ECONOMIC HISTORY AND NATIONAL ACCOUNTS

A Review Article

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Simon Kuznets' latest book[1] is the despair of a reviewer. Its structure is transparent. Its conclusions are fully and accurately stated. Its relevance to contemporary concerns is undeniable. Its techniques and general method are well-known. Its evidence—resting on the massive enterprise of international historical income accounting—is massive. Its limitations and qualifications are stated more clearly and scrupulously than any reviewer could possibly state them. It is in short a book by Simon Kuznets. One might as well try to write a review of the Roman Coliseum or the Great Pyramid of Cheops.

The difficulties are compounded when the reviewer is one who is a consumer rather than a producer of income accounts, and whose main concerns are with the historical rather than the contemporary evidence and conclusions. The book needs indeed a panel of reviewers: an income accountant to discuss the technique, an economic developer to discuss its policy implications, and an economic historian to discuss its framework and perspectives. At some point, too, one feels, Professor Kuznets' entire approach to economic development deserves scrutiny from a theorist who is still not too far from the cares, concerns, and data of Kuznets' version of the 'real world.' My own viewpoint is that of an economic historian who shares some of these cares and concerns and who retains still a naive urge to explain it all, with the use of a theoretical framework, broader and less well defined than a growth theorist would like, and perhaps less well based in the arithmetical evidence than Professor Kuznets would admire.

First, a word about the book. The contents of *Modern Economic Growth: Rate, Structure and Spread* are reasonably well known in other forms to most economists. Many of the estimates appear in the series of supplements to *Economic Development and Cultural Change*, and the main conclusions drawn from them have been made in those and other essays. The work rests of course upon the historical income series for the major high income countries—a number ranging from one to fourteen, depending on the detail in question and extending back from sixty-seven to two hundred and sixty-seven years. The examination of this material, supplemented by contemporary evidence of these countries, occupies Chapters 2 through 6 of the book, and the topics—as might be imagined—are: product, population, sectoral composition of product

1. Simon Kuznets, *Modern Economic Growth: Rate, Structure and Spread*, New Haven and London, Yale University Press, 1966, Pp. 528, $2.95. The book is Number 7 in the series, Studies in Comparative Economics, sponsored by the Inter-University Committee on Comparative Economics.

and labor force, industrial composition of sectoral product totals, factoral distribution of income, size distribution of income, distribution of output between consumption and capital formation, the distribution of consumption among classes of goods, size and type of economic units, and finally international trade and factor movements. It is useless to restate Kuznets' conclusions on all these topics. Most of them are well-known, and Kuznets' own careful summary in Chapter 10 cannot be improved upon. Between Chapters 6 and 10, this historical record is compared with the data on the low and middle income countries in the last two decades, with respect to many of the same characteristics. It is thus possible crudely to compare the contemporary cross section of economic records with the historical trends, to relate change over time to scatter through space, and to make interesting comparisons between the position of the underdeveloped countries today and the historical position of today's industrial countries at the earlier periods of their transformation.

From all this work, Kuznets concludes that a single collection of characteristics characterizes a modern developed country, notably: high income per capita (the definition of development), moderate population growth, a low share of agriculture in product, a large share of transport and government in service expenditures, a rather high share of labor in income payments, and various investment and financial ratios lying within reasonably narrow limits. Modern economic growth is then, in this view, the fairly uniform result of a process in a national economy and society which has itself many uniform characteristics from country to country. This impression in turn permits Kuznets in Chapter 1 to set the work in a larger historical frame. He defines here the concept of an economic 'epoch' as a large period over which such tendency toward uniformity prevails. The modern epoch he dates from the early eighteenth century in England, following upon the epoch of mercantile capitalism which had spread through Western Europe. Its defining characteristic in turn is a 'science-based technology,' and it is accompanied by institutional and social changes that permit that technology to take effect. Modern economic history then describes the spread of these non-economic characteristics, and of the economic structure accompanying them, from one country to another. The attitudes needed "to accommodate and foster adjustment of social institutions and practices to the exploitation of the potential provided by science-based technology" are "suggested by three terms: secularism, egalitarianism, and nationalism."

What now is an economic historian to say to all this? The practitioners of our subject have always been drawn in opposite directions—toward the minute and the mystical, the local and the universal, the documentary evidence and the overarching imaginative construct. Kuznets is pulled in these two directions too, and is able to sound like Marx or Weber in Chapter 1 and like—well, the dean of income accountants, in Chapters 4 and 5. Has he then brought it off? Has he made his concept of a modern epoch 'operational' and defined it by his statistics? Do his data show the spread of a single economic organism with somewhat uniform structural characteristics, and do they show that this has followed the spread of technological knowledge, the adaptations of institutions, and the growth beneath it all of attitudes of secularism, egalitarianism and nationalism? The verdict, I think, must be that they do not show this in any refined way, or in any way superior to the general descriptive techniques of a course in economic history. Indeed the generalizations about causes rest upon loose impressions of economic history. But on the other hand, by use of the quantitative evidence, Kuznets has established some main facts to be explained by economic historians, and—most important—has established these in a world-wide perspective. The body of the book then presents not an explanation but rather the *explicandum* of modern economic history. It gives the outline of a program in which model-builders and historians may direct their peculiar efforts to produce a useful, cumulative result.

First, one peculiarity of Kuznets' own thought must be gotten out of the way. In a truly international approach to world economic history, the national state features, not as a fundamental unit of analysis, but as one of the many institutions adjusting, affecting and regulating the great social and intellectual impulses by which productivity is increased. Kuznets—the stamp of his great work with the American data upon him—cannot quite shed its trammels. For him, today as in 1951 early in this project, the national state remains the 'fundamental unit of analysis'. This he maintains despite the fact that his data show a very remarkable similarity in the growth rates of the fourteen industrializing states, and that all his conclusions point to similarities in their structures. The main task suggested by this work is to explain why these countries as a group showed high and similar rates of growth for a hundred years, and it is this group rather than the individual political subdivisions of it that is the fundamental unit of analysis.

Beneath the level of the developing world, the next truly fundamental level of analysis is the individual—that unreachable quantum in history, whom we can observe only here and there lonesomely in memoirs or diaries, or else in the jelly-like masses of aggregated statistics. The records of the behavior of groups of individuals are available in statistics, and in the generalizations and impressions made by observers of social conditions. The sample of evidence is poor and distorted, but it is all the history we have, and it is the material over which historians have spent their lives. Now the income statistics of countries are simply one aggregation of the records of individual economic units, as are the statistics of an industry, or a smaller political subdivision. Careful comparison of these groups may show something of the different effects of state policy or peculiarities of national character on economic reactions. Indeed, the array of national data presents a very curious puzzle. Suppose we take an area over which as a whole average per capita income grows at an average decade rate of 15% for 100 years. Now divide this area into fifteen regions of very unequal size, population and resource endowment, and of quite different income levels. Why should these fifteen regions grow at roughly the same rates themselves, preserving much the same differentials at the end of the period as at the beginning, and exhibiting—when their economies are taken as units—much the same structural characteristics? The explanation requires a set of growth models, in which very great substitution is possible among the elements and among which very special assumptions about trade and factor movement are present. To explicate this is an important and interesting task, but once done, one has solved a somewhat artificial question. Another grouping of the individual data, e.g., by industry, religion, region, race, or social status, would show other results and require a different set of explanatory variables. The fundamental question, to which the whole resources of history and the sciences of social behavior should be bent, is—why did the incomes of individuals grow in these areas and to what constellation of social and economic forces is the growth of just those incomes to be attributed? To answer this question, one must investigate the spread of modern attitudes, techniques and economic practices not just from one nation to another, but within nations and among international occupational and social classes.

To an economic historian, then, Kuznets' book represents a halfway house on the road to a full understanding of the modern epoch. No one else has gone nearly so far, or has dared to put down in numbers 'what oft was thought, but ne'er so well expressed'. There is a danger that in casting the data in the form of comparative national accounts, artificial puzzles may be created, and time used in solving them. The dangers of identifying a nation with an economy, and of seeing the world as a collection of national accounts, are as great to an economist as to a politician. We know that modern economic growth, at least for a spell, exacerbates political nationalism. The reaction is partly a unifying one, coming from an effort to overcome the localism and ruralism that hinders resource mobility and the spread of ideas. But it is also a culturally atavistic one—an effort to hold on to human values against the corrosive effects of international industrial technology and society. The nation itself is a variable in modern economic growth, and the great virtue of Kuznets' book is that in exploring and comparing national accounts he has demonstrated that except as an accounting unit, the nation is as anachronistic in the economy as in the politics of the modern world. Perhaps it is time for national income accountants themselves to look further, toward both larger and smaller groupings of their data.