

# *The World Economy since 1945: A Stylized Historical Analysis*<sup>†</sup>

By W. W. ROSTOW

Preparing this year's Tawney Memorial Lecture has been a gratifying adventure.\* In the first place it led me to recall a meeting with Tawney in 1950 at the home of Michael and Cynthia Postan. Wrapped about in his heavy brown tweeds, pipe ashes descending into their ample folds, Tawney seemed a John Bullish sort of man, all-of-a-piece, but with eyes alert and sensitive suggesting the complexity which, in fact, distinguished his mind and character—a complexity which soon emerged in conversation. The task also led me to re-read a good deal of Tawney's more familiar writing and to read for the first time his *Commonplace Book* and *The Attack and Other Essays* which Cynthia Postan and Peter Mathias, respectively, urged on me. As you will see, it was in these latter pieces that I found strands of thought, commitment, and passion which linked naturally to the broad conclusions of my paper. Tawney was, evidently, too grand and serious a figure to be introduced cosmetically into our proceedings this morning. When I began, I had not, in fact, expected my subject would relate to his work. I was rather surprised and pleased when it did.

I assume, of course, full responsibility for the somewhat spacious subject of my talk; although I should perhaps note that it was suggested by Michael Thompson last December when he had to extract a quick decision from me—in Italy—to satisfy the schedule of the printer of our programme. This is how he defined a possible theme: “. . . reflections on general trends in the performance of the advanced economies since the Second World War and how far these may have modified your own earlier ideas on a general model for the path of economic development”. In conducting this stylized mapping of a large terrain, I recalled a paper I recently wrote entitled “Cycles and the Irreducible Complexity of History”.<sup>1</sup> It identified some half-dozen types of cycles and explored the problem posed by their concurrence. In delivering the paper I observed that the flow of history was like a piece of music with a good many contrapuntal themes unfolding at the same time; but—unlike the work of Bach and other masters—they rarely yielded a harmonious result. I

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\* I wish to acknowledge with gratitude the generous support of the administration and staff of the Institute of Economics and Statistics at Oxford while I was preparing this paper in the Hilary Term, 1984. I was also assisted by my colleagues in Austin, Texas, Miss Lois Nivens and Dr Pedro Fraile, the latter organizing for this occasion highly relevant data from Project Mulhall which he supervised. Prof. George Kozmetsky supplied the high technology data for Figure 1. Sir Alexander Cairncross, Lord Franks and Prof. D. C. M. Platt commented usefully on an early draft. The text was greatly improved by an acute and constructive critique by Prof. Elspeth Davies Rostow.

<sup>1</sup> Paper presented to Section B3 of the Eighth Conference of the International Economic History Association, Budapest, August 1982, to be published in its *Proceedings*.

am reliably told that Bach managed up to five themes in the final Goldberg variation. With appropriate modesty I shall confine myself to three.

## I

I shall begin by stating the three themes which are concepts derived from the study of modern economic history. I shall then examine broadly how variables reflecting these concepts moved over the past four decades, affecting both the advanced industrial North and the developing South, recognizing, of course, that these convenient designations are rather drastic abstractions and, indeed, not even geographically accurate. Next comes an exercise in applying the concepts to four time-phases: 1945-51; 1951-72; 1972-9; 1979-84. Finally, I shall pose a few large questions of policy that are likely to shape the future, relating some of them to Tawney.

The analytic concepts I shall use throughout are these:

First, *the stages of economic growth*.<sup>2</sup> It is here elaborated to take account of the relationship between the stage of growth and rate of growth.<sup>3</sup>

Second, *trend periods with respect to the prices of basic commodities relative to those of manufactures*; that is, the global inter-sectoral terms of trade. This relationship is, of course, reflected in national and inter-regional net barter terms of trade depending on the composition of exports and imports and the amplitude of fluctuations in their components. Irregular long cycles in this variable are the primary basis for my interpretation of the long cycles in prices, money wages and interest rates—starting round about 1790—which Kondratieff identified and which, in my view, continue down to the present.<sup>4</sup>

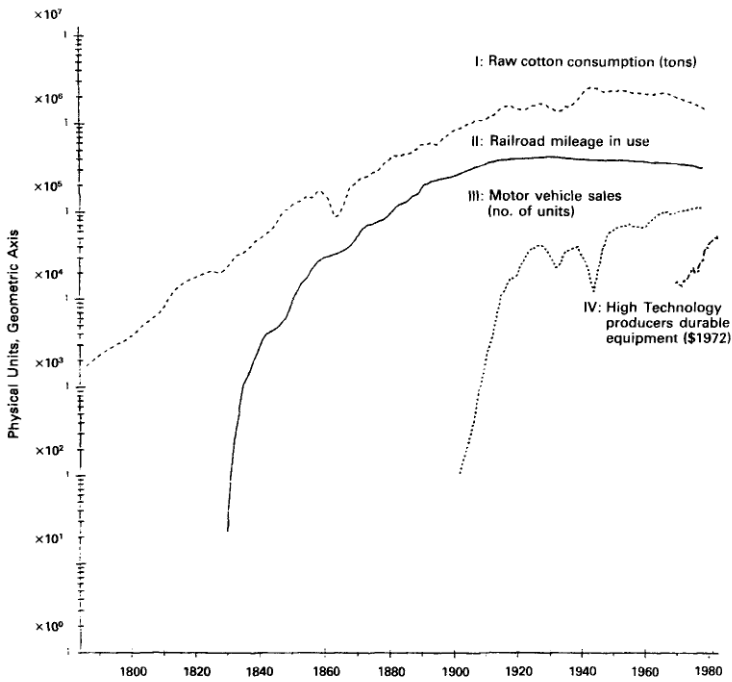
Third, *the ebb and flow of major innovations in the world economy*, including the timing of their diffusion. Here the concept appears rather dramatically as the waning in the second half of the 1960s of the Third Industrial Revolution and the emergence since, say, the mid-1970s, of the Fourth. The Fourth Industrial Revolution is taken to embrace micro-electronics, genetics, robots, lasers, new industrial materials, and new methods of communication.<sup>5</sup> (The four industrial revolutions are illustrated in Figure 1.)

<sup>2</sup> I recognize, of course, that the stages of economic growth has been the subject of protracted debate to which I have responded in W. W. Rostow, ed. *The Economics of Take-off into Sustained Growth* (New York: St Martin's, 1963); Appendix B of the second edition of *The Stages of Economic Growth* (Cambridge, 1971); *The World Economy: History and Prospect* (1978), especially IV and pp. 777-9. A recent retrospective view of the debate is to be found in W. W. Rostow, 'Development: The Political Economy of the Marshallian Long Period', in Gerald M. Meier and Dudley Seers, eds. *Pioneers in Development* (New York, 1984), especially pp. 229-40.

<sup>3</sup> This elaboration is presented in my *World Economy: History and Prospect*, especially pp. 561-3; and *Why the Poor Get Richer and the Rich Slow Down* (1980), ch. 6. The latter presentation takes fully into account the cross-sectional findings, relating real income *per capita* to rate of growth, of Thorikil Kristensen, *Development in Rich and Poor Countries* (New York, 1974), and Hollis Chenery and Moises Syrquin, *Patterns of Development, 1950-1970* (Washington, D.C., 1975).

<sup>4</sup> My view of trend periods (or Kondratieff cycles) can be traced through my *The British Economy of the Nineteenth Century* (Oxford, 1948), especially ch. 1; A. D. Gayer, W. W. Rostow and Anna Jacobson Schwartz, *Growth and Fluctuation of the British Economy, 1790-1850* (Oxford, 1953), especially Vol. II, chs. IV and V; *The Process of Economic Growth* (Oxford, 1966), especially Part Three and chs. 6, 8 and 9; *Why the Poor Get Richer*, especially chs. 1 and 2. *The Barbaric Counter-Revolution: Cause and Cure* (1984), especially pp. 8-11, 62-9, and 102-15, deals with recent phases of Kondratieff cycles and their policy implications.

<sup>5</sup> The First Industrial Revolution is conventionally taken to centre on factory-manufactured textiles, Watt's steam engine, and the manufacture of good iron from coke. All emerge as viable innovations in the 1780s. The Second centred on the railroads and the cheap steel they induced due to the rapid obsolescence

Figure 1. *Four Industrial Revolutions Illustrated: United States, 1790-1983*

Note: As the text indicates, each of the industrial revolutions identified here is wider than the four series used in Figure 1 to illustrate its timing and broad contour.

Sources: For raw cotton consumption, railroad mileage, and motor vehicle sales see sources cited in *The World Economy: History and Prospect*, pp. 679-80, which have been used for up-dating. "High Technology producers' durable equipment" consists of office and store equipment including computers, communications equipment, photographic instruments, and scientific and engineering instruments. Measurement is in billions of 1972 US dollars. The index was constructed from data organized by the Bureau of Industry Economics, US Department of Commerce. Components of the series are to be found in: 1983 U.S. *Industrial Outlook* (Washington, DC: US Department of Commerce, January 1983), pp. 27-5 and 6, 29-4, 34-5 and 36-4. See also Appendix A, under appropriate SIC numbers. Like cotton textiles but unlike railroads and motor vehicles, the high technology index starts from a relatively high level. This occurs because in both cases revolutionary new technology was introduced into an already existing industry.

of iron rails. That powerful sequence begins in the 1830s, although it was in the 1840s that major railway booms occurred in Great Britain, the American northeast, Belgium, France and Germany. The third embraced the internal combustion engine, electricity, and a new round of chemicals. 1900 is a convenient bench mark although the innovational stage for these inventions starts on either side of that date. The existence of three pre-1914 periods when particularly important innovations entered the economy, long recognized by economic historians and dramatized in Joseph Schumpeter's *Business Cycles*, is part of the intellectual framework for Part III of *The World Economy*. The emergence of a new major grouping of technologies is discussed in W. W. Rostow, *Getting From Here to There* (1979), ch. 9, especially pp. 158-66. I apply to them the notion of a Fourth Industrial Revolution in *The Barbaric Counter-Revolution*, especially pp. 54-60 and 89-94.

I shall now say a few words about how these three concepts make their appearance in the broad sweep of economic affairs since 1945.

## II

The post-World War II story of the North is marked by the following major features which relate to stages of economic growth: the substantial catching up of western Europe with the United States in terms of High Mass Consumption; and the extraordinarily swift movement of Japan from Technological Maturity to High Mass Consumption at the western European level (Table 1

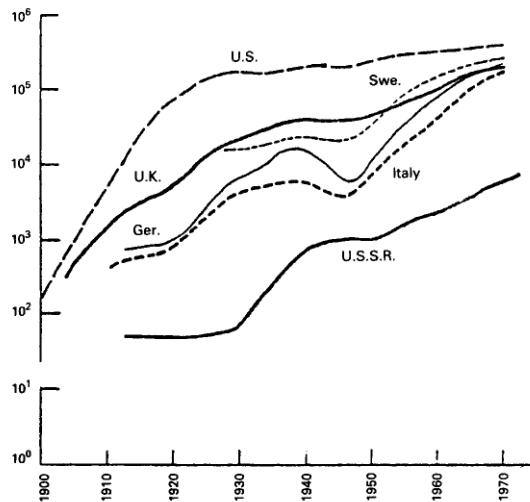
Table 1. *Relative Growth Rates, 1950-1979 (GDP per capita) %*

	Western Europe†	Japan	United States
1950-1973	3.7	6.4	2.2
1973-1979	2.0	3.0	1.9

† Arithmetic average

Source: Adapted from Angus Maddison, *Phases of Capitalist Development* (Oxford, 1982), p. 44.

Figure 2. *Automobile Registration per Million Population: Six Countries, 1900-72 (smoothed)*



Sources: for all countries excepting Sweden, 1900-58, W. W. Rostow, *The Stages of Economic Growth*, pp. 168-71, where detailed sources are indicated. Sweden from 1930 and all other countries, 1958-75 (except the USSR). *Automobile Facts and Figures* published annually by the Automobile Manufacturers Association, Detroit (name changed to Motor Vehicle Manufacturers' Association in 1972). USSR, after 1957, from *World Motor Vehicle Data* (Detroit Motor Vehicle Manufacturers' Association, 1974), p. 113 (US Department of Commerce figures), and earlier editions.

and Figure 2); the movement of all the advanced industrial countries into a phase of extremely rapid increase in outlays on education and other social services, including a large expansion of GNP allocated to transfer payments. Between 1960 and 1980 social outlays rose in the seven major OECD countries from 14 per cent to 24 per cent of GNP. I have associated these movements with a possible post-High Mass Consumption Stage, the Search for Quality.<sup>6</sup>

The most important movements in the South during this period were the transitions of the world's two most populous nations—India and China—into Take-off in the early 1950s, and the later transition of a good many major developing countries (including India and China) from Take-off to the Drive to Technological Maturity.

It is the combination of the catching up of western Europe and Japan in High Mass Consumption and the transition of many developing countries into the Drive to Technological Maturity which accounts for the uniquely high

Table 2. *Income Levels and Growth Rates, 1960-1970*

	Population 1967 (millions)	GNP per Capita 1967 US\$	Average Annual Growth Rate 1960-1970	Approximate Stage of Growth
		\$	%	
United States	199	3,670	3.2	High Mass
Group 1 (\$1,750-\$3,670)	307	3,120	3.4	Consumption
Group 2 (\$1,000-\$1,750)	238	1,490	3.5	
Group 3 (\$700-\$1,000)	444	930	6.5	Drive to
Group 4 (\$400-\$700)	161	550	4.4	Technological
Group 5 (\$200-\$400)	299	270	2.9	Maturity
Group 6 (\$100-\$200)	376	130	2.6	Take-off
Group 7 (\$50-\$100)	1,580	90	1.7	Pre-conditions
World	3,391	610	3.2	

Source: Thorkil Kristensen, *Development in Rich and Poor Countries* (New York, 1974), pp. 156-9. Stages added by W. W. R.

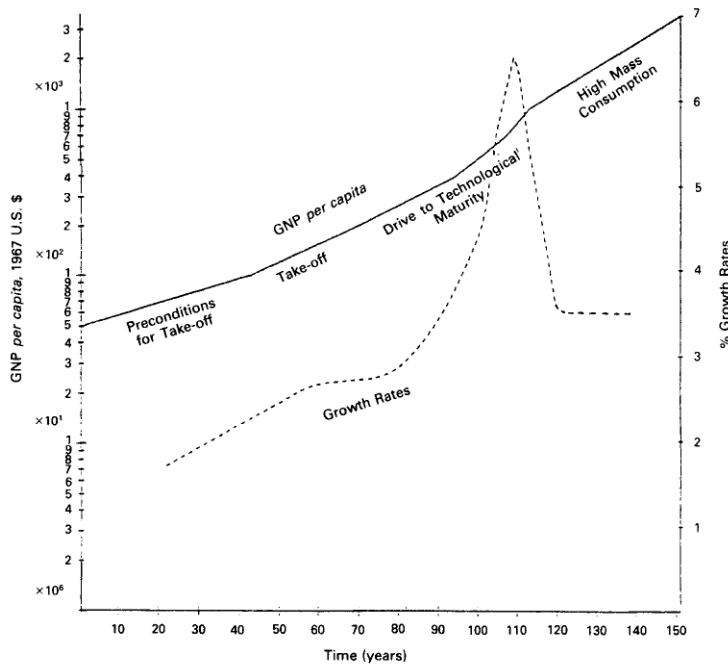
real growth rates of the period 1951-72; for, as Figure 3 and Table 2 demonstrate, growth rates tend to be at their maximum at per capita real income levels associated with the Drive to Technological maturity.<sup>7</sup> They decelerate progressively in High Mass Consumption, mainly because the income elasticity of demand decrees disproportionate increases in demand for services as real income rises. Historically, services have been associated with lower rates of productivity increase than manufactures, although the new technologies may

<sup>6</sup> See *Politics and the Stages of Growth* (Cambridge, 1971), 6, and earlier discussion in *Stages of Economic Growth*, pp. 90-2 and 156. For a useful review of the expansion of social expenditures in advanced industrial countries, broken down by components, see 'Social Expenditure: Erosion or Evolution?' *OECD Observer*, No. 126 (January 1984), pp. 3-6. For more detail see especially Morris Beck, 'The Public Sector and Economic Stability', in *The Business Cycle and Public Policy*, A Compendium of Papers submitted to the Joint Economic Committee, Congress of the United States (Washington, D.C.: G.P.O., November 28, 1980), pp. 105-28.

<sup>7</sup> Historically, as well as in contemporary cross-section, growth rates tended to be at their maximum in the Drive to Technological Maturity, but at lower absolute levels. See *Why the Poor Get Richer*, pp. 265-9.

alter that relationship for certain service sectors in the future. As noted earlier, the lag in High Mass Consumption of western Europe and Japan behind the United States—and the pool of unapplied technologies therefore available to them after 1945—provided a phase of higher than normal growth for that stage.

Figure 3. *Income Levels, Annual Growth Rates, and Approximate Stage of Growth, 1960-1970*



Source: Same as for Table 2.

Note: The US price level (GNP deflator) increased by approximately 2-8 times between 1967 and early 1984.

During the first postwar quarter century, then, the position of the world economy in terms of stages was particularly favourable for growth rates, so long as the growth process itself proceeded strongly; and, as we all know, the growth process moved forward quite handsomely in the North until the deceleration of the late 1960s. In the South, deceleration came about a decade later. An explanation of these phases of extraordinarily high growth rates and of subsequent deceleration lies substantially in the behaviour of the second and third variables (the prices of basic commodities relative to manufactures) and the ebb and flow of technological change. And to these we now turn.

## III

There is, of course, no agreed explanation among economists for the long cycles Kondratieff identified. Indeed, some question the existence of such cycles. The three main contesting theories, among those who regard the long cycles as dated by Kondratieff as a serious phenomenon, are: cycles in technological innovation; cycles in growth rates and average levels of unemployment; cycles in the prices of basic commodities relative to manufactured goods. W. Arthur Lewis has also focused primarily on the latter as the major cause of the fluctuations Kondratieff identified.<sup>8</sup>

Relative prices and terms of trade movements emerge clearly in Figures 4 and 5A and 5B. The relatively high postwar commodity prices down to 1951 complete, in my view, the fourth Kondratieff upswing; the fourth Kondratieff downswing follows down to 1972, but it progressively decelerates in the 1960s. The fifth Kondratieff upswing begins with an explosive upward shift in basic commodity prices starting at the close of 1972, a shift foreshadowed by an attenuation of the global inventory and reserve positions in grain and oil during the 1960s. The sharp relative price reversal of 1972-4 was followed by oscillation in a high range and a cycle in which the upward pressure on basic commodity prices appears to have weakened. In these irregular features both the fourth Kondratieff downswing and fifth Kondratieff upswing conformed rather well to historical precedent; for these cycles did not unfold as the smooth sine curves Schumpeter depicted by way of illustration.<sup>9</sup>

Specifically, before 1914 upswings began with a sharp initial rise lasting a few years, after which the relative price of basic commodities oscillated in a high range. Of the trend rise in British prices in the first Kondratieff upswing, 66 per cent occurred between 1798 and 1801; in the second, 71 per cent between 1852 and 1854; in the third 57 per cent between 1898 and 1900. The world economy experienced such a convulsive rise in 1973-5, with subsequent oscillation in a high range.

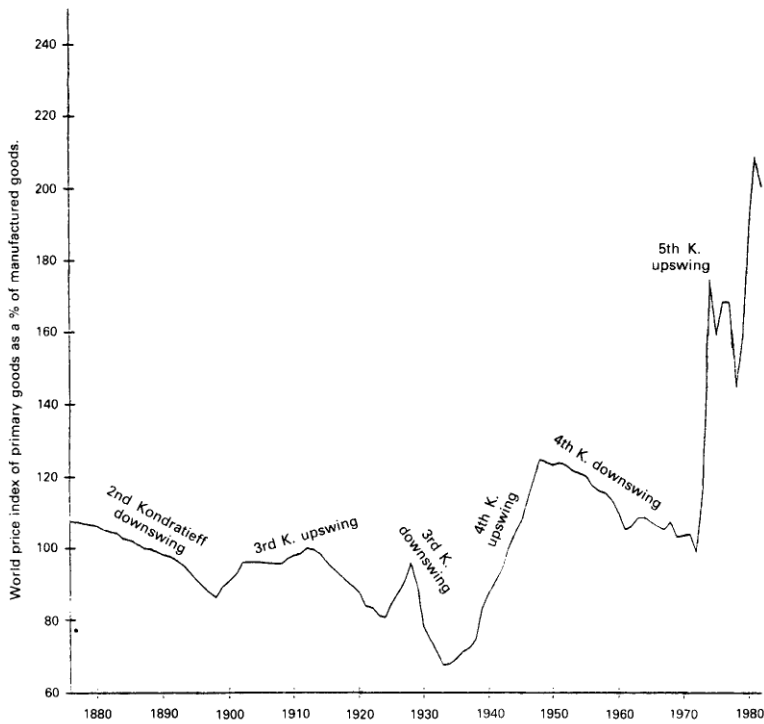
Similarly, all four of the Kondratieff downswings began with an extremely sharp downward shift in the relative prices of basic commodities which subsequently decelerated, levelled off, or oscillated in a low range. This happened after the relative price peaks in 1812-13, 1873, 1920 and 1951.

There was a third, fairly consistent, irregularity. The upswings and downswings usually exhibited an interval or cycle in which the trend movement abated or reversed, and then asserted itself again. In the British case, for example, the cycles of 1803-8, 1832-7, 1862-8, 1886-94, 1904-8, all, to a significant degree, ran against the trend, after which the trend pattern reasserted itself before a definitive reversal occurred. I shall raise the question later as to whether we are now experiencing such an interval.

It should also be noted that relative price movements could have contrary effects within a particular economy. In 1945-51, for example, unfavourable relative price movements for most of the advanced industrial countries had a compensatory consequence. High basic commodity prices strengthened markets for manufactured exports in the countries producing basic commodities

<sup>8</sup> W. Arthur Lewis, *Growth and Fluctuations, 1870-1913* (1978), especially pp. 69-111, 188-93.

<sup>9</sup> Joseph Schumpeter, *Business Cycles* (New York, 1939), Vol. I, p. 213.

Figure 4. *Relative Price Movements, 1876-1982*

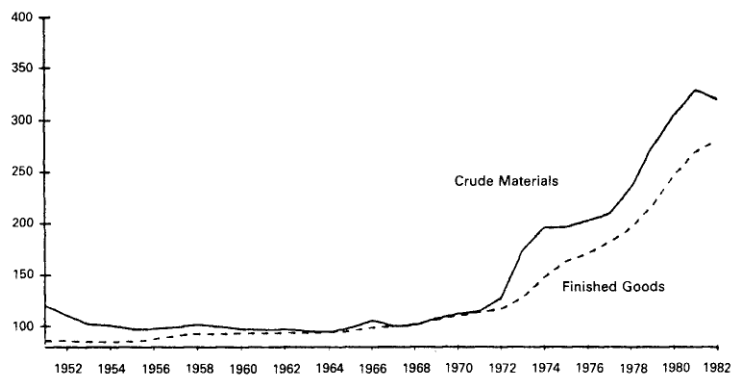
Source: Folke Hilgerdt, *Industrialization and Foreign Trade* (New York: League of Nations, 1945), p. 18, updated from *United Nations Statistical Yearbooks*.

for the world markets. This situation was quite the reverse of that encountered after 1920.<sup>10</sup> The powerful decline in the relative prices of basic commodities in the 1950s undoubtedly provided a lift to real incomes in Japan and western Europe, accelerating their movement into and through High Mass

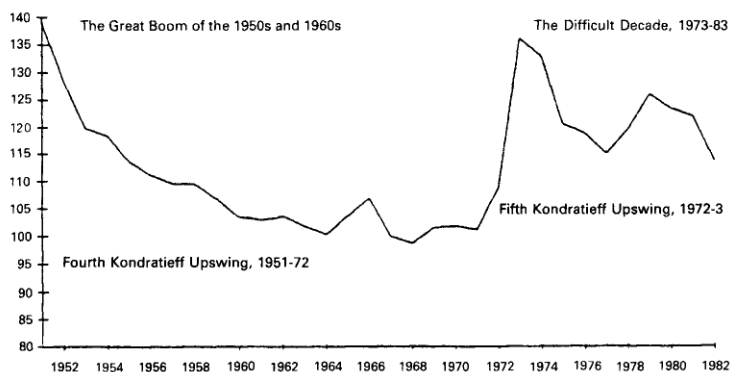
<sup>10</sup> It was to cope with the (to him) quite unexpected favourable shift in British terms of trade after 1920 that Keynes, in his debate with Beveridge, invented what later came to be called the income terms of trade in which an index for the value of exports is divided by the price index for imports. After 1920 the favourable effects for Britain of a radical favourable shift in the net barter terms of trade were out-balanced by the fall in export sales to food and raw material producing countries injured by low export prices. After the Second World War unfavourable relative price movements down to 1951 were out-balanced in their effects on the British economy by expanded exports plus the fact that Marshall Plan aid was calculated in terms of dollar rather than over-all balance of payments deficits. This permitted Britain to liquidate with expanded exports the sterling balances accumulated during the Second World War by some basic commodity exporters. For discussion of various terms of trade concepts, see *Process of Economic Growth*, pp. 170-5.

Figure 5. *Relative Prices, 1951-82, USA*

A. Crude Materials and Finished Goods Prices



B. Ratio of Crude Materials to Finished Goods



Source: Council of Economic Advisers, Washington, D.C.

Consumption; but the relative price decline also presented real difficulties for some developing countries whose terms of trade were depressed. Internally, however, relatively cheap energy, food and raw materials assisted the rapidly growing urban and industrial areas in the more advanced developing countries, encouraging their transition from Take-off into, or through, the Drive to Technological Maturity. The differential effects of energy price movements since 1973 on new energy exporting and importing regions within energy producing countries present a similar analytic complexity.

For the moment, I would simply note that, in one way or another, relative price movements have played an exceedingly important role in shaping the various phases of the world economy since 1945. Among other variables, they affected real incomes, the sectoral and regional distribution of investment, population movements, and the scale, composition and direction of trade. In addition, movements of basic commodity prices, which dominate the import price indexes of advanced industrial countries, helped determine the strength or weakness of the inflationary thrust within their economies both directly through their impact on price indexes and indirectly by damping or enhancing the impulse of labour to seek higher money wage increases.

#### IV

There are four major features of the post-1945 world economy, so far as innovation and the diffusion of technologies are concerned:

First, as noted earlier, the existence for western Europe and Japan of a large backlog of familiar, but hitherto not fully applied, technologies related, in particular, to the automobile and durable consumer goods sectors.

Second, the availability to all the advanced industrial countries (and, before long, to some of the more advanced developing countries) of certain technologies invented before 1939 but not fully elaborated and diffused, notably, synthetic fibres, plastics, and television. These became substantial sectors after the immediate postwar phase of reconstruction; but, along with some other important sectors of what I call the Third Industrial Revolution, they exhibited marked deceleration in the late 1960s.<sup>11</sup>

Third, a large backlog of unapplied technologies was available to the developing countries throughout the past four decades. They were absorbed at a rate determined by their initial stage of growth and the rate of build-up of their absorptive capacity.

In passing, I might note three distinctive characteristics of the Fourth Industrial Revolution as I perceive it. They are not central to this essentially historical argument, but they do bear on my final references to policy and to Tawney.

First, rather more than most of the industrial revolutions of the past, this

<sup>11</sup> For deceleration in the critical automobile and durable goods sector, see *The World Economy*, pp. 565-7; in synthetic materials and electronics, see Christopher Freeman, John Clark and Luc Soete, *Unemployment and Technical Innovation* (1982), chs. 5 and 6; in rates of increase in total industrial production, *The World Economy*, p. 359. For rise in capital-output ratio in this period, see: *Why the Poor Get Richer*, pp. 286-7. The British slowdown in output and productivity is noted and measured in R. C. O. Matthews, C. H. Feinstein and J. C. Odling-Smee, *British Economic Growth, 1856-1973* (Stanford, 1982), pp. 23-5 and 547.

one is closely linked to areas of basic science which are rapidly evolving. The fate of particular sectors and even whole national economies is likely to depend on success or failure in bringing into firm and steady partnership the domains of basic science, creative engineering, entrepreneurship, and the work-force.<sup>12</sup>

A second characteristic of the Fourth Industrial Revolution is that it seems fated to be ubiquitous. It is likely to transform—indeed, it is already beginning to transform—the older basic industries. I would guess that in the advanced industrial countries motor vehicles, machine tools, steel, and even textiles will be high-technology industries in a thorough-going way in a decade or so. But the new technologies will equally affect agriculture, forestry and animal husbandry; and, as is already observable, they will have revolutionary effects on a wide range of services: communications and medical care, education and banking.

A third characteristic of the new technologies is that, in different degree, they are, and will increasingly be, relevant to the South as well as the North, depending on each developing country's stage of growth and rate of build-up of its absorptive capacity.

## V

Having introduced the three working concepts, I shall now look a bit more closely at each of the four periods into which I have divided the saga of the postwar economy. The analytic perspective will remain the three-sided prism I have now defined and illustrated.

For the North, as we all know, the first six postwar years were a great surprise. In 1945, the leading macro-economists of the western world could perceive no forces likely to prevent, perhaps after a brief restocking boom, a return to depression. Their minds turned, therefore, to public policies that would mitigate unemployment more effectively than in the 1930s. In Europe, quite particularly, there was still in the back of many minds memories of the 1919-21 sequence of boom and bust, followed by a succession of difficult problems only half-solved in the 1920s and which gave way to the tragedies of the 1930s. The one outcome not generally envisaged was an almost unbroken quarter-century surge of recovery and growth.

Initially, agriculture lagged but global industrial production, excluding the United States, reached its prewar peak by 1948, despite the low level of the German economy. It was 37 per cent higher in 1951, by which date agriculture had pretty well recovered, except in eastern Europe.

Table 3 exhibits the rather remarkable British figures for the initial postwar interval. It clearly reflects the extraordinary export effort required down to 1950 to earn a lower volume of imports than in 1938, in the face of a decline in earnings from capital abroad and the adverse terms of trade which marked the final phase of the fourth Kondratieff upswing. The British terms of trade were 15 per cent less favourable in 1947 than in 1939, 33 per cent less favourable in 1951 than in 1938.

As for stage of growth, the recovery of living standards in the North was,

<sup>12</sup> I elaborate this point in 'India and the Fourth Industrial Revolution', Vikram Sarabhai Memorial Lecture, 18 October, 1983, Ahmadabad: Indian Institute of Management, 1984.

Table 3. Index Numbers of Expenditure and Gross National Product at Constant Factor Cost: United Kingdom, 1938-50 (1938 = 100 at Constant Market Prices)

	Consumers' Expenditure	Public Authorities' Expenditure	Gross Domestic Fixed Capital Formation	Exports, Goods and Services	Imports, Goods and Services	Net Property from Abroad	Gross National Product
1938	100	100	100	100	100	100	100
1944	85	438	28	68	90	22	119
1945	90	356	32	55	86	21	111
1946	100	195	81	93	86	21	110
1947	103	138	94	93	87	30	107
1948	104	132	101	114	85	43	111
1949	106	140	111	126	91	39	114
1950	109	140	117	144	92	62	119

Source: C. H. Feinstein, *Statistical Tables of National Income, Expenditure and Output of the UK, 1855-1965* (Cambridge, 1972), from Table 7, T21.

Table 4. Private Automobiles in Use per Million Population, Selected Countries: Prewar Peak, 1951, 1955

	United States	United Kingdom	France	Germany	Italy	Japan
Prewar peak	222,000 (1941)	43,600 (1939)	49,000 (1939)	19,000 (1938)	6,710 (1939)	1,200 (1935)
1951	277,000	48,600	37,900	14,100	9,010	680
1955	316,000	71,100	69,300	33,100	18,200	1,710

Source: See statistical source references, *Stages of Economic Growth* (Cambridge, 1960, 1971), Appendix A, pp. 168-9.

essentially, along prewar lines, although the continuation of British food rationing down to the early 1950s consolidated important and benign changes in the British diet begun during the war. Western Europe as a whole had been moving towards the patterns of High Mass Consumption during the interwar years: much more slowly than in the United States in the 1920s, more quickly in the 1930s. But prewar automobile density in Britain and France was less than a quarter that in the United States. Interwar Japan was completing the Drive to Technological Maturity, converting its growing virtuosity to military purposes after 1931, and persisting with essentially traditional patterns of consumption.

By 1951 there was some slight suggestion in the data of the coming diffusion on a mass basis of the automobile; but the dramatic changes began thereafter, as the surge between 1951 and 1955 suggests (Table 4).

As for the developing South, the setting for economic progress, in narrow terms, was quite propitious. Rapid recovery and growth in the North (after 1945) provided strong export markets at good terms of trade compared to prewar levels. In 1948 the terms of trade for developing market economies, in United Nations' parlance, were 20 per cent above the 1938 level, and in 1951 49 per cent. But, excepting Latin America, politics and struggles for power dominated. There were drives for independence against a colonial structure fatally weakened by wartime developments. There were military or insurrectionary campaigns which often merged clashes of ideology and personal ambition to exploit the transient plasticity of the postwar world. These absorbed the bulk of the talent and energy of leaders in Asia, the Middle East and Africa. The ending of the Korean War and the launching of the First Five-Year Plans in China and India in the early 1950s mark the beginnings of a phase of higher, but not over-riding, priority for economic and social objectives in the South.

As Europe moved more persuasively into recovery and growth in 1948-9, with the Marshall Plan in place, the South began to claim attention and resources from the North in support of increasingly articulated aspirations for modernization and economic growth. Under such pressures the United Nations launched a technical assistance programme in 1949 as did the United States, where reports of official commissions headed by Nelson Rockefeller and Gordon Gray foreshadowed the possibility of much enlarged development assistance in the future. The Colombo Plan emerged in 1950 as part of the architecture of the postwar Commonwealth.

The Korean War crosscut these hopeful developments by focusing US foreign aid around military assistance and economic support for countries judged to be militarily endangered around the periphery of the Communist world. And in 1951, the terms of trade, which had been improving for the South for almost twenty years, turned unfavourable. Standing at 118 in 1951 (1963=100) they bottomed out at 99 in 1965. Despite the problems posed by this shift in relative prices, a remarkable generation of progress in the South as well as the North ensued.<sup>13</sup>

## VI

The great boom of the 1950s and 1960s is a unique phenomenon in modern economic history. The annual rate of growth of real income *per capita* for

<sup>13</sup> *Statistical Yearbook, 1953*, United Nations (New York, 1953), p. 34.

advanced industrial countries averaged 3.8 per cent for the period 1950-73—almost three times the highest previous level (1.4 per cent, 1870-1913).<sup>14</sup> In the 1960s the developing regions were growing at about 5.6 per cent, a higher rate than for the advanced industrial countries (4.9 per cent). For a while, the three contrapuntal themes operated in harmony—or at least as much harmony as economic history is likely to provide; that is, movements in the terms of trade and in technology conspired to make it possible for North and South to move forward rapidly through appropriate stages of growth.

Western Europe and Japan became caught up fully in the age of the mass automobile and durable consumer goods and, along with the United States and Canada, exhibited high income elasticity of demand for travel, and public and private outlays on education and health. In addition, they proved willing to expand transfer payments on behalf of the less advantaged within their respective societies and in the developing regions via official development assistance. As the 1960s wore on, there was also an increased sensitivity to environmental degradation and the allocation of substantial resources to contain or roll it back.

The leading sectors in the North were closely geared to goods and services with a high elasticity of demand. Momentum was thus strongly supported by the absolute decline of basic commodity prices from 1951 to the mid-1960s and by an approximately 25 per cent improvement in the terms of trade. The latter, of course, directly lifted real income to an extent dependent, in each country, on the relative importance of foreign trade. The absolute decline in imported basic commodity prices affected directly cost of living indices, damping inflation both directly and by tempering labour demands for higher money wages.

In the South, as noted earlier, the 1950s and 1960s were a time when a good many nations made the transition into Take-off or moved beyond into the Drive to Technological Maturity, including China and India. Their average growth rates were relatively low; but for the first time in their recorded history a self-sustaining rise in real income *per capita* seemed under way. By the end of the 1960s, Latin American countries containing most of the region's population had also moved into the Drive to Technological Maturity as well as Turkey, Taiwan, and South Korea.

The effects of relative price movements on the South were more complex. The absolute and relative fall of basic commodity prices after 1951 hit hard the foreign exchange earning capacity of many developing countries, as one would expect with an average 10 per cent deterioration in the terms of trade.<sup>15</sup> This burden was mitigated by three factors. First, cheap energy, food, and raw materials stimulated industrial and urban development within the more advanced of the developing countries. Second, from the late 1950s the decline in the terms of trade for the developing regions decelerated and then ceased at levels far above those of 1930 and generally higher than in 1948. Third, flows of official development lending from the North began to increase quite dramatically in the late 1950s, easing, at least marginally, the foreign exchange constraint on development.

<sup>14</sup> Angus Maddison, *Phases of Capitalist Development* (Oxford, 1982), p. 44.

<sup>15</sup> *Statistical Yearbook, 1972* (New York, United Nations, 1973), p. 42.

Technologically, the majestic boom in the North drew on two reasonably distinct sources. As noted earlier, there was the backlog of technologies associated with the mass production of the automobile and durable consumer goods, quite fully exploited in the United States, familiar but not yet fully exploited in western Europe and Japan. In addition, there was a group of technologies, being developed in the 1930s and in some cases accelerated during the war, which came on stream as rapidly expanding commercial innovations accepted by virtually all the advanced industrial countries from the 1950s; notably, synthetic fibres, plastics, television, new rounds of pharmaceuticals, the commercial jet aircraft. The two groupings are linked, for example, by the expanded use of plastics, synthetic fibres, and synthetic rubber in motor vehicles, aircraft and durable consumer goods. The developing countries moving into the Drive to Technological Maturity in this period quickly absorbed a good many of these technologies; e.g. plastics, synthetic fibres, and pharmaceuticals.

As price, relative price and technological factors were driving the world economy along at quite a merry pace, most mainstream macro-economists were living in something of a dream world. This was the case because mainstream macro-economics—Keynesian and monetarist—is structured so as to exclude, to fix, or to overaggregate critical dynamic variables. The excluded variables include large, persistent relative price changes and the ebb and flow of technologies. Thus, neither the sources of the boom nor the causes of the great turning point of the mid-1960s were clearly perceived at the time; for it was after 1965 that the pillars of the boom began to erode.

Specifically, the decline of basic commodity prices which had been going on at a decelerating rate since 1951 (Figure 5A) gave way to a gradual increase. The terms of trade remained approximately steady for the industrialized North down to the end of 1972; but inflation became more difficult to control as labour sought higher money wage settlements to compensate for a rising cost of living, no longer damped by falling basic commodity prices.

The effects of this process on unit labour costs was exacerbated by a deceleration from the mid-1960s in the rate of productivity increase in all the major advanced industrial countries.<sup>16</sup> The average deterioration was about 20 per cent between 1965 and 1970; for the United States about 30 per cent. The reason for this phenomenon was mainly the quite normal waning of potentialities for productivity increase in the leading sectors of the postwar boom; motor vehicles, steel, plastics, synthetic fibres, etc.

But even bigger trouble was building up. It was during the second half of the 1960s that conditions were developing which explain the grain and oil price explosions which shook the world economy in 1972-4.<sup>17</sup>

Grain reserves, measured in days of global grain consumption, fell from 95 in 1961 to 55 at the worst of the Indian food crisis of 1967. After a brief recovery, the figure was down to 51 in 1971. The global grain market was clearly vulnerable to the bad harvest year which came in 1972. That event produced not only the grain price explosion of 1972-4 but also drove the reserve level down to 37 days in 1973.

<sup>16</sup> See data and analysis in *Why the Poor Get Richer*, pp. 284-8. Also references in n. 11, above.

<sup>17</sup> For a more complete analysis of the pre-1973 developments in grain and energy markets, see Rostow, *World Economy*, pp. 247-59.

A similar attenuation of the underlying reserve position was going on in the world's oil markets, notably in the United States. Between 1965 and 1969 US oil consumption increased at 4.5 per cent per annum, while proved oil reserves declined at 2.3 per cent. After decelerating rapidly from 1966, US oil production began its absolute decline in 1971. The United States was importing 8 per cent of its energy consumption in 1965, 17 per cent in 1972 when, in the autumn, the Organization of Petroleum Exporting Countries judged that it had sufficient leverage to quadruple oil prices.

Only in a limited sense, then, were the explosive increases in grain and oil prices of 1972-4 exogenous events.

## VII

The reversal of relative prices had somewhat different effects on the movement through the stages of growth in the North and in the South.

In the North, progress promptly decelerated, halted or reversed, depending on the adjustments made or not made in the various advanced industrial countries. In general, these were the effects of the approximately 13 per cent unfavourable shift in the northern terms of trade:

Its real income effect flattened the already decelerating automobile-durable consumer goods boom.

The price elasticity of demand effect, via a disproportionate rise in the price of energy, reinforced the damping real income effect on the former energy-intensive leading sectors.

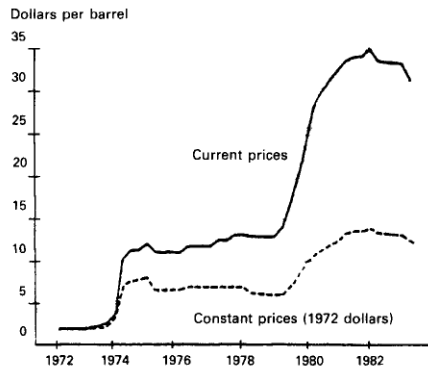
The impact of the sharp rise in import prices on the cost of living yielded the following sequence: accelerated money wage increases; a passage of double-digit inflation; strong measures of monetary restraint; and a deep recession in 1974-5.

This slow-down or reversal of growth, set against the built-in expansion of social expenditures, further heightened by the sharp rise in outlays for the unemployed, set in motion in virtually every advanced industrial country a protracted and difficult effort to discipline the rate of growth of social expenditure.

By 1974-5 the great boom was clearly over; but there was an interval of remission. The real price of oil levelled off in the recession and actually declined for those countries whose currencies were gathering strength against the dollar in which the international oil price was denominated (see Figure 6). The world economy recovered down to 1978; but inflation and unemployment rates remained high by the standards of the two previous decades, and average growth rates in the North were markedly lower. Average *per capita* GDP, which had been increasing at 3.8 per cent in 1950-73, fell to 2.0 per cent in 1973-9.<sup>18</sup>

The ending of a full generation's rapid growth based on the expansion in automobiles, durable consumer goods, and consumer services, raised in the North some basic questions about the future. Among them was anxiety that, after two centuries, diminishing returns had at last set in with respect to science and invention. Indeed, some argued explicitly that the advanced

<sup>18</sup> Maddison, *Capitalist Development*, p. 44.

Figure 6. *Petroleum Prices, 1972-83: Current and Real*

Source: *World Development Report, 1983*, (New York, 1983), p. 8.

industrial countries faced secular stagnation; and they did so in terms that recalled almost precisely the same argument in the 1930s.<sup>19</sup>

In the phrase commended by Stephen Potter in his classic *Gamesmanship*, to divert cocktail party conversations: it was different in the South. The price explosion of 1972-4, which extended to raw materials other than energy, briefly lifted the terms of trade for many developing countries, aside from oil exporters. Excluding energy, the prices of basic commodities relative to manufactures (1970=100) stood at 113 in 1974.<sup>20</sup> There was an interval of exhilaration in the South at the spectacle of the successful extraction of enormous rents from the North by a group of developing countries and of hope that the process could be repeated in other basic commodity sectors. This mood suffused the special session of the United Nations General Assembly in the spring of 1974.

A year later the atmosphere had changed as the oil importers of the South felt the full weight of both the rise in the oil price and the deep recession in the North. The terms of trade turned sharply against the oil importers of the South in 1975. Nevertheless, the leading growth sectors in the more advanced countries of the developing world, rooted still in the unapplied backlog of mainly capital goods technologies, were less damaged by the turn of events than the leading sectors of the North. The latter were linked to consumers' outlays and therefore dependent on a continuing rise in consumers' real income. By and large, the South maintained its momentum remarkably well in the 1970s, as Table 5 suggests. The prolongation in the South of high growth rates well into the 1970s was accomplished in some cases by structural readjustments involving sharp increases in exports (including the export of

<sup>19</sup> See, for example, the views of Edward Renshaw summarized and discussed in Rostow, *Getting from Here to There*, pp. 138-46.

<sup>20</sup> *Statistical Yearbook, 1981* (New York, United Nations, 1983), p. 51.

labour) to oil-exporting countries. In others, there was resort to large-scale borrowing from private markets to sustain the level of imports.

Table 5. *Performance of World Economy During First and Second United Nations' Development Decades*

	<i>Developed Market Economies</i> (annual average Rates of Growth)		<i>Developing Market Economies</i> (annual average Rates of Growth)	
	1960-9	1970-9	1960-9	1970-9
Gross Domestic Product	5.2	3.3	5.5	6.0
Gross Domestic Product per capita	4.1	2.5	3.0	3.7
Total Industrial Output	5.9	3.6	5.3	5.0
Production of food per capita	1.3	1.3	0.2	0.2
Production of Energy	3.9	1.3	9.8	4.2
Consumption of Energy	5.0	2.0	6.9	7.1
Imports	9.0	5.5	5.1	7.5
Exports	8.4	6.5	6.3	5.2

Source: *Statistical Yearbook, 1981* (New York, 1983), p. 17.

The oil exporters handled their vast accretion of external resources with various degrees of balance and good sense. For oil exporters with substantial populations and acute problems of development still to solve, it was difficult to avoid plunging ahead with greatly accelerated levels of investment, encouraged as their governments were by expert predictions of further increases in coming decades in the real price of oil. The economic and social distortions caused by such inflated efforts to achieve targets beyond current absorptive capacity were compounded by the inescapable "gold-rush" effect; that is, the drawing of labour out of agriculture and other relatively low-income activities towards the higher-paying jobs linked to the expenditure of the oil revenues—a process to be observed, for example, in the nineteenth-century Californian and Australian gold rushes. At the margin there was Iran, where the distortions produced by over-ambitious efforts to achieve extraordinarily high development goals in a short period of time rendered old tensions in the society explosive. The Iranian revolution brought with it a radical decline in oil exports. In an excessive reaction of the international oil market, a further doubling in the oil price occurred in 1978-9 opening a second difficult phase of the fifth Kondratieff upswing.

### VIII

The second oil shock, to a degree, caused a repetition of phenomena familiar from the first: a sharp deterioration in the terms of trade, in this case for the oil importers of the South as well as the North; a phase of double-digit inflation, severe unemployment and a continued downward trend in productivity in the North; a subsidence during 1980 in the real oil price and the beginnings of some general economic recovery in 1980-1.

There were, however, three significant differences in the North as compared to the first oil shock and its aftermath; and these had important implications for the South.

First, with the agreement of President Carter, on 6 October 1979 the Federal Reserve Board launched a major experiment: a decision to govern monetary

policy strictly in terms of the rate of increase in the money supply, permitting interest rates to move as they would. The result was a rise in both nominal and real rates of interest to levels never before experienced in the United States. The experiment was continued by President Reagan, although significantly modified in August 1982 to ease the extremely severe recession then under way. But as of early 1984 real interest rates in the United States were still about 7 per cent as opposed to an average of 2 per cent for the period 1953-78. This experiment had profound effects on the world economy as a whole as well as on the domestic economy of the United States. It not only made more difficult a sustained economic recovery, but also generated an artificially strong dollar as capital flowed to the United States to exploit the interest rate differential. The pathologically strong dollar helped damp inflation in the United States but constituted a substantial barrier to US exports, thus assisting the exports of other advanced industrial countries. The result was a mounting trade and, subsequently, overall US balance of payments deficit that threatened a crisis in the international trade and financial system at some point.

Second, the electorate of Britain in 1979 and of the US in 1980 brought to power governments committed to reversing the inflationary trend of the previous decade, cutting back social expenditures, and expanding the role of the private sector relative to government. Although more explicitly counter-revolutionary in rhetoric and mood than most other governments in the advanced industrial countries, they reflected political forces quite generally at work in the North. So far as the world economy was concerned the most significant results of this phenomenon flowed from two decisions of President Reagan in 1981. First was his decision to experiment with the theory of monetarist gradualism in the summer of 1981, a theory that promised to reconcile economic expansion with a simultaneous reduction in the rate of inflation. The result was a sharp recession at a time when the world economy was uncertainly recovering from the recession which had accompanied the second oil shock. Second, there was Reagan's tax cut of 1981 which greatly enlarged the structural element in the US federal budget deficit. That deficit was running at about 2 per cent of GNP in the depressed year 1981 (0.6 per cent in 1979); over 5 per cent in early 1984. Without a radical cut in expenditure and/or increase in taxes, the conventional expert view was that deficits of this relative order of magnitude would persist. Lacking an effective incomes policy (as in Japan, which managed its affairs quite successfully with deficits of this relative order of magnitude), the prospect of the US deficit contributed a strand of profound uncertainty to the international financial markets.

The third distinctive strand in the North in this period was the arrival in the second half of the 1970s of the Fourth Industrial Revolution. Concern about secular stagnation gave way to anxieties about the possibility of high chronic technological unemployment, puzzlement about the best methods for participating in the revolution or exploiting its products, and uncertainty about its ultimate effects on various sectors of the economy.

In the South, the chronic recession of 1979-82 was more acute and difficult to manage than its predecessor after the first oil shock. The purposefully deflated performance of the North brought about by unprecedentedly high real interest rates, struck the South in five ways: exports to the North were

reduced; export prices fell; protectionist barriers against the manufactured exports of the South rose; official development aid was constrained by governments in the North facing their own difficult social problems; and the high interest rates generated in the North complicated the already acute debt problems of many nations in the South. The North co-operated to roll over the debts that could not be financed by normal means, but at the cost of commitments in the South to restrained growth in the future—a restraint socially and politically dangerous for societies with the demographic structures of most in the South. Only a strong sustained expansion in the North appeared capable of preventing the emergence of even more acute crises than those experienced by the South in the period 1979-84.

Meanwhile, the South as well as the North became increasingly aware that a new technological revolution was under way. The new technologies generated interest, concern, and a sense of frustration bordering on anger. Concern centred around the possibility that the new technologies would yield such increased productivity in older basic industries of the North (e.g., steel, motor vehicles, machine tools) that their drift to new industrial countries with relatively low wage rates would slow down or cease. An awareness of this possibility was particularly marked in the Pacific basin as Japan moved vigorously to install robots and other high technology devices in some of the industries of the Third Industrial Revolution.

In fact, the position in the South was not set back as sharply as was widely feared. In Latin America, North Africa, the Middle East, and developing Asia the expansion of the pool of competent scientists, engineers and entrepreneurs had been proceeding more rapidly than was generally understood on the spot. For what the World Bank called "middle income countries" the proportion of those aged 20-24 enrolled in higher education rose from 3 per cent in 1960 to 11 per cent in 1979.<sup>21</sup> One can debate the quality and functional distribution of this revolutionary transformation; but it is increasingly clear that for a good many developing countries the problem of absorbing the new technologies does not lie in an insufficient pool of competent personnel but in the effective organization of the domains of science, engineering, and business in relation to each other. This linkage has been achieved in a few sectors in some of the more technologically advanced developing countries. But it is not a general phenomenon in the South. If the problem of this three-way linkage were solved, the lag induced by the arrival of the Fourth Industrial Revolution might well prove shorter and less formidable for the South than it appeared at first sight; and the brain-drain from South to North is likely to reverse.

## IX

This brings us to some issues of policy. In a paper prepared for fellow economic historians there is evidently no need to introduce problems that lie before us and lines of action that might mitigate or solve them. I could simply close and leave us to contemplate a somewhat dishevelled world economy, its

<sup>21</sup> *World Development Report, 1983* (New York, 1983), Table 25, pp. 196-7.

leaders and citizens hoping, but not quite believing, that the present revival would move forward in something like the steady, low-inflationary environment of the period 1951-65.

But it is difficult to do that in a lecture honouring R. H. Tawney. Tawney belonged squarely in the tradition of the eighteenth-century founding fathers of modern economics who insisted that history and theory, moral values and policy, be inextricably bound together in what they called political economy—a tradition from which we have strayed in recent decades at considerable cost to our discipline and to the societies that discipline was created to serve.

On the other hand, it would be highly inappropriate to launch at this stage into a second paper on the policy implications of this historical sketch.<sup>22</sup> I shall, therefore, merely pose rather dogmatically three critical questions on which the outcome for the world economy is likely to depend in the generation ahead and relate them to some strands in our heritage from Tawney. As befits the design of this paper, the critical questions link directly to the three themes: stages of growth, relative prices, and technology.

The first question is: Can the North master inflation in ways consistent with reasonably low real interest rates, low unemployment and high growth rates? Without a positive answer to that question, vigorous forward movement in the stages of growth is doubtful in the South as well as the North, given the intense and even heightened interdependencies which exist and can be expected to continue between them. And a positive answer, in turn, depends, I am convinced, on the emergence of a capacity in the Northern societies to sustain effective long-term incomes policies combined with conventional devices of fiscal and monetary policy.

But the long-term control of inflation as well as the continuity of growth itself depends on a positive answer to a second question: Can North and South cooperate effectively to provide the resource foundations for continued high growth rates in both regions? Specifically, such cooperation is required to maintain high levels of investment in agriculture, energy, raw materials, reforestation, and other aspects of environmental protection. Those investment levels are needed to assure a moderately priced flow of resources capable of permitting the growth process to proceed in both North and South. The need is particularly acute for the South where, under normal circumstances, growth rates higher than in the North would be expected over the next generation and where growth is likely to be more resource-intensive than in the North.

A glance at the figures for food production *per capita* and energy production and consumption in Table 5, above, suggests the relevance of this question. Food production *per capita* is, overall, barely keeping up with population growth in the South, and, in fact, is falling progressively behind in a good many countries. A gap opened up in the 1970s between the rate of increase in energy production and consumption in the South, the latter figure running at a rate which required a doubling of energy consumption per decade. Data on raw materials and environmental degradation in the South also suggest that extremely large investments will be required to provide a resource base for continued Southern growth, if the world economy returns to normal growth

<sup>22</sup> In effect, my *The Barbaric Counter-Revolution* constitutes such an exercise.

paths in the 1980s and 1990s. In short, a sustained revival of the world economy is likely to yield a reversal of the recent phase of decline in the relative prices of basic commodities.

And, finally, the third question: Can the societies of North and South bring together in close working partnership scientists, creative engineers, entrepreneurs and the working force to generate and diffuse efficiently the potential products of the Fourth Industrial Revolution? As noted earlier, the question arises because the technologies of the evolving revolution, much more than those which preceded them, are linked to areas of basic science which themselves are undergoing rapid evolution.

Now, a final word about Tawney. Suppose for a moment that these are, in fact, three critical questions for the future. What do they have to do with Tawney? In one sense, the answer is: nothing at all. Tawney belongs in history just where he wished to belong: a substantial figure in the moral, intellectual, and political struggle to bring about in Britain, not only the cushions against adversity which make up much of the welfare state, not only greater equality of opportunity in education, but also, to a significant degree, a social status of greater dignity for the British working man. Social welfare policies and resource outlays are, evidently, now under considerable pressure; but I would guess that throughout the advanced industrial countries they are likely to be more endangered by economic stagnation or slow growth than by counter-revolutionary politicians. The results of the widespread consensus in immediate postwar British society, reaching far beyond the Labour Party, were, like the New Deal, Great Society and civil rights reforms of the 1960s, essentially irreversible. And, in Britain, Tawney made a distinctive contribution to the building of the consensus.

But there was much in the social and political struggles which led to the welfare state victories on both sides of the Atlantic that is now inappropriate to our problems. Tawney felt, for example that he was fighting an essentially zero-sum game on behalf of the British worker against the British capitalist. Indeed, as a man embedded in the seventeenth as well as the twentieth century, he contemplated a no doubt symbolic "cutting off the heads of our industrial Lauds and Straffords" even if the price were a century or so of "political jobbery and ineptitude".<sup>23</sup> Only a few would now put the faith Tawney did seventy years ago in the virtues of government ownership and operation of the means of production. But in matters of economic, social, and political policy one should look back at a man in his time and place and not ask him to prescribe for times he never saw or felt.

Now, if I am more or less correct, the task before the North is not to continue *à l'outrance* with single-minded zero-sum struggles over the distribution of resources but to contain such inevitable friction and negotiations by common efforts to enlarge the pool of resources. The injunction to cooperate holds for the disciplining of inflation, North-South co-operation with respect to the global resource base, and the generation and diffusion of the new technologies. Indeed, the fate of the welfare state itself ultimately hinges on the success of such common efforts. But as I read Tawney, he also stood

<sup>23</sup> J. M. Winter and D. M. Joslin, eds., *R. H. Tawney's Commonplace Book* (Cambridge, 1972), p. 11.

for two propositions which transcend his generation; and these propositions remain relevant to our time, to the tasks that must be taken in hand, and to the communal spirit that must inform the effort.

The first proposition was his unswerving insistence on the moral character of public policy. As he read detailed pre-1914 studies of social conditions, proposals for new legislation and new institutions, he argued that all these familiar instruments of a reform movement were not enough: "The direction in which we are moving is determined", he wrote, "by quite other, moral and intellectual causes whose springs lie deeper. We ought to turn [to] these for strengthening and refreshment more often than we do."<sup>24</sup> Tawney attacked some of those in the labour movement for being "bought off by instalments of 'social reform'. It has become not a question of right and wrong, but a question of more and less."<sup>25</sup>

In this matter surely Tawney was correct. Many in Britain threw their support behind the labour movement when they were convinced it was fighting for what was right, but they took their distance when they thought it was fighting simply for more and more resources and/or, political power. In the societies of western civilization large public enterprises require a moral base which commends itself to a substantial majority of the people. In the end, it is one of the glories of our democratic societies that government policies and governments are judged in the light of a fuzzy, non-quantifiable question not susceptible of cost-benefit analysis or computer manipulation: Are they fair? At the end of the day the welfare state, including remarkable widening in health care and educational opportunity, was finally accepted in Britain not because post-1945 Cromwellian Roundheads were about to take over the corporate board rooms, but because a substantial majority of the British electorate had come to judge it wrong for rich, comfortable societies not to provide these basic services for all.

This brings us to a second relevant strand in Tawney's thought; and there is something of a paradox in it. Tawney was thoroughly prepared to inveigh against the capitalist, like an Old Testament prophet (or a product of Rugby and Balliol); but he also never wholly lost faith in the possibility of human beings—and, quite particularly, Britons—working together in communal harmony for large common purposes (again like a product of Rugby and Balliol). Writing of Tawney's reaction to the First World War, the editors of his *Commonplace Book* conclude:<sup>26</sup>

. . . Tawney's war experience was formative. The fact the nation virtually with one voice had committed its material and human resources to the prosecution of a just cause convinced him that the conflict had altered the internal development of British political and social affairs in a positive way. He saw in the national mobilization for war the faint outline of a future stable society in which men were bound together for the moral and physical betterment of all. This spiritual unity which the Allied cause generated in its first months fulfilled what Tawney defined as the necessary precondition for institutional action. He believed that all political associations are inherently mechanical bodies, capable of effective action only when

<sup>24</sup> *Ibid.*, p. 68.

<sup>25</sup> *Ibid.*, p. 80.

<sup>26</sup> *Ibid.*, p. xxii.

animated by ideas which exist outside and grown independently of them. Tawney was convinced that the First World War had uncovered and developed such a progressive movement in mass political and social attitudes.

No doubt Britain's response to the Second World War—and the substantial area of consensus that existed in British politics in the immediate postwar years—vindicated this assessment in Tawney's mind.

Tawney's vision is relevant now because useful responses to the three questions I posed will require more than institutional and legal blueprints for income policies, North-South investment programmes in basic resources, and new working arrangements between the research universities and the business community. The Austrian Finance Minister, Hans Seidel, captured something of what is required when speaking to the Joint Economic Committee of the American Congress on 2 June, 1981. In explaining the institutional arrangements for an incomes policy in his country, he broke through the complexities by saying that, ultimately, what was required was a social partnership: "Social partnership does not just mean that we all sit in the same boat. It also means that we are willing to steer the boat in a direction upon which most of us agree." Tawney understood that history included the possibility of social partnership as well as zero-sum games.

But right now the critical unanswered question is: What is the direction upon which most of us must agree? Towards what goal must the social partnership work? It is surely not a return to a mid-Victorian obsession with material progress, nor a dismantling of the welfare state, nor a vast extension of the powers of the state over economic and social life. The argument implicit in this historical sketch of how we got to where we are suggests that the goal is: in the North, to maintain economies of sufficient vitality to permit its citizens to move forward in search for lives and societies of higher quality; in the South, to permit the movement through the stages of growth to proceed in conformity with the cultures and ambitions of its peoples without Malthusian or Ricardian tragedies; and for North and South to work together with an understanding of the profound common interest in the success of both ventures.

To carry forward these enterprises effectively in the 1980s and 1990s we in the North—to evoke Tawney's phrases—shall have to seek strength and refreshment in moral principles and intellectual concepts which would heighten our sense of community. Although we have not yet brought them to bear, they will remain deeply rooted in our culture and historical experience until we, as citizens, insist on political leadership which would evoke them once again.

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