"THE STATE AND ECONOMIC GROWTH"

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The volume under review (Hugh G. J. Aitken, Editor; New York, 1959) contains papers presented at a conference of the Social Science Research Council's Committee on Economic Growth. We are asked to judge them in the light of the attempt to put historical flesh on the general theoretical schema of development recently unveiled by Hoselitz. While individual contributions succeed in distilling valuable insights from the underexploited resources of economic history in a wide diversity of settings (more than a dozen areas are treated) the attempt to force these diverse rummaggings, however gently, into one explanatory mold is somewhat less than successful.

According to the Hoselitz model referred to, developed economies can be classified in three-dimensional space: according to the degree to which they could draw on unexploited resources (expansionist vs. intrinsic); the degree of dependence on external markets and supplies (non-dominant vs. dominant); and the degree to which political and economic decision-making agencies are identical or separate (induced vs. autonomous). The reader is then led to expect that each of the country studies presented serves to demonstrate an economic growth pattern falling into one of the eight theoretically possible combinations. And, although this promise was never made explicitly, this reader at least also expected that some improvement in our analytical machinery might result from this diversity of experience with respect to prospects and policies in the contemporary less developed world.

Most contributors pay at least superficial homage to the Hoselitz schema, but attempts to either apply or discredit the model in the light of historical experience in a particular country are rather haphazard, when made. As to the evolution of prognostic devices or policy implications based on an assessment of less developed countries' resources and technology, the harvest is meagre indeed. While Hartshorne and Hoselitz make further, and very interesting, theoretical contributions, these are never effectively wedded to the mainstream of the historical discussion.

Nevertheless, the various country chapters undoubtedly do contribute indirectly to a demonstration of certain weaknesses inherent in the Hoselitz schema itself. Of the three classificatory dimensions presented—and we shall not here indulge in second-guessing the choice or number of these—the induced-autonomous dimension receives the lion's share of whatever attention is bestowed. Such preferential treatment may be well deserved—and this reviewer is inclined to think it is—but it clearly does not contribute to the logic of the enterprise under review. One might conclude, although nothing explicitly is said on the subject, that the identification

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of the prime initiating agent (on the induced vs. autonomous scale) is qualitatively a different problem from either the existence of a physical frontier (on the intrinsic vs. expansionist scale) or the extent of dependence on other countries (on the non-dominant vs. dominant scale). Access to virgin territories, the volume of foreign trade, aid, and entrepreneurial migrations, are the result essentially of historical accident and/or largely exogenous events; the determination of where to look for entrepreneurial and managerial initiative, on the other hand, must be made by the economic-political entity as dictated by the total resource picture and the strengths and weaknesses of endogenous response mechanisms. In the light of our search for single strands leading 'eventually' towards a general theory of development, it would appear that Hoselitz’s intrinsic-expansionist and dominant-non-dominant dimensions, in particular, require considerable redefinition and refinement if they are to become analytically useful.

Concerning, first, the influence of the “frontier” on development, it is generally recognized that the major gains accruing from the physical availability of new land and resources do not necessarily spring from gains in employment or productivity on the extensive margin, but from what Hartshorne calls the “effect on entrenched attitudes”. We might also ask whether it is really possible, or desirable, to differentiate between extensive and intrinsic frontiers. While “wide open spaces” are likely to influence the entire entrepreneurial-innovational syndrom as well as the resource endowment picture in the so-called expansionist countries (U.S., Australia, Canada), equally persuasive stimuli are likely to emerge from frontiers of the intrinsic-variety, at the intensive margin of both industry and agriculture. In the cases of Switzerland, Germany and Japan, for example, it was expansionism as a state of mind, and the frontier as the creative ability in adapting to the requirements of domestic diversification and international demand, which provided the required stimulus for growth. Even if, as Hartshorne suggests, the definition is widened only enough to accommodate the introduction of new techniques on old land, its attractiveness as a tool of analysis suffers, since undoubtedly every economy has experienced some of each stimulus, and in varying degrees, at different stages of its growth.

Hoselitz’s schema is subject to somewhat similar difficulties in its dominant-non-dominant dimension. As he himself points out in his original article, the extreme dominant case (presumably zero trade) is as unrealistic as the extreme dependent case (no production, even of services, for the domestic market). It is hardly necessary to point out that no economy has ever been wholly dependent on developments elsewhere or that the amount of influence exerted cannot always be measured in terms of the overall size and composition of trade. Japan, for example, was sealed off from the rest of the world for two hundred years prior to the mid-19th century. Yet the domestic transformation occurring during this period, yielding a money economy and the elevation to influence of progressive growth-oriented elements in Japanese society, can be traced, in considerable part, to the influence of the so-called Dutch Learning, ideas, books and commodities imported in the course of once-a-year visits to Nagasaki. Even the U.S., paragon of dominant growth, experienced its satellitic episodes, particularly during the pre-Civil War period.

The main argument of the country case studies assembled is presented in Spengler’s excellent summary chapter. The focus is generally on the observed mix of public and private initiative in the development process during a particular period of a country’s economic history. Uneven in quality, the contributions aer

quasi-unanimous in concentrating attention on this dimension of Hoselitz’ schema.

For the case of Australia, for example, we are told that “strong pressures [were] exerted by private individuals to induce governments to provide the conditions suitable to the growth of free enterprise”.3 Here it is difficult to be sure whether it is at the primary or secondary line of inducement that the pivotal act of getting development underway is to be located. The public sector is under pressure, a la Hirschman,4 to provide the required social and economic overheads, e.g. railroads fanning out in traditional style behind extractive and ahead of industrial activity. But the author also attempts to show that Australia represents a case of public capital competing successfully with private capital. It would appear that Butlin is generally more concerned with stability in the short-run than with the location of the initiating agent in secular growth.

Buergin, for example, writing on “The Growth of the Swiss National Economy”, places considerable explanatory emphasis on the entrepreneurial influx at the time of the Reformation—though his evidence, the relative economic performance of Protestant and Catholic regions, is by no means fool-proof. He goes on to point out that a mixture of political and economic neutrality on the part of the government permitted the private sector to flourish at home and opened up markets for predominantly rural-based industries abroad. Developments here contrast markedly with Kerwin’s account of etatism in Turkey. Here the state directly, and indirectly through giant banking and industrial holding companies (which call to mind the conglomerate Zaibatsu enterprises in Japan), was responsible for most of the value added—if at the cost, it is asserted, of a misallocation of resources. But is the absence of mercantilism (early) and protectionism (later) in Switzerland really tantamount to autonomous growth? And is the depression of the thirties a sufficient explanation of the Turkish military “takeover” in the economic sphere? It is to be regretted that, in terms of relevance to the objectives of this volume, the treatment here does not proceed beyond the presentation of worthwhile fragments of economic history.

For Germany, Pounds finds Government initiative, in the form of direct participation in iron and coal production, exploration and technological experimentation, essential prior to 1850 but obstructive thereafter, when efficient technology had become standardized and generally known throughout the private sector. He also raises a very interesting question by comparing the success of the governmental iron works in Upper Silesia with the relative failure of the Le Creusot Works in France, in the face of the application of the same complex of inputs: nearness to sources of raw materials and markets, government initiative and British technical assistance. But it is disappointing that no explanation beyond veiled references to French vested interests and government venality is attempted. Parker, comparing ore mining in France and Germany during the late 19th century, focuses more explicitly on the same problem, the differential response of two societies to similar economic opportunity. Differences in the government-sponsored legal framework, in the government’s concern with mining safety and in the orientation of engineering training are required to bear some of the explanatory burden. While the cessation of population growth in France certainly cannot, in itself, serve as a satisfactory explanation for relative stagnation, it is nevertheless true that we must look beyond the quality of the two governmental preconditioning efforts in order to explain over-all differences in performance. Parker’s incisive

3. Ibid., p. 37.
paper stops short of isolating the effects of differences in other variables, e.g., resources, demand, organisation, the relative timing and costs of technological experimentation or the adaptability of production functions to other people's (mostly British) inventions. The persistence of generally high (but not equal) growth rates in 19th century Europe does not, as Parker claims, in any way prove that, given a certain legal and educational milieu, national policies and organization really do not matter very much. One must agree with Parker when he likens national economies to national cuisines; he is less convincing when he concludes that further visits to the kitchen are unlikely to yield meaningful results.5

The volume also contains contributions by Carson and Spulber dealing with economic development in Russia and Eastern Europe. While it is recognized that, at some stage, ideological preferences swamped all other considerations in determining the desirable public-private sector mix in the countries concerned, the addition of these chapters is to be applauded. It is worthwhile to note, for example, the extent to which even fully controlled centralized planning societies have been forced to make at least temporal and sectoral accommodations to private initiative. As Carson points out, the failure of the Russian government to concern itself with social and institutional change as the necessary precondition for accommodating state intervention in agriculture led to the Kolkhoz catastrophe; and the NEP episode, which eventually proved an untenable half-way house for non-economic reasons, was dictated by the scarcity of administrative resources in the public sector. This is relevant to the basic question, nowhere else tackled in this volume, with respect to the position on the induced-vs.-autonomous scale which economizes on the scarce managerial and entrepreneurial resources. Spulber finds that the expected shift-over time from a situation of overwhelming government initiative in filling the lacunae left by private enterprise's reluctance or inability to act, to vigorous growth of the private sector did not take place in Eastern Europe as a result of economic dogma and political ideology. One waits in vain, however, for a detailed examination of the rather substantial (79.4%) rate of growth of the Russian economy between 1900 and 1913 (when individual indifference maps were still sovereign); or for a comparative analysis of Eastern Europe's savings and allocation pattern pre and post World War II; or for an explanation of why, as Spulber points out, only the Czech lands had self-generating growth. Instead, we are once again left in sight of the "Promised Land", with respectable contributions to economic history, but without a clear discussion of the essential difference between the choice of centralized versus decentralized planning and the choice of direct vs. indirect methods of implementation.

Editor Aitken's chapter on Canada, Broude's on the U.S., and Reubens' on Manchuria come perhaps closest to the main issue under discussion. No doubt, the perfectly neutral state is as much a part of mythology as a perfectly neutral monetary policy. The break with the liberal-utilitarian tradition came early with the realization, as Keynes put it, that the state must sometimes act "in order to create the right environment for private self-interest to work". In the absence of reasonably firm criteria as to the meaning of "induced" and "autonomous" we are forced to fashion our own bench marks. In Canada, for example, the state moved first towards the establishment of a sovereign geographic entity under the assured economic control of its citizenry. Moreover, according to Aitken "basic development policies to be pursued [were] stated by government officials; and the implementation involved the exercise of initiative by governments".6 This seems to leave very little to autonomous initiative; yet we know that the private

6. Ibid., p. 103.
sector was responsible for a large share of the industrial expansion during the 19th century. In one sense, as Broude comes close to saying, if government action to guarantee the environmental preconditions for growth is forthcoming, all economic activity becomes "induced" and the U.S., with its program of free land, aid to railroads, protective tariffs and internal improvements, becomes a prime exhibit. Hoselitz's distinction between a "conscious" and, I suppose, an "accidental" allocation of resources in a given fashion by governmental action is not really workable. A more meaningful distinction may be possible with respect to the quality of government action or benchmarks along the inevitable continuum from total direct involvement to direct controls to fiscal and monetary controls to the exercise of residual police powers.

In his excellent treatment of "Opportunities, Government and Economic Development in Manchuria, 1860-1940", Reubens views with pronounced skepticism attempts to identify any single originating agent in development and reflects on the essentially organic, self-feeding and self-induced nature of growth. This reviewer finds it hard to agree, in the light of countless historical examples of developmental spurts yielding only promising enclaves within stagnant economies. We should also remember, using Reubens' own terminology, that total "potentialities" may not be sufficient to satisfy excess demands within the precarious "range of tolerance" which, I assume, refers to aroused but unsatisfied aspirations. In the South Manchurian Railway complex, concerned, first, with social and economic overheads and later extending its tentacles into commerce, banking and industry we are not surprised to find approximately the same unique relationship between public and private enterprise under the umbrella of a natural confluence of interest as was in evidence in Meiji Japan. Reubens gives considerable credit to the stimulus of Chinese, British, Russian and Japanese entrepreneurs. His "process model" demonstrates the dynamic nature of economic growth as the consequence of a sustained but carefully limited disequilibrium between the private and public sectors.

In its concluding chapters "The State and Economic Growth" contains some general theoretical observations, by Hartshorne and Hoselitz. Hartshorne examines the Hoselitz schema, especially along its dominant-non-dominant and intrinsic-expansionist axes, and concludes that it is not easy to find convenient analytical resting places along these continua. His emphasis on growth through a reallocation and reorganization of existing resources finds a responsive chord but this reviewer hesitates to endorse his identification of diversification with growth (shades of Beane, and Colin Clark). The breakdown of a self-sufficient subsistence economy, usually diversified if at a primitive level, and its replacement by a cash crop export economy, may be most desirable from the point of view of income growth, as we have seen in the case of Malaya. The important, but separate, question concerns the extent to which political and economic considerations will permit the harnessing of the gains from specialization and trade to permit spill-over into other domestic sectors or, assuming favourable demand conditions abroad, reinvestment within the same dual economy framework.

The lack of reliable data prompts Hartshorne to propose the use of per capita fuel and power consumption as a superior index of development. But this would seem to discriminate against the progressive underdeveloped area capable of organizational innovations in response to the pressures of redundant unskilled

7. Ibid., Footnote 1, p. 149.
labor. Mr. Hartshorne's remarks on the role of entrepreneurial minorities and his stimulating discussion of so-called culture areas extending beyond national boundaries require no further comment.

In a concluding chapter on "Economic Policy and Economic Development", Hoselitz introduces the concept of three transitional phases in the developmental life of an economy. These consist of a solidarity phase, encompassing the period of unification, integration, etc.; a goal attainment phase including the period of state direction for constructing the economic and non-economic infrastructure; and an adaptation phase during which the community indifference curve comes to reflect a diversity of private goals. Clearly the "induced" case of earlier schema becomes associated with the predominance of goal attainment and the "autonomous" with the predominance of adaptive problems. The integrative solution usually precedes and makes possible the sway of public, later private, aspirations over what can now be called an economy. Hoselitz points out that no inflexible three-phase sequence is invariably to be expected, that external crises may force an economy to repair its "solidarity" and that internal depressions may yield a resurgence of communal goal attainment over the diversity of private aspirations.

The Hoselitz presentation, elegant and persuasive as it may be, does not bring us closer to our objective, the distilling of precise logical relationships from diffuse historical experience. It is possible to say (as Hoselitz does) that adaptive behaviour became the norm in the 19th century but that the turbulent 20th led to a reevaluation of collective goals; but this is not demonstrably better than the statement that we have moved from government control under mercantilism to relative laissez faire in the 19th century, to renewed government intervention in the 20th in order to protect the individual against the excesses of the market. Absent in both is an answer to the fundamental query: Why is there conflict between private entrepreneurship and the integrative plus goal attainment needs of an economy in one instance and mutual reinforcement in another?

As their authors will readily admit, the theoretical schema presented here have only very limited significance for purposes of empirical testing, policy or prediction. In a sense the trouble with these economic boxes is not that they are essentially empty but that the hypothesized pattern of interaction between them is ill-defined. The three-dimensional matrix attempts to focus on the prime variables and the "binding agent" which make growth possible; but it cannot assist us in assigning priorities and locating those critical areas of transition when change can be expected to become routinized. Until we are able to construct a better framework for empirical research, assorted glimpses into historical processes from the vantage point of ideal types cannot be expected to pay real dividends.