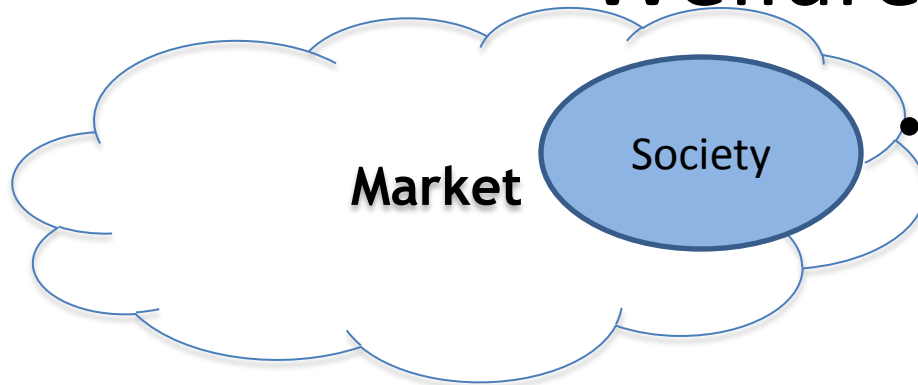


# What is economic development?

- A. Overall growth
- B. Emphasis on consumption and income levels
- C. maximizing people's capabilities--that is, their ability to lead the kind of life they value.
- Do all of these answers depend on economic growth?
- Yes
  - Most of the theories of development say so

# Embeddedness in Three Worlds of the Welfare State



- Liberal Welfare State



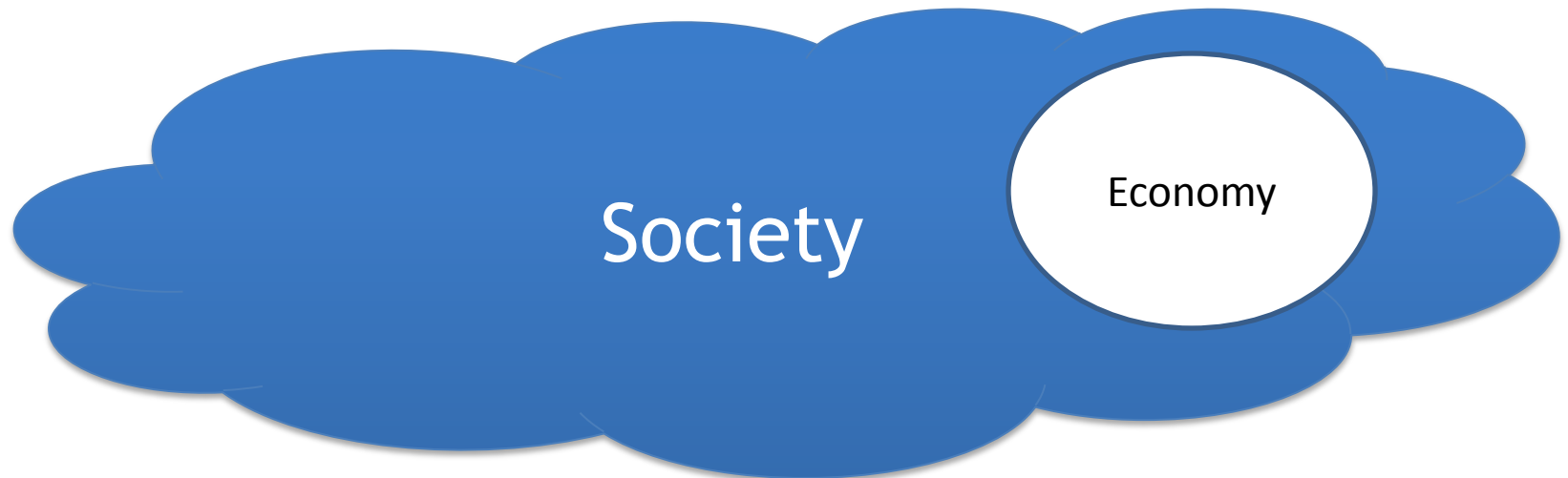
- Social Democratic Welfare State



- Conservative Welfare State

# The Conservative (Communitarian) World of Welfare

- **High benefits:** Generous unemployment insurance, retirement pensions
- **Unequal benefits:** Unequally distributed depending on occupation and contributions
- **Corporatist administration:** Delegated to new or traditional social organizations (trade unions, industry associations)



# Consequences of the Conservative (communitarian) Welfare State

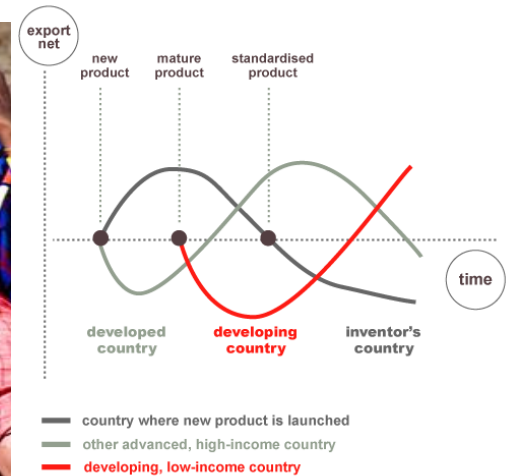
- Reinforces Traditional Gender Roles
  - Preserves a traditional image of the family
    - Generous benefits for the man of the family
    - Keeps women out of the labor force (penalizes those who are out of the market)
    - Joint taxation, no child care support, limited shopping hours, long lunch hours so men can go home
- Makes social distinctions
  - Civil servants have the highest benefits

# Has globalization changed this?

- What is the role of comparative advantage?
- Aging populations?
- Need for competitive investment

# The End

# Liberal Theories of Economic Development

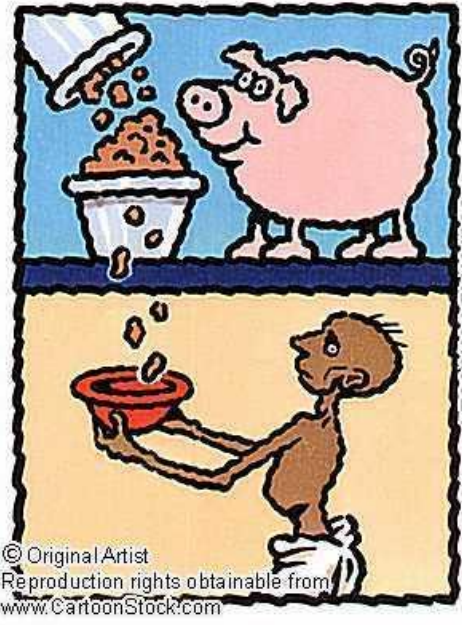
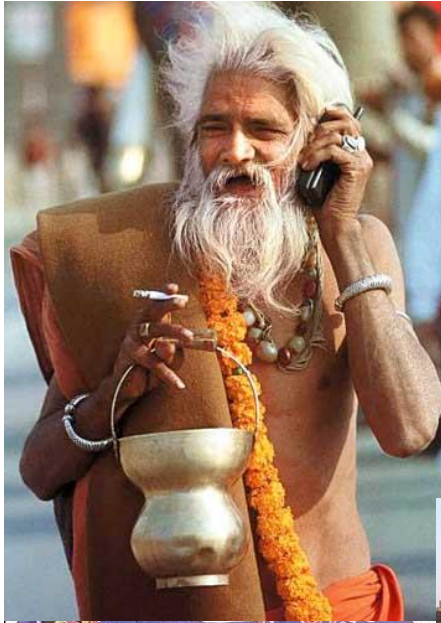


# Today's Agenda

- Is the World Developing or Underdeveloped?
  - The good news: Growth and aggregate improvement in human welfare indicators
- Liberal views on development and explanations for the growing gap
- A. Rostow and Stages
- B. Liberalism and integration into the international economy:
  - Staples Theory (Trade)
  - Product cycle (MNC),
  - Institutions
- C. Internal Requirements for Development
  - Move from a traditional to a modern society
  - Democracy
- D. Summary of the Liberal position
-



# The Global South: developing or underdeveloped... "emerging markets" or just poor countries?





# Theory-based Terms: The words contain the theory

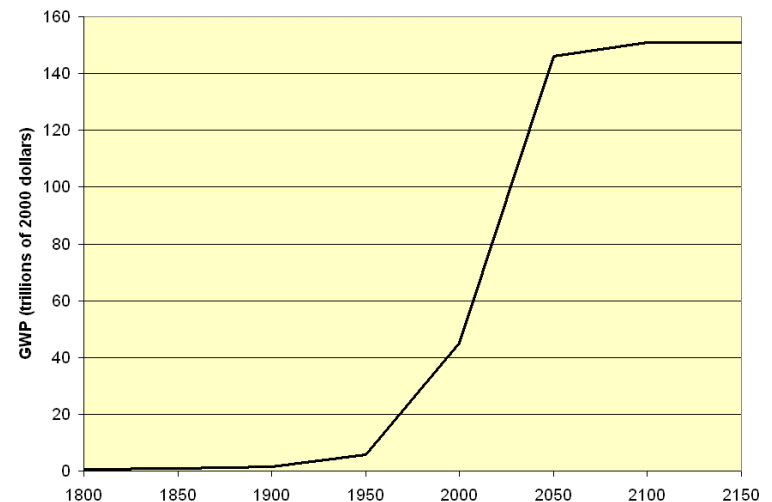
- Liberal Theory
  - Developing countries
  - Less Developed Countries
  - Emerging markets
- Dependency theory
  - Underdeveloped Countries
- Neutral?
  - The Global “South”

# Who is North and Who is South?

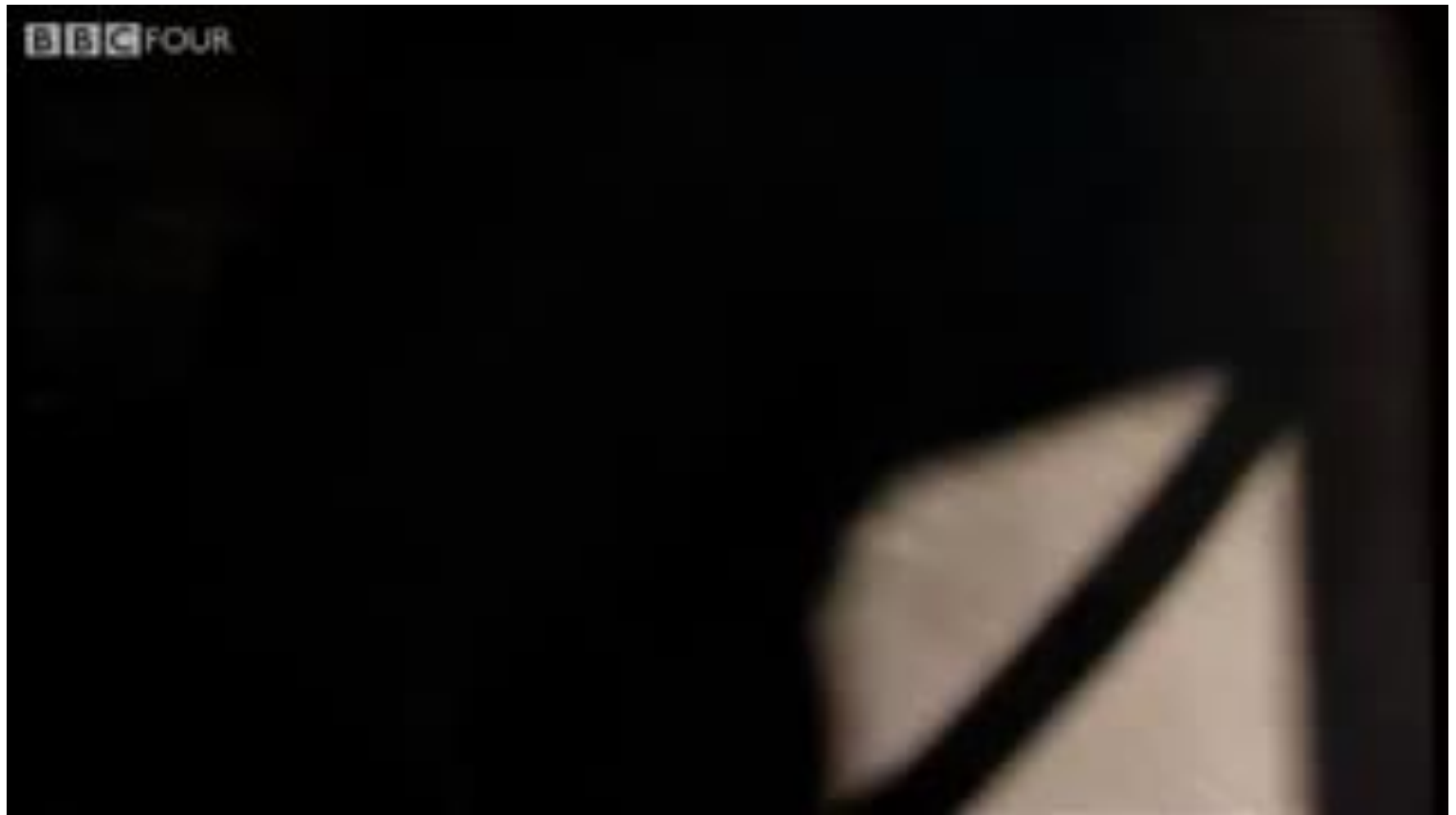
- North = World's Rich
- South = World's poor, or developing nations, or emerging markets (more complicated)
  - Used to be called the Third World
  - We can no longer lump together the countries of the “south”
  - Some are growing and “emerging” and some are not.

# The Good News

- 20<sup>th</sup> century economic output off the charts!
- South Korea and China doubled productive output in 10 years
- Humans are, on the whole more healthy now than 100 years ago.

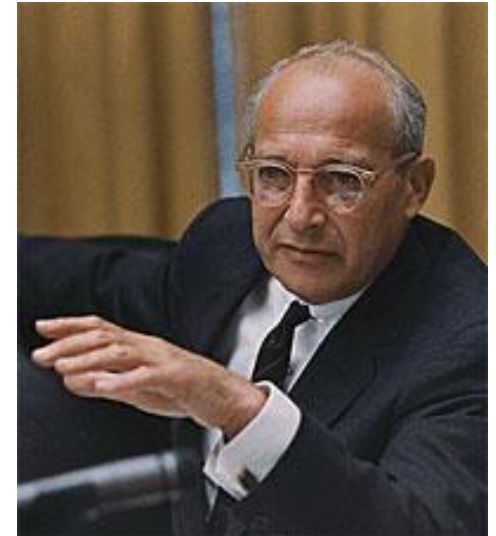


# The Good News: Life expectancy and income



# Liberal explanations for global growth

- Walt Rostow: the intellectual context
  - No previous conceptual apparatus
  - But experience with **Marshall Plan**
  - But there were historical patterns of development
  - Winning the cold war meant:
    - Helping the “Third world” develop
    - Within the liberal capitalist model



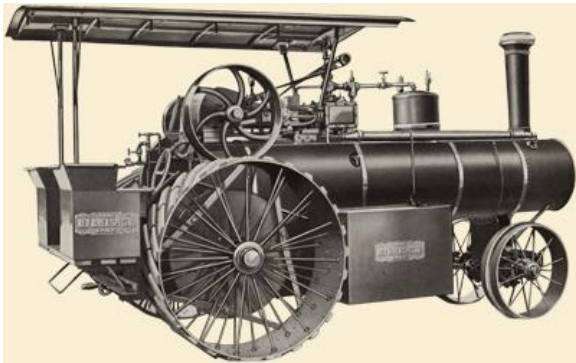
# Stage 1: Traditional society





# Stage 2: Preconditions for Growth

- Population growth will outpace economic growth in traditional society
- Stimulus needed to mobilize capital and resources



Favorable international environment

External Injection of capital

# Stage 3: The Takeoff

- Productive investment must rise to 10 per cent of national income
- Needed: rapid accumulation of capital and productive investment

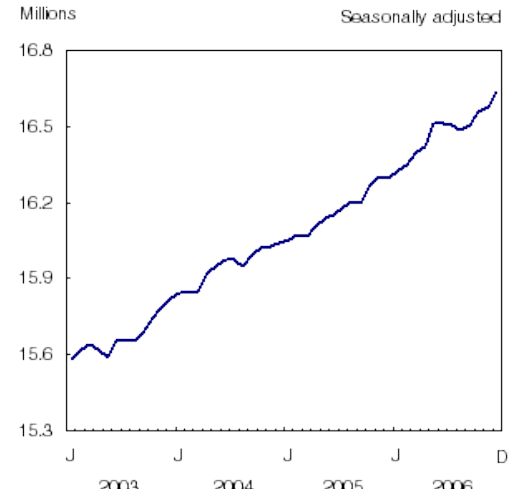


Finance  
Stock market  
Trade  
Foreign investment  
aid

# 4. The Drive to Maturity

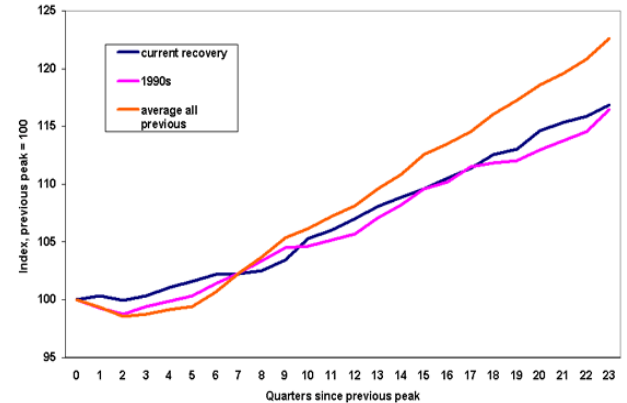
- Employment growth
- Growth in national income
- Rise of consumer demands
- Strong domestic markets

Employment



Bring on the air conditioning: Customers at a market in Port Harcourt, Nigeria.

Figure B. GDP growth since previous business cycle peak



Source: Author's calculations using data from the Bureau of Economic Analysis.



# 5. High Mass Consumption Society



# The Importance of Capital Accumulation

- Capital accumulation is the name of the game
- So how does it happen?
  1. low factor costs attract investment
  2. Economic levels in the world will equalize

# **Economic development and the International Economy**

- International interdependence will lead to economic development of ALL countries in a liberal system
- Trade serves as an engine of growth



# The Staples Theory

- Staples are field crops or minerals
- Earnings finance industrial growth
- Canada and Australia developed this way
- This justifies the theory of comparative advantage
- Export-led growth is the way to develop