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## Economists and their travels, or the time when JFK sent Douglass North on a mission to Brazil

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ECONOMISTS AND THEIR TRAVELS,  
OR THE TIME WHEN JFK SENT  
DOUGLASS NORTH ON A MISSION TO BRAZIL

by

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*Economists and their travels, or the time when JFK  
sent Douglass North on a mission to Brazil*

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**Abstract.** The role of traveling as a source of discovery and development of new ideas has been controversial in the history of economics. Despite their protective attitude toward established theory, economists have traveled widely and gained new insights or asked new questions as a result of their exposition to “other” economic systems, ideas and forms of behavior. That is particularly the case when they travel to new places while their frameworks are in their initial stages or undergoing changes. This essay examines economists’ traveling as a potential source of new hypotheses, from the 18<sup>th</sup> to the 20<sup>th</sup> centuries, with a detailed case study of Douglass North’s 1961 travel to Brazil.

**Key words.** Travel, economic theories, Douglass North, Brazil, otherness

**JEL classification.** B00, B30, B41

Rich countries ... have per capita incomes of between twenty-five and thirty thousand dollars annually. A poor country like Mozambique has one to two hundred. These numbers do not directly mirror what we are trying to get at ... But, they do give a clue. Better clues can be obtained by visiting third world countries. For someone who grew up in a rich country, it is a depressing and awesome experience to visit third world and poor countries. (Douglass North, 2001)

## **1. ECONOMISTS' TRAVELS AS A HISTORIOGRAPHICAL ISSUE**

### **1.1**

Douglass C. North's (b. 1920; d. 2015) first trip to an underdeveloped country took place in June 1961, when he visited Brazil for three weeks, serving as visiting professor to the Public and Business Administration Division, United States Operations Mission for Brazil, project # 512-79-055 (U.S. Operations Missions to Brazil 1961). The timing matched the launching of the Alliance for Progress, an ambitious program of economic cooperation between the United States and Latin American countries proposed by President John F. Kennedy in March and signed in August that year. One of its priorities was providing financial and technical assistance to the Brazilian Northeast region, the largest poverty stricken area in the Americas. In the Cold War context, Kennedy's interest was also motivated by the threat of a leftist uprising among the landless peasant leagues, conspicuously reported by the American

press at the time (Hirschman 1963, p. 83). Celso Furtado, director of the new Superintendence for the Development of the Northeast (SUDENE) and author of a classic book about Brazilian economic history (Furtado [1959] 1963), was in charge of regional development policy. North came to Brazil as an expert on regional economic growth and its history, the topic of a couple of articles (North 1955, 1959) and book (North 1961a). It was in that capacity that he delivered four lectures in Rio de Janeiro (North 1961c; translated as North 1961b), combined with travels to other Brazilian cities, where he met government officers, technicians and academic staff. His meeting with Furtado at SUDENE's headquarters in Recife – a couple of weeks before the Brazilian economist was received by Kennedy at the White House to discuss economic cooperation – stood out, since one of North's assignments was to assess SUDENE's development plans.

Apart from producing a set of Memoranda and analysis of the new SUDENE Five-Year Plan (North 1961d, e), North kept a diary of his Brazilian journey, held at Duke University Library, where he recorded his impressions about the country, the people he met and American foreign policy (North 1961f). The diary comprises 41 pages typed from two handwritten notebooks. North would visit several other countries, especially after he was awarded the Nobel Prize in economics in 1993, but would not keep diaries. His "Notes on my Brazilian trip" featured remarks about contradictory characteristics he saw or experienced in the country, such as the co-existence of poor and wealthy neighborhoods in big cities, the architectural beauty of the new capital (Brasilia), government bureaucracy and inefficient intervention, and the growth of the state of São Paulo.

What use did North make of his Brazilian travel notes? He did not write about Brazil or economic underdevelopment upon his return home. Instead, he resumed his

research agenda on the history of American economic growth, later expanded by the study of European economic history, with increasing emphasis on long-term links between institutional change and growth. It was only in the 1980s, reacting to ongoing debates in growth economics, that North embarked on an investigation of the causes of divergent growth paths, regarded “the central puzzle of human history” (North 1990, p. 6). He attributed divergence on the persistence of inefficient institutions in poor countries. Some key aspects of North’s New Institutional approach, particularly when applied to Latin American comparative backwardness, may be traced back to his early perception of Brazilian economy and society. The shift in North’s agenda in the 1980s reflected yet another visit to a Latin American country, which took place in 1980 when he was invited by Hernando de Soto to take part in the measurement of transaction costs prevailing in the Peruvian economy (North 1990, p. 67; 2001, p. 4).

## 1.2

The role of traveling as a source of discovery and development of new ideas has been controversial.<sup>1</sup> On the occasion of Patricia James’s (1966) publication of Malthus’s diaries of his 1799 travel to study Scandinavian population, George Stigler (1967, p. 106) disputed the scientific relevance of Malthus’s tour, as well as the significance of his diaries. According to Stigler, Malthus could have collected the data in London or Cambridge “at a much reduced cost”. Stigler did not deny that travellers could

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<sup>1</sup> Economists’ travels have been also investigated from the perspective of migration and the impact on economic thought of a permanent move to other countries, when the very notion of “home” changes (see e.g. Hagemann 2011). That is distinct from temporary traveling for (mainly but not only) relatively short periods, discussed in the present essay.

discover new relevant facts or ideas in new environments, as Tocqueville and Darwin exemplified. He claimed, however, that those were exceptions.

A foreign land is an extraordinarily reluctant source of reliable information, let alone of scientific relationships. No important economic idea of which I have ever heard had an empirical debt to foreign (or domestic) travel.

Stigler inferred that, as far as research funding is concerned,

If Fulbright wished to encourage purely scientific work, he should have given grants to live for nine months near a good American library, preferably surrounded by a committeeless zone. The profession would have fewer splendid meals and cases of dysentery, and more well-reasoned arguments.

The justification for Malthus's Scandinavian trip was of a different sort, Stigler suggested. Consumption is the "sole end of production, and Malthus had a most enjoyable trip".

Herbert Simon (1996) shared Stigler's skepticism about first-hand journeys as source of new information and knowledge. Simon enunciated his "Travel Theorem":

Anything that can be learned by a normal American adult on a trip to a foreign country (of less than one year's duration) can be learned more quickly, cheaply and easily by visiting the San Diego Public Library (or any other major city) ... The theorem holds in spades if the traveller does not have a fluent knowledge of the language of the country. (Simon 1991, p. 306)

Simon (p. 307) acknowledged that people need some direct contact with others different from themselves to escape their “shells of ethnocentrism” and empathize with alien cultures they read about in books. “That’s really all there is to the Travel Theorem: an assertion that a little experience goes a long way”. The function of the theorem was to generate guilt in those who seek “to reconcile their passion for travel with the Protestant ethic” (ibid). It came to Simon’s mind when, as an adviser to the Ford Foundation in the 1960s, he observed its ineffective practice of sending economists abroad for a couple of weeks before starting a new program. Simon’s Travel Theorem entails that, if journeys are undertaken, the reason should be other than just gathering information.<sup>2</sup>

Previous information is sometimes unavailable, as in the case of studies of primitive people. Indeed, one of the most important travel books ever, Claude Lévi-Strauss’s *Tristes Tropiques*, is a first-person description of his 1930s explorations in several places of Brazil and encounters with various tribes. A founder of modern anthropology and structuralism, Lévi-Strauss ([1955] 1972, p. 17) opened his book by announcing that “travel and travellers are two things I loathe – and yet here I am, all set to tell the story of my expedition”. The apparent contrast between the method of first-hand observation in anthropology and theoretical model-building in economics caught the attention of Mises (1962) and Knight (1941), among others.

The economist – like the biologist and the psychologist – deals with matters that are present and operative in every man. This distinguishes his work from that of the ethnologist who wants to record the mores and habits of a primitive tribe. The economist need not displace himself; he can, in spite of all sneers,

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<sup>2</sup> Earl (2001) has used the Travel Theorem to investigate, e.g., why people still prefer to work physically together or attend music performances when all the information is digitally available. The theorem also applies to investigating why geographical spread of knowledge requires traveling by scientists and students (Leijonhufvud 2012).



like the logician and the mathematician, accomplish his job in an armchair. What distinguishes him from other people is not the esoteric opportunity to deal with some special material not accessible to others, but the way he looks upon things and discovers in them aspects which other people fail to notice. (Mises 1962, p. 78)

### 3.3

Most economists would disagree with Mises's and Knight's view of economics as an aprioristic endeavor performed by "armchair theorists" who do not have to engage in empirical testing. The prevailing stance, dominant since mid 20<sup>th</sup> century, perceives economists as "armchair observers", in the sense that testing theories against data (and collecting them) is a separate stage of economic model-building, distinct from the formulation of hypotheses (Maas 2011). From both standpoints, traveling cannot be easily accommodated as part of the economic scientific enterprise (except, maybe, as field-work). The etymological roots of the word "theory", on the other hand, point to links between travel, observation and theory. As James Clifford (1997, p. 179) argues, the Greek term *theorein* denotes "a practice of travel and observation, a man sent by the polis to another city to witness a religious ceremony". Theory, in that sense, "is a product of displacement, comparison, a certain distance". To theorize, one leaves home. However, like any other act of travel, "theory begins and ends somewhere. In the case of the Greek theorist the beginning and ending were one, the home polis" (ibid).

Travel writing has attracted increasing attention from cultural history and literary theory. It belongs to the travelogues genre, which also includes other forms of expression such as oral recollections, pictures and films. As pointed out in the

introduction to the *Encyclopedia* of traveling, which features only one economist traveller (Arthur Young),

Travel writing has built into its very existence a notion of otherness. It is premised on a binary opposition between home and elsewhere, and however fuzzy ideas of ‘home’ might be, ideas of otherness are invariably present regardless of the ideological stance of the writer. Writing about other places, other contexts, involves writing (albeit implicitly) about one’s own context, about oneself. Hence all travel writing exists in a dialectical relationship between two distinct places – that designated by the writer and perhaps also the readers as ‘home’, and that designated as the cultural other. (Bassnett 2003, p. xi)

Economists have dealt with “the Other” since the beginning of economics, often excluding it from the core of economic thought (Dimand 2005). Unlike the Greeks, David Hume and other philosophers of the Enlightenment tended to see theory as a “home on the road to knowledge”, grounding the certainty of experiences in stable ways and protecting knowledge against the “contamination of the strange, the unknown, the inhospitable, the foreign, the Other” (Kaul 2008, p. 236). According to Coleman (1996, pp. 213-14), Hume’s reconciliation between empiricism and the notion of law-like universe rested on a distinction between proper and improper empirical methods – these are illustrated by deceptive reports of strange human behavior. He warned the reader against fantastic “travelers’ tales” that could make the strange look familiar. Hume (see Coleman, p. 214) cautioned that one should not conclude from travellers’ reports that “fashion, vogue, custom or law” are the foundations of human conduct. He stressed “uniformity among the actions of men in

all nations and ages”. Proper empiricism was restricted to the visible, plain and apparent, such as the study of the “temper and actions of the French and English”, which should be enough to understand the “sentiments, inclinations and course of life of the Greeks and Romans”. Mises’s later distrust of the heuristic role of traveling echoed aspects of the classical method as anticipated by Hume. In the domain of classical political economy, the economic traveller was “called not to import the principles or habits of foreign nations into his own, but export to those less favored countries the principles and practices he has learned at home”, as put by vicar J.W. Cunningham in his 1818 *Cautions to Continental Travellers* (quoted by Cooper 2017, chapter 1).

That did not prevent Hume, Senior and J.S. Mill from studying differences in “national character” and their implications for economic behavior, sometimes as a result of their own travels to the European continent, Ireland or the Middle and Near East. Despite their protective attitude toward established theory, economists have traveled widely and gained new insights or asked new questions as a result of their exposition to distinct economic systems and behavior. That is particularly the case when they travel to new places while their frameworks are in their initial stages or undergoing changes, as discussed in section 2. Together with a case study of North’s 1961 visit to Brazil in sections 3 and 4, this should cast some doubts on Stigler’s and Mises’s claims of irrelevance of traveling as a source of learning and discovery throughout the history of economics.

## 2. A TOUR OF ECONOMISTS' TRAVELS

### 2.1

European economists from the 18<sup>th</sup> to mid 19<sup>th</sup> centuries usually restricted travels to their own continent. Despite close economic relations between Great Britain and India, none of the classical economists (including Karl Marx) saw India at first hand. The British East India Company – which employed Malthus, James Mill, John Stuart Mill and Richard Jones – did not subsidize field missions for visiting experts (Barber 1994, p. 53).<sup>3</sup> Their authority “stemmed from the confidence that their ‘models’ could explain India’s economic circumstances and prescribe remedies” (Barber, op. cit.). Moreover, they read travel reports, not always reliable sources. Adam Smith [1776] 1976, V.i.d.17, pp. 729-30) was skeptical of accounts of the “wonderful” transportation systems in China and Hindustan by “weak and wondering travellers; frequently by stupid and lying missionaries”.

Smith (ibid) commended the account of Hindustan by French physician François Bernier ([1699] 1891), who lived in Asia for 12 years, less wonderful and more reliable than other travellers’. Bernier’s description of Oriental despotic land-tenure system, with its absence of solid property rights, caught the attention of R. Jones and Marx (Sawer 1977, pp. 11-12, 42-44). Jones challenged the universalism of Ricardian distribution theory and argued for a different framework adjusted to Indian features (Barber, op. cit.). This provided the starting-point for Marx’s development of the notion of the Asiatic Mode of Production as distinguished from European capitalism (Sawer, op. cit.).

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<sup>3</sup> Passengers travelled in ships of the East India Company, as there were no dedicated passenger ships between Britain and India then. The voyage was long (4 months one way) and dangerous (Marshall 1997). A round trip to China, before the construction of the Suez Canal in the 1860s, took a whole year.

Classical economists did not travel to Australia either. E.G. Wakefield, R. Torrens and J.E. Cairnes wrote about colonization and gold discoveries in Australia without ever setting foot in the region. Instead, they used information from travelers (Goodwin 1974, chapter 2). W. S. Jevons, on the other hand, participated in the 1850s gold rushes as an assayer in Sydney, before becoming an economist. Jevons kept a journal of his time in Australia, made available by Black and Könekamp (1972). Such material provides valuable information about how he was attracted to economics as a mathematical science. Australian 1857 policy debates over railway construction and land sales in New South Wales sparked his interest in the theory of distribution. Other influences were his reading of D. Lardner's 1850 *Railway Economy*, with its geometrical treatment of supply and demand, and his interaction with M.B. Pell, professor of mathematics and natural philosophy at the University of Sydney (White 1982; Schabas 1990, pp. 15-19). As a result, Jevons drafted some of the key premises of his 1871 marginalist approach during his Australian interlude.

Beatrice and Sydney Webb, founders of the LSE, were two other important visitors who kept a diary – disclosed by A.G. Austin (1965) – of their journey to Australia undertaken in 1898. Their impressions were negative, though. According to Craufurd Goodwin (1974, pp. 163-64), that was because they were “insular in outlook, poor travellers, snobbish, and arrogant”, and due to a naïve formulation of the nature of the new society they envisioned. When the Webbs saw what passed for the democratic ideal they had argued for, they were appalled by the rough society they faced, which seemed to “cast doubt on the very legitimacy of their own efforts” (ibid).

The results of prosperity in the Antipodes disappointed the Webbs, who disapproved of the choices of the new sovereign consumers (Goodwin 2017).<sup>4</sup>

The United States was another country untraveled by well-known European economists until the 1820s and 1830s, when Friedrich List and Harriet Martineau paid long visits in 1825-1830 and 1834-1836 respectively. Early 1830s was also the time of two famous journeys, by A. Tocqueville and C. Darwin, to North and South America respectively. Martineau, a successful writer and popularizer of political economy, produced three volumes out of her American travels: *Society in America* (1837), *How to observe: morals and manners* (1838) and *Retrospect of Western Travel* (1838). The first two were pioneers in the emerging field of sociology, with critical accounts of slavery and of women's education and role in America (Crawford 2017).

List's exile in the US, prompted by political problems in his native Germany, proved decisive for shaping the ideas behind his influential 1841 *Das nationale System der politischen Oekonomie* (Hirst 1909, chapter II; Boianovsky 2013a, pp. 651-52). His exposure to American economic growth and debates on protectionism and industrialization led List to understand economic development as a result of the interaction of heterogeneous national identities. As List recalled in the introduction to his *System*:

When fate led me to America I left all books behind me ... The best book on political economy one can read in that country is life itself. Here before one's eyes wilderness becomes rich and powerful states. Here it first became clear to me that nations pass through different stages of economic development. A

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<sup>4</sup> The Webbs traveled extensively. Their "snobbish" attitude also showed in their 1911-12 travels to Asia, despite their enthusiasm for Japan and nationalist India (Feaver 1992). Their 1930s journeys to Russia and support of the Stalinist regime were controversial (B. Webb and S. Webb 1936; Hollander 1981, chapter 4).

process, which, in Europe, would require many centuries, here takes place under our very eyes. (Quoted by Hirst 1909, p. 37)

List did not extend his travels to South America, but his ideas did travel to that continent (Boianovsky 2013a). The first significant journey by a European economist to South America in the post-colonial era took place in 1855, when French free-banking supporter Courcelle-Seneuil was hired by Chilean government to lecture and advise on monetary and fiscal matters, with views different from List's. Courcelle-Seneuil was an early example of visiting expert, a phenomenon resulting from the fact that economics developed in wealthy countries which lent their "expertise" to poorer ones (Hirschman 1963, pp. 165-68). During the 20<sup>th</sup> century such experts became known as "money doctors", when the flows of expertise became complements to international capital flows (Flandreau 2003, pp. 2-3). Courcelle-Seneuil's free-banking ideas took final shape while in Chile, when he argued them out in articles and books. His main publication in the field, *La banque libre* (1867), written upon returning to France, reflected his Santiago experience (Álvarez 2016, p. 163).

## 2.2

Around that period, British economist Nassau Senior undertook in 1855-58 journeys to the Mediterranean world (Algeria, Egypt, Greece, Malta and Turkey), which he documented – together with other tours to Ireland, France and Italy – in several volumes of his travel journals. Senior's travelling engagement was unique among classical economists.<sup>5</sup> This may look paradoxical, as his "ultra-deductive"

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<sup>5</sup> Stuart Mill travelled often to France, as recollected in his *Autobiography*. His first visit, as guest to Samuel Bentham in 1820, when he was 14 years old, made a great impression on him (Mill [1873] 1989, chapter 3). Differences between French and

methodology entailed that there is “no need for economists to get up from their armchairs” (Hutchison 1998, p. 47). Alfred Marshall asked Sydney Webb at the 1892 Labor Commission whether he was familiar with Senior’s statement that “while in all other sciences a man required to travel long before he could express a confident opinion, in political economy he had only to walk as far as to the end of his garden, and then he found himself quite at liberty to express an opinion” (Groenewegen 1996, p. 177). Senior’s travels did not prompt changes in his theoretical framework. However, they informed his contribution to the study of national characters, called “economic ethology” by J.S. Mill (Persky 1995; Romani 2002). A substantial part of Senior’s journals of his travels to Egypt and Turkey consisted of conversations with local European people, since he did not speak the language or used translators (Senior 1859, 1882).

Senior inferred from his travels that Oriental economies do not grow – they are either stationary or may experience decline, as the Ottoman Empire (Dimand 2004). Parts of his journals are reproduced together with his manuscript lectures in the volumes edited by S. Levy. According to Senior (1928, volume 2, pp. 78-79), “corrupt governments” under “Asiatic despotism”, lacking proper taxation instruments, brought about the destruction of the economy of “what were once the most flourishing parts of Asia, perhaps of the world”. In the section titled “National character of the Turks as a cause of their poverty”, Senior (pp. 84-88) quoted from his travel conversation with Europeans living in Turkey to provide a picture pervaded by cultural preconceptions and prejudices (Dimand, op. cit.).

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English societies would later draw his attention to the relevance of national characters. Mill kept a journal and notebooks of that visit, published in partial and full versions (Mill 1960; Inoue 2014). Samuel Bentham brought his brother Jeremy along in their 1785-87 travels to Russia, when the latter wrote *Defence of Usury* (1787). However, there is no indication that it reflected J. Bentham’s stay in Russia (Christie 1993).



“Otherness” is, of course, a matter of degree. Hume wrote his 1748 essay *Of national characters* out of his travel across Europe in 1748-49 on a military-diplomatic mission to Vienna and Turin (Hume [1777] 1987, essay XXI). Hume kept a journal of his travels in the form of a running letter, made available in the 1846 and 1932 editions of his correspondence. The letters provide observations on European societies through which he passed, under distinct constitutions and economic policies. As Ian Ross (2008, pp. 42-43) suggested, it is likely that Hume’s 1748-49 travels shaped his international perspectives on politics and economics.

European traveling in the 18<sup>th</sup> century was associated to the venerable practice of the “Grand Tour” of young men through the Continent, particularly Italy and France (Buzard 2002). Both James Steuart (1735-40) and Adam Smith (1764-66) undertook the Grand Tour, although Smith did it as tutor (Ross 2010, chapter 13). The effects of such travels on Steuart’s 1767 *Principles* and Smith’s 1776 *Wealth of Nations* were distinct. After returning to Scotland in 1740, Steuart would leave for the Continent again five years later, this time for political exile, where he stayed until 1763, travelling through several countries. Steuart’s *Principles* reflected his experience of European economic conditions and intellectual life, as shown in his concern with economic policy and state management. The first two books of the *Principles* were completed while Steuart was in the academic town of Tübingen, where he learned of German cameralism (Skinner 1981; Ramos and Mirowski 2011).

Smith read but never mentioned Steuart’s *Principles*, which differed in many ways from the *Wealth of Nations*. A main difference was Smith’s theory of capital and distribution, a reflection of his 1766 meetings with François Quesnay and Jacques Turgot in Paris, when he was exposed to a model of accumulation (Schumpeter 1954, pp. 191-92; Skinner 1981, p. 39). The “encounters with the economic theorists of

France can be considered the most exciting passage in Smith's intellectual development, second in importance only to his early contacts with Hume" (Ross 2010, p. 231).

While in Paris, Smith met Denis Diderot, editor of the *Encyclopédie*. Diderot was interested in whether enlightened despotism should be able to implement "civilization" in Russia, then ruled by Catherine the Great. He examined the matter in the first (1770) and third (1780) editions of *Histoire de deux Indes*. In 1773 he visited St. Petersburg for 7 months. Diderot may be regarded a precursor of the "foreign expert" genre. He discussed the role of economic reforms in bringing "civilization" (or, as we say now, "development") to the country, and observed Russian society and economy. He criticized the huge gap observed between the rich nobility and poor servant peasants, and found necessary the creation of a "third estate" in between. Diderot eventually gave up his view of civilization as a result of an enlightened despot or the ideas of a philosopher, and came to see it as the product of a long process of development (Adamowsky, 2010, pp. 252-53).

One of Catherine's innovations was the creation of the Economic Society for the Encouragement of Agriculture and Husbandry, with British agricultural economist and traveller Arthur Young among its honorary members. Due to the absence of regular reporting of economic data, description by travellers of economic conditions was an important aspect of 17<sup>th</sup> and 18<sup>th</sup> century economics. According to Schumpeter (1954, p. 158), "neglect of this literature is apt to distort seriously our picture of the economics of those centuries". Nevertheless, Schumpeter excluded it from his *History*, except for a reference to Young's travel reports, which contained what Schumpeter called "theory in action" (p. 159). Through his observation of agricultural production methods, data, and social and political life in Britain, Ireland and the

Continent, Young became the most prolific and successful economic travel writer of the late 1700s and early 1800s (see e.g. Young 1771, 1792) – maybe ever. He was close to Political Arithmetic, the title of one of his books. Young’s travel reports yielded the calculation of output as the excess of revenue over costs on a national scale, that is, the method of value added (Stone 1997, chapter 5).

Arthur Young did not travel outside Europe. His interest in the contradiction between the high productivity of agriculture and the low standard of living in China prompted him to instruct Lord Macartney to collect agricultural data during the latter’s expedition to that country in 1792-94 (Boianovsky 2013c, p. 60). Similarly, in 1804 Malthus instructed Sir James Mackintosh to gather vital statistics data in India, before Mackintosh left for Bombay (Cooper 2017, chapter 3). Traveling to Scandinavia was not as expensive, but a wealthy student of Jesus College covered the expenses of Malthus’s 1799 Norwegian expedition (James 1979). As noted by Brian Cooper (op. cit.), the objective of Malthus’s field trip was not to investigate *if* the population principle works, but *how* it works. Nevertheless, his main inference from observing Norwegian population behavior – that prudential checks were operative, instead of the vicious checks of the first edition of his *Essay* – led to important revisions in his population theory. It became compatible with rising living standards and wages.<sup>6</sup> Stigler’s (1967) claim that Malthus’s Scandinavian tour was irrelevant for his demographics is inaccurate. Most historians of thought (Robbins 1966; James 1979, chapter 2.5; Cooper 2017, chapter 3) would disagree with Stigler’s similar claim about Malthus’s travel diaries.

Young and Malthus were two instances of researchers who issued “instructions to travellers” about how to observe and keep records (Hulme and

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<sup>6</sup> See Drake 1966 for a critical assessment of Malthus’s empirical work in his trip to Norway.

Young, 2002, pp. 4-5). Alexander von Humboldt's (1811-1812; 1818) travels to Latin America at the beginning of the 19<sup>th</sup> century were a turning point in travel writing. Humboldt was the first scientific traveller, who "measured accurately what explorers had reported inaccurately" (Cannon 1978, p. 75).<sup>7</sup> The German geographer and natural scientist believed all phenomena of nature are linked together. Such quantitative links could only be ascertained through data obtained via measurement and experimentation. Humboldt's 1799-1804 journeys to Mexico and South America were part of his design to promote worldwide observations and build theories based on general evidence. According to Susan Cannon (1978, p. 105), the main novelty in professional science in the 19<sup>th</sup> century was "Humboldtian science", defined as "the accurate, measured study of widespread but interconnected real phenomena in order to find a definite law and a dynamical cause".

Charles Darwin and Alfred Wallace were prominent Humboldtian scientists, who both traveled to South America and produced travel narratives and measurements in imitation of Humboldt. Tocqueville's North American tour also fitted that pattern. Scientists should pay attention only to those things that could be observed with precision and become integrated into a general theory. By late 19<sup>th</sup> century this kind of activity started to be seen as old-fashioned, when "Baconian science", as illustrated by physics, laboratory physiology and the biologists' rejection of Darwin's methods, replaced "Humboldtian science" (Cannon, op. cit.). As the relation between theory

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<sup>7</sup> He was partly anticipated by Swedish botanist and economist Pehr Kalm (1772), who visited North America. Kalm was one of Carl Linnaeus's disciples trained to travel abroad to collect plant samples and enrich the natural wealth of Sweden. His journals, mentioned in the *Wealth of Nations* (I.xi.1.4), contained accounts of American physical and human geography, and, like Humboldt, reflected cameralist influences (Jonsson 2010).

making and observation changed, so did the role of travelling in sciences in general – except for anthropology – and in economics in particular (see also Maas 2011).<sup>8</sup>

Before that, Humboldt's reports of his travels to New Spain (Mexico) – the first account of the socio-economic-geographic system of a non-European country – caught the attention of classical economists, especially Malthus (Boianovsky 2013b, section 4). Ricardo was attracted to Humboldt's description of the perverse effects of higher land productivity on the supply of labor effort. Malthus ([1836] 1951) quoted extensively from Humboldt to make the point that indolence and deficient wealth of a fertile country were brought about by “want of demand [rather] than want of capital”.

### 2.3

If traveling to underdeveloped areas provided new insights, so did traveling to England, particularly Manchester, core of 19<sup>th</sup> century industrial capitalism. This is illustrated by Friedrich Engels' first (1842-44) protracted period in Manchester – when he left Germany for England to work in his father's firm – followed by a joint visit with Marx in 1845. Engels' (1843, 1845) foundational works reflected his stay in Manchester (Claeys 1984; Nasar 2011, chapter 1). As Engels would recall,

In Manchester it was forcibly brought to my notice that economic factors, hitherto ignored or at least underestimated by historians, play a decisive role in the development of the modern world. (Quoted from Nasar 2011, p. 14)

Engels was influenced not just by what he saw and experienced in Manchester's industrial life, but by his contacts with British Owenite socialists. Manchester was also the place of free-traders and their “Manchester School” of political economy.

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<sup>8</sup> Stigler's (1967) exceptions to the scientific irrelevance of travelling both come from Humboldtian science (Darwin and Tocqueville).

Marx's visit to Manchester, by giving him access to the Clapham Library and to theoretical and political debates, marked the effective beginning of his project to study capitalism (Bohlender 2018). When Marx and Engels referred to "empirical reality" in their 1846 *German ideology*, as a criticism of the Young Hegelians, this should be ascribed to their Manchester journey (Bohlender, op. cit.). Engels continued living and working in Manchester throughout the 1850s and 1860s, from where he kept Marx – who migrated to London in 1849 – informed about the facts of capitalism (Mata and van Horn 2017). As Clifford (1989, pp. 180-81) suggested, by writing from Paris and then Manchester-London, instead of the marginal German Rhineland, Marx "made its theoretical claim to centrality and thus to a place at the cutting edge of History".

As American economic growth intensified, the country naturally attracted European economic travellers<sup>9</sup>, whose theoretical frameworks would be affected accordingly. Three prominent visitors from the 1870s to 1930s who fit that description were Alfred Marshall, Max Weber and Ronald Coase. Groenewegen (1995, pp. 193-203) has given an account of Marshall's American and Canadian tours (June to September 1875), based on his notes, letters to his mother, and lectures on American industry (see also Nasar 2011, chapter 2). As J.M. Keynes pointed out,

The American trip made on [Marshall] a great impression, which colored all his future work. He used to say that it was not so much what he learnt, as that he got to know what things he wanted to learn; that he was taught to see things in proportion; and that he was enabled to expect the coming supremacy of the

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<sup>9</sup> Marshall sailed to New York in the mid 1870s, during the "biggest transatlantic tourism boom in history" (Nasar 2011, p. 74). Marshall's crossing of the Atlantic took 10 days, as compared to 6 weeks taken by List.

United States, to know its causes and the directions it would take. (Keynes [1924] 1972, p. 176)

Marshall visited factories, attended events and met philosophers (R.W. Emerson) and economists (D.A. Wells, F.A. Walker, H.C. Carey). His observations were inspired by Young and Tocqueville, his favorite travellers (Groenewegen, *op. cit.*). Marshall's approach to economic progress was influenced by his perception of how the growth of American industry was affected by factor mobility and protectionism (Matsuyama 2011). As Goodwin (2017, pp. 395-96) observed, Marshall discovered in his travels that consumers' and producers' behavior reflected differences in national characters and human nature.

Weber's visit to America from August to November 1904 took place at a strategic moment in his life, shortly after he dispatched to press the essay that formed the first part of his 1904-05 classic, and just before he wrote the second part. Lawrence Scaff (2011, p. 190) shows how Weber's investigation of American religious and economic lives supplied "persuasive evidence supporting the postulated relationship between Protestantism and capitalism" and, by that, strengthened the connection between the two parts of his famous book.

In the same vein, Coase's visit to the United States to study the vertical and horizontal integration of large firms, on a LSE 1931-32 student traveling scholarship, provided empirical evidence and raised issues that led to his seminal 1937 article (Medema 1994, chapter 2). Coase (1988, pp. 8-9) recalled that he visited large-scale businesses and industrial plants in Detroit, Cleveland and Chicago, in search of clues to tackle the puzzles that motivated his journey. Coase found a solution by linking up

organizations with (transaction) costs, which decided whether transactions are carried out within the firm or on the market.

Yet another illustration of the impact of travelling is provided by Schumpeter's period as lawyer to an Italian firm in Cairo in 1908. Unlike Senior's accounts, Egypt attracted investments since the completion of the Suez Canal, and experienced an economic take-off that lasted until the early 1900s. This provided an environment for Schumpeter's emerging concern with economic development (Nasar 2011, chapter 5). During his stay in Cairo Schumpeter gained experience of how markets work (Allen 1991, p. 67). He participated in the reorganization of a sugar refinery firm, whose profits raised through the introduction of new methods. That made an "indelible impression on Schumpeter. He had witnessed first-hand the innovation process and its consequences; it would later become a centerpiece for his theory" (Allen, *op. cit.*).

## 2.4

As the 20<sup>th</sup> century advanced, the world economy became divided into developed, socialist and underdeveloped countries (with some overlapping between the last two). International heterogeneity stimulated economists from industrial nations to travel as economic advisors, lecturers or plain observers.

Keynes's two-week visit to Russia – as representative of Cambridge University at the bicentennial celebrations of the Russian Academy of Sciences – in September 1925 borne three articles in the *Nation*, collected as Keynes 1925 (Skidelsky 2003, pp. 356-58). Keynes's travelogue, described by Skidelsky (*op. cit.*) as one of his "most eloquent productions", reflected the "surreal encounters" with Russian economists and planners. Keynes claimed that socialism offered no



alternative to reformed liberal capitalism, and rejected both *laissez faire* and state socialism. While in Russia, he also lectured about British economy and liberalism. Partly because of his Russian travel, Keynes's political philosophy started to take mature shape (Barnett 2013, p. 140).<sup>10</sup>

Forty years later, T.C. Koopmans, research director of the Cowles Foundation, came to Russia on the first official academic visit by a US economist during the Cold War (Düppe 2016). Koopmans's goal was to establish scientific dialogue with Russian mathematical economists, particularly L. Kantorovich. Like Keynes, he was critical of the way the Soviet "clumsy economy" was managed, and disappointed at the meager application of Soviet mathematical knowledge to planning. Nevertheless, Koopmans's journey prompted his interest in the new field of comparative economics, a by-product of 1950s studies by Evsey Domar and others about the Soviet economy.<sup>11</sup>

The large flow of Western intellectuals travelling to socialist countries from the 1920s to the 1970s has been named "political pilgrimage" (Hollander 1981). Such reverential tour of politically appealing but closed societies produced travelogues that revealed more about the observers than about the countries (Hollander 1981, p. xxi). Dissatisfaction with their own societies led those travellers to look for Utopian systems elsewhere (see also Serra 2017). Joan Robinson's trips to China from the 1950s on (e.g. Robinson 1954; Robinson and Adler 1958; Robinson 1964) were part of that. As G.C. Harcourt pointed out, Robinson "was always looking for Utopia. She didn't find it in Russia, then she didn't find it in Eastern Europe, then eventually she

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<sup>10</sup> Keynes (1919) may be also read as a travelogue, recreating the "torrid *mise-en-scène*" at Versailles as a "personal statement unique in twentieth-century literature" (Skidelsky 2003, p. 237; Maas 2011, p. 222). That was when Keynes economic "vision" was formed (Schumpeter 1954, pp. 41-42).

<sup>11</sup> In 1959 Domar visited Russia and lectured on what he observed. His lecture is available on <http://credo.library.umass.edu/view/full/mums741-b085-i004>.

didn't find it in China, and she backed off on China" (Harcourt and King, 1995, p. 56). Her interest in China grew out of her distrust of capitalism (Nasar 2011, chapter 17).

Features of Robinson's analytical work cannot be appreciated if her fascination with and travels to socialist countries are kept out of sight.

I could never understand the claim that the free play of market forces established an optimum pattern of prices, but [1950s] discussions with Polish and Soviet economists made me realize that there are great merits in a system of prices for consumer goods in which flows of demand for particular commodities are in line with available supplies. (Robinson, 1978, p. xx)

That is the origin of Robinson's (1958) "Philosophy of prices". Her 1950s lectures on choice of technique delivered in China overlapped with her 1956 *Accumulation of capital* (Harcourt and Kerr 2009, chapters 5 and 9). Robinson was aware of the Utopian character of her views about socialist price systems. Part 5 ("Rational price system") of her 1960 do-it-yourself textbook refers often to a "Utopian economy" in which production is directed by consumers' interests (1960, pp. 205, 212-13 etc.).

Joan Robinson's interest in developing countries may be traced to her 1926-28 trip with Austin Robinson, soon after they married, to India, where Austin had been invited to tutor the Maharajah of Gwalior. It marked the beginning of Austin's life-long work and travels to underdeveloped areas (Harcourt 1997), and informed Austin Robinson's 1930s Cambridge lectures – as recollected by his student Colin Clark (1984, p. 62), whose concern with development economics began with Austin's discussion of India. Traveling to India was also the starting-point of Jan Tinbergen's agenda on development planning. In 1951 he was a guest to Indian planner P.C.

Mahalanobis. Tinbergen (1984, pp. 316-17) recalled that “although in Holland we had been hungry in 1944-45 ... the poverty prevailing in India – as a normal situation – was such a contrast that it redirected my thinking and main activities”.

Missions of visiting-economists to developing countries have often been sources of inspiration for new ideas. This is illustrated by Albert Hirschman, whose life of constant traveling to Latin America and elsewhere was a veritable “Odyssey” (Adelman 2012; Bianchi 2011). His first mission took place in Colombia in 1952, “without any prior knowledge ... of economic development”. When Hirschman returned to the US in 1956, he had “acquired a point of view”, distinct from then current development economics (Hirschman 1984, p. 88). The Colombian experience allowed him to observe closely and for long enough the processes and effects of decisions in which he took part. Hirschman’s 1958 *Strategy* reflected that, together with the decisive influence of his “fantastic” three weeks in Brazil in 1957, when he attended an international conference and met local economists (Adelman, p. 334). His 1958 book had “grown almost entirely out of my Latin American experience” (Hirschman 1961, p. 41).

Money doctoring has been another feature of economists’ travels to developing countries, particularly after the creation of institutions such as the International Monetary Fund (IMF). In 1955 Jacques Polak headed an IMF mission to Mexico. As a result of close work between the staff mission, the Bank of Mexico and private bankers, the IMF staff produced a report that anticipated the “monetary approach to the balance of payments” (James 2009, pp. 38-40), developed by Polak (1957). The dissemination of economic ideas was a two-way street, with the IMF staff improving its understanding of economic processes through their missions (Polak 1996, p. 217). Missions to developing countries have been also motivated by

development planning, as illustrated by Wolfgang Stolper's diaries of his 1960-62 planning experience in newly independent Nigeria (Gray 2003). Stolper's diaries document the difficulties faced by visiting-economists in assessing and implementing development plans (Morgan 2008). Stolper became an expert on Nigerian economics, the topic of his 1962-1966 articles and books.

Observing and interpreting socio-economic changes in post-war Japan became a dominant element of Martin Bronfenbrenner's research agenda, after his 1945 and 1949-50 travels to that country as American Naval Officer and member of a tax reform mission. He would often return to Japan. As Bronfenbrenner (1987, p. 3) recalled, Japan was "a society transforming itself before my eyes". Bronfenbrenner's (n.d.) unpublished autobiography shows how he was picked up by the "Japan bug", which changed his personal and professional life. He became an authority on Japanese economy and economics, having learned Japanese during WWII. His theoretical work on growth and distribution was influenced by his Japanese experience (Goodwin 1998; Potts 2014). Bronfenbrenner's Japanese encounter is a striking illustration of how traveling may reshape economists' research interests. Although not nearly as dramatic, North's 1961 visit to Brazil left significant marks, as discussed next.

### **3. DOUGLASS NORTH'S BRAZILIAN VOYAGE**

#### **3.1**

North's 1961 visit to Brazil was co-sponsored by the American State Department and the Getulio Vargas Foundation, a research institute led by Eugenio Gudín, the dean of

Brazilian economics, described by North (1961f, p. 7) as the “grand old man of Brazilian affairs”. From 1947 to 1965 Gudin invited prominent scholars to come to Rio to lecture on economic development and related topics. Besides North, the series included Gottfried Haberler, Jacob Viner, Ragnar Nurkse, Hans Singer, Lionel Robbins, Nicholas Kaldor, Jan Tinbergen, Kenneth Boulding and Benjamin Higgins, among others. All lectures came out in Portuguese in *Revista Brasileira de Economia*, with long English summaries; some were later published as books in English (e.g. Viner, Nurkse). In 1957 many of those “fortunate souls” (Boulding 1958) participated in the Gudin Festschrift.

The other economist in North’s mission was Benjamin Higgins, who stayed for three months. Higgins (1992, p. 106) refers to North as member of the team, but misplaces him in another Brazilian mission Higgins participated in 1964. Like Higgins’s, North’s official terms of reference were limited to appraising American assistance in the training of Brazilian economists. However, they got involved in surveying regional development, a key issue for the State Department and the topic of North’s (1961b,c) Rio lectures.

Robbins, upon returning from his 1953 two-month visit, wrote to his sister that Brazil “was strenuous but thoroughly worthwhile – an unforgettable bundle of contradictions and contrasts, beauty and ugliness, good and evil, progress and corruption” (Howson 2011, p. 750). North’s impressions were similar. In his last Rio lecture North (1961g, p. 3) referred to his “very brief but rather arduous experience here in Brazil”. He fulfilled an extensive agenda during his three-week stay. His public Rio lectures were delivered on June 13, 16, 21 and 26 at the American Embassy. While in Rio, North met Gudin and other Brazilian economists, evaluated economists’ training, gave seminars on location theory, and interacted with the

International Cooperation Administration (ICA)<sup>12</sup> staff, which run his mission. He also visited Brasilia (June 11-12), Fortaleza (June 18-19), Recife (June 20) and São Paulo (June 22-23) to consult with planners and academics and to give lectures.

North's Brazilian experience was "arduous" not just on account of his agenda, but because of his effort to persuade Brazilian economists of the importance of economic efficiency.

I'm putting more and more stress in my talks on the nature of economic efficiency as the essential ingredient in development. The more I see of Brazil the more I'm impressed that they simply have no concept of efficiency. Their hodgepodge of economic organization does not permit a price system to work well and they don't know how to plan efficiently either. The result: a gigantic mess. (North 1961f, p. 14)

He had flirted with Marxism as a Berkeley student in the 1940s. His "college radicalism" caused him trouble when ICA first considered his participation on the mission (ibid, p. 7). North would recall that he "got rid" of Marxism in the 1950s, when he turned into a Chicago-type economist. "There is nothing worst than when you have lost your way and you pick up the next thing. In my case, this made me a right-wing reactionary" (Horn 2009, p. 164).<sup>13</sup>

Rio combined shack towns (favelas), "which would rival the worst slums in the Far East", with "beautiful residential areas" (North 1961f, p. 8). He was gradually taken by the city, despite its contradictions. Towards the end of his stay, North acknowledged: "I'm forced to admit that Rio is truly the most beautiful city I've ever

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<sup>12</sup> Later replaced by the United States Agency for International Development (USAID).

<sup>13</sup> That is only partially true, as he always kept an interest on Marx and planning (see North 1961h and the fourth lecture in North 1961b, respectively).

seen” (p. 35). On the flight back home, the scenic view prompted him to note that “I’m afraid there is nothing like Rio in the world. It takes time to get hold of you, but it is surely an incomparable city” (p. 38).

North’s sensorial perceptions of other Brazilian cities are also noteworthy. He was overwhelmed by the “fantastic, sensational” newly built capital Brasilia, founded the year before. “Nobody but the Brazilians would have the imagination and creativity to turn up something like this ... Of all the aesthetic contributions of man this is certainly the vastest and perhaps even the most impressive” (pp. 8-9). North noticed, however, the tradeoff between overall planning of Brasilia’s urban life and individual freedom, which he generalized to Brazilian economy as whole: “Government intervention and control are everywhere and for the most part inefficient ... Brazilians are simply swamped by government controls, regulations and restrictions” (ibid).

Next, he visited the Northeast and lectured in Fortaleza (at Banco do Nordeste) and Recife (at SUDENE). On first impression, Fortaleza “does appear to me a rather pretty town, with lots of money from rich sugar planters, etc.” However, walking on the other side of the city, “the side that reflects the Northeast’s problems”, he saw large groups of idle people, long unemployment relief lines and favelas (p. 22). Since the creation of SUDENE under Furtado’s initiative in 1959, Recife had turned into a hub of reform, attracting visitors such as Jean-Paul Sartre, Edward Kennedy, Hirschman and Arthur Schlesinger. North (1961f, p. 27) noted that, like Fortaleza, “driving into [Recife] first along a beautiful beach and then through its commercial areas, it is clearly a desperate poor area – with masses of unemployed or underemployed people”.

North’s impressions from his visit to São Paulo, Brazilian foremost industrial area, were distinct from what he observed elsewhere.

São Paulo is an extraordinary Brazilian city. It simply doesn't belong there. It could be Chicago (only much prettier and fewer slums). It boasts that it is the most rapidly growing city in the world and it certainly looks it. ... The wholesaling, retailing and the whole atmosphere betokens a degree of efficiency and aggressive entrepreneurial spirit which simply isn't typical of Latin America. There can be no doubt that the Paulista influence is a major force in Brazilian expansion – a really dynamic city which, given half a chance, can demonstrate the efficiency of a market economy. In all the welter of bureaucratic planners and wild schemes that mark this country, this city stands out as a vital center for creating expansion. Viva os Paulistas, as they are called. (North 1961f, pp. 31-32).

The contrast between what he perceived as São Paulo's dynamic market economy, Northeast poverty and prevailing inefficient centralization caught North's attention.

### 3.2

São Paulo's industrialization, following the expansion of coffee exports in the late 1800s, fitted North's (1955, 1959, 1961a) model of export-led regional growth – an extension of the “staples thesis” – originally applied to 19<sup>th</sup> century America. North (1961b,c) did not mention São Paulo or the Northeast in his Rio lectures. It was implicit that Brazil, unlike United States, did not feature historical convergence of regional income. Apart from a restatement of the regional growth model – based on the productivity effects of scale and external economies when market size expands – the second Rio lecture contained his first discussion of underdevelopment, partially based on North's (1959; 1961a, chapters 1 and 10) interpretation of the economy of



19<sup>th</sup> century American South. Like North's (1961h) companion Venezuelan piece, his Brazilian articles addressed a Latin American audience.

North's (1961a, pp. vi-vii) quantitative economic history focused on how changes in prices of goods and factors affected the evolution of market economies such as the US. Institutional changes mattered only to the extent that they influenced market forces, without ever replacing them. Moreover, institutions should be endogenously examined through economic analysis: "We only beg analytical answers by retreating to the institution per se as an explanation" (1959, p. 949). Expansion of the exports sector was a necessary but not sufficient condition for economic growth of the region. Some regions had become tied to a single export commodity with limited effects in other sectors. Such economies featured a large non-market sector and dual economic structures (North 1961b, pp. 29-30; 1961c, second lecture, p. 7). The success of export-led growth depended on the natural endowments of the region and the characteristics of its export industry. Production is concentrated on the export commodity if its comparative advantage is substantial. Moreover, if, as in the case of *plantation* type economies, the marginal product of labor is low, income distribution tends to be unequal, with perverse effects on the size of the market.

The region's disposition to invest in education and knowledge – a main determinant of its growth performance – depended on the structure of its export sector (North 1961b, pp. 31-32; 1961c, p. 10). If income distribution is unequal, and the economic and political power are held by the same agents who pay taxes, and if education would not improve the returns in the exports sector, there will be little incentive to public investment in education. That was an important source of imperfection and dualism in the labor market, he claimed.

North did not refer to population growth or Malthusian demographics in his Rio lectures. That was consistent with his model of regional growth, which explicitly assumed away population pressure, reflecting American conditions (North 1955, pp. 243-44). He was aware that the model should be modified under Malthusian conditions, but did not extend it in that direction. That was also true of Rostow's (and Marx's) growth stages, which lacked a clear distinction between Malthusian societies – where the critical problem is to obtain a rate of increase of output that exceeds population growth – from those that are not beset by the Malthusian problem (North 1961h, p. 5).

North's third Rio Lecture dealt with regional growth policy. It tackled the divergence between private and social benefits and costs, caused by external economies and diseconomies. It was remarkable for its rejection of what would become known as the "Coase Theorem", advanced by Coase (1960) the year before. He noted that

While one can conceive of a legal structure in which firms and groups could recapture the gains or incur the costs which affect other groups and therefore in which external economies and diseconomies would for the most part disappear, the facts of life in the social-political legal structure of society makes such external economies and diseconomies very real and therefore makes for a different optimum where such effects do exist. (North 1961b, p. 41; 1961c, third lecture, p. 3)

It would take North (1991, chapter 2) nearly 30 years to get back to and reject the Coase Theorem again, with the “facts of life” now explained by transaction costs – absent from Pigovian welfare economics, by the way.

### 3.3

A theme running through North’s diaries in conversations with Brazilian economists, American diplomats and members of ICA was how to decipher Celso Furtado’s personality, skills and intentions.<sup>14</sup> Many described him as leftist and possibly communist. Before his meeting with Furtado on June 20 at SUDENE’s Recife headquarters, North (1961f, p. 27) wondered whether he was “really an ex-communist or still one. If he is then the objective of SUDENE is to create a reserve army of the unemployed for the revolution. An interesting speculation!!” North’s fears were not confirmed. Indeed, the meeting exceeded his expectations.

We talked for an hour, and it was quite obvious as I probed the range of SUDENE policies for the Northeast that they had either changed substantially since the preliminary report or he was putting it on for my benefit. He no longer stressed industrialization as the answer. He was now a big supporter of emigration and this was the heart of his plan (what a shift!) ... Whatever are Furtado’s real intentions, his discussion with me was both reasonable and thoughtful. He is obviously a bright man who inspires enthusiasm among the younger people who make up his assistants. He told me he is going to Washington, and how far this has affected his outlook is an unknown. (1961f, pp. 29-30)

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<sup>14</sup> North probably knew of Furtado’s 1959 book, reviewed by Lester (1960). See Boianovsky 2009.

North had read in translation Furtado's report (Grupo de Trabalho 1959), which argued that the pauperization of the Northeast was caused not just by droughts and low productivity of the sugar plantation system that beset the region. Regional poverty was mainly the result of "internal colonialism", as terms of trade deteriorated against the Center-South on the wake of overvalued exchange rates (Love 1996, pp. 165-67).<sup>15</sup> Furtado proposed industrialization as a solution, which could take advantage of the Northeast's comparatively cheap labor. However, that was held back by the high price of food in the region and ensuing higher wage costs. Hence, increasing local agricultural productivity through land reform etc. was crucial to the development plan (Furtado (1959 [1963] pp. 266-67).

The 1959 report, with its emphasis on subsidized industrialization, reflected, according to North (1961f, pp. 17-18), the "insidious influence of CEPAL" (United Nations Economic Commission for Latin America). "Prebisch [CEPAL's secretary] has played a big hand here – all bad". North's hostility was shared by many in the US government. Upon his return on June 29, North (1961f, p. 41) consulted with officers of the State Department, in Washington who "shared my view about CEPAL and were delighted with the hatchet job I had done on them whenever I could in Brazil".

The positive reaction to Furtado's new view about emigration revealed North's own opinion that overpopulation was the crux of the Northeast poverty. His approach represented an adaptation of the so-called Harrod-Domar growth formula without substitution between labor and other factors. In the Memoranda he wrote just after meeting Furtado, North noted that

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<sup>15</sup> Singer (1964, chapter 19) had already used a model of falling regional terms of trade in his 1953 pioneer investigation of the Northeast economy.

The poverty, low incomes and large scale unemployment in the region reflect a condition of overpopulation in the area relative to the land, resources and capital ... Moreover, there are no obvious ways by which labor, land and capital could be recombined in different types of economic activity which would resolve this problem of relative over-population. (North 1961d, p. 1)

The way out was encouraging massive emigration to other areas of the country (especially the nearby State of Maranhão), which was already taking place at slow pace.<sup>16</sup> He expected emigration would bring about rising real wages, followed by the adoption of more capital-intensive agricultural production methods, deemed inefficient due to the “unlimited supply of free labor”. North (1961e) even recommended that any investment (e.g. water supply) that would diminish the death rate should be deferred until overpopulation was eliminated.

North (1961d, pp. 1-2) listed other contributing factors to poverty in the region: land tenure system, subsidy to sugar, low agricultural productivity in the drought area, and a “vast array of government pricing and investment policies which have reflected ineptitude, corruption, and a lack of understanding of the most rudimentary determinants of economic efficiency”. However, they were secondary to the immediate population pressure.<sup>17</sup> His Recife visit left a good if mixed impression.

SUDENE is composed of an enthusiastic group of younger people who have unbound faith in the growth of Brazil. This spirit is an important asset. Most of them are leftists; they have little confidence in a price system; they do not know enough about economic efficiency to plan correctly. In short, the results are going to be fumbling and blundering, although I have no doubt that their

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<sup>16</sup> On SUDENE's failed attempt to colonize Maranhão see Roett 1972, pp. 58-60.

<sup>17</sup> See Boianovsky and Monasterio 2017.

enthusiasm will ultimately prevail ... Most important of all is Furtado's position. (North 1961d, pp. 9-10)

Against North's expectations, the *5 Year Plan* submitted by Furtado in support of the cooperation agreement with the US did not emphasize emigration as much as in their Recife conversation. North was invited to participate in Furtado's July meeting with Kennedy. He declined, but drafted a critical assessment of Furtado's new development plan shortly before the visit, which he discussed at the State Department upon his arrival in Washington on June 29. North rejected Furtado's thesis that the main obstacle to the industrialization of the Northeast was the comparatively higher cost of food in the region. Furtado "suffered from a delusion which is as old as David Ricardo's first *Principles*. This is the view that the limiting factor in the growth of an economy is the supply of foodstuffs" (North 1961e). Instead, along the Smithian approach of his Rio lectures, North claimed that the major obstacles to industrialization in the Northeast had been the size of the regional market and the poor quality of the labor force and managerial talents. The Northeast was not, in his opinion, a potential industrial area. Despite North's reservations, the Northeast Agreement was eventually signed in April 1962, after a visit to Recife by a Survey Team led by Ambassador Merwin Bohlen.<sup>18</sup>

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<sup>18</sup> See Roett 1972, chapter 5.

#### 4. PLAYING GOD

North would travel to and write about developing countries again from the 1980s on. In his words, he “played God” by traveling to advise transition and third world countries (North 2001, p. 16; 2005, p. 67, n.), now as a co-founder of New Institutional economics. His 1961 visit to Brazil was the first time North “played God”. Some of the issues raised in his Brazilian diaries and memoranda resurfaced as North elaborated his new-institutional approach to growth. A case in point is the role played by demographic changes. After a year in Geneva in the late 1960s, North became interested in European economic history. North and Thomas (1970, p. 4) put forward a “Malthusian staple-thesis model” in which population dynamics was a key explanatory variable of changes in relative prices, property rights and institutions. Population changes were central to North (1981).

Institutions were seen as the set of rules and procedures that, together with their enforcement mechanisms, decide the incentive structure of economic agents. Efficient institutions promote growth by reducing transaction costs and bringing private economic returns closer to their social return (Greif 2008). North and his co-authors had treated growth failures as an “anomaly” resulting from the unexplained persistence of inefficient economic organization. This changed in his 1981 *Structure and Change*, when he dealt with the persistence of inefficient institutions and rules engendered by beliefs and ideologies (North 2009; Li and Trautwein 2013).

It was only later that North tackled upfront economic (under) development, as a result of his reexamination of the Coase Theorem, first addressed in his Rio lectures. In correspondence with Robert Bates, North (1987) criticized the dominant notion

that the theorem “was about the assignments of property rights leading to efficient solutions, even though the result would lead to redistribution”.

That’s only so in a world of zero transaction costs ... This does describe the first fifteen pages of Coase’s paper, but the remaining ... pages are all devoted to the central issue of the Coase Theorem, which is to show that with positive transaction costs, the kind of property rights that are assigned is critical to resource allocation and to features concerned with economic development. (North 1987)<sup>19</sup>

North (1989, pp. 1319-20) saw the Coase Theorem as instrumental in studying economic development. International disparity originated from obstacles posed by costs of transacting and inefficient institutions to the realization of gains from trade in developing countries. Competition may, via arbitrage and information feedback, approximate the Coase zero transaction costs condition. However, agents often act on incomplete information and use incorrect subjectively constructed models (North 1990, pp. 15-16). In that context, ideologies and belief systems develop as justifications for existing inefficient institutions.

The contrasting histories of North and South America provided, in North’s (1989, p. 1330) view, the best comparative case of the effects of divergent institutional paths on economic performance. Latin American countries preserved the centralized bureaucratic control and “personal” exchange relationships carried over from Iberian colonization (North 1990, pp. 103-17), a clear case of path-dependence. North referred to Veliz (1980). He had observed many of those features first-hand in his 1961 travel to Brazil. His remarks about the Paulista “spirit”, SUDENE’s

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<sup>19</sup> See Medema (2014) on the complex relation between the Coase Theorem and the relevance of institutions in the presence of transaction costs.



“enthusiasm” and Furtado’s ideology, which did not fit in his early framework, make better sense against the background of his later approach.<sup>20</sup>

The same applies to North’s (1990, pp. 99-100) criticism of CEPAL and Latin American dependency theory, reminiscent of remarks found in his Brazilian diaries. According to North, they both explained the poor performance of Latin American economies by external factors (terms of trade, imperialism etc.). Such an explanation “rationalizes the structure of Latin American economies” and “contain policy implications that would reinforce the existing institutional framework”.<sup>21</sup> However, North (p. 134) acknowledged that theories of imperialism, dependency or core/periphery, with their institutional concepts that result in exploitation or uneven growth paths, were consistent with his own approach, to the degree that they related institutions to incentives (see also Boianovsky 2009).

## 5. THE END OF OUR JOURNEY

Classic books of travel fiction, such as T. More’s *Utopia* and D. Defoe’s *Robinson Crusoe*, have inspired economists. Actual traveling experience, however, is not yet part and parcel of the economic discourse and its history. Economists’ traveling has been examined here as a potential source of new hypotheses, from the 18<sup>th</sup> to the 20<sup>th</sup> centuries. As illustrated by the quotation from North (2001) at the outset of this essay, experiencing aspects of the life and beliefs of individuals and organizations away

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<sup>20</sup> Interestingly, North (2005, p. 114) rejected as insufficient and “neoclassical” Engerman and Sokoloff’s (2000) explanation of divergence across colonial Americas by factor endowments. Their approach resembled North’s (1961a, 1961b) hypothesis about the effect of endowments on institutions.

<sup>21</sup> A related earlier analysis of CEPAL’s ideology and beliefs is found in Hirschman (1961).

from home adds much to plain numbers. If sheer statistical information is all that counts, Simons' Travel Theorem applies. Goethe's ([1816-17] 1970) narrative of his travels through the South of Italy from 1786-88 – which included a sense awareness of economic circumstances – led him to argue for the importance of “visual perception” and imagination as the way to capture the whole from which the parts are understood (Schefold 2012). Goethe undertook his journey as a seeing individual, training his eye. The eyes take time to adjust to the new experience and to reflect direct perception of conditions and events (Goodwin 1974, pp. x-xii). In the process, the traveller learns not only about the “other”, but, significantly, about himself or herself (Düppe 2016, p. 82).

North's diaries show many instances of sensorial awareness of Brazilian economy, art, landscape, society, politics and food.<sup>22</sup> Economists' travelogues and, particularly, travel diaries, are relatively rare. Like Senior, North engaged in conversation with local English speakers (Americans and Brazilians) during his visit. Like Marshall, he met local economists and came across new issues explored only later. Like Hume, he was hostile to indigenous theories and policies. Like Hirschman, he travelled as a development economist aware of institutional and behavioral differences. From this perspective, development economics is akin to anthropology, as suggested by North's travel companion Higgins (1992, pp. 242-43; see also Lodewijcs 1994).<sup>23</sup>

Economists' travels to developing and transition countries intensified after the 1970s, especially following China's opening (Gewirtz 2017). In 1972 a delegation of

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<sup>22</sup> He admired Brazilian art but not so much the gastronomy and wine: “Maybe we should send all their cooks to France for a year or two as the greatest improvement in the society possible” (1961f, p. 5). A few other snobbish comments are scattered through his diaries.

<sup>23</sup> Easterly's (2001) critical assessment of development policy is full of illustrations from his “adventures in the tropics”.

the American Economic Association formed by James Tobin, Wassily Leontief and J. K. Galbraith visited that country, as reported in Galbraith (1973). Galbraith was a prolific producer of travelogues, including his period as Kennedy's Ambassador to India, reflected in his writings on poverty and affluence. Long before that, philosopher John Dewey – close to American Old Institutionalism – spent two years (1919-21) traveling and lecturing in China, which influenced his future work (Wang 2007).

Economists are no exception to knowledge and sensations produced by exposition to foreign environments and confrontation to distinct ideas and societies. As eloquently put by Goethe in a passage from his *Italian Journey* (p. 57): “My purpose in making this wonderful journey is not to delude myself but to discover myself in the objects I see. Nothing, above all, is comparable to the new life that a reflective person experiences when he observes a new country. Though I am still always myself, I believe I have been changed to the very marrow of my bones”.

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