them is known in advance; if we assume there will be no changes of any kind in the future which can obviate this knowledge; if we assume that the future additional incomes (i.e. the future growth of capital) are an automatic consequence of the additional capital investment, and that it is known precisely how much of the additional income can be detached from capital so as not to impair the "original" value of the latter; if we assume, finally, that the idea of *aggregate national capital* and its increase in "value" is a meaningful concept at all, then indeed the use of increases or decreases in aggregate incomes as a criterion of development is justified—but then, I submit, our knowledge is so perfectly attuned to the infinite future that the problem has been assumed away.

To those who would care to make these assumptions somewhat haphazardly I would only suggest that a study of the range of possible conflicts as to the purpose of "investment," the direction that "in-

\*Ludwig von Mises, *Human Action—A Treatise on Economics*, Yale University Press, 1949, p. 56. Quoted with permission of the publisher.

creases in aggregate incomes" should take, and of the "uncertainties" which in the real world encompass the growth of capital (and therefore of income) might prove salutary. They are illustrated currently by events in Iran, or historically by the attitude of President Kruger to the "uitlanders" who wanted to "develop" gold-mining in the Transvaal, or by the experience of the Overseas Food Corporation, set up by the British Government, in choosing to "develop" ground-nut [peanut] cultivation in an unsuitable area in Tanganyika chosen partly in order to obviate the need to move elsewhere Africans who were engaged in "subsistence" production on what would have been the better land for the project.

But I must return to the main point of this analysis. It is designed to show that where there are contradictory objectives of policy, where the ends of action or goals of endeavour are not, at least symbolically, assumed to be relatively clear cut—at any rate for the actor on the social scene—there can be no specific calculation at all. Vague and necessarily conflicting objectives such as are conveniently obscured by statistical aggregates of the type we have been discussing cannot be used as criteria of "calculation"—except by an authoritarian state which sets its own goals of action irrespective of the costs thereof to the human agents through which they are pursued.

### III. THE CRITERION OF PRIVATE INVESTMENT

The criterion of private investment as an economic activity is, and continues to be (in so far as it is not affected by changes in legal and fiscal institutions and practices), the "marginal efficiency" of the capital in the basic sense, and in that sense only, that the "efficiency" is expressed as "income" which is recorded in accounting transactions. Such income accrues through changes expressed in the "market" valuation of the capital assets at risk. It is not "income" in any imaginary subjective or collective sense, which goes unrecorded and is alleged to "exist" only in the "minds" of the actors.

In the historic nineteenth century development of the "world-economy," in which Britain played the role of "The World's Banker," the basic characteristic of the domestic and foreign investment situation consisted in the fact *that as far as the investor was concerned he was, and in the exercise of his function was supposed to be,* concerned only with the problem of so choosing the direction of his investment, and so embarking his capital, as to obtain the relatively highest net income therefrom over comparable periods of time and in comparable circumstances. This objective was the fly-wheel of investment activity. That it was so

is not in the least invalidated by the fact that various European governments endeavoured, and were able, by propaganda, subtle political pressures, controls and economic devices to skew the judgment of, and to reduce the opportunities open to investors to direct investments into the channels they would otherwise have chosen. One need only mention the extensive loans raised for Russia on the French capital market, or the diversion of British capital to the British Colonies and Dominions through the operation of the Colonial Stock Acts; these gave trustee status to Empire Bonds which latter would otherwise have not proved as attractive to the functional calculations of the investor.

All that this shows is that the European states were, or thought they were, justified in interfering with the established market criterion in order to achieve other objectives for "national" reasons; and were applying, or thought they were applying, other criteria of investment.

The contrast between what to the investor or, indeed, to any entrepreneur, appears as a clear-cut accounting symbolism or criterion of action and other non-market criteria is of great significance. Much confusion has resulted from the fact that even eminent economists have frequently used arguments based on a sudden shift from one set of criteria to another. Thus Mr. J. M. Keynes in a significant article, written long before the Second World War,\* criticised the Colonial Stock Acts because they in effect compelled investment abroad which might otherwise, he thought, have been utilized at home. "It follows from this" wrote Keynes, "that large sums may flow abroad without there having been a *vestige of deliberate calculation on the part of anybody that this is the best way of employing* the resources in the national interest."\*\*

\* "Foreign Investment and National Advantage" by J. M. Keynes. *The Nation and the Athenaeum*, August 9, 1924, pp. 985-986.

"A considerable proportion of the growing wealth of the community accrues in the hands of individuals or of corporations which by law or by strong custom and convention, are compelled to invest the whole or the bulk of it in the Trustee group of securities. They are limited in their choice to what securities are available within this group. It follows that if, in any year, there is no net increase in the amount of home Trustee stocks, the *whole* of the annual increased savings available for investment in this form is *compelled* to go abroad. If, by reason of the repayment of Government debt, there is actually a decrease in the available home securities, the compulsion to invest abroad is even more stringent.

"Incidentally it is worth noting that to pay off our own Government debt out of the proceeds of taxation, without at the same time providing a supply of home Trustee investments to take its place, involves taking money by taxation out of the hands of persons who might invest in home enterprises of a non-Trustee type and transferring it to another type of person who cannot help investing the proceeds in Trustee investments abroad." (Quoted with the permission of the *New Statesmen and Nation*.) It is of interest, in passing, to contrast this complaint of Keynes with what is now quite normal practice viz. the taking of money directly by taxation and its "investment" abroad.

\*\* Italics not in the original.

But significantly he did not indicate anywhere, either in this or subsequent writings, as far as I am aware, how such a calculation could be made. He was, however, very critical of the criteria of calculation which had led to the private investments of the nineteenth century. "In short" he wrote, "the nineteenth century, as in so many other respects, came to look on an arrangement as normal which was really most abnormal. To lend vast sums abroad for long periods of time without any possibility of legal redress, if things go wrong, is a crazy construction; especially in return for a trifling extra interest." This may well be so, but in adopting this argument Keynes has shifted the discussion on to an entirely different plane. He is no longer discussing the obstacles to the application of those accounting criteria of calculation which are necessarily utilized by the investor acting functionally in the investment market, he is throwing those criteria overboard altogether. Thus he wrote: "Consider two investments, the one at home and the other abroad, with equal risks of repudiation or confiscation or legislation restricting profit. It is a matter of indifference to the individual investor which he selects. But the nation as a whole retains in the one case the object of the investment and the fruits of it; whilst in the other case both are lost. If a loan to improve a South American capital is repudiated we have nothing. If a Poplar housing loan is repudiated, we, as a nation, still have the houses. If the Grand Trunk Railway of Canada fails its shareholders by reason of legal restriction of the rates chargeable or for any other cause, we have nothing. If the Underground System of London fails its shareholders, Londoners still have their Underground System."

This argument misses the essential basis of international investment in the nineteenth century, namely that it was by and large, and notwithstanding frictions and political interferences, conducted on the implicit assumption that for investment purposes the world-economy of the Great Powers and their peripheral and Colonial dependencies were one, and should be regarded as one. And in fact it did function broadly as a unity; there did come about an international division of labour and investment which was less influenced by deliberate political and economic barriers than at any time before or after this unique period. To put the matter more forcibly, the arguments advanced by Keynes that it was absurd to invest in the Grand Trunk Railway, even if the index of profitability indicated that it was more desirable than an investment in the Underground System of London, would at that time have been regarded as absurd, because the London Underground was thought of as serving a Metropolis of the world, rather than the capital of yet another little national state. London it might well have been argued might not have required an Underground System, if it had remained the capital of "a

little England," just as it may no longer be able to afford those "houses in Poplar" should it again be forced to become one.

Arguments concerned with the alleged "national advantage or disadvantage" of foreign investment, just like the endless discussion about whether colonies "pay," and the attempts to draw up a "Balance Sheet of Imperialism" are not based on, and cannot be considered as if they were based on, *investment* criteria. Such arguments involve discussion on two different planes or categories of thought: discussion about the "profitability" of *investment* assumes a common accounting standard or symbolism, whereas discussion about national advantage or disadvantage denies it. A "colony" cannot be said to pay the "colonising power" as an investment is said to "pay" an investor: any more than one would argue that it "pays" New York to bring about the economic development of New England, or that it "paid" London to bring about the development of India. Such developments represent the growth, or extension of one "market." They were, and are, valuable precisely because the development or extension of a single market, in place of separate and disparate ones, brings with it those great economies in, and opportunities for that beneficent process of, diversification of economic efforts which is too well known to require any elaboration.

If I may anticipate, I would say that when we speak of the "income" yielded by an investment in an accounting sense the word "income" is used to connote the *same* money or money equivalents as those in which the amount of capital so invested is reckoned. But the moment we speak of foreign investment by "nation A" intended to bring about an increase in "aggregate incomes" in "nation B"—the word "income" no longer necessarily refers to the same money or money equivalents as are assumed in A. The *private* investor of country A who invests in B is not concerned with this difference, because, as an investor, his accounting is solely in terms of the money of account of *his* society, and its own homogeneous system of pricing (assuming the absence of exchange controls etc.). When, however, "investment" is undertaken by the government of country A in order to increase the "aggregate income" of country B the word "income" may have a quite different connotation in A than in B. In other words the investment action is not conducted on the same plane of mutually accepted accounting discourse.\*

\* Herein of course lies one of the causes of the well-known "balance of payments difficulties." The "investment" may yield "income" of a type which is not transferable—e.g. of a kind quite different from that which it would have yielded "at home" in the lending country where "income" is in an accounting sense "homogeneous" and of course "transferable."

#### IV. THE ACCUMULATION OF CAPITAL

It is of importance not to regard the calculations of the private entrepreneur in terms of established accounting symbolisms as in any sense an automatic or mechanical process. To regard the investment of capital as leading automatically to that net increase in the value of the capital which increase can be detached as "income," is a common fallacy. The symbolism of accounting is a device to assist the making of choices; but no amount of calculation guarantees the result.

The accumulation of capital was never regarded in the nineteenth century, as it now frequently is, as the necessary consequence merely of an "investment" decision. The accumulation of capital was not regarded as necessarily consequent upon, and as automatically resulting from the exercise of individual or social *will*. On the contrary, as the common tongue of enterprise clearly shows, the success of "venture" capital was regarded, and rightly regarded, as having much to do with "good fortune," "wise-choices," the correct "embarking" of capital in the "right" directions, at the "right" time. It was seen to be a matter of "patience," "waiting," "flexibility," "adaptability," "experience," "growth," and as dependent upon the "character" of the entrepreneur, his "intuition" and "experience," his "connections," "good-will," his courage in meeting "unforeseen circumstances," and his "foresight" in being able to ally himself with the new opportunities, innovations and resources which would yield the "quasi-rents" of new endeavours.

Much confusion has resulted from the fact that the large volume of fixed-interest bearing securities issued by modern governments (mainly for purposes of war finance) led to the belief that investment was something which automatically yielded income. Thus it became fashionable to speak as if (and for some apparently even to believe that) capital *necessarily generates* income of itself; both "capital" and "income" came to be regarded as "abstract," functionally related, entities.

It is in this connection significant that a large proportion of the overseas investments of the European powers in the pre-1914 era were also in fixed-interest bearing securities.\* In the British Colonies and Dominions these investments were particularly "successful" i.e. the service of the debts of governments, municipalities etc. was on the whole regularly met. I think it would warrant careful enquiry as to why this was

\* See Sir Arthur Salter's valuable analysis: "Foreign Investment." Essays in International Finance No. 12. International Finance Section, Princeton University, February 1951 and Herbert Feis, *Europe the World's Banker 1820-1914*. Yale University Press, 1930. See also my *Capital Investment in Africa*, Oxford University Press, 1938, in which I showed that roughly 48 per cent of all British capital invested in Africa was provided by, or guaranteed by, government or semi-government agencies.

so. In many cases it is clear that these investments by public authorities in railways etc. really produced the "income" which the investor received. But in many other cases the provision of this "overhead capital," as it is nowadays vaguely designated, was in fact *premature* and did not *yield* "income." The debt service was met by the *compulsory* raising of revenue by taxation. Often the taxes so raised could not in any way be regarded as having resulted from these premature capital expenditures. Moreover the fact noted by Sir Arthur Salter that "repayments, particularly of Government borrowing, were normally made out of the proceeds of new loans" is significant as showing the long period of time required for the capital so invested to yield *net* income. Indeed, the fact that these debts were eventually mostly repaid, without further borrowing abroad, was partly because of the general depreciation of the monetary units in which they were expressed.

The point I wish to stress is that the receipt of income by the foreign investor in cases like this—or in cases in which the debt service was met by subsidy or was borne by the issuing metropolitan government on behalf of the colony—could not be regarded as true income yielded by the investment itself. Yet it is very common nowadays to suggest that the provision of capital in any form is necessarily advantageous to the recipient society and automatically produces "income." Nothing could be further from the truth. The history of such "investments" in Africa and elsewhere affords many examples of railway lines, roads, ports, irrigation works etc. in the "wrong places" which not only failed to lead to income-generating development, but actually inhibited more economic developments which might otherwise have taken place.

In other words a capital export to, or import by, an underdeveloped country—a capital outlay or input—is not necessarily *investment* at all—it may well represent only capital consumption i.e. its use in situations where it is impossible, or still premature, to expect economic activity sufficient to maintain or replace the capital and provide for its further accumulation.

Capital, it cannot be emphasized too strongly, is, apart from the symbolism of accounting, always "concrete" in the sense that it is embedded in, and attuned to, the particular purposes and state of knowledge which led to its "creation." It is but temporally incorporated in ever changing forms and patterns suited to the evanescent ends for which it is designed. It is a social heritage dependent upon the institutions and habit-patterns of thought and action of individuals in society. In the last resort it dissolves always into its basic element: the action of man's labour upon the natural environment. That is why capital cannot be "stored-up" for long; nor can it be "transferred" from one situation to another without



the individuals who will re-adapt and "re-fashion" it for use in a new pattern of activity. For no two situations, no two regions, no two societies, no two problems of choice, in time, or place, are alike. In this sense capital is like technical "know-how," which also does not exist in the abstract ready to be applied to any new situation. To transfer "know-how" is not to apply something which is known. It is to apply new ways of thinking to find out what is not known: as when research is undertaken to develop new crops; discover the nature of soils; prospect for minerals; adapt old aptitudes to new skills; and perfect machines for new tasks. It is because existing forms in which knowledge i.e. capital, is incorporated are no longer suitable that the old has constantly to be re-fashioned anew in attempts to meet the future. Capital is, as has been said repeatedly, a means of saving time; but it is only possible to save time if one can discover the purpose to which one will devote it.

The great growth of capital in the eighteenth and nineteenth centuries in Europe was due not to mechanical forces but to the evolution of new patterns in social relationships. It was due to the emergence of new types of social activity. "Saving" was not a mechanical act but the result of new attitudes in social behaviour. To repair and maintain; to think of to-morrow not only of to-day; to educate and train one's children; to prepare oneself for new activities; to acquire new skills; to search out new contacts; to widen the horizon of individual experience; to invent, to improve, to question the "dead hand of custom," and the heritage of the past—in all these, and not in mechanical calculations, or mechanical regimentation, lay the causes of capital accumulation. For indeed capital was but "accumulated" in the ledgers of the counting-house; in the objective world it was embedded in the general stream of changing activity, in world-wide migration, in the co-operant bonds of commerce and mutual confidence, and in painfully created new aptitudes of action and responsibility.

It is because we have come to think of capital in abstract mechanistic terms that the problem of investment in underdeveloped countries is frequently so oversimplified. For here indeed we have the very obverse of the picture I have just endeavoured to draw. Here the Western World met with very different patterns of behaviour, and with entirely unknown environmental problems. It met with peoples whose aptitudes for that very process of change which underlies the production of capital was little developed, or was inhibited by unsuitable political institutions and ideologies. This made the transmission of Western habits of thought and action an extremely difficult, and a necessarily long-drawn out process. In short, the West met with goals of social and individual action quite other than those to which it was accustomed, and therefore took for granted.

## V. THE "DILEMMA" OF DEVELOPMENT

If saving in time is the essence of capital, the goal of investment is the essence of calculable action. The Western world was confronted in the peripheral areas of its expanding world-economy, not only with the vast task of economically penetrating, physically harnessing, and politically integrating, those dormant regions, but with the far more difficult, and indeed finally unsolved task, of finding at least a common basis for, and a common language of, individual and social endeavour. That task still continues. But the climate of economic and political opinion and organization has changed. Thus some of the assumptions and criteria on the basis of which investment took place in the nineteenth and twentieth centuries are no longer valid; others are no longer accepted as valid; and still others are completely misapprehended, in both the underdeveloped and advanced societies.

What confuses the problem of economic development in our time is not so much a change in the basic pre-requisites of economic growth but a change in dominant attitudes towards it. Let us briefly examine the nature of this change. As I have shown, it was because of the existence of a generally accepted integrating symbolism of common purpose that the private investor in the Western world economy was permitted to conduct his highly decentralised operations in accordance with a calculus of individual action.

Thus the entrepreneur was freed from the necessity to choose between different and therefore necessarily conflicting goals of action. As far as he was concerned the purpose of investment was the production of additional net income. He was not distracted by such questions as to whether the pursuit of that accounting objective would or would not bring about an increase in welfare, social efficiency, or happiness.

When he subscribed to a loan for or made a direct investment in an underdeveloped country he, as an investor, was not concerned with whether the loan would have good or bad effects on the welfare, health, or social structure of the borrowers. All such matters were not his responsibility, but were assumed, often indeed all too conveniently assumed, to flow from the hidden hand of providence, given only that each man "calculated" correctly in regard to that which it was his responsibility to calculate about.

Thus the very notion of "developing" a whole community, a whole people, or an underdeveloped territory did not arise. What was meant by "development" was the creation of political and economic institutions which would bring new regions and other peoples into the accepted framework of reference for economic action.

The role of government in the colonial or dependent peripheral areas was, within the system of thought of the times, therefore, clear-cut and consistent. It was to provide (a) political security; (b) due process of law and incorruptible organs of administration; (c) an adequate fiscal and monetary system; and (d) adequate communications and similar public services. It was always clearly realised that the provision of these pre-requisites was a *costly* responsibility not *lightly* to be embarked upon. As it was beyond the means of the underdeveloped territories themselves, they had to be *given* appropriate grants or assisted by subsidised investments of the type to which I have already referred.

In this respect the importance of many of the ideas now emphasised in the so-called "Point Four" programme were clearly realised. It was, however, not so well understood (and is even now not always clearly grasped) that the provision of the framework of economic expansion is in itself insufficient. It was not realised that in the underdeveloped territories the same symbolism and goals of action which were taken for granted in the metropolitan countries could not be relied upon to supply the flesh and blood of individual action to clothe the skeletal framework which "opened up" these areas.

It is not an accident that by and large it was in the "empty" peripheral areas (such as Australia, New Zealand, the United States etc.) that the most economic progress was achieved. These regions received large migrations of peoples from Europe itself—peoples with the same habit patterns of thought, the same symbolism of accounting, the same aptitudes and broadly the same conscious and unconscious social heritage. As de Tocqueville so well expressed it: "At the period when the peoples of Europe landed in the New World their national characteristics were already completely formed; each of them had a physiognomy of its own."

Where, however, there were large indigenous populations with a different social heritage the provision of the Western framework did not by itself stimulate such economic development. It is unfortunately not possible to examine here the many reasons for this failure. I mention it merely to show how facile is the assumption so common in much present-day literature that development necessarily follows automatically upon the investment of foreign capital. If the long arduous history of modern colonization shows anything at all it shows that its success was, in the last resort, due to the millions of *individual migrants* who made the mechanical framework vibrate with new co-operant human action.

Societies, like individuals, unconsciously project their own view of reality, their own problems and what they conceive to be the "solutions" to them, on to others. It is not surprising that just as the Western

metropolitan powers in the nineteenth century thought that the problem of development of the peripheral areas would "solve" itself within the common framework, so now opinion has swung to the other extreme. It sees the problem of developing the underdeveloped territories as dependent mainly on the provision of capital with which the governments of politically independent communities can pursue collective economic objectives as they may decide. It assumes that this procedure will lead to the same beneficent consequences as are now frequently expected of it in the "advanced" countries.

But just as the nineteenth century expectation of the effects of international *private* investment in underdeveloped territories was an oversimplification of the basic economic and social difficulties of development in them, so its modern variant of development based on *collective* criteria, and directed by national governments, is in danger of proving equally so. For one of the main reasons why foreign investment was possible at all in the underdeveloped regions of the nineteenth century world economy was that not only was there *assumed* to be a consistent framework of reference for economic activity, but because everything was done to make it so.\*

Although there was in all this no *overt* conflict in basic ideologies I need hardly remind the reader that *covert* conflicts of goals were inevitably intensified *pari passu* with the disintegration of the indigenous societies. Their peoples were drawn in ever-increasing numbers into a new social and economic environment and dissociated from their old social values and ways of life. These became ever more difficult to reconcile with the new economic objectives and system of calculation. For many reasons, which it would require a separate essay to explore, there developed a growing gulf between the objectives of foreign investment and the aspirations, or alleged aspirations, of the indigenous peoples. That gulf was not bridged, as had been implicitly assumed would be the case, by the emergence, in sufficient numbers, of a new class of indigenous entrepreneurs, professional and technical workers etc. which it had been expected would "naturally" become the bearers of "economic advance"—in the image of Western social ideologies and symbolisms.

It is precisely at this point that we meet with the basic dilemma facing the governments of underdeveloped territories and those international agencies concerned to promote international economic development in them. For although the constructive forces of newly emergent national-

\* For example metropolitan governments pursued economic and fiscal policies designed to make it possible for the territories concerned to meet the service of the debts incurred by them. This is of considerable significance, because governments regarded themselves as in the last resort *dependent* on the capital market for raising loans and not as its master.

isms are very great, and engender new hope, new freedom, and new aspirations, they do not remove the inevitable problems and conflicts necessarily involved in all change. Thus the new independent governments of the peripheral regions of the Western world economy are basically confronted, vis a vis the people they govern, with those same problems of inducing new forms of economic growth which the Western world failed adequately to solve.

It is upon the shoulders of the new governments that there now rests the heavy burden of reconciling their peoples to the fact that structural and social change is inevitable if the burden of their poverty is to be eased; that the costs of change are heavy; that the capital therefore is scarce, and that the fruits of it are slow to ripen. It is, in my opinion, doubtful whether in this task these governments are assisted by current political and economic philosophies, which would make it appear that economic growth is not a decentralised process resting on the enterprise of the many, but one solely dependent upon the exercise of wisdom, foresight and power by the few.

Development can be neither foreseen, nor enforced, by any single will—be it the “general will” or the will of a tyrant. It is but the process of evolving patterns of activity, unfolding in one direction, disappearing in another—as obstacles to it are either removed or cannot be surmounted, and as beliefs, aptitudes, and hopes change. Foreign investment, like all investment, is but a part of that process. It consists in bringing into being new, socially acceptable, patterns of co-operant behaviour. To regard it merely in terms of the conflict of social or political will is to apply to it a category of thought in which it cannot be adequately expressed.

Yet this is precisely the impasse to which we are led by the view that economic development must be determined by collective objectives expressed in the symbolism of aggregate statistical abstractions. All the tensions of change are projected on to the central authorities who appear to be responsible for them. They in turn project them outwards on to the plane of international economic and political strategy. Here the final absurdity of this view of economic growth is exposed: It now appears to result not from the actions of individual men and women, but from the success with which the national economic war of each against all can be conducted.

Thus there has been torn apart even the semblance of that common economic framework which governed the world economy, at least in general and symbolic terms, until the end of the Second World War. In place of the vast network of continuous decentralised decision, and the mutual relationships of individual trust based on patiently garnered

experience, we have the relatively clumsy and fitful negotiations of parliaments and governments, whose composition changes as rapidly as their necessarily inconsistent national objectives. It is symptomatic of the conflict of objectives that these are sometimes so far removed from any specific economic purpose that even the lenders are not always agreed why lending should be undertaken at all. In this connection it is surely significant that the discussion about the amount of capital which should be made available by the United States for underdeveloped countries has frequently been based not on the opportunities actually available for its economic *use* but on alleged "calculations" as to how much the United States economy *must* "invest" abroad (in the aggregate!) to "maintain" full employment, export industries etc. at home. It is equally significant that the borrowers frequently do not even attempt to base their nationally expressed demands for capital\* on any common criteria at all but on a vast range of political, social, and economic "needs" the relative importance of which it is difficult enough to assess *within* the countries concerned, and well-nigh impossible to evaluate as between the national claimants themselves.\*\*

It may well be that the increasing pressure of events resulting from this untenable situation will compel borrowing governments to realise that it is necessary, in their own self-defence against the more utopian demands made upon them, to seek for institutional devices to lead the investment process back into more mundane channels, and that new international measures to safeguard and control decentralised foreign investment within a new common framework of reference will receive support in unexpected quarters.

## VI. CONCLUSION

It is because in the last resort the misuse of capital resources is always a loss of alternative opportunities that action which wastes the scarce capital resources of the world is eventually harmful for lenders and borrowers alike.

\* Not to be confused with "investment"—since the term "investment" implies at least *some* expectation that the "capital" will yield "income" and not merely be consumed.

\*\* In all this it is essential not to overlook the conditions of international conflict, and the urgency of security measures in defence of the free world which lie at the root of many urgent demands for economic "assistance" and "aid." The amount of such "help" from one country to another has never been, and indeed cannot be determined in accordance with any yard-stick of strict accounting. That kind of capital gift or revenue grant must in the last resort be determined by the political and diplomatic aptitudes, wisdom and experience of those concerned with "defence" rather than "opulence."

The problems of the borrowers are not solved by the receipt of capital which leads to the adoption of an economic pattern which is not income-creating or is incapable of relatively permanent integration into the economic structure into which it is imported. Such injections of capital disrupt the existing but do not re-build new and continuing patterns of economic behaviour. Such capital imports may in certain cases only postpone the need for meeting the real problem of the economy as long as the capital lasts. The problems of the lending countries can also not be solved by perpetuating patterns of behaviour which are socially, psychologically and economically so unstable that the *raison d'être* for the supply of capital comes to consist in little more than the distribution of unearned largesse to others. There is no limit to the demands for "capital" which will be made by the recipients or prospective recipients of it on these terms; whereas the amount of capital which can be created by any society, however productive, is not similarly infinite.

I can conceive of no more dangerous illusion at the present conjuncture of world affairs than the facile belief that we have "solved" the problem of capital accumulation, and that the problem is now not how to produce capital but to whom to give it. The truth is that capital is relatively scarcer and "time" more pressing than perhaps ever before in the context of the world changes with which we are confronted. The uncertainty engendered by the present international disruption and tension; the heavy demands on the world's resources for coping with the aftermath of two world wars; and the cost of defence to ward off the third world war, all reduce the relative amount of capital available for continuous economic growth. Moreover we are experiencing a period of great technical and scientific transition which threatens a large portion of the capital resources and "social heritage" of both the developed and the underdeveloped areas of the world with obsolescence. The advance in public hygiene and social medicine by lowering death rates is engendering a vast increase in the population of many regions which, in relation to their existing patterns of economic and social action, are already overpopulated. This further intensifies the demand for capital for new forms and techniques of production.

All these changes expose to view the inadequate amount of administrative experience and skill necessary to cope with the new challenge to man's individual and social ingenuity. It leads to the feeling that "time" is "running out"; that it is insufficient to cope with all these problems by "waiting" for new institutions, new aptitudes, new skills to *grow*. In the last resort this may lead to counsels of despair such as those which urge "catastrophic" solutions for these problems; which wish to take "time by the forelock" by "spending" capital recklessly.

to stem the tide; and which are even prepared, if capital in material terms is not available, to expend human lives without mercy to "create" it, quite overlooking that so to degrade man is not a means consistent with the alleged use of capital to uplift him.

Neither the mere "expenditure" of capital nor the application of force can solve the real problems of our time. We are faced not with problems of "spending" capital but of "investing" it in those multitudinous personal and social forms which can grow only in conjunction with the always unique social heritage of different individuals and societies.

The problem is, indeed as it always has been, how to "husband" resources in the widest sense of the word. It is how to invest those limited supplies of the world's capital so as to ensure that the "borrower" of it will put it to use in such directions as will most readily and in the *relatively least period of time* release new capital resources for coping with the problems arising out of the overall scarcity.

The real problem confronting the "underdeveloped" countries of the world is therefore not only how to economise in the use of foreign capital, but how to utilise all capital—the very social indigenous heritage itself—to achieve new goals of social action with the *least* unnecessary or premature social disintegration and disharmony.

There is, as I have already suggested, an alternative to such strict social economy concerned to foster the irritatingly slow but relatively more harmonious changes involved in the *growth* of new human aptitudes, experiences and purposes. It is the alternative which involves the sacrifice of men and women to-day in order to construct rapidly that which it is *hoped, or alleged* will ease the life of *others* to-morrow. The line between "capital" as the servant and as the idol of the fuller life is narrower than we are apt to think.

It is the realisation that true economic growth is a many-sided individual and social process which I believe is the most important lesson of past attempts to link underdeveloped territories and peoples into a wider world economy. It consists in the re-fashioning\* of aptitudes, and beliefs of individuals to give them new freedom in their multitudinous daily tasks—many of them not assessable in accounting or financial terms. Once this is realised we will perhaps hear less of attempts to reduce "consumption," increase "saving" and *force* home and foreign "investment" in underdeveloped societies. The real task is not to force change but to induce it in a manner which will be meaningful to the members of the societies it affects.

\* See my "Some Conceptual Aspects of Technical Change." *International Social Science Bulletin*. Volume IV, No. 2. In this I show that "technical change" should be viewed as a "social consequence."



It is just here that international "technical assistance" and similar activities assume fundamental importance.\* They are likely to be most successful in so far as they are based on the realisation that what is involved is the grafting of the new on the old, and in so far as they proceed with unequivocal emphasis on the dignity and rights of the individual *person* and refuse to jettison *him* in the pursuit of abstract goals. But in order that such assistance programmes should make an appreciable impact they must be seen, in the context of the history of all real "colonization,"\*\* as a long, arduous, and continuous task, to which men and women must be dedicated and trained by long experience, as indeed many of the colonial servants of Britain and other colonising powers have been. That requires the permanent recruitment of personnel, and the development of co-operative bonds and institutions between the "advanced" and the underdeveloped countries on an objective basis; freed from the momentary

\*In the activities of the international agencies concerned with "Technical Assistance" the world is I believe witnessing the emergence of a further development of that "international civil service" which in other fields e.g. the World Health Organisation, International Labour Office, and the like constitutes perhaps the most constructive political evolution of this otherwise so disruptive century. It behooves us not to distort that new institutional growth by setting "impossible" goals of action for it. Those international civil servants who dedicate themselves to the task of creating a new outlook for the free world deserve that we give them objective support in a manner worthy of their calling by ensuring to them the status, the professional independence and the continuity of action required for its proper exercise. Nothing can do more harm to the growth of a new spirit of objective international action than attempts to pervert it to serve irrelevant and passing purposes either by those who provide or those who receive its benefits. Attempts to force them to undertake activities intended to yield only quick results will, when these are not forthcoming, but lead to dangerous disillusionment.

\*\* See my *The Concept of Colonization*, Oxford University Press. 1949. I therein concluded that: "Colonization is nothing more or less than the process of macro-cosmic and micro-cosmic social and economic growth itself; that the forces which produce or arrest change in any society or social structure, old or new, spring from a common genus, and give rise to problems which are met with in varying degrees in all cases of economic and social development. In every society the process of economic and social growth rests upon the emergence of new economic and social structures. These incorporate new patterns of personal relationships, new habits which co-ordinate the actions of individuals for the attainment of other ends—even if those ends be but dimly comprehended by the individuals linked together in the new productive structure.

"Colonization is the process by which such new structures are evolved. It implies the withdrawal of individuals from established structural patterns to found a new colony of endeavour within, and in relation to, the changing natural or human surround. The latter structural forms react on the former, and may lead eventually to their complete dissolution. But, let me emphasize again, the process, like all growth, takes time. Each of these life-giving forces of structural development has its own time-scale which men can disregard only at their peril. Mechanistic devices which quicken the pace unduly in one direction will but destroy those deeper mutual harmonies of man in nature to which alone she will yield her blessings." (Quoted with the permission of the publisher.)

whims and vicissitudes of political exigencies. It requires that persons and institutions administering such programmes should not be the mere creatures of the state. It requires, indeed, that the programme should not act merely through government or government agencies at all. It should be as widely based as possible, so that new experimentation in social and economic forms can cover an extensive range of continuous endeavour, be it in the field of private, state, or local government enterprise—in rural or in urban activities. But wherever such endeavours may be, and whatever their forms, what will be perhaps the main factor making for success or failure will be the degree of continuity with which they will be endowed.

This brings us back to the problem of foreign investment in under-developed countries. For here, as I have already hinted, we are faced with precisely the same basic need for a more objective approach to international co-operation. It is as inescapable a requisite for the economical use of scarce capital as it is for the proper use of an international civil service that a new objective attitude to foreign capital should be fostered.

This in my opinion is the real significance of the establishment of, and the experience already gathered by, the International Bank for Reconstruction and Development. It is that once again there must be developed criteria of international investment which can be *independently* applied and *independently put into operation* by appropriate industrial and commercial institutions, freed from the haphazard interferences of governmental or national political influences.

The issue here is not that between private and government investment. The issue is, on the one hand, between the supply of capital for purposes chosen in accordance with criteria suited to the enterprise *per se* (and in one region rather than in another in accordance with generally accepted comparative criteria of economy) and on the other hand the supply of capital for purposes which cannot be comparatively assessed at all in economic terms. The issue is further between the supply of capital to "enterprise," whether private or public, which is, rather than to enterprise which is not, capable of pursuing a defined economic aim in the sense of being likely to lead to continuous growth capable of yielding recorded net income.

What I am at pains to emphasise is that not only is the revival of private investment desirable, as is generally agreed, but that decisions by international agencies must themselves increasingly be freed from political pressures which make economic criteria of investment impossible to apply, either before, or after, the investment decision is made. Investment involves a continuing process of decision-making—it involves

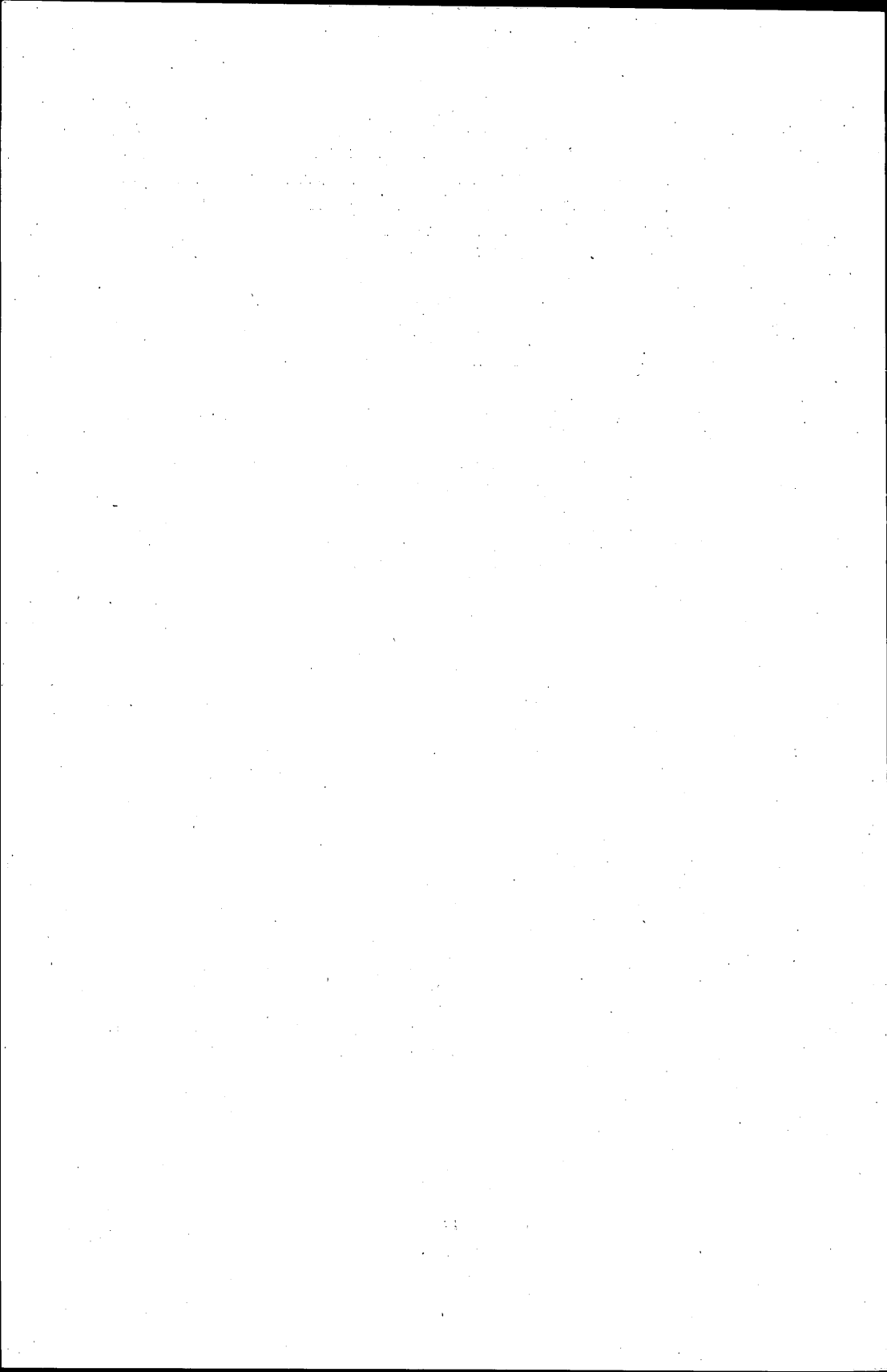
enterprise *per se*, and it involves therefore the recognition of the need for a large variety of institutions able to conduct it according to evolving international law or custom, and free from interference as long as such law or custom is adhered to. Without the human agencies able to conduct continuous economic operations, unhampered by fiscal or other exactions foreign to their purpose, the growth of capital in any form is impossible; and foreign *investment* becomes a farce however much this may be camouflaged. This is especially true of investment in "under-developed" areas where the experience and aptitude for modern enterprise and the fashioning of administrative devices for its social control are so recent.

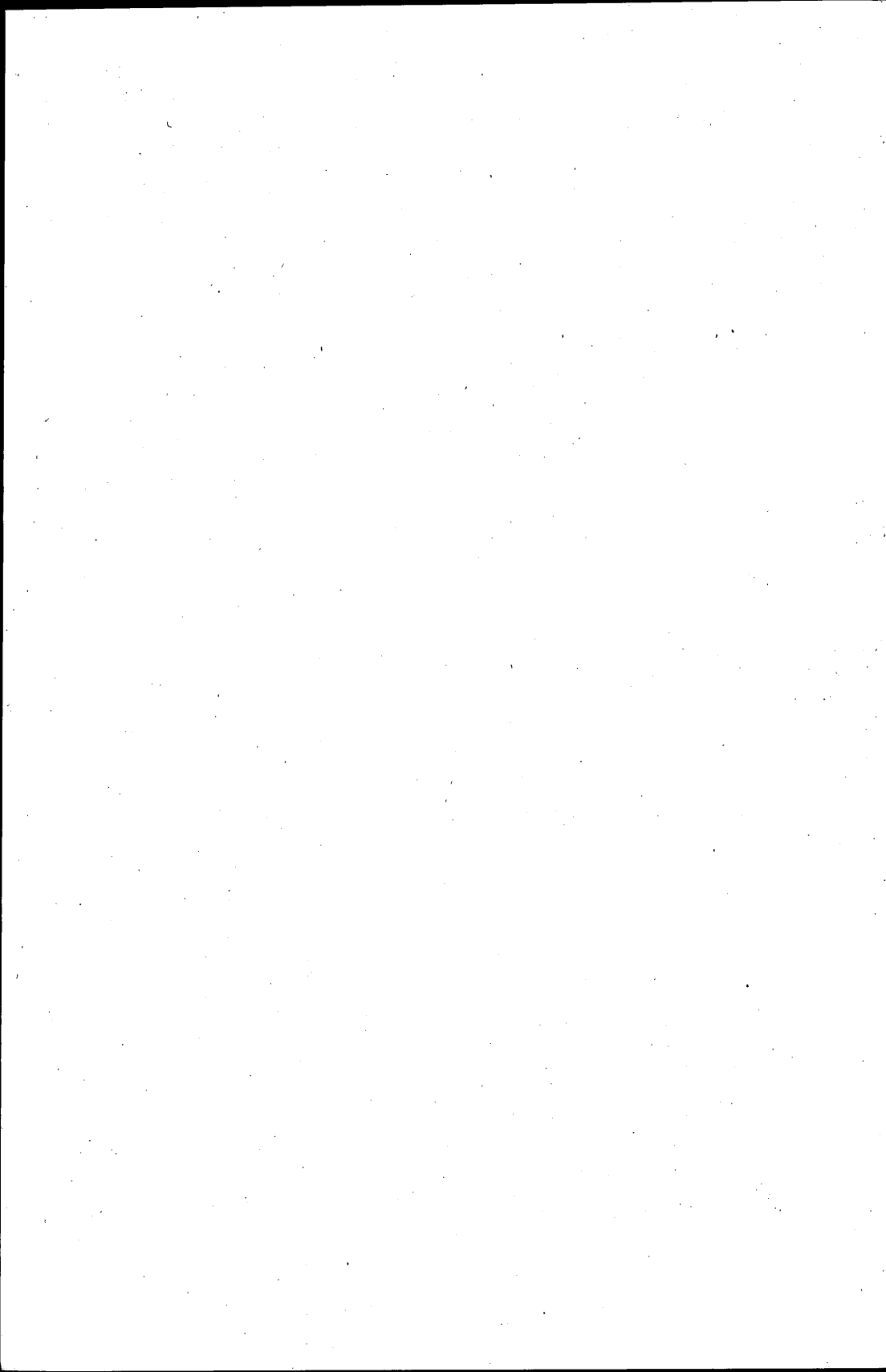
I believe that it might prove very valuable if institutions like the International Bank were given the opportunity to develop agreed comparative criteria of world investment; criteria which would be recognised as taking the place of vague demands for action to further every conceivable national objective; criteria which would be related to specific purposes, and which would be applied continuously as a code of international conduct relating to the investment itself, and recognised by national governments as such.

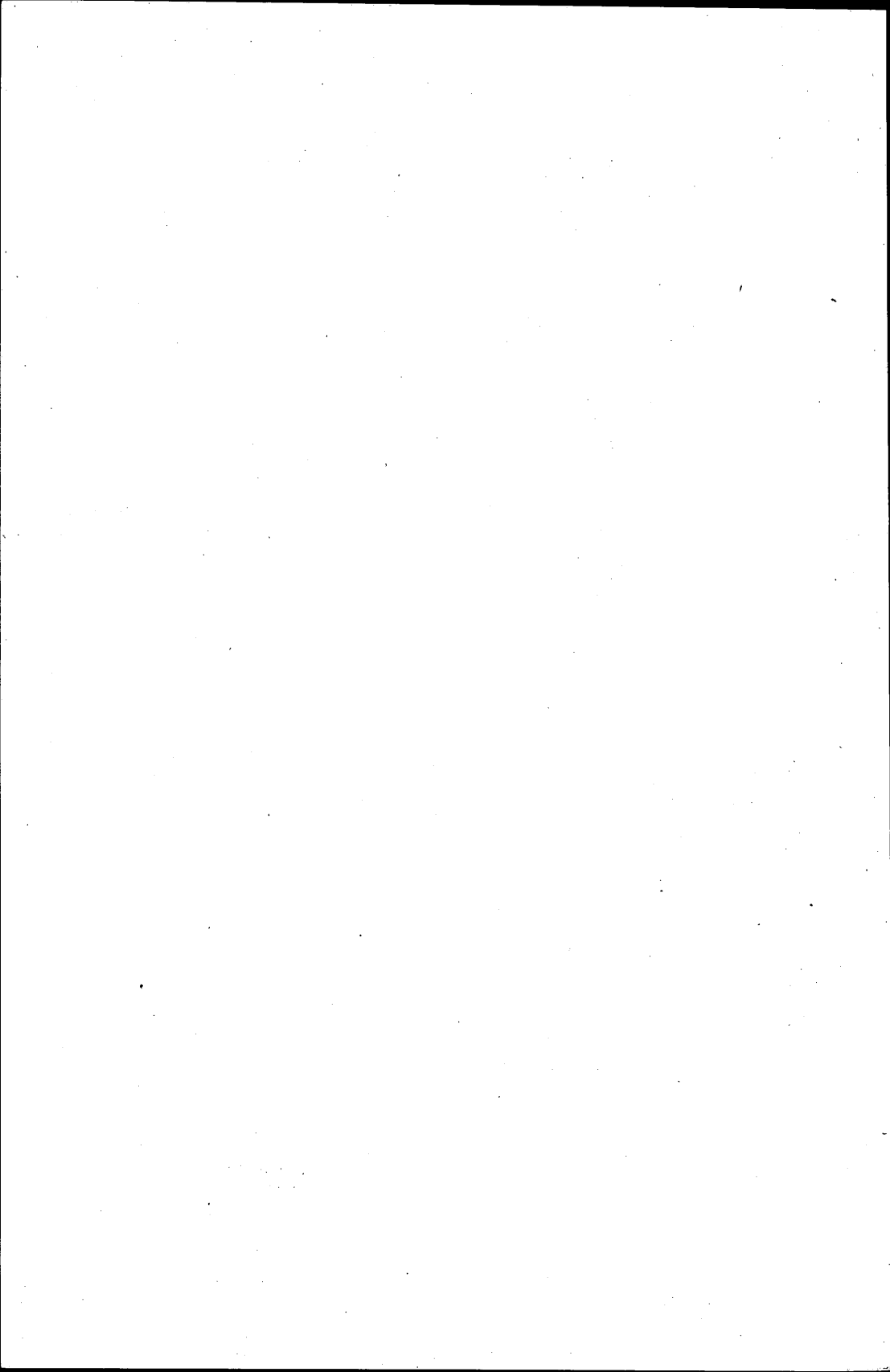
Thus we are brought to the central issue confronting a distraught world—whether satisfactory basic codes of, and institutions for, transnational economic action can still be fashioned, or whether the forces of disintegration must continue unchecked.

But if the forces of disintegration are to be checked at all, it is clear that an appreciation of the real nature of economic growth, and the fragile individual basis on which it rests, will be required by all concerned; by borrowers and lenders alike. It is perhaps time that, instead of the resolve to better the whole world, and the illusion that there is magic in collective protestations of our will and power to do so, we should give new opportunities for objective international co-operation to the unique diversity of experience of the men and women on whose individual actions and social inventiveness civilisation, in the last resort, depends.

To those who would protest that collective national symbolisms are the only forms of expression for co-operant human activity still open to man, I would reply in terms of the old African proverb: "I cannot hear what you are saying, for what you are is thundering in my ears."







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