

Título: POSSIBILITIES OF ECONOMIC
PROGRESS

Capítulo II: THE PROBLEM OF ECONOMIC PROGRESS

Autor: A. J. YOUNGSON

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THE PROBLEM OF ECONOMIC PROGRESS

When discussing what is sometimes called 'the problem of economic progress,' many writers seem to assume that what the problem consists of is perfectly well understood. As a result, little time is spent in asking what are the general questions to which we wish to find answers. At first sight this seems quite reasonable. Surely economic progress is something which we all wish to experience and which, without being in the least altruistic, we likewise wish that all, or almost all, the rest of the world should experience as well. For economic progress within our own country clearly means, in some sense, the furtherance of our economic desires; and that the furtherance of our neighbours' economic desires is, in the great majority of cases, an advantage of ourselves is one of the greatest principles of economics to have become established since the days of mercantilism. We admit, no doubt, a few exceptions or at least qualifications to the proposition. Rivals may drive us out of neutral markets with consequences at least temporarily damaging to our own economy; or the disparity of endowment between two trading nations may change so fast as to preclude the achievement of that ideal distribution of function which is at any moment conceivable and which, if attained, would be to the advantage of them both. But, by and large, economic progress is surely an entirely worthy aim, scarcely less desirable for other countries than for our own, and the problem, seemingly, is simply how to achieve it.

Confusion arises, however, precisely because of the universality of this aim. The world contains economies not only differently endowed by nature, but dissimilar and in some cases extremely dissimilar in their degree of economic development. And this gives rise to a variety of economic problems which, although all directly connected with economic progress, are distinct from one another, and which are of widely differing importance for the different economies of the world. In this

way there arises a multitude of economic questions, of which five may perhaps fairly be called the major leading questions concerning economic progress.

First of all, there is the question: What are the necessary conditions for economic progress to begin? (1) In its literal and exact sense, this is a question for archaeologists and anthropologists. We do not know, and we shall perhaps never know, how man began to rise from his primitive state, 'errant dans les forets, sans industrie, sans parole, sans nul besoin de ces semblables comme sans nul désir de leur nuire'. (2) Probably for most economists the field of economic study likewise excludes the history of societies before a desire for economic progress has become to a considerable degree explicit and self-conscious, and before at least some of the means for its more rapid realisation, such as literacy and some of the more outstanding characteristics of 'money economy' are to hand. It is important to realise that this excludes much of human history, for economic development has usually been a very long drawn process. Centuries of solid economic progress divide the 'inconceivably meagre' (3) life of western Europe in the tenth century from that of the eighteenth. Today, however, the majority of even the so-called backward areas have reached the point beyond which further and more rapid economic development is in some ways as much a technical or economic question as it is a psychological or social one. Moreover, these economies are in most cases unprecedentedly 'mixed' in their degree of economic development in the sense that contact with

(1) The discussion of criteria, i.e. necessary and sufficient conditions, is clearly far too ambitious.

(2) J.-J. Rousseau, Discours, sur l'inégalité parmi les hommes, ed. F.C. Green (Cambridge, 1947), pp. 60-1.

(3) J. Lestoquoy, 'The Tenth Century', in Economic History Review, vol. XVII, No. I (1947), p. 6.

richer, more capitalistic economies has usually given some groups of people in each 'backward' economy the opportunity of earning their living in a way far more modern than is customary for the community as a whole. In such economies there are thus apt to be 'islands' of modern organisation, of fairly modern technique, in a sea of primitive economic activity. And therefore when present-day economic discussion assumes the existence of credit instruments and some kind of 'capitalist spirit' and then goes on to examine the specifically economic problems connected with progress, it does not lose all relevance even for the poorer countries in the modern world.

The second question which may be asked is: What are the necessary conditions for economic progress to accelerate significantly (1) at some point for a considerable period--for a period longer, say, than the traditional nineteenth-century trade cycle? This, no doubt, is what is usually understood by 'The problem of economic progress', and it is with this question that we shall be chiefly concerned in this book. Economic progress, certainly, is a common occurrence. But only in some periods, and only in the case of few economies, has it taken place at a speed which, if it would be misleading to call satisfactory, can at least be described as much better than normal in the light of the general experience of mankind. The classic instance of a country reaching and maintaining such a super-normal rate of development was that of Great Britain between the middle of the eighteenth and the middle of the nineteenth centuries. Within that period the preceding rate was so far surpassed as to lead historians to speak of a 'revolution'; and it is this rate or something like it which

(1) It is a nuisance to have to add vague qualifying words such as 'significantly', but one must somehow rule out what would be acknowledged to be slight and somewhat unimportant changes in rate.

is now implied in the idea of economic progress or development simpliciter. But there is another question, partially distinct, which is implied in this question of acceleration of economic progress: the question, namely, as to how this new rate of progress, once begun, is sustained. For we cannot assume that there is some kind of Newtonian law of economics, according to which economic forces will continue to operate unchanged until prevented from doing so. One approach to this problem might be a study of those 'cycles de longue durée', first discussed in a systematic way by Pareto in 1913. (2) Their timing, however, their nature, even possibly their existence is open to dispute. It is not clear what is supposed to fluctuate, except prices and interest rates; and while it might turn out to be true that net investment is at a high level in a Kondratieff boom and at a low level in a Kondratieff slump, this has never been proved. Moreover, the latest findings regarding 'long cycles' by Kuznets (3) are radically from the ideas of Pareto and Kondratieff. Yet it is not to be doubted that non-cyclical fluctuations in a rate of growth which is sustained (albeit possibly subject to secular retardation) do occur. Our main problem, however, is to discover what sort of conditions make possible the attainment of a rate of development such as the British between about 1770 and 1850, and it is a secondary task--although most important, and one which we must not neglect--to inquire what conditions are required for the continuance of development at or in the neighbourhood of such a rate. The question of how and why progress accelerates, in short, shades off into the question of how there becomes established a relatively high rate of progress.

(2) V. Pareto, 'Quelques relations entre l'Etat social et les variations de la prospérité économique', in *Revue Italienne de Sociologie* (September 1913.).

(3) See *Income and Wealth of the United States: Trends and Structure* (ed. Kuznets), ch. I, sect. 5.

Thirdly, the problem of how a given rate of progress is maintained may be looked at, so to speak, the other way round, and the question asked, Once progress has been going on for some time, what are the necessary conditions for it to decelerate significantly at some point for a period longer than a trade cycle? At first sight, this seems to be no more than the preceding question asked over again; for the cause of deceleration must surely be the removal of those conditions which permitted progress to continue. But reflection shows that this is not necessarily the case. There are really three problems involved in a temporal analysis: (a) how to launch the economy into a phase of acceptably rapid development; (b) how to maintain that rate of development in an economy which continues in vital respects recognisably the same; (c) when progress has been taking place for some time and the economy has made substantial advances which have involved considerable changes in the relative scarcities of different kinds of resources (and possibly some fairly far-reaching structural changes also), how the economy is to be prevented from suffering stagnation, retrogression, decay or even collapse. This last problem is usually stated in a peculiar and perhaps extreme way, in which it has become known as the problem of 'secular stagnation'. This is held to be a problem of 'mature' economies. In this form it is distinct from the problem of maintaining a (fairly recently) established rate of progress because the conditions which, it is alleged, can give rise to 'secular stagnation' would be unlikely to appear in an economy fairly recently emerged--say, in the preceding half century--from the stages of gradual evolution. These conditions have variously been stated as a declining rate of population growth, an increase of monopoly, an increase in the propensity to save, a lowering of the marginal efficiency of capital due to previous accumulation and 'the passing of the frontier'. It

is difficult to check these hypotheses for want of satisfactory historical evidence, and it is an inconvenience, to say the least of it, that almost the sole example of secular stagnation pointed to by supporters of the theory is the experience of the American economy in the 1930's. (1) A case could be made, perhaps for the Italian experience in the fourteenth century, and possibly for the English in the early seventeenth. But if we grant that secular stagnation is a real and not merely an imaginary problem, we then have a third distinct question about economic progress which should be answered; and even if we do not, even if we grant only that the conditions of economic development change so much when, say, a trebling or quadrupling of the national income has taken place that the change amounts to the achieving of a new 'stage' of development, then we must at least allow that the question, What conditions permit the continuance of economic progress? will have to be asked afresh.

Two further questions remain. The first of these--the fourth in our series--is: What are the necessary conditions for economic progress to continue for a period longer than a trade cycle at a rate below the rate 'customary' for the given 'stage' of development, allowance being made (if necessary) for the poverty of the natural resources of the economy concerned? This question arises because it seems possible to detect cases where countries have succeeded in surpassing the rate of development which appears to have characterized almost all economies prior to the British 'Industrial Revolution', and yet which have

(1) Confidence is not increased by attempts 'to try to explain away the characteristics of all decades other than the 'thirties by the hypothesis that those other decades have had some exceptional property' (W. Fellner, 'What is Surviving? an appraisal of Keynesian Economics', read before the American Economic Association, December 1956).

achieved and sustained rates of growth a good deal less than might have been expected. The best-known example is nineteenth-century France; here there seems to be the case of a country with great possibilities of development, but possibilities which realised surprisingly slowly. Australia and Brazil in the second half of the nineteenth century, perhaps Canada and Argentina also, are further cases. It is a moot point whether Russia down to 1913 is another. But certainly if there is such a phenomenon as the economy which grows persistently at a rate between that of the so-called 'pre-industrial' and that of the truly successful capitalistic system, another distinct question about economic development awaits an answer.

Fifthly, lastly, and perhaps most intricate of all: Why does economic development take place at a continually fluctuating rate? This is the problem of the trade cycle, but, if development and cycles are in some way interconnected, it must be faced. There are a very large number of logical possibilities. One of these, that cycles and progress have nothing to do with one another, except in the sense that in any period an economy may experience both, can be rejected out of hand. Two others, that progress is bound to give rise to cycles, belong rather to business-cycle analysis than to the study of progress. From the latter point of view it is more useful to bear in mind that progress may be favourably or adversely affected by trade cycles, or even that trade cycles may be, on balance, neither a help nor a hindrance. Lastly--although this is perhaps as much a statistical as a logical problem--there is the question whether progress is anything more than a sum of cyclical upswings not completely offset by cyclical downswings.

There exists no generally accepted theory which would enable us to accept some and reject others among the possibili-

ties already mentioned and the many which remain unmentioned. It is worth noticing that none of those referred to involves denial of the proposition, easily established by means of a simple arithmetical model, that an output cycle can occur in a trendless capitalistic system. (1) But this proposition is in itself apt to obscure the fact that progress is a fundamental characteristic of modern economies, and that if cycles were, like the fluctuations in the models, phenomena identically repeated at regular intervals, the practical problems raised by them would be entirely different.

For the study of progress there is obviously important in the idea that although cycles may to some extent pursue a life of their own, one of the functions of cycles is to recreate the conditions which make the continuance of progress possible. According to this view, cycles may be caused entirely, partly, or not at all, by progress: but in any case, as long as there is progress, originating in some independent and possibly separate causes, cycles perform a useful function in the absence of which progress might cease. This view is not so fanciful as it may appear. The rise in the amount of 'speculation with borrowed capital', and the tendency for the quality of entrepreneurship to decline during the upswing of a trade cycle were frequently commented upon by nineteenth-century writers; only a downturn checked such speculation and bankrupted inefficient entrepreneurs. Labour, likewise, was set free by the onset of depression and thus made available for those new lines of enterprise next to be developed, whilst the monetary changes accompanying the downswing altered cost-price relationships in a way which enforced efficiency upon entrepreneurs, tended to increase the product-

(1) So long as there is a period of production and so long as production plans are based on imperfect knowledge of the future or on considerations not entirely the same as those determining subsequent demand for the product, divergences between supply and demand can occur; given appropriate lags in the system, these can lead to cyclical fluctuations.

ivity of the labour force, and ultimately, by clearing the field for the employment of loanable funds, facilitated the introduction of further innovations. (1)

But perhaps trade cycles affect economic progress in a more positive manner. For they may help not merely to recreate the conditions which make possible the continuation of progress, but more directly to promote the establishment of a rising trend. Briefly, suppose some initial change to take place, presenting or seeming to present some new opportunity: the change may be a new invention, an exceptional crop, a shift of demand, or merely a growth of optimism due to the fact that several years have passed since the last boom. Investment is undertaken, multiplier effects appear, optimism rises. The speed and extent of the upswing then depend upon numerous factors, such as entrepreneurial attitudes, the nature of the investment which is being currently undertaken, financial policy, and so on. But what is here important is that as far as new men and new ideas are concerned, the upswing may, so to speak, float some of these off, for in an upswing demand is high and backing is more easy to obtain than usual. Some of these new men and new ideas, once given a chance to prove themselves within the economy, may go a long way, and be a cause of continuing development. Such development may thus depend upon cycles because the necessary facilities and opportunities appear only in the upswing of cycles. On the other hand, cycles, according to this view of things, are not a prerequisite for growth unless it appears impossible to launch new ideas except on

(1) There is, however, the contrasting argument that the statistical 'trend' of progress, about which cyclical fluctuations occur, would be steeper if it were not for the wastes, disappointments and dislocations caused by intermittent periods of bad trade.

the upswing of the cycle. If, of course, the economy could be kept in a state of permanent boom, this argument in favour of cycles would disappear.

These inconclusive observations must conclude this very brief survey of the principal questions which may be asked about the process of economic development. A comprehensive study of economic development would doubtless provide answers, however imperfect, to all of these questions. The aim of the following chapters is much less ambitious. No attempt is made to answer the questions relating to the commencement of economic progress, stagnation, or a retarded rate of progress. The question about cyclical fluctuations is not faced directly, and any light shed upon this question is incidental and unsought for. The main concern of this book is to try to begin to answer the second question in the preceding list: namely, What are the conditions for the establishment of a relatively high rate of economic progress? For many countries in western Europe one hundred years ago, this was the foremost economic problem of the age. Statesmen like Napoleon III and economists like Chevalier and List devoted much of their time to trying to answer it for their own particular countries. Today, it is the same question which demands an answer, not for all countries, not for any in North America or North-Western Europe, but yet for the majority of the economies of the world.