The Life and Work of Ragnar Nurkse[1]

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> My father waved good-bye. / I didn't wave back,
> scared I might drop / my new cold smoky marble.
>
> At the core a spiral / glinted and coiled
> like a small windy flame / turning in on itself.
>
> That night my mother / shook me from a dream,
> whispering he was dead, / he was dead, he was dead,
> as if to teach a language / and I answered: he is dead.
>
> Even in sleep / my hands had not opened.
>
> (D. Nurkse, Cat's-Eye.)

Ragnar Nurkse (1907-1959) belongs to the handful of economic thinkers associated with early or high development theory, also referred to as classical development economics or pioneers of development. This group is typically seen to consist of the following key thinkers: Paul Rosenstein-Rodan, Hans Singer, Arthur Lewis, Albert Hirschman, Gunnar Myrdal and Ragnar Nurkse.[2] It can be argued that collectively, their thinking epitomized the best development practices of the past 500 years. It is not a coincidence that the post-World-War-II era, when Nurkse and others ruled the development mainstream, is one of exceptionally good performance for many poor countries. During the 1980s, development economics was replaced by the Washington Consensus thinking and policies that became for all intents and purposes Washington Follies. In recent decades, most developing regions – with the well-known exception of East Asia – experienced growth rates that go clearly against the more or less positive trend of the last 200 years from a long-term historical perspective. In other words, the world after the industrial revolution has not seen such a dismal development performance. The Washington Consensus in development mainstream

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[1] This article appeared in Rainer Kattel, Jan A. Kregel and Erik S. Reinert (eds.), *Ragnar Nurkse: Trade And Development*, London: Anthem, 2009, ix-xxi.

[2] There are a number of other thinkers that played key roles in early development theory who could be mentioned here as well, for instance Raul Prebish, W.W. Rostow and others. A good collection of recollections by the key figures in this tradition is gathered in Meier and Seers 1984 (although this does not include Nurkse as he had passed away by the time of this publication).

seems to be a failure on an unprecedented scale. (See for a detailed account Kattel, Kregel and Reinert 2009; also Wade 2008, Amsden 2007) Yet, classical development economics, the architects of most success stories in the post-WWII world, seemed destined for history dustbins. However, we agree with Paul Krugman that the "irony is that we can now see that high development theory made perfectly good sense after all." (1994) Indeed, after the global financial meltdown of 2008, classical development economics offers perhaps the best tools to think about development and growth. What is more, we know the tools of classical development economics worked, and in most cases, they worked spectacularly well. We will make this argument below in somewhat greater detail. In addition, in this introduction, we look at who Ragnar Nurkse was and what the core ideas of his economics are, and we finish by briefly introducing the contents of the volume.

Life[3]

Ragnar Nurkse was born on 5 October 1907 in the small village of Käru in Raplamaa county about 100 km south of Tallinn, Estonia.[4] Estonia belonged to the Western-most provinces of the Russian Empire then. Yet, the local elite, both landed aristocracy and city merchants, were Germans. Tallinn or Reval in German usage, which became the capital of independent Estonia (1918), was since 1285 Hanseatic merchant and port city that had for centuries played an important role in the trade between Scandinavia, Western Europe and Russia. This gave Tallinn a multicultural character that also reflects Nurkse's background and education: his Estonian father worked at a rather typical German manor house, his mother descended from local Swedish population, and he got his education from a German school in Tallinn. By the time Nurkse left Käru to study in Tallinn in 1917, Tallinn had rapidly industrialized and become one of the best-developed areas in the Russian Empire.[5] A

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[3] The key biographer of Nurkse is Kalev Kukk. This account is based on his most recent summary of Nurkse's life, Kukk and Kukk 2009 (also brings the fullest Nurkse bibliography to date). The Nurkse archive is in Princeton's Mudd Sealy Library.

[4] In some cases his birthplace is referred to as another village of the same name, Käru in Virumaa county but, as Kukk and Kukk 2009 show, the parish register is clear that he was born in Raplamaa county.

[5] At the time of Nurkse's birth, his father Wilhelm Nurkse was forester of Käru estate, and later the overseer of the same estate. Nurkse's mother Victoria Clanman-Nurkse descended from Estonian

year later, Nurkse started his studies in the Tallinn Cathedral School (*Domschule*). As Kukk and Kukk state, "The *Domschule* was a highly accepted school at that time." (2009)

After graduating the school in 1926 with highest honors, Nurkse entered the University of Tartu's Faculty of Law, which included economics at that time, in the fall of the same year. The University of Tartu (or Dorpat) was a German-speaking university until the late 19th century, founded, however, in 1632 by King Gustavus Adolphus of Sweden. The university struggled until 1710 and was then closed until it was re-founded in 1802 by Russian Emperor Alexander I. In the 19th century, the university "had a dual nature in that it belonged both into the set of German (-language) and Russian Universities. Financially and administratively, the latter was more important; intellectually and regarding the professoriate, the former." (Drechsler and Kattel 1997, 323) In the second half of the 19th century, Tartu's economists played a crucial role in the development of the German historical school. Indeed, key members of the so-called *Kathedersocialisten*, who formed the core of the *Verein für Socialpoltitik* in the 1880s – the key economics school of the 19th century in continental Europe –, worked in Tartu/Dorpat at early stages of their careers (Adolph Wagner, Etienne Laspeyres, Wilhelm Lexis, Karl Bücher). (Drechsler and Kattel 1997 give a detailed overview) However, by the time Nurkse started to study in Tartu, the university and its professorate were largely local.

However, it seems that along with his family, who emigrated to Canada in 1928, Nurkse was planning to leave Estonia early on and study abroad as he took only one exam at the University of Tartu. Instead, in 1929 Nurkse started to study economics at the University of Edinburgh from where he graduated in 1932 with a first-class degree.[6]

After Edinburgh, Nurkse continued his studies in Vienna from 1932 to 1934, where he studied with Ludwig von Mises, Gottfried von Haberler and Oskar Morgenstern. In

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Swedes who lived mainly on the West coast of Estonia and on different islands until the end of World War II.

[6] Nurkse's archive in Princeton contains quite some of his lecture notes from Edinburgh; see Nurkse archive, Box 1.

Vienna, Nurkse published his first article "Ursachen und Wirkungen der Kapitalbewegungen" (Causes and Effects of Capital Movements) (Nurkse 1934) and his first monograph on the same subject *Internationale Kapitalbewegungen* (International Capital Movements) (Nurkse 1935). It is also in Vienna where Nurkse's close friendship with Haberler started and continued until Nurkse's death.

While still in Vienna, Nurkse successfully applied for a job in the Secretariat of the League of Nations in Geneva, where he worked from 1 May 1934. Alexander Loveday, the head of the Financial Section and Economic Intelligence Service of the League of Nations, characterized Nurkse in a letter from 22 June 1935 as follows:

> Nurkse is, in my opinion, a real discovery and likely to prove of very real value to the League, once we are placed in a position to be able to give him a contract. He has what is, in fact, unexpectedly rare, exactly the quality of mind which is suited to our Intelligence work here, as well as an exceptional knowledge of languages and a first-class education. He has proved himself quite unusually useful to me as, on account of his ability and training and also his quickness, I can turn him from one subject to another as pressure of work demands in a manner for which nobody else working in the Section is really fully adapted. (Quoted in Kukk and Kukk 2009)

Nurkse worked in The Financial Section and Economic Intelligence Service of the League of Nations and contributed regularly to publications of the League like *Monetary Review*, *The Review of World Trade* and *World Economic Survey*.[7] The unit was transferred to Princeton in 1940, and Nurkse also moved to the United States. Previously, in 1938, he had enrolled as a PhD student at the University of Edinburgh. However, he never finished his PhD studies. Instead, he worked in Princeton during the war on what became *International Currency Experience: Lessons of the Inter-War Period*, published under the auspices of the League of Nations but credited mostly to Nurkse. This book went on to become one of the key publications for the Bretton Woods system: "As the last major economic research contribution of the League,

[7] It is not possible to identify his writings in the mentioned publications as these were written anonymously.

Nurkse's study contained all the fundamental tenets of the Bretton Woods agreement. … The formal Bretton Woods Agreement follows all the elements of Nurkse's study of *International Currency Experience*." (Endres 2005, 14, 19; also Endres and Fleming 2002, 192-195) Nurkse also participated personally in the Bretton Woods meetings.

With the reform of the League of Nations, Nurkse's tenure at the organization came to an end. As he writes in a letter to Rankin from 20 August 1945, "Whatever the outcome of these discussions, I do not intend to seek employment in the new organization; and I intend to leave the service of the old League as soon as the inflation memorandum is completed. I have twice tried to resign from the League during the war (once in 1940 and the other time in 1943) and was each time prevailed upon to stay on. Now that war is over, I am free to resign." (Quoted in Kukk and Kukk 2009) The following year, he married Harriet Berger (1916-1978) of Englewood, New Jersey, whom he met on the ship from Lisbon to New York in 1940. (Kukk and Kukk 2009)

Following a brief stint as a visiting lecturer in Economics at Columbia University (from September 1945 to May 1946), Nurkse was a Member of the Institute for Advanced Study in Princeton from 1946 to 1948. While he was offered a high position in the International Monetary Fund, he accepted a professorship at Columbia University instead. In 1947, Nurkse was appointed Associate Professor of International Economics and moved from Princeton to New York. In 1949, he was promoted to full Professor at Columbia University. It was in this period that Nurkse's focus shifted from international monetary issues to development economics. This research found its first expression in *Capital Formation in Underdeveloped Countries*, published in 1953 and based on his lectures held in Rio de Janeiro (1951) and Cairo (1952).[8] It was also during these years that Nurkse was actively discussing development issues with other key classics such as Rosenstein-Rodan, Prebish and others.

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[8] A flow of translations of the book followed: Spanish in 1955, Portuguese in 1957, Polish in 1962, Italian in 1965, French in 1968; see Kukk and Kukk 2009.

In 1958-59, Nurkse was awarded a Ford Foundation Research Scholarship which he used mostly for working at the United Nations library in Geneva; he also gave lectures in Paris and Rome. During that time Nurkse accepted a call to Princeton University. It was Jacob Viner who called Nurkse to Princeton faculty and Nurkse accepted the call, but never started to work in Princeton.[9] However, this is the reason why his archive is in Princeton.

In April 1959, he was invited to Stockholm to deliver the *Wicksell Memorial Lectures* on international trade. These lectures were published posthumously (Nurkse 1959) as, after returning to Geneva from Stockholm, Nurkse suddenly collapsed and died of a heart attack during a walk on the slopes of Mont Pèlerin above Lake Geneva on 6 May. Ragnar Nurkse is buried in Vevey in St. Martin cemetery.

Work[10]

It can be argued that among the classical development economists, Nurkse's contribution is the strongest in terms of economic theory; Hirschman's accomplishments are, however, perhaps the farthest-reaching in terms of influencing social science and development mainstream the most. Up to this day, it is relatively typical to find accounts that juxtapose precisely these two thinkers as representing almost exactly opposing ideas about development, namely balanced vs. unbalanced growth. However, as Hirschman later acknowledged, the differences between him and Nurkse were minor at the end of the day, and in large parts, they shared a very similar outlook. (Hirschman 1984; see also Nurkse 1961, 241ff)[11]

In what follows, we base our brief account mostly on Nurkse's ideas accompanying them with bits and pieces from the other pioneers, mostly from Rosenstein-Rodan and Hirschman.

The high development theory developed by Nurkse and others rests on two key ideas:

[9] See Viner's letter to Nurkse from 22 December 1958 in Viner's archive in Princeton, II Correspondence, 1. General correspondence, NI-NY.

[10] This section is based on Kattel, Kregel and Reinert 2009.

[11] While Nurkse 1961 is a collection of his various works, we refer to this publication as a whole.

1. Financing for development has to come to a large extent from the developing country itself ("Capital is made at home"; Nurkse 1961, 141), and
2. The key areas to be financed need to exhibit increasing returns in order to trigger dynamics of development or, as Myrdal argued, virtuous circles of growth.[12]

What makes Nurkse's contribution so important is the fact that he is the only thinker from this group to, first, incorporate both key ideas into a coherent theory of development and, second, to draw clear relationships between these notions.[13] Indeed, this is precisely the reason Nurkse favored the balanced-growth approach over the unbalanced one (the difference, simply put, being between whether one industrializes in numerous or just few key areas): the former was deemed by Nurkse to be financially more stable than the latter. (1961, 241ff.)

According to Nurkse, the financing for development has to come mainly from within the country set on development because the financing of growth through either foreign investments or increased trade was largely a historically unique phenomenon confined to the 19th century and more specifically to American experience. (See, e.g., Nurkse 1961, 134-136, 282-286) The 'new countries' within and without the British Empire were "high income countries from the start: effective markets as well as efficient producers." (1961, 243) Nurkse thought that it would be nearly impossible for any developing country to repeat such a successful trade- and foreign-financing-based growth strategy because America was highly rich in resources but at the same time populated by workforce essentially on the same skill level as Britain. (1961, 143) This unique combination made the American experience non-replicable because in any other circumstance, trade and foreign investment would engender a number of obstacles to development. Namely, first, large parts of such financing would seek to utilize poor countries resources and eventually lock these countries into undiversified economies with a skewed social structure; (Nurkse 1961, 100, 137, 144, 248) and second, there is a clear danger that significant amounts of foreign financing would

[12] For Nurkse, key passages are Nurkse 1953, 19-25.

[13] Krugman 1994, for instances, discusses only the aspect of increasing returns and fails to note how this is related to financial issues.

end up funding private consumption patterns emulating Western living standards and thus creating balance-of-payments problems. (Nurkse 1953, 66-70)

To sum it up, a growth strategy simply based on trade and foreign financing would leave the poor countries with negative financial flows and an undiversified production structure – just like the Washington Consensus did –, and this amounts to financial fragility or to a Ponzi financing position. The problem with such a strategy is that it relies on foreign financing to balance the current account, and this can take place only under very specific conditions: "it is only possible to maintain a development strategy based on net imports financed by foreign capital inflows if the interest rates on the foreign borrowing are equal to the rate of increase of foreign borrowing. If interest rates are higher than the rate of increase of inflows … the policy will eventually and automatically become self-reversing as the current account becomes dominated by interest and profit remittances that exceed capital inflows." (Kregel 2004, 11) This, arguably, is what has made various growth efforts in developing countries so difficult to sustain in the last few development decades: many growth strategies are simply based on self-reversing logic, and this is indeed what Nurkse clearly foresaw.

Thus, according to Nurkse, any economic strategy that wants to be sustainable in the long term has to come up with another way of financing the development. What this, however, means is that such a development strategy has to work in a relatively confined environment in terms of capital and skills. Taking into account the financial constraints described above, it is in this context that Nurkse interprets Adam Smith's famous theorem about the size of the market being limited by the division of labour. For Nurkse, following Allyn Young's 1928 essay, this theorem indicates that the size of the market is limited by real wages that are, in turn, limited by productivity growth. (1953, 21-25) For Nurkse, and very clearly for Hirschman and Rosenstein-Rodan, productivity growth is determined by the presence of increasing returns in an economy. (Nurkse 1953, 8, 14; also Nurkse 1961, 5-9, 27-29, 32; Rosenstein-Rodan 1984) Thus, a viable development strategy should aim at establishing a number of increasing returns activities that would become each other's customers and generate the first virtuous circle of growth. The size of the market is limited by the number of increasing returns activities present at the particular market. This dynamic is the essence of Nurkse's balanced growth, but also of Rosenstein-Rodan's big push and, in the end, also of Hirschman's unbalanced growth, expressed in very similar wording.

> The expansion of the market can be realized only through a process of balanced growth, where people in different industries, working with more and better tools, become each other's customers. (Nurkse archives, Box 8; see also Nurkse 1961, 252);

> … new producers will be each other's customers, and the complementarity of demand will reduce the risk of not finding a market. Risk reduction is in this sense a special case of external economies. (Rosenstein-Rodan 1984, 213)

Hirschman argues that such an interrelatedness – which he called backward and forward linkages – does not happen simultaneously but rather in a sequential process of learning and development and that in this process, the role of public policy or development strategy in setting goals and advancing specific sectors is key.[14] Nurkse's most serious argument against this is that such unbalanced growth will very probably need to rely on foreign financing at some point, as also Hirschman admits. (1984, 103) As we have argued above, due to the specific nature of such foreign financing (extractive in its nature and easily engendering lock-in effects, plus financing the consumption of imported goods), Nurkse was wary that such a strategy would lead to financial fragility. (1961, 247-253) As we have argued above, this proved to be a highly far-sighted concern.

It is important to note that most subsequent accounts of big push and balanced growth theories only emphasize the idea of consorted investments, mostly missing the point that, first, these policy efforts should target increasing returns activities and that, second, the reasoning behind this has to do with financial stability. (see, e.g., Easterly 2008)

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[14] Hirschman discusses his relationship to Nurkse and Rosenstein-Rodan most explicitly in Hirschman 1984, see especially 96-97.

In order to create increasing returns activities, infant industry protection may be necessary according to Nurkse and others, but it is also more important here to realize that the argument is less about protection but about what is specifically targeted with the protective policies and how: infant creation is more important than infant protection. (Nurkse 1961, 247, 257; 1953, 104-105, 109) Indeed, perhaps the key idea behind targeting increasing returns activities is that the resulting virtuous circles of growth (productivity and wage growth) act as barriers of entry for competitors both in terms of private companies but also in terms of regions and countries. (See also Reinert 1980, Gomory and Baumol 2004) The reason is evident in the very logic of balance growth: virtuous circles of growth relay and create their own demand and financing. (Nurkse 1961, 296) Thus, the driving idea behind Nurkse's balanced growth is not simply a set of reasons and/or policies for the creation of diversity in increasing returns activities, but moreover to show that both as a theoretical foundation and as a policy strategy, balanced growth is coherent and sustainable as it shows how long-term growth with financial stability can be achieved and maintained. In sum, Nurkse's balanced growth shows how middle-income nations can be created. The latter can be seen as the main goal of development as such.

Krugman (1994) argues that the decline of high development theory has methodological reasons: "so why didn't high development theory get expressed in formal models? Almost certainly for one basic reason: high development theory rested critically on the assumption of economies of scale, but nobody knew how to put these scale economies into formal models." Krugman admits that in particular Hirschman and Myrdal were consciously against increasing modeling in economics. His own argument that modeling is inevitable in economics is based on two simplifying assumptions: first, science is based on models and second, models need to be mathematical. While both assumptions are, to say the least, debatable (see in particular Drechsler 2004 for an excellent discussion), putting the blame on the doorstep of high development theory, Krugman along with much of the economics profession completely misses the other side of the story: how model-based economics interpreted post-World-War-II development stories. Since the model-based economics assumed away increasing returns and technology from development, it was left with tools Nurkse and others deemed counter-productive when used without targeting precisely the increasing returns activities: trade openness and foreign financing as the main engines of growth. As the saying goes, if all you have is a hammer, pretty soon all problems look like nails. This is precisely what happened. While high development theory argued for a context-specific approach and tailor-made policies – because economic activities, technology, knowledge and economies of scale change enormously in time and space –, the new development consensus on the rise in the 1980s and in full sway to this day argues the opposite: all developed problems are fundamentally alike, and thus, solving them should go by more or less the same policy prescriptions. The success of such an approach lies in the very nature of development: as Hirschman argues, all development presupposes some form of priority-setting through policy-making. (Hirschman 1958) The Washington Consensus did away exactly with this assumption: since all development problems are assumed to be of the same nature, the solutions are bound to be the same as well, and this takes the burden of proof, so to say, away from domestic policy-making. This is at the core of the reason why the Washington Consensus failed miserably in creating middle-income countries: it did not only lack the tools, but the measures it used were outright counterproductive. Again, Nurkse and others warned that this would be so.

The quest to create middle-income economies as the main goal of development can also be stated differently: how to upgrade developing countries' economic structures *with* raising wages and *without* beggar-thy-neighbour types of policies for instance in foreign exchange rates, labour markets, tax rates and so forth. (See also Summers 2008) This, however, is largely the way competitiveness has come to be defined by international organizations like OECD and the European Union. Interestingly, however, this definition of competitiveness comes from a 1985 Reagan administration report *Global Competition: The New Reality* by the President's Commission on Industrial Competitiveness (see Scott 1985 as background). Historically, however, this goes back further to the Bretton Woods agreements, in particular the one that established the IMF, where under article I.2, it states the aim of the IMF as follows: "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy." The key background publication for these ideas was the League of Nations publication from 1944 titled *International Currency Experience: Lessons of the Inter-war Period* and mainly written by Nurkse. This does not only show the breadth of Nurkse's influence, but also shows why his and his generation's development ideas are so relevant today: the strategy proposed by classical development economists is, first, based on a historically proven recipe of targeting increasing returns activities and, second, doing so under more or less financially stable conditions. It also shows, however, that following the path of balanced growth makes it clear that there is a need for global balancing rules as well. While the post-WWII era showed that this can indeed be done, the year 2008 showed that such global financial rules are direly needed again. And this is probably the best reason to reprint key works by Ragnar Nurkse: they are highly relevant for today's and tomorrow's debates about the development and renewal of global rules.

The volume

The current volume gets its name from the book title Nurkse was working on when he suddenly passed away in May 1959. *Trade and Development* was supposed to become his *magnum opus*. In his archive, we can find a preliminary outline of the book:

Intro: the static theory of specialization
19th century growth through trade
The 20th century lag in trade of the poor countries
The dynamic extension of trade theory
International conditions of economic growth
The pattern of home market expansion
Capital-goods imports and mineral exports
Commercial policy; import restrictions and export subsidies
Optimum tariff policy and the terms of trade
Trade swings and buffer policies. (Box 8)

His last lectures, the Wicksell lectures delivered just a month before he died, had a similar title, *Patterns of Trade and Development*. We deem it appropriate to republish his most important works under a title that Nurkse himself saw fitting for his work.

All Nurkse's published works are out of print, the most recent editions stem from the early 1960s. Thus, essentially, researchers, and in particularly students, have only limited access to his works. This volume contains all Nurkse's most important works.

Nurkse published only one full-length book and a few booklets (collections of lectures) and around 20 articles. However, as some articles or lecture collections formed the basis of his book or booklets, the actual number of works by Nurkse is not very large. We have, however, opted for not reprinting the 1944 *International Currency Experience: Lessons of the Inter-war Period* as this was not authored by Nurkse alone, and it is difficult to know exactly what is written by him; in addition, we do not reprint his book reviews that can be found in the 1961 collection of Nurkse's work.

The current collection builds on the Nurkse essay collection published in 1961 as *Equilibrium and Growth in the World Economy*, edited by Haberler and Stern. The book appeared in Harvard Economic Studies (as vol. CXVIII) at Harvard University Press. We are grateful to the Harvard economics faculty, whose dean has kindly given us the permission to reprint this book.[15] However, the 1961 collection does not include Nurkse's only book, *Problems of Capital Formation in Underdeveloped Countries*, published in 1953 by Oxford University Press. We are grateful to OUP for granting us the rights to reprint this volume as part of the current collection. The 1961 collection also does not include Nurkse's influential lectures from Rio in 1951 and from Cairo in 1952. However, these lectures were incorporated into the *Problems* book, accordingly the lectures are not separately reprinted here.

In addition, the 1961 collection does not include Nurkse perhaps most famous essay "Growth in Underdeveloped Countries", published in 1952 in *American Economic Review*. We include it here and are again grateful for the right-holders for giving us the permission to republish this important work. And, further, Nurkse archives at Princeton include one of his papers, "International Trade Theory and Development Policy" (given in Rio in 1957), which has never been published in this form (it was published in 1961 in International Economic Association's conference volume, edited by Ellis and Wallich); we include it in this volume in its original form. The 1961 collection also does not include "Trade Fluctuations and Buffer Policies of Low-

[15] Wherever possible, we have obtained the rights from the original publishers as well and would like to thank them for their kind permissions.

income Countries", published in *Kyklos* in 1958. This is also included here. All reprints appear in their original style but in common format.

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