

American Project
C/56-32

**THE RELATION BETWEEN POLITICAL AND
ECONOMIC DEVELOPMENT**

**(Informal Talk given at The Foreign
Service Institute, Washington, D.C.
October 31, 1956)**

W. W. Rostow

**Center for International Studies
Massachusetts Institute of Technology
Cambridge, Massachusetts**

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The relation between political and economic development is, on most definitions of the problem, the key relation which underlies American foreign aid programs. Since the end of the Second World War, almost without exception, the ultimate objective of these programs, from UNRRA to the Indian surplus food deal, has been not economic but political. Much of the most cogent criticism of foreign aid centers around the possibility that economic assistance may produce political results which are neither democratic nor stable nor, in other respects, harmonious with the American interest; and around the fact that we face many circumstances where economic aid, taken by itself, is evidently an inadequate solution to the problems we confront.

So far as I am aware there is no definitive, generally accepted answer to the question: what is the relation between economic and political development. And the reason there is no answer is that our departmentalized social sciences have not interested themselves in a systematic way in the problem of how economic and political processes interact. On the whole we tend to be much too Marxist in this area, accepting, consciously or not, rather primitive links between economic and political development.

I wish to make it quite clear, however, that, while I am going to present certain positive propositions today, I regard my own knowledge in this field as ill-formed. I am caught up academically in exactly the same process of trying to learn that many of you are who handle desk positions, where this problem is part of your living environment; and the spirit of this talk is one of tentative exploration.

When Max Millikan and I wrote our memorandum on economic foreign policy, we made the relationship between economic and political change central to our thesis. Chapter 3 is designated "The Development of Mature Democracies"; and there we try to lay out six potential consequences in an underdeveloped society of the people's turning their energies successfully to the process of economic growth. The six consequences are these. First, the challenge of economic development may help capture the imagination of leaders and an ever-widening segment of the population, and thus serve as a unifying constructive outlet for the tremendous raw energy at work in the underdeveloped areas. Second, a successful development effort tends to force unity between classes, and as among the various regions of the country. Many

of these societies are emerging from regional structures in which national unity and a sense of community among classes was not present. In its widest sense a successful economic development program can help produce a better integrated society. The third thing a successful growth program can do is to develop new young leadership, capable of carrying forward a steadily modernizing society. Fourth, such a program can increase social mobility, offering a widening range of possibilities and choices for those whose previous horizons had been fixed at the level of their class and caste. Fifth, and related to the mobility question, a consistent economic development program can make a link--often a decisive link for political stability--between the urban intelligentsia and the peasantry. Sixth, and perhaps most important, a successful economic development program can give the peoples of an underdeveloped area confidence--confidence in a rather special sense. If you look at what we now call "the revolution of expectations", it means in simplest form that men are beginning to accept the proposition that it lies within their own capabilities to alter their environment, to help shape their own destinies. A great deal of the trouble in the underdeveloped areas comes about when this level of expectations rises, but the conditions have not been created to fulfill them. One of the consequences of a successful economic development program is that a society can be suffused not merely with high expectations--because these alone can be dangerous--but with a sense that they can move forward by their own efforts.

These are propositions about the potentials of a successful economic development program which I would be prepared to defend from both historical and contemporary experience. These are things which have happened in many societies and can be made to happen. I don't think that either Millikan or myself would be inclined to back away from anything that we have said; but we are keenly aware that this is an incomplete statement of the relation between political and economic development and that there are a number of questions which we didn't pretend to answer, which, in a sense, we begged in our Chapter 3. For example, if it is agreed that these are six things economic success can do politically, what about the following question: how can political structures frustrate economic development? It is not necessary to look very far around the world, in areas where the United States has interests and bears responsibility, where we know that an inadequate political framework now blocks a successful economic development program and blocks also the unfolding political and social process summarized in the six factors. One might also ask how economic aid, without an appropriate political framework can have negative economic, social, and political consequences. And we do not have to look far to discover this to be a real, not theoretical problem.

I plan later in this talk to return briefly to certain propositions about American policy derived from the analysis I am presenting today, but before I do that, I shall try to get some kind of intellectual order into this problem. I am going back to fundamentals. I am going to start by describing my own conception of the three stages in which it is useful to view economic growth; and then I shall try to relate the process of political development to these three stages.

Some of you who have read our memorandum on foreign aid may know these three economic growth categories, and should some be interested in examining the case for them, you may wish to read the article on the take-off in the *ECONOMIC JOURNAL* for March of this year [1956].

My view is that the process of growth can be viewed both historically and in terms of contemporary societies as unfolding in three stages. The first stage is that in which the preconditions for take-off are established. Starting with a static, often feudal, agricultural society (like eighteenth century Japan or Russia), what first happens is that a few men within the society begin to get the idea that change is possible. This has come about by different routes. Sometimes it is brought about (as in China) by the impact of foreigners who wanted trade and were prepared to impose trade on an otherwise relatively stable and self-sufficient society. Colonial rule has been, of course, a major route for imparting the sense that men can, to a degree, control their environment. But sometimes the process starts by casual knowledge of what is going on in the rest of the world introduced by travel, missionaries, and so on.

One of the first things that is then likely to happen is what happened in Ireland and China at the end of the seventeenth century: from this contact with the world outside, some tricks of easy increase in productivity are picked up. It was, for example, the potato and sweet potato that then started Ireland and China on the road to progressive population increase. In modern times one of the easiest things to pick up and to diffuse in a society is knowledge of the tricks of public health, which is likely to drive down the death rate more rapidly than output is increased in the preconditions stage.

And so you begin, in the early stages of growth, by acquiring some modern techniques which begin to set the society into motion on the population side and on the side of agricultural output. Then (or perhaps simultaneously), as contact with the outside world widens and the urban centers grow, you begin to get enclaves of modern economic activity, often associated with expanded domestic and foreign trade. In Japan before the Meiji restoration [1868] the growth of population led to the development of a national grain market; and there emerged a whole group of merchants oriented towards national rather than local economic activity. During this precondition stage some manufacturing by modern methods is likely to develop as well. But the society remains basically agricultural and remains structured around the old stable agricultural system. There are enclaves of modern activity in trade, banking, and a little industry; but these enclaves are not sufficient to set in motion a self-reinforcing process: economic, social, or political. I should think we might describe contemporary Indonesia and perhaps even Pakistan as in this preconditions stage, where you have still fundamentally an old agrarian structure, influenced at many points by modern economic activity but where there is still no really powerful momentum towards modernization.

Now historically there comes a moment in this sequence, after the preconditions are gradually built up, when something hits the society which transforms these limited, damped modern economic activities into a self-reinforcing growth process, and the take-off begins. What kind of things have triggered take-offs? Sometimes they have been triggered by a straight economic process. The first of the industrial revolutions (that is, in Britain late in the eighteenth century) was triggered by the simultaneous coming into effect of three or, perhaps, four inventions: the fall in of Arkwright's spinning patent; Watt's creation of an efficient steam engine; the definitive solution to the problem of using coke to make iron; and then Eli Whitney threw in the clincher with the cotton gin, guaranteeing a cheap abundant supply of raw cotton. In Britain there was, of course, a societal environment well geared to modern economic activity, all set to absorb these inventions. And leaning heavily on the new factory cotton textile industry, away they went.

The American take-off (1840-60) was also triggered by economic events. First, in the 1840's, the railway net was developed in the East. By the end of the decade a shortage of food in Europe emerged. This led directly to the building of the railway net out as far as Wisconsin and Minnesota, to exploit the profitability of the Midwestern wheat lands on the world market. The creation of the tremendous rail network in the 1850's, in its direct and indirect consequences, pushed the United States into sustained industrial growth. The Russian take-off is, incidentally, very much like the American. It was triggered in the 1890's once again by a world wheat shortage which made it profitable to run the Russian railway system into the Ukraine to get the wheat out to favorable Western European markets. The building and maintenance of a national railway system helped to stimulate the building of a Russian heavy industry base. The availability of new grain exports helped to stimulate the building of a Russian heavy industry base. The availability of new grain exports helped finance heavy imports of foreign capital.

There are some take-offs which have been triggered by political rather than economic events. The Japanese take-off is a classic example; and we are now observing such cases in India and China, where new governments come in representing aspirations different from those in the past, including among their aspirations economic growth. If the preconditions are roughly prepared, they can launch, from a governmental base, a self-sustaining growth process. There are such cases even in Western Europe. It was the revolutions of 1848--the new kinds of men and social groups that came into power, and the energies that were released--that really sent France and Germany into their take-offs.

In short, a take-off can be started either from the side of political or social change or from some radical economic development. I believe it possible to date these take-off periods with reasonable precision for most growing economies in the world. They generally last about twenty years. Why twenty years? Well, before one can be sure an economy has taken off and is not merely enjoying a kind of one-shot spurt in economic activity, it must demonstrate that it can undergo successfully a massive structural change and still maintain momentum. Take, for example, the United States in the 1840's and '50's. The 1840's saw a great railway and public utilities development along the Eastern seaboard. That worked itself out in the crisis of 1847 and was followed by depression. In the 1850's, however, the United States demonstrated that it had a sufficient pool of entrepreneurial skill, it had sufficiently mature instruments for capital formation, a sufficiently skilled and motivated working force to shift the whole direction of its development successfully away from the Eastern seaboard out to the West. This ability to adjust to changing circumstances-- to shift the direction and character of enterprise and capital formation-- is the touchstone of growth and the take-off. Earlier in our history-- roughly from Jefferson's Embargo to 1815--we had enjoyed a spurt of industrial activity, just as many Latin American countries have had one-shot spurts before they began to take-off. But in 1815 the American economy did not have the resilience in its industrial sector to survive the shock of the return of British imports. We lapsed back to our status as a predominantly agricultural society. To prove that you've really taken off and that it's not just a one-shot spurt you must demonstrate that you can make these structural adjustments; that's what a take-off does; and that has taken about twenty years, in the historical cases available.

Now, after the take-off, in economists' language, what has happened is that the society has built into its fabric a sufficiently high level of investment and a sufficiently high productivity for that investment (which means a large pool of able entrepreneurs) so that, as a normal proposition, its economy is growing; that is, it yields a regular increase in output substantially higher than its regular increase in population.

With the kind of population increases that one normally observes in an underdeveloped area, this means that the rate of productive investment must be round about 10 per cent of net national product or national income. Once this happens to a society it has growth built into it. This doesn't mean that its troubles are at an end--its troubles are endless--but that an increase in output per head is one of its built-in characteristics, and its economic problems tend to be those of structural adjustment or unemployment or balance of payments (which is another kind of structural problem). But in any case, it's over the hump into sustained growth.

Now against the background of preconditions, the take-off, and growth, let's turn to the political process that has tended to accompany these economic stages.

For certain countries--we might call them the lucky countries of the world--there has not been any great political change required to move from the stage of preconditions to growth; although I will modify that observation in a moment. Nevertheless, it is true that eighteenth century Britain was a society geared up in such a way that it could smoothly move into industrial growth. There was, of course, the Reform Bill crisis of 1832, stemming from the rise of the industrial middle class, and the Corn Law crisis in 1846; and then, later, the crises which gave the vote to the industrial working class and to agricultural workers. Finally, just before the First World War, came probably the most revolutionary of them all: the acceptance of the progressive income tax. But from 1783 to 1914 this was an on-going political and social system that did not require violent change either to permit growth process to get going or to deal with the subsequent social and political problems that the growth process helped to generate. Canada belongs in this group. Sweden belongs in it, and the United States as well; although we should remember that part of the structural process of our political and social change took place through a bloody civil war. But despite the fact that the transition into industrial growth in Canada involved a new constitutional structure, in Britain required a series of important political crises, and in the United States yielded a civil war, when we talk about the underdeveloped areas we are considering political and social problems of a different order than those faced in the lucky countries which had a long pre-industrial history of Anglo-Saxon (Scandinavian or Teutonic) law, values, and politics.

The more usual case in the contemporary world, and the more difficult case, is that of the traditional, static society that is undergoing the preconditions into growth. What is the essential thing that happens politically when this society begins to move out of the traditional structure into the precondition stage? What happens is that it tends to become, for the first time, a meaningful nation. Nationalism, historically, as well as on the contemporary scene, is the most usual political force and human motivation which lies behind the surge into economic development.

In the precondition stage, then, a regionally based society and politics, centered in agriculture, transforms itself into a meaningful national unit. The patterns by which this has happened vary a good deal. We have Bismarck in Germany; the Meiji restoration in Japan; the tormented modern experience of China; and in Turkey we have seen Ataturk engineer one of the most interesting of these transitions.

In substance the task of creating a nation consists in rallying and organizing the various (otherwise quite possibly discordant) interests which for one reason or another oppose the old regional structure and wish to supplant it with a modern national organization. This requires that the groups with vested interests in the old regional structure, often associated with feudal land tenure, be defeated or won over. Bismarck, as you know, built German unity on a curious alliance between the industrialists of the West and the Prussian landholders in the East. The Japanese alliance that made the Meiji restoration was an odd grouping of clans which had been left out of power in the Tokagawa era--grain merchants and samurai. The political leaders in the precondition phase tend to be strong men capable of rallying around themselves all the diverse, clashing, ill-formed forces which want a nation rather than a continuation of the old regional structure. It is because their political base is so ill-formed and ad hoc that charismatic leaders--as the behavioral scientists say--tend to turn up. Effective leadership in these chaotic circumstances often requires men who, in their person, seem to incorporate transcendent values and objectives around which orderly, stable political groups have not yet been organized. History and the contemporary scene afford a considerable list of these characters: from Bismarck and Ataturk down to Chiang Kai-shek, Peron, Nehru, Magsaysay, and Nasser. They have been men of the transition, helping to create, more or less successfully, the conditions for a modern unified nation and a growing economy.

Now, if the American national objective in these transitional areas is long-run economic growth and an unfolding, reasonably stable development of democratic political and social processes, what is it that we want from these leaders?

As I said earlier, their great motivating force is usually nationalism; and their first job, in a sense, is to consolidate effectively their political power and the new institutions of a national state. Inevitably this must divert a portion of their energies. But there is likely to be a further claim on them. Almost without exception when nations are formed from old regional units, or out of a colonial administration, they have suffered some national indignity; and as the new nation forms up, it immediately finds on its agenda some external goal or ambition the achievement of which represents the successful assertion of status on the world scene. Germany, when it was formed up, keenly aware that it had arrived late, immediately began to see all kinds of angles to play in both Eastern and Western Europe as well as in Africa and the Middle East. The Japanese,

when they had consolidated at home and looked around in the 1890's, immediately could see all kinds of adventurous possibilities on the Asian mainland. Ataturk had to deal with an accumulation of bad memories and had aspirations, notably in relation to Greece. Pakistan and India have Kashmir; Indonesia, West Irian; while Nasser has the Canal, Israel, and an Arab empire as the gleam in his eye. And so you are likely to have this problem: to what extent shall this newly organized nationalism channel off its energies, talents, and resources into external adventure or the redress of believed ancient wrongs.

The third channel for the new nation's energies is, of course, the economic and social modernization of the domestic society.

Out of the transition, then, emerges a leader, or a group of leaders, who harness the new national energy and ambition to some mixture of these three goals: domestic political consolidation, external adventure, and economic and social modernization. And my fundamental proposition is that the outcome, in terms of both the economic and political processes, depends on the balance and proportion in which the leadership pursues these three possible objectives. If they are kept in balance, and especially if adequate energies, talents, and resources are thrown into the modernization of the economy, you have a chance of setting in motion an on-going economic, social, and political process which is reasonably stable and benign for the world outside. This was the achievement of Ataturk and it is the promise of Nehru.

If the leadership dissipates--or is forced by circumstances to dissipate--its energies, talents, and resources on the first and second tasks--of internal and external power--there is trouble at home and trouble for the world at large. Chiang Kai-shek, for example, caught up in incredibly difficult circumstances after 1927, set his heart on domestic political consolidation as a prior objective to economic, social, and political modernization in China; and he helped bring about his downfall by this lack of balance. Rhee is focussed disproportionately on his enemies to the north. Diem has been forced to devote his first two years to political consolidation at the expense of domestic economic and social progress. Nasser is strikingly out of balance in pursuit of external power. And so on.

The major gap in Millikan's and my analysis, then, is that we did not address ourselves to the problem of these intermediary transitional figures who play such a large part in contemporary foreign policy. In short, we did not deal with the politics of the preconditions period.

From the view presented today emerges the formal proposition that economic progress and political stability require that the raw energies released in the preconditions period be harnessed, in decent proportions, to the constructive domestic tasks of modernization and that they not be dissipated in the consolidation or pursuit of domestic or foreign power.

If this proposition is correct, how does it bear on the American national interest and on U.S. policy? Briefly, it is our interest to see the powerful nationalism at work in the world turned, in substantial degree, to domestic tasks of modernization by progressively more democratic processes; that adequate resources and energies also be devoted to the maintenance of strength against external aggression; and that the pursuit of power abroad by means of force be minimized. The appropriate balance will vary, of course, from case to case and from time to time. But if some such disposition represents the broad American interest what can we do about it? Essentially there are three things we can and should do.

The first thing to do is to make the external military expression of nationalism as unattractive as possible. This requires something more in our national policy than the sending of cautionary cables from time to time or even the maintenance of vast strength in nuclear weapons. It requires both the existence in being of an American military force capable of conducting limited warfare and the evident will of the United States to use it if it is required to keep some order in the world.

The existence of such a force and such a doctrine would not encourage new Koreas. The lesson for limited war is the general lesson about war: you minimize the chance of having war if you are prepared in fact and in spirit. Over the indefinite future even in a world where atomic weapons have been put under effective international control we shall need some form of limited force and the evident will to use it, either unilaterally or through the United Nations to make sure, in this world of rising expectations, where some fellows from time to time are bound to have hop-headed dreams, that the rules are kept. So an effective deterrent is the first requirement. This doesn't mean that we want to frustrate the rise of the new nations to positions of increasing responsibility and authority on the world scene. It does mean that we want to discourage a disproportionate effort to enlarge their area of control and, especially, to make as unattractive as possible the external expression of their nationalism by military methods.

The second task is to make as attractive as possible the channelling off of their energies into economic and social growth and, generally, into the modernization of their societies by the techniques of consent. We require a powerful incentive, sufficiently attractive to draw men towards the difficult homely tasks of economic development. It is, essentially, the nature of the carrot which is described in our economic foreign policy memorandum.

Third, we must use our direct and indirect influence in these societies-- such as it may be--to help encourage the rise of men who have the insights and capabilities to lead their people not only in self-reinforcing economic growth but in the development of democratic social and political institutions.

There is no point in evading the fact that these three propositions involve an attempt to interfere in the evolution of other societies. But, given American power, interference is unavoidable. We are interfering all the time, whether we act or fail to act. We interfere if we have an aid program in South Korea; we interfere if we don't have an aid program in South Korea. And so on down the line. The task of American policy is not to delude yourself that we are, in fact, respecting other people's sovereignty. In a world as intimately interacting as ours you cannot respect sovereignty in the old purist sense, notably if you are the major power. Our task is to make sure our limited--but real and unavoidable--margin of influence is well and effectively used.

The line of thought I have presented to you today is extremely preliminary and tentative. The rather primitive logical chain I have sketched in begins with the notion that in the precondition stage of economic growth you are moving out of the traditional society and its politics and releasing and mobilizing nationalist forces and sentiments. This nationalism can take a variety of forms, of which I focussed on three: domestic consolidation, external aggression, and modernization. If societies going through this transition are to be both tolerably stable and progressive more democratic, a high portion of the nationalist energy has to be channelled into domestic constructive tasks. Some of the men who have come to power in these transitional circumstances have built into them--into their sense of the situation and their ambitions--a remarkable sense of balance. Some of them have not. Many of our difficulties arise from those political leaders in the precondition stage who don't have a balanced sense of direction, who lack the will and purpose and the ability to use the nationalist sentiment which supports them for purposes of domestic modernization--economic and otherwise.

Under these circumstances the task of American policy is to use such influence as we have on the evolution of those societies to help fulfill the conditions for relatively stable concurrent economic and political development: first, by making the external violent expression of nationalism unattractive; second, by setting up very powerful incentives for the channelling of this nationalist sentiment into constructive economic and other tasks; and third, to assist, where we can, the rise of men who will take the third outlet for nationalism as a major, if not a primary, goal.

Now, finally, what does this view have to say about the relation between economic and political development and policy? Is an economic policy capable of producing the political results we want? Or is the right political setting required to produce the economic result we want? My answer is that both propositions are true. A take-off is impossible unless a reasonably satisfactory political setting for it has already been established. A condition for take-off is the prior creation of a political system in which a sufficient proportion of the new nation's energies, talents, and resources are channelled into the task of modernizing the economy to complete the technical conditions demanded by the precondition stage and to launch (or accept) the impulses leading to take-off. Once a take-off starts, however, successful economic development can powerfully carry forward the process of political and social development, producing new leaders, attitudes, confidence, and many of the conditions required for long-run political viability.

W. W. ROSTOW