

Economic Change

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ECONOMIC CHANGE¹

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WE MUST be grateful to Professor Kuznets for having brought together into a handy volume a series of notable essays, whose composition was somewhat spread out in time. While they comprise a few statistical exercises, their two principal ingredients are methodological discussion and broad historical survey. In both these fields Kuznets is revealed as a thinker of very high quality. His reflections are intensely interesting and provocative; they are also weighty. The value of his surveys is greatly enhanced by the expertise due to his prolonged statistical researches. It is remarkable how a sureness of touch as regards the quantitative significance of the factors involved increases one's confidence in an author's historical generalizations—all too often the most unconvincing of all types of proposition.

Kuznets avers that he would not have included some earlier pieces, did they not “still seem relevant.” There is no need for any apology for the two articles, on cycle theory and on dynamics, published in 1930. They are remarkable not only for their anticipation of the kinds of problems that have worked their way to the forefront of economic consideration since 1930 but also for their qualities of balance and judgment, which are such that the essays might well stand, with suitable changes of wording, not as *ex ante* proposals for research but as *ex post* criticisms of research achieved. The importance of lags is recognized by Kuznets, but the natural enthusiasm, soon to be engendered by the successful construction of models based on a lag analysis, caused too little attention to be paid for a time to the other

types of approach that Kuznets also recommends.

He has included a theoretical and empirical inquiry into the “acceleration principle,” using the then (1934) appropriate formulation by J. M. Clark. His theoretical grounds for softening the principle are acceptable; his statistical researches do not appear to confirm it in its rigid form. Whether they are inconsistent with theories that only expect partial fulfilment and, indeed, claim that it is the actual *non*fulfilment of the ratio of capital formation to production increase required by the principle that gives the dynamic impetus to a system is another matter.

There is a notice of Schumpeter, which is fully appreciative of the depth and breadth of that master's work, while maintaining justifiable reserve about the validity of what may be considered his central theory.

Much space is occupied by two inter-related essays of great interest, one on the extent to which differences of countries' national incomes, as shown by current accounting methods, accurately measure genuine differences in their standards of living, and the other on the extent to which a recorded increase of national income through time measures the increase of economic welfare that has occurred. In the former case he cites the omission of many of what are called “tertiary” services—though not by him—from the accounts of underdeveloped countries and the inclusion as income in developed countries of what are really only costs of having a modern productive system. Thus he is on the side of those who would regard many governmental services as costs of production rather than as final products; but this is only part of a most intriguing analysis. Its effect is to bring the

¹ A review note on Simon Kuznets, *Economic Change* (New York: W. W. Norton & Co., 1953). Pp. viii+333. \$4.50.

various countries somewhat nearer together. While most of his reasoning carries conviction, I would protest against his reiterated statement that a man who really had only \$40 a year would starve to death. There is a well-fed complacency about this statement which is uncharacteristic of its author, who in all other respects shows himself a man of imagination.

In this essay to some extent, but more markedly in the one on increasing income, Kuznets appears to imply that, subject to all his reservations, an increase in income of so much per cent might be expected to measure an increase in economic welfare of that much per cent. He appears to be oblivious of the great controversy, which has been raging fiercely among theoreticians all the while that he was getting on with the job of measurement, as to whether there can be more than an ordinal assessment of economic welfare. According to this school, one can say that a man (or group) was better (or worse) off in 1953 than in 1952 but not that he was better off by the percentage shown in the National Income Statistics or by any other percentage whatever. It is not merely that a percentage increase in welfare might be practically difficult to measure but, according to this school, that any attempt to make such a measurement is, in principle, fallacious. Such a view would cut the ground from under most of Kuznets' nice reasonings.

It may be that he regards all this sort of thing as hairsplitting. But, if he does, a still more curious result emerges. If one rejects the "ordinalist" position, one surely accepts the "law of diminishing utility." This necessarily tones down the differences shown in national income statistics, whether by time or by place. A man who has twice as many dollars a year as another is not nearly twice as well off in economic welfare. Now, oddly enough, Kuznets shows recognition of the main principle of diminishing utility in developing a statistical refinement. He observes (p. 207) that national income statistics may *underrate* an increase in welfare,

because, being based on market values, they give too little weight to an increase in necessities and too much to an increase in luxuries. The point is well taken. This is to develop a corollary of diminishing utility theory, while ignoring the main substance of the theory, to take the subtle point and overlook the simple one. Other famous economists have done likewise. The law of diminishing utility entails that national income statistics *overrate* increases in economic welfare and reduces the real increase of welfare below its money measure by more than all the factors analyzed with such skill by Kuznets.

In another essay he proceeds to ask why different nations have such different income levels. A momentous question! This is the most controversial in the volume; it is wise and penetrating; Kuznets makes no dogmatic claims; he would not urge that his conclusions are more than provisional. I would add that at least some parts of the essay leave me unconvinced.

He adopts the fashionable, but to my judgment very paradoxical, tendency to minimize differences in the human stock. One must admit the matter not proved. But when differences of hereditary endowment within nations and, indeed, within families are so great, it is odd to hold that international differences are unlikely. Kuznets argues somewhat hastily that economic pre-eminence has appeared and disappeared in various nations—Mongols, American Indians, Negroes—and that there has not been time for their racial characteristics to have changed. The matter cannot be dismissed so lightly. Elaborate mathematical analysis is required. It must be remembered that very high death rates have prevailed.

It may well be that there are great differences in average endowment as between whole races. A much more modest hypothesis would suffice to invalidate Kuznets' summary dismissal of the importance of human stock. In discussing Schumpeter, while refusing to accept his main framework, Kuznets does not reject with con-

tumely his view that the great innovators are quite few in number. On this view it might well be that the economically successful nations owe their success to their comprising within their total populations a fairly small number of good stocks, which might easily be eliminated in a fairly short time—or created by favorable mutations.

On the whole, Kuznets opts for free enterprise and political democracy as the conditions of economic progress. I am confident that this is seeking for causes on the right plane. Yet one has an uncomfortable feeling that these agreeable expressions come a little too easily; are they completely detached? Political democracy does not fit the case of Germany—to which Kuznets attaches great importance—since she enjoyed it for only a very small proportion of the period of her economic uprising.

Is it possible that free enterprise, political democracy, and economic progress are alike the effects of some more general cause? Kuznets is interested in the geographical limits of the area of high economic progress; he attributes much to the agrarian and industrial revolutions of England in the eighteenth century and to her direct and indirect influence. Can we go behind England?

I suggest for consideration that there are some deeper characteristics than political democracy and free enterprise, characteristics which may tend to result in those benefits but do not invariably do so, namely, freedom of thought, a willingness to apply reason to social and economic questions, and an adaptability of mind and practice. I further suggest that these characteristics have their origin in the civilizations of Greece and Rome and that the areas of high economic progress will be found to be those in which the Greco-Roman civilizations, exerting their influence through the Renaissance, have had a direct or indirect influence. I need hardly add that this cannot be tested by present-day interest in classical literature, since the classical idea is deeply imbedded in the current literatures and thinking of the United States, of the western

European countries, and of other nations having a similar cultural background.

Kuznets, painting with broad brush strokes, shows the industrial revolution and its consequences as lifting certain sections of humanity out of a preceding and circumambient poverty. He does not look back much beyond eighteenth-century England. It is important to remember that England had been enjoying high civilization for two centuries before that, which manifested itself not only in literature and the arts but also in the common law, habeas corpus, a nice political balance of power—albeit not quite “democracy”—and great progress in commercial and currency arrangements. These two centuries may have been a necessary gestation period for the great economic innovations that were to follow.

Kuznets finds the European tendency to extend sovereignty over other regions inimical to economic progress in those regions. In the long run, of course, political independence is desirable. But it may be that the extension of sovereignty over other nations not hitherto influenced by the Greco-Roman mental attitudes by nations deeply influenced by them has served to promote those attitudes among the dependent nations by what would inevitably be a gradual process. Kuznets implies, I think, that an early withdrawal by Europe is desirable. That follows directly from finding the cause of economic progressiveness to lie in political democracy.

But if political democracy and economic progressiveness are alike effects of a deeper cause, then the argument takes a different turn. Kuznets' idea that dependence is unconditionally bad gives place to the British idea that there should be withdrawal of sovereignty only when the region in question is “ripe.” This means that it needs to be sufficiently infused with what I have called the Greco-Roman attitudes, that is, with adaptability of mind and a habitual willingness to apply reason to the relevant problems; only when that infusion has been carried far enough, is there hope

of economic progress—except, as Kuznets recognizes, by totalitarian methods. But he holds, probably correctly, that totalitarian progress is essentially imitative.

The later essays advance to the postwar problems. In his fine concluding piece Kuznets shows the need for new American thinking in relation to the world economic situation. I fear that some non-Americans will adopt a complacent attitude to this essay,

deeming it to confirm their facile adjurations to the Americans to think again. But it is their responsibility to do this new thinking, no less than that of the Americans, who are remarkably hospitable to new ideas, if only they are well founded. Kuznets' penetrating analysis should provoke new thinking in all lands—or at least in all whose mental processes have been touched by the classic wand!