

Alexander Gerschenkron

Research

Gerschenkron kept to his Russian roots—in his economics, history and as a critic of [Russian literature](https://en.wikipedia.org/wiki/Russian_literature). His early work concentrated on development in the [Soviet Union](https://en.wikipedia.org/wiki/Soviet_Union) and [Eastern Europe](https://en.wikipedia.org/wiki/Eastern_Europe). In a celebrated 1947 article, he found the [*Gerschenkron effect*](https://en.wikipedia.org/wiki/Gerschenkron_effect) (changing the base year for an index determines the growth rate of the index). His early work often pursued the statistical tricks of Soviet planners.[[1]](https://en.wikipedia.org/wiki/Alexander_Gerschenkron#cite_note-Fishlow-1)

**The "Gerschenkron effect"**

In 1954, Gerschenkron published a celebrated article, *A Dollar Index of Soviet Machinery Output, 1927–1928 to 1937*, in which he introduced what is now called the Gerschenkron effect (the difference between calculated Paasche and Laspeyres volume indexes). In this study, he constructed a series of dollar indexes of Soviet industrial output for the purpose of proving the deficiencies of the official Soviet index during that time (1927-1937). He showed that the high rate of growth of Soviet industrial production was an effect of index number bias: a Laspeyres index calculated on the basis of 1926–1927 weights significantly overstates real expansion. This "Gerschenkron effect" was a significant finding that deflated the announced superior Soviet growth.[[3]](https://en.wikipedia.org/wiki/Alexander_Gerschenkron#cite_note-3)

The [OECD](https://en.wikipedia.org/wiki/OECD) website:[[4]](https://en.wikipedia.org/wiki/Alexander_Gerschenkron#cite_note-4) gives a more detailed description of the Gerschenkron effect:

|  |  |  |
| --- | --- | --- |
| **“** | The Gerschenkron effect can arise with [aggregation methods](https://en.wikipedia.org/wiki/Aggregation_method) that use either a reference [price structure](https://en.wikipedia.org/w/index.php?title=Price_structure&action=edit&redlink=1) or a [reference volume structure](https://en.wikipedia.org/w/index.php?title=Reference_volume_structure&action=edit&redlink=1) to compare countries. For methods employing a [reference price structure](https://en.wikipedia.org/w/index.php?title=Reference_price_structure&action=edit&redlink=1), a country's share of total [GDP](https://en.wikipedia.org/wiki/GDP) (that is the total for the group of countries being compared) will rise as the reference price structure becomes less characteristic of its own price structure. For methods employing a reference volume structure, a country's share of total GDP will fall as the reference volume structure becomes less characteristic of its own volume structure. The Gerschenkron effect arises because of the negative [correlation](https://en.wikipedia.org/wiki/Correlation) between prices and volumes. In other words, [expenditure](https://en.wikipedia.org/wiki/Expenditure) patterns change in response to changes in relative prices because consumers switch their expenditure towards relatively cheap products. | **”** |

**Economic backwardness**

In 1951, Gerschenkron wrote an essay *Economic Backwardness in Historical Perspective*, a cornerstone of his career, and of significance to European economic history. In it, he advanced the linear stages theory of economic development, which posits that development goes forward in largely determined stages.[[1]](https://en.wikipedia.org/wiki/Alexander_Gerschenkron#cite_note-Fishlow-1)

The essay deals with "economic backwardness", and argued that the more backward an economy is at the outset of economic development, the more likely certain conditions are to occur. Gerschenkron stated that a country such as Russia, backward relative to Britain when it embarked on industrialization, did not go through the same stages. His theory of economic [backwardness](https://en.wikipedia.org/wiki/Backwardness) contrasts strongly with other uniform stages theories, in particular [Rostow's stages of growth](https://en.wikipedia.org/wiki/Rostow%27s_stages_of_growth). It predicts that the more "economically backward" a country is, the more we will see:

* More rapid rates of industrial growth
* A greater stress on producer or capital goods as compared to consumer goods
* More rapid growth spurts rather than gradual growth rates
* Larger scale of plants and firms and a greater emphasis on up-to-date technology: backward countries are able to purchase machinery from early producers, for example Russia (most backward country) would import Britain’s (least backward economy) machinery and transportation equipment
* A greater emphasis on capital-intensive production rather than labor-intensive production
* A lower standard of living
* Less role played by agriculture
* A more active role by the government and large banks in supplying capital and entrepreneurship
* More “virulent” ideologies of growth”.

Gerschenkron did not define economic backwardness but alluded to related factors: income per capita, amount of social overhead capital, literacy, savings rates and level of technology. He also referred to a northwest-to-southeast axis within Europe, with Britain as the least backward, followed by Belgium, the Netherlands, France, Germany, Austria, Italy, and—the most backward—Russia. In his essay, he mostly discusses Britain, Germany and Russia.

Despite his roots in the Austrian school, he criticized the "penny pinching, 'not-one-heller-more-policies'" of the prominent Austrian economist [Eugen von Böhm-Bawerk](https://en.wikipedia.org/wiki/Eugen_von_B%C3%B6hm-Bawerk) when the latter was Austrian Minister of Finance. He laid much of the blame for Austria's economic backwardness on Böhm-Bawerk's unwillingness to spend heavily on public works projects.[[5]](https://en.wikipedia.org/wiki/Alexander_Gerschenkron#cite_note-5)

***Bread and Democracy in Germany***

In 1943, Gerschenkron published a book titled *Bread and Democracy in Germany*. In this study, he analyzes the problem of the relation between democracy and the protection of agricultural products, particularly of grain, in Germany. Gerschenkron understands that the establishment of democracy in Germany depends on a numerous amount of factors, and in his book he specifically deals with one aspect of the problem, the position of the Junkers and the agricultural policy in its relation to democracy.

He defines the economic history of the problem as this: In 1879, Germany introduced a new tariff and formulated a definite policy, which protected domestic grain production against overseas competition. This policy worked in favor of the big estate owners, the Junkers, who held important political positions in Prussia. It also worked in favor to a major part of the German peasantry. In 1926, 8 years after the Germans were defeated at World War I, the Junkers started to plot against the forces of democracy. They introduced a new era of increased agricultural protection, which once again favored the peasants and Junkers.

Gerschenkron arrives at this conclusion, “that democratic reconstruction of Germany… in insurance of world peace calls for a radical elimination of the Junkers as a social and economic group.” He also recommends a radical land reform. To achieve the readjustment of agriculture and to place it on a competitive basis he suggests the introduction of a government trade monopoly of the bulk of agricultural products in Germany. With a monopoly in place, the government could set a price policy, which would force a number of farmers to discontinue grain production for the market and eventually carry out the needed adjustment of high cost agriculture to the international market conditions.

Gerschenkron also warns of the possible difficulties of creating a government monopoly. He believes the management of the monopoly would require “great practical skill and energy”. He believes the Germans should include this program of the agricultural adjustment plan in the peace treaties and entrust its execution and supervision to an international economic agency.[[6]](https://en.wikipedia.org/wiki/Alexander_Gerschenkron#cite_note-6)

Influence

Gerschenkron had a profound influence on his students. At Harvard, he led the Economic History Workshop and taught courses on Soviet economics and economic history. His teaching on economic history was a year-long course required of all graduate economics students. His course required 2 major dissertation papers and a final exam. He also led evening seminars once a week in which his graduate students would discuss ideas for dissertations and evaluate quantitative techniques.

Many of his students went on to have productive careers, and it can be recorded that a good number of them have attained presidency of the Economic History Association. Ten of his students in the mid-1960s prepared a Festschrift in his honor. The book was titled "Industrialization in Two Systems" and was published in 1966.[[7]](https://en.wikipedia.org/wiki/Alexander_Gerschenkron#cite_note-7)

Gerschenkron as a scholar

Gerschenkron was known as an extremely bright scholar. As one of his former students [Deirdre McCloskey](https://en.wikipedia.org/wiki/Deirdre_McCloskey) put it, “Alexander Gerschenkron was not the best teacher or the best economist or the best historian among these—nor even, I think, the best human being. But he was the best scholar I have known.”

Gerschenkron studied many subjects, from history of economics, economics of the Soviet Union, statistics, Greek poetry, and a great deal in between. He also learned many languages. From his studies in Austria, he learned Latin, Greek, French and German. Later in life he would pick up languages with ease—Swedish one week, Bulgarian the next. As an example of his facility with languages, Deirdre McCloskey tells of Gerschenkron’s harsh evaluation of a Russian translation: “He wrote a devastating review of a translation from Russian of a book in economics, attacking in detail the author’s apparently feeble command of the language. The translator had the termerity to approach Gerschenkron at a conference and say amiably, “I want you to know, Professor Gerschenkron, that I am not angry about your review.” Gerschnkron replied, “Angry? Why should you be angry? Ashamed, yes; angry, no.”

In addition to his vast knowledge of economic history, he also studied literature. He and his wife wrote an article together on translations of Shakespeare, which was published in a literary journal.

On the other hand Alexander Gerschenkron claims in his easy, Economic Backwardness in Historical Perspectivethat growth is not a linear process. He believes that it is not important to follow the certain given methodologies to achieved growth rather a primitive country can use technology instead of going for agriculture to achieve growth. Gerschenkron says that, the most backward economies can use the already invented technology and existing knowledge to boost their economy because they don’t need to invent the things which are already present in the world market. According to him, “technology transfer is important” and transfer of technology is a cause of success in manufacturing areas of backward countries. In this way countries which come later in the market or which are introduce to industrialization recently can grow faster than the early industrialized countries. His argument seems valid because why one has to wait for a summer to buy a mongo if he/she can buy it from the market at any time. Here the main thing is money. From where a poor country will manage to pay for the modern technology, from where they will have skilful workers who can operate the modern technology. These are few concerns which need to be addressed while talking about Gerschenkron’s theory. Gerschenkron’s theory is comparatively better and acceptable in global perceptive for economic growth as compare to Rostow’s model of development. Gerschenkron’s theory appreciates globalization and dependency of countries on each other in terms of economic growth and trade.  According to Gerschenkron development is a continuous process and all countries are going through it on the daily basis. He didn’t define any end limit of development, he talks about economic growth of the countries and no doubt he is pleased about the effects of globalization in terms of economic growth. He is challenging the Rostow’s model of development and argues that backward countries can easily and quickly achieve development as compare to the developed countries, and development is not a step by step process. Both Rostow’s development model and Gerschenkron ideology about economic growth of backward countries talks about same topic from two very different approaches; one emphasize on liner model of development and other is talking about big leaps due to modern technology to achieve development.

**The Developmental State Theories Politics Essay**

The idea that the state should play a leading role in economic development is not new to the post-war period. Neither is the idea of free market liberalization as a necessity for economic growth a recent phenomenon. However, whether economic growth can be better explained by deliberate state policies or private interests is a subject of much controversy in academic and policy circles. Many early development economists of the 1950s and 1960s such as Rosenstein-Rodan (1943), Scitovsky (1954), Baran (1957) and Gerschenkron (1962) argued for active state support and involvement to create and regulate enabling economic environment for sustained industrialization and growth. Consequently the concept of the East Asian developmental state as a model has been extensively discussed in the literature, and until the 1990s, many academics and policy makers in the development field have championed the developmental state approach as a model that could hold relevance for other developing regions.

In 1993 the World Bank released a report titled The East Asian Miracle, in which it attempted to explain the region's rapid and continual economic growth since World War II. The report maintains that most of the policies formulated and implemented by the High Performing Asian Economies (HPAEs) enhanced the working of markets and encouraged competition, resulting in the industrial transformation of these economies (World Bank 1993). Even though the report acknowledges that East Asian governments, particularly those in Taiwan and Korea, did intervene extensively in the development of their capital and knowledge-intensive industries, it is sceptical however about whether there is a causal link between government intervention and economic growth as well as raises a fundamental question as to whether other developing countries would be able to implement such policies (Burgess 1995). This report attracted a flurry of counterviews some of which challenged the neo-liberal theory of perfect market fundamentalism by contending that the East Asian miracle was a deliberate act of active government involvement to "impose performance standards on the interest groups receiving public support" (Amsden 1989, p. 145) Much as this remains a contentious issue, it demonstrates the central role economic growth or development plays in human advancement be it through market liberalization or active protectionism.

This paper will address the 'concept of development' and the state in developmental state theories. In order to do so, it highlights some of the salient arguments of the developmental state in relation to the state and development and gives a critical assessment of these views. Even though the developmental state thesis has become one of the mainstream rationalizations of the concept of development especially in the developing world, several questions have been raised as to its methodological applicability and general relevance. For instance, what makes some states more effective than others? Can the developmental state model be replicated in other Third World countries under the present democratic and political dispensation? These are some of the pertinent issues that the paper attempts to address. The paper concludes that while the developmental state theories, like any other social science theory, undoubtedly has its limitations, it nonetheless holds useful lessons for late industrializing countries.

**Developmental State Theories**

Developmental State theories emerged from series of experiences spanning the aftermath of the Great Depression but became vital in the period following World War II. Dominant among these experiences was the notion of state intervention to address structural inadequacies in the economic system as proposed by Keynes in his book, The General Theory of Employment, Interest and Money, published in 1936. A central theme connected with this structuralist Keynesian welfare state was the belief that market failure is a pervasive attribute of the underdeveloped economy, with the effect that the state has an important role to play in correcting it. This coupled with other national development policies such as the Import Substitutions Industrialization (ISI) which spanned the 1950s and early 1960s, led to the explosion of the centrality of the state in national economic development projects such as the five-year development plans of India and Brazil. However, from the late 1960s, scholars became critical of the state-led development paradigm for generating inefficient industries and "rent seeking" on a substantial scale (Ã-niÅŸ 1991). Dependency and World Systems theories took centre-stage in the development discourse as a consequence of the inadequacies of the modernization theory, arguing for various forms of neo-liberal approaches to development including Export Oriented Industrialization (EOI) in relation to the degree of liberalization of the market. These theories were also made difficult by the largely ineffective attempts to overcome the challenges of hierarchy and inequality. Thus developmental state theory, which contradicts neo-liberal notions, "opens up possibilities to overcome the dictates of the world system and to escape the confines of dependency and the vagaries of the marketplace" (Boyd and Ngo 2005)

First coined by Chalmers Johnson in his book MITI and the Japanese Miracle, the 'Developmental State' is based on empirical cases of successful late industrialization which have been associated with significant level of state intervention. Woo-Cumings (1999) describes "developmental state" as "a shorthand for the seamless web of political, bureaucratic, and moneyed influences that structures economic life in capitalist Northeast Asia". On the basis of empirical study of the remarkable performance of the East Asian states, several scholars including Johnson (1982), Skocpol (1885), Amsden (1989), Evans (1995) and Wade (1990) demonstrated the important roles states could play far beyond market perfection, as done by the noninterventionist or liberal state. Apparently, for these scholars, East Asian 'late-industrializing' or newly industrialized countries (NICs) (Japan, Taiwan, South Korea, Hong Kong and Singapore) provide an exceptional example of the fact that state-led market can be a more effective approach to late industrialization because, in certain circumstances, economic growth can depend heavily on state intervention to boost demand and supply.

Developmental State theories evolved from a number of diverse and interrelated theories, notably theory of late development or late industrialization and theory of state autonomy. Gerschenkron has argued that latecomers to the world financial system require a centralized approach to industrialization and economic growth. In order to catch up with the developed world, underdeveloped and developing countries need a more centralized system for capital accumulation, technological advancement and industrial growth (Gerschenkron 1962). Such a role is performed by a 'plan rational' state particularly in the case of Japan's 'extraordinary and unexpected post-war enrichment' (Johnson, 1982; Johnson 1999). Additionally, Amsden notes that in late industrializing countries, "the level of international competition, the technology gap, the investment barriers, and savings deficiencies are all so problematic that, without government intervention, little ever gets done to address these hurdles" (Amsden 1989). Thus according to her, a "disciplined (or developmental) state" "that advances capital rather than accumulating it, or at least does not allow its own enrichment to derail the development effort" is one that can effectively get something done (Amsden 1989). Statists conclude that there are some institutional similarities among all late industrializing countries. It is suggested that they have all followed interventionist policies in which governments have played a major role by intentionally distorting relative prices to stimulate economic growth. Using Korea as case, Amsden demonstrates that a strong interventionist state has been the driving force behind late industrialization.

Subsequently, the rapid economic growth of East Asian economies after World War II has been expounded through the existence of a developmental state characterized by the presence of an authoritarian state that has a high level of autonomy from political and social interests (Boyd and Ngo 2005). According to Theda Skocpol, "states conceived as organizations claiming control over territories and people may formulate and pursue goals that are not simply reflective of the demands and interests of social groups, classes or society" (Skocpol 1985). Unless states can exercise such autonomy in goal formulation, Skocpol argues that they cannot be considered important actors. Developmental state theory thus places the state at the forefront of development through its institutional structure and character which are further elaborated in the following sections.

**Place and Role of the State in Development**

There is virtually universal recognition that the state is the central actor in any economic development programme (Chatterjee 1997). As demonstrated by the early developers of Great Britain and United States of America, the level of state intervention in those cases has without a doubt gone well beyond the neoliberal model of free trade. Protectionism, promotion of infant industries and active provision of infrastructure formed a critical element of the industrialization process. In India for instance, there was broad consensus around the time of independence regarding the necessity for the state to play a leading role in the development process (Vaidyanathan 1990). Massive public investments in infrastructure and basic industries were seen as necessary to facilitate rapid development through growth of the private sector. Additionally, public ownership and state control over the private sector were deemed essential to correct the existing inequalities associated with uncontrolled capitalist development (Vaidyanathan 1990).

Developmental state theories centre on these ideas of active state interventionism to facilitate rapid industrialization and economic growth for 'late-industrializing' countries. Within developmental state theories, development is synonymous with economic or industrial growth and a result of conscious state policies and implementation of economic strategy. For the developmental state to succeed, it is necessary to institute a state bureaucracy in the form of a pilot organization, such as the Ministry of International Trade and Industry in Japan (MITI), Economic Planning Board in Korea (EPB) and Council on International Economic Cooperation and Development in Taiwan (CIECD), which plans and implements long-term economic policies, benefiting from enormous degree of autonomy from political pressures and economic interest groups.

**Development and the State in Developmental State Theories**

The basis of developmental state theories is the theory of state autonomy. To be able to plan and implement effective economic policy, the bureaucrats have also to be insulated from all political and economic pressure groups. "The developmental state thesis suggests that strong states are typically characterized not only by a high degree of bureaucratic autonomy and capacity, but also by the existence of a significant degree of institutionalized interaction and dialogue between the state elites and autonomous centre’s of power within civil society" (Ã-niÅŸ 1991). The developmental state is also described as a strong-disciplinary state with the capacity to control private business interests. This capacity of the developmental states is demonstrated by their extraordinary degree of bureaucratic autonomy (Ã-niÅŸ 1991, p. 114). It is this political independence from the interests of private sector that enables the state to formulate and implement aggressive economic growth strategy and to 'avoid becoming the captive of its major clients' (Johnson 1985, p. 81). The state is generally expected to assume an outward-looking posture if it's able to successfully impose an effective economic growth strategy. The process of imposing a national developmental agenda has usually been noted to suit authoritarian political regimes through discipline over private business. However, an authoritarian regime though necessary, is not a sufficient condition for the existence of a developmental state. The strong state bears certain similarities with the authoritarian state and focuses on the repressive nature of governing as an integral element of certain phases of development. However, not all developmental states are authoritarian (Brazil) and not all authoritarian states are developmental (North Korea) (Kim 1993, p. 229).

The developmental state organizations are seen to be autonomous mostly because the members of the organizations are usually staffed by meritocratic technocrats (Evans 1995, p. 51) elected through the 'rigorous system of recruitment' (Weiss and Hobson 1995). These technocrats prioritize economic development as the long-term goal of the state and promote industrialization, encourage competitiveness, develop an export strategy, and foster rapid economic growth. Their autonomy is further enhanced by what Evans (1995) describes as the 'embeddedness' of the state within the social structure. By 'embeddedness', Evans implies a "concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shared a joint project of transformation" (Evans 1995, p. 59). The embedded autonomy of a state enables the state bureaucracy to connect with private sectors while intervening selectively in the economy to promote national strategies through "granting of subsidies to targeted industries, extending preferential loans to individual businesses, creating monopolistic enterprises to pick and protect market winners, and even engaging in direct protection to develop new industries" (Boyd and Ngo 2005).

The developmental state thesis has however been subjected to criticism over the years not least helped by the late 1990s Asian financial crisis which instigated skepticism about some of its methodological procedures. One major concern about the theory is that the developmental state has been so presented as though it can be replicated to address the developmental dilemmas of areas such as Africa and Latin America by providing a model for late development and industrialization. However there are several features of the theory that make the East Asian developmental state distinctive to East Asia and consequently make it unfeasible to be relevant to other Third World countries around the world.

The international context and cultural factors underlining the East Asian developmental state in the post-war period was essential to its very existence and thus becomes, according to Ziya Onis, 'extremely ahistorical' to be generalized and applied to other regions in the world (Ã-niÅŸ 1991, p. 121). The developmental state was able to succeed due to the severe external threat that confronted the East Asian states during the Cold War period which threatened their security, resulting in a heightened sense of nationalism and with it a 'unique commitment to the long-term transformation of the economy (Ã-niÅŸ 1991, p. 116). Additionally, East Asian states such as Japan benefited immensely from the United States due to the imminent Communist threat which 'enabled them to extract important advantages vis-à-vis the core' (Ã-niÅŸ 1991, p. 121), with Taiwan and Korea forging relationships with both Japan and the US. In addition to creating access to markets, the Cold War context further provided an ideal and conducive environment for the developmental state approach as Western allies overlooked the disciplinary authoritarian regimes and protectionist market interventions provided that the East Asian states remained strictly anti-Communist. Ultimately, timing was a crucial success factor of the East Asian states reintegration into the global economy and thus replicating it for other regions within the present circumstance in the contemporary world would certainly be extremely challenging if not impossible as it occurred in a unique international context which is not the reality in the present day.

There have also been concerns as to whether the "unusual degree of bureaucratic autonomy" and capacity as well as public-private cooperation which made it possible for the developmental state to succeed are compatible with political liberalization and democratic forms of governance. East Asian developmental states, with the exception of Japan, were strictly authoritarian and with widespread political participation, it would be interesting to discern how these states and other Third World countries would fare in a democratic transition in terms of maintaining their autonomy in the implementation of strategic goals and managing political pressures to sustain the required cooperation. Kim (1993) contends that the developmental state is inherently incompatible with democratic governance and uses the example of South Korea to provide evidence for this. Democratization movements in South Korea led to the emergence of powerful groups such as the chaebol and labour organisations that made demands for reforms in the state's structure and goals. Kim argues that democratization and the breakdown of the authoritarian regime have resulted in the South Korean state facing more problems than Japan (Kim 1993, p. 242).

Furthermore, some development scholars have questioned how a state can be autonomous and flawlessly 'embedded' in the private sectors at the same time. According to Evans, the coexistence of the autonomous state with closely networked relations between private interests and the bureaucracy is a 'contradictory combination' given that it is it seemingly complicated to explain how the state can be autonomous from business if it is firmly engaged with them (Evans 1995, p. 154). However, this issue is simply resolved by statists through the relative strength of the state in cooperation with other social actors.

Yet, the most critical review of developmental state theories bothers on its underestimation of the role of class relations underlying the state and market. It is seen more as a reversal of the mainstream liberal theory where the state is regarded as the most important factor for development rather than the market. In the process, it ignores unequal social or class relations in development analysis and presents the developmental state as "class neutral institutions". Where an attempt is made to address state-capital and state-labour relations, it is seen as control of the state over financial allocation and mobilization of human resources respectively for economic development. However, as neo-liberal advocates argue, it is palpably wrong to assume that the objective of the state, which is eventually determined by certain individuals, will necessarily be compatible with the public interest. "The state is thus characterized as an organization controlled by interest groups, politicians or bureaucrats who utilize it for their own self-interests, producing socially undesirable outcomes" (Chang, 1999). This creates agency problems for the developmental state as political autonomy from the interests of private groups is a fundamental condition that lies at the heart of the developmental state thesis.

**Conclusion**

It is important to emphasize that while the developmental state has encountered several criticisms, it boasts of its own strengths as well. As noted by Woo-Cumings, the developmental state can be "good", "bad", or "ugly". According to Evans, "state involvement is a given. The appropriate question is not how much but what kind" (Evans 1995). The exact circumstances that pertained in the East Asian development model may not be obtainable elsewhere. Nonetheless in addressing the critical issue of development and late industrialization in the current democratic dispensation of Third World countries, there is no question that East Asian developmental state approach presents some useful lessons