

REVIEW

From A CONTRIBUTOR.

Why have some countries advanced to a high level of economic development whilst others have remained backward?

Why the latter, having missed the boat to begin with, are still unable to move forward?

And how in the future can they be lifted out of mass poverty and squalor and set along the path of economic progress?

These are obvious and important questions for the study of economic growth, and Professor Baran attempts to answer them from a Marxist standpoint in the book which is the subject of this review*. His answers to the first two questions are interesting, stimulating and often original in the best sense of the word. Occasionally he attaches high degree of certainty to his interpretations and conclusions when some element of doubt would have been more appropriate, and several times he fails to keep his anti-capitalist polemics within the bounds of what the evidence he himself adduces can bear. But compared with much mythology that passed for Marxist economic analysis in the Stalinist period, these faults are few and far between. As for the third question, his treatment is broad, general and diffuse, and to that extent less interesting, but even there some valuable incidental points are made.

In the common Marxist distinction between mercantile and in-

dustrial capitalism Professor Baran finds the key to the difference between the economic fortunes of the two groups of countries. The advanced ones have succeeded in taking the important step into industrial capitalism, whilst the backward ones have failed to bridge the gap which divides this stage from mercantile capitalism. Why?

In merchanting activities a little capital can go a long way. Thus mercantile capitalism can flourish when capital accumulation — the economy's unconsumed surplus — is on a small scale. But industry needs more capital and can only get started if the surplus is increased. This increase came about in Western Europe through the extraordinary prosperity of the merchant class, attributed by Professor Baran to geography, which stimulated navigation, and — an interesting paradox this — to the poverty of Europe's natural resources, which stimulated trade. But surplus extracted from such sources did not probably add up to much, but it was concentrated in a few hands and managed to give a start to industrialisation. Once started the process snow-balled: industry created both the surplus to finance, and the demand to make profitable, further industry. Moreover, penetration of vast and diverse lands enabled the metropolitan countries to extract additional surplus which, if not large absolutely, was again concentrated in a few hands.

Given the favourable constella-

* P. A. Baran, *The Political Economy of Growth*, New York: Monthly Review Press, 1957, pp. X + 308. \$5.00

tion of circumstances, Western Europe embarked on industrial capitalism and economic growth. Is it then just bad luck that no equally favourable circumstances have been experienced by the now backward countries? Professor Baran would not have been a Marxist if he had so contended. His argument is, rather, that the development of industrial capitalism in Western Europe was itself the new factor in the situation which made the occurrence of such circumstances impossible. For whereas the pioneering countries had the whole world as an open market for their industrial wares, those left behind at the start were faced with even their home markets captured by foreign goods. There was thus no profit to be had from investing in industry such surplus as was generated, and, more important, no snow-ball effect to follow. Instead, the surplus found its way into money-lending or investment in real estate (land and buildings), and the stage of mercantile capitalism was never superseded.

Professor Baran appreciates, of course, that North America, Australia and Japan do not fit into this scheme. His explanation for the first two is that the economic penetration from abroad did not encounter either adverse climatic conditions or the resistance of an indigenous population and culture, and in consequence there developed an identification of interests between the penetrators and the land which they were penetrating, whereas elsewhere penetration took the form of typical imperialism -exploitation for quick profit _ which stifled, instead of

promoting, local industrial development. Japan, on the other hand, is said to have taken advantage of some special circumstances, chiefly Britain-U.S. antagonism which prevented the wholesale penetration of the Japanese economy by either country.

How is then the chain which anchors such a large part of the world to backwardness to be broken? Professor Baran does not favour, as one might expect, the fashionable suggestion that it could be done through foreign investment and enterprise. He offers much detailed criticism of the record of such enterprise, which is commonly voiced in the backward countries themselves though rarely heard in the West. But his main point relates to the long-run effect of foreign investment: it strengthens local mercantile capitalism by opening up a new field for middle-men in the relations between the foreign firms and the local economy, and at the same time it narrows the scope for local industrial investment by preempting many profitable lines of activity.

One of the best sections of the book is that which discusses the backward countries' lack of industrial entrepreneurs _ talented men who are prepared to face the risks and reap the rewards associated with industrial undertakings. It is fashionable to blame this as a source of backwardness. But Professor Baran suggests that the lack of industrial entrepreneurs is due to backwardness and not the other way round. Talented men exercise their talents in directions influenced by their social environment. And in back-

ward countries there is a remarkable amount of talent displayed in making deals out of all but thin air, in acting as contact men or in purveying and receiving graft. This is as one would expect under mercantile capitalism and to ask for industrial entrepreneurs is to reverse the historical order.

In any case, Professor Baran would be the last to endorse industrial capitalism as the road to economic advancement for backward countries, even if such a thing could be grafted on them. In two early chapters of the book he discusses how industrial capitalism, which in its early stage was a powerful engine generating economic growth, has developed into a wasteful system. Its wastes can be grouped under two broad headings. Firstly the class structure, and the income distribution associated with it, encourage the growth of parasitical occupations. Secondly, failures of aggregate demand lead to recurrent unemployment. In the first case resources are wastefully absorbed and in the second are forced to remain idle, to the detriment in both cases of the rate of economic growth which could be greatly accelerated if such resources were rationally employed. Failure of aggregate demand is said to be particularly characteristic of the monopoly stage of capitalism, for the element of competition, which forced a rate of cost reductions on rival businesses and in the course of it compelled the investment of every scrap of surplus that could be generated, has been removed from the system, and the way has thus been opened to the phenomenon of

more surplus being generated at full employment than can be invested to the advantage of monopoly capital.

Other alternatives having thus been shown to be illusory, the conclusion naturally follows that only by a socialist revolution can the backward countries hope to enter the high road of rapid economic growth. The task of such a revolution would be to overthrow imperialist domination, eliminate the parasitical elements of the economy, and mobilise the surplus freed in this and other ways for the task of economic development.

This in brief is Professor Baran's argument. A summary, how-it; it can only hope to convey some ever long, cannot do full justice to of its flavour. To keep the flavour pure, no reviewer's comment were interposed. It is now the turn of some criticisms.

The chief criticism is that a rather facile view is taken of economic growth once the socialist revolution is accomplished. This appears to stem in part from Professor Baran's own qualitative estimates, and from Dr. H. Oshima's unpublished quantitative estimates, of the potential surplus available even at the current level of output of backward countries, but wasted by their present economic and social systems. According to Dr. Oshima's estimates, which Professor Baran quotes, the wasted surplus was, in Malaya (1947) 23 per cent of gross national product, in Ceylon (1951) 20 per cent, in the Philippines (1948) 16 per cent, in India (undated) 10 per cent, and in Thailand (undated) 26 per cent. No indication is given as to how these estimates

have been compiled. But if the same conceptual basis was used as that adopted by Professor Baran, then they substantially overestimate the potential available for mobilisation in the service of economic growth. In the first place Professor Baran includes in the potential surplus all military expenditure. But the socialist revolution will not bring the backward countries into some hypothetical world united in a socialist commonwealth which will enable them to dispense with armies and armaments. Secondly Professor Baran's potential surplus involves some double counting. He includes not only the excess consumption of the upper income groups but also the output of workers engaged in manufacturing "luxury articles of all kinds, objects of conspicuous display and marks of social distinction." But the latter are what the rich consume all over again.

The tremendously high rates of economic expansion in the Soviet Union and the countries of Eastern Europe have been achieved not merely by the mobilisation of Professor Baran's potential surplus, but also by freeing resources through an initial reduction in standards of living of the bulk of the population, which is excluded from Professor Baran's concept. That the reduction was relatively short-lived in the Soviet Union and has been or is likely to be so also in Eastern Europe, and that after this initial phase high rates of expansion and large increases of living standards are fully compatible, is simply an illustration of what a high rate of investment can do, and does not affect the

issue, which is the difficulty of getting a country launched on a rapid expansion. This is not to say that Professor Baran draws no attention to difficulties — he discusses at length, for example, the risk which a country, whose principal source of surplus is agriculture, runs in seeing it dissipated by an expansion of peasant consumption made possible by land distribution, elimination of money-lenders, etc. It is only to say that the difficulties are greater than he acknowledges.

Turning to 'another matter, one finds in the book both the fresh and the stereotyped approach, side by side'. To instance two cases in the former category: there is a discreet jettisoning of the myth of the absolute pauperisation of the proletariat under capitalism — even relative pauperisation seems to be discarded; and there is a discussion of the desirable rate of growth of the capital goods producing sector of the economy under socialism, which is presented as a choice depending on circumstances and not as capable of only the single answer — that it must grow faster than the sector producing consumer goods — which in the Soviet Union is elevated to the dignity of a "law of socialism" and treated as taboo.

On the other hand, the treatment of population growth is on stereotyped lines. It is of course true that Malthus' doctrines, not only on population, gave much comfort to the most reactionary classes of his day. Marx, therefore, went for him hammer and tongs. In our day, misanthropic and racialist views are often concealed under expressions of con-

cern at the speed with which population is rising. But at the same time a plausible and rational case can be made for the view that, even under the best regulated of systems, the economic development of certain backward countries could still benefit by a reduction of their rate of population growth. Professor Baran however does not make any distinctions: "population pessimism" is despicably reactionary; conversely, "population optimism" is progressive. This, puts the Vatican on the side of the angels, and Professor Baran quotes at least one ardent Catholic writer in support of his case,

One other critical point could perhaps be profitably made. At the end of the book Professor Baran makes a plea for a distinction between irrationality and error. Capitalism is irrational; the Soviet Union, Eastern Europe and China have committed errors. This distinction is treated as axiomatic throughout the book, as if the placing of the dividing line between irrationality and error was not a subjective matter. But

it is, and therefore a reasoned case should have been made for the position adopted, particularly since this book does not seem to be designed mainly for the converted. Here is an illustration that the matter is not as straightforward as Professor Baran seems to think. In Yugoslavia and Poland official economists have evidently been persuaded from their experiences that administered prices are bound to lead not just to errors which can be corrected as they occur, but to irrationality; they have come therefore to favour the market mechanism instead. This is not to say that they are right, but that what Professor Baran treats as an axiom is a case that needs to be made.

A review that did not probe for weak points would fail to perform its function. If this is borne in mind, the catalogue of criticisms should not give a misleading impression of the quality of the work reviewed. Professor Baran has in fact written a book which will repay close study by Marxist and un-Marxist economists alike.