# RICH COUNTRIES & POOR COUNTRIES

## REFLECTIONS ON THE PAST, LESSONS FOR THE FUTURE

W. W. ROSTOW

Westview Press

# Rich Countries and Poor Countries

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# Rich Countries and Poor Countries

# About the Book and Author

In these ten graceful and learned essays, Professor Rostow addresses the future of the world and its economy from the perspective of his more than forty years of study and reflection on the problems of economic development. Rostow focuses on how we are to create and sustain a civilized and industrious world society in an international trading system beset by historic trends with enormous potential for disruption.

These powerful forces—including an industrial revolution of microelectronics, genetic engineering, robots and lasers, and the diffusion of high technology to low-wage areas—are creating different sets of irrevocably intertwined problems for nations around the world.

The issues are illuminated here by Rostow's mastery of economic history as well as the history of political economy. In addition to general discussions placing the issues historically and intellectually, there are essays highlighting the particular concerns of Mexico, India, Japan, and the Pacific Basin. In his final remarks, Rostow speculates on how the large economic trends affecting the superpowers may lead gradually to a truly significant lessening of East-West tensions. This book will be valuable for any citizen or student concerned about the future of the global economy.

W. W. Rostow is professor of political economy at the University of Texas, Austin. He has taught at, among other universities, Oxford, Cambridge, and MIT, and is the author of twenty-six volumes, among them *The Process of Economic Growth, The Stages of Economic Growth,* and *The World Economy: History and Prospect.*

*To Elspeth*

# *Preface*

These essays, written or delivered in the period 1983 to 1986, reflect an idiosyncratic aspect of the way I work. When developing a new set of ideas I generally conduct in counterpoint a series of tests. I try to apply the emerging new concepts to a range of particular problems or circumstances.

These exercises fulfill several purposes.

First, I learn whether the new ideas are viable. If they don't usefully illuminate problems that should fall within their range, they are not worth pursuing. But even if the experiments in application appear reasonably positive, I, at least, always learn something from them, and they thereby enrich the final version of the larger work on which I am engaged.

Second, in using such experimental exercises to fulfill the inevitable extracurricular speaking demands of modern academic life, one reduces the risk of boring others as well as the certainty of boring oneself by reaching into the sermon barrel. Audiences sense accurately whether what you have to say is part of a fresh, current exploratory effort or old hat; and the questions, discussion, or head-on debate in the wake of such talks is generally informative.

The particular setting for this book is the following. In July 1979 I finished the last of four related books centered on the history of the world economy. After that effort, which I had set as a goal more than thirty years earlier, I turned to another theme reflecting the years that I, like many of my generation, had spent in public service—the relation between ideas and action. Six case studies, each a short book, followed. I had nearly completed the last of these books when a year's leave of absence—earned by my wife for both of us—became possible. Because the final case study was devoted to the past and future of regional organization in Asia, we headed west from Austin,

Texas, on July 6, 1983, having sent ahead a draft of the book. During this trip, I talked with officials in fourteen governments of Asia and the Pacific and the heads of two major international agencies. These interviews and other experiences along the way permitted me to strengthen the final draft. Chapter 8 reflects some conclusions of that book.

The year abroad—with visits to thirty-four countries and intense speaking schedules for both of us—started me on my next major enterprise, which had been on my mind since the early 1960s and arose from one aspect of the reception accorded *The Stages of Economic Growth* (1960). Although much debated, that work was, as books go, something of a success. Many men and women in the developing regions and in Communist countries derived a great deal from the work. It was also widely read in Japan and the West. And it goes on having a life of its own. For example, it was recently published and widely circulated in China.

However, *The Stages* also stirred up a good deal of controversy, which I regarded as inevitable and appropriate for a new set of ideas and which I rather enjoyed. Only one aspect of the debate troubled me. I evidently failed to direct my fellow economists to a basic fact: *The Stages*, as I had explained in Chapter 2, was rooted in a dynamic theory of production and prices already elaborated in my earlier book, *The Process of Economic Growth* (1953, 1960). This failure of communication may have resulted from imperfections in my exposition. But in part, at least, it may also have resulted from the fact that *The Stages* emerged at just the time that two other methods of growth analysis came on stage: the neoclassical growth models launched in 1955 and 1956 in articles by Robert Solow, T. W. Swan, and James Tobin; and Simon Kuznets's great effort in organizing the statistical morphology of growth, which began to emerge in 1956. (My *Economic Journal* article on the take-off of developing countries appeared in March 1956.) It is possible that my insistence on the critical importance of the absorption of specific technologies in particular sectors—which neither of the other two highly aggregated methods of analysis were designed to handle—lay at the bottom of the lively but somewhat evasive and inconclusive controversy that followed.

Be that as it may, I decided in the 1960s that I would one day try to set out a final version of my theory of growth (not merely the stages) in a form that would more effectively dramatize the need for a disaggregated sectoral treatment of the process of invention and innovation and for treatment of other neglected features of the process of growth. That decision was brought into sharp focus by the almost obsessive interest and concern with the new technologies we encoun-

tered in 1983 and 1984—from Honolulu to Beijing, Seoul to Djakarta, New Delhi to Rabat, Verona to Uppsala, Moscow to London, and at all intervening stops. On returning home on July 1, 1984, I set to work on the long-contemplated study. Later in the year the notion emerged of beginning with a history of theories of economic growth over the past two and a half centuries and, against that background, presenting my own version. I can only report, about a thousand draft pages out, that it has been thus far a most rewarding academic enterprise. Chapter 1 of the present book suggests—and the other chapters elaborate—some of the large themes I now envisage the study will ultimately address.

The chapters of this book are, essentially, variations on those themes. Inevitably, therefore, there is a certain amount of repetition, even after editing. After considering the alternatives, I decided the best course was to accept that outcome rather than to deform the line of argument used on each occasion.

Five of these chapters have been previously published. I have edited out some of the more parochial passages that focused on the specific settings to which these essays and talks were addressed, but I have added brief prefatory notes explaining the circumstances. On the other hand, I have not rewritten these essays in the form of conventional chapters of a book.

*W. W. Rostow*
Austin, Texas

# *Acronyms*

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| ADB | Asian Development Bank |
| AFDB | African Development Bank |
| ASEAN | Association of Southeast Asian Nations |
| CIAP | Inter-American Committee on the Alliance for Progress |
| ECA | Economic Commission for Africa |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| IADB | Inter-American Development Bank |
| NATO | North Atlantic Treaty Organization |
| NIEO | New International Economic Order |
| OAS | Organization of American States |
| OCS | Outer Continental Shelf |
| OECD | Organization for Economic Cooperation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| SALT I | Strategic Arms Limitation Talks I |
| SDI | Strategic Defense Initiative |
| SIC | Standard Industrial Classification |

# *Contents*

ONE

# *Reflections on the Past and Future of Political Economy*

The American Economist *is an excellent magazine addressed to undergraduates doing honors work in economics. I confess I had never heard of it when I received the invitation, referred to in the essay that follows, from its editor-in-chief, Michael Szenberg. My initial reaction was as stated. I showed the invitation to my wife, along with essays by four predecessors in the series. She concluded firmly that I should accept and proceed. Her grounds were these: I was evidently having so much fun writing about the major figures in growth theory since the eighteenth century that there was danger of my losing a sense of the forest among the trees; and it was time, in mid-passage, to reflect on the large issues to which my current growth study was ultimately addressed. I accepted her argument, as I usually do.*

*This piece about the forest, written lightheartedly over a weekend, suggests where I seemed to be heading in the late winter of 1985–1986. It was published in the Fall 1986 issue of* The American Economist.

## I. COMPLEXITY, HUMOR, AND CREATIVITY

I have rarely received an invitation to which my initial reaction was more negative than Mr. Szenberg's gracious suggestion that I set down my philosophy of life. He was good enough to send along essays by four distinguished predecessors in this series. I found all of them illuminating and good to have in print. But still, the notion of pronouncing solemnly on my life philosophy made me reach out for some properly deflating *bon mot* of Mark Twain, Mr. Dooley, Will

Reprinted with changes from *The American Economist* (Fall 1986), pp. 3–12.

Rogers, or Groucho Marx. It was only when I began to understand the dual sources of my instinctive resistance that I concluded the enterprise might be doable.

First, I regard human beings and their behavior as too complex to be governed by a philosophy of life. David Hume, one of the wisest of men, put it memorably:[1] "These principles of human nature, you'll say, are contradictory: But what is man but a heap of contradictions." And in the same vein James Gould Cozzens, in *By Love Possessed*:[2]

> A man's temperament might, perhaps, be defined as the mode or modes of a man's feeling, the struck balance of his ruling desires, the worked-out sum of his habitual predispositions. In themselves, these elements were inscrutable. There were usually too many of them; they were often of irreducible complexity; you could observe only results. . . . The to-be-observed result was a total way of life.

This line of reflection led me once, when writing about our own society, to set aside the concept of national character as beyond my reach, in favor of describing our national style—how we went about our business.[3] It turned out that reasonably distinctive, persistent patterns of behavior could be observed and documented, despite their complexity.

The great philosophers and theologians, in most cultures, have tended to begin with some version of this complexity. For example, those two great scientist-poets of the human condition—Plato and Freud—simplified their systems down to three similar, interacting forces: the spirited side of man, appetite, and reason; the id, ego, and super-ego. And both elevated the triad, which Plato called the state within us, into their analyses of politics—a continuity in moving from micro- to macro-analysis economists have never been able to achieve.

It is this kind of perception about people—the marvelous "diversity and paradox in their . . . natures," to use a phrase of Elting Morison[4]—that leads the best politicians to conduct their business, even their most solemn business, in a context of humor. It is a way of underlining to themselves and their colleagues the need to take account of many perspectives before acting. It reminds decision-makers that the adversary—across the aisle or across the seas—is also trying to cope with a constituency equally divided by conflicting perspectives and pressures. And it conveys without cant the inherent disparity between the scale of the problems they confront and the capacities of mortal men.

In the Kennedy Presidential Library you can buy a coffee mug with an inscription from Aubrey Mennen which President Kennedy

had inscribed on a silver beer mug he gave to his friend David Powers on his birthday in April 1962:

> There are three things which are real;
> God, Human Folly and Laughter.
> The first two are beyond our comprehension
> So we must do what we can with the third.

I take that to be part, at least, of the truth about the human condition.

A second conclusion follows from this perspective. An individual is unlikely to be the best judge of his life philosophy. But to return to Cozzens' phrase, "the to-be-observed result" of an individual in action over a sustained period of time may provide an approximation of what his operating philosophy of life, in fact, is. And it may differ a bit from what he quite honestly believes it to be.

The problem here is not unlike the difficulty we sometimes get into in our profession when trying to explain where our ideas came from; for example, Alfred Marshall on how he came to marginal analysis.[5] We may believe we remember whom we talked to, what we read, and what we thought in an accurate time sequence; although memory is notably faulty and self-serving as well. But even if a persevering historian could construct from documents such sequences—as historians of economic thought often try to do—they would not provide a reliable answer. Time sequences tell us nothing definitive about causation. Besides, as Winston Churchill is reported once to have remarked:[6] "Men often stumble over the truth, but most manage to pick themselves up and hurry off as if nothing had happened." And when the truth firmly grips us, it may emerge from some quite unlikely process. Keynes, for example, explained how Isaac Newton made his discoveries: through intuition operating in periods of uniquely sustained concentration—the mathematical rationale for which he did not bother to write down until much later when pressed to do so.[7] Or the process may be as messy as Watson's description of finding DNA. With the rise of Artificial Intelligence we may learn to call creativity interaction among parallel super-computers with large idle capacity; but, in the end, creativity is the bringing together of strands never brought together before—like a good joke. And thus far impenetrable human capacities like intuition continue to play a large part.

Mennen is right. There is an ample supply of folly in the world. But there is also magic.

To return to my assigned theme, it turned out that the two sources of resistance to the invitation, once identified, were, after a fashion, the beginnings of a response.

This is the case because I do believe these reflections bear not only on how I've gone about my business as an economist but, more importantly, on the abiding schism in our profession, and the crisis which many perceive economists must try to resolve if we are to serve humanity well over the next century.

## II. NEO-NEWTONIANS AND BIOLOGISTS

At the risk of considerable over-simplification, it is fair to say that economists have for long been divided between what might be called the neo-Newtonians and the biologists. I belong with the biologists.

The distinction was never more vivid than in the moving effort of Ricardo and Malthus—polar representatives of the two schools—to establish why they disagreed so profoundly and could not resolve their differences. Here were men engaged for twelve years (1811–1823) in intense dialogue, focused on essentially the same issues, their friendship suffused with an authentic mutual affection and the kind of respect that comes when two human beings know each is striving with total integrity to find answers to large questions. But their endless exchanges, face-to-face and in a correspondence of 167 known letters, remained almost—not quite—a dialogue of the deaf.

Malthus explained their differences as follows:[8]

> The principal cause of error . . . among the scientific writers on political economy, appears to me to be a precipitate attempt to simplify and generalize. While their more practical opponents draw too hasty inferences from a frequent appeal to partial facts. . . .
>
> In political economy the desire to simplify has occasioned an unwillingness to acknowledge the operation of more causes than one in the production of particular effects. . . . The first business of philosophy is to account for things as they are. . . .

Ricardo found "one great cause of our difference in opinion" in Malthus' concern with "immediate and temporary effects" whereas he [Ricardo] puts them aside and fixes his "whole attention on the permanent state of things which will result from them. Perhaps you estimate these temporary effects too highly, whilst I am too much disposed to under-value them. To manage the subject quite right they should be carefully distinguished and mentioned, and the due effects ascribed to each."[9] But, of course, Ricardo didn't bring about this

reconciliation. He continued, in Schumpeter's phrase, with the Ricardian Vice, piling up abstract assumptions until "the desired results emerged almost as tautologies."[10]

Marshall did seek a reconciliation. Despite his great neo-Newtonian gifts, mathematical appendices, and short-term equilibrium formulations, he was a convinced biologist. For example, probably in 1881 he formulated, in mathematical terms, a quite recognizable neo-classical growth model, vintage 1960's.[11] He then specified the determinants of the variables. For example, the rate of increase of the working force and its efficiency he viewed as dependent on six sub-variables, including "the evenness of income distribution," the strength of family affections, the willingness to sacrifice present for more distant enjoyment as it determines both age of marriage and willingness to invest in a good education. Faced with such complexities, the neo-Newtonian tends to bundle them up in a black box; shove the box into his equation; and to get on with often meaningless, elegant manipulations. Marshall put aside his model and wrote Book IV of the *Principles*.

Which way we go is determined, I suspect, like W. S. Gilbert's Liberals and Conservatives, by the time we were born into the world alive. In my case, although the outcome may well have been predetermined, the decision was made in my sophomore year at Yale where I majored in history. I wrote my freshman and sophomore term papers on aspects of the French Revolution and the English Revolution of the 17th century, and was much impressed by the gross inadequacy of Marxist or any other single cause explanations. As a sophomore, I was taught my first serious economics by Richard M. Bissell, just back from a year at the London School of Economics, at work on his doctorate, and a man with extraordinary gifts of exposition. He laid out both micro- and macro-theory in mathematical terms to four of us in a kind of black-market seminar on Thursday evenings. It was an extraordinarily exciting experience. I decided then, at the age of seventeen, that I would try to combine economic theory and economic history in just about the way I have done for the past fifty-two years.

By the spring of 1934 I had conducted my first experiment as an economist-historian: a paper of ninety-seven pages on the British inflation during the French Revolution and the Napoleonic Wars, the subsequent deflation, and the return to the gold standard. I began believing that the theoretical structures incorporated in D. H. Robertson's *Money* and Keynes' *Treatise on Money*, among other works, would provide a sufficient framework to explain what happened to prices. The beginning of my education as an independent economic theorist was the discovery that conventional monetary theory was

incomplete and, on occasion, significantly misleading as a tool for explaining why prices moved as they did from 1793 to 1821. In the course of the exercise I came to understand the shrewdness of Wicksell's description of quantity theorists:[12] "They usually make the mistake of postulating their assumptions instead of clearly proving them"—a phenomenon that persists but surprises me less than it did.

I found that Thomas Tooke was a good deal wiser. He systematically introduced changes in costs, including those brought about by the new technologies. He also wove together the real and monetary factors, producing along the way a theory of effective demand (as opposed to the money supply) that clearly anticipated Wicksell and Keynes.[13]

The lesson of this first experiment was systematically reinforced with the passage of time. I found mainstream economics, including the so-called neo-classical synthesis, an incomplete framework for a serious economic historian or analyst of the current scene; and, as I learned more, I judged it increasingly necessary to introduce as systematically as I could political, social, cultural, and other non-economic forces as they bore on economic behavior.

We all know what kind of theory neo-Newtonians produce. But what about the biologists? What kind of theory can we produce if we feel impelled, in Malthus' phrases, "to account for things as they are"—and were—and to look for "more causes than one"? Marshall knew all too well what happens to the use of differential calculus when you introduce increasing returns: there is no unambiguous equilibrium position and no reversibility. One is confronted with "organic growth" in all its complexity, much as contemporary physical scientists are being forced to face up, in Ilya Prigogine's phrases, to "instability, mutation, and diversification where irreversible processes are constantly at work, and non-equilibrium is itself a source of dynamic order."[14] The economist-biologist answer, I believe, is to discern and try to inter-relate recurrent dynamic patterns operating in the past and at present.

I suggest five examples: the demographic transition; the occurrence over the past two centuries of four identifiable periods when major innovations clustered; the recurrence of major cycles of about nine years length from a peak in 1782 to one in 1937; the existence from 1790 to the present of four and a half cycles in the prices of basic commodities relative to manufactures; and the existence of a definable period of discontinuity in economic growth which I call the take-off and Kuznets, with virtually the same dates, called the beginning of modern growth.[15] And I would argue that beyond take-off (or the beginnings of modern growth) there are distinguishable stages which can be defined in terms of (i) the degree to which the pool of (then)