Liberal Theories of Economic Development 2013
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
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

• 20th 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

• Why no growth?
Stage 2: Preconditions for Growth

- Population growth will outpace economic growth in traditional society
- Stimulus needed to mobilize capital and resources
  - Revolution and institutional restructuring
  - Technological innovation
  - 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
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
Trade and the product cycle

• Corporations maximize their own growth and the growth of the countries in which they operate
• Three stages of corporate expansion and growth
• The Product –Cycle Theory.......
the introductory or innovative phase

- Located in advanced countries
- Comparative advantage in product development because of large home market
- And lots of resources
- Corporation enjoys monopolistic position
- Foreign demand grows
- Corporation exports
The maturing phase of the product cycle

• Technology diffuses
• Innovative firm loses competitive edge as technology becomes available
• Advantage shifts to foreign production to replace exports and hold market share
• Innovative firm establishes foreign branches
The Standardized Phase

- Production fully routine
- Comparative advantage shifts to the developing country
- Export platforms develop
So....is there a symbiotic relationship between the MNC product cycle and global economic development?
As developing countries grow, they become sources of innovation.....
Research and Development

Asian Countries building their R&D Investments

Source: OECD Main Science and Technology Indicators. Compiled by the APS Washington Office.

Gross R&D as Percent of GDP

Japan, United States, Korea, Taiwan, Singapore, China
High Tech Exports

High-Tech Exports: U.S. Losing World Share

1980
- United States: 30%
- Japan: 13%
- Emerging Asian Economies: 7%
- Other: 9%
Role of International Institutions: conditions for loans and aid: Washington Consensus

• Internal liberalization of Markets
• Integration into the world Economy
• Reduction of extensive government programs because they.......
  – Tend of allocate funds to non-productive activities
  – Entrepreneurs can’t find funding
  – Create wrong incentives
  – Stimulate pressure for trade protection
So why do some countries stagnate and show little or no economic growth?

• External connections like trade and investment are important, but that’s not all.....

• There are internal requirements for development as well....
  – Overloaded bureaucracies and elite/military consumption, rent-seeking
  – Traditional culture must give way to modern culture....
<table>
<thead>
<tr>
<th>Tradition</th>
<th>Example</th>
<th>Modernity</th>
<th>example</th>
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<tbody>
<tr>
<td>collective unit of social organization</td>
<td>Religion, ethnic group, tribe</td>
<td>Individual as the unit of social organization</td>
<td>U.S. Bill of Rights,</td>
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<tr>
<td>Personal ties govern social organization and behavior</td>
<td>family, tribe (feed corruption, suppress entrepreneurship)</td>
<td>Pragmatic and functional ties govern behavior.</td>
<td>markets, professions, associations (feed merit and excellence)</td>
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<td>essentialist Identity (one dimensional)</td>
<td>ethnic identity, religious identity, (us vs. them)</td>
<td>Multideminsional Individual identity</td>
<td>Example?</td>
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<td>Identity derived from mystical principles</td>
<td>National identity (us vs. them)</td>
<td>Free choice of identity</td>
<td>See above (can conform to market signals)</td>
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<tr>
<td>Ascriptive hierarchies, kin gdoms, families (rigidity)</td>
<td></td>
<td>Functional hierarchies</td>
<td>Parliaments, (flexibility, change)</td>
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Democracy and Markets

- Democracy and markets encourage each other: political and economic freedom are two sides of the same coin.
# Summary of Liberal Theories of Development

<table>
<thead>
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<th>Stimulants</th>
<th>Internal</th>
<th>External</th>
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<tr>
<td></td>
<td>• Human Capital</td>
<td>• Opportunities to Catch Up</td>
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<td>• Entrepreneurial Spirit</td>
<td>• Foreign Investments</td>
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<td>• Efficient Government</td>
<td>• Trade</td>
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<td>• Savings</td>
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<td>• Research and Development</td>
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<td>• Investments</td>
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<td>= <em>Modern Society</em></td>
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<td>Hindrances</td>
<td>• Political Instability</td>
<td>• Trade Barriers in the North</td>
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<td></td>
<td>• Corruption</td>
<td>• Absence of project finance</td>
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<td></td>
<td>• Traditional Society</td>
<td>• Absence of Balance of Payments finance</td>
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Liberal perspective in a nutshell

• Economic growth is part of “modernization”
• Demography and Technology create conditions for growth
• Accumulation of capital
• Mass Consumer society