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Structuring a New Economic History
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Tirthankar Roy (‘Economic History: An Endangered Discipline’, EPW, July 17, 2004: 3238-43) makes some important contributions to a second wedding of economic history and development economics in India – indeed in the world. He proposes an alternative ‘structural’ economic analysis of history, but for that purpose it is very misleadingly entitled. The essay may be well-titled for purposes of reviewing the rise and decline of economic history in India as a result of its ideological use to support what he misleadingly calls a ‘socialist’ planning and economic policy regarding which he undeservedly honours me specifically naming only two, Nehru and Gunder Frank ‘and his followers’.

With the about-turn of Indian economic policy since 1991 that Roy evidently welcomes, nationalist economic history found no more takers and was abandoned, he says; and good riddance. He would like to revive the economic analysis of history, but in a very different ‘structural form’, which turns on factor endowments and the resulting implicit and sometimes explicit relative and absolute factor prices and the rational decision-making based on the same. In that, I would like to join him actually, despite having been honoured – in his light, condemned – in being put in the same boat as Nehru. For what Roy comes out with turns out to be essentially the same as Kaoru Sugihara’s Asian ‘labour-intensive industrious path to economic development’ as a historic alternative to the better known western capital and resource-intensive industrial development path, though he cites neither.

In what follows, I concentrate on the latter and leave for another time Roy’s citation in EPW (July 17, 2004) of Irfan Habib’s ‘derogator’ charge about ‘Studying a Colonial Economy without Perceiving Colonialism’ (1985). The nearly dead economic useful starting point for a rethinking of India’s economic history he writes “would be to acknowledge that development and underdevelopment were not necessarily two sides of the same coin. Rather, Britain and India in the 19th century were two different coins” (p 3241). But why start with ‘acknowledging’ as erroneous the fundamental tenent of the world ‘development of underdevelopment and underdevelopment of development’ which he also cites, before we even examine it? The only possible reason can be Roy’s own ideological agenda. So, if there is anything useful in Roy’s analytical apparatus, as I contend there is, we must start by trying to rescue it from its own ideological garb, indeed to rescue Roy from himself or at least from his past.

The essential difference between Britain and India in 1800 or 1900, and south Asia as a region as late as 2000, is their different resource endowments. The latter all had in common an abundance of poorly equipped labour engaged in occupations with high climatic risk. Therefore, producers and consumers responded with labour-intensive production and a preference for safe but low-return investment. “These two features constitute what I call ‘structure’ here ...The central thesis that emerges ...is that markets and market-aided opportunities for resource-reallocation created prospects for growth in real wages and earnings, but diminishing returns to labour and condition of risk constrained growth in wages and earnings” (p 3242). Much labour was reallocated “from settled agriculture and handicrafts into plantations, mines, public works, new agricultural zones and migration overseas” (p 3242), though not necessarily to the benefit of the labourers concerned, which Roy omits to mention. Other labour went into small-scale manufacturing marked by scarce capital but plentiful labour and productivity growth concentrated in what Roy calls “labour-augmenting technological change”. The persistent excess supply of labour, he notes, kept wages and incomes low through colonial times and continued still after independence as well.

But these factor endowments and price considerations are why labour-saving and energy generating technologies began in higher wage Britain and Europe, while plentiful cheap labour made labour-saving technology senseless in Asia, as I argued in my book ReORIENT: Global Economy, in the Asian Age, which Roy trashed in a review essay in EPW (August 4, 2001). In a footnote, he thanks Kaoru Sugihara, while retaining all responsibility for himself, thank you for...
that. But of course contrary to Roy’s two separate coin thesis, competitive resource allocation, especially in the textile industry, was in and for the one world economic coin, the same as may be seen in my sequel book in preparation – also with the help of Sugihara. It actually comes to many findings that coincide with aspects of real economic history that Roy insists upon. Of course I derive them from and place them in the development of the one and only world economy – as Sugihara also does – in which what Kenneth Pomeranz (2001) calls ‘The Great Transformation’ took place and in which Asia and the west changed places during the 19th century. The question I pose and seek to answer is when, how, and why, since that has never yet been satisfactorily answered. I hope Roy will agree and I invite him to join me and the few others who are seriously trying to find answers relying at least in part on the analytic methodology Roy recommends. But the question cannot be answered by looking only at bits and pieces of the whole, which is more than the sum of its parts and helps to shape them and their relations. My critique of Williamson and O’Rourke (1999) on factor endowment and price analysis, albeit on at least the Atlantic economy level that is wider than Roy’s, is that this is still too small, especially as regards Asia to whose analysis Sugihara is making so important a contribution [Frank 2002].

Yet it is the same Kaoru Sugihara who best demonstrates how we can retain Roy’s attention towards the analysis of the factor endowment and price baby without throwing it out along with his ideological bath-water – or as he would have it to throw out the single world economic development/underdevelopment coin and to argue as though resource allocation and income distribution were independent of each other. The first is demonstrably absurd, and one of the best demonstrations there of is that by Sugihara. The second even Roy himself shows to be not independent of each other in his discussion of wages and income (and I proved already in a graduate term paper in welfare economics and then in my MA thesis that the attempt by Chicago economists and now others like Roy to separate the two is theoretically untenable). Yet strangely, there is no mention of Sugihara in this new essay by Roy for which Sugihara’s work is demonstrably and directly most relevant.

In a whole series of journal articles and contributions to books, especially Sugihara (2003 whose bibliography lists a dozen others of his), he argues that there have been two roads to industrialisation. One is the well known western capital and resource intensive ‘industrial’ one. The other is the less studied and hardly appreciated Asian “industrious revolution path (of) labour absorbing institutions and labour-intensive technology”. These were used already in agriculture where land and capital were scarce and labour plentiful, so that what mattered most was to maximise the productivity of land, or yields, rather than of labour. That was also Asia’s answer, Sugihara argues, to its Malthusian problem – by maximising the number of people that the scarce supply of land was able to support. The same essential reliance on labour-intensive and scarce resource-saving technology was adopted for manufacturing industry. One-way of doing so was – and since 1980 in the township enterprises of China again – to spread manufacturing out through rural areas, instead of immediately concentrating it in large expensive western and later Soviet urban conglomerations. That is why even in the 19th and much of the 20th century, Chinese manufacturing continued to dominate the domestic market against centuries of European and American unsuccessful attempts to penetrate let alone to capture it – and now China is itself invading the world market. Moreover, revisionist history is now showing that the Indian market for manufactures also remained in domestic hands (literally so!) far more than a century of historians have led us to believe. And that is also how Japan – and then Korea – launched its own industrialisation with labour using and intensive ‘industrious’ technology.

Sugihara’s use of essentially the same factor endowment and implicit price analysis as that of Roy therefore shows how economic history can be shorn of its ideological overload, just as Roy claims he wants of others – but not of himself. Perhaps that is the most important thing Roy could learn from Sugihara, maybe even with a gentle nudge from me, if he would only agree to join us in forging this new analytic – and empirical – economic history cooperatively – and set the worn out ideological battles aside. As a concession to him and though I find it not quite apt here because of its frequent use in other senses elsewhere, I would even be willing to adopt his ‘structural’ terminology.
References


