

# ECONOMIC DISTANCE : AN INTRODUCTION TO ECONOMIC DEVELOPMENT<sup>(1)</sup>

*Ki Hoon Kim*\*\*\*

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If per capita real income of the least advanced countries of the world were as low as exchange rate conversions indicated, the populations would literally have died of starvation within a given year.

— Simon Kuznets<sup>(2)</sup> —

## I. INTRODUCTION

For purposes of empirical analysis, forecasting and projection, and policy formulation, national income accounts have been defined and redefined since

\* The author is assistant professor of Central Connecticut State College

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- (1) The term "economic distance" is derived from "social distance" in sociology which indicates the relative difference between social classes. It is used to define relative differences in output, rate of growth, and economic potentials. The term "income distance" is used in a narrower and more specific sense than "economic distance." It is defined as the relative difference in per capita real income, as well as in national income, between the rich and the poor countries, and within a country.
- (2) Quoted by Everett E. Hagen, "Comment" in Problems in the International Comparison of Economic Accounts, *Studies in Income and Wealth*, Vol. 20 (Princeton, N. J.: Princeton University Press for the National Bureau of Economic Research, 1957), P. 12, 384.

the “Keynesian Revolution.” A feeling of greater involvement as well as current developments in international relations have stimulated continuous study on closely comparable national economic accounts. One result of the international comparison of the world into two sectors, developed and underdeveloped. The division and comparison, based on economic growth and development, are subject to conceptual and statistical criticisms.

## II. INCOME DISTANCE

### 1. Economic Development

What is “economic development”? There is no clearcut answer to this question. Heterogeneous aspects of factor endowments, different economic systems, socio-cultural and political institutions, tastes and preferences, as well as actual economic performances in terms of output and rate of growth make it difficult to formulate a general theory.

Nevertheless, “definitions are necessary to establish ground rules for discussion.”<sup>(3)</sup> Many have tried to define economic development. Okun and Richardson,<sup>(4)</sup> for instance, present a tentative definition: “Economic development may be defined as a sustained, secular improvement in material well-being, which may consider to be reflected in an increasing flow of goods and services.” It should be noted that while the definition is expressed in

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(3) Irma Adelman, *Theories of Economic Growth and Development* (Stanford, California: Stanford University Press, 1961), p. 1.

(4) Bernard Okun and Richard W. Richardson (eds.), *Studies in Economic Development* (New York: Holt, Rinehart and Winston, 1961), p. 230.

Cf. National Bureau of Economic Research, *The Comparative Study of Economic Growth and Structure* (New York: National Bureau of Economic Research, 1959), P. 18.

Kendrick indicated that economic development would include all or any of the following: (1) Consumer goods and services to provide for a growing population or for increased consumption per capita; (2) net investment to expand domestic productive capacity for future economic growth; (3) investment in (or grant to) other countries, which, if economic, are mutually beneficial in promoting expansion; and, (4) the provision of an expanding base for actual and/or potential national security outlays as needed. John W. Kendrick, “Concepts and Measures of Economic Growth,” in *Inflation, Growth, and Employment*, the Commission on Money and Credit (Englewood Cliffs, N. J.: Prentice-Hall, 1964), pp. 231–232.

material terms, the study of this subject does not impede us from exploring other areas<sup>(5)</sup>.

Economic development could also be defined as “income creation,” over and above the previous level of national and per capita real income. This term is to be contrasted with “income diversion,” by which existing income or output is being “diverted” by other than reasonable and legal means being “diverted” by other than reasonable and legal methods. Ribin Hood’s actions, corruption, graft, and age-old piracy are good examples of activities which do not create income. It is well explained by *TIME*: The Thais call it *gin muong* (nation eating). In Chinese it is known as *tan wu* (greedy impurity), in Japanese *oshoku* (dirty job), and to the Pakistanis, it is *ooper ki admani* (income from above). Every Oriental language has its own phrase for corruption and in every tongue the words are unpleasantly familiar<sup>(6)</sup> Williams adds a few more thoughts: “We Americans call it bribery; some Africans call it ‘dash,’ a take-off on the Portuguese verb meaning ‘to give’; some in Latin America call it ‘mordida,’ a lyrical adaptation of the verb ‘to bite.’”<sup>(7)</sup> It passes under a variety of colorful names, but functions in more or less the same way everywhere. According to the *New York Times*,<sup>(8)</sup> one ousted African leader accumulated a fortune of “not less than \$7 million” while he was President. Venality hinders the healthy economic

(5) One of the United Nations Publications clearly states this notion: “Development is the *process* of allowing and encouraging *people* to meet their *own* aspirations; Development must not be confused with growth or expansion whose objectives are purely economic. Development is the organized growth of a living organism.” United Nations, *National Development Efforts, Freedom from Hunger Campaign Basic Study No. 13* (New York: United Nations, 1963), p. 1.

(6) *TIME*, Vol. 90, No. 7 (August 18, 1967), p. 24, “Corruption in Asia.”

(7) Simon Williams, “Negotiating Investment in Emerging Countries,” *Harvard Business Review*, Vol. 43, No. 1 (January-February, 1965), p. 90. Thomas Gray (1716-1771) States: (*ibid.*, p. 99).

“Too poor for a bribe, and too proud to importune, He had not the method of making a fortune.”

Bertold Brecht described:

“It is true: I earn my living But, believe me, it is only an accident.

Nothing that I do entitles me to eat my fill.”

Quoted by James F. Becker, *Kyklos*, Vol. 15 (1962), p. 635.

(8) Cf. *New York Times*, March 5, 1966, p. 2, “Nkrumah Welath Reported by Aide.”

flow of goods and services; income diversion does not add up to economic development. J. S. Mill observed that “profits earned by employing unproductive labor are merely transfers of income; unproductive labor does not generate net value added.”<sup>(9)</sup>

As a result of economic development, which has dimensions other than growth—not only more output, but changes in the technical and institutional arrangements by which it is produced<sup>(10)</sup>—income distance alone between countries is striking. Post-war changes and trends in income distribution illustrate this point clearly. This can be seen from Table 1. In 1960, industrial Europe and North America produced about 56 per cent of world income with only 15 per cent of the world population. Their share of world trade was also dominant, nearly 60 per cent. With one-half of the population, the rest of the world shared only 22 per cent of the world income, and the average per capita income was less than 10 per cent of that of North America. Industrial production amounted to a little over one-half of that of industrial Europe, a little over one-third of that of North America.

It is also known that the United Nations Development Decade called for a 5 per cent of aggregate income per year by 1970. In 1966, according to a United Nations report, world economic output increased by 5 per cent. This growth, however, was below that recorded in 1965 which, in turn, was below the rate registered in 1964. This slowing down “reflects resource

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(9) Cf. Mark Blaug, *Economic Theory in Retrospect*, revised edition (Homewood, Ill.: Richard D. Irwin, 1968), p. 182.

Schumpeter emphasized the role of entrepreneurs in innovation and destructive construction; inter-relationship between profit and development. See Joseph A. Schumpeter, *The Theory of Economic Development* (New York: Oxford University Press, 1934; a Galaxy Book, 1961), pp. 66, 154.

(10) “Growth” and “development” are often used synonymously in economic discussion. Kindleberger points out this practice in his book, Charles P. Kindleberger, *Economic Development*, second edition (New York: McGraw-Hill, 1965), p. 3.

Cf. Thomas R. DeGregori and Oriol Pi Sunyer, *Economic Development, The Cultural Context* (New York: John Wiley & Sons, 1969), especially chapters 1 through 4, pp. 1-82.

<TABLE 1> STRUCTURE OF THE WORLD ECONOMY IN 1960

	Per Cent of World Total			
	Industrial Europe	North America	Sino-Soviet Bloc	Rest of World
Population	8.6	6.8	34.6	50
Real GNP	25	31	22	22
Average per capita income as per cent of world average	292	458	64	43
Exports	38	21	12	29
Industrial production	24	35	28	13
Agricultural production	15	21	32	32

Source: Angus Maddison, *Economic Growth in the West* (New York: The Twentieth Century Fund, 1964), p. 159, Table V-1.

limitations in the developed market economies and a distinct faltering of agricultural production in the developing countries.<sup>(11)</sup> Kuznets stated that the gap between per capita output of the poor and the rich countries not only failed to narrow, but “must have widened substantially.”<sup>(12)</sup>

## 2. International Comparison of Income Distance

### 1) Nature of the Comparison

Nevertheless, these new data face the old question: How reliable and useful are per capita real income and national income data? What are some of the shortcomings of such estimates? How significant is income distance as expressed in the the United States currency? It is a well recognized fact that since 1939, when the League of Nations Committee on Statistics first attempted to consider international comparison of national income, the measurement of development has been an on-going project. Nine years later, in 1948, the *National Income Statistics of Various Countries, 1938-1947* was compiled by the United Nations.

Usually, a distinction is made between the level of income and its rate of change<sup>(13)</sup>. However, neither includes changes in quality or welfare,

(11) “Economic Growth of World Slows,” *New York Times*, July 10, 1967, pp. 43, 47.

(12) Simon Kuznets, *Postwar Economic Growth, Four Lectures* (Cambridge, Mass.: Belknap Press of Harvard University Press, 1964), p. 118.

(13) Cf. Simon Kuznets, “International Differences in Income Levels,” reprinted in *Studies in Economic Development*, ed. by Bernard Okun and Richard W. Richardson, pp. 3-26/

housewives' services, exchange of gifts as well as barter transactions and the distribution of income itself. Per capita income in particular would be a misleading index of the development or the economic welfare of a country. Kuwait and South Africa are two outstanding examples. The National Bureau of Economic Research (New York) sums up the issue:

The per head element in the definition again is open to varying interpretations without impairing its applicability. The common practice is to interpret per head as the result of the division of aggregate income by the number of a country's inhabitants irrespective of age, sex, or labor force status. However, it may be preferable to use as the denominator only the actual labor force, if the emphasis is on productive relations; or the number of adult male equivalents, possibly in the form of the poundage of body weight of the population, if the study is directed primarily toward consumption<sup>(14)</sup>.

No one denies the reality that inter-country comparisons of income are subject to statistical difficulties and to a substantial margin of error. The weakness of the United Nations report, for instance, Kravis commented<sup>(15)</sup> lies in its attempt to draw a production boundary for the underdeveloped countries without first finding a rationale regarding the nature of economic activity in a premarket economy. He wants to expand the imputations for nonmarket activity in order to achieve a greater degree of invariance to institutional difference. Copeland, on the other hand, is reasonably well satisfied with the United Nations Imputations<sup>(16)</sup>.

If national income is defined as all final products, there is the problem of drawing a line between consumption and costs or between final and intermediate products<sup>(17)</sup>. The Soviet bloc presents further difficulties: based on

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(14) National Bureau of Economic Research, *The Comparative Study of Economic Growth and Structure*, p. 19.

(15) Irving B. Kravis, "The Scope of Economic Activity in International Income Comparisons," in *Problems in the International Comparison of Economic Accounts*, p. 377.

(16) Morris A. Copeland, "The Feasibility of a standard Comprehensive System of Social Accounts," in *Problems in the International Comparison of Economic Accounts*, pp. 31-36, 86-92.

(17) Cf. Charles P. Kindleberger, *Economic Development*, pp. 7-8.

Marxism, wide ranges of services are excluded from the concept of national income, concentrating on material output<sup>(18)</sup>. Comparative purchasing power between nations present more complications due to the diversity and complexity of goods in the market today, both domestically and internationally. These facts do not allow the simple association between changes in price and changes in the value of money that originated with Jevons<sup>(19)</sup>.

Colin Clark attempted a different approach<sup>(20)</sup>. He used an international unit (in 1957 the "oriental unit" was introduced) which is defined "as the quantity of goods exchangeable in the United States for \$ 1 over the average of the decade 1925-34." He also estimated real product per man-hour in the primary, secondary, and tertiary industries so that economic distance could be compared among nations. Yet, Clark himself does not use the international unit for underdeveloped economies and is aware of the indefensibility of the base period<sup>(21)</sup>. It should also be noted that the index number is likely to be confusing due to its complexities<sup>(22)</sup>.

Citing the same difficulties that hamper international regional comparison, Rosen summarized the problems<sup>(23)</sup>. Firstly, there is the problem of converting the currency units of different countries into a common unit, such as the United States dollar. Official exchange rates not only exclude goods and

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(18) Cf. Robert W. Campbell, *Soviet Economic Power*, revised edition (Cambridge, Mass.: Riverside Press, 1966), Chapter 2, pp. 8-27.

(19) Dorothy S. Brady and Abner Hurwits, "Measuring Comparative Purchasing Power," in *Problems in the International Comparison of Economic Accounts*, p. 302.

(20) Colin Clark, *The Conditions of Economic Progress*, third edition (London: Macmillan & Co., 1957), chapters 2, 3, and 4.

(21) Cf. National Bureau of Economic Research, *The Comparative Study of Economic Growth and Structure*, p. 19, footnote 1. "Real income per manhour may be preferable when the analysis is directed specifically..... toward productivity but seems less desirable as the most general measure of economic development than real income per head, which can serve as an indicator-- albeit a rough one -- of both the production and consumption aspects of economic growth."

(22) Sam Rosen, *National Income* (New York: Holt, Rinehard and Winston, 1963), p. 113. Cf. Gerald M. Meier and Robert E. Baldwin, *Economic Development* (New York: John Wiley & Sons, 1957), pp. 480-481.

(23) Sam Rosen, *National Income*, p. 113.

services which are not traded among nations but are also misleading because unofficial and black market rates are more significant. It is also a known fact that exchange rates tend to undervalue the output of countries with lower per capita income, the riddle posed by Kuznets.<sup>(24)</sup> Secondly, the needs and wants of people vary from country to country. Customs and religious practices, for instance, influence the material standard of living in various regions. Some of these, such as the practices of asceticism and mendicancy, are unknown to the West. In both Islam and Buddhism, giving to beggars and monks is a way of gaining merit. Climate conditions are also a predominant factor which determines different patterns of consumption. Thirdly, national income is not computed in the same way in all countries. The aggregation does not contain the same components. Non-marketable production, particularly in the poor countries, has been an elusive item which underestimates national output.

To sum up in the most general terms the greater the differences of many sorts between any two countries, the more cautiously must their income differences be interpreted. Do we then have to abandon international comparison of both per capita real income and national income altogether?

Theoretical analyses, appraising the results of international and national economic programs and performances, and policy formulations require feasible basic data. "Whatever the case", asserts Kuznets,<sup>(25)</sup> "the conceptual and other difficulties of measurement do not justify the refusal to measure ....." If the reservations and shortcomings are kept in mind, international comparison could contribute to our knowledge of national shares in world

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(24) Milton Gilbert and Irving B. Kravis, *An International Comparison of National Products and the Purchasing Power of Currencies* (Paris: office of European Economic Cooperation, 1954), p. 57. Cf. Everett E. Hagen, "Comment" in *Problems in the International Comparison of Economic Accounts*, pp. 377-388.

(25) Simon Kuznets, "The Meaning and Measurement of Economic Growth," in *The Experience of Economic Growth*, ed. by Barry E. Supple (New York: Random House, 1963), p. 55.



output and income.

## 2) The Short-Hand Expressions Considered

When scholars try to label a country as “underdeveloped” or “developed”, they become apologetic. The reason is rather simple: there is neither a definite standard, as we have seen in the previous section, nor a unified nomenclature. In addition, economists usually refrain from passing judgment on the cultural, religious, and social value of a country. The term “backward,” for instance, connotes certain value judgments which in turn irritates those “poor” people. Another term, “underdeveloped,” is often used to refer either to countries with low incomes or to countries in which the level of per capita income is not rising, without clear discrimination between the two countries.

The term which have been used to specify both the “rich” and “poor” countries are resisted one way or the other, especially in the latter case. There are simply too many different expressions: emerging, quasi-stationary, developing, pre-market, pre-industrial, young debtor, retrogressive, less developed, less favored, dependent, traditional, pre-take-off, advancing, stagnant, have-not, expanding, *le tiers monde* (the third world), as well as “countries of the South” and so on. It is, therefore, desirable to unify all of these into a symbolic description without loss of their fundamental designations. We must note, however, that none of these nations’ economies would fit neatly into our short-hand expressions. This is because we rely on income distance, among other criteria, and are not immune from limited adaptability. They are the H-type (underdeveloped), V-type (developed), and Y-type (developing) economies<sup>(26)</sup>.

These three letters, H, V, and Y, first of all, are not used as capital

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(26) This is analogous to the blood-type classification for particular use, mainly in medical science. A-, B-, AB-, and O-type blood do not represent the entire picture of the man, but they serve the designated purpose well.

letters of any words, although they could imply H for horizontal and V for vertical, while Y has been used for “income” since Keynes’ “general Theory.”<sup>(27)</sup>

Secondly, they are employed precisely as the movement of variables are represented in their “shapes,” assuming  $H < Y < V$ . We are interested in the “width” of each letter. The horizontal distance within each letter as we move upward symbolize income distance. In the letter “H” two bars vertically are assumed parallel, and their distance, therefore, is constant. As in V and Y-type economies, the width is decided by the amount of national income and/or per capita real income. In this light, our symbols are also arbitrary because per capita and national income could not be *the* criterion for classifying nations between “underdeveloped” and “developed.” Thirdly, these letters also serve as shorthand signs as in chemistry. After all, it is this third category which would serve the student of economics most. Fourthly, the Y-type, in particular, designates the intermediary between the H and V as the letter Y “consists” of V on the top half and H on the bottom half. The joint may be analogous to Rostow’s “take-off.” There are, of course those who eliminate the Y-type economy; others classify more than two categories<sup>(28)</sup>.

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(27) Keynes uses V for “supplementary costs.” See John M. Keynes, *The General Theory of Employment, Interest, and Money* (London: Macmillan and Co., 1936), pp. 52-65.

(28) Harbison and Myers have divided nations four groups based on levels of human resource development as well as per capita income. See Frederick Harbison and Charles A. Myers, *Education, Manpower and Economic Growth* (New York: McGraw-Hill, 1964), pp. 23-48. United Nations, Benjamin Higgins, Richard T. Gill, Simon Kuznets, Paul A. Samuelson and others separate nations into three or more per-capita income brackets. Reynolds classifies on the basis of output levels (“developed,” “semideveloped,” and “underdeveloped”) or on rate of growth (“stagnant,” “growing,” and “rapidly growing”). See Lloyd G. Reynolds, “Notes on Comparative Analysis of National Economics,” in *The Comparative Study of Economic Growth*, National Bureau of Economic Research, p. 177.

In addition, per capita energy consumption, expectation of life, infant mortality rate, number of inhabitants per physician, percentage of population literate, school enrollment ratio, per capita calorie consumption, level of urbanization, male labour force in agriculture, and other criteria are often used.

(1) The H-Type Economy

An H-type nation is simply one with a real per capita income that is low in relation to the per capita incomes of such nations as the United States, Canada, Great Britain, and Western Europe generally. In other words, the H-type economy is regarded as being capable of substantial improvement in its income level<sup>(29)</sup>. Even so, the size, rate of growth, resource base, population pressure, and other non-economic conditions vary. In addition, poor health, low literacy, malnutrition, primitive shelter, inefficient agriculture, a dualistic economy, and an uneconomic culture are often cited. Haiti would be a close approximation to this category.

In general, the H-type economy suffers from the vicious circle of proverty. Nurkse simply states that a country is poor because it is poor. A higher birth rate cancels out its growth in real income<sup>(30)</sup>; the width between the two vertical bars in the “H” are thus unchanging.

In sharp contrast to the United States and other progressive economies, there has remained on the periphery of the world economy a group of countries that have experienced *little development*. It is not too much of an exaggeration to say that areas of Africa and Asia have remained *economically stagnant*. There have been *relatively insignificant changes in the productive techniques, in the structure of the economy, in the standard of living.....*<sup>(31)</sup>.

Besides market imperfections and vicious circles, there is another factor which is typical in the H-type economy, that is, international forces, the role of poor countries in the world economy. Usually the H-type economy depends on one or a few primary products to earn foreign exchange in its

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(29) Krause observed that “with no increase in the rate of growth, according to an Indian spokesman, 35 years would elapse before India’s per capita income would exceed \$2 per week.” See Walter Krause, *Economic Development* (San Francisco, California: Wadsworth Publishing Co., 1961), p. 4.

(30) Cf. International Bank for Reconstruction and Development, *World Bank Atlas* (Per Capita product, population, Main Urban Centers), Washington, D. C., 1967 edition.

(31) Gerald M. Meier and Robert E. Baldwin, *Economic Development*, p. 253. Underlining supplied.

export sector and the secondary and the tertiary productive activities are slow and not obvious, to use Clark's expression. A reason for the slow spread of the industrial system in this competitive world is that the pioneer countries may use their economic superiority to impede secondary or manufacturing industry elsewhere.

Myint distinguishes between underdeveloped *resources* and backward *people*<sup>(32)</sup>. He defines "backward people" as a group of people who, in some way or another, are unsuccessful in the economic struggle to earn a livelihood. "Underdeveloped resources" is dealing with the allocation of given "resources" among alternative uses as determined by the price system or by the central planner or by a mixture of both. Thus "underdevelopment" becomes a species of deviation from the productive optimum—maximization of total output. He excludes human resources from the definition of underdeveloped resources<sup>(33)</sup>. It is possible, therefore, to say that there are different combinations of the two: H-type people with V-type economy (Kuwait); H-type people with H-type economy (sub-Sahara African nations, except South Africa); and V-type people with H-type economy (Korea). Of course, V-type people with V-type economy; such as the United States and other developed Western nations, exist.

Thus, together with the vicious circle, market imperfection, and international factors, the H-type economies save and invest productively a negligible amount. The latter part is coupled with the "demonstration effect" and Hirschman's "domophobia"<sup>(34)</sup>, that is, loyalties toward the foreign articles arise among the consuming public, by which the H-type economy is most affected. Income diversion is another factor which drives the

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(32) Hla Myint, "An Interpretation of Economic Backwardness," in *The Economies of Underdevelopment*, ed. by A. N. Agarwala and S. P. Singh (New York: Oxford University Press, 1963), pp. 93-132.

(33) *Ibid.*, pp. 94-96.

(34) Albert O. Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1960), p. 125.

population into unproductive practices. Some think the shortage of domestic savings available for investment is probably the most important single obstacle to rapid economic development<sup>(35)</sup>. Insofar as these obstacles overlap and intensify one another, it has been difficult to alter the width of the H-type economy, and poverty has persisted. The letter “H” aptly represents this fact.

## (2) Y-Type Economy

The historical process is a continuing movement, and, for the most part, change occurs slowly and gradually, often almost unnoticed. Marshall followed this evolutionary process and used the term “*natura non facit saltum.*” It is equally true that there is a breakthrough, and one becomes aware that something important has happened. Though the term is often overworked, it nevertheless cannot be denied that there are turning points in history, sometimes well-defined and sometimes only broadly discernible<sup>(36)</sup>. This does not lead us to accept so-called “stage” theory as such.

Therefore, our way of dividing an economy into three different types, in the real world, should be considered as three analytical tools used in order to understand an economy concisely. The major characteristic feature of the Y-type economy could best be explained in terms of the growth of a frog. If a fully grown frog is taken as a V-type, the tadpole would be an H-type; once the tadpole develops hind legs and forelegs, the tail grows shorter, eventually to be completely “resorbed” into the body. It is also noted that the gills are resorbed because of the frog develops lungs for breathing on land. The growing process between the tadpole and frog, the metamorphosis, represents neither a complete tadpole nor a frog<sup>(37)</sup>. The

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(35) Cf. Paul Alpert, *Economic Development* (New York: The Free Press of Glencoe, 1963), P. 134.

(36) Alvin H. Hansen, *Economic Issues of the 1960's* (New York: McGraw-Hill, 1960), p. 69.

(37) A more detailed growth is as follows: “Out of an egg... a tadpole comes. It is a long-tailed

Y-type is well represented by this analogy: it is neither a complete H-type economy nor a V-type. It is a transitional process. As an economy grows, “Y” becomes closer to “V” and the bottom half of “Y” grows shorter—just as a growing tadpole has a shorter tail. This resorbence clarifies our understanding of the Y-type economy.

While this paper rejects the stage theory, it nevertheless gives us an important guideline in terms of the “take-off” concept, the kink in the “Y”. The take-off is, according to Rostow<sup>(38)</sup>, the interval when the old blocks and resistances to steady growth are finally overcome. The forces making for economic progress, which yielded limited bursts and enclaves of modern activity, expand and come to dominate the society. Growth becomes its normal condition. Compound interest becomes built, as it were, into its habits and institutional structure.

Then how does the kink occur? Time and space do not permit us to go through all the different opinions on the theory of economic development, but one common point is that the V-type economy was once in the H-type economy category, and in this respect there *was* a kink. That is, take-off into economic growth occurred. There are several elaborated opinions on the kink itself. For the classical economists, the development of capitalist economies was a race between population growth and technological progress. The latter depends on capital accumulation, which would permit increasing mechanization and greater and

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creature, wholly water-dwelling..... Other changes in habits and appearance quickly take place. On the hind part of its soft, slippery body there appear in miniature the hind legs of a frog. They grow quickly and the tadpole acquires the art of swimming with them. A little later forelegs burgeon. The tadpole's tail is growing very short now. It is being resorbed into its body Only a little longer and the metamorphosis is complete; the tadpole is ready to take its place in the company of frogs...” See Alan Devoe, “Croaker in the Little Pond,” in *Marvels and Mysteries of Our Animal World* (Pleasantville, New York: The Reader's Digest Association, 1964), p. 35.

(38) W. W. Rostow, *The Stages of Economic Growth* (London: Cambridge University Press, 1960), p. 36-58, 7-10.

greater division of labor. The rate of capital accumulation, in turn, depends on the level and trend of profits. The Marxists, the neo-classical theorists, Schumpeter's role of entrepreneurs and their innovations, and the post-Keynesians' synthesis and refinements are well-known solutions which we need not restate.

All these add up to a conclusion. Namely, the kink in the "Y" in various forms is a common effort toward a discernible rise in the total and per capita income of a country. This, moreover, is a matter of choice for the H-type economy. Takase has observed that, while the V-type economy, as it is here called, adjusted its economic problem with technological development, Asian nations "solved" the same problems with the control of want and a philosophy of resignation<sup>(39)</sup>. Now this philosophy is changing; almost every poor country is development-minded in this era of rising expectations. Myrdal sets our goal as the "reduction of the gap between the per capita incomes of the United States and Canada and those of underdeveloped countries." This is, in our terminology, the reduction of the economic distance; the tadpole's effort to become a fully grown frog.

### (3) V-Type Economy

A fully grown frog can live both on land and in water, a remarkable accomplishment. So is the V-type economy. Its expansion of consumption levels<sup>(40)</sup> has gone beyond basic food, shelter, and clothing, not only to better food, shelter, and clothing but into the range of mass consumption of durable consumers' goods and services, which the V-type economy can provide. Even consumption itself requires higher and more sophisticated

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(39) Kiyoshi Takase, *Sekai-Keizai-Ron* (Theory of World Economy) (Tokyo, Japan: Korona Co., 1959), p. 297.

(40) Davis defined consumption level: "A sort of aggregate of the food, fuel, and other nondurable goods used up, the services of houses, automobiles, clothing, and other durable and semidurable goods utilized, and the services of human being used, by an individual or group, in a given period of time." J. S. Davis, "Standards and Content of Living," *American Economic Review*, Vol. 25, No. 1 (March, 1945), pp. 3-4. Cf. W. W. Rostow, *The Stages of Economic Growth*, p. 74.

knowledge. This technology of consumption is the subject of continual change and innovation, just as is the production technology<sup>(41)</sup>.

The underlying reason for the American economic growth, as well as its changeability, is the nation's rising productivity, or output per man-hour. American productivity is the world's highest, with some \$24,000 worth of capital equipment per worker employed in manufacturing. Sociologists call this the mass society, which implies much more than the notion that an aggregation of people is united under a single social system. This carries with it the added ideas of uniformity<sup>(42)</sup>. The most quickly identifiable property of a mass society, according to sociologists, is the mass production of its material goods. This in turn presupposes mass marketing.

To support our classification with the use of snorthand expressions, Table 2 is translated from the Japanese, compiled by Jiro Sakamoto<sup>(43)</sup>. It presents a summary of the three types of economy grouped by different criteria. Arbitrary division and vagueness are inevitable. There are, of course, overlapping sequences as well as exceptions. The item "example" does not appear in the original table either. Nevertheless, the table serves to clarify our view and sums up the point we have been trying to make.

### III. SUMMARY

The degree of economic development and underdevelopment has been considered as an introduction to economic development. The nature and characteristics of economic distance are explained. Diverse opinions on international comparability of national and per capita real income are also added to show certain shortcomings. In spite of difficulties, biases and

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(41) Kelvin Lancaster, "Change and Innovation in the Technology of Consumption," *American Economic Review, Papers and Proceedings*, Vol. 56, No. 2 (May, 1966), p. 23.

(42) Don Martindale, *American Society* (Princeton, N. J.: D. Van Nostrand Co., 1960), pp. 20-21.

(43) Ichiro Nakayama, *et al.* (eds.), *Keizaigaku-Daijiten* (A Grand Dictionary of Economics) (Tokyo, Japan: Tokyo-Keizai-Shimpo-Sha, 1955), Vol. II, p. 540.



faults, it is possible to compare economic distance with special reference to income distance. Shorthand symbols, which are not free from arbitrariness, as is true of all other classifications, are offered so that all the different expressions on “developing,” and “under-developed” economies might be unified. This is to reduce unpleasant connotations, eliminate confusion, and minimize misunderstanding.

〈TABLE 2〉 SUMMARY OF SHORTHAND EXPRESSIONS\*

Author	Criteria	The H-Type** Nations	The Y-Type** Nations	The V-Type** Nations
U. N. and E. Staley	Per capita income	Low (below \$150)	Middle (\$ 150-\$ 450)	High (above \$450)
H. Singer	Labor Force (% of Ag. population)	Agricultural (60% or more)	Agricultural and industrial (60%-30%)	Industrial (30% or less)
T. C. Chang F. List	Export components	Primary products	Primary and industrial goods	Finished goods
C. Clark R. Nurkse	Capital stock	Scarce (low income, saving and production)	Intermediate (middle income; high production)	Surplus (high income; low saving; high production)
J. Viner	Resource development	Underdeveloped	Developing	Developed
W. Thompson	Rate of population increase	High rate (high birth rate, medium death rate)	Medium rate (medium birth rate, low death rate)	Low rate (low birth and death rate)
U. N. and R. Nurkse	“External economy”	Primitive	Progressed	Highly progressed
R. Emerson	Development spirit	Stagnant	Developing	Matured
H. Boeke	Socio-economic structure	Heterogeneous dualism	Homogeneous dualism	Homogeneous monism
H. Myint Marxists	Competitiveness	Weak	Independent	Suzerain
	International political and economic relationship	Dependent	Independent	Suzerain
	Example***	Indonesia	Japan	United Kingdom

\* W. Hoffman's item is omitted.

\*\* The original table is labeled as “Underdeveloped,” “Developing,” and “Developed,” respectively.

\*\*\* “Example” is added to the original table.

Source: Ichiro Nakayama, *et al.* (eds.), *Keizaigaku-Daijiten* (A Grand Dictionary of Economics) (Tokyo, Japan: Tokyo- Keizai-Shimpo-Sha, 1955), Vol. II, p. 540. This table is compiled by Jiro Sakamoto, translated by Ki Hoon Kim.