

# ECONOMIC GROWTH IN A FREE SOCIETY

by

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The problem of economic development is sometimes discussed in the modern world as a question of the relationship between rich and poor nations.

It is true that there is an enormous gap between the average levels of income among the nations which share life on this small planet—a gap ranging from \$50 per head per year to almost \$3,000, measured in terms of gross national product. It is also true that the richer nations have a duty of enlightened self-interest, combined with the basic impulses of religion, ethics and humanity to help the less-advanced peoples. But there are three things wrong with posing the question of economic development as a matter of the rich and the poor.

First, the most critical difference among nations is not whether they are rich or poor, but whether they are regularly growing or stagnant. The critical phase in the life of a nation which wishes to modernise its society is the stage in which it so adjusts its system of education, its social organisation, political life, and commonly accepted aspirations as to develop the capacity to produce each year at a substantially higher rate than its increase in population.

Regular growth is the first and critical operational objective. Historically, once regular growth begins, it has taken about three

generations for a nation to absorb and diffuse to the bulk of its people what modern science and technology could provide. Compared with the centuries of fluctuating but essentially stagnant levels of life in traditional societies 60 years is not long, and, in any case, the relatively rich in the world are not so rich and so numerous as to be able to elevate significantly the level of life of the poor simply by income redistribution. The task of development for us all—whatever our citizenship—is to help aspiring nations to learn how to grow and then to make growth as regular a phenomenon as possible.

The second thing wrong with posing the question as a matter of the rich and the poor is that, within most of the major nations, whatever their average level of income, there are rich and poor areas. One of the reasons that we in the United States of this generation have a reasonable good understanding of the economic development process is that we have seen an important part of the American south move into what I would call the take-off during the last thirty years. It was not so long ago, you will recall, that Franklin Roosevelt referred to this problem as the greatest single problem in the domestic life of the United States.

What is true of the United States is true of most of what we regard as the more advanced nations. Italy and France, for example, still have special problems of

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under-development in their southern regions. And in Latin America, many of the most critical problems of development cannot be perceived by looking at the over-all statistics of growth but are, in their essence, regional; for example, the problems of the north-east in Brazil. In short, the critical problems of difference in level of income and of growth rate may not lie as between different nations, but within developing nations themselves.

Our third objection to the rich-poor nation formula is that there are rich citizens and poor citizens in all our societies, including societies with low average levels of income, and one of the critical problems for all of those who enjoy the benefits of high levels of income is to play a part appropriate to their advantages in the common development in their societies.

This is a problem of equity and social responsibility in all nations—rich and poor alike. One of the most interesting and promising aspects of our Peace Corps, for example, is that it is inducing the organisation of counterpart units in some of the developing nations, within which the educated and technically trained youth can go out to work in the village to help lift the standard of life of their less advantaged fellow citizens.

What this comes to, then, is that we are all, whatever our nation's stage of growth and average level of per capita income, caught up in the development business. My purpose in these articles is to set down a few general lessons that I believe can be drawn from the record of the common experi-

ence both during the years since World War Two and from the longer past.

Some limited generalisation is possible from and some lessons can be drawn—because the development of nations is a little like the development of human beings. Each human being is growing up, faces a fairly uniform sequence of problems. It is possible to specify in broad terms the kinds of problems, which, inevitably, must be confronted by an infant of nine months, a child of five, an adolescent of fourteen, a young man of twenty-one.

The study of economic development, to the extent that it can be a science, consists primarily in identifying the sequence of problems to be overcome and the kinds of efforts to solve them which have succeeded or failed at different times in different nations.

But there the science of economic development—like the science of human development—must stop short. For each nation—like each individual—is and must be unique. As I say, there is a common sequence of problems which had to be faced, at similar stages, by, for example, Great Britain and Japan; by the United States and Mexico; by Russia and Egypt and India. But the form in which those problems arose and the solutions which were tried, succeeded, or failed could only be determined by the peoples involved.

Differences of history and culture, of resources and available technology, and of political and social aspirations which inevitably affect the contours of economic development have varied and will always vary. There is no single

correct prescription for economic development. There are, as in all human enterprises, only problems; some limited guidance from the experience of others; and hard lonely choices to be made.

All of us in the world today, whatever our nation's stage of growth, are concerned directly or indirectly with problems of economic development. Basically, we want to know how to achieve regular and steady economic progress which will improve the livelihood of each citizen. As we look about us, certain lessons seem to emerge from our common experience in economic development thus far. I should like to consider briefly several of these lessons which seem particularly appropriate.

My first proposition is that the aid from outside a country can only be helpful to its development to the extent that the government and people of a nation organise their own resources. Economic growth is primarily a national enterprise. The amount of resources made available from outside can be a critically helpful margin, but it is a margin which will have its effect only to the extent that those receiving aid are effectively committed to the development process as they wish to see it and are effectively mobilising their human and material resources to do the job.

It is sometimes said that the Alliance for Progress, aiming at the higher development of Latin America, is an enterprise of the United States Government, and not a co-operative venture within the Western Hemisphere. For the simple and basic reason, I have

just cited, this cannot be so. The Alliance for Progress is a partnership or it will fail. It can only work if what we organise in the United States by way of aid—and what our friends in Western Europe and Japan contribute—is merged in an orderly way with massive efforts at self-help within the nations of Latin America.

The Alliance for Progress is truly an alliance, not because we are contributing money to Latin America, but because the policy of the United States is committed to work with those in Latin America who would develop their economic and social life among lines of their own choice and make of their nations the kind of modern States they wish their children to enjoy in the light of their culture, values, and aspirations.

My second proposition concerns national planning or, perhaps better, national programming. We believe national programming of the development process is required as a basis both for the domestic mobilisation of resources and effective foreign aid. National programmes are needed because, as Adam Smith noted long ago—when prescribing for underdeveloped Britain of the eighteenth century—governments must help create the basic framework within which a modern economy can develop.

It is the government which must organise and finance the educational system and reshape it to the nation's changing needs. It is the government which must lay out and, in most cases, finance the fundamental social overhead projects—highways, irrigation projects and

the like—on which private, agricultural and industrial development depends. It is the government which must solve problems of land tenure and create the framework within which agricultural productivity can be improved by the individual peasant.

It is the government which must assure that the savings of the community are effectively mobilised by equitable taxation, so that social overhead projects can be financed without inflation and on terms the people will regard as fair. It is the government which must devise policies which insure that the foreign accounts are kept in the balance and that the development effort is not frustrated by a foreign exchange crisis.

These minimal functions were performed by governments even in nations most deeply committed to private enterprise, blessed with ample land and an old tradition of private entrepreneurship—like Canada and the United States. It may seem strange that we in the United States, who are so deeply attached to the virtues of private enterprise, should be the advocates of national programming in the underdeveloped areas. There is, in fact, no incompatibility between a belief that national programming is essential in the early stages of development and a belief in the wisdom of relying on private enterprise to conduct a wide and expanding range of economic activities.

How wide that range is, each country will, of course, decide for itself in the light of its own problems and possibilities. But the framework within which a modern private enterprise system can

develop must, in large part, be created initially by the effort and initiative of governments.

Thirdly, I should like to say something quite directly about our view of the role of private enterprise in the development process. What I am about to say not only conforms to the policy of my government but fits with what I have been able to learn as a historian and social scientist, about the development business.

It is clear that, especially in the very stages of development, different nations, out of their history, differ in their capacity to mount effective private enterprise systems. We in the United States, for example, had a lively private enterprise system in commerce and small-scale manufactures long before our first major surge of industrialisation. The transition into a competitive private enterprise industrial system was relatively easy for us, although some of our first ventures failed.

But some other nations—for example, Japan—began their industrialisation with no one about to assume initial responsibility for industrial development but civil servants and military men. The first industrial plants were managed by the government and the first generation of private businessmen emerging in the 1880's was drawn largely from the old warrior class—the Samurai. And so it has been with many other nations in first stages of development.

But when self-sustained and regular growth was attained—and even in the process of attaining that stage—the natural course of events appeared to be for the private sector to expand rapidly. The

development of private enterprise over the past decade in India and Pakistan is, for example, illuminating. The most immediate reason for this evolution is that efficiency in producing many diverse products is hard for a government bureaucracy to attain, and besides there are not all that many competent bureaucratic managers.

The lesson of history is that the interests of an advancing society are best served when the bulk of industry and agriculture is managed by individuals or firms forced by competition to maximum efficiency, their accounts reflecting true costs, and their output responsive to the changing tastes of the people.

We have learned, both in the less-developed and more-developed nations, when such competitive private sectors have emerged, that their emergence in no way need divert resources away from the objectives laid down in a national plan. In India, for example, the vitality of the private enterprise sector and the direction of its development are essential ingredients in current national planning.

In the United States, Western Europe and Japan, we have found that there are ample indirect means for insuring that a massive private enterprise sector can keep within the bounds of the common interest and, in fact, be an essential reinforcement to it.

It is interesting to observe within the Soviet Union and the countries of Eastern Europe how the difficulties compound in attempting to manage by central State ownership and control an increasingly complex industrial system. The disciplines of competition of honest prices and interest rates,

and of the consumer's right of choice are beginning to be recognised as missing; and the gap is being discussed in the technical literature, this quite aside from the gross inefficiency of collectivised agriculture.

The old debate, which focussed on government *versus* private enterprise, is an old-fashioned, out-of-date way to put the problem of economic growth in the contemporary world in both developing societies and in more advanced societies; the most natural and fruitful relationship between public and private enterprise is one of partnership towards larger national purposes.

Experience derived from economic development points to the importance of national programmes which rely upon substantial private enterprise to reinforce their objectives.

National programmes, however, cannot afford to ignore two other facts made obvious by common experience: the need for rural growth and the need for human freedom in the development process.

Statistics show the over-all rate of growth increasing in many developing nations of the contemporary world. But the gains are concentrated excessively in the cities and in the industrial sector of the economy—with a marked lag in the development of agriculture and the rural areas. Our common task is to diffuse this narrowly channelled momentum out over the entire race of the developing nations. For rural development is more than a social duty to the less advantaged portions of

the population. It is also a fundamental condition for the maintenance of a high rate of development for the society as a whole, especially its industrial sector.

There are three distinct major roles that agriculture must play in the early stages of the development process. Obviously, agriculture must supply the food necessary to meet inevitable rises in population. Furthermore, agricultural expansion is required as working capital for non-agricultural development to generate raw materials for industry and to earn foreign exchange.

Finally, a rise in agricultural incomes can provide important direct stimulus to other aspects of development; it can provide expanded markets for chemical fertilisers, equipment and manufactured consumer goods, and form a critically important source of increased tax revenues.

In the broadest sense, what I am asserting is that the present state of a good part on the underdeveloped world requires that we take seriously two of the oldest propositions in economics. One of these propositions is that agricultural output is the basic working capital of a nation in its early stages of growth. The other proposition is that industrialisation depends for its momentum on a progressive widening of markets. The time is past, if it ever existed, when we can afford to regard industrial and agricultural development as simply competing for scarce capital resources.

With so much of the world's population concentrated in agri-

cultural areas, my final point about the developmental process has particular—though by no means exclusive—pertinence to the problems of rural growth. My point concerns this question. Is it possible, given the tremendous revolutionary changes required for modernisation and the effort demanded of a relatively poor country in mobilising a high rate of investment, to combine human freedom with the development process itself?

As we look at the test cases presented by the world's Communist nations, it is perfectly clear that the attempt to grow food by police-State methods leads not merely to inhumanity but to gross inefficiency. There appears to be no way of developing an efficient agriculture unless that effort is rooted in the incentives of the peasant and his family. There are simply not enough policemen in the world to follow the peasant around in his long and complex daily round of life to insure that he does the things that he must do to make things grow.

In underdeveloped nations, the proportion of the population in rural life is often 75 per cent or more. And so it becomes a technical essential to leave large areas of human freedom to the farmer if economic development in an underdeveloped area is to proceed successfully or if development in more advanced countries is not to be dragged down—as it is in the Soviet Union and in those countries of Eastern Europe which still maintain collectivised agriculture.

But this is not all. Economic development depends on engaging

the energies, the talents, and the personal commitments of millions of human beings. A friend of mine, who holds a high post in a developing country of the Middle East, spoke recently of the major lesson he had learned from his period of responsibility. It was that, no matter how powerful a revolutionary government they created, the government could not do the job of development itself. Its major task was to provide the framework and then to stimulate and educate the people themselves to take the necessary initiative.

It is true that a powerful police system, combined with a disciplined single party, can get many things done—especially things which relate directly to the maintenance and the extension of the system's power. But, as we watch the evolution of the developing nations of the Free World and the course of events in the nations run by Communist governments, and as we look back on the lessons of our own experience, there is increasing reason to believe that systems of society committed to the maintenance of individual freedom—and its essential counterpart, individual responsibility—have proved more efficient as well as more humane than those which seek by forced draft and the power of the State to drive development forward by totalitarian methods.

Only a few years back, it was common to believe that, whatever their demerits, Communist societies had the capacity to sustain much higher rates of growth than societies based on human freedom. This is a proposition which can no longer be scientifically

maintained. Leaving aside Communist China, which has gone through a radical decline in its economic fortunes, here are some current growth rate figures for recent years.

In 1962, the rate of growth in Gross National Product, for the nations under Communist governments was 3.6 per cent. For the NATO nations, the figure was 4.8 per cent. The figure for the Soviet Union itself was somewhat under 4 per cent; for the United States, recovering from recession, a higher than average 5.4 per cent.

These data may vary over the years. But the fact is that the economic gap between the Free World and the Communist bloc widened, and the same is true, of course, in the grand historical competition between the development of Communist China and the two great nations of the Indian sub-continent, which, against great difficulties, continue to make regular progress with societies rooted in the principle of consent.

I cite these figures not because rates of growth are the decisive measure of a society's worth. Our values begin with the integrity of the individual and his equality under God and law. They extend to the right of nations to shape their lives in the light of their own history, culture, and aspirations, protected by the principle of self-determination.

As we look about the world scene—and at the trends of the past several years—two things are clear. We will face great problems in enterprises, such as the

Alliance for Progress, designed to demonstrate the compatibility of human freedom and economic development. But equally, we can go forward with the greatest underlying confidence. The underlying

forces of history are clearly on the side of the great humanistic tradition, if we have the wit and the will, the faith and the persistence to work with them.

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