

WILEY



CHATHAM HOUSE

The International Development of Economically Backward Areas

Author(s): P. N. Rosenstein-Rodan

Source: *International Affairs (Royal Institute of International Affairs 1944-)*, Vol. 20, No. 2 (Apr., 1944), pp. 157-165

Published by: [Wiley](#) on behalf of the [Royal Institute of International Affairs](#)

Stable URL: <http://www.jstor.org/stable/3018093>

Accessed: 26/04/2014 11:36

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



Wiley and Royal Institute of International Affairs are collaborating with JSTOR to digitize, preserve and extend access to *International Affairs (Royal Institute of International Affairs 1944-)*.

<http://www.jstor.org>

THE INTERNATIONAL DEVELOPMENT OF ECONOMICALLY BACKWARD AREAS¹

P. N. ROSENSTEIN-RODAN

It has become customary, when opening post-war reconstruction discussions, to contrast the outlook of the nineteenth and twentieth centuries on social and economic problems. While all generalizations are necessarily crude, it can be said with but a slight distortion of truth that the optimism of the nineteenth century centred in the conviction that all economic problems would be settled automatically provided political problems were solved. Nowadays we almost tend to think that most political problems would be solved if only the economic problems could be settled. It may be worth while to enquire why and how this change in outlook has come about.

Between 1815 and 1914 we had a century of remarkable order, peace and stability, in many respects a century of stupendous progress. World population doubled and the amount and value of goods and services produced were more than doubled. Even the truly significant measure of economic progress, real income per head, increased very considerably. The progress achieved during the last hundred years in the advanced parts of the world, in Western Europe and overseas, can be divided into two phases. The first is that of the great and vast creation of wealth; the amount of increased income was considerable and all classes of the population in Western Europe had a share in it. While wealth and income increased, the degree of equality or inequality in the distribution of income remained remarkably stable between 1850 and 1900. The second phase started at the opening of the century, around 1900, and was characterized by the adoption of a different attitude by the State. States had become conscious of their responsibility not only in regard to the creation of wealth but also in regard to its distribution. By direct and indirect intervention in wage policy, agricultural policy, and public works, the State influenced the distribution of income in order to achieve a greater degree of equality of distribution. In our part of the world and especially in Western Europe, the United States, Australia and New Zealand, remarkable progress and results were achieved by this intervention. Thus, in the most advanced parts of the world, there was a considerable increase in wealth, and all classes had an equal share in the additional amount of goods and services produced during the last hundred years.

There was nothing remotely similar to that in the international system. It is true that world income, not only the income of Western Europe,

¹Address given at Chatham House on January 4th, 1944.

increased considerably, but the different nations had a very unequal share in the additional wealth created. An overwhelming part of this additional wealth accrued to a small part of the world, so that in so far as the distribution of income is concerned, we cannot compare different nations to different classes within any one nation. Many nations participated to only a fractional degree in the increased wealth created during the last hundred years and a small portion of the world reserved for itself the bulk of all goods and services. In effect, today, the United States, Great Britain, France and Germany, representing 13 per cent of the world's population, own almost 50 per cent of the world's goods, and more than two-thirds of the world's income are reserved for less than one-third of the world's population; i.e., 29 per cent own more than two-thirds of the total wealth of the world. In other words, there was no counterpart in the international system to the State mechanism within the advanced countries, which could exercise a distributive function in regard to wealth.

It is no wonder that many nations, many peoples, have become impatient. They have been told that if only order and peace obtained for a sufficiently long period, wealth would increase and at least the opportunities of all nations and all peoples would be equal; and yet in a hundred years, which is a sufficiently long period, they have seen that these promises have not been fulfilled. It is true that the nations, with few exceptions, have today more wealth than they had a hundred years ago. Even where the increase of population has been stupendous and has created economic difficulties, not only the global wealth of the country but also real income per head is with few exceptions greater today than it was a hundred years ago. But often it is not the absolute amount of wealth and income that counts, but distribution, and there is no doubt that after a hundred, even a hundred and fifty years of industrial revolution and great technical progress, the degree of inequality of distribution of income as between different nations is considerably greater today than it was a hundred years or even a hundred and fifty years ago. That is not only a moral, but even more a political and economic problem, because we can assume that people will always prefer to die fighting rather than to see no prospect of a better life. If we want to ensure a stable and prosperous peace, we have to provide for some international action to improve the living conditions of those peoples who missed the industrialization "bus" in the nineteenth century. Since the "economic forces," the automatic mechanism of supply and demand, the movement of population and of capital between the different parts of the world failed to achieve over a hundred years what was expected of them, there is no doubt that they must be regarded as having had their chance and that many people have lost patience waiting for a solution by this means. It may be that, from the academic point of view, in another one, two or three centuries other parts of the world would show the progress now shown by the richer parts, but people are not prepared to wait. International action is required to redress the balance and to give the depressed

areas of the world, I do not say an equal income, but equality of opportunity. This equality of opportunity between different nations is quite as important as that between different classes within one nation; but it is not easy to establish. The sayings that "the first thousand pounds are most difficult to make," and that "only the rich can make money," are even truer of nations than of individuals. The productivity of investment in manufacturing industry is lower in poor countries than in rich ones. Any additional manufacturing industry in rich countries can make use of excess capacity of basic industries (transport, public utilities, housing, and the like) at zero or very low capital costs. In poor countries additional basic industries have to be established for that purpose; more capital is therefore required in a poor country to establish additional manufacturing industries than in a rich one. If large-scale resettlement and emigration are not feasible, international capital must be made available to the poorer countries to help them to reach a level from which onwards they can grow richer "on their own." The development of the economically backward areas of the world is, therefore, the most important task facing us in the making of the peace.

Broadly speaking there are five vast international depressed areas, five economically backward areas, which between them contain approximately 80 to 90 per cent of the world's population. To mention them in the order of the difficulty presented in the solution of the problem, there is first the Far East, i.e., India and China, with half the population of the world within its area, and with an income per worker of between 10s. and 16s. per week¹ (expressed not in monetary terms, in which case it would be infinitely less, but in equivalent real income), and 10s. to 16s. per worker implies only about 4s. to 7s. per head of the population; secondly, there are the colonial empires, especially Africa; thirdly, the Caribbean area, another poor and overcrowded area; fourthly, the Middle East, which is much smaller and very much easier to deal with; and fifthly, Eastern and South-Eastern Europe, in many respects the most fruitful and interesting field of action, because the solution of the problem there can be envisaged within the lifetime of one generation.

The first three areas mentioned, the Far East, the colonial empires, and the Caribbean area, all have the extremely low income per head referred to above, while the two latter, the Middle East and South-Eastern Europe, have an income which, though still low, is considerably higher than in the first three areas, varying between £2 to £4 per week per worker, which implies something like 18s. per head of the population, as compared with £2 per head in the United Kingdom.

The five geographical areas present five distinct economic problems, but certain characteristics are common to all of them. They are all, roughly speaking, agrarian countries, engaged in primary production with great density of population per acre of cultivable land, using rather back-

¹Colin Clark, *The Conditions of Economic Progress* (London, Macmillan, 1940).

ward methods of cultivation. The yield per acre varies, but even in the better parts it approximates one-tenth of the yield per acre of land in Great Britain, Holland and Denmark. In most of these countries there is a tremendous waste of labour, because a very considerable number of the people living on the land are, in fact, either totally or partially unemployed. They are the sons, cousins, uncles and aunts, who live on a farm and pretend to do something since they are there, but whose labour is really not necessary. It is an instance of what economists call "disguised unemployment," and all the agrarian economists of the world agree that if those people were removed from the land agricultural output, far from falling, would increase. But these people cannot move away from the land, because there are no machines, tools or plants to give them employment elsewhere, and bare labour without equipment can produce nothing. Again, even if there existed tools and machines for them to use, there would be neither food nor shelter for them during the interval between leaving the land and finding work. Finally, there are no training facilities, and that is perhaps the most important aspect of any international action for the development of backward areas. Even in our part of the world the supply of facilities for training labour is always below the demand for them. We need many more skilled workers; this need is infinitely greater in economically backward areas, but there is no doubt that it cannot possibly be satisfied under a system of small private enterprise, without complementary State action, primarily because there is no such thing as a mortgage on workers. You can improve housing or other property, by raising a mortgage on it if you know that the enhanced value will be yours, but if, as an entrepreneur, you invest a certain amount of your available funds in training workers to improve their skill, you do not know whether you will retain their services. As they become more valuable they may be contracted by another entrepreneur who has invested nothing in training them but simply pays them a higher wage; so that though the investment has been a very good investment for the industry and for the country as a whole, it appears as a loss in the balance sheet of the particular firm which invested its capital in improving the workers' skill. The supply of training facilities was more satisfactory under the feudal system, because when people were not mobile as they became in the nineteenth century, it paid a landlord to provide training facilities for a certain part of the population whom he knew would remain on his land. Today the supply of such facilities has become a tremendous and by far the most important problem in backward areas. Action complementary to the industry of the private entrepreneur is required in the creation of a pool for the provision of training facilities, whether by the State or by some other organization. All the enterprises in the country should contribute, since it is they who will ultimately benefit from the improved trained workers. Even if it cannot be said which particular firm will benefit and to what extent, that is a secondary matter. Although not a good investment for a private firm, it is a sound investment for the State.

Before discussing the different characteristics of each area, we can say also that two solutions are common to most of them, from the world point of view. Excess population could be resettled in richer countries, but this is a rather "academic" solution. Undoubtedly migration and resettlement will play a certain part in solving the problem of the depressed areas, but this can be regarded only as a secondary remedy because a sufficient amount of migration and resettlement cannot be relied on as a feasible proposition in this century. The more important method of solution is founded on the principle, "if we cannot move people towards equipment, we can move equipment to the people." The movement of machinery and capital towards labour, instead of moving labour towards capital, is the process of industrialization, which, together with agrarian improvement, is the most important aspect of the economic development of the depressed areas. This process of industrialization can proceed in two different ways.

Each area, each country, can industrialize on its own, without help from outside; this would entail considerable disadvantage to the post-war world and to the international system as a whole, as well as to the country itself, because, in order to accumulate capital, in order to provide machinery and equipment for industrialization, the country would have to save at the expense of its standard of living, already incredibly low; further, since the standard of living is so low it would take very much longer to accumulate enough to achieve any considerable results from industrialization. The process of industrialization would thus be very much slower than if carried out by international action and infinitely more painful, because the sacrifices imposed on the country in order to provide equipment would be very much greater. Another disadvantage of this method of industrialization is that it would lead to a completely different structure of the world economy, because most countries would aim at complete self-sufficiency. Each would tend to aim at being like a vertical industrial concern, having its own heavy industry and all the other stages of production. That would be a tremendous waste, from the world economy point of view, because each area should specialize on such products as are particularly suited to it, and it is certainly not true that all the different areas of the world are equally suited for all branches of industry. The benefits resulting from an international division of labour would diminish if international action in developing backward areas could not be achieved.

The second method of industrialization is industrialization with the help of international investment whereby a considerable part, e.g., 25 to 40 per cent of the machinery or of consumers' goods which were previously produced by workers who had to be transferred to the production of machines would be made available to the industrializing country. Economic development of the backward areas could in this way proceed more quickly and with a smaller sacrifice of standard of living. It would also enable them to be fitted more easily into a world economy which would preserve the advantages of an international division of labour and would

therefore, in the end, produce more wealth for everybody. International investments for this purpose would help to put the world economy on a sound basis. Even if they were not directly profitable, they would be a low price to pay for long years of peace and stability. But there is no reason to expect that they would not be profitable. There would be sufficient yield on them if they were planned and realized in a way different from that to which we are accustomed in the advanced countries, and which is not suitable for the task of industrializing quickly vast areas of the world. It would lead us too far afield to describe here the institutional implementation of such an international developmental investment action.

One point, however, may be mentioned where the economist frequently comes into conflict with the banker or "finance man," who does not think in terms of a country as a whole and who expects not only a yield on capital but also repayment of the capital. The economist affirms that repayment of capital is utterly unnecessary. Even if it could be arranged it would constitute considerable waste. One can venture to say that in world history no country has ever paid back capital and the only time in the last hundred and fifty years when some part of the world took the claim to repayment seriously and tried to repay capital, in the nineteen-thirties, the international system collapsed. The economic system does not permit a country to repay vast amounts of capital. This is really quite obvious if we think it over for a moment. If we held a good railway share and the railway company offered to repay the capital, we should resent it; it would not be a benefit but a definite loss to us. What really matters about a good investment is that it should pay a good dividend. Individual shareholders can, of course, sell their shares if somebody else acquires them. In the same way those countries which "repaid" loans in the nineteenth century did so simply by getting new loans out of which the old ones were paid. When planning international investment we have only to ensure a guaranteed yield on capital invested, and need not worry about the repayment of capital.

Having described the common characteristics of international development in backward areas, let me now stress some particular problems of particular areas. If we take first the major problem of the Far East, which contains the population of half the world, it would be idle to pretend that we can be optimistic, that a good solution is in sight even if a maximum of good will and readiness to help can be assumed. The rate of increase of population produces a Malthusian situation in those areas. Economic progress does not lead to a higher standard of living, it mainly increases the number of the population. If the standard of living increased even slightly, the death rate would fall, the population would increase, without a marked increase of income per head. Confronted with such a situation it can be taken for granted that the Western European worker, or the American worker, who might be willing to forgo half-a-crown of his weekly wages in order to settle the economic problems of the world, would refuse

to make this sacrifice in order that in Asia some people might have twelve children instead of ten, and that out of these twelve six instead of three out of ten should survive. In order to solve this problem Governments must show a certain strength of character (which so frequently is another word for cruelty) and withhold some of the available resources, even though they would prevent many people from dying, until sufficient tools, training and equipment are available to provide for the reconstruction of these areas. Even in those parts of the Far East where the administration has been remarkably good, where a good deal of differentiation of production has been achieved, as for instance, in the Dutch East Indies, the problem of the standard of living has not been solved. The people of Java are still almost as poor as they were a hundred years ago, but the population which was five million then amounts today to over thirty-five million. The Far East will remain a problem until the population riddle is solved. It also presents a different problem morally and ethically. We may feel that we can do something for the people whose population habits and increase are similar to our own, but an investment in these areas might in many cases be an investment *à fonds perdu*.

The colonial empires require a different development programme, in which industrialization will occupy a very much smaller place. The most important task there is a certain differentiation of agricultural production, instead of relying upon one crop, as so many of them have done up to the present time. If we remember that the main progress in an industrial nation has been due not so much to the increase in the quantity of industrial products, as to the increase in the variety of those industrial products, the same thing should obtain to a very large extent in the agricultural colonial empires; progress in the technique of production in order to produce more tons of cane sugar per acre may be of value to the world but brings very little profit to the indigenous population. A better solution seems to consist in applying to agricultural research the same process which has characterized industrial research in Western Europe, namely that the production of new agricultural products should be studied rather than improved methods of production and increased quantities of the same agrarian products.

The third area, the Caribbean area, is, in many respects, similar to the colonial area. The Middle East is a much easier problem. There a greatly increased extraction of mineral wealth and the revival of certain neglected irrigation schemes may lead to a considerable rise in the standard of living.

But the fifth area, that of South-Eastern Europe presents what is, in many respects, the most interesting problem. Both this and the last World War started in or about Eastern Europe and many geopoliticians from Bismarck to Mackinder have said that whoever controls Eastern Europe has the hegemony of Europe and maybe of the world. Until we solve the problem of Eastern Europe, which involves a considerable eco-

conomic settlement, we cannot expect to have a stable peace. The standard of living in this area is higher than in other international depressed areas. International action to solve this problem is therefore very much easier and could achieve the result required within twenty or twenty-five years. It has been rightly suggested that the experience of the Tennessee Valley Authority could usefully be applied to the development of economically backward areas, but Eastern Europe is an infinitely more differentiated area than the Tennessee Valley. The Tennessee Valley Authority has to consider only one State, whose inhabitants speak one language; South-Eastern Europe has twelve different States with twenty different languages and is of infinite political complexity. The economic problem is also more differentiated than that which exists in other depressed areas. That is why a detailed study is being made by a study group at Chatham House of the problems arising in the international development of Eastern and South-Eastern Europe; it is considered that this area provides a model presenting all the problems which are relevant to the reconstruction and development of backward areas.

Summary of Discussion

MR. M. ZVEGINTZOV said that it was often almost impossible to move large quantities of perishable goods from one part of a country in Eastern Europe to another, where they were needed, owing to the lack of adequate communications. If a better method of distribution could be created it would raise the consumption and circulation of goods within each country and between the different countries in this area.

He was glad that the lecturer had referred to the difficulty of securing private capital investment in these countries. Before the war a vicious circle had existed in which the industrialist and trader found themselves up against the problem of the financial investor, who wanted a high rate of interest because of what he considered to be bad political and economic risks, while the area in question could only pay a low rate. This situation had been largely responsible for the stranglehold which Germany had acquired in the area.

DR. ROSENSTEIN-RODAN said it was true that the rate of interest needed to develop South-Eastern Europe had been too high for capital to be properly used in that area, but there was a further difficulty that the rate of interest on the capital market indicated the price of capital but did not guarantee that any amount of capital required would be available at that rate. The one way to improve the situation was to diminish the risk involved. This could only be done by giving assistance not only to one specific enterprise but to industry generally within the area. In this way the accumulated risk would be considerably diminished.

It was true that the capital required to develop Eastern Europe was larger than the private investor or bank could supply. It could only be secured by an international guarantee, not only among the countries concerned, but also by Great Britain and the United States. This guarantee would consist mainly of a control of the use made of the capital and a minimum dividend on shares. A dividend of 3 to 4 per cent with an

international guarantee provided an attractive investment. This would solve the main problem.

The problem of transport was not so great in Eastern Europe as in Central and South America or, for instance, in China. There it might be said that lack of transport facilities is the main obstacle to trade; but in Eastern Europe the transport deficiency was very much exaggerated except in Serbia and the mountains of the Balkans. If the railway mileage, not per square mile, but per million pounds of real national income were compared it would be found to be as favourable in Eastern as in Western Europe.

MR. J. P. BRANDER said that the lecturer had shown that he appreciated the population problem in the Far East and the Malthusian situation there, and had not been optimistic in regard to its solution. He had not stressed that the same problem, though to a somewhat lesser degree, existed in Eastern and South-Eastern Europe. There was heavy over-population throughout this area, which was largely responsible for the bad conditions there. Unless this demographic problem were tackled at the same time as economic improvements were made there would be no great change in the present situation.

DR. ROSENSTEIN-RODAN replied that the use of the word "over-population," like so many economic terms, had different meanings. It was related to the type of occupation available in a country. In Eastern Europe there was over-population per acre of cultivable land. If the population were removed from the land and given other employment there might not be over-population, though the same number of people would live in the area. In so far as the birth-rate was concerned the situation in Eastern Europe was very different from that of the Far East. It was even lower than the net reproduction rate of Great Britain during the second half of the nineteenth century.

QUESTION: Did not the lecturer's references to the development of the colonial empires as a profitable field for investment at a fixed rate of interest (and apparently everything was to be subservient to this), sound dangerously like the exploitation of those areas?

DR. ROSENSTEIN-RODAN replied it was true that the development of colonial areas presented grave problems, but in regard to exploitation, the term was relative, and if a great Colonial Power, such as Great Britain, were to retire from the task of bringing the colonial peoples towards the goal she had set before them, it would be far worse than continuing her work. "Exploitation" of this type would be more beneficial than complete indifference.