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The Ideology of Underdevelopment

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What should we do? Where begin? Where invest our limited time and resources in the most effective way?

Those are the questions a small group of us in Guatemala were asking ourselves when we decided to face up to the problem of underdevelopment. How could we get the best possible leverage for our efforts to raise the level of living in our country?

Perhaps this example will help illustrate the problem we faced. A group of doctors were concerned about the lack of medical facilities in our rural areas. And they wanted to start a medical school. But they seemed oblivious to the fact that the people of the rural areas lacked the economic resources to support a doctor's practice. They failed to see that medical service, at bottom, is an economic problem. This is why one may find Ph.D.'s driving buses in underdeveloped countries. And this is precisely what we wanted to avoid—the well-intentioned but wasteful investment of our human and material resources.

Our studies led to the conclusion that underdevelopment is primarily an ideological problem, that unsound ideas inhibit the increase of wealth and well-being. This is what brought us to the founding of Universidad Francisco Marroquín in Guatemala in 1972. If the development of individuals and of a country depends upon a better understanding of economics, of individual rights, of the political, ethical and social theories that make up the philosophy of freedom, then the most efficient use of our scarce resources would be to teach these values at the highest possible intellectual level. Thus, we chose the university as a means to change the ideological view of the world which seemed to be the root cause of poverty in our country.

We do not expect this to bring an instant victory for common sense. Our little university faces stiff competition from well-known professors of prestigious universities and from well-financed international organizations prescribing solutions to poverty that are based on a false ideology, though the proponents claim to be objective, neutral, and strictly scientific.

Unsoundly Motivated

Let us assume that the people entrusted with policy and administration of the World Bank, the United Nations, the International Labor Organization, the Alliance for Progress, and so on are well-meaning and reasonably intelligent people. So the question is this: Why have they failed so dismally in spite of the enormous resources at their disposal? The explanation might well be that their ideological position is unsound. And if their diagnosis is faulty, their remedies are not likely to help, but rather may aggravate, complicate, and make chronic the disease. So let us examine some of the notions that guide them.

It is held, for instance, that countries that are rich are rich due to their natural resources. Whereas any owner of a natural resource is wealthier with it than without it, this does not prove that natural resources are a necessary condition to wealth. There are many countries without appreciable resources, such as Switzerland and Holland and Japan that are rich. There are various other countries that have been generously endowed by nature but most of their people are impoverished.

Also untenable is the premise of a “vicious circle of poverty,” the notion that the poor stay poor because they cannot accumulate savings to generate the capital necessary to substantially increase productivity. The fact that there are rich countries denies the very idea. Were not the rich poor at one time? Were not Germany and Japan quite impoverished as recently as thirty years ago? Their rapid reconstruction was not accomplished by exploiting colonies, for they had none. And that explodes another of the notions utilized to explain poverty—that one nation grows rich by exploiting another.

Historical facts also refute the fallacy that to have economic growth the economy must be planned. Who planned the economic development of the U.S., of England, of Japan, of post-war Western Germany or of Argentina up until the onset of the destructive ideology of central planning? The economic history of those countries proves to anyone not blinded by ideology that governmental planning is no necessary condition for economic development. Indeed, one could even relate the decrease in the rate of wealth creation to the extent that countries have undertaken governmental planning of their economies.

Another prevalent historical error is that we—in Latin America—are poor because in the past capitalism did not work for us. I ask: When and where did we have a free market capitalistic economy? And I answer:

In those few places where for a brief time it was tried, the results were outstanding. The problem is precisely that we have not had the competitive capitalism that is blamed as the cause of our poverty.

Exploited by Whom?

It is also held that we, the so-called banana republics, were exploited by the United Fruit Company. I recall a conversation I overheard at a party, where a friendly communist was explaining how the United Fruit Company had taken out of Guatemala millions of dollars. A person who had worked with the fruit company in his youth responded that to his knowledge the company never took a penny out of Guatemala; the only thing they took out were bananas. They brought money in—capital—to draw laborers from lower wage occupations to their banana plantations. Nevertheless, people continue to ignore the obvious and believe that we were exploited.

We are not poor because our laborers are inept, or fall below the quality of laborers in other countries that have prospered. In general, I would say workmen in Guatemala are above average in learning and working ability, when conditions demand it.

Nor are we poor because we lack technical know-how. Technical knowledge now is available to anyone who wants to obtain it. And we have the additional advantage that to reach a modern level of production, we do not have to wait for better technology than already exists in the market, or invent it, or spend millions for research. All the know-how we need for the most significant advances already is available to us from developed countries.

What we lack are two things: first, a system that is conducive to efficient economic allocation of human and material resources and to the generation of capital; and second, more capital to increase productivity and create wealth.

The system, of course, is capitalism, and it is there waiting to emerge all the time. So why is it rejected and deliberately prevented from emerging? Incidentally, it is, as we know, the only system that promotes and builds the qualities of individual character that are most conducive to progress: self-reliance, frugality, responsibility, and respect for the rule of law.

Capitalism Maligned

So why is it rejected? On one hand, there is a practical objection to allowing individual freedom of production: Capitalism is considered wasteful, inefficient, and in any case, too slow: we cannot afford, we hear, politically speaking, to go slow, and so we cannot just let things happen when and if they happen. We must make progress. Not just let it happen. On the other hand, there is an ethical objection: it is thought cruel and unjust because it results in economic differences called inequalities.

The first objection as to the impracticability of the market system in Less-Developed Countries (LDCs) has greatly disturbed me because the scientific refutation is available to all. After all, the market system is not someone's invention. It is what goes on naturally if it is not prevented deliberately. And economic theory is nothing more than an explanation of how it does work, how resources are allocated through the price system. We are at liberty not to like the way the world is, but lamentations are utterly useless and will not change the world. The only argument which would deserve serious consideration would be the proposal of an alternative system. But, as far as I have been able to determine, no one has yet proposed an alternative system for allocation of resources. Marx did not.

Oskar Lange, in the thirties admitted it, and today it constitutes the “unspoken” problem of central planning or socialism.

No one knows, in theory, much less in practice, how this alternate system would work. The authorities lack the criteria, in the absence of private property and free exchange, to establish a substitute for the price system. Such a substitute is needed to permit them to compare alternative methods of production so as to use each resource in the way that makes the maximum contribution to consumer satisfaction. This is most certainly not the system socialist countries use today—they simply copy prices of the outside semi-capitalist world.

Until such an ingenious mechanism is incorporated into planning schemes, we can state correctly that socialism—as a system of social organization—has not yet been proposed. Yet the people of the world are killing each other, some in favor of socialism, others against it, but both assuming that it has already been proposed as a system, and therefore it is a tenable system of social organization. When this senseless tragedy is recognized I believe it will become, to historians, the distinguishing characteristic of this century: People killing each other over something neither side could describe.

Planning Without Prices!

The question, of course, is not how you plan when you do have prices available from outside the system; the question is how do you arrive at prices without any reference to prices that have come about through free exchange, i.e., from the existence of private property.

Unless that is explained, a planner cannot know what he is doing, he can't compare values of inputs with outputs. And if the method cannot be described, socialism is just a gleam in the eye of the frustrated.

So, from a strictly practical point of view, we know that whereas the market does not produce instant wealth, it eventually can and does produce it. And so far we've been offered no clear alternative to even consider. Of course, if the market is prevented deliberately from working, it will not produce. And unfortunately, not only is it being prevented from working, but it is being blamed for not working.

There is really nothing original or unique in the ideology of underdevelopment. Most of the notions are imported from countries that should know better; and they are being imported by way of programs that are, ironically, implemented with the intention of generating development.

One of the characteristic differences between developed and underdeveloped countries, however, is that whereas it will take a great deal of debate for the government of the U.S., for instance, to take over one railroad company (a piecemeal and eroding process), when an LDC decides overnight to go into the rail transport business it takes it all at once. When it decides that although electric power is a desirable commodity, it should be a non-profit activity, it thereupon decrees that it is against the law to peacefully manufacture and voluntarily distribute this desirable commodity. It takes over all power production notwithstanding all the productive and desirable activities that, from then on, cannot be economically done for lack of competitively priced power to industry. Governments in LDCs do not just put a power plant here and there. First they prohibit profit-making power generation, whether they are in a position to provide it or not.

An Illogical Barrier

This procedure is not logical. It is irrational to prohibit activities considered desirable on grounds that because they are desirable the government ought to provide them. Logic and consistency would demand that if an activity is considered so important that the government must step in to perform it, it should not be made illegal for someone else to contribute voluntarily to the same ends. The policy is not logical or economic; it is ideological. And because of it, power costs are extremely high, reducing the competitiveness of all industrial activities in LDCs.

It is inconceivable today that anyone would consider going voluntarily into the electric power business. That disincentive alone is sufficient to maintain underdevelopment, and generally, the same applies to all communication activities: air and ocean transport, ports, telephones. Whereas such a venture once constituted a business opportunity, it is no longer even a possibility. This is not due to economic factors. It is the result of ideology. How can desirable activities become illegal acts other than as a result of ideology?

Hampering Education

Consider education. Everyone regards it a desirable activity. Parents generally want their children to be better educated than themselves. There is plentiful evidence that they will make great sacrifices to this end. But their children cannot get the education the parents think they need. A high government official in my country remarked that our education programs are not well-oriented because they tend to prepare everyone for college whereas most will never go, and in fact should not go, to college. And yet, he did not disagree with the policy of setting a maximum tuition charge for private schools, low enough to drive many out of business (even though private high schools serve 50 per cent of the student population and in many cases offer better and more pertinent education than the government can provide).

The imposition of maximum legal tuition rates is obviously ideological. But there are more serious effects of the ideological confusion of the elite in education: their confusion actually prevents, to a very large extent, proper education. In the social sciences, "book burning," in a figurative way, is prevalent for a very natural reason: in any hierarchical organization it is only natural that the competence of the personnel hired to teach, and the suitability of the books used, be determined by their agreement with what the hiring authorities think is valid or true.

When the uniformity of thought required in the hierarchical organization is entrenched, its members cannot afford to have their competence questioned; they instinctively or deliberately exclude theories that might expose members of the hierarchy as incompetent. Thus, the ideology of their expertise is protected, and competitive ideologies are excluded.

Interfering with Wages

Consider this example of labor legislation adopted through the official recommendations of the International Labor Organization: Workers get severance pay when fired for any cause not attributable to them. If the company goes broke or loses a contract, the cause is not imputable to the worker, so he must be paid. Severance pay is calculated on the basis of his last wage, multiplied by the number of years of employment.

The object is to create job security and supposedly avoid injustices. Naturally, as workers accrue severance pay they lose their mobility, because the cost of leaving a job voluntarily is to lose one's severance pay. Thus, there is no incentive for an employer to raise wages, whether to hold present workers or to attract new ones. As a result, the worker has no bargaining power. The lack of mobility of the labor force prevents relocation into more productive jobs and thus lowers the output of the whole economy and decreases everyone's real income. The implementation of much of this type of legislation in LDCs has cost the U.S. taxpayer many millions of dollars through the financing of ideologically impoverishing institutions such as the ILO or the United Nations.

The ideological hostility to the market system has also caused most countries to practice an economically isolationist tariff policy. In order to understand the impoverishing effects of obstructing the international division of labor, one must have a clear understanding of the law of comparative advantage. It is necessary to understand why, in a free exchange, both parties gain, and that some people's wealth is not the cause of others' poverty. In other words, there is no such thing as exploitation in a free exchange. Obviously, the recognition of this fact alone would utterly shatter collectivist philosophy and so the truth must be suppressed. The result is isolationism, underdevelopment.

Capital accumulation, the most important factor in development, is heavily taxed and inhibited, when not destroyed, for ideological reasons. One can trace directly the destructive attitude toward foreign investment, energy policies, mining policies, and so forth to its ideological source.

Changing the Ideology to Open the Market

The hostility to the market system which exists all over the world in varying degrees is especially prevalent in LDCs. Many LDCs that have tried the welfare state have had to start again from scratch, usually with the only type of government that does not consult the people: dictatorship. Dictators are not necessarily unpopular, and many govern with the wholehearted support of the majority of their people, as in Chile and Argentina. The reason is not hard to find. If what was supposed to become a democratic welfare state destroys prosperity and the security of life and property, people will welcome a savior even if he becomes a dictator. He doesn't raise welfare expectations; he promises law and order. If he pursues the welfare course, conditions deteriorate, and this opens the opportunity for his rivals to overthrow him. We have seen this happen over and over again. Many dictators become oppressive and ruthless in order to stay in power longer, but sooner or later, their rivals muster enough support to take over. This support is forthcoming when people feel they are becoming poorer in real

terms or relative to unrealistic expectations, and when disorder is increasing. Therefore, a socialistically inclined government is inherently unstable.

Until this destructive socialistic ideology is exposed as false and displaced with an appreciation of the capitalistic market economy, there is no chance for a people or a nation to develop. This is why we founded the Universidad Francisco Marroquin in Guatemala. And the intervening seven years of operation strengthen our conviction that we chose the most effective way to reach our objective.

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