

AGGREGATE GROWTH

It is generally believed that economic growth in the underdeveloped countries has been slower than that in developed countries in recent years. If we define growth as a percentage of increase in national product, this belief is not so—the two areas' incomes grew at an average compound rate of about 4.5 percent annually from 1950 to 1962 with the LDC rate if anything slightly higher than that of the Atlantic countries. Growth of per capita income, however, has been faster in the Atlantic countries, the amount of the spread from year to year being influenced not only by faster population growth in LDC's, but also by changes in U.S. income growth, because the United States accounts for more than half of Atlantic income.

If it were not for rapid population growth in the South, economic growth rates in the two regions would be about the same (other things being equal). With annual growth in per capita incomes of 3 percent then entirely feasible, incomes per head would double every 23 years.

It is largely on the basis of this concern for small differences in growth rates and on the alleged limitations of growth caused by lack of foreign exchange that underdeveloped countries in economic rationality can justify their preoccupation with trade and aid concessions from the North. It is possible to argue one or both of two cases to support the need for faster export growth as a condition of faster output growth: (1) Foreign exchange limitations create a barrier to output growth; (2) domestic savings or domestic markets for goods cannot be increased readily, so that increased imports are the only way to increase investment; or increased exports the only way to find markets (because domestic demand is small, or domestic productive factors are immobile as among industries). Both arguments are made by underdeveloped countries.

Industrial countries, on the other hand, generally do not argue so strongly for trade expansion on these grounds. Their case for more trade is to a greater degree on the comparative cost arguments and, in the case of smaller countries, the desire to benefit from economies of scale.

In any event, there is clearly no unique relation between trade and economic development. The percentage growth of Atlantic Community exports was nearly twice as great as its income growth during the past decade; underdeveloped countries' exports rose a little slower than income. Yet income in the two areas grew at nearly the same rate. Table 2 compares industrial and underdeveloped countries' trade growth from 1950 through 1965.

These data underline the error inherent in equating income growth and trade growth uniquely for all countries. The industrial countries' prosperity has been marked by rapid increases in trade, probably reflecting: (1) Dismantling of the trade restrictions created during the depression of the 1930's, and maintained until after World War II—in effect a sort of catching up to normal trade patterns after a long period of restriction; (2) increasing specialization in production of manufactures, made possible by increases in demand, and encouraged by preferences for widely advertised products; (3) the internationalization of tastes made possible by modern communications, and encouraged by the growth of international corporations, which are also