# What Causes Successful Late Development?

# Insights from History

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## I. Introduction

Diagram 1 demonstrates that there exist extremely large differences in real income per capita between highly developed and less developed countries, especially some of the least developed ones in sub-Saharan Africa.

[diagram 1]

As the underlying domestic currency figures of GDP have been recalculated into US dollars by using purchasing power parities the distorting effects of exchange rates in such comparisons between developed and underdeveloped economies cannot be made responsible for the fact that for example the GDP per capita of Ethiopia in 2004 was only two per cent of the American or of Ghana five per cent. Thus the diagram truly indicates how poor many African countries are today, even in relation to less developed countries in other continents.

That, however, was not always the case which can be seen from diagram 2. It is drawn up in a similar way as the former one, with countries arranged in the same order, except for a different scale on the vertical axis. Therefore it is clear that already at the beginning of the 1950s differences in real income per head were quite large. But when comparing the two diagrams it also becomes obvious that economic growth between then and now was very uneven in the countries shown.

[diagram 2]

Then African countries – still colonies in the majority of cases – looked much better in relation to other developing parts of the world. Furthermore, experiences of Argentina and South Korea appeared to have been very divergent. The former, according to its average income, seemed to be almost a highly developed country in 1950, whereas South Korea still was poor. The GDP per capita of Argentina then was five times the one of South Korea. But today the relationship has reversed with Korean GDP per head more than double the Argentinean one. Similar observations can be made for China on the one and Tanzania and Ethiopia on the other hand. In 1950 all three had a similarly low GDP per capita, whereas in 2004 GDP per capita in China was seven to eight times that of Tanzania and Ethiopia.

The same result naturally can be obtained if annual growth rates are considered.

[table 1]

Moreover, table 1 shows that the economies of developed countries still grow quite dynamically. That means for convergence to be achieved – with convergence towards income and productivity levels of developed nations being at the same time an indispensable corollary and the result of the development process – less developed countries have to grow with extremely high rates over decades. A good illustration of this fact is again provided by South Korea. There growth rates have averaged 5.5 per cent per year for five and a half decades, before today the country has joined the club of highly developed nations (see diagram 1). On the other hand Argentina and all African countries shown in the table have not achieved the growth rates necessary for convergence over a longer period, not even during the decades before 1980 when some of them experienced average annual growth in the range from 1.5 and 2 per cent. It even appears that from 1980 onwards divergence rather than convergence has been the fate of these countries. Thus an optimistic note with which the well-known economic historian Richard Easterlin in 1980 closed his presidential address to the (American) Economic History Association seems to have been utterly disproved since then at least for the case of Africa. Easterlin told his audience:[1] "Will modern economic growth and its underlying technology continue to spread? Will the majority of the world's population in Asia, Africa, and Latin America be joining before long the minority? The answer suggested by my reasoning and by contemporary experience is yes. Since World War II growth of mass education has become a widespread phenomenon in the Third World […].[2] And in this period rates of economic growth have surged sharply upward in many Third World countries."

But Easterlin is of course not alone in seeing a simple recipe for development being disproved through reality. Rather this was the fate of many such alleged development strategies advanced by politicians, economists or national and international development agencies, be they capital formation, import substitution, export promotion or else.[3] The same is true for various new "Marshall Plans", as for example the one recently demanded by the British Prime

[1] Richard A. Easterlin, Why Isn't the Whole World Developed?, in: Journal of Economic History [JEH] 41, 1981, p. 15

[2] In his speech Easterlin had argued that mass education was the precondition for underdeveloped countries to adopt modern technology which then will lead to rapid growth.

[3] A good review article on this subject is provided by Henry J. Bruton, A Reconsideration of Import Substitution, in: Journal of Economic Literature[JEL] 36, 1998, pp. 903-36

Minister Tony Blair which led to the 2005 G 8 decision of Gleneagles (Scotland) to write off the external debts of the poorest countries. Another allusion to the Marshall Plan is provided by the economist Jeffrey Sachs, the director of the UN Millenium Programme, in a book, where he argues for huge increase in development aid.[4] However, foreign aid and economic growth are not necessarily correlated in a positive way; in case of Africa they even seem to have moved in opposite directions, as diagram 3 is impressively demonstrating.

[diagram 3]

Therefore one has to admit that a new Marshall Plan might not be of any help for many developing countries in starting a process of convergence. That, however, is less astonishing than it might appear at first sight. After all the primary goal of the historic Marshall Plan was not to stimulate rapid growth in post-war Western Europe; rather it was meant to alleviate the huge Western European balance of payments deficit which was exactly the result of vigorous growth.[5] Even more important, however, was the fact that European nations receiving Marshall aid generally had been developed countries already before World War I. Therefore it was not economic development, but reconstruction which was so successfully supported by the Marshall Plan. In contrast to many less developed countries "social capability", i.e. the competence necessary for the adoption of modern technology and an institutional framework conducive to capital accumulation, structural change and economic growth,[6] clearly was available in post-war Western Europe.

It might well be true that the most difficult part of successful development policy is the achievement in a less developed country of an appropriate level of social capability, after that the process of convergence sets in more or less spontaneously given the current condition of the international economy. It might also be that the path which leads to social capability is a different one for each country which is determined by its specific history and initial conditions,[7] whereas the process of convergence can be generalized more easily. In any case it probably is useful to mentally distinguish *two* phases of development, one dealing with the creation of social capability and the other with convergence. This paper is primarily concerned with the former phase in cases of late development. If history has indeed an

[4] Jeffrey D. Sachs, The End of Poverty. Economic Possibilities for our Time, New York 2005
[5] Alan S. Milward, The Reconstruction of Western Europe 1945-51, London 1984
[6] For the concept of social capability compare the important paper by Moses Abramovitz, Catching Up, Forging Ahead, and Falling Behind, in: JEH 46, 1986, pp. 385-406
[7] Bruton, Reconsideration, p. 926

important influence on the way social capability can be established, then there probably is something to learn from historical case studies of successful and unsuccessful development. That is the topic of sections III and IV. Section III will look at late development in the 19th century analyzing the examples of Germany and Spain. Whereas Germany was able to achieve the necessary social capability during the 19th century, Spain was not. Afterwards cases of late development in the 20th century will shortly be discussed in section IV, namely South Korea and sub-Saharan Africa. However, before doing so, structural similarities and dissimilarities of late developing countries in the 19th and 20th centuries will be explored in section II of the paper.

## II. Aspects of Underdevelopment Today and in Late Developing European Countries of the 19th Century

Diagram 4 is interesting because the data for the early 19th century and the year 2004 are constructed according to exactly the same principles, including the same base year (1990) for price indices. Even if the former figures are partly derived from estimates, they at least roughly indicate the historical size of GDP of the countries shown. Therefore it is safe to conclude that real GDP per capita of many African countries is still quite similar to real income per head of some of today's developed nations in the early 19th century, i.e. before they had started their process of rapid growth. At that time of currently developed nations only the United Kingdom already was about half way through its Industrial Revolution; consequently her average GDP per capita then was on a distinctly higher level than in late developing USA, Germany or Spain and the majority of African countries today. Thus the diagram immediately makes clear the shocking fact that after half a century of development aid many African countries (and some countries in other continents as well) presently have attained a level of development which most of today's highly developed countries had reached towards the end of their pre-industrial period.

[diagram 4]

Of course, there are some more similarities between late developing nations of the 19th century and today's underdeveloped countries, besides very low average income. For instance living standards of the mass of population are extremely poor in all these cases. The extent of mass poverty in some of today's developing countries is shown in table 2. However, mass poverty also existed for example in Germany in the 18th century with more than half the population in the lowest rank of society, i.e. beneath peasant status.[8] Mass poverty persisted in

[table 2]

Germany until the 1850s, a period which was rightly called "pauperism".[9] A proper indicator of the extent of mass poverty is provided by Engel's Law[10] according to which the proportion of household expenditure spent for food is inversely correlated with levels of total consumption. That is demonstrated in table 3 with high shares of food expenditure in most of the developing countries and in a 19th century German working class family and only a small proportion of total consumption devoted to food in some of today's developed nations.

[table 3]

The poor average living standards of populations in underdeveloped countries mean that ordinary people cannot save much for old age. Therefore there exists a big incentive for them to have quite a few (surviving) children who can be trusted to care for their parents when they have become unable to do so themselves. That obviously is an important reason for high fertility and the high birth rates to be observed in underdeveloped countries.[11]

[table 4]

The same was true in today's developed countries during their pre-industrial and early industrial period. Thus from mid-16th century to 1800 birth rates in England mostly were above 3 per cent.[12] And in Germany birth rates remained on a similarly high level until long after 1850.[13]

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[8] Wolfgang von Hippel, Armut, Unterschichten, Randgruppen in der Frühen Neuzeit, München 1995, p. 15
[9] Thomas Nipperdey, Deutsche Geschichte 1800-1866. Bürgerwelt und starker Staat, München 1983, pp. 219-27
[10] Ernst Engel (1821-1896) was a German statistician. He held leading positions in the Royal Statistical Offices of Saxony and Prussia.
[11] Cf. Partha Dasgupta, The Population Problem: Theory and Evidence, in: JEL 33, 1995, pp. 1879-1902
[12] E.A. Wrigley et al., English Population History from Family Reconstitution 1580-1873, Cambridge 1997, p. 614
[13] Peter Marschalck, Bevölkerungsgeschichte Deutschlands im 19. und 20. Jahrhundert, Frankfurt/M. 1984, p. 183

Another indicator of underdevelopment is relatively low human capital formation. A convenient, if not perfect measure for this is provided by school enrolment. Table 5 shows the interesting fact that some European late developers of the 19th century had attained levels of primary school enrolment already around 1850 which favourably compare with African achievements in that respect today. However, secondary school enrolment certainly is higher

[table 5]

in many present day African countries than it was in late developing European countries in mid-19th century; but it is much lower than for example in China.[14] As the technological gap between highly developed and underdeveloped countries is bigger today than it was in the 19th century, requirements with regard to technical competence of labour certainly also are higher. In the 19th century human capital formation of European countries included in table 5 obviously was sufficient for successful late development. However, it is questionable whether it is enough in the case of African countries today. China, presently a country with very rapid growth, at least does a lot more with respect to human capital formation.[15]

The foregoing reasoning suggests that barriers to successful late development are higher today in some respects than they were during the 19th century for European late developers, although the basic problems are still similar. Human capital formation can be considered just as one example for this observation; a sufficiently large human capital base clearly was a necessary condition for late development already in the 19th century, but today it appears that it must be much higher to achieve the same end.

Not only human capital, but also material capital formation obviously has to be much more extensive, in order to begin and follow up the process of convergence. Table 6 demonstrates that investment quotas attained ever higher maximum levels during the period of industrial revolution, the later it had started. Whereas for example in Germany an investment quota below 20 per cent was enough, South Korea’s investment quota reached more than 35 per cent, as does present-day China’s. Investment quotas around 20 per cent, which is what most African countries are able to attain currently, obviously are too low for convergence to be

[14] Gross secondary school enrolment in China is about 60 per cent. Although figures in table 5 are net secondary school enrolment rates, it is clear that China’s performance in that respect is far better than the one of African countries shown; www.unicef.org/infobycountry
[15] That is true also for net primary school enrolment which in China is 99 per cent; www.unicef.org/infobycountry

started. However, an exception was Botswana until the 1990s, which is different from most African countries in other respects, too.[16]

[table 6]

In many pre-industrial societies population pressure was a big problem over long periods. Actually the essence of the writings of Thomas Robert Malthus is that this was more or less inevitable given the determinants of population growth on the one hand and of the expansion of the supply of food on the other.[17] Actually the pauperism in 19th century Germany was mainly due to population pressure which finally was overcome only by the industrial revolution.[18] Therefore it is not astonishing for the historian that population pressure is a major problem in most underdeveloped countries, too. However, the dimension of the problem again appears to even bigger today than it was during the pre-industrial period of currently developed nations. As table 7 shows birth rates in many underdeveloped countries have over decades been higher than 3.5 or even 4 per cent, whereas in pre-industrial Western Europe they generally were lower than that.[19]

[table 7]

Still more important for higher population pressure was the fact that in underdeveloped countries of the 20th century mortality declines often set in already before 1970, that is, relative to the level of development attained, much earlier than in 19th century late developing countries. In the latter the decrease of death rates was lagging quite some time behind the process of development – for example in Germany death rates declined only from the 1870s onwards when the demand for labour was rising fast. In this perspective the so-called demographic transition started too soon in many of today's underdeveloped countries.[20] But,

[16] ????, in: Dani Rodrick (ed.), In Search of Prosperity. Analytic Narratives on Economic Growth, Princeton 2003

[17] Cf. his famous "Essay on the Principle of Population" (London 1798)

[18] Nipperdey, Deutsche Geschichte, pp. 220-21; Hans-Werner Hahn, Die Industrielle Revolution in Deutschland, München 1998, pp. 14-16

[19] This had to do with a specific marriage pattern in Europe. There a marriage only was possible if the young couple was able to establish its own household which obviously depended on its possession of sufficient resources to support the family. Therefore female age of marriage normally was considerably higher (about 25 years) than in other parts of the world; John Hajnal, European Marriage Patterns in Perspective, in: D.V. Glass/D.E.C. Eversley (eds.), Population in History. Essays in Historical Demography, London 1965, pp. 101-43. For the case of Germany see Christian Pfister, Bevölkerungsgeschichte und Historische Demographie 1500-1800, München 1994

[20] To a certain extent AIDS has recently reversed this trend in many African countries, as can also be seen in table 7.

as was already stated above, it was not finished quickly, i.e. birth rates remained relatively high, because economic conditions were such that the demand for surviving children remained also rather high. The resulting rates of population growth therefore were in the range of 2 to 3 per cent, and thus considerably above maxima of European rates during the period of the industrial revolution (in Germany for instance population rose with a top annual rate of about 1.5 per cent around 1900). However, the case of South Korea makes clear that still today successful late development finally leads to a massive decline of birth rates and to a large reduction of population growth. The problem only is that in view of the huge population pressure it might be more difficult to get on that path.

## III. Conditions for Late Development in the 19th Century: Germany versus Spain

In his famous essay of 1952 Alexander Gerschenkron argued that in late developing countries the state normally has to play a more important role than was the case in Great Britain during the first industrial revolution.[21] However, analysing this role he was more concerned with the necessary actions of the state regarding material capital formation, in order to make possible convergence, than with the state's task in creating social capability. But the latter role appears to be at least as important as the former. For institutional reforms normally can only be undertaken by the state, especially if, as often is the case, powerful interests cling to the status quo because they profit from it. And expanding human capital formation frequently encounters resistance by employers as well as by parents, for children going to school cannot be utilized as cheap labour and are not contributing to family incomes; that resistance also can be overcome only by the state. Thus in underdeveloped countries both essential aspects of social capability, namely an institutional framework which furthers economic growth and a sufficiently broad human capital base necessary for successful imitation of modern technology, can generally be instituted only by forceful state action. But the real problem often is that the state in an underdeveloped country is not able to fulfil these obligations. Therefore the state administration itself must be reformed at the same time or before social capability is created; and that this is not or cannot be done in the proper way arguably is at the root of failing late development in many countries. The following comparison of developments in Germany and Spain during the 19th century will clarify this point.

[21] Alexander Gerschenkron, Economic Backwardness in Historical Perspective, in: Bert F. Hoselitz (ed.), The Progress of Underdeveloped Areas, Chicago 1952, pp. 3-29

Around 1800 Germany still was quite a backward country. However, the French Revolution and hegemony of Napoleon served as catalysts for modernization in many German states.[22] Feudal serfdom was abolished and in varying degrees full property rights to their land was transferred to the peasants; craft guilds lost much of their remaining cartel-like powers in the manufacturing sector. Thus entrepreneurial activity was more thoroughly liberated as a precondition for sustainable growth. And indeed agricultural and manufacturing production started to increase appreciably.[23]

Of course, all these reforms encountered resistance by those who had an interest in the old order of things and often belonged to traditional elites as for example feudal lords or the masters of craft guilds. But monarchs and their top ministers could largely ignore this resistance and go on with their “revolutions from above”. Obviously, a window of opportunity had been opened by the German defeat against Napoleon’s armies which for a certain time much weakened the grip of traditional elites on state affairs. Thus enlightened statesmen, as for instance Carl August Freiherr von Hardenberg in Prussia, Maximilian Graf von Montgelas in Bavaria or Sigismund Freiherr von Reitzenstein in Baden, got their way and deeply reformed society and economy in an authoritarian manner.

Recently Epstein argued that “the main institutional bottleneck in pre-modern states” arose “from the coordination failures caused by the absence of undivided sovereignty”, when jurisdictional rights were used by all kinds of feudal and chartered bodies to derive income. According to him this largely contributed to constrain economic growth.[24] This insight also seems to have motivated the statesmen mentioned above. In any case they considered the reform and rationalization of the then existing structures of monarchies themselves an absolutely basic and indispensable requirement to be undertaken with priority. Therefore they reorganized state administrations according to modern principles with state secretaries responsible for specific policy areas; unified intermediate and lower administrative units were created and the judiciary was separated from the executive. Their aim was to establish a state monopolizing undivided sovereignty and coercive powers and a society of citizens with equal

[22] A good overview is Nipperdey, Deutsche Geschichte, pp. 31-82

[23] Wolfram Fischer et al., Sozialgeschichtliches Arbeitsbuch I. Materialien zur Statistik des Deutschen Bundes 1815-1870, München 1982, pp. 58-79; Reinhard Spree, Wachstumstrends und Konjunkturzyklen in der deutschen Wirtschaft von 1820 bis 1913. Quantitativer Rahmen für eine Konjunkturgeschichte des 19. Jahrhunderts, Göttingen 1978

[24] S.R. Epstein, Freedom and Growth. The Rise of  States and Markets in Europe, 1300-1750, London 2000, p. 36

rights as its counterpart.[25] Obviously this could be done only by abolishing autonomous rights and privileges of particularistic entities, as for example the estates, corporations and guilds. The reformed state had to be equipped with an instrument to replace the administrative functions of those intermediate entities and to ensure that the decisions taken centrally really were executed down to the lowest level of society. That instrument was to be a new kind of civil service. In order to demonstrate the principles the new civil service was based upon the respective reforms in the German state of Baden will briefly be analysed.[26] However, during that period many other German states acted on similar lines.[27]

The decisive regulations in Baden date from 1809 and 1819. The constituent elements of the new civil service thus established were the following:

- Qualification now definitely replaced noble birth or family relations as precondition for access to the civil service. Qualification had to be proven by a university diploma and during quite a long period of provisional employment. At the end of the 18th century that still had been different in many cases, and sometimes free positions even had continued to be sold.
- Before the reform the biggest part of incomes of civil servants was derived from fees paid for their services by the population. This obviously constituted an incentive for them to mainly engage in the most lucrative activities. Moreover it had made them prone to corruption. After the reform the fees were transformed into a part of state income, and civil servants became fully salaried by the state instead. Even their widows and orphans were financially supported by the state.
- In contrast to past practice the civil servant now was protected against arbitrary dismissal by the sovereign. In fact a dismissal without any further salary payment remained possible only, if a civil servant was found guilty of criminal offences in court. However, in order to discipline civil servants certain salary reductions and early retirement could be used by their superiors, albeit in a legally prescribed way.

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[25] Reinhart Koselleck, Preußen zwischen Reform und Revolution. Allgemeines Landrecht, Verwaltung und soziale Bewegung von 1791 bis 1848, 4th ed. München 1989, p.153-283; Eberhard Weis, Der Einfluß der Französischen Revolution und des Empire auf die Reformen in den süddeutschen Staaten, in: Francia 1, 1973, pp. 569-583; Franz Ludwig Knemeyer, Regierungs- und Verwaltungsreformen in Deutschland zu Beginn des 19. Jahrhunderts, Köln 1970

[26] Bernd Wunder, Die badische Beamtenschaft zwischen Rheinbund und Reichsgründung 1806-1871, Stuttgart 1998; Joachim Eibach, Der Staat vor Ort. Amtmänner und Bürger im 19. Jahrhundert am Beispiel Badens, Frankfurt/M. 1994

[27] Bernd Wunder, Privilegierung und Disziplinierung. Die Entstehung des Berufsbeamtentums in Bayern und Württemberg, 1780-1825, München 1978; Kosselleck, Preußen

In total these regulations should accord to the civil servants financial security; furthermore they were to be made independent in their actions from opportunistic considerations and generally willing to execute the law in an impartial manner. Even if the latter aim could not be immediately achieved in full, the reform proved to be a very important step towards a highly efficient bureaucracy with a low incidence of corruption. Corruption, however, was quite a common phenomenon before. That it now became much less prevalent in turn contributed to the high reputation of the civil service within German society during the 19th century which itself was a further barrier against corruption. An important economic consequence was that property rights, which in many cases had definitely been established only recently by other elements of the reform package, became quite safe indeed. That was the case not only against illegitimate expropriation by the monarchs and their administration, but also against encroachment by other members of society who could afford to bribe a state official and doing so illegally get a claim to another person's property. All the administrative reforms together had the additional effect of largely separating the state from the specific persons acting in its name. Therefore even reactionary tendencies re-emerging after Napoleon's defeat and the Congress of Vienna were not able to restore the former state of things. Many of the changes brought about by the modernizing reforms undertaken when traditional elites had been weakened for a time therefore became a lasting feature of German social and economic life.

But not only the institutional framework necessary for economic growth had been much improved during that period, but the state for the first time also became heavily involved in human capital formation by far-reaching reforms of the educational system.[28] Thus the obligation for children to go to school, which often had been enacted years ago, now was vigorously enforced, if necessary by sending the police. Moreover the German states provided training facilities for future teachers of elementary schools and reformed the curriculum with a view towards practical needs. Similarly secondary and tertiary education was thoroughly improved which commonly is associated with the name of Wilhelm von Humboldt who became the Prussian Secretary for Cultural Affairs. Strong science departments were created at the universities and soon polytechnic schools were established specializing in engineering. The effects were manifold. Among the more important were that labour became literate to a high degree (see table 5) and a huge pool of trained scientists and technicians was available

[28] For an overview compare again Nipperdey, Deutsche Geschichte

which supported technical imitation and, before long, research and innovation leading to considerable growth in Germany during the second half of the 19th century.

By the institutional and educational reforms described the social capability of Germany was much enhanced. Consequently the further relative economic decline could be stopped and from about 1850 convergence started, as is shown in table 8. The table also demonstrates that in contrast to Germany successful late development did not begin in Spain during the 19th century.

[table 8]

An important reason was that the Spanish state did not emancipate itself from traditional landed elites.[29] Since the Napoleonic period Spanish history was characterized by civil war for several decades with different factions of the elites fighting against each other; in these conflicts the Spanish monarch felt compelled to side with one faction or the other to support his own position. Therefore radical modernizing reforms, which would have been against the interests of all the different groups of traditional elites, i.e. private landowners, the church and the military, and introduced in an authoritarian way as in Germany, were impossible in Spain. In fact the final outcome of the long fighting was that reforms were undertaken which mainly furthered the interests of the traditional landed elite at the expense of the church. The huge landholdings of the latter were expropriated by the state and auctioned in a way that big private landowners profited most. Furthermore liberal agrarian reforms which were indeed introduced also were primarily in the interest of the latter group. For the peasants working the land generally got no title to it. Instead full property rights were given to the former feudal lords and the peasants became temporary leaseholders or even agricultural labourers. Thus the land and agrarian reforms had strong regressive distributional effects. Moreover by strengthening the economic power of landed elites they also enhanced their political influence and at the same time further weakened the state. A result of this was that Spain suffered from one of the highest levels of agricultural protectionism in Europe. Primary school enrolment, especially in rural areas, remained low, because it obviously was not in the interest of the elite to educate poor agricultural labourers. Most damaging, however, was the fact that landowners

[29] The following argument is derived from the recent dissertation by Jonas Scherner, Eliten und wirtschaftliche Entwicklung. Kongreßpolen und Spanien im 19. Jahrhundert, Münster 2001; for the respective laws and decrees see J.M. Scholz, Spanien, in: Helmut Coing (ed.), Handbuch der Quellen und Literatur der neueren europäischen Privatrechtsgeschichte, vol. 3/1, München 1982, pp. 397-686

were the undisputed patrons of their districts where they applied the law in a selective manner, practiced tax evasion and manipulated general elections. Compared to even the Eastern part of Prussia where the structure of rural society was not so dissimilar, controls of their behaviour through an effective higher-level administration and the judiciary were much weaker. Thus corruption was endemic and earned this Spanish system a special name, i.e. “caciquismo”.

The comparison of the German and the Spanish social, political and economic development during the 19th century clearly demonstrated that there existed a close interdependence of effective and impartial state power, the achievement of social capability and economic growth and convergence. Only a strong state could enhance social capability and with it secure property rights, markets and rapid accumulation of human capital, thus creating the preconditions for modern economic growth. A state, however, which was dependent on traditional elites for its political and administrative functioning could not undertake radical reforms because these inevitably would clash with the interests of those elites and therefore be massively resisted by them. Therefore, in order to be successful in the long run, a state must create its own new executive, i.e. an effective civil service based on qualification and largely free of corruption which would enforce the law irrespective of social status and wealth of those affected.

## IV. Economic Development in the 20th Century

In part II it has been demonstrated that South Korea was a spectacular case of late development in the 20th century. The question dealt with in this section now is: How did that come about? After all, as can be seen from diagram 2, South Korea still was a very poor country at the beginning of the 1950s. However, closer inspection reveals that social capability for successful late development had already been available at this time. Surprisingly that mainly resulted from the fact that Korea was a Japanese colony during the first half of the century.[30]

[30] Atul Kohli, The Colonial Origins of a Modern Political Economy. The Japanese Lineage of Korea’s Cohesive-Capitalist State, in: idem, State-Diverted Development. Political Power and Industrialization in the Global Periphery, Cambridge 2004

A key feature of the Korean state before the Japanese overtook it was the direct control which a powerful landowning class exerted over administrative positions. Given this the king, although presiding over a largely centralized state, was rather weak and dependent on that so-called Yangban class which used its power to secure additional privileges and wealth for itself, mainly at the expense of peasants. Modernizing reforms which could also have resulted in higher state income proved impossible, exactly because they would have endangered the status of the Yangban. This was one reason for the increasing Japanese influence in Korea.

After Japan had formally annexed Korea in 1910 the first thing they did "under very harsh authoritarian circumstances" was to construct "a highly bureaucratized, deeply penetrating state".[31] The uncontrolled administrative power of the Yangban was eliminated and instead a well-trained civil service established, originally staffed mainly with Japanese, but later many Koreans also joined it. In fact the Japanese administrative system, itself inspired by the Prussian model, largely was transplanted to Korea. An indication of the high degree of direct Japanese involvement in Korean affairs was the number of Japanese officials working in the colony. In 1937 more than 50,000 of them lived in Korea, whereas for example the French ruled Vietnam, a colony of similar size, with about 3,000 French officials and, relative to its population, there were even less British officials in India.

This strong Japanese-like colonial state in Korea was then able to undertake many more modernizing measures. Among them were an extensive land survey mapping ownership and quality of all plots of land; heavy state investments in land improvement and infrastructure; a massive expansion of primary education. To be sure the principal medium and long-term aims of most measures were to increase the transfer of Korean resources to Japan (e.g. by much raising the income from land taxes) and to Japanize the colony (e.g. by teaching children in the Japanese language). But their side effects were such that, when the Japanese were ousted after World War II, South Korea inherited a strong state with an efficient Korean civil service, secure property rights, a productive agriculture, a rather good infrastructure, and a high rate of primary school enrolment. Moreover the huge Japanese land holdings were redistributed to the peasants and this was supplemented by additional land reforms sponsored by the American military forces. Thus the former big indigenous land-owning class of Korea was unable to regain its power. A potentially strong South Korean state and the accompanying social capability were secured for the future.

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[31] Ibid., p. 33

From 1961 onwards this strong state indeed emerged as a veritable development agency under the authoritarian regime of General Park Chung Hee. It largely engineered the ongoing process of rapid growth and convergence, not least by “deliberately getting relative prices wrong” according to a well-known phrase coined by Alice Amsden.[32] Contrary to a common perception South Korea for decades practiced an intelligent import substitution policy by according preferential finance and other resources as for instance foreign exchange to targeted industries and initially reserving domestic markets for their products. In this way the state enabled private enterprises to bear the risks of bridging the huge technological gap by massive capital investments (see table 6) and to reap learning-by-doing effects with the accompanying productivity increases. This policy had the desired results, i.e. South Korean industry rapidly became competitive on world markets and could engage in profitable export activities. However, an indispensable precondition for this success was the existence of a strong state with the power to closely supervise and, if necessary, sanction enterprises which received preferential treatment. Only by doing so rent-seeking opportunities which inevitably come with an import-substitution strategy could be limited which otherwise would have corrupted the whole effort, as indeed was the case for example in many Latin American countries at the same time.

In section II it has been demonstrated that South Korean GDP per capita converged towards levels of highly developed countries, whereas income per head in many African countries diverged from that levels during the last decades. Thus South Korea’s late development proved to be successful, while late development in most African countries has failed so far; it can be doubted that the latter have made decisive progress towards increasing their levels of social capability. In accordance with the argument which has been made in this paper the reason for these disappointing results of the development in African countries since they have become independent is the structure of their state which generally is characterized in the literature as being (neo-)patrimonial.[33] The African states mostly are authoritarian as was the South Korean. However, in contrast to South Korea they lack an efficient administration. Their bureaucracy is not “insulated” which the World Bank considers an important

[32] Alice H. Amsden, Asia’s Next Giant. South Korea and Late Industrialization, New York 1989, p. 141; see also Dani Rodrick, Getting Interventions Right. How South Korea and Taiwan Grew Rich, in: Economic Policy, no. 20, 1995, pp. 53-107

[33] A good overview is Donald L. Gordon, African Politics, in: April A. Gordon/Donald L. Gordon (eds.), Understanding Contemporary Africa, 2nd ed. London 1996, pp. 53-90

component of long-term growth.[34] Rather the opposite prevails: African rulers generally expanded official positions rapidly, not only in the state administration proper, but also in state-owned corporations, in order to fill them with clients in exchange for their loyalty. The latter in turn used their offices to derive social support and personal income from them, for example by channelling resources to their villages and kin or by selling import licences of government contracts. Thus all kinds of state resources are expropriated by a whole hierarchy of patron-client relationships and diverted from the tasks of economic development. Corruption is, so to speak, the state of affairs considered normal by all involved, i.e. those who accept and those who offer bribes. The problem becomes even more acute because of the great ethnic diversity and consequent political instability in many African countries bequeathed to them by colonialism. The consequences are that the ruling elites which often are mainly composed of one ethnic group feel quite insecure and therefore not only turn to oppression of other ethnicities, but also try to extract rents as quickly as possible for their own followers. Finally, African societies long have been characterized by strong kinship relations. Property rights could not be asserted against kin and kinship was the most important way to benefit from material resources available to a group of people.[35] These ancient cultural traditions therefore should also be considered when explaining the predominance of the patrimonial state in African countries. In Europe kin-based social structures were much weaker and individualism stronger already in medieval times, as Avner Greif recently has emphasized.[36]

## V. Conclusion

The foregoing analysis has fully confirmed the notion that the state has to play an important role in the process of late development. This role is twofold:

- The state appears to be an essential actor in establishing "social capability" which itself is an indispensable precondition for rapid economic growth. The main elements

[34] World Bank, The East Asian Miracle. Economic Growth and Public Policy, World Bank Policy Research Report, New York 1994
[35] Martin Chanock, A Peculiar Sharpness. An Essay on Property in the History of Customary Law in Colonial Africa, in: Journal of African History 32, 1991, pp.65-88
[36] Avner Greif, Institutions and the Path to the Modern Economy. Lessons from Medieval Trade, Cambridge 2005

of social capability are an institutional framework conducive to entrepreneurial activity and investment and a sufficiently broad human capital base necessary for the adoption of modern, highly productive technologies. Both need forceful state action in order to be established, because doing so regularly encounters the resistance of traditional elites and other interested parties which can be overcome only by the state.

- After social capability has been created the state can support growth and convergence by sharing the risks of the necessary huge investments with private industry. This task appears to be more important today than it was for late development during the 19th century, because the gap which has to be bridged is much bigger. Sharing risks implies that the state give preferential finance and other favours to targeted industries, in order to protect them for a certain period of learning against disruptive competition. However, the state has to be aware of the rent-seeking opportunities thus afforded and therefore must closely monitor the respective companies. Clearly that can be done only by a powerful state, too.

To fulfil both roles the state therefore has to be strong. This does not mean that every authoritarian state is “strong” in the required sense; it has been argued that African states, although mostly being authoritarian, lack the specific strength necessary. A strong state in the context of the argument presented here can be authoritarian of democratic. For a strong state rather is a state which is able to act independently of traditional elites, vested interests and kinship or clan considerations. From this immediately follows that a one-dimensional scale stretching from totally unconstrained to fully constrained rule is not an appropriate measure for the degree of conformity of state actions with the requirements of economic growth.[37] On the contrary, sovereign action if constrained by bodies or interests which mainly represent traditional elites can be especially damaging for economic development because those elites often profit from the status quo and therefore will resist all modernizing reforms. As shown that was the case in Germany prior to the hegemony of Napoleon, in Spain during the period of “caciquismo” and in Korea before the country became a Japanese colony; and in Africa rulers are constrained by the necessity of mobilizing support through gifts to their clients. In all these instances sufficient social capability could not be achieved, let alone convergence.

[37] That, however, seems to be quite a fashionable assumption in recent writings of economists and political scientists; compare for instance Daron Acemoglu/Simon Johnson/James Robinson, The Rise of Europe. Atlantic Trade, Institutional Change and Economic Growth, in: American Economic Review 95, 2005, pp. 546-579

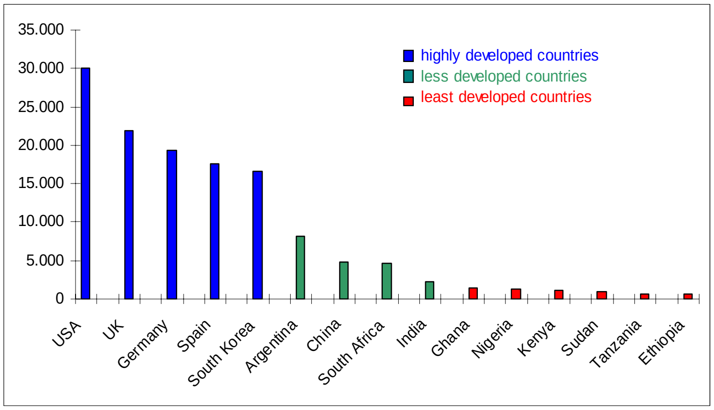
A strong state which is able to really further economic development must have an instrument in order to execute the decisions of the sovereign independently from inappropriate exogenous influences. Such an instrument is a civil service based on qualification and effectiveness and not easily corrupted by outside interests. It has been shown in some detail according to which principles such a bureaucracy was created in Germany; obviously there exist other, equally efficient models. The most important condition to be fulfilled is that the state administration is separated from the personal views and interests of those acting on its behalf. Only then state action is impartial, even if it is deeply penetrating societal life which clearly is necessary for thorough institutional reforms. Impartiality of public authority is an essential precondition for secure property rights and thus economic development.

How can a state which is strong in the sense just explained be established out of a situation where the state executive is not independent from the interests of traditional elites or other debilitating influences? That may well be the decisive question in many underdeveloped countries and the most difficult task to be fulfilled for getting late development be started. History teaches us that it often were exogenous pressure and intervention which gave countries a chance to loosen the grip of traditional elites and other vested interests on their state executive and thus made them ready for radical reform. As has been demonstrated in this paper, in Germany that was achieved through the strong pressure exacted by Napoleon and in Korea after it had become a Japanese colony. The same can be said of Japan herself after it had been subjected to strong Western pressure and the Kingdom of Poland under the dominance of the Russian Tsar, to cite two more 19th century cases. And today the same principle, although in a more benevolent manner, applies to countries of the European periphery which want to become EU members and therefore have to adapt their internal structures to the “acquis communautaire”. In any of the cases mentioned external intervention has been deeply penetrating and successfully promoting economic development. In contrast to these experiences colonial rule as practiced for example by the British, making use of the given structures of societies, or agreements arrived at by the World Bank or IMF after negotiations with existing governments have certainly not been penetrating enough; even worse those arrangements, by reducing the pressure for change, may have helped to consolidate the structures which prevent economic development.

## Diagrams and Tables:

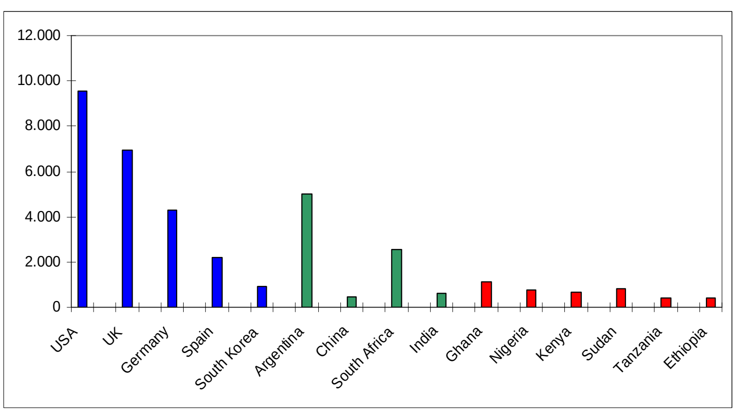
**Diagram 1: Real GDP per Capita 2004**

**(Dollars; PPP 1990)**




Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database. January 2006; www.ggdc.net

**Diagram 2: Real GDP per Capita 1950 (Dollars; PPP 1990)**




Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database. January 2006; www.ggdc.net

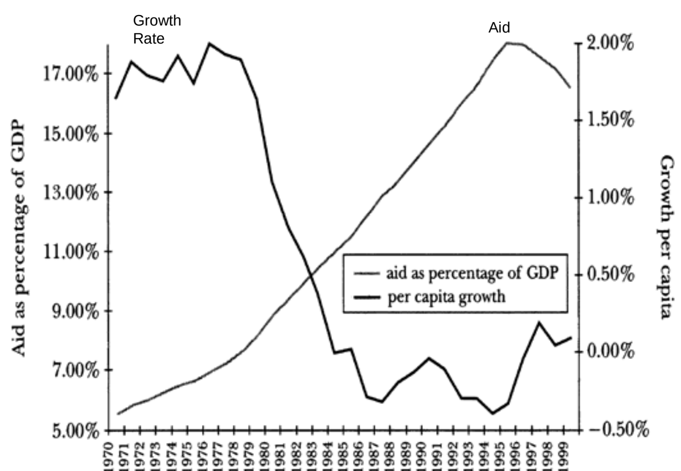
**Table 1: Growth of Real GDP per Capita (% p.a.)**

| | USA | UK | Germany | Spain | <u>**South Korea**</u> | Argentina | China |
|---|---|---|---|---|---|---|---|
| 1950-1980 | 2.2 | 2.1 | 4.4 | 4.9 | **5.1** | 1.4 | 3.0 |
| 1980-2004 | 2.0 | 2.2 | 1.0 | 2.7 | **6.0** | 0.0 | 6.5 |

| | India | South Africa | Ghana | Nigeria | Kenya | Sudan | Tanzania | Ethiopia |
|---|---|---|---|---|---|---|---|---|
| 1950-1980 | 1.4 | 1.8 | 0.1 | 2.1 | 1.5 | 0.4 | 1.1 | 1.7 |
| 1980-2004 | 3.7 | 0.3 | 0.9 | -0.6 | 0.1 | 0.3 | 0.4 | -0.2 |

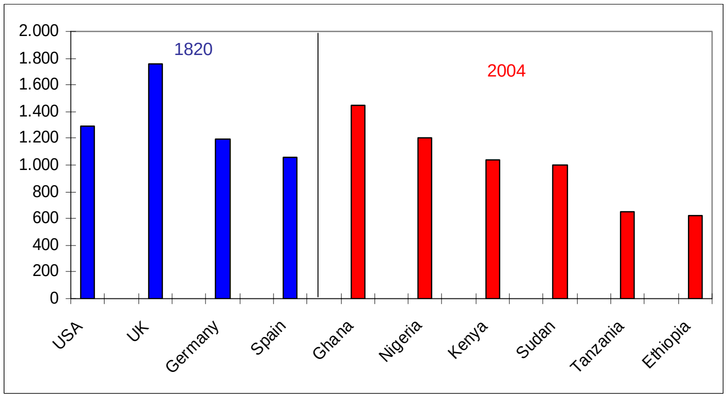
Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database. January 2006; www.ggdc.net

**Aid and Growth in Africa**
*(10-year moving averages)*




Source of Diagram 3: William Easterly, Can Foreign Aid Buy Growth?, in: Journal of Economic Perspectives, Volume 17/3, 2003, S. 35

**Diagram 4: Real GDP per Capita of African Countries 2004 Compared to Real GDP per Capita of Today's Highly Developed Countries in 1820 (Dollars; PPP 1990)**




Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database. January 2006; www.ggdc.net; Angus Maddison, Monitoring the World Economy 1820-1992, Paris 1995, pp. 194-197

**Table 2: Share of Population Around the Year 2000 with less than Two Dollars (PPP) per Day (%)**

| Kenya | Tanzania | Ghana | Ethiopia | Nigeria | India | China |
|---|---|---|---|---|---|---|
| 58 | 60 | 78 | 81 | 91 | 80 | 47 |

Source: UNDP, Human Development Reports; http://hdr.undp.org/statistics

**Table 3: Engel´s Law: Food Expenditure as a Share of Total Private Consumption (%; 1980´s)**

| Tanzania | Sudan | Ghana | Ethiopia | Nigeria | Kenya |
|---|---|---|---|---|---|
| 64 | 60 | 50 | 49 | 48 | 38 |

| India |
|---|
| 52 |

| W.-Germany | UK | USA |
|---|---|---|
| 12 | 12 | 10 |

**Same for Working Class Family of Nuremberg (%)**

| 1810 | 1857 | 1910 |
|---|---|---|
| 70 | 64 | 49 |

Sources: Weltbank, Weltentwicklungsbericht 1993 pp. 308-309; Wolfram Fischer et al., Sozialgeschichtliches Arbeitsbuch I, München 1982, pp. 169-170

**Table 4: Crude Birth Rate in African Countries 2003 (per thousand)**

| Ethiopia | Ghana | Kenya | Nigeria | Sudan | Tanzania |
|---|---|---|---|---|---|
| 40 | 31 | 34 | 43 | 33 | 38 |

Source: World Bank, World Development Indicators

**Table 5: Primary/Secondary School Enrolment in African Countries Around 2000 (% of Children in Appropriate Age)**

| Tanzania | Kenya | Nigeria | Ghana | Ethiopia | Sudan |
|---|---|---|---|---|---|
| **82**<br>**-** | **67**<br>**25** | **67**<br>**29** | **59**<br>**36** | **51**<br>**18** | **46**<br>**-** |

**Compared to:**

**Primary School Enrolment in Today's Highly Developed Countries around 1850 (% of Children Aged 5-14)**

| Prussia | Norway | Netherlands | France | Austria |
|---|---|---|---|---|
| **73** | **64** | **54** | **51** | **39** |

Source: UNDP, Human Development Reports (http://hdr.undp.org/statistics); Peter Lindert, Growing Public. Social Spending and Economic Growth since the 18th Century, Cambridge 2004, vol. 1, p. 91

**Table 6: Investment as a Share of Social Product (%)**

| | | around 1800 | around 1850 | around 1900 | around 1950 | 1970 | 1980 | 1990 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| First Industrial Revolution | Great Britain | 8 | 8 | 10 | 13 | 19 | 19 | 20 | 17 |
| Developed in 19th century | France | | 11 | 15 | 18 | 25 | 24 | 23 | 20 |
| | Germany | | 8 | 16 | 22 | - | 25 | 23 | 22 |
| Developed in 20th century | Japan | | | 16 | 16 | 36 | 32 | 32 | 26 |
| | South Korea | | | | | 26 | 32 | 37 | 31 |
| Rapidly developing country today | China | | | | | 24 | 29 | 26 | 36 |
| | India | | | | | 14 | 19 | 23 | 22 |
| | South Africa | | | | | 24 | 26 | 19 | 15 |
| | Botswana | | | | | 34 | 35 | 32 | 25 |
| | Ethiopia | | | | | | | 12 | 16 |
| | Ghana | | | | | 12 | 6 | 14 | 23 |
| | Kenya | | | | | 20 | 18 | 16 | 15 |
| | Nigeria | | | | | | 21 | 15 | 18 |
| | Sudan | | | | | | 11 | | 13 |
| | Tanzania | | | | | | | 26 | 17 |

Sources: Christoph Buchheim, Industrielle Revolutionen. Langfristige Wirtschaftsentwicklung in Großbritannien, Europa und in Übersee, München 1994, S. 39; World Bank, World Development Indicators

**Table 7: Crude Birth and Death Rates in Selected Countries, 1925-2003 (per thousand)**

| | 1925 | | 1970 | | 1990 | | 2003 | |
|---|---|---|---|---|---|---|---|---|
| | Crude Birth Rate | Crude Death Rate | Crude Birth Rate | Crude Death Rate | Crude Birth Rate | Crude Death Rate | Crude Birth Rate | Crude Death Rate |
| **Botswana** | | | 44,2 | 22,6 | 38,2 | 7,9 | 29,3 | 22,9 |
| **Kenya** | | | 47,8 | 17,5 | 38,5 | 10,1 | 33,8 | 16,5 |
| **Nigeria** | | | 49,6 | 24,9 | 43,8 | 14,6 | 42,6 | 18,0 |
| **Tanzania** | | | 48,1 | 22,0[1] | 43,8 | 13,6 | 38,0 | 18,3 |
| **India** | 34,0 | 25,0 | 36,8 | 16,7 | 30,2 | 8,3 | 24,2 | 9,7 |
| **South Korea** | 38,0[2] | 21,0[2] | 31,9 | 11,0 | 16,3 | 6,3 | 12,1 | 6,5 |

1 1967
2 Korea

Sources: Statistisches Jahrbuch für das Deutsche Reich 1929, pp. 13*-14*; United Nations, Demographic Yearbook, various issues; World Bank, World Development Indicators

**Table 8: Germany and Spain in the 19th Century: Success and Failure of Late Development (Real GDP per Capita as a Share of the British; %)**

| | 1820 | 1850 | 1913 |
|---|---|---|---|
| Germany | 60 | 60 | 75 |
| Spain | 60 | 50 | 45 |

Source: Angus Maddison, Monitoring the World Economy 1820-1992, Paris 1995, pp. 194, 198