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Abstract
This essay reviews the main themes in the history of economic thought on economic development and economic growth between 1700 and 1914. Although recognizing that there were earlier contributions, the review starts with the mercantilists and other pre-classical writers such as the Physiocrats, and then discusses the theories of the British classical political economy, focusing especially on Adam Smith and David Ricardo. It then turns to the contributions of Karl Marx and his followers, and other writers on imperialism. Although in Europe the focus of economic thought turned away from overall economic growth and economic development to the behaviour of individual agents and to resource allocation across markets, the study of economic development and growth continued in the writings not only of those interested in imperialism, but also those working on colonial administration and nationalist writers in different parts of the world, such as the United States, Germany and India. It is argued that the systematic study of economic development and economic growth started long before the period during and after World War II, unlike what conventional wisdom suggests.

Introduction
The history of economic thought on economic development is as old as the history of economic thought in general, since economic thinkers have always been concerned with how to improve economic conditions and the well-being of people. Thus, in such a faraway place and distant time as fifth-century BCE Greece, Plato examined how specialization and the division of labour increases economic efficiency; in fourth-century BCE India Kautilya advocated the provision by the monarch of what is termed today a system of social welfare for the people, and the redistribution of land from landowners who were not productive, to poor landless farmers; and in 14th-century CE North Africa Ibn Khaldun wrote about the tendency of empires and societies to experience growth of production due to specialization and coordination by entrepreneurs, and to stagnate due to the erosion of solidarity and spread of habits of luxury among the ruling classes. In Europe a major impetus to the study of economic development resulted from the voyages of discovery to so-called new lands and to
the emergence of the idea that conditions in these lands reflected the state of affairs in Europe in prior times. Writers such as John Locke in 17th-century England, and Montesquieu somewhat later in France, argued that improvements in economic conditions in Europe had to do with harsh climatic and living conditions, which promoted hard work and industry, and with laws, the state and other political institutions. The systematic analysis of economic growth, however, came later, following the onset of what has been referred to as modern economic growth, with the British classical political economists, when economic development came to be identified with increases in income and production.

This review of the main ideas on economic development and economic growth will start from around 1700, before the British classical political economy approach came to prominence, when groups of economic thinkers in Europe started addressing questions of economic development. It will then continue with the contributions of the British classical political economists such as Adam Smith and David Ricardo, followed by a discussion of the ideas of Karl Marx and his followers. Following that, it will turn to those who wrote on colonized countries, and those writing specifically about the problems of economic development in economically “backward” countries. The review will end with 1914, well before what is often considered the period of birth of development economics and growth economics during and after World War II.

Early ideas on economic development

It is often argued that the first group of economists who had a specific view of the economic development and growth of nations were the mercantilists who were active from the 16th to the 18th centuries (Vaggi, 2008). Although they did not have a coherent and unified approach, they strongly influenced economic policies in Europe during this period, stressing the importance of having foreign trade surpluses by promoting exports and controlling imports in order to increase the inflow of gold and silver. Although some of them took the position that a country’s wealth and economic riches can be measured by the amount of precious metals it possessed, they viewed this as a means of increasing power by building up their military strength. Especially in their later phase they also emphasized the benefits of the trade surplus in increasing domestic production and employment, and their views have been interpreted as promoting both power and plenty. While these views were criticized – among others – by the British philosopher and economist David Hume for being self-defeating, since the inflow of bullion tends to increase prices and reverse trade surpluses through the price-specie flow mechanism, they have continued to be influential in some form in later periods.

The European economists who followed the mercantilists turned their focus from foreign trade to the domestic economy. Already in the 17th century the English economist William Petty emphasized the social division of labour due to specialization and the purchase by people of goods from others, made possible by the existence of the agricultural surplus over the needs of farmers. François Quesnay and the French Physiocrats in the mid-18th century followed Petty in focusing on the agricultural sector, emphasizing the poor state of French agriculture in comparison to that of England. They argued that sharecropping in agriculture hampered the growth of the agricultural surplus, preventing saving, investment, and improvement in production techniques, and proposed the replacement of different agricultural taxes by a single tax on rent received by landlords (which were not a source of investment), and by removing export restrictions on corn to increase the profits of tenant farmers and promote capital accumulation, and with the promotion of technical and organizational progress through learning and the spread of knowledge among farmers. Quesnay’s Tableau Economique examined the circular flow of income between the
agricultural and industrial sectors, showing how different sectors provided inputs to and created a demand for the products of each other. However, the Physiocrats were writing about a period of nascent industrialization, in which the industrial sector merely transformed agricultural goods into goods consumed especially by the upper-income classes, and viewed workers within it to be sterile and unable to produce a surplus (see Vaggi, 2008).

**Classical political economy**

The focus on the surplus and the division of labour was taken further by the British classical political economists. Smith, Ricardo and Marx all focused on the importance of saving and capital accumulation in the growth process, and took the view that labour supply is not a constraint on economic growth. The early writers, including Smith, emphasized capital as a fund from which workers were paid, but later, especially Ricardo in his later writings and Marx, greater attention was given to capital as embodied in machines, reflecting the growing importance of machinery in production. Individual classical political economists, however, emphasized specific ideas which have been interpreted by some as reflecting the conditions of their day (for instance, with Smith seeing few limits on economic growth in early capitalism, Ricardo and Mill being concerned with mature capitalism, and Marx focusing on distributitional conflict).

Adam Smith (1776) examined different stages of human societies, such as those involved with hunting, pasturage, agricultural and commercial activities, taking an historical approach in which institutional features such as laws and social arrangements are seen as playing an important role. However, his main focus was productivity growth owing to the increasing division of labour, which was limited by the size of the market. As capital and output grow and markets expand, the scope for specialization and the division of labour increases, and labour productivity increases due to an improvement in the dexterity of workers who specialize in particular activities, the saving of time otherwise lost in moving between different activities in the production process, and the introduction of machines which are used by workers. Although he did distinguish between productive and unproductive activities (the latter not adding to the surplus out of which saving and capital accumulation occurred but which merely use up the surplus), unlike the Physiocrats, he did not equate industrial activity and unproductive activity; on the contrary, he saw industry to be the sector in which the scope for specialization and technical improvements was the strongest. Smith did not take the view that growth, driven by saving and technological change, would come to an end because of diminishing returns in agriculture or because of labour shortages, although he recognized that wages would rise when employment grew at a faster rate. Smith took the view that the wealth of nations lay not in the accumulation of precious metals, as he argued the mercantilists did, but on the growth of production and income. Related to this, he emphasized that countries gained from trade not by running export surpluses, but by specializing in the production of goods in which they had absolute advantage, which they produced more cheaply than did other countries, even under conditions of balanced trade. On state intervention, Smith generally advocated a low level of government intervention, an idea supported by his notion of the invisible hand of the market, according to which market participants acting in their own interests tended to increase the product of the nation as a whole without intending to do so. While some interpreters emphasize this aspect of his ideas, it should be recognized that he took the view that free markets driven by individual self-interest alone do not always benefit society, and favoured some amount of government intervention and restrictions on individual freedom (Kurz, 2015a). He acknowledged that the interests of merchants and manufacturers were opposed to those of the rest of society, since they had an inherent tendency to deceive
and oppress others, and thus emphasized the need for sympathy towards others and not just self-interest. He also argued that growing specialization had its downside, making workers who were engaged in repetitive tasks ignorant and dissatisfied. To counter this, he recommended the expansion of education financed by the government. Smith, and later and more explicitly John McCulloch, examined the role education played in increasing the skills and productivity of workers, thereby contributing to economic growth.

David Ricardo’s (1817) analytical “model” seems to have taken a dimmer view of the prospects of unlimited economic expansion. His analysis of the growth process considered the interaction between the agricultural and industrial sectors, and showed how diminishing returns in agriculture in the absence of technical change squeeze profits and limit capital accumulation and economic growth. As population and the demand for labour increase with capital accumulation, agricultural cultivation extends to less fertile lands. The real wage tends to be kept down due to increases in population along lines developed by the population theory of Thomas Robert Malthus (1798), according to which when the wage rate rises above the subsistence level (usually defined more broadly to include not just biological subsistence) due to capital accumulation, population and labour supply expand, driving the wage back down. Although Ricardo did not fully endorse Malthus’s population dynamics, his theory does assume that population and labour supply respond endogenously to increases in the real wage. As agricultural production expands to less fertile lands, these lands allow their owners to obtain rent by renting them out to capitalists, and this increases rent on more fertile lands due to the forces of competition. The rise in rent and total wages imply a fall in the profit of capitalists, who were the savers and drivers of capital accumulation since workers were too poor to save and landlords were not interested in saving and investment. Eventually profits fall to levels that are too low to make saving and investment profitable for capitalists, and the economy arrives at a stationary state.

While this theory of diminishing returns and increasing rent holds for the agricultural sector, the inter-sectoral mobility of capital ensures the equality of the rate of profit between sectors, implying that the overall rate of profit also falls. Ricardo extended this analytical “model” to bring in complications not dealt with in it, including changes in agricultural techniques, which could counter the force of diminishing returns and postpone the stationary state (see Kurz, 2015b). Ricardo also extended his analysis of capital accumulation by introducing machinery in the third edition of his Principles, in which he acknowledged that mechanization can result in unemployment and may be harmful for workers. Ricardo argued in favour of free trade because it allows cheap imports of food, thereby raising profits and preventing decline due to the extension of production to less fertile lands. Ricardo’s analysis of foreign trade, in which he focused on the static theory of comparative advantage, showed – using the England and Portugal example with clothing and wine – how both countries gained from trade, with exchange rate adjustments or price and wage changes making a country that may have an absolute disadvantage in the production of both goods competitive in the production of the good in which it had a competitive advantage. However, it is interesting to note that if we follow his dynamic analysis with capital accumulation and if the country in question exports, rather than imports, food, the tendency of the price of food to increase and the profit rate to fall is exacerbated, bringing closer the onset of the stationary state. Thus, food-exporting countries did not benefit from free trade, unlike food-importing ones, setting aside technical change (see Kurz, 2015b).

Ricardo’s ideas were not shared by all classical economists. First Ricardo, like Smith before him, took saving to be a driver of capital accumulation, following what has come to be called Say’s law of markets, according to which the aggregate supply of the value of goods creates the demand for an equivalent value of goods so that aggregate overproduction is not possible.
However, Malthus (1820) argued that excessive saving in the economy can lead to a general glut, in which all goods produced cannot be sold (although his thinking in this regard is not very clear, since he does not seem to distinguish between the acts of saving and investment), which reduces profits and the incentive for accumulation, reviving a theme present in the earlier mercantilist writers who argued that a trade surplus could increase the overall demand for goods and employment. Second, while Ricardo believed that the stationary state was in the distant future and could be postponed by technical change and free trade, he thought its effects were pernicious; John Stuart Mill was more favourably disposed towards it, because of the environmental damage done by endless economic growth, because he believed that “the trampling, crushing, elbowing, and treading on each other’s heels” were the disagreeable features of early phases of industrialization, which would no longer be in evidence in a stationary state, and because of a better distribution of income and wealth in the stationary state (Mill, 1848, Book IV, chapter 6).

**Marx, colonies and imperialism**

Karl Marx (1867), who in many ways continued the classical political economy tradition, argued against the Malthusian population approach (which implied that any attempt to improve the lot of the poor would be reversed by population increase), and instead viewed the wage as being kept down to a low level by the existence of the reserved army, which included the unemployed, which was replenished by those who lost their jobs especially in pre-capitalist sectors owing to competition from the growing capitalist sector, by labour-saving technological change in the capitalist sector and through the dynamics of the capitalist economy which leads to lower rates of accumulation when the real wage increases. The wage and the share of wages, however, could also increase, depending on the power of workers (affected by labour market conditions and their ability to organize) in their class struggle against capitalists, gains which could be maintained due to the fact that the “floor” wage was determined by moral and historical forces, and not just by biological subsistence.

Marx continued with the classical political economy approach which emphasized the role of saving in the process of capital accumulation. Focusing on an industrial economy, he emphasized the division of society among capitalists who have a class monopoly over the ownership of the means of production and who hire labour, and workers who supply their labour power to capitalists. Capitalists receive the surplus after payment of wages (and for goods used up in production) as profits, and save and invest a part of it by adding to their productive capacity, spurred by their urge to expand production and to accumulate to survive in their competitive struggle against other capitalists. For a given real wage, saving rate of capitalists, and input-output ratios in production, the growth rate of capital and output are determined, with labour being in unlimited supply. Capitalism therefore leads to an impressive and unprecedented growth in capital and output.

However, Marx did not view capitalism to be without its internal contradictions, as he makes clear in his discussion of economic crises. Class struggle made capitalists increase the use of fixed capital to reduce their dependence on workers, increasing what Marx called the organic composition of capital, which tended to reduce the rate of profit (though it could be offset by countertendencies). Moreover, a rise in the share of wages in income due to a shortage of labour could exacerbate this tendency. Finally, although Marx viewed this as temporary, falling wages can lead to a realization crisis – due to the fall in consumption caused by an increase in the share of capitalists (who saved more than workers) and because capitalists produce and invest to make more money and would curtail these activities if the opportunities for making money seemed bleak. Such crises would lead to social upheavals and
low rates of accumulation due to a fall in profits, sometimes resulting in major crises which could lead to revolution and the emergence of socialism. This could be prevented by the state if it could work in the interests of the capitalist class and effectively maintain their dominance, which, especially in later writings, Marx argued was not inevitable, since other classes could challenge it.

Marx took an ambiguous view of international economic relations (see Marx and Engels, 1970). On the one hand, the spread of capitalism around the globe in search of higher profits – countering possible tendencies for falling rates of profit – played a positive role not only for rich countries by obtaining cheaper inputs and higher profits abroad, in addition to fostering primitive capitalist accumulation due to plunder, but also for colonized countries by fostering capitalist development and breaking up pre-capitalist modes of production that did not allow for economic expansion, as in what he saw as the stagnant Asiatic mode of production (for instance, in India and China). This mode of production featured the absence of private property in land, and had autonomous village communities and a despotic centralized state focusing on extraction through taxes aided by the expansion of irrigation to increase land revenue, to maintain their empires. On the other hand, the incorporation of backward countries into the world economy had a destructive effect by exposing their industries to foreign competition and by siphoning off their economic surplus, themes which were stressed especially in his writings on Ireland and India, and which echoed the writings of nationalist economists in colonized countries. Marxists such as Rudolf Hilferding, Rosa Luxemburg and Lenin, who followed him, and non-Marxist writers on imperialism such as John Hobson (who had similar theories but advocated reformist rather than revolutionary responses), focused on the implications of imperialism on colonizing countries – some, such as Luxemburg, seeing it as overcoming problems of markets for capitalist countries, while others, such as Hobson, seeing it as resulting in their eventual deindustrialization – but also examined the contradictory effects on colonized countries (see Brewer, 1980).

Colonial and nationalist thought on economic development

Writers on colonial economies and engaged in colonial administration and policy studies typically emphasized the benefits for the colonized countries of opening up the economies to foreign trade, allowing them to exploit their natural resources and obtain access to imported goods and the benefits emanating from “good government”. The economic problems were generally attributed to cultural attitudes and climate, and to the despotism of native rulers. However, some administrators were concerned about the well-being of the subjected people, departing from the laissez-faire approach, recommending government action to address economic problems that resulted in poverty (see Arndt, 1987).

Nationalist writers took a different approach. In the United States the view emerged that the state needed to encourage the development of manufacturing industries in view of the fact that it would create a market for the products of the other sectors, as emphasized by Trench Coxe, but especially because it allowed a greater scope for the division of labour and technical improvements than other sectors such as agriculture, and led to the growth of mental power and even moral enlightenment as emphasized by Alexander Hamilton (see Meardon, 2017). These writers in the United States focused on their own country and advocated government tariff protection because, they argued, in line with their view of US exceptionalism, ingenuity was the special quality of its people, and government policy and greater experience in the more industrialized countries made it particularly difficult and risky to develop these industries without government protection. Henry Charles Carey also advocated government protection for manufacturing, but based it on a thoroughgoing critique of Ricardo’s theory of
rent, arguing that the cultivation of land did not proceed in the United States, as in Ricardo’s analysis, from the most fertile to less fertile lands, but where it is easier to clear land for cultivation, which often were less fertile lands, and in ways that suited families and smaller communities. Industrial protection would lead to the creation of national markets and allow US manufacturers to produce more cheaply than other nations.

Following Hamilton’s lead, Friedrich List (1841) in the German region argued for active government support to ensure the balanced growth of different sectors, but especially the development of manufactures through industrial protection to allow domestic producers to withstand foreign competition from producers in more technologically advanced countries. List was in favour of national systems of technology and innovation which, with the help of government intervention and protectionism, would improve technology especially in manufacturing industry, and allow countries with nascent industrial sectors to develop and compete in world markets. List was critical of the attitude of advanced countries which had used such interventionist policies for their own development and then tried to “kick away the ladder”, promoting free trade and laissez-faire, forcing such policies on relatively backward countries when they were able to do so, for instance, through colonization. However, List did not favour the development of manufacturing industries in tropical countries which, he argued, should instead specialize in primary products because of their lack of education, their ignorance and inferior civilization, and more importantly and permanently because their climatic conditions made them unsuitable for physical and mental effort required for manufacturing production which is suited to temperate climates (see Boianovsky, 2013, 657, 661). The German historical school, whose members were inspired by List, continued in his tradition, and emphasizing the importance of detailed historical and institutional analysis, examining the need for policies to improve the conditions of workers during the process of industrialization, rather than the deductive approach of Ricardo and later economists, several of whom derived the implications of a few theoretical axioms.

In India economists focused more directly on the problem of poverty (see Dutt, 2017) and underdevelopment, rather than on the growth process. Dadabhai Naoroji (1901) measured poverty in India using methods such as the jail cost of living and compiled data on agricultural and other kinds of material production to show how poverty was exacerbated by colonial rule, contradicting the views of colonial writers who argued that foreign rule benefited India. Naoroji laid the blame for India’s poverty on the drain of surplus shown by a balance of payments surplus for India with Britain (including bullion inflows but excluding the drain) made possible by transfers of government tax revenue and private transfers. Although it was claimed by colonial writers that these transfers were compensated by good governance, law and order, and the expansion of railways, Naoroji and other national writers argued that these changes merely helped to exacerbate India’s underdevelopment by allowing continued transfers over a long period, by pursuing policies that prevented India’s development, and by opening up the country to foreign trade which converted it from an exporter of manufactured products such as textiles into an exporter of primary products and an importer of manufactured goods. Mahadev Govind Ranade (1898), who also discussed the poverty of India due to the decline of its industrial sector in part due to the policies of the British government, which imposed free trade on India allowing British manufactures to come in free of taxes and imposed tariffs in Britain, focused also on institutional constraints due to laws that denied property rights to peasants, insecure tenure for tenant farmers, and social norms that militate against entrepreneurship and the pursuit of wealth. He followed List in advocating the promotion of manufacturing, arguing that “[w]hen … Factories and Mills on a small or large scale were set up all over the land, the present paralysis would give way to a play of energies which would far more effectively than Schools and Colleges give birth to the
activities of the Nation” (Ranade, 1898, 104). Although he did not advocate import protection in view of the fact that such a policy would not be followed by the colonial rulers, he favoured government assistance in forming deposit and finance banks, providing subsidies and loan guarantees, and government purchases to foster industrialization, while also advocating land reform in agriculture. Although Naoroji and Ranade advocated a much more active role for the government in the economy, they followed the approach of British political economy in conceptualizing economic development in terms of the growth of income and production. Gandhi (1909), however, was already beginning to write about the dangers of modern Western civilization based on ever-increasing rises in income and consumption, facilitated by mechanization, taking a very different view of economic development focused on individual freedom and the search for truth, and the village community based on agriculture and small-scale industry.

Conclusion

This overview of the history of economic thought on economic development and economic growth from 1700 to 1914 suggests that while the study of these issues did not begin in 1700, their systematic analysis by groups of thinkers emerged with the mercantilists and other pre-classical thinkers in Europe, and spread further and deeper with the British classical political economists, who wrote about their own economies when they had not yet achieved high levels of income, about the growth process they underwent, and about other economies. While the focus of economic thinking in Europe shifted away from overall economic development and economic growth with the writings of the so-called marginalists such as Leon Walras, Stanley Jevons and Carl Menger, who were concerned with resource allocation in market economies and with individual economic behaviour, thinking about economic growth and development continued in the works of Marx and his followers, those who worked on colonial policy, and those concerned with economic development issues in other relatively economically “backward” countries, such as the United States and the German region, and in colonized countries such as India. It was not until the emergence of the theories of Schumpeter on technical change, the Soviet industrialization debates in the 1920s and 1930s, and macroeconomic theories of unemployment developed by Keynes, Kalecki and others in the 1930s and 1940s, that the focus returned to overall economic development and growth. It is quite commonly accepted that development economics was born as a new subfield of economics after World War II (see Hirschman, 1981), after which its fortunes fluctuated, sometimes declining and then rising again (see Little, 1982, Meier, 2005, Dutt, 2016). It was also roughly around the same time that modern growth economics, with the contributions of Harrod (1939) and Domar (1946), is supposed to have emerged. If this narrative is accepted, then the ideas we have reviewed can be seen as precursors to the study of economic development and economic growth. However, in many ways these contributions suggest that the study of economic development and economic growth has a much longer past, and ideas examined earlier are being rediscovered and built upon in more recent times, many of them neglected during the so-called birth of these subfields, but re-emerging in later years.

References


