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**THE HISTORICAL APPROACH  
TO ECONOMIC GROWTH**

by

**Douglas S. Paauw and John C. H. Fei**

**M-9394  
October, 1968**

## FOREWORD

This working paper is part of a larger manuscript which we are preparing as the final report by NPA's Development Planning Project to the Agency for International Development. We eventually intend to publish a book from the material comprised in our final report.

For this reason we wish to give the reader some idea of the broader perspective which encompasses this present working paper. The larger study covers our empirical and theoretical work on the open, dualistic economy. In approaching this larger subject we begin by surveying the present state of the art in growth and development studies. This assists the reader in understanding the evolution of our own analytical framework.

Four chapters (of which the present working paper is one) are devoted to surveying four rather distinctive approaches to the study of growth and development. In addition to the historical approach

discussed in this paper, we survey the planning approach, the institutional approach, and the theoretical approach in other chapters. Our purpose in this advance circulation is to invite critical comments on any of the large number of issues discussed. We shall be grateful for any reactions the reader may wish to express.

Douglas S. Paauw  
John C. H. Fei

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## **1. GROWTH IN A HISTORICAL PERSPECTIVE**

### **1.1 Growth as a Succession of Epochs**

Among the many viewpoints adopted by economists with a historical orientation in studying growth, one feature strikingly shared in common is the notion of major growth epochs. A growth epoch is defined by Simon Kuznets as "a relatively long period (extending well over a century) possessing distinctive characteristics that give it unity and differentiate it from the epochs that precede or follow it."<sup>1</sup> Given this notion, the historical approach involves a perspective of the growth process as a succession of major economic epochs. The content of the historical method, as applied to economic growth, therefore, consists primarily of describing and analyzing the characteristics of the major growth epochs as well as the problem of transition from one epoch to the succeeding one.

In approaching this area of knowledge, economic historians have generally operated with rather broad background conditions of the

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<sup>1</sup>Simon Kuznets, Modern Economic Growth: Rate, Structure and Spread (New Haven: Yale University Press, 1966), p. 2.

major economic epochs they envisage. Frequently these characteristics describe the nature of production, methods of social organization and cultural factors for each epoch, in combination picturing the "institutional milieu." In terms of these characteristics, there is a general tendency to conceive of a universally valid sequence of economic epochs through which all societies pass as development proceeds.<sup>2</sup> In particular, there is an implicit assumption in much of the literature that all developing countries will move through a sequence of major growth epochs similar to those identified from the development history of modern advanced countries.

The Western historical perspective of growth has long distinguished two major epochs, the traditional agrarian society and the industrial economy, the latter beginning in about 1750. Virtually all serious economic writing, whether historical or not in orientation, has been addressed to the study of either the agrarian economy or its modern counterpart, the industrialized economy. We have little difficulty, therefore, in conceiving of these economic systems, as they have existed historically, as major epochs. Much of the discussion in this chapter

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<sup>2</sup>Such a view is found, for example, in Marx, Rostow (The Stages of Economic Growth) and Millikan and Blackmer (The Emerging Nations).

concerns the perspective of writers who have operated within the framework of these two epochs which have been securely established from the study of Western development experience.

While we see considerable useful in such a perspective marking off stages of growth as major epochs, we find the prevailing notions of this Western-oriented historical perspective to be somewhat inappropriate for the study of less-developed countries with open, dualistic-type economies. A dominant fact, of overriding importance to the current growth experience of the societies upon which our study focusses, is their immediate colonial background. With few, if any, exceptions, the combination of openness and dualism found in these countries is a direct outgrowth of their previous colonial heritage. This fact is, of course, recognized in much of the literature on countries of this type. What is lacking is the characterization of this colonial experience as a unique economic epoch of primary significance for understanding the post-independence growth of these countries.

In extending the historical perspective of growth to contemporary less-developed countries, especially to the open, dualistic economies of our concern, the significant departure in our approach is the inclusion of their colonial background as a major epoch in their growth experience. We, therefore, begin by identifying three major epochs as relevant to the

long-run historical perspective for investigating growth of these economies: the traditional agrarian society epoch, the colonial epoch, and the modern growth epoch. Refinements of epoch identification will be introduced later in the chapter.

Understanding the rules of growth of these epochs, sharp distinction among rules controlling different epochs, and some grasp of how one epoch gives way to a succeeding epoch are the most important lessons offered by the historical approach to growth. These issues constitute the subject matter of this chapter.

Fundamentally, a growth epoch is a distinct way of economic life, associated with a particular mode of operation. The ramifications of an epoch are so diffuse that its essential nature can be best grasped through several levels of understanding. At the most basic level we must have some idea of what we previously referred to as the background conditions, upon which economic historians have traditionally focussed. Such knowledge includes production conditions, methods of the society's organization, and the attitudinal factors conditioning the behavior of economic agents. These background conditions influence the essential economic functions performed by the society's economic agents. From such a holistic view of the operation of the entire economy we can identify major growth (or non-growth) promotion forces for each epoch. This will,

in turn, assist in clarifying the epoch's long-run growth tendency. Thus, the study of each historical epoch may be approached by applying a uniform set of principles related to these four aspects; namely, background conditions, essential economic functions, growth promotion forces, and long-run growth potential.

For purposes of exposition, Table I is used to summarize briefly these four aspects for each of the three epochs--the traditional agrarian society, the colonial economy, and modern economic growth--shown as column headings. The four aspects are listed as row headings. We add a last row to show for each epoch a sampling of references from the literature. We mention the physiocrats for the traditional agrarian society; Singer, Higgins, and Myint for the colonial society; and Kuznets and Kaldor for the modern economic growth epoch, merely as typical representatives of economists with a historical bent who have made a contribution to our knowledge of the particular epoch. Let us now examine the contents of Table I to give a preliminary view of the three growth epochs. Further analysis of specific epochs is undertaken in later sections of this chapter.

TABLE I  
MAJOR FEATURES OF HISTORICAL EPOCHS

EPOCH ASPECTS	TRADITIONAL AGRARIAN SOCIETY	COLONIAL ECONOMY	MODERN ECONOMIC GROWTH
1. Prerequisite Background Conditions	<ol style="list-style-type: none"> <li>1. Agricultural base</li> <li>2. Ascriptive class structure for social organization</li> <li>3. Accumulation drive for noneconomic purposes</li> </ol>	<ol style="list-style-type: none"> <li>1. Alien political control</li> <li>2. Drive for commercial profits</li> <li>3. Suitable resource endowment for external orientation</li> <li>4. Compartmentalized growth, enclave and traditional sector</li> </ol>	<ol style="list-style-type: none"> <li>1. Industrial production, fixed capital formation, and innovation</li> <li>2. Functional specificity in economic organization</li> <li>3. Social and attitudinal change (secularism, egalitarianism, nationalism)</li> </ol>
2. Essential Economic Functions	<ol style="list-style-type: none"> <li>1. Production of agricultural surplus to maintain service sector</li> <li>2. Allocation of labor to service sector</li> <li>3. Service sector output consumed by aristocracy and/or maintains agricultural productivity</li> </ol>	<ol style="list-style-type: none"> <li>1. Acquisition and maintenance of labor</li> <li>2. Management of raw material specific production</li> <li>3. Exploitation of foreign markets</li> <li>4. Reinvestment and repatriation of trade profits</li> </ol>	<ol style="list-style-type: none"> <li>1. Routinized technological change (application of science to economic technology)</li> <li>2. Sustained improvement in quality of human agents</li> <li>3. Diversified sources of savings to finance (1) and (2) above</li> </ol>
3. Major Growth-Promotion Forces	<ol style="list-style-type: none"> <li>1. Maintenance of aristocracy for cultural pursuits</li> <li>2. Maintenance of power structure</li> </ol>	<ol style="list-style-type: none"> <li>1. Drive to accumulate capital by alien agents</li> <li>2. Perpetuation of alien political control</li> </ol>	<ol style="list-style-type: none"> <li>1. Equal distribution of income</li> <li>2. Continuous expansion of consumption</li> <li>3. Social welfare consciousness</li> <li>4. Sharing economic power by all participants</li> </ol>
4. Long-Run Growth Tendencies	<ol style="list-style-type: none"> <li>1. Long-run, land-locked agricultural stagnation</li> </ol>	<ol style="list-style-type: none"> <li>1. Horizontal expansion</li> <li>2. Persistence of narrow export base</li> <li>3. Emergence of open dualism</li> <li>4. Long-run stagnation</li> </ol>	<ol style="list-style-type: none"> <li>1. Continual population expansion</li> <li>2. Capital deepening and qualitative enhancement</li> <li>3. Economy-wide increases in labor productivity</li> <li>4. Sustained structural change, eliminating dualism</li> </ol>
5. Representative Students	Physiocrats Early Classical Economists	Myint Singer Higgins	Kuznets Kaldor

## **1.2 The Traditional Agrarian Society Epoch**

The background characteristics shown in the first row for the earliest economic epoch, the traditional agrarian society, describe a land-based economic system. The social organization system superimposed upon this agrarian production base is associated with an ascriptive class structure, in which status derives from the ownership and control of land, and hence is pre-assigned rather than earned. This may take the concrete form of organized feudalism in a mature traditional society or, in a more primitive society, it may involve tribal organization. In either case, because of barriers to accumulation of wealth by all members of society, we are likely to find the society's dominant social purpose in the satisfaction of the cultural pursuits of the ruling minority. These pursuits were largely noneconomic in nature, supported by both popular attitudes and ideology.

In the early days of modern economic science, beginning in the eighteenth century, attempts were made to depict the essential economic functions of such an agrarian system. Cantillon's produit de la terre and Quesnay's produit net are the intellectual precursor of the agricultural surplus, a concept of major significance for understanding the agrarian society. The agricultural surplus is that part of the agricultural sector's output (mainly food) delivered to the nonagricultural sector to

provide the resources to support the sterile class (classe sterile) and the landed aristocracy. Quesnay's Tableau Economique served to demonstrate that the circular flow of this surplus among the classes identified (landlords, sterile class, and farmers) exhibits a basic pattern of regularity and stability. Total product was distributed in such a way that the productivity of farmers was maintained, the labor in the sterile class supported to perform their service function, and the aristocracy supplied with these services to enhance the achievement of cultural pursuits. From our viewpoint the significant insight offered by the physiocrats was that the operation of the system required a transfer of resources from agriculture to support the activities of the other classes. Their identification of farmers as the productive class (classe productive), further reflects a recognition of labor allocation as an essential economic function, causally related to the outflow of the real agricultural surplus. These essential economic functions are shown in Row 2 in Table I.

The driving force behind the traditional agrarian system was the maintenance of the aristocracy, whose pursuits were basically cultural rather than accumulation of wealth for productive purposes (Row 3). The stability of the system is manifested primarily in the preservation of this power base for controlling the economic system--power derived from

custom, supporting an ascriptive class structure, and sustained by ideology, itself the by-product of the leisure and cultural values of the aristocracy.

The long-run tendency of the agrarian society, as shown in Row 4, was toward stagnation. The dedication to noneconomic pursuits, the common desire to maintain the status quo of the ascriptive class structure, and the non-achievement oriented motivational system, all contrived to avoid deviation from the tradition way of life.<sup>3</sup> The very regularity and stability of the economy's operation, captured in Quesnay's Tableau Economique, portrayed this sense of stagnation. Conscious and deliberate economic progress was an idea alien to the traditional society, and, hence, economic innovation was virtually out of the question.

Economic historians picture a long-run trend toward the gradual dissolution of these stagnation forces as they existed in Western feudalism. Mercantile activities, leading to commercial relations, first within Western Europe and eventually to more distant lands, gradually emerged over the two and one-half centuries preceding 1750. The growth of

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<sup>3</sup>Max F. Millikan and Donald L. M. Blackmer, The Emerging Nations (Boston: Little, Brown and Company, 1961), pp. 3-6.

commercial activities involved accumulation of commercial capital, essentially a wage fund to support labor for nonagricultural pursuits and to increase their efficiency through regional and functional division of labor. The transition process associated with the rise of commercial capitalism became the subject matter analyzed by Adam Smith and his immediate followers, who became the original classical tradition in economics.

As mercantile activities began to penetrate the traditional agrarian society, there emerged for the first time a dualism in the operation of the Western European economy. Beginning about 1700, this evolution of dualism had far-reaching consequences for all subsequent development. Its central characteristic lay in the coexistence of the land-based agrarian production sector and the urban-centered mercantile activities. Although the population continued to be predominantly rural, a nascent proletarian class formed in cities. The new methods of economic organization, evolved through mercantile activities, gradually began to penetrate, influence, and transform the traditional, feudalistic organization for agrarian production. By the late 18th century Adam Smith found it necessary to employ a tripartite division of labor scheme to analyze the new British farm organization. The capitalistic farmer assumed control of production, renting land from the aristocratic landlord and employing hired labor.

The revolution thus precipitated in the countryside in this period of agrarian-mercantile dualism led to an expansion of agricultural productivity. Agricultural progress, in turn, paved the way for the emergence of an industrial-agricultural dualism<sup>4</sup> in the 18th century. Thus, we witness a record portraying the early stages of the epoch of modern economic growth in Western Europe. The important lessons from this brief account are that intersectoral stimulation is a prime growth force and that integrated and uniform expansion of all sectors in the economy is essential for launching rapid and sustained expansion. These instructive lessons from economic history will be stressed at several points in this study.

### 1.3 The Colonial Economy Epoch

The evolution of Western European economies through the three stages of agrarianism, agrarian-mercantile dualism, and industrial-agricultural dualism is well known. We have mentioned this familiar historical process for two reasons. First, we wish to show that

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<sup>4</sup>Dualism in the sense of the continuation of a large agricultural sector (in terms of labor use and output) existing side by side with an evolving industrial sector.

this Western model of historical evolution, so familiar to economists, is largely irrelevant for contemporary, less-developed countries. Second, the relevant historical perspective, which recognizes the existence of the colonial growth epoch, is an outgrowth of the penetration of the foreign agrarian societies by the very mercantilist forces emanating from Western European countries.

Interestingly enough, the growth epoch launched in the colonies was, in essence, also a type of dualism. In the colonial societies, however, the dualism generated by the Western mercantile impact was a contrast between the traditional agrarian sector and a commercial export sector. Although there are similarities between the colonial economy and the Western prototype of agrarian-mercantile dualism, a very significant difference lay in the presence of foreign control and direction in the colonial economy. The commercial export sector was operated under alien control, oriented toward foreign trade and influenced by external market forces. For this reason the commercial export sector has frequently been referred to as an economic enclave by students of the colonial economy.<sup>5</sup> The colonial system tended to compartmentalize the

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<sup>5</sup>See, for example, Hla Myint, The Economics of the Developing Countries (New York: Frederick A. Praeger, 1965), pp. 64-68.

economy into two sets of growth dynamics. The large agrarian backyard remained subject to the forces leading toward stagnation, while growth of the commercial export sector responded to the stimulation emanating from its external orientation. This peculiar pattern of growth contrasts sharply with the more integrated growth process characteristic of European historical experience, to which we have just referred.

The colonial epoch dominated growth in virtually all contemporary less-developed countries for 100 to 300 years prior to World War II. Despite the widespread hold of this system over a long duration, however, serious study by economists of the operation of the colonial economy, as a system, is a recent development--for understandable reasons. From such contemporary writers as Singer, Higgins, and Myint, whose work appeared after World War II, we have begun to obtain partial glimpses of the colonial economic epoch.<sup>6</sup>

As we see in Column 2 (Row 1) of Table I, the fundamental difference between the colonial epoch and the traditional agrarian epoch lies in the substitution of alien political power for the old systems of

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<sup>6</sup>In addition to Myint's book cited in the preceding footnote, see his "The Classical Theory of International Trade and the Underdeveloped Countries," Economic Journal, Vol. LXVIII (June 1958), pp. 317-337. See also Hans W. Singer, "The Distribution of Gains Between Investing and Borrowing Countries," American Economic Review, Vol. XL, No. 2,

social organization, which ranged from land-based aristocracies to more primitive forms of tribal society. Alien control was instrumental in displacing the traditional society goals.<sup>7</sup> In their place, colonial regimes fostered the development of a society whose prime objective was the accumulation of mercantile capital, under alien control. The system which emerged required production for export and, through foreign trade, the conversion of exports into profits to augment capital under foreign control.

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<sup>6</sup>(Continued) (May 1950), pp. 473-485; Benjamin Higgins, Economic Development: Problems, Principles and Policies (Revised edition; New York: W. W. Norton and Co., 1968), especially Chapter 13; and Jonathan V. Levin, The Export Economies (Cambridge, Mass.: Harvard University Press, 1960). Political aspects of the colonial system are described in several works by J. S. Furnwall; see particularly his Colonial Policy and Practice (Cambridge: Cambridge University Press, 1948), and in Fred R. von der Mehden, Politics of the Developing Nations (Englewood Cliffs, N. J.: Prentice Hall, 1964).

<sup>7</sup>Contemporary political scientists lay considerable stress on this displacement process as a factor affecting current political development. See, for example, Lucian Pye, Aspects of Political Development (Boston: Little, Brown and Co., 1966), Chapter 1, especially pp. 9-11.

**This drive for profits resulted in selective penetration of the traditional agrarian economy. Penetration was undertaken only when export profits were anticipated, based primarily upon the exploitation of raw material endowments. A cheap and readily available local labor supply was often an additional source of export profits, although this type of penetration was often avoided or supplemented by other expedients. In Southeast Asian experience, for example, the high cost of securing local labor resulted in a liberal immigration policy and large-scale utilization of foreign (primarily Chinese) labor in the commercial export sector. This selectivity limited penetration, preserving and often accentuating the compartmentalization between the traditional and export sectors. To summarize, four background characteristics are considered as typical of the colonial economy epoch--as shown in Row 1 of Table I--the presence of alien political control, the drive for commercial (trade) profits, the external orientation of the commercial sector, and compartmentalized growth dynamics.**

**The mode of operation of this colonial system involved the performance of the essential economic functions shown in Table I, Row 2. These functions include (i) the acquisition and maintenance of domestic labor for export production; (ii) management and control of exporting traditional products; (iii) supplying export markets, and (iv) reinvestment**

or repatriation of trade profits. These rules of the economy's operation were built upon the central requirements of the generation of an agriculture surplus (food and raw materials) and reorienting a labor force to provide the basis for exports. Export activities were designed to produce export profits for either repatriation or reinvestment--with the tempo controlled by external demand conditions. In this reinvestment and repatriation of profits we see the major economic driving force of the colonial system. Stability was given to the system by the perpetuation of alien control of profit opportunities, reinforced by the very presence of alien political power. These essential economic functions and the major growth-promotion forces are shown in Rows 2 and 3 of Table I.

The long-run growth tendency emerging from these forces may be described as horizontal expansion (Row 4). As profits were reinvested and capital stock enlarged, the geographic and population scope of the foreign enclave was expanded. In spite of this enlarged penetration, however, the mode of the traditional sector's operation remained relatively unchanged. The prime mover in the horizontal expansion process was export demand, with enlargement of the size of the enclave solely dependent on rising demand. Exhaustion of raw materials or emergence of competitive sources of supply caused a braking of this process as foreign capital withdrew from the enclave.

Compartmentalized growth persisted despite horizontal expansion. Alien capital accumulation was dependent upon exploitation of the economy's resource endowments rather than the uniform development of an integrated domestic economy. The enclave continued to rely on the narrow export base as the economy progressively assumed an open-dualistic character. Periodic technological change introduced into the enclave failed to permeate the whole economy. The piecemeal technological change was related to export exploitation rather than for general development affecting the masses beyond the geographically small enclave. Thus, as we elaborate in Section 3, the colonial epoch exhibited long-run stagnation, the final characteristic shown in Table 1, Row 4.

#### 1.4 Modern Economic Growth

The indictment of the colonial system, replete in contemporary literature, as a barrier to modern economic growth requires an understanding of the historical fact that modernization of countries with a colonial past must be built upon the foundation inherited from the colonial epoch. For this reason the study of development of newly independent countries must rest firmly upon an understanding of their colonial experience. The end of an epoch and the mode of economic life it

implied was precipitated by decolonization, itself hastened by the disruption of colonial control during World War II. In such a historical perspective, the period since World War II is viewed as a phase of transitional growth, marking the termination of the colonial epoch and tentative entry into the modern growth epoch. After a brief two decades of this transition process, our knowledge is still limited by the very fact of a short historical record and the difficulty of detached analysis of experience so near in time. Nevertheless, this brief record of growth experience must be used as our inductive base for analysis of the ex-colonial type of transitional growth. Our book represents an attempt to pioneer in a study emphasizing the historical nature of this transition.

For guidance in studying the phenomenon of transitional growth, we are fortunate in having a long record of modern economic growth, extending over two centuries and covering the growth experience of Western Europe, North America, Japan, and still other areas. From this extensive record we have some solid notions about the background conditions and other major aspects associated with the modern growth epoch. We see from Row 1 in Table I that the first prerequisite is the emergence of industrial production and technological innovation. Invariably associated with this condition is the accumulation of fixed productive capital (plant and equipment). In Western Europe this feature

of modern economic growth had become so pronounced that by the mid-nineteenth century Karl Marx organized the main body of his thought around the phenomenon of fixed capital.<sup>8</sup> Through rapid increase in fixed capital, modern economic growth, for the first time, enabled societies to rid themselves of exclusive dependence upon organic agents, as in the use of animal and vegetable resources characteristic of the agrarian economy. It was these limitations which mainly explain the growth pessimism so marked in the early Classical tradition before 1840.

The milieu of sustained, and indeed assumed, economic progress came with the realization that real capital accumulation represents more than mere augmentation of a "produced means of production" in the quantitative sense. More important, from the long-run growth perspective, was the gradual evolution of fixed capital as the major vehicle for applying and embodying new scientific knowledge. Behind this important phenomenon lies a basic change from the traditional outlook to one in which systematic and conscious exploration for new knowledge

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<sup>8</sup>This emphasis on fixed capital, it should be noted, stands in sharp contrast to the early Classical economists' preoccupation with the wages fund (or mercantile capital), still seen as late as 1820 in the work of David Ricardo. While Marx did indeed mention circulating capital, his real significance, in terms of the transition to modern economic growth, lies in his perception of fixed capital as the dominant feature of the modern industrial system.

through scientific principles and the application of this knowledge for economic growth becomes a paramount social goal. This phenomenon is so closely related to the essential nature of modern economic growth that Kuznets speaks of this epoch as the "scientific epoch."<sup>9</sup> It should be stressed that as modern growth proceeded, technological change associated with the application of science, and embodied in fixed capital, pervaded the entire economy, affecting agriculture as well as industry. Thus, as summarized in Table I, Row 1, Column 3, fixed capital accumulation and innovation represent the first and most basic background condition for modern economic growth.

Innovations in production methods and the expansion of fixed capital require complementary changes in respect to the organizational aspects of economic activity. The functionally diffuse system of agrarian societies was inconsistent with the specialization of production essential for large-scale capitalistic methods. Early in the modern growth epoch, specialization of functions between the laborer and the capitalist emerged, requiring the legal sanctioning of the contractual relationships involved. The notion of relationships specified in detail and limited by contract was

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<sup>9</sup> Simon Kuznets, op. cit., p. 9.

completely alien to the typical traditional milieu. As modern growth proceeds, increasingly complex and large-scale production necessitates continual organizational change. The giant corporation in which ownership and control are separated, for example, is a further response to the need for greater specialization. In short, functional specificity (shown in Table I, Row 1, Column 3) is an inevitable organizational concomitant of modern economic growth, both in the sense of more precisely defined production roles and the progressive separation of economic functions from the individuals' noneconomic roles.<sup>10</sup>

Finally, as we also show in Row 1, Column 3, of Table I, modern economic growth required pervasive changes in the human attitudes and values. The conscious search for technological innovations and their routinized application throughout society required, first, a climate in which economic achievement was given high priority in human values. Secularism increasingly displaced the fatalism characteristic of traditional societies. This change involved both a recognition that man

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<sup>10</sup>Irma Adelman and Cynthia Morris find this to be one of the most striking features of growth in less developed countries in their cross-section study, Society, Politics, and Economic Development (Baltimore: The Johns Hopkins Press, 1967), pp. 266-267.

can overcome natural economic limitations through innovation and a willingness to apply the knowledge developed to overcome these limits. Second, a social outlook consistent with widespread participation in this continual innovational process is required. The hierarchical values associated with the ascriptive class structure of traditional society must give way to an egalitarian ideology, in which all can potentially share in the fruits of changing roles in the economy as well as from exertion of natural talents to enhance economic performance. Finally, modern industrialism requires expanding political units to foster the conditions required for complex contractual relationships among individuals as functional specificity is increasingly refined. In addition, modern growth requires expanding roles for the public sector to promote the achievement of the society's egalitarian goals and to support the innovational activities so fundamental to the operation of this growth system. Thus, nationalism must progressively transcend the particularistic group loyalties of traditional societies.

In Row 2 of Table I we briefly summarize a few of the major economic functions which must be performed in societies sharing the modern growth epoch. A central operating principle is the economy's routinization of technological change. In its full flowering, this innovation function becomes so deeply ingrained in the modern economic system

that it is accepted as a way of life, thoroughly institutionalized throughout the society. This very process, by requiring ever-greater technological sophistication, together with a growing tendency toward investment in human capital, provides sustained improvement in the quality of human agents. Associated with these characteristics, to accommodate innovation and the upgrading of human agents, widespread public participation of the economy's investment in diversified financing is required. This latter feature is reflected in the multiplication of diverse savings institutions to tap innumerable sources of savings.

In Row 3 we list the new growth-promotion forces characteristic of this modern growth epoch. Growing equality of income distribution operates not only to promote the qualitative improvements in human agents but also provides the basis for the continuous expansion of consumption. Mass consumption of all products, luxuries as well as necessities, and the responsiveness of an affluent society to new products become prime movers in inducing persistent growth and diversification of output. A social welfare consciousness derives from the egalitarian and nationalistic conditions of this epoch, providing a sustained and expanding public sector thrust to the expansion of demand for collectively consumed goods and services.

The long-run growth tendencies in the modern economic epoch, shown in Row 4, exhibit equally dramatic differences from past epochs. Continuous population expansion is consistent with rising per capita incomes; Kuznets remarks that this is a noteworthy combination against the long historical record of past growth epochs.<sup>11</sup> High savings rates and innovation cooperate to lead to capital deepening throughout the economy, in turn promoting continual incorporation of new knowledge into production methods. As these forces lead to increases in labor productivity in all sectors, in contrast to their limited role in enclaves of the colonial economy, dualism is progressively eliminated. In fact, another major feature of modern economic growth is the growing participation of the agricultural sector in the revolution in methods and organizational techniques, as well as in the productivity gains characteristic of this epoch, resulting in the eventual elimination of dualism.

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<sup>11</sup>Kuznets, op. cit., p. 63.

## **1.5 Summary**

**This preview of the historical approach serves to convey its significance as a long-run vision of the growth process comprising a series of major epochs. It also stresses the multi-dimensional character of economic epochs, revealing epochal transitions as phenomena involving comprehensive social change. As Table I implies, economic change must be accompanied by revamping the country's social, political, and cultural framework. Further, as these background conditions change, the different growth epochs perform differing sets of essential economic functions to achieve the ends of different growth-promotion forces. Similarly, profound changes in the economy's long-run growth potential are associated with these differences. Our brief survey serves, therefore, to emphasize that economic growth is fundamentally a sequence of economic epochs, definable only in terms of all these dimensions which our comparative approach has highlighted.**

**Understanding of this complex process of change from one epoch to another, in fact, is the fundamental growth issue implicit in the long-run historical perspective. It is this general issue to which our present study is addressed, our immediate concern in this book being the transition from the colonial, open-dualistic type economy to a modern growth epoch in less-developed countries. The record of two decades**

of post-World War II experience now accumulated serves as the time horizon we employ to investigate this central issue in our work.

We now proceed to elaborate upon the traditional agrarian economy (Section 2) and the colonial economy (Section 3) from the viewpoint of their overall operation as economic systems. Our purpose in what follows is to investigate more rigorously the rules of growth implicit in the typical functioning of these historically important growth types. Because of its importance to our study, the modern economic growth epoch will be given somewhat broader treatment in a later chapter. The problem of transition between major economic epochs will be discussed in Section 4, while an evaluation of the historical approach as a whole is presented in Section 5.

## **2. THE TRADITIONAL SOCIETY: AGRARIAN-MERCANTILE DUALISM**

### **2.1 Introduction**

As background for our later analysis, we have chosen to portray the mode of operation of a particular type of economy evolving from the traditional agrarian epoch, the agrarian-mercantile economy. Such an economy is dualistic in nature in the sense that mercantile activities have penetrated the otherwise dominant agrarian economy. Agricultural activities remain the major productive focus of the economy, coexisting with a nascent service sector, dealing in interregional trade of agricultural goods. The production of these traded goods primarily involves inputs from agriculture with a minor value added component from the service sector. The emergence of trading activities adds a significant dimension to economic life, marking off agrarian-mercantile dualism as a more advanced form of agrarianism than the pure agrarianism of the feudal state.<sup>1</sup> Thus, the nature of agrarian-mercantilism is

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<sup>1</sup>The latter is the case summarized in Table I, Column 1.

sufficiently different from the earlier epoch that the agrarian-mercantile economy may be considered a unique epoch, in the sense defined above.<sup>2</sup>

Historical examples of this type of economy are not difficult to find. We have noted in the previous section that the economies of Western European countries during the two and a half centuries (1500-1750) prior to the industrial revolution may be depicted by such a system. The same basic economic system was found in many non-Western countries, including contemporary less-developed countries, before the colonial epoch emerged from the Western impact. In China, for example, agrarian-mercantilism had a long history, existing for roughly 2,000 years before the Opium War of the mid-nineteenth century.<sup>3</sup> Such a system was also found in Japan for several centuries before the Meiji Restoration.<sup>4</sup> In Southeast Asia, too, mercantile activities had made minor inroads into the traditional agrarian economy.<sup>5</sup> This growth epoch, therefore,

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<sup>2</sup>We see, therefore, that the addition of the agrarian-mercantile epoch is a refinement of the sequence of epochs discussed in the previous section.

<sup>3</sup>See, for example, John K. Fairbank, The United States and China (Cambridge: Harvard University Press, 1949), pp. 53-56.

<sup>4</sup>See Thomas C. Smith, The Agrarian Origins of Modern Japan (Stanford: Stanford University Press, 1959).

<sup>5</sup>See J. C. Van Leur, "Indonesian Trade and Society," Essays in Asian Social and Economic History (The Hague: W. Van Hoeve, 1955).

represented a period of history during which these societies had already lost their monolithic agrarian characteristics, while they had not yet been penetrated by an external alien power devoted to international trade which typified the later colonial epoch.

For an analytical approach to economic growth in the agrarian-mercantile economy (for that matter, in any type of economy) the mode of the general economy's operation and the essential economic functions performed must be specified. Having such an outline of the economy, the major growth-promotion forces must then be identified and the economy's long-run growth potential analyzed--preferably deducible in quantitative terms. In modern economic terminology, both the structural and behavioral aspects of the economy must be clearly specified. The analysis of growth performance and growth potential then takes the form of theorems which can be inferred from the postulated structural and behavioral aspects. In short, the method of analysis is that of a modern, historical approach to economic growth.<sup>6</sup>

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<sup>6</sup>This methodological formalism is precisely what distinguishes the analytical approach of this and the following section from the more cursory, descriptive approach in the introductory section of this chapter. Such methodological formalism has begun to appear in the works of such modern economic historians as Douglas North, John Hughes, and Lance Davis.

## 2.2 Structure of the Economy

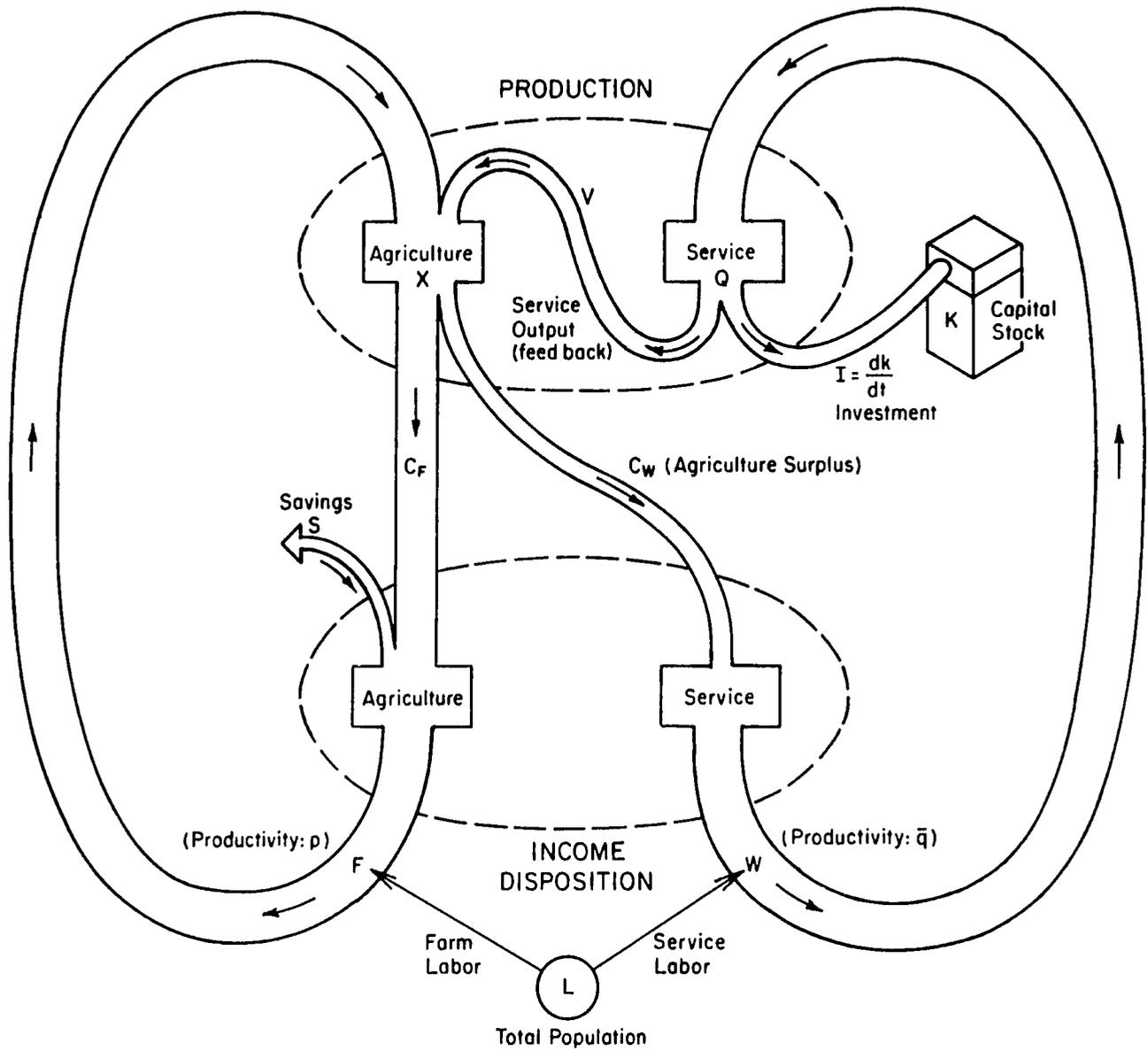
The structure of the agrarian-mercantile economy may be succinctly described by a circular flow diagram, as shown in Diagram 1. The most prominent structural feature of the economy is the dualism reflected in the coexistence of an agricultural sector and a service sector, both subdivided into a production aspect (shown in the upper circle) and an income distribution aspect (shown in the lower circle).

Total population,  $L$  (shown at the bottom) is partly allocated to the agricultural sector as farm labor,  $F$ , and partly to the service sector as workers,  $W$ . The farm labor force produces the total agricultural output,  $X$ , of which a part,  $C_F$ , is consumed by farmers themselves, and a part,  $C_W$ , emerges as surplus agricultural goods, transferred to the service sector for support of that sector's labor force,  $W$ . Before introducing further complications, we note that the importance of this agricultural surplus,  $C_W$ , is recognized by both early and contemporary economists interested in growth.<sup>7</sup>

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<sup>7</sup>The Physiocrats' identification of the agricultural surplus has already been mentioned in Section 1, as has the use of this concept by such early Classical economists as Adam Smith and Ricardo. Among contemporary growth economists stressing the significance of the agricultural surplus, we may mention William H. Nichols, Bruce Johnston, John Mellor, and John C. H. Fei and Gustav Ranis.

Diagram I: The Agrarian-Mercantile Economy



Under the assumption of a constant per capita consumption standard,  $\bar{c}$ , as a reasonable first approximation, we readily see that the relative size of the service sector labor force,  $W/L$ , is governed by agricultural productivity,  $p$ . The greater the agricultural productivity,  $p$ , the larger will be the magnitude of the fraction,  $W/L$ . If we denote  $\theta = W/L$  (or  $[1 - \theta] = F/L$ ), then the total supply of food is  $pF = p(1 - \theta)L$  and the total demand is  $L\bar{c}$ . When supply is equated to demand, we have:

$$1.1.a) \quad p(1 - \theta) = \bar{c} \quad (0 \leq \theta \leq 1) \quad \text{where}$$

$$b) \quad \theta = W/L \quad \text{and} \quad 1 - \theta = F/L$$

The simple equation (1.1.a) is a basic formulation for any dualistic economy in which the relative size of the nonagricultural labor force,  $\theta$ , is governed by the size of the agricultural surplus. For example, as  $p$  increases in value,  $\theta$  must also increase, signifying a basic mechanism of the dualistic economy in which the emergence and growth of the nonagricultural labor force is controlled by agricultural productivity.

Returning to Diagram 1, we see that the service sector labor force,  $W$ , when supplied for productive activity, creates that sector's total output,  $Q$ . A part of this output feeds back to the agricultural sector

as an intermediate productive input,  $V$ , and a part is devoted to investment,  $I$ , representing an addition to productive capital stock,  $K$ . This completes the description of the abstract structural characteristics of the agrarian-mercantile economy. What remains to be given is a clear and unambiguous specification of the nature of the output of the service sector,  $Q$ , and the meaning of its two components, investment,  $I$ , and the feedback,  $V$ . The Physiocrats were imbued with the idea that  $Q$  is devoid of productive significance, which, no doubt, was a valid interpretation before the agrarian economy was penetrated by mercantile forces. For, in that case, the service sector provided military, clerical, and other feudalistic services, largely for the comfort and pleasure of the nobility. The "sterility" of the nonagricultural labor force,  $W$ , in the agrarian-mercantile economy, however, is a myth, perpetuated in the writings of the early Classical economists. In spite of the rather intangible nature of the services,  $Q$ , they were clearly significant in their effect on agricultural productivity through interregional trade. An important part of this output represented a direct feedback into the agricultural sector, which we show below to have significant productivity-raising leverage on agricultural labor.

The other component, investment ( $I$ ), is a heterogeneous concept, interpreted by us to include all accumulated means of production

for facilitating trade. Moreover, in some agrarian-mercantile societies, a part of investment was clearly employed to maintain or enhance agricultural productivity directly.<sup>8</sup> Nevertheless, we distinguish the essential components of investment, I, and capital stock, K, as (1) circulating commercial capital (i. e., inventories of traded commodities) needed to bridge gaps because of non-coincidence of production and consumption, both in space and time, and (2) fixed social overhead to accommodate trade (e. g., mainly transportation facilities such as roads and canals and urban trading facilities). In recorded history we find examples of social organization for both private and public management and control of the capital stock, K. In early Western Europe, both circulating and fixed capital were privately owned--as seen in the case of the early turnpikes and canals. In China, on the other hand, government monopolies of such commodities as salt, iron, and silk have a long tradition while much of the social overhead facilities were also constructed and maintained under government auspices. The type of social control found in particular societies, therefore, depended on the ideology associated with their particular cultural heritage.

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<sup>8</sup>In the form of construction and repair of irrigation facilities, for example, documented throughout many centuries of Chinese history.

### 2.3 The Essential Economic Functions

In the agrarian-mercantile system, whose structure was just described, the labor productivities in the two sectors have significantly different growth implications. In general, the growth role of agricultural labor's productivity,  $p$ , is of much greater growth significance than labor productivity in the service sector,  $q$ . We have already observed that agricultural productivity gains are fundamental in determining the allocation of labor between the two sectors. Moreover, opportunities for raising productivity in a commercial service sector, involving mainly circulating capital, are limited. This limitation is clear when the accumulation of commercial capital is viewed in contrast to the opportunities presented by embodying innovations in fixed industrial capital--an event which appeared much later in Western Europe. Since the possibility for productivity change in  $q$  is viewed as small, we assume that  $q$  takes on a constant value (denoted by  $\bar{q}$ ) in the agrarian-mercantile economy.

The crux of productivity change, under this latter assumption, lies in the agricultural sector. The possibility of gains in agricultural productivity,  $p$ , is associated with the evolution of mercantile activities. We summarize in Table II the mechanisms through which the emergence

**TABLE II**

**Causes of Productivity Gains in Agriculture  
in Agrarian-Mercantile Economy**

<b>General Force</b>	<b>Productivity-Raising Effect</b>
<b>I. Functional Specificity</b>	<b>1. Regional specialization of production 2. Functional division of labor tasks in farm management</b>
<b>II. New Dimensions of Farm Activities</b>	<b>3. Spread of innovations in agricultural products and production methods 4. Introduction of by-products 5. Changing consumption patterns</b>
<b>III. Group Linkage</b>	<b>6. Widening of social horizons through rise in urban market centers 7. Emergence of collective agricultural activities 8. Expansion of social overhead facilities (health, education, etc.)</b>
<b>IV. Risk Avoidance</b>	<b>9. Overcoming of seasonal and spatial variations, enhancing stability and security 10. Introduction of credit provision</b>

and growth of interregional trade may conceivably have a productivity-raising impact on agricultural productivity. With the aid of this table, let us briefly describe these mechanisms.

In the left-hand column of Table II we list four major forces associated with interregional trade which may have a positive impact on the productivity of agricultural labor: functional specificity, new dimensions of farm activities, group linkage, and risk avoidance. The ten more specific productivity-raising effects associated with these forces are listed in the second column.

The first major force shown is functional specificity. In the agrarian-mercantile economy, it has two significant aspects; the first, production, and the second, organizational in nature (shown as the first and second effects in the second column of Table II). The production effect of interregional trade represents the emergence and spread of functional specificity in the geographical sense. As the possibility of trade arises, geographic regions become specialized in the agricultural product(s) in which they have the greatest comparative advantage. Labor productivity is raised as labor shifts from production of the crops for which the region's natural endowment is less advantageous (which can then be obtained through trade) to those products most adapted to the region. Thus, growing mercantile activities in expanding markets foster increasing

division of labor through regional specialization of production, thereby enhancing labor productivity throughout the agrarian economy. This is, indeed, the general force which Adam Smith so aptly associated with expansion of markets in his classic statement in The Wealth of Nations.

The second functional specificity effect operates at the farm management level. Specialization of product leads to greater functional specialization among human agents, carrying with it the advantages of a sharper definition of roles and incentives to learn in the commercial enterprises. This gradually promotes acceptance and introduction of contractual forms of relationship in farm enterprise, following the genesis of the concept of contracts in the very dealings between trader and farmer. The net result of modernization of farm enterprise--as typified by the tripartite division of labor in England--was improvement of farm productivity. These forces toward organizational improvement become especially strong when the itinerant trader pattern begins to change to fixed location-trading as trading centers emerge in the agrarian economy.<sup>9</sup> In Southeast Asia, for example, this shift from temporary

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<sup>9</sup>A process of change in the traditional economy, associated with the same basic force but somewhat different in emphasis, is given in Everett E. Hagen, The Economics of Development (Homewood, Illinois: Richard D. Irwin, Inc., 1968), pp. 60-74.

fairs to settled trade began to appear well before the sixteenth century.<sup>10</sup>  
In fact, the first stage in this transition was a gradual lengthening of the  
periodic bazaar to become "annual markets."<sup>11</sup> The settlement of trade  
is important in that it leads to an urbanization process, thus more  
dramatically demonstrating to the farm sector an entirely different pattern  
of economic life and organization.<sup>12</sup>

The urbanization and production specialization aspects we are  
referring to can best be seen from examples in the history of Japan during  
the Tokugawa period. Thomas C. Smith remarks on the dramatic  
character of this process in the two centuries after 1600 and describes  
the regional specialization effect: "Not the least of these was to make

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<sup>10</sup>The eminent Dutch sociologist, J. C. Van Leur, who studied early  
Asian trade, describes, from historical records, a settled pattern of  
mercantile activities involving both international and domestic  
products for several Southeast Asian countries in the 16th and 17th  
centuries. See J. C. Van Leur, op. cit., pp. 1-117.

<sup>11</sup>Ibid., pp. 140-141.

<sup>12</sup>In Southeast Asia, however, this process of urbanization and  
associated specialization through the expansion of trade did not make  
great progress prior to the colonial epoch.

farming far more specialized, for the country could no longer afford the gigantic waste of peasants all growing the same crops and therefore nearly everywhere growing some of them inefficiently. The waste and inefficiency had been inevitable so long as urban population was inconsiderable and the opportunity to buy and sell was very limited. . . . Most crops except grains, which to this day are grown nearly everywhere, gradually came to center in certain regions where growing conditions were favorable. <sup>13</sup> The organization specificity described above was also observed by Smith: "The more a peasant family bought and sold, the larger the area of its economic life that was lifted out of the context of custom-bound social groups and subjected to the impersonal decrees of the market. <sup>14</sup>

The spread of mercantile activities in the agrarian economy produced a second major productivity-raising force, new dimensions in farm activities (shown as II in Table II). This force is primarily associated with the communication improvements induced by the spread of interregional trade. Trade created growing linking of local and

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<sup>13</sup>T. C. Smith, op. cit., pp. 68-69.

<sup>14</sup>Ibid., p. 80.

regional markets both by contributing to the growth of transport and by leading to the evolution of commercial centers<sup>15</sup> which emerged from the rural villages and physically close to farmers. These new commercial centers contrast sharply with the court and cultural centers typical of traditional agrarian society.

We associate three productivity effects with this regional linking process (3, 4, and 5 in Table II). The linking of previously isolated communities through trade and the emergence of commercial centers close to farmers provided, for the first time in the agrarian economy, channels through which knowledge of new products and innovations in production methods could be disseminated. On the production side, trade channels provided a vehicle for the spread of knowledge about improvements in farming practices from one area to another. While such innovations were undoubtedly random and infrequent in the agrarian economy, they nevertheless occurred as isolated events. It is through trade that these innovations spread, permeating the whole agrarian sector.

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<sup>15</sup> Hoselitz describes the economic significance of early cities as follows: "They were the places in which new forms of economic organization were evolved. They were the places not merely in which new commodities were traded and whence new markets and sources of supply were explored but in which appeared the first signs of new class relations based on alterations in the social division of labor." Bert F. Hoselitz, Sociological Aspects of Economic Growth (Glencoe, Illinois: The Free Press, 1960), p. 170.

In late Tokugawa Japan, for example, there is evidence that agriculture in certain regions became more productive.<sup>16</sup> The spreading of these local improvements became a major factor in the subsequent agricultural revolution. Thomas Smith describes this process as it occurred during the agrarian-mercantile period of Japanese development history.

Speaking of the years 1600-1850, he writes, "Few changes were the result of inventories; most resulted from the spread of known techniques from the localities in which they had been developed to areas where they were previously unknown or unused. How the spread occurred is not known in detail, although it is obvious that growth of the market played an important role, breaking down local barriers, transporting ideas and objects from place to place wherever merchants went."<sup>17</sup>

New dimensions brought through mercantile activities may also take a second form, the introduction of production of by-products on the farm, based on raw materials specific to a region. Regional trade provided channels and, indeed, was a necessary prerequisite for the

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<sup>16</sup> K. Ohkawa and H. Rosovsky, "A Century of Japanese Economic Growth," in William W. Lockwood (ed.), The State and Economic Enterprise in Japan (Princeton: Princeton University Press, 1965), p. 57.

<sup>17</sup> T. C. Smith, op. cit., p. 87.

distribution of these by-products beyond the immediate village locality. In the case of Japan, as in the West, this led to the evolution of the putting-out system, in which agricultural labor, though remaining in the rural economy, found an outlet for off-season unemployment. The evolution of by-products thus raised the agrarian income and contributed to overcoming the irregularity of production and income from seasonal variations in agricultural activities. Most important, this process introduced the farmer to a new type of productive activity.

The third effect of communications links operates through their implications for consumption patterns. Knowledge of previously unknown consumer products is distributed through the trade channels and by peasant contact with the market centers. This new exposure to a wide variety of tempting new products, which rapidly appear in growing interregional markets, has an important incentive effect on the supply of effort. Smith cites a long list of commodities found in the new Tokugawa market centers in Japan, noting that the wide array of goods were commonly consumed by peasants, unlike the luxury goods characteristic of the narrow feudal markets of the earlier feudal period.<sup>18</sup>

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<sup>18</sup>Ibid., p. 73.

This very economic linkage through growing interregional communication had important indirect effects on agrarian productivity through its inevitable consequence of fostering group linkage, the third major force shown in Table II. From a negative viewpoint, this force has special significance in breaking down the particularistic group loyalties so characteristic of isolated agrarian communities.<sup>19</sup> The widening social horizons emerging from this process has much to do with the gradual adoption of more universalistic values, essential to the evolution of a modern economy.<sup>20</sup> More positively, many of the most important improvements in agricultural productivity are associated with collective arrangements to provide agricultural infrastructure. Transport facilities and irrigation works deserve particular emphasis in this regard. Again referring to Tokugawa Japan, significant achievements in expanding both transportation and irrigation coincided with the rapid expansion of interregional trade.<sup>21</sup> The growth of wider group affinities in the rural

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<sup>19</sup>In fact, Hoselitz speaks of the "way of life of the city" winning out in the period of merchant capitalism which followed the Middle Ages in Europe. Hoselitz, op. cit., p. 175.

<sup>20</sup>As we see in our survey of the institutional school in Chapter 3.

<sup>21</sup>T. C. Smith, op. cit., pp. 95-96, 157.

village also promotes cooperation for provision of such social overhead facilities as hospitals, schools, and the legal framework essential for evolving functionally specific economic roles.

The final general productivity-raising force associated with interregional trade is termed as risk-avoidance (Row IV in Table II). The general feature of this force is that trade serves to reduce agrarian risks by providing an adjustment mechanism by which localities and farmers can overcome random and seasonal threats to their security. Interregional movement of commodities, especially when accompanied by credit arrangements, provides opportunities for overcoming the problems of short harvests. Moreover, trade involves intertemporal storage of commodities, smoothing out otherwise large variations in seasonal supply. Finally, interregional trade leads to provision of credit to farmers as commercial capital accumulated through trade can be used to finance farm production activities, as traders recognize the importance of assuring their sources of supply. Through these means, the productivity of farmers is enhanced as they are increasingly freed from the necessity to cope directly and independently with the insecurity arising from vagaries of nature and the natural seasonality of agriculture.

These various forces emanating from the spread of trade and communications, of course, did not each operate in all agrarian-

mercantile systems. We conceive of them, rather, as a conglomeration of possible stimulants to agrarian improvement, some operating to some extent in a particular society. This is consistent with the view that their relative significance in different societies is basically a matter of degree, measureable in terms of the magnitude of stimulation to agricultural productivity,  $p$ , offered by the trading activities,  $V$ , in terms of Diagram 1. When many of these stimulating effects operate with potency, they may bring about an "agricultural revolution," which in England preceded the industrial revolution. When their total impact is relatively weak, however, as in much of Southeast Asia and China, they lead to slow but steady, and often imperceptible, productivity gains.<sup>22</sup> Indeed, the very fact that the significance of these factors seems to have been generally ignored in the history of these latter societies is probably attributable to the absence of a dramatic productivity push, especially in a short-run perspective. In any case, it is the magnitude of these stimulative effects, in toto, that very likely marks off major differences in the long-run performance of different societies in the

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<sup>22</sup> It is clear that this intriguing issue requires more historical and inductive study in particular countries.

agrarian-mercantile system. Similarly, their magnitude may well have an important bearing on the emergence of a transition to a new growth epoch. For these reasons we investigate this issue of the magnitude of the productivity-stimulating effects in the next section in which we consider the long-run potential of the agrarian-mercantile economy.

#### 2.4 Growth-Promotion Forces and Long-Run Potential

Growth-promotion forces germane to the operation of the agrarian-mercantile system must be understood in terms of the circularity of the intersectoral flows, in particular, the agricultural surplus,  $C_W$ , and the commercial services feedback,  $V$ , of Diagram 1. Higher agricultural productivity,  $p$ , leads to a larger agricultural surplus, thus contributing to both a larger service sector labor force,  $W$ , and the augmentation of that sector's capital stock,  $K$ . This latter leads, in turn, to the production and outflow of a larger volume of commercial services,  $V$ , which, as we have just seen, tend to enhance the productivity of agricultural labor. Thus, the basic growth-promotion forces center around the accumulation of commercial capital and the stimulus given to the farm sector by commercial activity.<sup>23</sup>

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<sup>23</sup>This possibility contrasts sharply with the insulation of agriculture in the traditional (feudalistic) agrarian economy described in Table I.

The above circularity, in the dynamic context, signifies a cumulative process of expansion through repeated interaction of a chain-reaction type between the two basic sectors. Such a cumulative process of gains in agricultural productivity and continuous expansion of the size of the service sector labor force will occur if the total stimulation given to agricultural productivity through the effects listed above is of sufficient magnitude. If this occurs, the stagnant agrarian economy may be transformed into a progressive one.

It is important, therefore, to understand the meaning of "sufficient magnitude." In the Classical tradition, for example, the conclusion about long-run growth potential of the agrarian system was pessimistic. In the traditional Ricardian prognosis, this long-run stagnation was associated with the impact of a second force, more growth-inhibitive in nature; namely, the expansion of total population,  $L$ , and the resultant pressure on land. In terms of the stimulants we have discussed, the Ricardian tradition implicitly suggests that the stimulation given to agricultural productivity gains will in the long-run fail to offset diminishing returns (traceable to land shortage). It is readily apparent, however, that the Classical prediction need not occur in principle and has indeed failed to be borne out by historical reality--witness the evidence from Western European countries.

It is intuitively obvious, however, that the rate of population growth may be so high as to neutralize the effect of the productivity stimulation given to agriculture by trade activities. The lesson we see here is that a full understanding of the long-run growth potential of the agrarian-mercantile system requires analysis of the quantitative aspect of the two interacting growth-promotion forces, involving the quantitative relationship between the stimulation given to agricultural productivity by trade and the counteracting population pressure. For satisfactory investigation of this basic issue in economic history we must resort to quantitative methodology.

## 2.5 Quantitative Formulation of Growth-Promotion Forces

We attack this quantitative aspect problem directly by constructing an economic model for this purpose. The model structure we employ is based on Diagram 1 and summarized in Table II. Consistent with our earlier discussion on the structural and functional characteristics of the agrarian-mercantile economy, there are four types of economic functions which must be performed, and for these behavioral

assumptions must be postulated. These functions are:<sup>24</sup> (i) variations in agricultural productivity,  $p$ , and labor allocation,  $\theta$ , (ii) production and allocation of output of commercial services,  $Q$ , (iii) stimulation of agricultural productivity by trade activities, and (iv) population growth.

These four types of economic functions are listed in Table III as row headings in the first four rows, while the pertinent behavioral assumptions are listed in the first column as "growth equations."<sup>25</sup>

In Row 1, the growth equation (1a) is merely a reproduction of equation (1.1) introduced above. In Row 2, with  $\bar{q}$  specified as fixed labor productivity in the service sector, we see from equation (2a) that total service sector output is  $Q = \bar{W}\bar{q}$ , which must equal the sum of the feedback to the agricultural sector,  $V$ , and investment ( $I = dK/dt$ ), as shown in Diagram 1. In addition, we assume a constant capital-labor ratio,  $\bar{b}$ , for the service sector, leading to assumption (2b). The implicit notion is that a fixed amount of capital is always combined with a typical service worker.<sup>26</sup>

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<sup>24</sup>We see that these economic functions are quite different from those given for the traditional agrarian economy in Table I.

<sup>25</sup>In all quantitative analysis in this book, we shall consistently use the notation  $\gamma_x = (dx/dt)/x$ , as the rate of growth of the time variable,  $x$ .

<sup>26</sup>By this assumption, we neglect the phenomenon of substitution between commercial capital and labor in the agrarian-mercantile economy.

From equations (2a, b) we can derive a number of deduced relations shown in Column 2. First, equation (2c), which is derived from 2b, shows that the increment in capital stock is proportional to the increment in labor. When equation (2c) is substituted in equation (2a), we readily obtain equation (2d). In this latter equation the magnitude,  $x = V/F$ , is the amount of trade services supplied per unit of farm labor. We refer to this magnitude as the stimulation factor because this magnitude is a measure of the commercial stimulant per unit of farm labor. We hypothesize that agricultural productivity (which is a magnitude measured in terms of output per unit of farm labor) is responsive to this stimulation factor.

In Row 3 we specify the most important behavioral assumption of agrarian-mercantilism, that relating to stimulation of agricultural production by the service sector. Equation 3 ( $dp/dt = \lambda x$ ) shows that our assumption is that incremental agricultural productivity is proportional to  $x$ , the stimulation factor, where the proportionality factor,  $\lambda$ , may be called the stimulation coefficient. It is obvious that this coefficient is of critical importance for the growth potential of mercantile-agrarian dualism. For this coefficient summarizes all the stimulation effects we have discussed above.

TABLE III

Growth of the Agrarian-Mercantile Economy

	GROWTH EQUATIONS 1	DEDUCED DYNAMIC RELATIONS 2	ECONOMIC INTERPRETATION 3
(1) Agriculture Surplus and Surplus Labor	1a) $p(1-\theta) = \bar{c} \dots$ where 1b) $\theta = W/L$ or ... $1-\theta = F/L$	1c) $\eta_p = \frac{\theta}{1-\theta}$ 1d) $\eta_\theta = \eta_p \bar{c} / (p-\bar{c}) \dots$ 1e) $\eta_w = \eta_\theta + \eta_L \dots$	farm productivity (p) and labor allocation ( $\theta$ )  population growth ( $\eta_L$ ), growth of service labor ( $\eta_w$ ), and $\eta_\theta$
(2) Production & Allocation of Service Output	2a) $W\bar{q} = V + dK/dt \dots$ 2b) $W\bar{b} = K \dots$	2c) $dK/dt = \bar{b}dW/dt \dots$ 2d) $\bar{q} = x(1-\theta) / \theta + \bar{b}\eta_w$ where 2e) $x = V/F \dots$	allocation of service output ( $W\bar{q}$ ) demand for capital (K)  x is stimulation factor (trade service per unit farmer)
(3) Stimulation of Agriculture	3) $dp/dt = \lambda x \dots$	3b) $x = \eta_p (p/\lambda) \dots$	$\lambda$ is stimulation coefficient
(4) Population Expansion	4) $\eta_L = \bar{r} \dots$		$\bar{r}$ is population growth rate
(5) Growth Determination	5a) $\eta_p = f(p)$ 5b) $f(p) =$	where $\dots$ $A(p/\bar{c} - 1)(p/\lambda + \bar{b})$ ; $A =$	Basic Growth Equation $\bar{q} - \bar{b}\bar{r}$

<sup>1</sup>By 2abc and 1b

<sup>2</sup>Proof:  $\bar{q} = x(1-\theta) / \theta + \bar{b} (\eta_\theta + \bar{r}) \dots$  by (2d), (1e), (4)  
 $\bar{q} = (p/\lambda)\eta_\theta + \bar{b} (\eta_\theta + \bar{r}) \dots$  by (3b), (1c)  
 $\bar{q} = \bar{b}\bar{r} + \eta_\theta (p/\lambda + \bar{b})$   
 $\bar{q} = \bar{b}\bar{r} + \eta_p \frac{\theta(p/\lambda + \bar{b})}{(p/\bar{c} - 1)} \dots$  by (1d)

This implies the basic growth equation (5).

Finally, in Row 4, we specify that population is growing at a constant rate ( $\dot{n}_L = \bar{r}$ ), signifying constant population pressure in the agrarian system. In this way we have introduced six crucial behavioral assumptions (equations 1a, b, 2ab, 3, and 4) listed in the first four rows of Column 1. The model structure is completed and the economic interpretations of the equations and concepts associated with them are given in Column 3. The long-run growth potential of the system amounts to an examination of properties which can be deduced from the operation of such a system.

From the growth equations just introduced in Column 1, certain dynamic equations, shown in Column 2, can be readily deduced. With the aid of these deduced equations, we show that the system is dynamically determined by equation (5a) in Row 5. This equation--labelled the basic equation--is repeated here:<sup>27</sup>

$$5a) \dot{p} = f(p) \quad \text{where}$$

$$5b) f(p) = A(p/c - 1)/(p/\lambda + \bar{b}) \text{ and } A = \bar{q} - \bar{b}r$$

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<sup>27</sup> Derivation of this equation is given in footnote 2 at the bottom of Table II.

This basic equation shows that the growth rate of agricultural productivity ( $\eta_p$ ) is determined by (i.e., is a function of)  $p$  since all the other expressions in  $f(p)$ , i.e.,  $\bar{c}$ ,  $\lambda$ ,  $\bar{b}$ ,  $\bar{q}$ , and  $r$ , are constants. The growth potential of the agrarian-mercantile economy can thus be investigated primarily in terms of properties of this basic growth equation.

We see from this equation (5a, b) that when  $p \geq \bar{c}$ , the set of necessary and sufficient conditions for "progress" (i.e., for a positive  $\eta_p$ ) are given by:

$$6a) \quad p > \bar{c}$$

$$b) \quad A > 0 \text{ or } r < \bar{q}/\bar{b}$$

The first condition states that agricultural labor's productivity,  $p$ , must exceed the consumption standard,  $\bar{c}$ , if an agricultural surplus and surplus labor are to emerge.<sup>28</sup> The second condition states that population pressure must be less than the productivity of capital,  $\bar{q}/\bar{b}$ , in the service sector.<sup>29</sup> Both conditions must be satisfied to sustain even

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<sup>28</sup>In particular, this condition must be fulfilled initially, i.e.,  $p(0) > \bar{c}$ , which will be assumed here.

<sup>29</sup>Equation (6b) can be rewritten as  $\bar{r} < 1/(\bar{b}/\bar{q})$  where  $(\bar{b}/\bar{q})$  is the capital-output ratio. Thus, large service sector productivity,  $\bar{q}$ , and/or low capital requirements per head in the service sector,  $\bar{b}$ , will contribute to the fulfillment of 6b and, hence, to progress.

slow gains in agricultural productivity. To state these conditions in another way, agrarian economies may remain stagnant for two reasons. Agricultural productivity may be so low that nonagricultural activity never arises or commercial activities are too costly in terms of the capital requirements of trade. The latter may be caused, for example, by prohibitive terrain or excessive distances. To conclude, forces either preventing the rise of agricultural productivity or those obstructing the evolution of trade are construed as the nub of agrarian stagnation.

Assuming that these conditions (6a, b) are fulfilled, the rate of increase of agricultural productivity,  $p$ , in the long-run, will settle at long-run stationary values given by:<sup>30</sup>

$$6c) A\lambda/\bar{c} = (\lambda/\bar{c})(\bar{q} - \bar{br})$$

the magnitude of which is seen to be a compounding of two factors. On the one hand, the factor  $(\bar{q} - \bar{br})$  summarizes the population-capital productivity race exemplified in equation (6b). On the other hand, another factor is associated with the stimulation coefficient,  $\lambda$ , which governs the rapidity of progress in the agrarian economy.<sup>31</sup>

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<sup>30</sup> Readily seen from equation (5b) by letting  $p$  approach infinity.

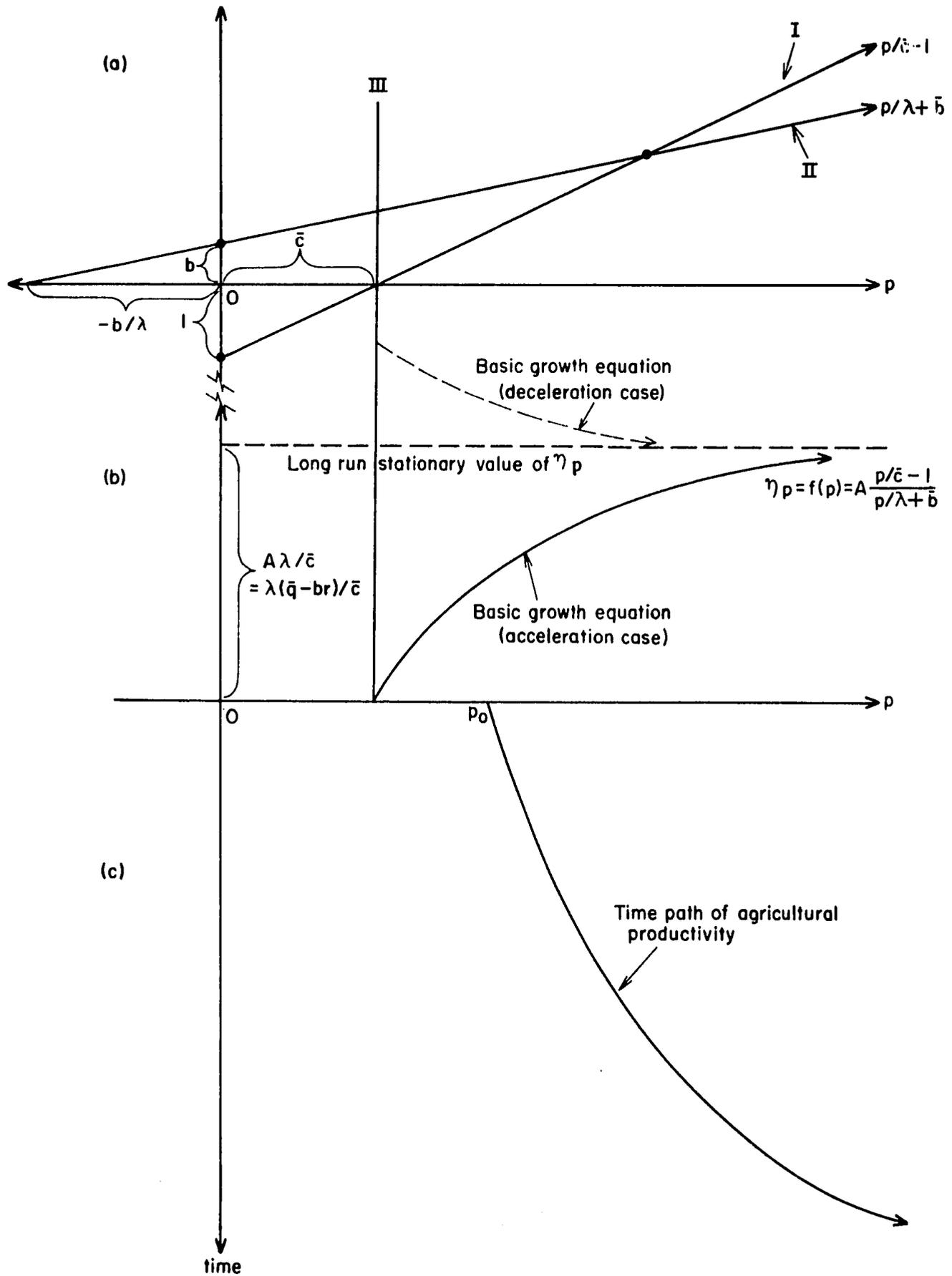
<sup>31</sup> A small value for  $\bar{c}$ , i. e., relative austerity, will also help.

These conclusions, we believe, are corroborated by the historical records of agrarian-mercantile societies. Over long stretches of time, measured in centuries, established agrarian societies, penetrated by trade, have registered persistent but barely perceptible gains in agricultural productivity and a consequent slowly expanding service sector. The rate of economic expansion is slow indeed, perhaps amounting to only a few percentage points per century, thus markedly different from the more dynamic characteristics exhibited during the agricultural revolution of the modern growth epoch. Underlying this difference is the fact that the agricultural economy in the latter epoch was penetrated by industrial forces, a new departure we emphasize in later chapters. Nevertheless, the slow and persistent gains were generally realized in the great agrarian-mercantile societies of history, both in Western Europe and in the 2000 years prior to the nineteenth century during which this epoch held sway in China. The picture is not one of a completely stagnant system, showing constancy of population, productivity, and capital stock as the early economists were led to believe.<sup>32</sup>

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<sup>32</sup>Such "Classical" stagnation is possible and can be demonstrated in the framework of our model of Table III by imagining that the conditions of (6a, b) are not satisfied. In this case, the economy would show

Diagram 2: Growth Potential:  
Agrarian-Mercantile Economy



With the use of Diagram 2 we briefly discuss the transitional characteristic of growth in the agrarian-mercantile system as a process leading to the long-run state of constant, slow growth. In Diagram 2b the value of the function  $f(p)$  of the basic growth equation (5) is plotted on the vertical axis against agricultural productivity,  $p$ , measured on the horizontal axis. The resulting curve approaches asymptotically its long-run values marked off in the vertical axis by either increasing trend (the acceleration case) or decreasing trend (the deceleration case).<sup>33</sup>

The implied time path of  $p$ --given in the lower deck of the diagram (Diagram 2c)--increases against time (measured on the vertical axis

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<sup>32</sup>(Continued) retrogression, with the resulting persistent decline in agricultural productivity,  $p$ , not only eliminating (or preventing emergence of) the service sector but also eventually dampening the population growth rate on nutritional grounds--in the fashion of the Classical "Iron Law." This Classical thesis, however, now appears to be irrelevant to understanding the growth performance of major civilizations, applicable, if at all, to only a few tribal economies such as the Australian aborigines.

<sup>33</sup>The upper deck (Diagram 2a) of Diagram 2 is constructed to show how the function  $f(p)$  in the middle deck can be derived geometrically. The two straight lines--labelled I and II--correspond to the two terms in equation (5b) and the respective terms are shown. The values of the function  $f(p)$  are the ratios of the height of these curves multiplied by the constant factor  $A$ . The fulfillment of condition (6a) initially restricts the diagram to the right of the vertical line III with  $p = \bar{c}$ . The fulfillment of the condition (6b) means that the  $f(p)$  curve in Diagram 2b has positive values.

pointing downward) to infinity, approaching a constant growth rate (equation 6c) in the long run.<sup>34</sup>

## 2.6 The Broader Historical Perspective

Agrarian-mercantilism is a growth epoch found in the history of almost all contemporary societies. In Western Europe this epoch was terminated by the emergence of industrial capital. In those parts of the world with a colonial heritage, the epoch was abruptly interrupted by the imposition of the colonial growth epoch, which we investigate in the next section. In both cases, the agrarian-mercantile epoch, to varying degrees, prepared the way for and helped to usher in the new epoch.

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<sup>34</sup>A word may be added on the usefulness of this transitional analysis versus the long-run stationary analysis. Transitional analysis will be enlightening if the long growth epoch of agrarian-mercantilism can be divided into several phases, each characterized by different parameter values (e.g., differences in the values of  $\bar{c}$ ,  $\lambda$ ,  $\bar{b}$ ,  $\bar{g}$ ,  $\bar{r}$ ). Transitional analysis would then give us a clear picture of the movement of one phase into another. We neglect this more refined approach because we still lack inductive evidence for classifying the epoch into phases.

Most significant for understanding the transition to the colonial epoch is the extent to which mercantile forces penetrated the traditional agrarian economy. This aspect, in our judgment, is a primary criterion for classifying societies into different types of colonial regimes.<sup>35</sup> This predilection, of course, stems from our emphasis, in the above analysis, upon the extent of modernization brought to the agricultural sector through intersectoral relationships.<sup>36</sup> In the present section, the form of contact is exclusively a matter of agrarian-mercantile interaction. It is of utmost importance for analytical purposes that this form of contact be sharply differentiated from the agrarian-industrial interaction which appears at a later stage in the historical process of development. In most contemporary less developed countries this new type of industrial influence upon the agrarian economy is a recent phenomenon, more or less coinciding with political decolonization.

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<sup>35</sup>In such classification, the inductive cases represented by China, the Philippines, and Indonesia, for example, would show significant differences.

<sup>36</sup>This emphasis is also found in the modern "contact" approach to agricultural development, represented, for example, by Theodore Schultz and the Vanderbilt school (William Nichols, Anthony Tang, Yhi-Min Ho, and others).

### **3. THE COLONIAL GROWTH EPOCH**

#### **3.1 Transition into Colonialism**

In less-developed countries with a colonial heritage--and this is an almost universal feature of contemporary less-developed countries--the closed agrarian-mercantile system was transformed into open dualism as a result of penetration by a new economic agent, namely, the foreigner. The foreigner assumed an increasing variety of economic functions as this penetration process proceeded. Typically, he first appeared as a trader, instrumental in the creation of a new export production sector in the agrarian-mercantile society. This new sector generally involved the exploitation of a cheap labor supply and/or specific ecological factors or geographically-specific raw materials, in the form of fibers, food, or minerals. Eventually, the role of the foreigner shifted from that of trader to that of production entrepreneur, servicing or actually directing and managing the production activity in the export sector. At this later stage, the economic functions performed by the foreigner included not only export-related trading services (shipping, financing, warehousing, and marketing in foreign markets) but also entrepreneurial functions related to production of exported goods (labor management, accumulation of real capital, and introduction

of new production techniques). In the final stage of expansion, the role of foreigner frequently moved into the political as colonizer in order to maintain the necessary minimum levels of political and social stability as well as administrative efficiency. The government functions thus assumed typically included the provision of social overhead investment (e.g., road construction, health facilities, ports and urban development). The enlargement of the foreigner's role, the extent of which varied from case to case, was guided by one primary motive, the enhancement and protection of export-related profits.

The transition from (closed) agrarian-mercantilism to the colonial growth epoch, thus, involved an evolution in the role of foreigners from trader, to production entrepreneur, and finally to colonizer. Contemporary less-developed countries, of course, exhibit different variants in this progression, as well as different final states in the evolutionary pattern. Countries such as Thailand and China never completely reached the last stage and, for this reason, the colonization of the society formally involved only the economic sphere. Most of the countries in South and Southeast Asia (the Philippines, Taiwan, Indonesia, Burma, Vietnam, India, for example) did complete the evolution, possessing a full-fledged history of colonization.

When foreign economic penetration halted at the trade level, the change of the traditional economy's production structure was moderate. Since penetration involved only foreign trade activity, the economy retained its homogeneous agrarian production structure. By contrast, more extensive economic penetration frequently involved the introduction of new industrial production activities in the colonies for the first time, resulting in a more differentiated production structure. In Southeast Asia, Thailand exemplifies trade-level penetration, in her case reflected in the emphasis on rice exports. Indonesia's colonial pattern was of the more extensive type, characterized by the export of a wide range of new products, introduced by the very process of colonization.

Thus, we see that penetration of a traditional agrarian-mercantile society by colonial forces may produce different subtypes of colonial economies within the general grouping encompassing the colonial growth epoch, the differences depending upon the extent of political and economic penetration. Based on the distinction in the extent of economic penetration made above and to facilitate our discussion, we distinguish two types of colonial models: (1) a model based on the monomorphic characteristic of the production sector, and (2) a model based on the multiple (differentiated) characteristic of the production sector.

The distinguishing characteristic of the first model (the monomorphic production sector model) is that export production continued to emphasize traditional, labor-intensive methods applied to an indigenous crop--rice being one important historical example. In the second model (the multiple production sector model), export production was associated with capital-intensive methods introduced from abroad. Most commonly these were applied to products which were also implanted from abroad--rubber and sugar representing two important examples in colonial history. Exploitation of mineral, rather than agricultural, resources for export (e.g., tin and petroleum) may be considered as a variant of this second case. Let us proceed to describe, in turn, the mode of operation of these two types of colonial economies, concentrating on the outline of their operation and their essential economic functions.

### 3.2 Structural and Functional Outline of the Monomorphic Economy

From a historical perspective, the colonial growth epoch is a rather abrupt interruption of the agrarian-mercantile epoch. We have seen in the last section that the distinguishing feature of agrarian-mercantile economy is dualism, reflected in the coexistence of the agricultural production sector and the service sector. While the output

of the economy was predominantly agricultural goods, the service sector evolved to facilitate interregional trading of these goods. This dualism was the foundation inherited by the subsequent colonial regime. This heritage of the agrarian-mercantile system left an urban-rural dichotomy and the associated tradition of allocating the total population into two major categories, farmers and service sector labor. The immediate purpose of incipient colonialism was the conversion of this earlier dualism into a new system, dedicated to the accumulation of commercial profit through foreign trade.

To analyze the nature and growth characteristics of the resulting colonial economy, we may first identify three major sectors whose interrelationship describes the functioning of the system. As shown by the circles in Diagram 3, these key sectors are: (1) the traditional agricultural sector; (2) the commercial services sector, labelled as the enclave; and (3) the foreign sector. For the monomorphic production model, the traditional agricultural sector represents labor-intensive modes of production, concentrated on the production and export of food and other traditional products. The commercial service sector is oriented toward serving these export activities; it provides the services required for mobilizing and marketing export products. The foreign sector represents the foreign source of the domestic economy's trade and investment relationships.

Since the economic function of the service sector is associated with foreign trade, it is labelled as the economic enclave in Diagram 3. This enclave service sector plays the important role of moving the monomorphic economy's exports abroad. Its specific functions included collecting, local processing, and marketing the products abroad, all essentially of the middleman type.

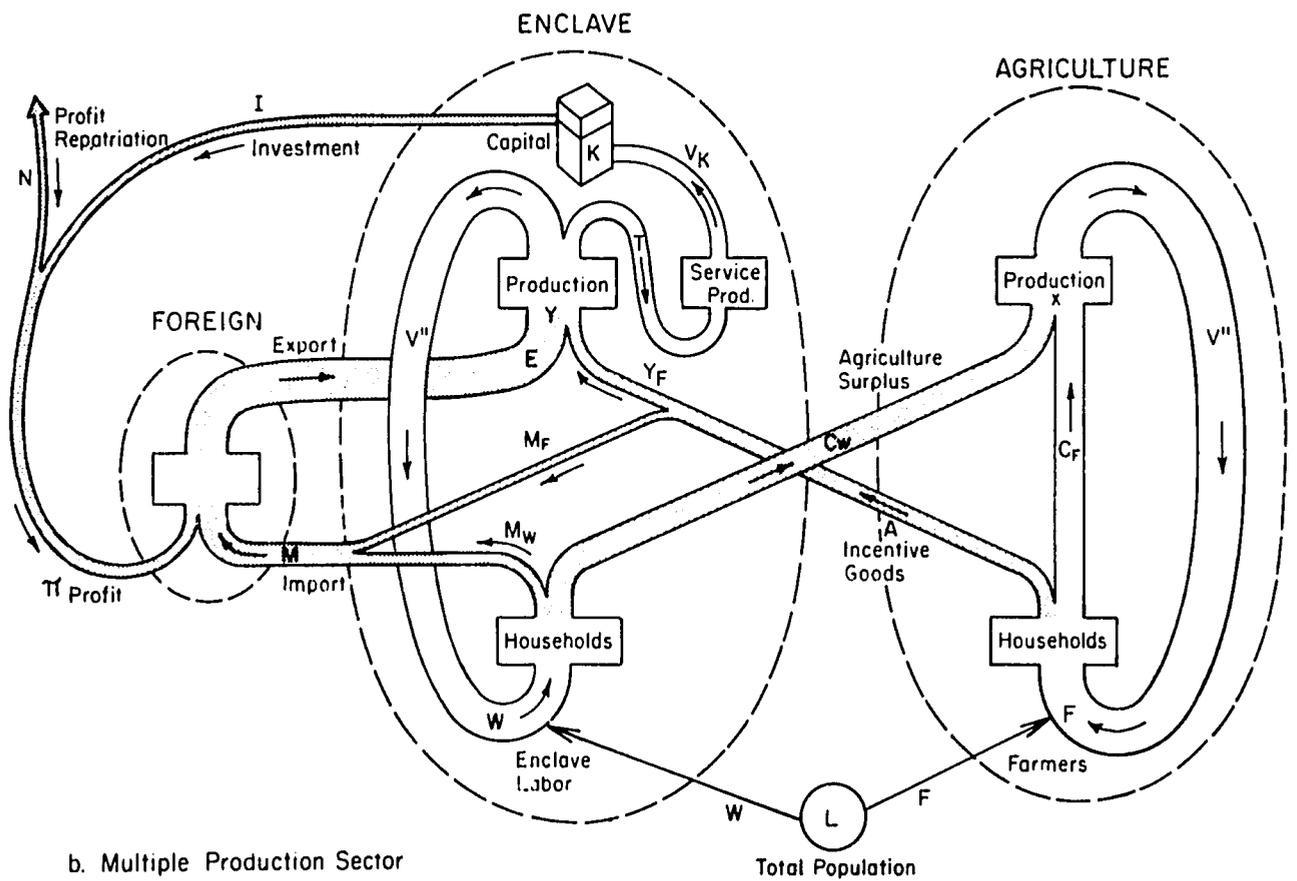
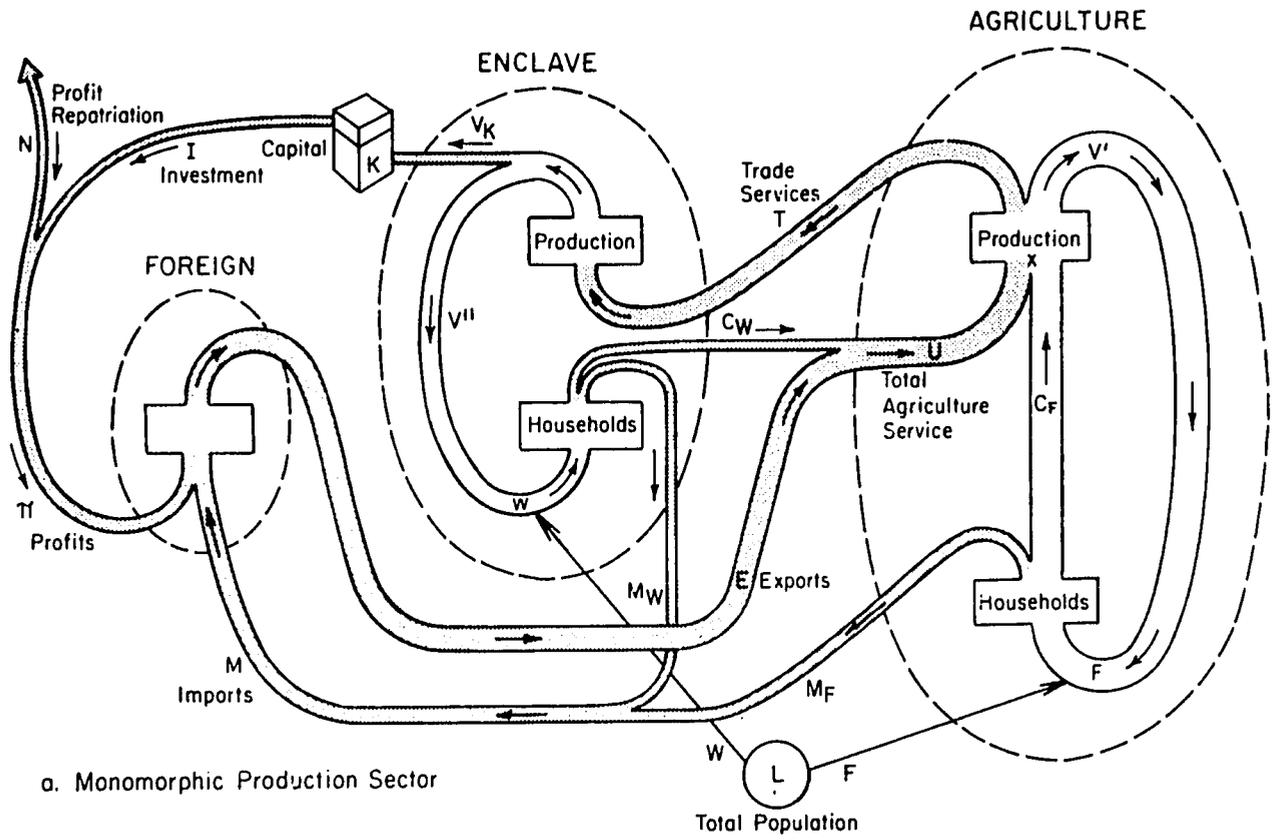
To describe the operation of this economy, we trace (with the aid of Diagram 3a) the flows of commodities, primary factors and finance (savings and investment) among the three key sectors.<sup>1</sup> Notice that the agricultural sector and the service sector each have two subsectors of activity--the top, in each case, representing production activities and the bottom representing income disposition by households. Together with the foreign sector, there are thus five junctures among which economic flows can occur.

Beginning with agricultural production, the dominant part of productive activity, we see two principal components of agricultural

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<sup>1</sup> In Diagram 3a, b, the direction of the arrows represents the direction of the flow of monetary payments. The direction of flows of real resources is, by implication, in the opposite direction. (In Diagram 1, by contrast, the arrows indicate the direction of real flows.)

Diagram 3: The Colonial Economy



output: consumption demand by agricultural households,  $C_F$ , and the agricultural surplus,  $U$ . This surplus is used partly to sustain labor in the service sector,  $C_W$ , and partly as agricultural exports,  $E$ . It is through this latter use of the agricultural surplus that a new phenomenon, production for exports, was introduced into the agricultural sector. The economy, for the first time, breaks its traditional self-sufficient, closed pattern. The era of a new kind of production specialization, characteristic of the open economy, is ushered in through this introduction of international trade.

This opening up of the traditional agrarian-mercantile economy also brings certain basic changes in the organizational aspects of agricultural production. As viewed from the input (value added) side, one part of agricultural production receipts,  $X$ , is now spent to purchase the "output" of services,  $T$ , produced by the enclave service sector. In fact, the basic significance of the enclave is precisely the supplying of these export-related commercial services. Since its output is essentially an intermediary productive factor, expansion of the enclave depends on the growth of demand for agricultural exports.

Another part of agricultural producers' receipts is paid to the agricultural households in return for supplies of primary factors of production,  $V'$ , of the traditional variety, the more familiar labor

services,  $F$ . This, in turn, represents income to the agricultural households, spent either as payments for consumption of agricultural goods,  $C_F$ , or imports,  $M_F$ . Notice that under our assumption of a monomorphic production structure, the farmers' consumption demand for products other than food must be satisfied by imports. These imported commodities typically represent basic consumable necessities--textiles, kerosene, soap, matches, etc.--for which even a modestly industrialized foreign country will enjoy considerable comparative advantage over local handicrafts.

Let us next examine the nature of the trade services,  $T$ , produced by the enclave. Production of  $T$  requires inputs of two types, labor,  $W$ , and the services,  $V_K$ , of capital stock,  $K$ . In this latter service,  $V_K$ , we see a basic factor distinguishing the colonial economy from the preceding agrarian-mercantile epoch. The content, purpose, and the nature of control of capital stock all show sharp differences between the two epochs. In the colonial economy, in addition to liquid commercial capital (inventories)--which we saw in the agrarian-mercantile economy--the content of capital stock,  $K$ , took the form of fixed capital (e.g., shipping facilities, warehouses, and commercial buildings). Its purpose was explicitly the promotion of foreign trade, and its control rested in the hands of foreigners, interested primarily in its augmentation for commercial export profits.

The income of the service sector households,  $V''$ , is spent for both agricultural consumption goods (food),  $C_W$ , and imports,  $M_W$ . Service sector imports are essentially those appropriate to the evolving urban sector consumption standards. Important in this regard was the consumption demand of the new enclave class of economic agents, foreigners and their local associates, for imported goods of a conspicuous consumption or luxury nature.<sup>2</sup> The demonstration effect thus set in force was the major stimulant to an expanding consumption horizon of the people located in the colonial enclave.

Finally, in the foreign sector, we see recorded total exports,  $E$ , imports ( $M = M_F + M_W$ ), and an export surplus,  $\pi$ , equal to the difference between exports and imports. The export surplus,  $\pi$ , originates from utilization of the capital stock,  $K$ , in the enclave. In a given year, as we show below, this export surplus is, in fact, equal in magnitude to the valuation of the capital services,  $V_K$ , as an input into the service sector's production. In essence, therefore, colonialism operated to convert profits into the special form of foreign exchange earnings through international trade. This conversion of profits into a special form

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<sup>2</sup>Jonathan V. Levin speaks of this group as "luxury importers." See Jonathan V. Levin, The Export Economies (Cambridge, Mass.: Harvard University Press, 1960), pp. 177-179.

constitutes a basic structural feature of colonialism, allowing two options for disposition of profits, reinvestment,  $I (= dK/dt)$ , to augment the enclave's capital stock, or profit repatriation,  $N$ .

An analytical approach to the operation of the colonial system involves investigation of the economic significance of the intersectoral economic flows; i.e., the shaded pipes in Diagram 3a. These intersectoral flows may be viewed as reflecting three distinct economic functions, each explained in terms of the inflow and outflow relationships for the three circles (sectors) of activities, separately. Postulating that for each circle total inflows must equal total outflows, and discussing real rather than monetary flows, we may summarize these relationships as follows:

(i) Viewed from the Agriculture Sector. The agricultural surplus ( $U = C_W + E$ ) is a direct contribution by the agricultural sector to the potential profits of the colonial trader in the enclave.<sup>3</sup> From the viewpoint of the enclave, the total "cost" of this contribution is  $(T + M)$ :

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<sup>3</sup> Notice that  $U$  represents an outflow of real resources from the agricultural sector. In Diagram 3a, this is shown as an influx of monetary payments for the acquisition of the real resources.

i. e., the commercial services and import goods feedbacks into the agricultural sector. Thus:

$$(i) C_W + E = T + M_F \quad (\text{or } M_F = C_W + E - T)$$

(ii) Viewed from the Enclave Sector. The net real outflow is T, commercial services, the total cost of which is  $(V_K + C_W + M_W)$ ; i. e., capital services, consumption of food and imports. Thus:

$$(ii) T = V_K + C_W + M_W \quad (\text{or } M_W = T - V_K - C_W)$$

(iii) Viewed from the Foreign Sector. The profits,  $\pi$ , (i. e.,  $E - M$ ), generated by foreign trade may be either repatriated, N, or reinvested, I. Thus:

$$(iii) I + N = E - M = \pi$$

When equations (i) and (ii) are substituted into equation (iii), we have  $\pi = I + N = V_K$ , which shows that the origin of profits,  $\pi$ , is the use of capital services,  $V_K$ , and that the disposition of profits can lead to investment or profit repatriation. The intersectoral flows of goods and services, just described, are merely means to achieve these basic social goals of the colonial system; i. e., accumulation of commercial capital through international trade.

The diagram emphasizes the asymmetrical structure of relationships among the sectors. From the production aspect, we see that the service sector is dependent upon export demand for agricultural goods. From the viewpoint of profit generation, it is apparent that the economy's entire profit or savings fund accrues to the foreign operators of the colonial service sector, which caters to export trade. Hence, expansion or contraction of the system through time depends entirely upon the state of demand for colonial exports.

### 3.3 Growth-Promotion Forces

To analyze the dynamics of growth in the monomorphic production economy, it is useful to distinguish two phases in the economy's life cycle, a stagnant phase and an active phase, depending upon the state of export demand. The key to this analysis lies in the different disposition of profits in the two phases.

#### Stagnant Phase

Growth of the monomorphic economy, is dominated by conditions prevailing in the export market. The primary characteristic of the stagnant phase is that the export demand (E) continues at a constant level. Since the productive capacity of the service sector, T, is directly

linked to export supply (E), there is no need to expand the capacity of the service sector through reinvestment of the sector's profits,  $\pi$ .

Since profits,  $\pi$ , generated in the service sector accrue mainly to foreign entrepreneurs, and there are no profitable investment outlets within the economy during this phase, profits flow abroad and even capital repatriation, N, may occur. This is made possible by the existence of an export surplus (E - M), which corresponds to profits.

From the viewpoint of the less-developed economy, a major disadvantage of this colonial-type arrangement is the absence of a direct link between the domestically generated savings fund and expansion of productive capacity within the economy. Indeed, when export demand is not growing, the savings fund generated automatically flows outward to finance real capital accumulation in the metropolitan country.

### The Active Phase

The growth dynamics of a monomorphic, export-oriented economy, as we have seen, are responsive only to external stimuli. If the economy's output is to change or grow, through the introduction of new techniques, for example, the impetus must come from abroad. Entrepreneurship is a function reserved to foreigners and their indigenous associates, and a main function of entrepreneurship is to perceive and act upon new growth stimuli emerging from abroad.

The active phase is begun by an increase or an anticipated increase in export demand for the product of the monomorphic production sector. In expectation of increased profits, the service sector--the only source of domestic saving--begins to undertake new investment in this sector. This occurs as this sector begins to shift profits to finance domestic investment,  $I$ , rather than repatriating them,  $N$ , to the metropolitan country, as in the stagnant phase.

Since profits were previously matched by the export surplus, there is no balance of payments problem even if all investment expenditures require foreign exchange. In the case where new investment does not exceed profits, therefore, the previous export surplus is adequate to provide both the savings and foreign exchange requirements of investment. Where new investment demand exceeds the current profits of the service sector, new foreign capital is brought in by the foreign entrepreneurs who operate the service sector. Thus, the operation of the colonial system required the existence of rather free international markets for trade, foreign exchange, and capital--as they were glorified in classical international trade theory.

The result of this new domestic investment activity is the expansion of export capacity. This means, first, an expansion of the export-servicing capabilities of capital stock,  $K$ , within the service

sector itself. Additional facilities required for handling a greater volume of the export product are developed, taking the form, for example, of more (or better) rice mills, new roads or railroads, additional transport equipment as well as more clerks and an increased supply of commercial capital. Secondly, the service sector takes the initiative in expanding productive capacity in the monomorphic agricultural sector itself. This comes about, for example, through investment to increase the supply of land by building irrigation facilities, forest clearing, and drainage operations. Given the pressure of population on previously utilized land, surplus labor moves on to the "new" land to expand output of the export crop. In this way a horizontal process of expansion resulted as the foreign mercantile forces penetrated ever deeper into the hinterland and eventually the interior in response to growing foreign demand.

Eventually, the growing supply of exports meets the new demand and the volume of exports levels off at the new, higher rate. New investment is no longer needed and if foreign investment was occurring in this phase, it returns to zero. Equally significant, profits accruing to the service sector are again transferred abroad as the export surplus reappears in the balance of payments. With this change, the economy returns to the stagnant phase.

We now inquire into the long-run growth characteristics of the monomorphic type of colonial economy, whose life-cycle alternates between these stagnant and active phases. In the long-run perspective, it might appear that this pattern of growth offers some advantages to the colony by introducing modernization into the previously slow growth dynamics of agrarian mercantilism. In the new colonial growth epoch, foreigners performed a complete package of new functions, indispensable to growth and yet quite alien to domestic economic agents. Foreigners provided the entrepreneurship to respond to foreign demand changes; they drew upon their own channels for savings and foreign exchange to accomplish investment. Foreigners also provided management of the service sector, skilled labor (through immigration or training), as well as marketing channels for exports.

In spite of these apparent advantages, however, the monomorphic economy exhibits a long-run trend toward stagnation. Superimposed upon this trend are periodic bursts of development activity restricted to the enclave sector, and responding to external stimuli. There was little opportunity for sustained improvement of indigenous human skills. The economy failed to generate a built-in forward thrust, manifested in continual expansion of production horizons and accompanied by technological change. Neither the quality of its labor force nor the

material agents with which labor worked were enhanced in the agricultural sector. Indeed, the so-called "modernization process," ushered in by colonialism, proceeding laterally, had failed to transform the indigenous economy and had not revolutionized economic life for the masses after 400 years of Dutch control in Indonesia and 200 years of British control in Malaya. Thus, this epoch can hardly be described as one of general economic progress. This glaring failure of colonialism as a vehicle for modernization will be treated more analytically in a later section (3.6).

#### 3.4 The Multiple Production Sector Economy: Structure and Operation

Not all colonial economies remained of the monomorphic production type, however. In many a new direction of change was introduced through differentiation of the structure of production. This phenomenon, referred to earlier as a multiple production structure, begins to occur when the colony undertakes production of new export products, employing new production methods--at the behest of the colonizers. Examples are abundant: rubber and oil palm in Malaya; rubber, oil palm, tobacco, coffee, and tea in Indonesia; and sugar and hemp in the Philippines. The evolution of the multiple production sector model was associated with two conditions. First, the commodities

produced tended to be natural-resource and labor-intensive, thus based upon a clear comparative (or absolute) production advantage in the colony. Second, because production was nontraditional in method, foreigners and their local associates typically assumed direct responsibility for the organization and management of production. In this type of colonial economy, therefore, foreigners supply not only trade services but also serve as production entrepreneurs.

We now turn to a brief outline of the operation of this type of colonial, characterized by a multiple production structure. In addition to the three production sectors of the monomorphic economy (Diagram 3a), therefore, this model includes a primary-producing export sector. Diagram 3b shows the outline of the multiple production sector economy. As in Diagram 3a, there are three circles in Diagram 3b to represent the three basic sectors, agriculture, enclave, and foreign--stressing the open-dualistic aspect, an omnipresent symptom of colonialism. The one important addition in Diagram 3b is the export production sector (or in contemporary terminology, the primary-producing export sector). We note that it emerges side-by-side in the enclave circle with the service sector. Both are under the control and management of the foreigner and his local associates, reflecting the expansion of the foreigner's role beyond those discussed for the monomorphic colonial economy.

The primary-producing export sector is unique in many ways. Its origin and basic stimulus are external to the domestic economy. This is seen from the fact that its output is directed mainly to the foreign market as exports, E. At the outset, the export sector is built up through the introduction of new, foreign production methods to exploit the economy's land resources. In this stage, the growth of the primary producing sector (exclusively owned and operated by foreigners) depends on the inflow of foreign factors of production; namely, the services, T, produced in the service subsector. Plantation agriculture (which is typical of this pattern), for example, required an inflow of foreign capital to introduce a new export commodity produced by large-scale, capital-intensive methods of production.

Because of the nature of production associated with the new products, the content of capital stock, K, also underwent a change. For now, capital stock includes not only trade-related inventories and fixed capital to accommodate trade but also fixed industrial capital, essential to production of the new export commodities. Frequently, capital inflow for production of the new products was accompanied by the inflow of human factors to provide managers, technical skills. These inflows of capital and managerial skills were used to employ and harness a domestic labor force, W, often supplemented, as in Southeast Asia by

immigration. Hence, we find the excitement characterizing a dynamic sector confined to primary-production for export and closely associated with the injection of all the critical factors from external sources.

In other respects, the outline of this colonial economy's operation is similar to the monomorphic type. Thus, in the multiple production sector model, the agricultural sector produces a surplus,  $C_W$ , to sustain the labor force,  $W$ , employed in the enclave. In return, the agricultural sector receives "incentive" goods,  $A$ , either imported,  $M_F$ , or manufactured domestically in the enclave,  $Y_F$ . In this model, too, the export surplus (profits),  $\pi$ , may be either re-invested,  $I$ , or repatriated,  $N$ , by the foreign entrepreneurs.

In both colonial economy models, intersectoral relationships between the enclave and the agricultural sector are given prominence. We note, however, that historical examples show considerable variation on this score. In some cases, the growth of domestic intersectoral relationships was impeded by colonial policies which encouraged integration between the enclave and the foreign sector. In several Southeast Asian colonies, labor for the enclave was recruited abroad rather than domestically, and in some, food supplies for the enclave came to be imported rather than grown domestically. In fact, China, Malaysia, Indonesia, and the Philippines emerged from colonialism with

a food deficit, largely accounted for by the demands of the enclave sector. These tendencies toward a sharpening contrast between the enclave and traditional agricultural sectors were basically a matter of colonial profit calculations. Where labor and food could be obtained from abroad more economically than at home, immigration and food imports were encouraged.

The growth dynamics of the multiple production sector economy are also very similar to the previous model. The economy's growth prospects were associated with foreign-dominated activity in the primary-producing sector. Attracted by profit opportunities on the world market, entrepreneurs developed the export production sector through inflows of foreign capital, complemented by foreign management, foreign technical skills, and, often, immigrant labor. During this early stage, the flows were exclusively inward. Eventually, however, exports were generated, and a period of rapid export growth ensued. New investment tapered off, although human flows frequently accelerated. An export surplus emerged, in the pure case, used to finance profit transfers on the original investment and foreign remittances by immigrant human factors. If, however, the export sector were to be expanded or if new export commodities were introduced, a part of the export surplus was used as re-investment to develop this key sector

further. This process, although enlarging the developmental resources available to the economy, either diverted these resources abroad or channeled them back to the dynamic enclave.

The colonial epoch, which succeeded the agrarian-mercantile epoch, typically evolved from the monomorphic to the multiple production sector type.<sup>4</sup> We have seen that both types shared certain basic characteristics. First, both represented export-dominated economies in which growth dynamics were dependent upon the foreign impact. Second, both were dualistic in nature, a large, stagnating subsistence sector coexisting with a small dynamic enclave. Third, both were essentially operated as colonial systems, in which the function of exports was to produce profits for disposition by alien entrepreneurs. The multiple production sector type, however, was a more advanced form of colonialism. Foreign capital inflows and alien personnel came to be used in capital-intensive production activities in the enclave sector, as well as to facilitate foreign trade (as in the monomorphic type of

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<sup>4</sup> There are, however, historical exceptions in which colonial economies remained basically monomorphic in type throughout the colonial era. In Southeast Asia, Burma and Thailand showed little diversification of exports, although in the latter political colonialism never became fully established. Other exceptions may be found among African countries where native products continued to dominate trade.

colonial economy). Advanced colonialism, as in Indonesia and Malaya, also meant a very substantial role for colonial, foreign-dominated governments in remolding native institutions to accommodate Western productive activity and frequently in the outright exercise of entrepreneurship.<sup>5</sup>

In assessing the historical significance of the colonial epoch from the viewpoint of growth, we raise two basic questions: First, we consider the question of colonialism's positive contribution in the epochal sense of introducing new dimensions into the slow-growth course of the agrarian-mercantile epoch. Second, we raise the question of the negative impact of colonialism, its impact in perpetuating long-run stagnation of the economy as a whole despite its introduction of some positive growth features. We discuss these questions in turn, deferring the second to Section 3.6.

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<sup>5</sup>See G. C. Allen and A. G. Donnithorne, Western Enterprise in Indonesia and Malaya (New York: The Macmillan Co., 1957), especially pp. 49-66.

### **3.5 Historical Significance of the Colonial Growth Epoch**

The colonial epoch's basic positive contribution was the introduction of modernization forces in the traditional agrarian-mercantile economy. These forces, emanating from Western Europe, and later from other developed countries, have been widely transmitted to underdeveloped countries in many forms since the origins of industrialism in Europe. In a long-run historical perspective, colonialism was one major vehicle for this transmission process, a process which largely involved introduction of modernizing forces by the developed mother countries into their colonies. In the long-run historical evolution of colonial countries, therefore, the colonial epoch offered contact with modernizing forces which transformed the social fabric and economies of these countries. In this evolution, colonialism provided a foundation upon which post-World War II growth and development could build. We discuss these positive contributions by distinguishing five aspects of the foundation laid during the colonial epoch: (1) differentiation of production structure, (2) spread effect, (3) the acquisition of skills through emulation, (4) the demonstration effect, and (5) the creation of an urban labor supply.

(1) Differentiation of production. The first and most basic contribution of the colonial epoch lies in the introduction of a new dimension in production activities of the modern industrial kind-- represented by the emergence of the export production sector in Diagram 3b. Plantation agriculture, mining, and even the export of new agricultural products produced by smallholders were associated with industrial processes transplanted from the advanced countries. Unlike traditional agricultural and trading activities, these modern industrial activities were new events, with no precedents in the agrarian-mercantile economy. The larger significance of these new events consisted of the introduction of fixed capital, K, for production, embodying new technologies and requiring a new class of economic agents, industrial entrepreneurs. This triad of new economic phenomena, fixed production capital, technological change associated with the application of new knowledge, and the production entrepreneur, helped to pave the way for the entry of colonial countries into the later epoch of modern economic growth. As we shall see, industrialization is a major prerequisite for the latter epoch, and, to the extent that industrial activities were introduced during the colonial epoch, the colonial epoch represented a preparatory stage for modern growth.

(2) Spread Effects. In our discussion of the colonial economy's operation, we have identified external orientation as a major growth promotion force, a force which tended to foster dualism between the enclave and agricultural sectors. However, as the colonial economy grows and develops, the inner logic of the growth process itself gradually weakens this external orientation. Almost imperceptibly, a tendency toward an internal orientation appears in the enclave, a tendency promoting the eventual spread of new industrial growth forces beyond the confines of the enclave. These forces begin to forge new links between the enclave and the backward agricultural sector, paving the way for their progressive integration.

The basic force behind this reversal in the colonial economy's orientation is the new phenomenon (emphasized above) of capital accumulation in the export production sector. The cumulative growth of real capital, accompanied by transformation of surplus manpower into an increasingly efficient and disciplined industrial labor force, operates to alter gradually the economy's comparative advantage position vis-a-vis the advanced, metropolitan countries. This underlying change leads to domestic industrial production for the local market so that the enclave will begin to produce (as shown in Diagram 3b) industrial substitutes for previous imports,  $Y_F$ , in addition to exports,  $E$ . The

cost of producing the consumers goods represented by this new production is now less than the cost of their imported counterparts. Colonial entrepreneurs encourage this substitution process because of their overriding interest in profits.<sup>6</sup>

The net effect of this basic change in the colonial economy is the gradual but steady erosion of the enclave sector's original export orientation to a new orientation toward the domestic market. This process, though embryonic, was clearly apparent in many colonial countries by the eve of World War II. In China, foreign enterprise in the coastal cities came to assume a dominant position in the supply of domestic textile goods. Similarly, in Indonesia, domestic output of consumer manufactures (e.g., textiles, soap, cigarettes) had achieved an important position in local markets by 1940. This shift was accompanied by conscious attempts on the part of the colonial government to expand the local market by promoting interregional trade.<sup>7</sup> This strengthening of the enclave sector's internal orientation and the spread effects associated with it laid the groundwork for the complete revamping of the colonial economy's growth promotion forces after independence was achieved in these countries.

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<sup>6</sup>Historically, the first significant thrust in this new inward orientation was frequently associated with declining prospects in the export markets. This was particularly apparent during the Great Depression of the 1930s.

<sup>7</sup>See Douglas S. Paauw, "From Colonial to Guided Economy," in R. McVey, Indonesia (New Haven: HRAF Press, 1963), pp. 161-162.

**(3) Acquisition of Skills. The dramatic changes in trading and production activities wrought through the presence of foreign enterprise had a profound effect upon the indigenous economic agents--traders, landlords, and nobility--emerging from the old agrarian-mercantilism. Although these agents may have shown initial resistance to foreign intrusion, eventually a significant number sought to emulate the values and performance of the foreign examples. Through learning-by-doing activities, often in conjunction with foreign economic activities, the local economic agents gradually acquired sufficient skills, first, to play an important subsidiary role, and eventually, to replace foreigners in essential economic functions of the colonial epoch.**

**Even in the monomorphic type of colonial economy, this dynamic aspect came into play as the service sector began to penetrate into the domestic economy. Local traders were employed for this purpose and introduced to new organizational methods, and local talent was recruited for education appropriate to the functions of the colonial society. Even the farmer, brought into contact with the market, learned the Western calculus of market cost and price relationships.**

**As colonialism shifted toward the multiple production sector type, the introduction of new products and new methods of production provided us greater opportunities for domestic emulation. As the**

primary-producing sector expanded, it produced a widening arc of commercialized agriculture around the fringes of the traditional agricultural sector. Increasingly, farmers were induced to produce for the domestic market as the economic advantages of producing for the market, rather than direct subsistence, became apparent. Domestic smallholder production of new products (e.g., sugar, rubber, and coffee in Southeast Asia) supplying either export middlemen or foreign processing firms eventually made significant inroads on the traditional economy. While these spread effects failed to spark massive change during the colonial period, they did provide opportunities for acquisition of market and production skills, which, in many cases, provided the basis for proceeding up the ladder to increasingly specialized and profitable roles. The impact on traditional sector mentality, by widening the farmer's perspective and his receptivity to innovations, assumes primary significance as a pre-condition for the agricultural revolution which must accompany modern economic growth.

While this process of emulative learning proceeded slowly in the agricultural sector, it showed greater tempo in the enclave where confrontation between the foreigner and domestic economic agents was more direct. An alliance between foreigners and local agents was inevitable. The foreigner found himself applying Western techniques in

an alien culture while the indigenous agent was subjected to the competition of obviously superior trading and production methods.<sup>8</sup>

The communication of skills to domestic agents was so effective that these alliances provided a major source of new domestic entrepreneurs when the shift to domestic industrial production emerged.<sup>9</sup> It should be noted that this emulation process extended well beyond the spheres of agricultural and industrial production. Equally important, it was clearly apparent in financial organization as well as in government administration. The basis for modern government in ex-colonial countries was laid in this accumulating experience in such critical functions as tax collection, civil service, police protection, and provision of public services. Where indigenous agents were most fully utilized for governmental functions, as in India and the Philippines, the transition to independent government was smoother than in countries where colonial policies severely limited indigenous roles, as in Indonesia and Malaya.

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<sup>8</sup> Mutual recognition of respective strengths and weaknesses led to these alliances in many colonial countries. It is exemplified in the "Taipen" (mai-pan) system in China, in which local merchants and landlords cooperated with foreigners to conduct colonial export trade. In Southeast Asia, similar arrangements were common. See Allen and Donnithorne, op. cit., Chapters 2 and 14.

<sup>9</sup> Allen and Donnithorne, op. cit., point to the substantial emergence of local enterprise, both in commerce and production, from Western indigenous contact. In Malaya and Indonesia, however, such local entrepreneurship was almost completely drawn from minority groups, especially Chinese.

(4) The Demonstration Effect. The growing penetration of foreigners into the domestic economy brought with it an array of exciting new commodities, increasingly accepted for consumption by the local population. This effect was felt most sharply in the urban centers where the foreign consumptive patterns, and the associated mode of living, had a ready and dramatic effect upon the indigenous agents so closely associated with the foreign community. The introduction of imported goods,  $M_W$ , into the enclave brought a rapidly expanding consumption horizon, producing an important incentive effect upon the local population. This was associated with a continuing tendency to believe in superior quality of imported goods which, while somewhat irrational, provided a stimulus to quality consciousness. The demonstration effect was not limited to these tangible consumption goods. Of equal importance, a sense of the essential accoutrements of modern urban society was also transmitted. Awareness of modern sanitation, recreational facilities, communications, and health standards gradually disrupted the traditional conservatism of the agrarian-mercantile system. In so doing, the demonstration effect laid the basis for evolution of modern urban centers, an indispensable concomitant of the transition to modern industrial growth.

The widening consumption horizon penetrated beyond the enclave sector. The intersectoral flows required for operation of the colonial economy led to introduction of imported consumer goods,  $M_F$ , and eventually domestic manufactures,  $Y_F$ , into the traditional agricultural sector. These goods proved to be an important inducement to commercialization of agriculture and the introduction of new products, discussed above.

(5) Urban labor supply. The development of new cultural centers in the cities, with their many attractions, in combination with the growing opportunities for employment, provided a strong stimulus for the reallocation of labor. Colonial cities became surrounded by a fringe of unemployed, migrants from the agricultural sector or immigrants from abroad. From the viewpoint of the operation of the colonial economy, these migrants provided a ready reservoir of cheap labor supply, available for urban employment. As this supply of unskilled labor was absorbed, training and discipline, backed by colonial authority, gradually produced a new labor class, attuned to the rigorous requirements of an industrial system. By the end of the colonial epoch, Southeast Asian countries possessed substantial numbers of trained laborers. New domestic entrepreneurs were blessed with the presence of readily available labor, already adjusted to an urban

environment. The process of reallocation of labor from agriculture-- involving the important attitudinal change of commitment--to urban centers had, by and large, become routine, a precedent essential to the rapid industrial expansion characteristic of modern economic growth.<sup>10</sup>

To summarize, the diversification associated with industrial production, the spread effects prompting an inward orientation, the upgrading of indigenous economic agents, the expanded consumption horizon induced by the demonstrative effect and the creation of a disciplined urban labor supply comprise the positive heritage left by the colonial epoch. None of these were major social or economic goals of colonialism, and they may appropriately be considered as that regime's by-products. Nevertheless, in inadvertently leaving these important prerequisites for further growth, the colonial epoch left a foundation from which modern economic growth could more easily be launched than from the agrarian-mercantile base of the preceding epoch. Understanding the transition to modern growth in particular countries after World War II, the major subject of our study, must take account of the extent to which these foundations were effectively laid during the colonial epoch.

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<sup>10</sup> That the changes in outlook and behavior required in this reallocation process are not trivial problems is eloquently demonstrated by the preoccupation of labor economists with these aspects of the economics of labor in developing countries.

### 3.6 The Causes of Long-run Stagnation

Despite these significant contributions to the colonial economy's prospects for successfully entering a new growth epoch, the long colonial-growth epoch itself was, nevertheless, a period of stagnation. In making this assessment, we recognize that economic progress was never completely absent. In China, for example, development under colonial influence (roughly 1800 to 1930) perhaps yielded more progress in the structure of production and the pattern of resource utilization than the agrarian-mercantile system produced in the preceding 2000 years (200 B.C. to 1800 A.D.). In Indonesia and Malaya, the transformation of primitive agrarian-mercantile economies into well organized colonial economies was even more striking.<sup>11</sup> The issue at stake, therefore, revolves about the pace and nature of economic progress. Colonial growth resembled the earlier progress of agrarian-mercantilism in its slow rate of growth of total output. In this respect, colonial growth performance is strikingly different from the rapid, general growth experienced by countries during the modern economic growth epoch.<sup>12</sup>

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<sup>11</sup>See Allen and Donnithorne, op. cit., pp. 264-265, for a brief account.

<sup>12</sup>We return, in a later chapter, to a discussion of this characteristic of modern economic growth.

When we refer to stagnation in the colonial epoch, therefore, it is to be understood that we have in mind the slow growth characterizing the economy as a whole. Our task in this section, therefore, is to examine the causes of sustained slow growth of the total colonial economy, in face of the considerable agitation toward progress emanating from the modernizing forces discussed in the previous section.

Economic historians and contemporary growth economists have cited a large number of obstacles to growth under colonial regimes. To facilitate orderly presentation, we classify the major obstacles by aspects associated with production, organizational and social factors.<sup>13</sup> In Table IV, these three aspects are listed as row headings in Column (1), each row representing one of the three aspects. In Column (2) we list (under "Colonial epoch characteristics") the major growth obstacles associated with each aspect. The negative attribute of these factors immediately suggests that basic changes must be achieved during the

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<sup>13</sup>We observe that these are precisely the factors we treated as background conditions in Table I.

TABLE IV

Colonial Stagnation Forces and Associated Decolonization Tasks

(1) Types of Stagnation Force		(2) Colonial Epoch Characteristics	(3) Subsequent Decolonization Tasks
PRODUCTION ASPECTS	Agriculture	<ol style="list-style-type: none"> <li>1. Insulation of agricultural production</li> <li>2. Joint subsistence-commercial farming</li> </ol>	<ol style="list-style-type: none"> <li>1. Industry-agriculture symbiosis</li> <li>2. Stabilization through diversification</li> </ol>
	Industry	<ol style="list-style-type: none"> <li>3. Intermittent, externally-oriented investment</li> <li>4. Risk-aversion investment behavior</li> </ol>	<ol style="list-style-type: none"> <li>3. Automatic, domestic investment of industrial profits</li> <li>4. Public sharing of investment risks</li> </ol>
ORGANIZATIONAL ASPECTS	Private	<ol style="list-style-type: none"> <li>1. Perpetuation of traditional agrarian power structure</li> <li>2. Atomistic organization of production</li> </ol>	<ol style="list-style-type: none"> <li>1. Land reform and commercialization</li> <li>2. Cooperative agricultural institution</li> </ol>
	Public	<ol style="list-style-type: none"> <li>3. Urban and trade-oriented civil service</li> <li>4. Indigenous leadership vacuum</li> </ol>	<ol style="list-style-type: none"> <li>3. Reform of administrative machinery and bureaucratic perspective</li> <li>4. Growth-oriented political elite</li> </ol>
SOCIAL ASPECTS		<ol style="list-style-type: none"> <li>1. Group separation</li> <li>2. Limited educational horizons</li> </ol>	<ol style="list-style-type: none"> <li>1. Political and cultural unification, encouraging nationalism and secularism</li> <li>2. Compulsory general education with development orientation</li> </ol>

decolonization process if a new growth epoch is to be begun.<sup>14</sup> In Column (3) we give brief descriptions of these tasks required to supply the growth ingredients absent during the colonial epoch.

### The Production Aspect

We now elaborate briefly on each of the characteristics of colonialism, listed in Table IV, which impeded economy-wide growth, thus contributing to a perpetration of slow growth. Beginning with the production aspect, we first mention the relative insulation of agricultural production, a condition implied by the very dualism between the enclave and the agricultural sector. We have seen that the growth significance of this dualism lies in the compartmentalized growth and the very different nature of growth-promotion forces in the two sectors. The implications for agricultural growth follow from the sector's isolation from the new growth forces operating in the enclave sector, so that agriculture continues to be influenced by the slow-growth mechanism of

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<sup>14</sup>We use the term "decolonization process" in a rather technical sense, involving a transition from the colonial growth-promotion forces to a new growth epoch. This transition requires the genesis of positive new growth-promotion forces, often associated in practice with dismantling of old institutions and their replacement by new forms. It is important to recognize that dismantling alone, a common error in less-developed countries, is likely to be more harmful than retention of colonial institutions.

agrarian-mercantilism (analyzed in Section 2.3).

In actual practice, the impact of colonialism on the growth of the agricultural sector was unlikely to be "neutral." The growing trade penetration associated with the growth of the enclave had definite detrimental effects upon traditional agrarian activities. These deleterious effects are well illustrated by the late Ch'ing dynasty experience in China when the highly developed agrarian-mercantile system was eroded by the expansion of enclave trade into the countryside. The positive forces exerted by traditional mercantilism in the agrarian sector, discussed earlier (see Table II in Section 2.3), were replaced by a trading system which weakened the traditional interaction between agrarian and mercantile activities. Rural village handicrafts capitulated rapidly in the face of competition of superior quality, low-priced foreign or enclave manufactures.<sup>15</sup> In their place, rural labor was diverted to the production of cash crops and thus became specialized in raw-material-specific, labor-intensive products. This two-pronged economic attack upon the traditional villages, and their insulation from the growth forces

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<sup>15</sup> This process, as it occurred in China, is eloquently described in R. H. Tawney's introduction to Institute of Pacific Relations, Agrarian China (London: George Allen and Unwin, Ltd., 1939), pp. xi-xviii, and in several of the contributions to this symposium.

associated with modern industrialism, led to the highly lamented "bankrupting" of these villages.<sup>16</sup> The elimination of the small handicraft industry and the specialized nature of new cash crop products contrived to deprive the rural sector of the stimuli resulting from contact between agricultural and commercial centers, so fundamental to the slow but steady agricultural progress characteristic of the agrarian-mercantile system. The efficiency benefits of production specialization, celebrated by neo-classical trade theory, failed to compensate for the disruption of the old channels by which agricultural growth was stimulated through physical contact with nonagricultural activity. These channels are particularly critical to the progress in agriculture, given the natural conservatism of farmers deriving from their spatial isolation.

The combination of reinforcing this natural insulation of agriculture and the export crops specialization induced by destruction of traditional subsidiary farm occupations through foreign competition produced a new phenomenon in the agrarian economy. Fluctuations of demand for the export crop, a familiar characteristic of colonial growth,

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<sup>16</sup>Ibid.

introduced a substantial additional element of uncertainty in agricultural production.<sup>17</sup> To compensate for the resulting instability of income, the farmer was forced to hedge by maintaining a subsistence and self-sufficient component in his production. With the absence of adequate credit systems, bufferstock or other stabilization devices and other forms of social insurance against uncertainty,<sup>18</sup> self-sufficiency of food through subsistence farming became an essential concomitant of cash-crop specialization. This joint subsistence-commercial mode of agricultural production remained a half-way house to fully capitalistic farming, between the more secure pattern of agrarian-mercantilism and the type of commercialized agriculture associated with modern economic growth.

The insulation of agricultural production associated with the specialized penetration of enclave activities and the consequent instability of farm income immediately suggest the correctives required in the decolonization process (shown in Column 3 of Table IV). Two fundamental

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<sup>17</sup>The "primary" effects of export fluctuations upon agriculture and their "secondary" effects upon the colonial economy as a whole are discussed in Jonathan V. Levin, op. cit., especially pp. 186-202.

<sup>18</sup>It is obvious that the central purpose of the colonial economic system was inconsistent with such measures to stabilize farm income. Stabilization schemes attempted during the colonial era were clearly aimed at protecting export profits rather than the original producers' income.

changes are required, the symbiosis of agricultural and industrial growth and agricultural diversification. Mutual growth of agriculture and industry involve the introduction of new industrial inputs into agriculture (e.g., fertilizer, pesticides, and industrial implements) and a rising participation of agricultural consumers in the consumption of domestic industrial products. This requires, among other things, the spatial diffusion of industrial activities beyond the enclave, to transmit new knowledge and the spirit of capitalistic enterprise to farmers as well as a fostering of a wide variety of relationships necessary to symbiotic growth. Diversification of agricultural activity is essential to offer opportunities for new employment and choice among alternative cash crops, allowing escape from the instability marking the colonial adjustment. Japanese experience, later followed by Taiwan, demonstrates the importance of these factors as well as the inter-relationship between growing diversification and symbiosis of agriculture and the evolving industrial sector.<sup>19</sup> As industrial entrepreneurs reached into the countryside in those countries to obtain products and labor, new

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<sup>19</sup>See W. W. Lockwood, The Economic Development of Japan (Princeton: Princeton University Press, 1954), pp. 93-100, for a description of what Lockwood terms the "close functional interdependence between extractive and non-extractive industries." For relevant Taiwan experience, see Yhi-Min Ho, The Agricultural Development of Taiwan (Nashville: Vanderbilt University Press, 1966), especially Chapter 10.

employment opportunities grew apace and channels through which new products and methods could be disseminated were widened. These joint forces are basic to the eventual transformation of agriculture on a scale comparable to the agricultural revolution, typically accompanying the transition to modern economic growth.

The second production aspect shown in Table IV concerns industry. Fundamental to understanding the colonial industrialization pattern is the nature of investment behavior. The first major feature of colonial investment behavior was its intermittent, externally-oriented character. Governed by profits associated with the state of foreign demand for export products, colonial investment was intermittent. Reinvestment of profits was not automatic since there was choice between reinvestment or repatriation. This discretionary nature of profit-reinvestment had several drawbacks from the viewpoint of long-run growth. It resulted in an "on again-off again" pattern, inconsistent with sustained momentum for cumulative growth. Its external orientation tended to confine investment to a narrow range of production--restricted to raw material-specific and labor-intensive fields of activity--complementing the industries in the mother country. This was enforced by resistance to the development of colonial industries competing with home production, frequently reflected in withholding tariff protection even when the infant industry argument applied in full force.

A second feature of colonial investment was its excessive risk aversion character. The very essence of modern economic growth is the application of new scientific knowledge to all fields of production, industrial and agricultural, as well as in social overhead facilities. The colonial emphasis upon maximizing profits for repatriation deprived the colony of a supply of venture capital, available for broad innovation. Colonial investment concentrated upon secure outlets in primary-producing activity, located mainly within the enclave, where foreign political control was secure. Infrastructure investment was confined to facilities directly required for the production and trading of these commodities, and social investment for the general uplift of the population was avoided. As a consequence, opportunities for the more experimental type of investment designed to raise productivity throughout the economy and for diversifying the economy's production were neglected. Colonial profit expectations from such venture investment were bound to be uncertain, and potential political threats were inherent in mass improvement programs. Thus, aversion to risk in use of investment funds embraced a non-experimental quality as well as resistance to social change.

The tasks appropriate to overcoming the colonial investment limitations during the decolonization stage are readily deducible. Two

maxims are suggested: automatic and internally-oriented investment behavior and public sharing of investment risks. The first maxim requires automatic reinvestment of profits, completely divorced from considerations of concern to a foreign country. To enforce this reorientation of investment behavior to internal criteria, policies such as protection, nationalization, confiscation, and investment incentives may be required. The second maxim requires governmental participation in assuming, or sharing, risks associated with long-gestation investment, particularly that of the social overhead and general social uplift types. Prominent in this regard are direct government participation in the investment process and public mobilization of savings for transfer to private entrepreneurs. A venturesome spirit may be required during decolonization to reverse the narrow investment outlook deriving from the colonial regime. Application of refined principles of allocation may indeed be secondary to "getting things done" as the government assumes a role in reversing the risk-aversion policies of the earlier era.

#### The Organizational Aspect

It is a truism to repeat that economy-wide organizational change is an essential concomitant of rapid economic growth. We mention this truism here to emphasize two areas in which organizational changes for

growth were conspicuously lacking during the colonial epoch. In the private sector, though organizations for growth were molded in the enclave, traditional agriculture was left relatively untouched. In the public sector, colonial organizational principles were, in the main, inconsistent with providing a political and administrative system consistent with economy-wide growth and development.

In the agrarian-mercantile system, farm organization continued to be largely a matter of traditional aristocratic control, with a gradual tendency toward sharing of control with the merchant class. This system of land control, marked by high agricultural rents and/or other remnants of feudal-type exactions upon cultivators, constitutes the basic bottleneck to agricultural development. It interferes both with the emergence of capitalistic agriculture and with group cooperation to discharge, collectively, certain functions critical to agricultural development. Agricultural progress requires this combination of individual initiative, with sensitivity to market forces, and group cooperation to overcome the problems inherent in the atomistic nature of agriculture. In early stages of agricultural development this latter cooperative-type organization has been an essential device to improve agricultural productivity--prior to the evolution of more formal economic

institutions to carry out these collective functions.<sup>20</sup> Such functions may include marketing, storage, processing (e.g., rice milling) and dissemination of new production techniques. Coalescence of farmers to carry out these important functions through voluntary associations is an effective way to overcome both the farmer's traditional conservatism and the monopsonistic power of mercantile collection systems. Almost universally colonial regimes formed such alliances with the traditional aristocracy, reinforcing their control over agricultural activities. Perpetuation and strengthening of the traditional agrarian power structure under colonialism, to assure supplies of food and labor for the enclave, presented serious obstacles to the evolution of new types of farm organization, commercial in outlook and collective in respect to discharging subsidiary farm functions.

These major colonial obstacles to improved agricultural organization point to two clear-cut remedies as early and strategic decolonization tasks. First, the traditional grasp over agriculture by landlord groups must be relaxed to encourage commercialized agriculture

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<sup>20</sup>In Taiwan the encouragement of such voluntary cooperation among farmers during the Japanese period is considered to have been a strategic factor in launching a long period of remarkable and steady growth of agricultural productivity. See Yhi-Min Ho, op. cit., p. 81.

of a capitalistic nature. Second, maximum encouragement must be given to voluntary associations of farmers dedicated to providing the collective functions essential to raising agricultural productivity. Thus, two familiar and popular slogans are, indeed, appropriate: land-reform and cooperative associations.

The public organization issues involve the nature of the governmental structure built up during the colonial epoch. Colonial principles affected the entire structure including political leadership at the top and a vast number of middle-level bureaucratic officials and civil servants below. In their domination of these structures, colonial regimes showed considerable diversity. The central principle was firm colonial control, through reserving all top leadership roles to foreign tenure. Beyond this, there was substantial variation in the extent of local participation allowed, from relatively liberal use of indigenous talent in the Indian system to the highly restrictive system employed, for example, in Indonesia.<sup>21</sup>

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<sup>21</sup>Fred R. von der Mehden, Politics of the Developing Nations (Englewood Cliffs, N. J.: Prentice Hall, 1964), pp. 22-25.

Apart from the differences in opportunities for acquiring skills, however, these variations were not fundamental. The fundamental purpose of all colonial governments was to ensure that the economic objectives of the colonial regime were achieved, protected, and perpetuated. Laws and institutions were remolded to assure access to labor and land for colonial enterprise and to facilitate international trade.<sup>22</sup> The outlook and competence of government personnel were, therefore, conditioned to these objectives and the servicing of colonial interests was their overriding concern. Thus, it is almost trite to point out that colonial governments were ill-prepared to deal with the broader administrative problems of general domestic growth, requiring social overhead investment, education, and, in modern terms, formulation and implementation of overall economic development plans.

As a consequence, colonialism left a heritage severely crippling governmental capacity for development activities. Popular acceptance of government servants with status and roles appropriate to development tasks was primitive, and the discharge of growth-related activities was irregular and unfamiliar rather than routine. Moreover,

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<sup>22</sup>See Lucian Pye, Aspects of Political Development (Boston: Little, Brown and Company, 1966), especially Chapter 6.

colonialism inevitably gave an urban orientation to public officials; their tasks were mainly within the enclave, and many duties beyond those sacred limits were delegated to local aristocrats or minority groups. Thus, the bureaucracy was particularly ill-suited for assuming development functions in the rural sector, the sector most neglected during the colonial epoch, yet large and stagnant. In many ex-colonial countries, the contempt for rural areas and reluctance to leave the enclave continues to present a formidable barrier to execution of rural development programs. In the Philippines, for example, the problem of rural infrastructure continues to be a central obstacle to growth of the economy as a whole. Thus, the revamping of government administrative structures to encompass new economy-wide growth objectives is the related fundamental task for the decolonization period. In this connection, the fostering of growth-conscious officials, imbued with an orientation to agricultural development, in particular, is essential in the ideological aspects of this reorientation. In the transition to a positive government role in providing the collective functions for agricultural development-- which must certainly be slow because of the drastic changes in outlook required--government efforts to encourage former associations, as in Taiwan, may be the best short-run policy.

In the area of top political leadership, the colonial epoch left a complete vacuum. Yet, for less-developed countries, the crux of government participation in development lies precisely in this area. The fundamental task confronting the newly emerging top leadership in developing countries is the reconstruction of a total political system, in fact, a total society, attuned to economic growth after decolonization. The rise of the elite group, representing top political leadership and their related support groups in newly-independent countries, is, of course, a complex and diverse story. Two general characteristics, however, seem to have been universally present. First, they originated from that class of agents who in the colonial era had substantial contact with foreigners and were thus familiar with Western concepts. Second, this contact, and perhaps even collaboration with colonial agents, led to a revolutionary role (often deriving from the very Western ideology they had ingested), frequently resulting in their suppression by colonial regimes. The revolutionary roles thus espoused had much to do with the termination of colonialism, often abrupt, thrusting power and responsibility on those who had never held it. The revolutionary tradition of such leadership, however, may lead to over-emphasis upon continued revolution, over-politicalization, and neglect of administrative

efficiency.<sup>23</sup> This pattern indeed characterized long Sukarno's regime (1945-1966) in newly-independent Indonesia. The key question in this regard, therefore, is whether a political leadership will emerge to recast rapidly national priorities in favor of economic growth, improve administration for development, and yet maintain political control.<sup>24</sup> If regimes dedicated to growth and development appear, as in Pakistan, decolonization and the transition to modern economic growth are likely to be rapid. If lukewarm and ineffective regimes arise--as in the general rule--progress toward the transition will be jeopardized. Finally, if colonial organization remains dominant, with only superficial change (as in many newly-independent African countries) or are merely destroyed without the emergence of a new orientation toward development (as in Indonesia during the Sukarno era and present-day Burma), economic chaos and stagnation--perhaps even retrogression--will reign.

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<sup>23</sup> Lucian Pye, op. cit., pp. 19-20.

<sup>24</sup> This central issue is stressed by Edward Mason in Economic Planning in Underdeveloped Areas (New York: Fordham University Press, 1958). Commitment to development goals is also judged central to success of development planning in newly independent countries in Douglas S. Paauw, Development Planning in Asia (Washington, D. C. : National Planning Association, 1965).

## Social Aspects

Colonial political control was associated with very definite socio-cultural overtones. Chief among these was the preservation of group separatism as a device for maintenance, or even the exercise, of political control. Coalescence of political resistance to the colonial regime was avoided by encouraging the retention of basic group differences, whether linguistic, cultural, religious, or even racial (as in the case of specific colonial roles for minority groups). Indirect rule, prominent in the retention of colonial control in Southeast Asia, was based precisely on the separatism of groups and was tantamount to hardening political groupings along cultural and linguistic lines. National unification in the political sense was avoided, while unification for administrative purposes was pursued. However, as we note in our chapter on the institutional school, group coalescence is a fundamental prerequisite for economic development--particularly for the emergence of government (public sector) participation, which is strategic for the execution of the many tasks required for decolonization.

We find, therefore, that high priority is given to national unification as the first prerequisite of the decolonization process. Religious, ethnic, and cultural barriers to nationalism must be overcome

and a national consciousness evolved as a transcendent value. The difficulty of this basic task is clearly apparent from the fact that many newly-independent countries continue to struggle with problems of group separatism after 10 or 20 years of independence--witness India and Malaysia, to say nothing of the Congo and Nigeria.

The pre-eminence given by colonial authorities to religion and cultural values must be supplanted by a nationwide preoccupation with secularism, interpreted here as an overriding concern with employing resources to advance material well-being. Widespread participation in development, acceptance of innovation, and the discipline required for modernization require the elevation of economic achievement to a major social goal.

The social consequences of colonialism extended to its harnessing of the educational system for explicit colonial purposes, reinforcing the separatistic emphasis just discussed. Universal education, designed to overcome regional differences, was completely taboo in the colonial system. In its stead, colonial education was designed to provide local talent for the operation and support of the colonial system.<sup>25</sup>

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<sup>25</sup> However, postprimary education affected very small percentages of the population in all colonial countries. See Fred R. von der Mehden, op. cit., pp. 15-16.

The curriculum was highly technical in orientation, producing engineers, lawyers, doctors, police, and civil servants for roles in the colonial bureaucracy and to provide services within the enclave. Liberal education, to inculcate a sense of national history, cultural heritage, and tradition, for example, was discouraged or formally prohibited. Similarly, education for mass literacy, which has proved to be strategic for dissemination of new knowledge in the modern economic growth epoch, was completely ignored.

Decolonization has brought, as an almost universal and immediate consequence, mass literacy and compulsory education programs--the obvious first corrective to the colonial restrictiveness. A second, and less generally adopted, corrective consists of selective but thorough infusion of a development orientation in the society's total educational structure. Development consciousness, training for a wide variety of technical development tasks (not the least of which is planning competence), and drastic increases in supplies of social welfare experts (particularly in health and nutrition) are among the chief components required for the encouragement of growth.

## **4. STAGES OF GROWTH**

### **4.1 The Stages of Growth Thesis**

In the two previous sections we have analyzed economic growth during two historical epochs, the agrarian-mercantile epoch when the economy is closed to international trade and the colonial epoch when the economy becomes opened up to international trade through penetration of alien forces. The idea of a sequence of growth stages follows naturally from this historical perspective which identifies major growth epochs.

While each growth epoch depicts the operational patterns and the rules of growth internal to a particular epoch, a stages of growth thesis is specifically addressed to growth issues involving more than one epoch. Three types of issues are included in such an inquiry: (1) contrasts in rules of growth among epochs; (2) contrasts in growth performance; and, most important, (3) causation of the transition from one growth epoch to the succeeding one. We see, therefore, that the stages of growth idea is a complex one, involving many analytical as well as historical problems related to these distinct issues.

Despite the natural step from growth epochs to the notion of stages of growth, contemporary economists, generally speaking, have

tended to disparage this approach to growth theory.<sup>1</sup> Although, as we have seen, many development economists refer to distinct periods in the economic history of particular groupings of countries, there is an aversion to explicit formulation of a stages of growth theory. The modest efforts by modern economists to formulate such a theory, moreover, have been rather sketchy and inconclusive.

Several explanations may be offered to elucidate this state of affairs. Most frequently cited is the overwhelming difficulty of obtaining adequate empirical (primarily quantitative) data to test hypotheses about contrasting growth performance among growth epochs. Despite his contribution to understanding the performance aspects of the modern growth epoch, Kuznets subscribes to this view, warning that "while comparisons with the premodern past are attempted, the scarcity of firm quantitative work relating to the past forces our discussion to be casual in the sense that extensive documentation is impossible and limits the diagnosis of differences to those that are so prominent as to be beyond wide margins of error."<sup>2</sup> In terms of the

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<sup>1</sup>See, for example, W. Arthur Lewis, The Theory of Economic Growth (Homewood, Illinois: Richard D. Irwin, Inc., 1955), p. 18.

<sup>2</sup>Simon Kuznets, Modern Economic Growth: Rate, Structure and Spread (New Haven: Yale University Press, 1966), p. 31.

growth stage issues we have just identified, Kuznets focusses upon growth performance, which presumably shows sharp contrasts among different epochs. Moreover, being thoroughly baptized with the spirit of modern empiricism, Kuznets has a penchant for supporting conclusions about this issue by adducing recorded statistical data. The absence of such data for early epochs, and even for the modern growth period, therefore, constitutes a serious barrier to knowledge.

A second major obstacle to a stages of growth approach is the historical nature of such inquiry, in the sense that the crucial issues are multi-dimensional. Major aspects of epochs are heterogenous in nature, including economic as well as noneconomic forces--as we have stressed in the introduction to this chapter (see Table I). Growth epochs are distinguished not only by quantitative differences in performance (upon which Kuznets focusses) but also by a wide variety of economic, institutional, and cultural factors which lie behind the performance we observe on the surface. It is these underlying, background conditions which produce different rules of growth for different epochs--as we intimated in Table I. Thus, the poverty of recorded historical facts is only a part of the difficulty; the additional problem is that the analyst must exercise judgment as to which historical facts are relevant or irrelevant. In this vein, Lewis maintains that "theories of social

evolution" can be only very tentative for reasons of lack of relevant historical facts: "...there are very few facts of history in the relevant senses. We mean by this, in the first instance, that it is only for very few countries and for very recent periods that any adequate quantity of historical records exists; and even when there are plenty of records, we cannot always be certain exactly what happened."<sup>3</sup>

Similarly, Lewis goes on to argue that: "No one person can know enough history--of different periods and different countries--to know enough facts--even if the facts were perfectly knowable--to feel confident that his theory is based upon a comparison of a sufficient number of events to justify generalization, that he has got all the facts right each time, and that his generalization could not be disproved by adducing other similar events which he has not considered."<sup>4</sup> Thus, Lewis believes that because of these complexities, historical theories are constrained by the limitations of human intellectual capabilities.

We concede that the data barrier and the necessity for a relevant and selective viewpoint are--and will always remain--basic

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<sup>3</sup>Lewis, op. cit., p. 15.

<sup>4</sup>Ibid., p. 16.

challenges to a historical approach to growth. Recognizing these difficulties, however, it may still be said that a satisfactory stages of growth thesis has been slow to emerge. Kuznets himself asserts that "the accumulation of (empirical and quantitative) findings has far outrun the formulation of adequate theoretical analysis to account for them."<sup>5</sup> The lack of theory to assist in understanding the transition between epochs is indeed a major bottleneck in our knowledge of the development process. In our view, the growth issues and the development problems confronted by contemporary less-developed countries are precisely those related to such a transition--from the colonial epoch to the modern growth epoch. For this reason, our present book is devoted to this central problem of the transition, and both our analytical and empirical work are addressed to this problem. We proceed in the next section, therefore, by describing the essential content of a satisfactory stages of growth thesis.

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<sup>5</sup>Kuznets, op. cit., p. 32.

## **4.2 The Content of a Stages of Growth Thesis**

The requirements of historical theories of economic evolution must be clearly specified and adhered to if growth theory is to be enriched by the growing mass of relevant historical data. The essence of an evolutionary theory of growth in any field of knowledge is the idea of successive stages to be traversed as growth and development occur. The requirements of a rigorous stages of growth theory may be reduced to three essential ingredients. First, and most basic, sharply contrasting stages in the growth sequence, each with different rules of growth, must be identified;<sup>6</sup> second, causation of "turning points," marking the end of one stage and the emergence of the next stage, must be identified; and, third, such turning points must necessarily be of relatively short duration (perhaps 20-50 years) in comparison with the long growth epochs they mark off, which we normally think of in terms of centuries. A special type of process analysis is needed, therefore, to investigate this key issue of the transition.

A meaningful stages of growth theory encompasses a sequence of unique stages or epochs (using our previous terminology). The quality

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<sup>6</sup>We have made a preliminary effort to outline the special features of two growth epochs in model form in Sections 2 and 3, above.

of uniqueness means that the dominant growth forces operating within each epoch are characteristic of that particular epoch and no other. The analytical implication is that a distinct set of rules of growth can be formulated for each epoch in the sequence, contrasting with those governing all preceding and successive stages. The growth forces central to the economy's operation in a particular epoch will be reflected in empirical characteristics of growth performance unique to only that stage. In principle, therefore, the boundaries of each epoch can be identified from historical data as observable growth characteristics.

All stages of growth theories involve turning points at the end of each particular stage, marking the transition from one set of growth rules to another. The central requirement in this connection is analytical explanations of the "necessity" for each stage in the sequence to terminate and of the origins of the growth-promotion forces characterizing the subsequent stage. The task of this type of theory is to provide a frame of analysis incorporating the cumulative effects of long-term changes related to (1) technology employed in production; (2) the principles of social organization; and (3) culture, ideology, and other exogenous constraints affecting growth. The purpose of theory, in this regard, is to identify the relevant changes as a guide for transition process analysis.

In a long-run perspective, this type of theory provides fairly sharp turning points between successive stages in the growth sequence. In short-run analysis, the phenomenon of turning points, however, must be considered in terms of a time span rather than as an instantaneous adjustment. Realism will dictate, therefore, that the theorist envisage a turning range to depict a transition process on the historical spectrum. A theory of this type is special in its specific focus upon the transition process, covering a relatively short span, measured in decades rather than centuries. During this time horizon, transitional analysis is addressed to the key issues of how the economy modifies its structural and operational characteristics and how its rules of growth become changed. The first requirement, therefore, is knowledge related to both the growth epoch from which the transition arises and the epoch to which it serves as a means of entry. Thus, the stages of growth theory aims specifically at explaining how these epochal changes come about.

To summarize, the ingredients of a legitimate stages of growth theory imply two types of knowledge associated with this particular blend of theoretical and historical methods. One type of knowledge may be described as intra-stage, the distillation of general principles governing the operation of a growth stage--or epoch--once it is

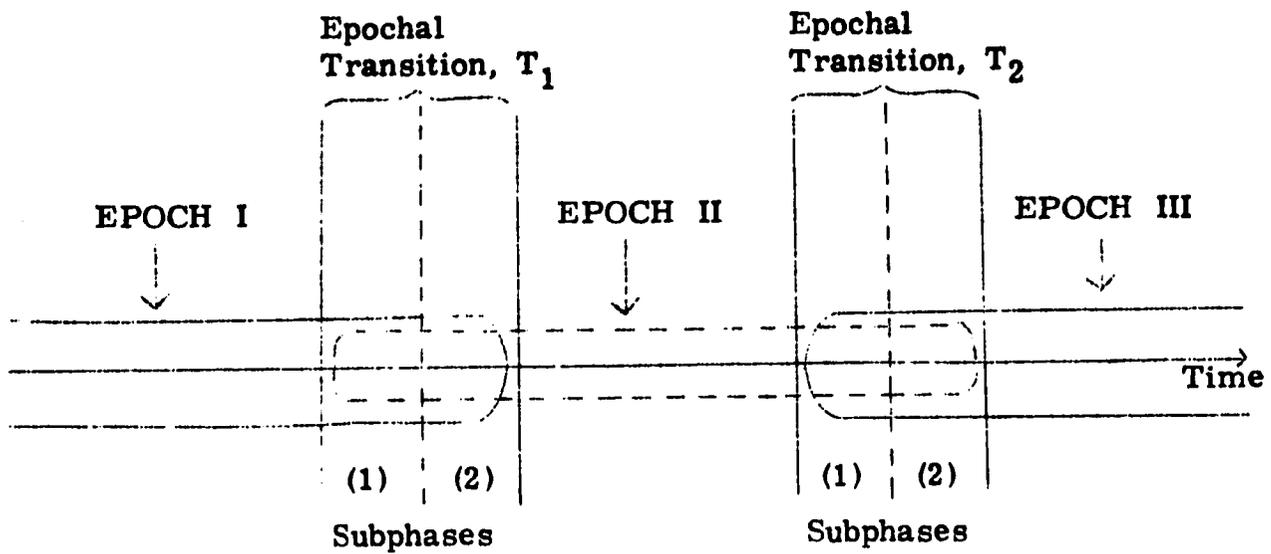
successfully established. The models we have presented in the two preceding sections illustrate this type of knowledge.<sup>7</sup> The second area of knowledge opened up by the stages of growth approach is this very area of transition analysis, involving those major growth issues we have posed above having to do with the contrasting nature of epochs, the inevitability of turning points, as well as more detailed process analysis of the transition between stages in the growth sequences.

This conception of the epochal transition may be depicted schematically, though somewhat impressionistically, with the aid of Diagram 4a. In this diagram we show three successive epochs, Epochs I, II, and III, marked off on the time axis. Where two adjacent growth epochs overlap, e.g., during  $T_1$  and  $T_2$ , an epochal transition occurs, marked off by solid vertical lines. Within these transition periods, two subphases are distinguished by the dotted vertical line. The first subphase suggests that the forces which eventually generate a new epoch begin during the preceding epoch and gradually gather momentum. The second subphase suggests that the forces which

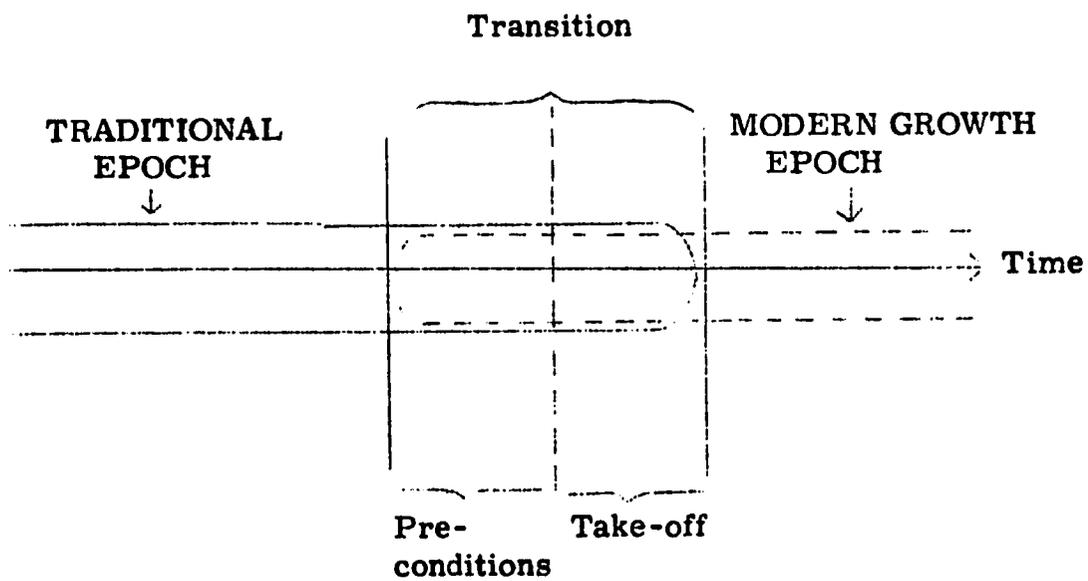
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<sup>7</sup>Kuznets' contribution to our understanding of the performance aspects of modern economic growth also exemplifies this approach. His contribution lies in a detailed exposition of intra-epoch performance phenomena, having posited major background conditions associated with the modern economic growth epoch upon which he focusses.

**DIAGRAM 4: THE EPOCHAL TRANSITION**



**a. Abstract View**



**b. Applied to Rostow's Stages of Growth**

governed the preceding epoch continue beyond the boundary formally marking the turning point to a new epoch. These forces gradually recede and disappear as the new epoch becomes more securely established. Analysis of the epochal transition must, therefore, focus upon this turning range, during which the forces leading to a new epoch appear and gradually become dominant, while those of the old epoch begin to deteriorate and eventually disappear.

Diagram 4a is merely intended to assist in visualizing the central ideas involved in transition analysis. More concretely, we may imagine that Epoch I depicts the traditional agrarian society, Epoch II, the colonial economy, and Epoch III, the modern growth period. The transition processes,  $T_1$  and  $T_2$ , between these growth epochs, call for a distinct type of analysis, quite different from the analysis of the growth-promotion forces internal to each epoch. In particular, it is our position that the study of the growth process in contemporary less-developed countries may be best approached in terms of such transition analysis. For, we hypothesize that such countries, including those upon which our empirical work focusses, i. e., the Philippines, Taiwan, and Thailand, are now involved in the process of a transition to modern economic growth (i. e., Transition,  $T_2$ ). In this book, we shall develop a thesis appropriate to this outlook. Before proceeding

with that task, however, we turn to an examination of transitional process analysis as it has appeared in the work of representatives of the historical approach.

#### 4.3 Rostow's Stage Theory

Walt W. Rostow's stages of growth theory is one of the rare contemporary examples of a study explicitly devoted to this issue of the epochal transition.<sup>8</sup> In our interpretation, Rostow's theory attacks the problem of the transition between what may be regarded as the traditional epoch and the modern economic growth epoch ("self-sustained growth" in Rostow's terminology). Rostow telescopes economic history of developing countries into these two epochs, ignoring the significance of the epoch we have characterized as the colonial economy, and treating the agrarian-mercantile economy perhaps as a mere refinement. Thus, Rostow's theory is a special case of transitional analysis in a very general and long-run historical perspective.

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<sup>8</sup> Rostow's stages of growth theory, in its complete evolution, may be found in the following sources: Walt W. Rostow, "The Take-off into Self-sustained Growth," Economic Journal (March 1956), pp. 25-48; The Stages of Economic Growth: A Non-Communist Manifesto (Cambridge: The University Press, 1960); and W. W. Rostow (ed.), The Economics of Take-off into Sustained Growth (New York: St. Martin's Press, 1963), which includes a summary paper by Rostow and the proceedings of a conference on Rostow's theory.

To cast Rostow's theory within our frame of reference, we show in Diagram 4b an abstract view of the phases of this transition. This diagram emphasizes that Rostow's transition analysis focusses upon the period during which the forces of the traditional epoch and the modern economic growth epoch interact in an overlapping period. For this period, Rostow postulates two subphases. His pre-conditions subphase may be construed as that period in the transition process when the forces of the traditional society are still dominant, although they begin to be eroded by the emerging forces of the modern economic growth type. Rostow's take-off subphase is interpreted as that period during which the forces of modern economic growth become ascendant but remain in contention with the receding forces of the traditional society.

A succinct statement of Rostow's transition thesis may conveniently begin with a rather sharp distinction between the way of economic life in the traditional epoch and the modern economic growth epoch. Rostow emphasizes certain general features of the traditional epoch related to characteristics of production, including limited production horizons, based on pre-Newtonian science and technology, a ceiling on the level of attainable output per head and a high proportion of resources devoted to agriculture.<sup>9</sup> In terms of background social

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<sup>9</sup>Rostow, The Stages of Economic Growth, pp. 4-5.

conditions, Rostow mentions a hierarchical social structure with relatively narrow scope for vertical mobility, particularistic (family and clan) social organization, a fatalistic value system and decentralized political power, largely associated with land ownership.<sup>10</sup> At the other end of the transition, Rostow defines the epoch of self-sustained growth as merely a long period when growth becomes normal and relatively automatic.<sup>11</sup> This contrasts sharply with the slow-growth nature of technological change in the traditional epoch (and in the agrarian and colonial epochs we have reviewed above). What is meant by self-sustained growth is characteristic of a modern industrial society's constant expansion of knowledge, output, and productivity, and the fact that these continual changes become institutionally routinized and, therefore, automatic--similar to our characterization of the modern growth epoch in Table I. Thus, there is a sharp distinction between Rostow's conception of the traditional epoch and his conception of the self-sustained growth epoch, based on the tempo and regularity of technological change.

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<sup>10</sup>Ibid., p. 5.

<sup>11</sup>See his original statement in the Economic Journal article.

Rostow's major focus is on the significance of pre-conditions and the take-off, as the two subphases in his transitional analysis. He views the pre-condition period as a long transitional phase in which strategic changes begin to occur to lay the foundation for more rapid change in the later subphase. These "precondition" changes include the introduction of social overhead capital, rising agricultural productivity, and the enhancement of the quality of human resources through "non-economic change." Rostow sees this foundation-building as extending over a long period of time, up to a century or conceivably more. The origins, the inter-relationship, and the simultaneity of these crucial pre-conditions are left unexplained by Rostow. However, the changes to which Rostow points are consistent with those we have analyzed for the agrarian-mercantile economy and emerging from the penetration of trade; i. e., the slow expansion of agricultural productivity, the gradual evolution of nonagricultural activities simultaneously with, and related to, the expansion of the knowledge horizons of economic agents as market participants (see Section 2.3, above).

Following successful preconditioning of the society, Rostow envisages the take-off as two or three decades of dramatic change: a significant rise in the rate of investment, the thrust of manufacturing as the leading growth sector, and the emergence of an institutional

framework to consolidate and expand these gains. This leads into the "drive to maturity stage," defined as "the period when a society has effectively applied the range of (then) modern technology to the bulk of its resources."<sup>12</sup> Thus, the take-off phase, which is the key to Rostow's transition thesis is characterized by a sudden rise and spreading of the tempo of economic activities, concentrated in a rather short interval of time (20-30 years). Such a take-off phase, according to Rostow, is a common, if not a necessary, prelude to entry into the modern growth epoch.

To evaluate Rostow's stages of growth theory, we first recognize that it is clearly concerned with the transition between growth epochs. The very terms pre-conditions<sup>13</sup> and take-off imply a transition focus, the intent being to explain the process by which the economy is

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<sup>12</sup>Rostow, The Stages of Economic Growth, p. 59.

<sup>13</sup>In fact, Rostow specifically refers to the pre-conditions period as a transition. See his Stages of Economic Growth, pp. 18-33.

transformed from one governed by the forces of traditional society to self-sustained growth.<sup>14</sup> We also see that much of his thesis is tangential to two of the three fundamental aspects of the transition we have identified above; i. e., the contrasting growth performance among epochs and the logical causation (or "necessity") of the transition. The take-off subphase appears to rise from the foundation laid in the precondition period, and in this limited sense take-off may be a logical consequence of pre-conditions. Moreover, what transpires in the take-off period, both in terms of growth performance (the quickening of economic activities) and institution-building, appears to be taken as a transition process, paving the way for routinized modern growth. Thus, we conclude that Rostow's stages of growth "theory" is indeed intended as a transitional growth thesis.

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<sup>14</sup>For our purposes, we retain Rostow's original conception of three stages (pre-conditions, take-off, and self-sustained growth) following the original situation of traditional society, as outlined in his earliest study on stages (Walt W. Rostow, "The Take-off into Self-Sustained Growth," Economic Journal [March 1956], pp. 25-48). In his later extension of his stage theory (The Stages of Economic Growth: A Non-Communist Manifesto [Cambridge: The University Press, 1960]) Rostow employs five stages: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass consumption. The latter two are not relevant to the present discussion but might be considered as phases in the modern growth epoch.

Rostow's stages of growth thesis can be criticized on two very basic grounds, its theoretical imprecision and its dubious empirical validity. Its basic defect is the first one, reflected in the fact that the major and essential ideas (both in connection with "preconditions" and "take-off") have not been sharply formulated and operationally defined. The ideas with which Rostow works do not constitute conceptual tools for analytical reasoning, and hence it is not possible for Rostow to present his thesis in "causal order" reasoning (i. e., to separate assumptions from deductions). As Kuznets has noted, "Given this fuzziness in delineating the take-off stage and in formulating its distinctive characteristics...there is no solid ground upon which to discuss Rostow's view of the analytical relation between the take-off stage and the preceding and succeeding stages."<sup>15</sup> In short, Rostow's thesis has the deficiency of the traditional historical method, lacking the force of logic characteristic of contemporary economic methodology.

Given the vagueness of Rostow's stages of growth as a theoretical construct, the problem of empirical validity is necessarily

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<sup>15</sup>Kuznets, "Notes on the Take-off," Chapter 2 in W. W. Rostow (ed.), The Economics of Take-Off into Sustained Growth (New York: St. Martin's Press, Inc., 1963), p. 27.

rather nebulous. The only refutable part of the thesis; i. e., the part which can be tested by observable facts, centers around whether the symptoms of change marking the take-off are, indeed, concentrated in a brief time period. The original take-off thesis seems to have been conceived by Rostow from historical evidence from a large number of countries. There is mounting evidence, however, against Rostow's position on the universality of the narrow time span during which these changes occur.<sup>16</sup> It seems fair to conclude that unless the theory is refined and sharpened, further controversy about its empirical validity is bound to be pointless.<sup>17</sup>

In so complex an area of knowledge as economic growth, the identification of crucial issues and the posing of strategic questions must indeed be ranked as among the most significant long-run contributions. Rostow's stages of growth thesis, in isolating the epochal transition as a major research issue, must be considered an important

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<sup>16</sup>See, for example, the articles on particular countries in W. W. Rostow (ed.), Economics of Take-off into Sustained Growth.

<sup>17</sup>We note that prolonged controversy has already reigned and that our conclusion seems to be consistent with the consensus reflected in the volume referred to in the previous footnote.

contribution in this sense. Rostow has signalled our interest in one of the most important growth issues of our time, the process of transition from slow-growth economic regimes to the modern growth epoch based upon routinized technological change. We have also been reminded that this issue is meaningful only in a historical context. Rostow has supplied this new vision of a profound problem, while failing to offer us a framework capable of providing answers.

#### 4.4 Gerschenkron's "Industrial Spurt" Approach

Henry Rosovsky observes that there are only two modern historical models of growth.<sup>18</sup> One is Rostow's stages of growth thesis (just reviewed) and the other is Gerschenkron's notion of relative backwardness. Rosovsky notes that both emphasize the phenomenon of discontinuity as a significant feature of the growth process. Their significance from our viewpoint is that both focus upon the epochal transition from the traditional epoch to the epoch of modern economic growth. The scope of Gerschenkron's thesis is more limited than that of

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<sup>18</sup>Henry Rosovsky, "The Take-Off into Sustained Controversy," Journal of Economic History, Vol. XXV, No. 2 (June 1965), pp. 271-275.

Rostow in several respects. While Rostow presumably covers all historical cases, Gerschenkron's historical canvas is limited to the industrialization of Europe. Hence, Gerschenkron is concerned only very indirectly with the historical antecedents of the contemporary less-developed countries. Furthermore, while Rostow's take-off concept applies to the whole economy, Gerschenkron's scope is limited to the industrial sector. Thus, Gerschenkron seems to single out industrialization, per se, as the most vital and dramatic part of transitional development.

From empirical observation, Gerschenkron is led to believe that successful industrialization involves "great spurts" in the growth of the industrial sector. His "theory" is adduced to explain observed wide diversity in the intensity, length, and qualitative components of these historical spurts.<sup>19</sup> Moreover, Gerschenkron finds that a persistent (sustained) growth process involves not one industrial spurt but a succession of them, alternating between periods of relative quiescence.

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<sup>19</sup>Gerschenkron's theory explains differences in the transition on the basis of "gradations of backwardness." It is most succinctly stated in Alexander Gerschenkron, Economic Backwardness in Historical Perspective (New York: Frederick A. Praeger, 1965), Chapter 1.

Gerschenkron's historical perspective, though limited to European industrialization, contains two lessons about the nature of transitional growth. There is, first, the recognition that growth performance during transition is likely to vary considerably among countries. This variability in transition processes, in Gerschenkron's view, is primarily a matter of differences in initial conditions and national differences in institutional change required to accommodate economic growth. Second, the transition is likely to be characterized by a series of starts and stops as growth stimuli are exhausted and new directions sooner or later seized upon.

From our viewpoint, the works of Rostow and Gerschenkron share certain common features. Their conclusions are mainly concerned with qualitative aspects of growth performance during the transition in a highly aggregative and impressionistic way. Both consciously invoke a long-run historical perspective. Rostow is impressed by acceleration to growth (the take-off) in a relatively short interval of time while Gerschenkron stresses repeated spurts, or short intervals, of acceleration rather than a continuous process. Both derive their conclusions inductively, by generalizing historical experience of a number of countries; the use of recorded statistical data to substantiate their

conclusions, however, is informal and unsystematic. To both attempts to theorize are more incidental than self-conscious. From these common features of their work, we are given a grasp of the interest, method, and limitations of the traditional historical approach to the study of economic growth.

## 5. THE HISTORICAL SCHOOL: SUMMARY AND EVALUATION

### 5.1 Summary of the Historical Approach

Contemporary development economists are inclined to disparage the contributions of the historical approach to our understanding of the development process.<sup>1</sup> In the view of the present writers, however, a satisfactory theory of the growth process must be rooted in economic history. The historical approach offers a broad perspective, essential for integrating highly specialized areas of knowledge to further the understanding of the growth process as a whole. We have stressed in the introductory section of this chapter that major growth epochs have been traditionally distinguished by three types of background conditions, production, organizational, and cultural. It is the special merit of historians that their approach to growth combines these very different forces which together create distinct economic epochs in the annals of nations.

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<sup>1</sup>See Benjamin Higgins, Economic Development (Revised edition; New York: W. W. Norton & Co., Inc., 1968), pp. 186-187. Higgins asserts that economic historians have added no new strategic variables in the development process to those derived by the theorist. W. Arthur Lewis gives a similarly negative view in The Theory of Economic Growth (Homewood, Illinois: Richard D. Irwin, Inc., 1955), pp. 15-16.

In summarizing the contribution of the historical school, let us refer back to Table I. The four significant aspects marking off distinct economic epochs have been traditionally included in the scope of the historical approach to growth. The background conditions (shown in Row 1 as including production, organization, and cultural factors) identified for each growth epoch are the fundamental determinants of the social system in which the economy, as a part, serves as a vehicle to satisfy some of the society's major ends. Thus, the historical approach, at its very heart, involves a holistic framework which views the economy as part of a much broader system.

The components of the historical framework, emphasized in Table I, deserve comment from two viewpoints. First, by its very nature, the historical approach involves selectivity of central phenomena characterizing epochs, essential to the strong periodization content in historical work. It is apparent from Table I that this penchant is reflected in the historical school's identification of a few major economic sectors, in terms of which the society's basic conditions, its economic goals and economic functions are articulated. It is only through a format of this kind that the outline of historical reality as a whole can be grasped; i. e., by providing an appreciation of the major differences among historical periods.

Second, we can see how a causal order of reasoning can be introduced to assist in understanding a total system. We note that several important aspects of a particular growth epoch can be deduced as logical consequences of the background conditions, emphasizing the significance of this holistical framework. The cultural values of the society, a background condition, determine the major growth-promotion forces characterizing each epoch--which we list in Table I, Row 3. It will be observed that two types of growth-promotion forces characterize each epoch--the society's major social ends and the forces exerted to maintain the stability and survival of the system. By reasoning about the way these forces impinge upon the society's major production and organizational aspects, we can deduce the essential economic functions (Table I, Row 2) which the society must perform. In this sense, these functions are the technical means through which the society's pre-eminent ends are achieved against the constraints implied by the society's background conditions. The achievement of these ends, within the limitations of the prevailing constraints and through the execution of specific economic functions, determine the performance of the economy. From this performance, within a given epoch, as it is manifested through time, a society's long-run growth tendencies (Table I, Row 4) can be analyzed.

## **5.2 Necessity for Theory**

The traditional historical approach typically provides considerable inductive knowledge, primarily qualitative in nature, about these major aspects of historical growth epochs. To this approach a scheme such as that used in Table I may be applied as a classificatory device for organizing factual knowledge. Even with the use of such a scheme, however, the historical approach lacks an overall analytical framework to portray the mode of operation of the economic system. The purpose of such an analytical framework is to portray the operation of the economic system, highlighting its growth-relevant characteristics. To put it another way, many of the individual components for such an overall framework can be found in historical works, but a conceptual apparatus to integrate these discrete parts into a meaningful whole, showing interrelationship among the parts, is missing.

It is evident that the operational significance of the specific economic functions identified for each epoch (Table I, Row 2) become meaningful only when their interrelationship is revealed through an understanding of the mode of operation of the entire system. For it is the totality of these functions and the underlying forces controlling them which must comprise a model for understanding the operation of

a particular epochal system. Most significant for growth studies is the fact that performance and growth consequences of a particular economic regime can be deduced only through the use of such a model, depicting the economy's central operational principles. The portrayal of these operational aspects of the economy and the capacity for deductive reasoning are the two main advantages of contemporary economic methodology which should be more formally incorporated into the historical approach. The content of a model to provide this more formal analytical framework should emphasize the key economic sectors, and the interrelationships among them. Models of this type, stressing intersectoral relationships among a small number of strategic sectors, have been presented in Sections 2 and 3, above, to assist in understanding the operation of two particular epochs, agrarian-mercantilism and colonialism.

### 5.3 Implications for Transition Theory

We have learned from the historical approach that the problem of transition among epochs is the most profound, yet unexplored, growth issue of our time. History, by its very nature, is a study of evolutionary change; hence, the historical approach naturally poses the central question of how one epoch ends and the ensuing epoch

**emerges. Traditional work in the historical field provides some useful clues about how this fundamental issue of the epochal transition may be attacked.**

**It is clear, first and foremost, that epochal change must be defined in terms of an epoch's background conditions, since these conditions are the fundamental determinants of the economic characteristics--ends, economic functions, and growth prospects--of a particular epoch. We also learn that the study of the transition process requires a quite different type of growth analysis from that used to understand the internal functioning of a given epochal regime. For analysis of the transition, we must attack the questions of how and why the background conditions and the related social purposes of a society change from one epoch to the next. We have mentioned in Section 4 that transition analysis must include investigation of three issues: (1) contrasts in the major growth forces among epochs; (2) contrasts in the symptoms of these basic differences, reflected in performance variations; and (3) the nature of the transition process itself.**

**Further reflection upon the nature of the epochal transition leads to a distinction between endogenous and exogenous forces which may precipitate changes in background conditions. The obvious**

possibility that changes leading to the emergence of a new epoch may be precipitated by forces external (exogenous) to the society must be frankly recognized--and it is the search for such superimposed forces which has marked the traditional focus of historical research. By contrast, the significance of endogenous forces leading toward epochal changes is based upon the force of logical necessity, and it is precisely the identification and elucidation of these endogenous forces which earmark the application of the more recent, scientific method to economic history. We have seen from our analysis of the agrarian-mercantile epoch that long-run, slow and almost imperceptible changes do occur internal to the system in the three fundamental background conditions--production, organization, and culture. We have also observed Rostow's insight that slow change ("preconditions"), proceeding over a long period, may eventually culminate in a climax of rapid acceleration of change. Moreover, the endogenous process of change which marks every epoch--even the traditional society<sup>2</sup>--is essential for understanding a society's response to exogenous stimuli. ' Differences in the effectiveness and profitability of colonial regimes,

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<sup>2</sup>See W. W. Rostow, The Stages of Economic Growth: A Non-Communist Manifesto (Cambridge: The University Press, 1960), pp. 4-6.

we suspect, had much to do with prior differences in the extent and magnitude of the stimulation from mercantile penetration-- elaborated upon in Section 2.

#### 5.4 The Need for Transition Theory

In the final analysis, however, we find that the historical approach has not yet reached the point of evolving a theory addressed to the nature of the transition process. The knowledge we have surveyed (and invoked in our models apropos particular epochs) is essentially a combination of historical insights, descriptive facts, and inductive method. In other words, the methodology of this approach to growth, particularly in respect to the transition, is still of the traditional kind; it exhibits the qualities of history but neglects theory. Thus, the historical approach requires a new departure, a theory explicitly focussing upon the transition. It is this vacuum which our study aims to fill.

The issue of the transition from pre-modern (or colonial) growth to modern growth, on the other hand, has--to the everlasting credit of this school, and Rostow, in particular--been dramatically pushed to the center of the stage in development economics. Thus, we find Rostow's stages of growth thesis not so much "wrong" as

incomplete--incomplete in its neglect of theory and analysis of the central growth-relevant issues posed by the transition phenomenon. It is our purpose to investigate in more analytical ways this process which Rostow has highlighted.

Our focus upon the theory of the transition is confined to a relatively short time perspective, the post-World War II period. We believe that the accumulated experience of less-developed countries in even this short time span poses unexplored and challenging growth problems. Major "events" of significance to the transition and their relationship to understanding how the transition to modern growth originates from the colonial regime are examples of the challenges awaiting us.

It is almost trite to observe that contemporary social sciences have become imbued with a strong orientation to the process of growth and development. Focussing as they do primarily upon the contemporary scene, we construe their major effort at providing enlightenment to be addressed to the central problem of the current transition almost everywhere apparent. The holistic perspective of the historical approach embraces these separate, specialized fields of current inquiry. The planning approach (reviewed in Chapter 4) is largely devoted to the

**production aspect; the institutional (social science) approach (reviewed in Chapter 3), to the organizational and cultural aspects; and the theoretical approach (reviewed in Chapter 5), to rather piecemeal analysis of specific functional aspects of the transition.**