A HISTORY OF THE IDEA OF ECONOMIC DEVELOPMENT

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ABSTRACT

The purpose of this thesis is to trace the history of the idea of economic development. If poverty is a measure of economic underdevelopment, then underdevelopment is as old as civilization. As a problem, underdevelopment is a product of the twentieth century, for it has been only recently that the peoples of the underdeveloped areas have realized the remediable nature of their backward conditions. The West has continuously demonstrated to the underdeveloped world what modern technology and science can achieve.

Many Western nations went through the process of economic growth in an earlier age. Because political and social forces combined and provided an atmosphere conducive to change, the process of growth was more natural for these Western nations than it will be for the nations which are attempting to develop in the mid-twentieth century.

In the nineteenth century theories of economic growth were very different from those being expounded today. The conditions surrounding economic development today are different from those of past centuries and they warrant new theories and a different approach to economic development.

The developed nations now realize that extreme poverty must be alleviated for world peace and stability

and they realize that without outside aid it will require several generations for many underdeveloped nations to enter the "take-off" stage of economic growth.

CHAPTER I

INTRODUCTION

Until the twentieth century, poverty was accepted as the universal plight of mankind. Life was, as Hobbes said, "poor, nasty, brutish, and short" for all except a privileged minority. Poverty is as old as civilization, but poverty or economic underdevelopment as a recognized problem is recent, and only in the twentieth century have nations learned that they need not accept poverty as a permanent or a natural condition. A few nations have virtually rid themselves of poverty and have demonstrated to the rest of the world that poverty does not have to be the eternal state of man.

Because a few nations have been able to rid themselves of mass poverty, we are now in an era of what Adlai Stevenson has called the "revolution of rising expectations." This revolution is an extension of an industrial revolution which began several centuries ago in Western Europe.

The world has now been broken up into two distinct economic groups, the rich nations and the poor nations. The rich nations are those of Western Europe, the United States, Canada, Australia, and New Zealand. Although there are a few nations, such as Russia and Japan, which are difficult to classify, most of the other nations of the world are generally considered to be poor. All of the countries in which a large percentage of the population suffers from extreme poverty are referred to as underdeveloped, backward, or poor. These terms are all relative and mean that, when all the nations of the world are compared on economic terms, some countries will be poor or rich relative to the others. Many of the poor or backward nations are heirs to great and ancient civilizations and, although their incomes per capita are very low, their art and literature may compare favorably with any found in nations with much higher incomes per capita.

Before contact with the Western world, the nations now considered poor knew no way of life other than their own. They accepted their poverty and disease as normal. They were not "underdeveloped" nations, because "underdevelopment does not really exist until it is known to exist."[1]

The first contact most of the poor nations had with the West came in the nineteenth century. This was the beginning of the era of European colonialism. It is true that beginning in the late fifteenth century the West started trading and exploring in other parts of the world,

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1. Pierre Moussa, The Underprivileged Nations (Boston: Beacon Press, 1959), p. xv.

but the contact between today's poor countries and the West was then very limited. The West was then interested in adventure and plunder rather than colonization. But in the nineteenth century the Westerners went to Africa and Asia and colonized. Colonialism took various forms in different countries; for example, in India, the British made a special effort to train men for both the civil service and the army, while, on the other hand, in Burma, the British did very little to train men for either the army or civil service.

Colonialism did have one direct universal effect. Wherever it existed it disrupted the traditional way of life. The colonial power cast aside the local power structure, often scorned the traditional religion, and violated local customs.

Another effect of colonialism and one which is perhaps more profound is the "demonstration effect." The colonial administrators and the merchants "lived better, lived longer, had demonstrably more satisfying lives"[1] than the indigenous population. In addition, the local leaders saw that nations which established colonies, because of their advanced scientific, industrial, and technological society, enjoyed almost irresistible power.

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1. Barbara Ward, The Rich Nations and the Poor Nations (New York: W. W. Norton and Company Inc., 1962), p. 54.

Colonialism was the beginning of a drive for economic development in many nations of the world. The West has since increased the desire of the poor nations to develop by means of today's mass communications--newspapers, radios, movies, and television, which continuously exhibit to the poor nations the advantages that can be obtained from economic growth.

Contact with the more economically developed Western world has had dramatic effects on the underdeveloped countries. Their people have been exposed to some of the advantages of economic development, and this has left them with a strong desire for the material advantages of the Western way of life. It has resulted in frustration and dissatisfaction among the peoples of underdeveloped countries, because they cannot have the advantages of economic development immediately.

The desire of poor nations to become rich has led the rich nations to examine closely their own development and has also led to many new theories as to how countries can develop economically. These theories range from those which call for a highly centralized, planned economy to the theory which says that by each man's working for his own selfish interest he will ultimately be working for the welfare of the economy as a whole.

There is no one most effective theory of economic growth. What is most effective for one country may be very inadequate for another. Each country must choose that method of development which best fits its own circumstances. For the society of some of today's underdeveloped countries a system of private enterprise will be the most beneficial, and for others a system of highly centralized governmental planning and ownership will be best. The majority of the countries will probably follow a middle road tempered to fit their own situations.

Before many of the poor nations can develop economically, many of their attitudes and the customs of their peoples will have to change, just as there had to be changes in the attitudes and customs of Western peoples before their countries could develop.

CHAPTER II

ATTITUDES AND THEIR CHANGES

Before economic development can take place, the attitudes of the people in some underdeveloped countries must change toward politics, economics, and their own social structure.[1] "The modernization process requires fundamental human attitudes to change in such ways as to make the efficient operation of a modern society not only possible but also psychologically congenial."[2]

These changes in attitudes came about in Britain and Western Europe early. For countries such as the United States, Canada, and Australia, there was no traditional society to overcome, and the people immigrating to these countries already possessed the necessary attitudes toward politics, economics, and society to allow them to proceed with economic growth.

"The leading features of the middle ages were the feudal system of decentralized government and the international unity of thought consequent on the dominant

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1. Max F. Millikan and Donald L. M. Blackmer (eds.), The Emerging Nations: Their Growth and United States Policy (Boston: Little, Brown and Company, 1961), p. 19.

2. Ibid., p. 26.

position of the Roman Catholic Church."[1] Both of these had to change before economic development could take place. The change from feudalism to a modern nation with a centralized government was a gradual one.

One impetus to ending feudalism was the change in the art of war. It became more and more common to hire soldiers when they were needed. The hired mercenaries proved superior to the old military force of the feudal lord. The hired soldiers had to be paid; this led to taxation, and the feudal lord began demanding money payments instead of the usual labor and crop dues the serfs had previously paid for the use of the land. This gave rise to a money economy, replacing the former subsistence and service economy.

A revolution in thought was also taking place. It began about the end of the eleventh century. The Crusades had put the Western Europeans in touch with Eastern thought. The Universities of Oxford and Paris were established in the twelfth century, and they furnished the means whereby the new knowledge was disseminated. Men were taught to think through problems for themselves instead of accepting the authoritative interpretations of the church, which had satisfied them in the past. In the

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1. Edmund Whittaker, A History of Economic Ideas (New York: Longmans, Green and Company, 1940), p. 30.

following centuries there was a great expansion of knowledge with such men as Copernicus, Kepler, Galileo, Descartes, Spinoza, and Hobbes, whose ideas could not have developed in the medieval period because of the domination of religious dogma.

The increasing individualism in religious interpretation led to the Protestant Reformation. A wide variety of Protestant sects came into existence, ranging from the Lutherans, who segregated spiritual affairs into a separate world and left the state free in the secular sphere, to the Quakers, who gave individuals the right to free interpretation, but sought to remake society into a Kingdom of Christ on earth.

The Roman Catholic Church preached against the charging of interest and the accumulation of wealth, teaching that poverty was a virtue. These teachings were directly challenged by some of the new sects. Calvinism, for instance, taught the desirability of practicing thrift, or, in economic terms, of saving for investment, in order to increase material well being. "Behavior of individuals in conformity with what was acknowledged to be the welfare of society rather than the dictates of the Church regarding the faithful observance of the sacraments, became a greater concern in Western culture than it had been earlier."[1]

Humanism was a third important development of this transition period in the fifteenth and sixteenth centuries. It too came about partly as a result of the West's contact with Eastern learning during and after the Crusades. Humanism was an intellectual movement which had, at its center, an interest in the ancient classics and through them a concern with the things of this world.

The Protestant Churches were organized broadly on national lines, and the universal power of the Church of Rome was destroyed. A centralized power aimed at the glorification of the state replaced the separate policies of the Church, barons, guilds and other local organizations. The outcome of the centralized power's aim to glorify the state is commonly known as mercantilism.

The Protestant ethic, humanism, and the rise of states with centralized power all combined to begin the transition in the traditional society necessary for the "pre-conditions for take-off."[2] Other things had to change or develop in Britain and other Western European countries before the preconditions for take-off would be

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1. Shepard B. Clough, The Economic Development of Western Civilization (New York: McGraw-Hill Book Company Inc., 1959), p. 121.

2. W. W. Rostow, The Stages of Economic Growth (New York: Cambridge University Press, 1960), p. 6.

complete. Institutions for facilitating commerce and trade, banking institutions, scientific inventions, some industrial base, and the rise of a middle class also had to come before the preconditions were complete.

In the light of the history of economic development in Western Europe, a number of today's underdeveloped nations also have to change many of their attitudes and customs before they can develop economically. It is often argued that attitudes and customs change as a country or region develops, but it cannot be denied that a change in many of the attitudes held by the peoples of underdeveloped countries would accelerate economic growth.

Many ascetic codes must change or be modified. Among the codes needing modification are those which say:

1. There is special virtue in consuming less than the rest of one's fellows.
2. People should learn to control their natural desires.
3. The earning of a living consumes time which might be given to meditation or religious exercises.
4. Earning a living sometimes brings out aggressive tendencies toward one's fellowman, and it is better to avoid this temptation by confining oneself to consuming as little as one can manage.

All of these codes must be changed somewhat if the people of the countries to which the codes apply are to have economic development approaching the magnitude which they seem to desire.

The attitude toward work in many countries must change if economic development is to proceed. Many peoples in underdeveloped lands will work only long enough to maintain a subsistence living for their families. When they have earned enough to do this, they quit working until they need money again. For the economies of many countries to develop, the individuals in these countries must be willing to maneuver economically, that is, they must be able to operate with a mind free from convention and taboo, they must be willing to take risks, and they must be willing to move from one place to another if the occasion demands it. Taboos such as the Hindu's unwillingness to kill a sacred cow or a beast of inferior quality must be changed. Taboos relating to the sort of work women do and to birth control need to be modified for more rapid economic development. Many underdeveloped countries are burdened with the problem of extended families. An individual is less willing to work if he knows his earnings are to be spread among numerous relations and to be of little benefit to himself or his immediate family.

There are many other customs and attitudes held by people in underdeveloped nations which must change before these countries can have any real economic growth. Some nations have made the necessary transition from the traditional society to a society with an outlook which is conducive to economic development; in others changes of the magnitude involved in the Western Renaissance and Reformation must take place before it is possible to have economic growth to any measurable degree.

CHAPTER III

THE ECONOMIC DEVELOPMENT OF ENGLAND

In spite of the fact that no country's economic development has ever completely corresponded to the principles of classical economics set forth by Adam Smith and other early economists, the economic development of England followed the classical pattern more closely than did that of any other country.

In England, the end of feudalism came when the lords began to "enclose" the pastures which had previously been "common land," a process which eventually forced the peasant off the land and into the industrial areas. The enclosures began as early as the thirteenth century and reached peaks in the sixteenth and again in the late eighteenth and early nineteenth centuries.[1] They were a powerful force in ending the manorial system and beginning a market society based on money. This change was gradual but often accompanied by strife and bitterness, as feudalism, which had been a legal, political, and social organization, gave way to a society with a different set of

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1. Robert L. Heilbroner, The Making of Economic Society (Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1962), pp. 60-63.

laws, customs, and political institutions which later became known as capitalism.

England experienced an "industrial revolution" from approximately 1540 to 1640.[1] This revolution laid the foundation for the greater and more widespread "industrial revolution" in the eighteenth and early nineteenth centuries. New technological methods of production stressed the output of staple goods for mass consumption. Businessmen learned that they could make greater profits by producing for mass consumption than by producing luxury items for a select few. This brought about a

> concern for the purchasing power of the masses, for continuing investments in producers' goods to turn out products within the price range of large numbers, for effecting a division of labor and of adopting laborsaving devices, and for developing cheap materials to take the place of expensive ones.[2]

In 1536, and again in 1539, Henry VIII devalued money. These devaluations caused prices to be raised, but wages did not increase at the same rate. Thus, with prices up and real wages down, there were opportunities for large profits. This encouraged businessmen to undertake new investments. However, the difference between prices and wages was not enough to damage drastically the purchasing power of the masses.[3]

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1. Clough, p. 165.
2. Ibid., p. 163.
3. Ibid., p. 165.

During this era of enclosures and the beginnings of a capitalistic system there were five major developments in England and Western Europe: "(1) great economic growth, (2) an enormous increase in the use of money, (3) the expansion of trade over long distances, (4) the acquisition of colonies overseas, and (5) the rise of national states."[1] The economic theories of the time tried to explain how growth was accomplished and the place of money, commerce, production, and colonies in achieving growth. The theories of the time did not have as their primary goal the direct welfare of the individual, but rather, the economic strengthening of the state so that centralized control and military power could be increased. This economic state-building was known as mercantilism. The state, primarily by means of regulations to attain its desired ends, interfered in all phases of economic life. On the surface this did not seem to be a new development, but the degree of interference was new, since the state did an extensive amount of economic planning and exerted a high degree of control over private economic planning. This was the situation when Adam Smith started writing about economics.

Adam Smith wrote that there was design, order, and purpose in what appeared to be an economically confused

1. Ibid., pp. 207-208.

state. Describing life in England at the time of Adam Smith, Heilbroner has this to say:

> For if the English social scene of the late eighteenth century suggested anything, it was most emphatically not rational order nor moral purpose. As soon as one looked away from the elegant lives of the leisure classes, society presented itself as a brute struggle for existence in its meanest form. Outside the drawing rooms of London or the pleasant rich estates of the countries, all that one saw was rapacity, cruelty, and degradation mingled with the most irrational and bewildering customs and traditions of some still earlier and already anachronistic day. Rather than a carefully engineered machine where each part could be seen to contribute to the whole, the body social resembled one of James Watt's strange steam machines: black, noisy, inefficient, dangerous. How curious that Dr. Smith should have professed to see order, design, and purpose in all of this.[1]

Adam Smith found in the market mechanism a self-regulating system for society's orderly provisioning. He maintained that the market is self-regulating. If output or prices are out of equilibrium, forces are set in motion to bring them back into equilibrium. If an individual chose to do something out of line with the manner in which the market operated, the individual would suffer, not the market.

In Smith's time there were agents, some old and some new, which attempted to restrain the free operation

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1. Robert L. Heilbroner, The Worldly Philosophers (New York: Simon and Schuster, 1961), p. 29.

of the market. England still had corn laws,[1] tariffs on imported goods, and bounties on goods being exported. There were manufacturers who combined in order to maintain prices at artificially high levels, and there were associations of journeymen who resisted competition when it would result in a decrease in their wages. Smith objected to all these interferences with the free working of the market mechanism.

However, eighteenth century England did approach the model set for it by Smith. Most factories were small; prices changed as demand changed, and output and occupations were changed as prices changed.

Smith felt that the least government was the best, and was opposed to the interference, by governments, with the free workings of the market. He opposed restraints on imports, bounties on exports, governmental interference which sheltered industry from competition, and government spending for unproductive purposes. According to Smith, there are three proper functions of government. The first is to protect society from violence and invasions from other societies. The second is to protect members of a society from other members of the same society. The third is that of erecting and maintaining public institutions

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1. Corn laws were regulations which levied heavy import duties on imported grains so long as the domestic price was below a stipulated figure.

and public works which "are of such a nature, that the profit could never repay the expence to any individual or small number of individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect or maintain."[1]

Adam Smith wrote at the beginning of England's Industrial revolution. Since England was the first country to enter the process of industrialization, there was no model for it to follow. No other country had ever gone through the industrialization process, and therefore England could not learn from the mistakes of others or copy successes of others.

The Industrial Revolution in England had, however, its antecedents in earlier times. Economic historians generally agree that the new machines and methods of production came about through the contributions made to mechanics in ancient times and by the work of men like Leonardo da Vinci in the area of mechanical experimentation. The Industrial Revolution was also a result of the development of big markets in the seventeenth century and the growth of large savings and investments which in turn were made possible through money and other instruments of exchange and credit.

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1. Adam Smith, The Wealth of Nations (New York: Random House, Inc., 1937), p. 681.

Everywhere there was evidence of a greater desire for economic improvement. A new class of wealthy men was to be found. The members of this class were dubbed "bourgeois" and they became the chief patrons of the arts. The English Whig party, which dominated the political life of the country during this period, acquired its strength from this group. Practically all the French philosophers of the Age of Reason came from the bourgeois class, and, in a subtle way, they preached the wisdom of material improvement. The desire for material wealth came not only from philosophical reasoning, but also because acquiring wealth was about the only way a commoner could rise in a society dominated by nobility. As people left the country and moved to the cities in order to acquire wealth, the desire for economic development resulted in saving and investment and more goods, and this resulted in the desire for even more goods.

However, not everybody acquired wealth. There was a large destitute labor force. With the Industrial Revolution came the largest movements of population the modern world had ever known. Workers in England moved from rural areas to the cities and some even moved to other countries. Whole families worked long hours in factories and mines, and, although conditions were terrible, conditions were probably no worse than they had been on the land the people left. In England, payment was on a piece basis, especially in the "putting out" system; this resulted in workers introducing new improvements to increase their productivity.

There are a number of reasons why Britain was the first country to industrialize. The conditions present permitting mechanization and increased economic growth were:

> (1) a desire for material betterment, (2) a considerable knowledge of mechanics, hydraulics, and metallurgy, (3) capital for investment, (4) a demand for more goods, (5) raw materials in sufficient and concentrated supply to be worked on a large scale, (6) methods of transportation to make possible the accumulation of supplies and to carry finished goods to market, and (7) workers who were willing to work for a daily wage and who were able to adapt themselves to new ways of doing things.[1]

These conditions were present to a greater extent in England than in any other country.

With the discovery of new territories came an expansion of trade, and with an increase in trade there was a rise in shipping and a rise in the institutions of credit and commerce, and perhaps most important, a rise of men devoted to commerce and profits. Thus the market had been widened, and with a large market came new types of specialization and interdependence. There was a new spirit of science in Europe which brought, during this time, many innovations in iron-making and spinning, and the increased efficiency of steam-engines.

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1. Clough, p. 260.

England was the chief beneficiary of these changes. It had cotton manufacturing, coal and iron technology, the steam-engine, and ample foreign trade to enter the "take-off" stage of economic growth.

The Netherlands and France were the other advanced countries of Europe at the time, but the conditions in these countries were not right for "take-off." The Netherlands was heavily committed to finance and trade, and did not have an adequate manufacturing base. France was politically and socially too inflexible. The French, at the time, were heavily committed to ground warfare in Europe. Their best minds had to dwell on political, social, and religious matters, rather than on economic matters.[1] England had early freed itself from the Church of Rome; it had broken away from a quasi-colonial relationship with the Netherlands and had gone through a period of nationalism which had broken down caste barriers and resulted in a country more concerned with the possibilities of challenges from continental Europe than with class loyalties.

According to Rostow, the economy of Britain reached maturity[2] by 1850, sixty years before any other nation.[3]

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1. Rostow, p. 33.

2. Maturity is the stage at which an economy can apply efficiently over a wide range of its resources the then most advanced technology.

3. Rostow, p. 10.

England's economic development is unique among the nations which developed in the nineteenth century. It owes very little to direct state-aid. British colonies provided markets for products of England and facilitated the accumulation of profits. The British government provided a legal and administrative framework within which private enterprise could successfully operate. Thus the climate was right for private investment, the savings for that investment were available, and England, on the eve of the Industrial Revolution, was much more developed than other countries at the same stage.

Private capital played the greatest part in providing through-communication for wheeled vehicles in England. Roads in eighteenth century England were built and maintained by the parishes. The parish authorities relied heavily on compulsory labor. The early turnpikes were usually under joint private and public management; they were financed by private loans secured by tolls. By the 1830's the turnpike trusts were disappearing, but they had made a large contribution to England's industrialization.[1]

Canal building was handled almost exclusively by private joint-stock companies. The improvements to harbors and rivers were controlled by the government, but

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1. Edward S. Mason, _Economic Planning in Underdeveloped Areas: Government and Business_ (New York: Fordham University Press, 1958), p. 28.

private interests provided the piers and other loading facilities until the late nineteenth century. Shipping was entirely in the hands of private enterprise.[1]

All of the English railways were built by private investors. The only aid the state provided was to give the railways the right to buy land compulsorily. Maximum railway rates were set by the state from the beginning, but they were almost always too high to be operative.[2]

Private investors were predominant in the building of gas and water works and they were foremost in providing electricity when it became feasible (although Parliament had given priority to municipal undertakings).[3] Even in the field of education, private investment was dominant. As late as 1858, the government share of school financing was only twenty-five percent. The remaining money came from fees and private subscription.[4]

In England the building of these social overhead facilities represented favorable investment opportunities for private investment. These facilities did not have to be built in anticipation of traffic which might develop over the next few decades; the traffic was there waiting for the facilities to be built.

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1. *Ibid.*
2. *Ibid.*, p. 29.
3. *Ibid.*
4. *Ibid.*

Adam Smith's free trade doctrine was supported by other classical economists in England--Thomas Malthus, David Ricardo, John Stuart Mill, and later Alfred Marshall. There were also French supporters of free trade, such as the economists Jean Baptiste Say and Frédéric Bastiat who supported the free trade theory. Smith stressed the advantages to be had from division of labor and, consequently, free trade, which would expand the division of labor to other countries. In this way countries could produce those goods for which they had an advantage. During Smith's time and later, England had such technological advantages over the other nations that it had little to be afraid of. Even the businessmen of the time wanted free trade so that they could buy more cheaply or so that they would be able to sell their produce more easily.

France and England signed the Eden Treaty in 1786. The Eden Treaty was a trade agreement in which each country agreed to lower tariffs on a few of the products of the other. France agreed to lower its tariff on British textiles, and Britain, in turn, would lower its tariff on French wines to the level of the tariff on Portuguese wines. However, shortly after the treaty was signed, the French Revolution broke out (1789) and France was embroiled in foreign wars until 1815, when Napoleon was defeated at Waterloo. These wars resulted in what is known as the "Continental System." All importation of British goods on the continent of Europe was supposed to stop. In this way Napoleon hoped to defeat England by economic means. England adopted retaliatory measures and encouraged shippers to break the blockade. In the end, Napoleon turned the restrictions on British trade into a money-raising device and sold licenses for the importation of British goods. During this period the Eden Treaty was annulled.

The Eden Treaty was the beginning of British efforts to abolish trade restrictions. In spite of what appeared to be a universal policy of protection, there were arguments for free trade. Those who were involved in commerce and industry took a firm position on freer trade. The Corn Law of 1815 was revised steadily downward until Peel[1] abolished it in 1846.

From 1660 until the middle of the nineteenth century, Britain had Navigation Laws which were added to and changed often. In 1845, the Navigation Laws were codified for the first time, and at that time they were interpreted so liberally that there were virtually no navigation restrictions on trade originating in European countries. Restrictions on trade with Asia, Africa, and

1. Prime Minister from 1841 to 1846.

America were liberalized, as was trade between the British colonies and foreign countries.

The years 1822 to 1828 were years of prosperous trade. Import duties were lowered or abolished. Items which had been prohibited were now allowed to enter the country. The prohibitions and bounties on exports which still existed were withdrawn, and finally, in 1824, the law prohibiting the emigration of skilled artisans was repealed. "Great Britain became a completely free trade country because the interests which risked little by its adoption were strong enough to bring the agriculturists to their knees."[1] With the increase in industry and trade the British Government could afford free trade.

England was the first country to go through this process of economic growth. There were both advantages and disadvantages to this situation. Since England was more industrially developed than other countries, it had a definite advantage in trade, and foreign trade provided capital for industrialization. But because England was the first country to go through the industrialization process, it had to train all of its own artisans. Most of the technical innovations of the time originated in England, and there was no such thing as foreign aid to assist in the process of growth.

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1. C. R. Fay, Great Britain From Adam Smith to the Present Day (New York: Longmans, Green and Company, 1928), p. 44.

The state assisted the economic growth of England by providing a peaceful, efficient climate in which growth could take place. The state reduced public finance to a science, built a civil service free of corruption, supplied the country with a sound currency, but did not embark on banking activities aside from receiving savings through the post office. The state provided a postal system, but improvements of this system came from private individuals.

Britain pursued its free trade policy until after World War I. Prior to the war, the world had depended on Lancashire cotton, Cardiff coals, and the London money market. In this situation free trade was justified. But the age of British supremacy passed with World War I, as other countries caught up with, and some passed Britain in affluence, and Britain could no longer afford free trade.

Adam Smith knew his country and his times, and this was his genius. But what was most beneficial for the economic development of England in the late eighteenth and early nineteenth centuries was not necessarily most beneficial for other nations which were industrializing in the nineteenth century.

CHAPTER IV

THE ECONOMIC DEVELOPMENT OF FRANCE, GERMANY AND THE UNITED STATES

Introduction

The following brief accounts of the economic development of France, Germany, and the United States are not meant to be a full accounting of their economic development. Rather, their purpose is to contrast briefly the economic development of these countries with that of Britain, and to demonstrate the fact that each country must temper whatever system of economic development it chooses to fit its own particular situation. All four of these countries, Britain, France, Germany, and the United States, were world powers in both World War I and World War II. All four of the countries industrialized during the nineteenth century (Britain did begin the process in the eighteenth century, but most of its industrialization was in the nineteenth century), and each of the four followed a somewhat different road to becoming an industrialized nation.

France

The revolution in France at the end of the eighteenth century upset the remnants of the traditional society in that country. The revolution asserted the claims of common men to liberty and social equality; it brought an end to what remained of feudal hierarchy and dispossessed aristocracy and royalty. There had been a long period of intellectual and economic preparation for the revolution.[1]

France, like Britain, went through a stage of mercantilism which helped to strengthen the state and prepare it for the industrial revolution. During the reign of Henry IV (1589-1610) reforms were introduced which materially aided the French economy. These included reforms in the collection and disbursement of taxes, the building of roads and canals, and the encouragement of better methods in agriculture.[2] Under Colbert,[3] France built a merchant marine and a navy; its shipping facilities were improved and bounties were given to French shippers and shipbuilders. Colbert promoted successful trading companies and the French colonial empire was expanded. In attempting to free France of dependence on other countries for certain goods, Colbert induced craftsmen to immigrate to France, offered bounties to encourage domestic

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1. Rondo E. Cameron, France and the Economic Development of Europe 1800-1914 (Princeton: Princeton University Press, 1961), p. 3.

2. John Fred Bell, A History of Economic Thought (New York: The Ronald Press Company, 1953), p. 101.

3. Minister of Finance under Louis XIV.

production, and freed privileged manufacturers from statutory regulations and the supervision of guilds.[1]

The first scientific school of economics began in France in the middle of the eighteenth century, and its proponents were called physiocrats. "Physiocracy" means "rule of nature." The physiocrats believed that there was a natural order which prevailed over all of man's activities. The theme of the physiocrat writers was minimized regulatory controls and maximized freedom and their motto was "laissez faire et laissez passer: le monde va de lui-même." This was later to become one of Adam Smith's theories. Physiocratic doctrine and Adam Smith's theories closely resembled one another in many respects. Much of the revolutionary legislation concerning economic affairs was taken from the theories of the physiocrats. But French economic development did not resemble the English development, even in theory, because French economic policy received its definitive stamp, not from the revolution, but from Napoleon.

Mercantilism and physiocracy were just two of the changes that occurred before the French Revolution. The French government had provided the country with the best highway system in Europe. France had canals also, but most of them were built after 1820. The rising number of French

1. Bell, p. 103.

manufacturers demanded and received protection from the more advanced and better-established British industries.

The mining law of 1810 replaced an earlier liberal law; it stated that underground minerals belonged to the public domain. The law also favored large industrialists, allowing them to obtain government concessions and finance expensive equipment. Napoleon created the Corps des Mines, a group composed of skilled engineers, to supervise the new law. The government re-established the Bourse, a quasi-official institution which regulated financial transactions. In 1902, the Bank of France was reorganized for greater government control. It regulated the supply of money by altering the discount rate, and it controlled credit by determining whether to accept or refuse commercial paper for discount.[1] The chambers of commerce (again quasi-official bodies) were re-established and gave large merchants and industrialists an opportunity to take part in the formation of economic policy. In the name of public health and order, butchers and bakers were regulated.[2]

The Napoleonic codes, which were the first successful attempt at comprehensive codification since the Code of Justinian, laid the foundation for a capitalistic

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1. Clough, p. 357.

2. Cameron, p. 29.

society. The civil code, written by middle class lawyers and jurists, specifically sanctioned freedom of contract and gave valid contracts the force of law. The civil code also recognized the bill-of-exchange and other forms of commercial paper. It specifically authorized loans at interest--an important step for a Roman Catholic country.[1]

French commercial policy before 1852 hindered the development of international economic integration and failed in promoting domestic industry and agriculture. Most of the duties levied on imports after 1816 were specific in amount, and although prices in general declined, the relative prices for French consumers and purchasers of raw materials increased. The protective system, which was supposed to encourage internal economic development, rewarded some industries, such as agriculture and coal, out of proportion to their value and thus retarded the transfer of capital and labor to other industries where their productivity would have been greater. In addition, French tariff policy provoked retaliation against French industries from Germany, Italy, and the Low Countries.

France went through a period of relative economic stagnation while the Bourbons were in power from 1814 to

1. *Ibid.*, p. 30.

1830.[1] When Napoleon III came to power, this period was ended. Napoleon III and the Second Empire took away most of what political liberty the French people had enjoyed, but the loss of freedom was replaced with material prosperity. Napoleon III, during his exile in Britain, saw the British take the final steps in the direction of complete free trade, and he wanted France to move in the same direction. From 1853 to 1856 the duties on iron, steel, wool, and some foodstuffs were lowered by governmental decree. Furthermore, some articles which had previously been prohibited were now admitted with duties. In January of 1860, the Cobden-Chevalier treaty was published. In return for British concessions, the treaty removed all French prohibitions on imports of British goods. France was then committed to a policy of moderate protection. In the following years France made treaties with virtually every important trading nation. In this way the French government exposed French industry to international competition. Monopoly profits in coal and iron production were eliminated, and French industry was finally able to have profitable access to basic industrial raw materials. However, the French Third Republic reversed the free trade policies in 1871.

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1. Alexander Gerschenkron, Economic Backwardness in Historical Perspective (Cambridge: Harvard University Press, 1962), p. 11.

French industry received a powerful impetus from new banking techniques. Financial organizations were created which were designed to build railroads, canals, and factories; drill mines; construct ports; and modernize cities. The banking institution which was responsible for all this was the Crédit Mobilier. It not only provided funds for expansion, but also forced the old banks to change their practice of merely floating government loans and foreign-exchange transaction to a policy of financing industrialization.

The circumstances of development in England and France were what gave rise to the different types of banking practices in the two countries. England had been able to finance her industrialization without any substantial recourse to borrowing from banks for long-term investment purposes. England's more gradual industrialization process and its accumulation of capital from earnings in trade and later from industry itself lessened the need for institutions which could supply long-term credit.

French development also differed from British development because of the difference in the ideologies of the two countries. Many of the men who were economically and financially influential under Napoleon III belonged to a group known as Saint-Simonian socialists. Many of the views they held were not those of Saint-Simon himself, who had been a collectivist, not a socialist. He had believed in equality of opportunity and abolition of privilege and had felt that owners of wealth and property should be made to understand that their possessions were to be used for the public good.[1] Followers of Saint-Simon expanded and redefined his doctrines so that they incorporated many socialist ideas, including abolition of inheritance and a system of planning designed to direct and to develop the economy of France. Followers of Saint-Simon stressed the importance of industrialization and the important role that banking had as an instrument of organization and development of the economy.[2]

France needed more than the hope of high profits and better allocation of resources, for, when compared to England at the time, France was an underdeveloped nation. It was logical for England to be a free trade nation, but many Frenchmen felt it was wrong for France. The great and sudden industrialization of France called for a "New Deal," and, therefore, "capitalist industrialization continued under the auspices of socialist ideologies."[3]

Germany

German tribes which displayed various degrees of power and influence had existed since the days of the

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1. Bell, p. 364.
2. Gerschenkron, p. 23.
3. *Ibid*., p. 25.

Roman Empire, but there was not a unified Germany until 1871. This meant that Germany, as a unified nation, was a late comer to the process of industrialization, when compared to other Western European nations. Germany, or what was later to become Germany, like Britain and France, went through a stage of mercantilism. German mercantilism, also called cameralism, was an important conditioning factor which affected later German development.

The philosopher Pufendorf laid the foundation for cameralism with his theory of natural rights. This theory stated that no interference between a ruler and his people would be tolerated. The theory of natural rights justified the ending of the power of the craft guilds because they were a group which stood between the people and the ruler. The theory also provided justification for state interference in the life of the people. Cameralism, which prevailed in Germany for 300 years, became a theory of politics more than one of economics, although economic conditions and purposes did play a part in its adoption.[1]

The German economists of the late eighteenth and early nineteenth centuries knew of Adam Smith's work, but few supported Smith's free trade policy. Most of the economists of the time were still absorbed with cameralistic principles, and therefore, when they made references

1. Bell, pp. 107-108.

to Smith and the Wealth of Nations, it was often to disagree on elements of state regulation.

Friedrich List was one of the foremost German critics of classical economics and of Adam Smith. List believed that each country had to develop along lines best suited to its particular situation. He did not deny that England's development was correct for the English economy, but he did deny that the same methods would be best for Germany. Thus List held the view that development should be along the lines which were in the greatest interest of the state, while Smith regarded the best interests of the individual as conducive to the best interests of the state. Concerning foreign trade, List felt that "If all nations were in a union or in a confederation as a guaranty of perpetual peace, the principle of international free trade would be justified."[1] Since no such unions existed, List felt that nations must use their trade relations to build up their own economy. List believed that there was a need for governmental development of railroads and a protective traiff for nascent German industry. It appears that just as Adam Smith knew his country and his time, so too did Friedrich List. Although German economic development was very different from that of Britain, Germany was an advanced industrial and commercial nation by the beginning of the twentieth century.

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1. Ibid., p. 310.

When Bismarck formed the Reich in 1871, Germany was not a poor agricultural country. In 1871, the center of industrial power was west of the Rhine, but Germany had begun to show its power before then. In 1833 the beginning of the German Zollverein was formed and by 1852 it included nearly all of what was to become Germany. The German Zollverein was a complete customs union. There were no tariffs between the member states, but there were customs barriers between the member states and other nations. Although there was no common currency and no freedom of movement or settlement among the member states, the Zollverein was a powerful impetus for economic development.

Foreign factors also contributed to the economic development of Germany. "Some of these were: the agrarian reforms of the Napoleonic Era; the influences from the French domination over western Germany; and the influx of British capital and British enterprise."[1]

For Germany the first rapid period of development was from 1848 to 1857. This was the period in which railroads, banks, and heavy industry first developed. Although, in 1871, sixty-four percent of the people still lived in the country, German industry was relatively well developed for that time. As in other European countries, state help and state initiative concerning the development

1. Gustav Stolper, German Economy 1870-1941 (London: George Allen and Unwin Ltd., 1940), p. 25.

of important industries were important in building up capitalism. During the mercantilist era state-owned "factories" were established, some of which remained state owned. In addition, various princes owned their own domains, forests, and some industrial enterprises. All of these were, in fact, state property. Thus, Germany had a large sector of its economy controlled by the state.

Germany, like other European countries, went through a liberal era and followed a free trade policy. The trend toward free trade was definitely established with the signing of the Cobden treaty between England and France in 1860, but Germany's era of free trade was short. In 1873 Germany suffered a depression which also affected England. At this time England, because of its technological superiority, was able to flood the German market with iron and iron products at such low prices that German heavy industry was unable to compete. In 1879 Germany reinstated its tariffs and turned away from economic liberalism, entering a new stage of mercantilism.

The first step taken in this new era of government control was the nationalization of the railroads. In some areas of Germany the railways had always been owned by the state, but in other areas they had initially been privately financed and owned. After the railroads had been nationalized, the state became more active as an entrepreneur in other fields. The slogan of municipal socialism became popular, and cities "socialized" electric plants, gasworks and waterworks, traction companies, and slaughter houses; or they erected new plants under their ownership.[1] "Germany had gradually become an economic system of mixed private and public ownership. In this era the foundations were already laid on which later the war economy, the experiments of the Republic, and finally the National Socialist system could be built."[2]

The United States

One of the first prerequisites for economic development is social change. The traditional society must be transformed "in the ways necessary for it to exploit the fruits of modern science, to fend off diminishing returns, and thus to enjoy the blessings and choices opened up by the march of compound interest.[3] The United States was very fortunate, for it belonged to the small group of nations that were "born free."[4] It was founded chiefly by people from Britain, where the change in the traditional society had already taken place. The people who came to America, usually non-conformists of one type or another, already possessed the attitudes necessary

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1. *Ibid.*, p. 75.
2. *Ibid.*, p. 77.
3. Rostow, p. 6.
4. *Ibid.*, p. 17.

for economic growth, and any remnants of a traditional society brought to the United States were soon discouraged because of the wild and abundant land. Because of this land and other natural resources, there were many incentives for economic growth, and growth was greatly accelerated.[1]

In addition, because most of the early immigrants to the United States came from Britain, which was more economically and technically advanced at the time, the United States had the advantage of the skills and techniques these people brought with them. The United States also had the advantage of being able to import machinery and other technology from Europe. European countries, chiefly Britain, invested capital in the United States, especially in railroads and canals, and thus aided the United States in building the social overhead sector of its economy.

Contrary to popular opinion, Adam Smith's views were not put into immediate practice in the United States in the first decades of its independence. The United States had tariffs because, as George Washington said in an address before Congress, "The safety and interests of the people require that they should promote such

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1. *Ibid.*

manufactures as tend to render them independent of others for essential, particularly military supplies."[1]

Alexander Hamilton was the man most responsible for American economic policy in the early years of the United States' independence.

> Hamilton wished to establish a strong central government drawing its primary support from banking, commercial, and manufacturing interests and dedicating its energies to promoting the growth of business. His program, which was in the main enacted, provided for the assumption of the Continental and state debts by the federal government, the establishment of a national bank, a mint, a system of coinage, the passage of tariff legislation, and a land policy designed to bring in revenue to redeem the public debt.[2]

In spite of governmental encouragement of industry, the United States was still primarily an agrarian nation at the beginning of the Civil War. In 1860, only about sixteen percent of the population was centralized in urban areas of 8,000 or more. Industry did not play a large role in the economy of the United States until after the Civil War. Before the Civil War, business units were small. Most businesses were owned by individuals or small groups. The typical businessman was a merchant or a banker, not an industrialist. Most business activity was "in trade, in banking, in land speculation, in mining, and in

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1. Merle Fainsod, Lincoln Gordon, and Joseph C. Palamountain, Jr., Government and the American Economy (New York: W. W. Norton and Company Inc., 1959), pp. 93-94.

2. Ibid., p. 94.

transportation ventures, such as canals, bridges, turnpikes, and later railroads."[1]

By 1850 the modern factory system, with automatic machinery, standardized products and wage labor, was beginning to spread. From 1850 to 1880 capital investment in manufacturing and the value of the finished product rose by more than 400 percent. The growth of heavy industry was especially striking.[2] Some of the reasons for this rapid growth were the abundance of natural resources, population growth which had been accelerated by an influx of immigrants, tariff protection for manufacturers, and technological advances in transportation. The railroads played an important part in the growth of industry; railroad construction widened the domestic market and opened up new areas for settlement. In addition, the railroads themselves provided a large market for coal and iron.

In the late nineteenth century laissez faire was the professed faith of many businessmen. These were men who would probably have agreed earlier with Hamilton in his policy of government promotion and public supported investment. These same businessmen, while professing faith in laissez faire "demanded and defended land grants, tariffs,

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1. Ibid., p. 5.

2. Ibid.

subsidies, favorable laws concerning patents, bankruptcy, and incorporation, and other aids to business."[1]

The role the federal government played in economic development declined in the middle of the nineteenth century, but increased again toward the end of the century. This time the federal government's role was to regulate transportation and communication and to preserve competition through antitrust legislation. "In effect, the role of government was to provide an environment, and a set of social overhead facilities, at the behest of and within which private enterprise could flourish."[2]

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1. *Ibid.*, p. 50.

2. Douglas F. Dowd, *Modern Economic Problems in Historical Perspective* (Boston: D. C. Heath and Company, 1962), p. 164.

CHAPTER V

COMMUNISM

The logical synthesis to the economic dialectic predicated by Marx was a communist revolution in which the proletariat would overthrow the capitalists and assimilate the means of production and control. Predicting that the communist revolution would take place in an industrialized country, Marx believed that industrial production "was a highly organized integrated, interdependent process"[1] and that private property was a highly individualized social system. Feeling that the industrial base necessitated social planning, and that since private property deplored planning, factories and workers would clash with capitalists, Marx predicted that capitalism would destroy itself. The capitalistic system was too complex to continue without planning; there would be crises, slumps, depressions, and social chaos; there would be overproduction in some areas and underproduction in other areas. Marx assumed that capitalism would breed its own enemy and successor. The factory system created not only mass production, but a new social class--the proletariat.

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1. Heilbroner, The Worldly Philosophers, p. 122.

Theorizing that the rich would get richer and the poor would get poorer, Marx predicted "that as industry developed, the workers would grow steadily poorer and more wretched."[1]

But Marx was proved wrong, for industry was able to produce more goods, and the benefits did reach the laborers; from 1860 to the early 1900's prices fell and real wages rose. In addition, Marx had dismissed the influence of political institutions, yet political institutions did intervene. In Britain, for example, with the extension of the franchise to the general masses, the state did begin to intervene in community activities. The government was pledged to provide increasingly broader services for the people, the progressive income tax appeared, and Marx was directly contradicted--the rich became poorer and the poor became richer. British society failed to conform to Marx's predictions in other ways when independent trade unions sprang up and began agitating for more wages, better working conditions, and for shorter hours.

Writing about a communist revolution, Marx had in mind an industrial country such as England. He did not think that the first successful revolution would occur in Russia, since Russia was far behind the western European

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1. Barbara Ward, Five Ideas That Changed the World (New York: W. W. Norton and Company, Inc., 1959), p. 126.

countries in industrializing. Here Lenin's contribution to communism becomes significant. Lenin's theory said that "since capitalism does not share its wealth with the workers, the home market soon reaches saturation and industrialists are bound to seek for fresh markets and new areas of profitable investment elsewhere."[1] These new areas (India, Indonesia, Africa) are exploited and some of the wealth from these areas reaches the workers in the imperialistic countries. This, Lenin felt, explained why there was not increasing misery among the workers of Europe. Lenin theorized that the colonial peoples might become aware of their national rights, cast out the colonial exploiters, and "their revolution would begin to break capitalism where its organization was most frail and could lead from nationalist to Communist revolution."[2] As far as Lenin was concerned, foreign investment precipitated exploitation; he held that Russia, in 1914, was a semi-colonial nation dependent on Western finance capital and that Russia, at the time, was the "weakest link" in the capitalist chain. It was in this manner that Lenin explained why the first successful communist revolution occurred in Russia and why a subsequent revolution occurred

1. Ibid., p. 133.

2. Ibid., p. 134.

in China, neither of which had the highly industrialized economic base Marx indicated as a primary condition.

In reality, the Communist seizure of government in Russia and China seemed to have little or nothing to do with capitalism, since in neither of these countries did an industrial working class exist, and the lack of an industrial working class must surely have been obvious to the revolutionary leaders in both societies. The desire for peace and land reform were the immediate advantages which the political agitators capitalized upon.

Modern social theory indicates, contrary to the Russo-Chinese pronouncements, that it is possible to spread the advantages of modern industrialization in a manner avoiding class conflicts and the acute unemployment which Marx believed would lead advanced industrial societies into communism. Historically, no country with an industrial base has voluntarily turned to communism. Communism has appealed, both in the past and at present, to societies who were in the transition phase from a traditional society to a modern economically developed society. Communism offers these societies a political and social method which promises: (1) a unified organization of some of the elite who desire to modernize the society; (2) a power base which is capable of defeating those elements in the society who wish to maintain the traditional way of life or who otherwise oppose modernization; (3) a method for organizing the physical and human resources necessary to produce rapid industrial growth; (4) a framework of security, discipline, and order for those just freed from the traditional society. "In short, communism develops one kind of urban-based, modernizing elite which can lay claim to the task of carrying modernization through its decisive phase."[1] Communism is a political organization which is capable of launching and sustaining the growth process in a society which lacks the leadership or a program for modernization.

Russia has had rapid economic growth since the communists gained control. Yet the economic development of Russia does not clearly indicate the maximum potential economic growth of a communist economic system, for in 1913 Russia seemed to have completed its "take-off" and was on the way to becoming an industrial power. Whether the initial impulse toward economic growth can be attributed to czarist, democratic, or socialist motivation remains unclear.

The economic development of China since the communists gained power in 1949 is of greater interest to today's underdeveloped countries. The Chinese civilization was highly traditional and the Chinese, until quite recently, strongly resisted change. Nevertheless, the Chinese Communist Party was most ambitious for rapid

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1. Millikan and Blackmer, pp. 102-103.

change. Thus, the tension between the old and the new in China was more extreme than anywhere else in the world.[1] For centuries China was wealthy and dominated most of East Asia. But European power forced China to give up her pre-eminent position and her grandeur. Presently the Chinese communists are attempting to regain Chinese pre-eminence in the Asian world.

Communist land reform and collective projects took place rapidly and smoothly in China if compared to land reform and collective projects in Communist Russia. Chinese communists took only six years to complete their land reform program--that is, from the seizure of land by the peasants to the agricultural commune, controlled by the state. This same process took twelve years in Russia, and there it was accompanied by much bloodshed and violence--a sharp contrast to the relative calm of collectivization in China.

By 1957 Chinese businessmen and traders had lost all their capacity to act independently and were, in effect, state employees. Carrying out re-education programs which teach that the past was filled with injustice, selfishness, and backwardness, the Chinese communists

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1. Clair Wilcox, Willis D. Weatherford, Jr., and Holland Hunter, Economies of the World Today (New York: Harcourt, Brace and World, 1962), p. 80.

equate the future with equality, selfless service, and scientific progress.

The Chinese economy is a labor-intensive one, and new methods which use labor and save capital have been devised. Reliance upon totalitarian methods has permitted the authorities to divert physical resources and financial flows to reinvestment in capital plant and equipment, rather than utilization of economic resources to relieve the desperate plight of the poor.

In 1958 the government launched a campaign for still more rapid development. In order to achieve their goals of a "great leap forward," the government instituted a new form of human organization--the commune. The theoretical function of the commune was the dismantlement of the Chinese family, the only institution not yet under party discipline. The communes, organized in both rural and urban areas, held from 5,000 to 65,000 people. The communes made it possible for the party to have highly organized groups of laborers which could be put to work wherever the party felt they were needed and made to do whatever work was needed.

Decisions pertaining to the use of resources, production methods, composition of output, and investment patterns are all made centrally by top officials of the party. Assigning occupations and places of residence for millions of people, the government asserts that the restoration of China's standing in the world and the increased welfare of the Chinese people, all of which will come in the future, are worth the temporary sacrifice of freedom, justice, security, and plenty.[1]

For many underdeveloped nations the Russian and Chinese methods of growth may be more attractive than any Western system because such methods seem to abbreviate the transition from economic backwardness to modern economic complexity.

> Not that it contains no disagreeable elements . . . but it is important to remember that these disagreeable elements are less important to them than to their Western counterparts. To the Western intellectuals, Communist totalitarianism means, after all, the destruction of values and standards built up through many years. To an Asian, Communism is merely an alternative to liberal democracy, and an alternative which produces the desired effects faster. Furthermore, accepting the Leninist concept of imperialism, they feel themselves free of any responsibility for the unhappy situation prevailing in their countries, blaming it all on their "capitalist oppressors."[2]

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1. *Ibid.*, p. 100.

2. Zbigniew Brzezinski, "Politics of Underdevelopment," *The Underdeveloped Lands: A Dilemma of the International Economy*, ed. DeVere E. Pentony (San Francisco: Chandler Publishing Company, 1960), p. 45.

CHAPTER VI

UNDERDEVELOPED NATIONS TODAY

"It is only today that it has become possible for the first time even to imagine a whole world consisting of peoples who have in the fullest sense entered history and become the concern, no longer of the colonial administrator or the anthropologist, but of the historian."[1] What has brought the areas of the Eastern and Southern World into history is the process of economic development. The world is now in the midst "of a world-wide struggle to escape from the poverty and misery, and not less from the neglect and anonymity, which have heretofore constituted 'life' to the vast majority of human beings."[2]

Today there are over one hundred nations and about fifty territories which are underdeveloped.[3] Included in the category of underdeveloped nations are all of Asia, except Japan, all of Africa, all of Latin America, the Middle East, and parts of Southern and Eastern Europe.

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1. E. H. Carr, What Is History?, p. 199, as quoted by Robert L. Heilbroner, The Great Ascent (New York: Harper and Row, Publisher, 1963), p. 9.

2. Robert L. Heilbroner, The Great Ascent (New York: Harper and Row, Publisher, 1963), p. 93.

3. Ibid., p. 28.

The average annual income in these countries varies, but in most cases it is less than $100 a year.[1]

Each of the underdeveloped countries has its unique disadvantages which hinder economic development. In some it is climate; others lack natural resources; in still others it is social or religious customs. Each country will have to learn to cope with its problems if it is to achieve economic development.

We have not yet reached the stage where economic development can be considered natural. In fact we are far from it; economic development is a phenomenon that has been achieved in only a small portion of the world. For most of the countries which have achieved it, economic development was a natural outcome of their situation. Cultural and political forces combined and provided the impetus for economic development. In today's underdeveloped countries the cultural and political forces necessary for economic growth are not present in sufficient quantity, and yet the people, or many of the people, in these countries have been exposed to the advantages that economic development brings, and they want these advantages. The underdeveloped countries have learned of the advantages of the Western way of life by means of the demonstration effect.

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1. Ibid., pp. 29-30.

Although each underdeveloped country has its own unique problems, there are many characteristics shared by all of them. In all of the underdeveloped countries, human labor, judged by Western standards, is unproductive. The low level of agricultural productivity is largely due to two circumstances. The first is the low man-land ratio; in most backward countries the farmer has a very small plot of land to cultivate. In many parts of India the average land holding is less than an acre. The second factor contributing to low productivity is the lack of capital and the inability to apply capital to the productive process. The underdeveloped nations lack capital in all areas, not merely in the area of agriculture. The social attitudes and institutions which create capital are also missing. The economies of the underdeveloped nations are not capital generating.

In most of these countries a class consciousness exists, and those who belong to one class have nothing in common with those in another class. In most of the underdeveloped countries there are only two classes, the rich and the poor, and by far the largest majority are members of the poor class. The rich class in underdeveloped countries is usually a land-based class with little or no interest in change or "progress." Economic development is dependent on an "economic" population; that is, "production-minded farmers, industrial workers, enterprising factory managers, helpful government officials."[1] Economic development cannot begin on a large scale until these do exist.

Economic underdevelopment has many causes; the term "vicious circles" expresses the situation well.

> It is not "just" a lack of capital, or "just" backward ways, or "just" a population problem, or even "just" a political problem, which weighs upon the poorer nations. It is a combination of all of these, each aggravating the other. The troubles of underdevelopment feed upon themselves; one cannot easily attack one of the shackles of underdevelopment without contending with them all.[2]

Most of today's underdeveloped nations learned of the advantages to be had from economic development in the late nineteenth and early twentieth centuries when Western imperialism was at its peak. At that time nearly all of Africa and Southeast Asia were directly dominated by Western nations. China was exploited by many Western powers. The only area which appeared to be politically independent was South America. However, even South America was greatly influenced by American, British, and European capital. The colonial rulers brought roads, railways, docks, mine equipment, warehouses, cranes, and many other tools of modern industry to the colonies, but areas of industrial activity remained, for the most part, isolated from the indigenous peoples.

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1. <u>Ibid</u>., p. 53.

2. <u>Ibid</u>., p. 59.

The Western countries brought their own law and order with them. In many cases it was more stable and more equitable than the native law which it replaced. In many underdeveloped countries this was a step toward a modern political system.

Probably the West's most important contribution to colonial peoples' growing awareness of their backward situation was the education it provided for a few of the indigenous people. A few of these people were sent to Western countries to study. In the United States, England, Holland, and France they learned about democracy, equality, liberty, and economic progress. When these people returned to their own countries, they preached the ideals they had learned in the West. The drive for economic development is the result of the contact between the backward countries of the South and the East and the highly developed countries of the West.

Exposure to Western ways of life and to Western ideas also resulted in a new nationalistic feeling in the colonial countries. Colonials who were educated in the West learned of the Western ideals of equality, material progress, national rights, and national independence. When the students returned to their countries, they told others of the Western ideals, and the colonial people could see that they were being denied these rights. The result of this was a great upsurge of nationalism in the underdeveloped countries. Nationalism and a feeling of being oppressed by the Western nations led to political upheavals. Most of the colonial countries have now been given their independence.

In most cases Western nations did not acquire colonies for the political prestige involved; they acquired colonies for: (1) trading, (2) obtaining cheap basic raw materials needed for production, (3) markets for their goods, and (4) outlets for their surplus population. The result of this for many colonial countries was that the imperialist nations developed one sector of the colonial economy. The Middle East became an oil field, Malaya a rubber plantation, Rhodesia a copper mine. The natural resources of these areas and the international division of labor encouraged this type of development. But the direction of the colonial economy was determined by the Western overlord and not by the colonial people, and the benefits of specialized industrial production did not reach the majority of the colonial people.

Thus what industrialization there is in most of the underdeveloped countries is very one-sided. Most of these countries have one-crop economies; that is, they are dependent on only one crop for the major portion of their exports. This places them in a bad position so far as international trade is concerned. A slight shift in the price of their crop in the international market can seriously affect the revenue received by the underdeveloped country. As the Western nations become more technically advanced they learn to make synthetic materials which they substitute for the raw materials they have previously been importing. The result of this tendency is, in general, that the price of raw materials on the international market has been dropping in the last few years.

The population problem that most of the underdeveloped countries are facing today is also a result of the Western influence. Before Western health services, medicine, and sanitation were introduced in the poor nations, their birth rate was barely ahead of their death rate. Public health services and modern medicine are relatively inexpensive and easy to introduce into an underdeveloped nation. In the Western nations population growth remained low until economic growth started. When death rates began to decline the population began to increase faster. But as economic growth continued and as people were able to see the advantages to be had by curtailing reproduction, the rate of population growth dropped.

The population growth is taking place in the poor nations at an earlier stage of development than it did in the now rich nations. The decrease in the death rate with no corresponding decrease in the birth rate is the primary cause of this. There are several reasons why the birth rate has not decreased. In many of the backward countries people depend on their children to support them in their old age. When the death rate is high it is often necessary for a family to have many children for a few to survive to adulthood. If a family lives on a farm, children are an asset because they can begin working at an early age. Until the people of the underdeveloped nations realize that there is a definite economic advantage in limiting the size of the family, population will continue to increase at a high rate.

Positive economic growth requires that real income per capita increase. This means that the economy as a whole must grow faster than the population increase in order for the people to be better off. For many of the underdeveloped countries this is very difficult and sometimes impossible. For many nations any increase in the total national income is cancelled out by the population growth. In some of the underdeveloped countries income per capita has actually gone down in spite of increases in the total national income.

Many of the underdeveloped countries thought that with the gaining of economic independence would come a golden age. This has not happened. Most of the independent countries lack many of the prerequisites for economic development. They lack a skilled labor force, they lack savings for investment, and many of their people still look at everything in the traditional manner--they lack an economically oriented population.

With the upsurge of nationalism in the poor countries came a dislike for everything Western. The Westerners had disrupted their traditional society, scorned their religion and often their skin color, and the Western nations had exploited them. Nationalism has provided the leaders of the underdeveloped countries with a rallying ground and a reason for exposing their people to the difficult task of economic growth.

Because the only experience many nations have had with capitalism has been through exploitation and foreign domination, the tendency in the past has often been to reject all forms of private capital investment. For these countries socialism is the hope for the future.

For most of today's underdeveloped countries a large government sector is needed if economic growth is to take place. In addition to governmental investment most of the underdeveloped countries must plan their economic development. Many of them lack the institutions necessary for the accumulation of savings for investment; they lack the knowledge and skills required for industrialization, and many of them lack the necessary social attitudes for economic growth. In many of the underdeveloped countries it is not the peasants but the elite, intellectually and politically, who are agitating for growth.

The underlying cause of poverty in the underdeveloped nations is low productivity. Low productivity is, in turn, caused by lack of capital. The only way to accumulate capital is by saving. But when an economy is producing barely enough for subsistence, it is difficult, if not impossible, to save. Yet savings must occur in order to have economic growth. In many of the underdeveloped countries the government will have to intervene and force people to save. The accumulation of consumer goods will have to be curtailed so the money can be used to acquire capital equipment. Agricultural workers must be free to move to cities and work in industrial plants. For most underdeveloped countries this, at least on the surface, will not be a problem. Most poor countries have a surplus of labor on the land. If some of these "farmers" could be induced to move to cities and work in industry it would mean an increase in the number of industrial workers. It would also mean that some land had been freed, that those still working the land could have larger plots to work, and that as a result, they would probably have increased productivity. This would not result in the peasant having more to eat because, in addition to supplying his own family with food, he would now have to supply food for the industrial workers. In many countries the government will have to increase taxes in order to keep the peasant who is still on the land from consuming his increased product himself. The purchasing power of the people will also have to be increased so that they will be able to purchase the increased industrial output.

The governments in underdeveloped countries are going to have to play a big part in obtaining additional savings from their people. In most underdeveloped countries there is no saveable surplus in agriculture. If the government wishes to acquire savings from this sector there must be land reform, and the government will have to seize surplus agriculture produce before it is consumed by the peasants.

It will also be difficult to acquire savings from the working class. In fact, in many poor countries the industrial class may demand the high wages and welfare measures which have only recently become possible in the rich nations. In this case strict government control may be needed to force workers to give up part of their earnings.

The upper and middle classes provide the best source of savings for underdeveloped countries. But again force may have to be exerted to acquire savings. There will have to be tax reforms which will tax the rich more heavily, or the government will have to force the rich to loan it money. There is a potential for increased savings among the upper class, but for most of the members of this class increased savings would mean curtailing lavish personal expenditures and this will probably not be done willingly.

The governments of most underdeveloped countries can increase the flow of savings. It will not be easy; there are many political problems involved, but it must be done if these countries are going to develop economically.

The underdeveloped countries not only need machines to produce consumer goods, they also need machines to build machines. In the developed countries the first machines were made by hand, and, as technology advanced, new innovations were added to those already in existence. The growth of industry was gradual in today's rich countries. But the poor countries do not have time to start at the beginning, as the older developed countries did. The poor countries are trying to rush their industrialization. They do not want to have to wait several generations for the advantages of a developed economy; they want the advantages immediately.

The underdeveloped countries are not going to be able to build their industrial sector themselves; it will be necessary for them to get their initial capital equipment from abroad. Some of it they will be able to buy with foreign exchange received from exports; for the rest they will have to depend on some type of foreign grants or loans.

Before a country can industrialize it must have social overhead capital. It must have roads, railroads, docks, and schools. In the early days of British development most of these facilities were built by private capital. But in the underdeveloped countries private capital is not available. In addition to the lack of private capital there is also a lack of entrepreneurs who would be willing to take the risks involved. In England, social overhead facilities were built to fulfill an already present need; in the underdeveloped countries these social overhead facilities must be built in anticipation of a need that will develop. If private capital existed and if there were men willing to take risks, the building of social overhead facilities in most underdeveloped countries would not be an attractive investment because any potential profit would be too far in the future. If any underdeveloped country is going to develop it needs social overhead facilities; therefore the government must build them.

Because most of the underdeveloped nations first learned about capitalism and private enterprise under colonialism, they distrust it. But foreign private investment can play an important part in the development of the poor nations. Private capital can result in new capital assets in the underdeveloped countries and would add directly to the productive or export capacities of the nation receiving it. In addition, most of the private enterprises pay taxes or royalties directly to the governments in which they are located, and this increases the financial strength of the governments.

However, thus far most of the foreign private capital has been invested in extractive industries. These investments exert a limited impact on the economic way of life in countries in which they are located. The investment in extractive industry tends to form a self-contained community within the country. The number of employees and materials needed is very limited in terms of the total investment.

Many of the underdeveloped countries impose stringent restrictions on private investment. Some are hostile to foreign investment. If some of the barriers were lowered there could be more private investment by foreigners in the poor countries. There would not be a rush to invest in poor nations, because profitable investment for foreign capital, as well as domestic capital, is usually limited in the underdeveloped nations. But foreign capital could help many of the underdeveloped nations, and where it could help, it should be encouraged.

Modern technology, economics, and ideology all combine to make it likely that governments in the poor countries will play an important part in directing their economic development. The development of the poor countries will probably not much resemble classical industrial revolutions. Most of today's underdeveloped countries (except those under Communist domination) are at present predominantly free enterprise economies. These countries are all predominantly agricultural, and what industry they have is predominantly handicraft. The private sector of the economy of the poor nations lacks the leaders and the capital to bring their country to the "take-off."

Although the economies of many of the poor countries are now predominantly free-enterprise economies, they will probably not long remain so. Without exception the governments of the poor countries are attempting to play a greater role in their countries' development than did Western governments at corresponding stages of their countries' development.[1] Most of the underdeveloped countries have plans for economic growth. The governments of the countries which do have plans claim that these plans are necessary, if not preferred, for their growth. But seldom is there any discernible relation between the plans and what has actually been done.

The institutions needed for economic development are capital, trained manpower, and technology. These

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1. Edward S. Mason, "The Planning of Development," <u>Technology and Economic Development</u>, ed. Scientific American (New York: Alfred A. Knopf, 1963), p. 182.

things will be self-generating only in a country where the population seeks to improve its physical well-being. In many parts of the underdeveloped world, economic development does not have high priority. There are a few people in these countries who feel that growth is important, and these are the people who are pushing development.

Many of the people pushing development in the poor countries are in the government. The appropriateness of the government's dominant role in the economy is rarely questioned by public opinion in the underdeveloped countries. In fact, public opinion is usually directed toward increasing government action in order to achieve more rapid growth. In many of the poor countries the government is assuming roles usually reserved for the private sector. Governments are exploiting mineral resources, and they are developing basic industries such as steel, fertilizer, and cement. The governments also influence what investing the private sector does by determining where overhead facilities are to be located. They also influence the private sector of the economy by rationing foreign exchange among the various claimants. In this way the governments can have a high degree of control over much of the private sector of the economy.

The part governments are playing in the development of the economies of the poor countries is not without precedent. Japan is considered to have a private-enterprise economy, and there the state played an important role in the growth process. In Japan the state directed investment. It established publicly owned enterprises, undertook joint ventures with private capital, and subsidized private investment and guaranteed returns. It also aided by making extensive purchases for its own military and civilian accounts.[1]

The important role that governments are now playing in the development process is in part due to the circumstances that now surround the development process itself, and it is due in part to an ideology different from that which was dominant in the early nineteenth century. In most underdeveloped countries priority must be given to such things as roads, railways, harbors, power generation and distribution, communications, irrigation, and industrial estates. The capital requirements for these things are high and private capital is not available. In Latin American countries foreign capital previously financed many of these facilities, but they are being taken over by the governments, and foreign capital is no longer available.

Government will also play an important role in the transfer of technology. In the industrialized countries the early development of technology was done by skilled

1. *Ibid.*, p. 186.

artisans and tinkerers and the exploitation of new techniques was done by individuals. The application of new techniques was gradual. As newer methods of production were devised, they were applied. But since the techniques have already been developed, they can now be borrowed. Since the application of modern technology usually requires large-scale units and more capital than an individual or a group of individuals can acquire, the government role in industry may be appropriately large. In addition, many of the underdeveloped countries need foreign aid either in the form of grants or of loans, and the agencies granting the funds usually prefer large projects, which are beyond the means of the private sector.

When looking at the large part governments play in the economy of underdeveloped countries, ideology must be considered. Many of the government leaders in the poor countries received their education in the West when the West was first considering "welfare-state" capitalism and when the West was more concerned with "human rights" than it had been before. This appealed to those from the poor nations where there were many inequalities in the distribution of income. The poor nations also learned about social services from the rich nations. Now, according to one authority, "most underdeveloped countries want the blessings of the welfare state today, complete with old-age pensions, unemployment insurance, family allowances, health insurance, 40-hour week, and all the trimmings."[1] In most Western nations these services came only after a long period of sustained growth.

Prejudice against private investment, especially foreign private investment, goes back to the experience many of the poor countries had with colonialism. This helps to explain why so much confidence is placed in the ability of the government to direct the economic development of these countries.

To recapitulate, the poor nations have a huge job ahead of them if they are going to become economically developed nations within the foreseeable future. It is doubtful if some will be able to enter the period of sustained growth for several generations. But in most cases government is going to play an important role in bringing the economy to the "take-off." It must aid in mobilizing savings, in building social overhead facilities, in bringing modern technology into the country, and in many other ways. Some of the people in the underdeveloped countries are not yet aware of the need for economic growth, but others are desperately aware of the situation and are agitating for development.

Contact with the Western world served to show those in the poor countries just what their situation was

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1. Ibid., p. 191.

and that something could be done about it. In this way the West can be held responsible for the unrest in the poor countries today. If the poor countries are going to develop, they are going to have to have help in the form of loans, grants in aid, and technical assistance. If the West does not give this aid, it is probable that the Communists will be willing to give it. Most of the under-developed countries do not care where the aid comes from; they are still highly nationalistic and will take aid from anyone so long as it helps their countries.

CHAPTER VII

FOREIGN-AID

Only in the last few years have the Western nations begun to think of the development of underdeveloped countries as an objective of first importance. President Franklin D. Roosevelt included "freedom from want" in his "Four Freedoms" speech during World War II. To this President Truman added his Point Four program in his 1949 Inaugural Address. The fourth point said:

> We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas . . . .
>
> I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in cooperation with other nations, we should foster capital investment in areas needing development.
>
> Our aims should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens . . . .
>
> Democracy alone can supply the vitalizing force to stir the peoples of the world into triumphant action, not only against their human oppressors, but also against their ancient enemies--hunger, misery, and despair.[1]

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1. Harry S. Truman, Inaugural Address, 1949, as quoted by Peter B. Kenen, in Giant Among Nations (Chicago: Rand McNally and Company, 1960), pp. 158-159.

This speech was a pledge of technical assistance and advice, not a promise of machines and industrial materials, and yet it was received with enthusiasm by countries in all parts of the world. The underdeveloped nations were envious of those areas of Europe which had been given large sums of money by the United States.

After World War II the United States was anxious to terminate foreign-aid, although it was still giving small amounts of aid to England, to some other allies, and to the military governments in Germany and Japan. But it felt that the World Bank and the International Monetary Fund would be able to cope with the balance of the economic problems involved in the transition from war to peace. About 1947 the government of the United States began to realize fully that Europe could not recover without help. The communists were gaining popular support in France, Italy, and Greece. In 1948 Greece appealed for American aid.

President Truman had proposed to Congress, in 1947, that the United States send economic and financial aid to countries needing it (specifically Greece and Turkey at the time). In the same year Secretary of State George Marshall proposed American aid for Europe. The Marshall Plan was approved by Congress in 1948. This was the beginning of large scale American economic aid.

The Act for International Development was passed in 1950. This act created a Technical Co-operation Administration whose purpose was to promote the exchange of experts between the United States and underdeveloped countries. At the same time Congress appropriated money for the United Nations Technical Assistance Administration. In the Act for International Development, Congress referred to the capital needed by underdeveloped areas, as well as the technical assistance they needed. It said that the policy of the United States is

> to aid the efforts of peoples of the economically underdeveloped areas, to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills, the flow of investment capital to countries which provide conditions under which such technical assistance and capital can effectively and constructively contribute to rising standards of living, creating new sources of wealth, increasing productivity, and expanding purchasing power.[1]

Three-quarters of the total American aid given between 1945 and 1950 was given to Europe. During this time Asia received most of the remaining one-quarter, primarily for relief and the repair of war damage. Latin America received almost nothing.

In 1951 there were many separate agencies for the administration of foreign aid working under various branches of the government. At this time Congress

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1. Act for International Development as quoted by Kenen, p. 160.

attempted to consolidate all of them under the State Department. Since 1951 they have again become diversified.

In the mid 1950's there was much criticism of the United States' foreign aid program. In 1954 President Eisenhower appointed the Randall Commission to appraise American foreign economic policy. The Commission declared that the underdeveloped countries had no right to economic aid. It proposed that the United States help the underdeveloped countries obtain private capital and that the United States follow a policy of "Trade not Aid." The commission felt that the elimination of trade barriers would aid the poor nations in earning the capital they needed in order to grow.

There were also critics who attacked military aid and extolled economic assistance. In 1956 Congress appointed the Special Committee to Study the Foreign Aid Program. The committee criticized the present military aid program and favored loans, rather than grants, for economic development. However, the ability of the poor countries to repay loans is severely limited. In 1957 the Administration asked Congress to establish a Development Loan Fund which would make long-term, low interest loans repayable, not in dollars, but in foreign currency.

The foreign aid program of the United States now includes military assistance, defense support and special assistance, Development Loan Fund Credits, and Point Four assistance.[1]

The Development Loan Fund is now the main instrument of the United States' effort to promote economic growth in the poor nations, and functions as a compromise plan between those who wish to make new grants for development and those who wish to end economic aid.

The underdeveloped countries now receive money from a multitude of United States' Government and United Nations organizations. Each organization gives aid for slightly different purposes and in different ways. Most of these organizations operate on a year-to-year basis, that is, although they are able to make grants or long-term loans, they do not know how much money they are going to have for the next year.

With the exceptions of those countries which are rich in exportable natural resources such as oil, it is generally agreed that underdeveloped countries need economic assistance from foreign-aid. Many of them will not be able to develop without it. Most of the underdeveloped countries are not going to be able to generate enough savings internally to reach the "take-off" at any time in the foreseeable future. Neither international-trade nor private foreign investment can provide the poor

1. Peter B. Kenen, Giant Among Nations (Chicago: Rand McNally and Company, 1960), pp. 166-167.

countries with the capital they need. The amount of foreign aid the underdeveloped countries receive now is small when compared to their needs, but it is large in relation to the amount of new capital the underdeveloped nations are able to accumulate. "Foreign aid amounts to nearly 30 per cent of all capital formation in the underdeveloped world, excluding only mainland China."[1] Clearly foreign assistance is important to the backward countries, but they need more money than they are now getting. There is a limit to the amount of money a poor nation can absorb and put to work gainfully, but these nations probably can absorb much more than they are now receiving.

In order to enable underdeveloped nations to employ the aid they receive most usefully, careful planning must be done. The underdeveloped nations need to plan how they are going to use the foreign aid received, and the nations and organizations giving foreign-aid need to make plans in order to insure that the money they grant or lend will be placed where it will do the most good. In the United States alone, at the present time, there are many organizations giving foreign aid. The underdeveloped nations are forced to deal with literally dozens of potential investors, both public and private and they cannot spare a sufficient number of educated men to give

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1. Heilbroner, The Great Ascent, p. 114.

the proper amount of time and attention required to make an adequate appraisal of proposals set forth by the various programs or to develop plans for their own growth. In some cases the aid programs overlap, while in other cases there are gaps which could be eliminated if the administration of foreign aid were centralized. The fragmentation of aid into dozens of different programs wastes resources.

The rich nations have now realized that foreign aid is necessary, not only for the development of the poor countries, but also for their own welfare. The developed countries have come to realize that a solution to the problems of the underdeveloped countries is extremely important for world peace and stability. The United States has been carrying almost the entire burden of economic aid outside the Communist sphere. In order to speed up economic growth in the poor countries, this policy is going to have to change. "All the wealthy nations must accept a common obligation to provide capital and technical assistance to the underdeveloped areas. Britain, Canada, Australia, Western Europe: we must all begin to do our share."[1] It has been suggested that each of the rich nations in the world give one per cent of their national

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1. Ward, The Rich Nations and the Poor Nations, p. 151.

income for economic assistance to the underdeveloped world.[1]

There are two arguments for extending aid to poor nations. The first is the argument of moral obligation, and the second is based purely on self-interest. In most of the rich nations it is generally accepted that the inhabitants have a duty to see that their fellow-citizens do not starve. It follows logically that this duty should be extended to all human beings no matter what country they may live in. In addition,

> the two most important factors that have made economic growth essential in the poor countries are the increase in taste and the reduction of the death rate without a corresponding limitation of the birth rate; both these changes were basically caused by contact with the West. It is in the consequent explosive growth in population and tastes that has destroyed the virtue of the old value-systems and forced these countries to strive for rapid economic growth.[2]

Only the rich countries have the means to enable the poor countries to attain their goal of economic development if the poor countries are going to attempt to limit the disrupting effects on their social structure of the transition from a condition of economic underdevelopment to one of economic development.

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1. Ibid.

2. Robert Theobald, The Rich and The Poor (New York: The New American Library of World Literature, Inc., 1960), p. 133.

It is also to the benefit of the rich nations to assist the poor with their development problems. The poor nations want a higher standard of living; they no longer wish to be regarded as second class countries. If their wants are not satisfied, the rich nations can expect war and revolution rather than peace.[1]

A second ultimate reward for the rich nations will be an increasing market for their goods. As incomes in the poor countries increase, the people in these countries are going to want not only goods produced in their own countries, but also goods manufactured in the Western nations.

In the past and at present economic policy is formed on many different levels in many countries and international organizations. The underdeveloped countries receive aid from: organizations within the United States Government, the Export-Import Bank, the World Bank (International Bank for Reconstruction and Development), the International Monetary Fund, a number of agencies operating under the auspicies of the United Nations, France, United Kingdom, West Germany, Australia, Canada, and many other nations. In addition, the underdeveloped countries receive capital from the private sector of numerous nations. To put this money to its best use there is a need for an

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1. Ibid.

international organization which can coordinate the entire program of economic aid. There is a need for an international organization which will clearly define the goals of economic assistance and formulate the plans and collect the money to accomplish these goals. The organization which administers foreign-aid "must find the best system without reference to preconceived ideas."[1] The "future socio-economic policies should be based on the interests of the world at large."[2] The organization chosen to administer economic aid must make long range forecasts and plans so that the money which it receives will be put to the most effective use. The countries receiving the aid must also have long range plans so that it is clear what their future goals are and how they are going to achieve these goals. Most underdeveloped nations now have specific plans for economic growth, such as two, five, and ten year plans, but more often than not these plans are over-ambitious and unrealistic.

At the present time the United Nations is the most suitable organization for collecting and dispensing foreign aid. The United Nations Charter laid the foundation for that organization to accept the responsibility of administering world economic aid. One of the purposes of the

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1. Jan Tinbergen, Shaping The World Economy (New York: The Twentieth Century Fund, 1962), p. 103.

2. Ibid., p. 102.

United Nations as set forth in its charter is "to achieve international cooperation in solving international problems of an economic, social, cultural, or humanitarian character . . ." and "to be a center for harmonizing the actions of nations in the attachment of these common ends."[1] Article 55 of the Charter states that "the United Nations shall promote . . . higher standards of living, full employment and conditions of economic and social progress and development . . . ."[2] Article 56 states that "All members pledge themselves to take joint and separate action in cooperation with the organization for the achievement of the purposes set forth in Article 55."[3]

It will require considerable time for a policy of this sort to go into effect, but it is the opinion of many economists that internationalizing economic assistance is the most effective measure the rich nations can take to assist the poor countries in their difficult tasks of attempting to raise their standards of living.[4]

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1. United Nations Charter, Article I, as quoted by Jan Tinbergen, p. 94.

2. United Nations Charter, Article 55, as quoted by Jan Tinbergen, p. 94.

3. United Nations Charter, Article 56, as quoted by Jan Tinbergen, p. 94.

4. Internationalization of foreign aid has been mentioned by: Jan Tinbergen, Shaping the World Economy, Robert Theobald, The Rich and The Poor, Peter B. Kenen, Giant Among Nations, Eugene R. Black, The Diplomacy of Economic Development, and others.

CHAPTER VIII

CONCLUSION

Economic development is the process of increasing economic prosperity. In the past there have been rich nations, but the benefits of their riches have reached only an elite group in their respective economies. In the twentieth century it has become possible, for the first time in history, for all of the people of a nation to share the benefits of their nation's wealth. There are few states which can be designated rich, but nearly every nation in the world is attempting to grow economically. The poor nations endeavour to become rich, and the rich want to become richer. This historic transformation has come about, not because the communists are agitating for economic growth, but because the West, by means of its own affluence, has demonstrated to the world that degrading poverty is no longer a necessary component of an economic system.

Until recently, rich nations have paid little attention to economic growth outside their own economies, but if the rich nations wish to have world peace and stability, they can no longer ignore the plight of the poor nations. The economic distress of the poor countries is centuries old, but the impact of the West has given the discontent of the poor nations a political-economic focus; leaders of the backward countries intend to telescope into a few years the process of economic development that took generations to accomplish in the now rich countries.[1]

Economists and political scientists are able to tell the poor nations what steps they must take in order to industrialize, but for many poor nations major internal changes will have to take place before the application of economic theories can begin, and even then industrialization will not be easy. The desire for power and dignity is a strong impetus for the industrialization which is universally recognized as a symbol of power, but the desire does not ordinarily inculcate the corresponding willingness to live the type of life which is necessary for industrialization.

For the West, economic development was not easy, but it was natural in the sense that political and social forces combined and provided an atmosphere conducive to economic development. The early land enclosures in England caused the peasants to leave the land and forced them into industrial centers. The English conversion from an agrarian to an industrialized society did not take

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1. Forrest D. Murden, "Underdeveloped Lands: 'Revolution of Rising Expectations,'" The Underdeveloped Lands: A Dilemma of the International Economy, ed. DeVere E. Pentony, p. 5.

place without violence, bloodshed, or hardship for those involved, nor was life as an industrial worker easy; but once the process of industrialization started it built upon itself and could not be stopped. The transformation of a peasant into an industrial worker was easier in Britain in the early nineteenth century than it will be now for those in the poor countries because machines were simpler when Britain began industrializing. The factory system began with simple devices, many of which the peasant had used in his home under the "putting-out" system, and, as new methods of production were devised, their introduction was facilitated by the existence of an already semi-skilled laboring force. The capital needed for building social overhead facilities in Britain was available when it was needed. Low wages and foreign trade had made it possible for some entrepreneurs to accumulate the necessary capital to build the needed facilities. In other words, all the social, political, and institutional forces in Britain were conducive to growth; but even under these economically favorable conditions it took sixty years from the time the British economy entered the "take-off" to its arrival as a mature industrial economy.[1]

Today's underdeveloped nations cannot be expected to imitate England's example willingly, and most of them

1. Rostow, p. 9.

do not presently have the social, political, and institutional forces needed to approximate the British model of economic development. Nor can the poor countries imitate the American model, for the United States, at the beginning of its industrialization, had a population that already possessed the necessary social attitudes and the skills required for growth.

Many of the problems of achieving "take-off" today are similar to those faced by the countries which industrialized in the nineteenth century. The social overhead sector of the economy must be built, and there must be technological changes in agriculture and in the export industries in economically underdeveloped countries. Also analogous to past transformations are the changes which must come about in the society itself. There are, however, three critical areas which will cause future economic development to differ from past development. Population incompatible with economic stability, technological complexity, and political aspirations are all going to make it necessary for the poor nations to receive outside aid and to pursue the "big push" method of development, rather than the gradual and piecemeal growth that has been typical in the past.[1]

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1. Millikan and Blackmer, p. 60.

A great pool of technological knowledge is now available, a far greater amount than was available to the countries which industrialized in the nineteenth and early twentieth centuries. This technology should accelerate economic development, but it also has its drawbacks. Modern technology has reduced the dependence of some of the rich countries on foreign raw material, and it has reduced the poor countries' ability to earn foreign exchange. Modern methods of communication may also aid growth by promoting national unity and spreading essential knowledge; but they have also engendered popular aspirations and expectations which often force resources to be used for providing social security and higher consumption rather than for application to economic growth.[1]

Few of the underdeveloped nations have reached the "take-off," nor does it appear that they will be able to reach it within the near future. Revolutionary upheaval is inherent to the process of economic development. As the pressure for economic development grows, the people in the poor nations may look to revolutionary political methods to hasten the process of economic development. Aspiring states are likely to seek totalitarian control over social and economic forces, rather than democratic capitalism. Communism is a form of government which can

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1. Ibid., p. 62.

exercise both economic and political control over the people, and communism has demonstrated its preparedness to undertake such a task.

Economists are able to state clearly the steps a nation must take in order to achieve economic development. If Western nations are going to attempt to maintain world stability, they are going to have to accept

> political authoritarianism and economic collectivism during the early stages of development of many nations . . . .
>
> We must forge a foreign policy which begins with the explicit premise that democratic capitalism, as a model for economic and political organization, is unlikely to exert its influence beyond the borders of the West, at least within our lifetime.[1]

1. Heilbroner, The Great Ascent, pp. 148-149.

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