

11.167 Economic Development & Technical Capabilities

Lecture 3

18th Century Ideas

- Adam Smith says to let the market decide the prices
- David Ricardo says that trade will benefit all countries because of the laws of comparative advantage
- However, these models have implicit ASSUMPTIONS that are not true in real life! (for example, full employment)

Post-WWII

- United States foreign policy slowly transfers from State Department to Treasury Department.
 - State Department's first reconstruction task was the United States policy in Japan.
 - Wanted to democratize and reform Japan to strengthen it against communism.
 - State Department was very liberal in post-WWII era. It instigated a lot of land reforms and promoted labor unions in Japan.
 - Anti-communist movement in Congress (1951-52)
 - Effectively purged the State Department via Mccarthyianism, because they acted too liberally in Japan.
 - Stalin passes away in 1953, and Cold War shifts focus to the 3rd world.
 - Large ideological clash in the 3rd world. "Good" for the developing world because they can double dip from both capitalists and communists. Many countries took the position of "non-aligned," and asked for \$\$\$ from both sides.
 - Treasury finally displaces State Department as dominant means of foreign policy.
- Role of World Bank and IMF (multilateral organizations)
 - Lots of restrictions on loaned \$\$\$
 - How do countries repay their debt?
 - Use the loaned \$\$\$ to expand economy to generate income
 - Contract government spending to save money
 - How should they help developing countries?
 - Hard loans?
 - Soft loans?
 - Gifts?
- Era between 1945-1975
 - United States was powerful. "Two headed empire"
 - US had no real "competition," controls 20% of World Bank and owns directorship of it.
 - IMF generally controlled by non-US, but recently these multilateral organizations all aligning themselves.

- United Nations
 - Becomes a forum for developing world, because \$\$\$ doesn't determine voting power, such as in the World Bank.
 - UNCTAD, UNDP become more voices for the 3rd world

Developing World Economies

- Until 1960, foreign aid is tiny, however when Sputnik went into space, US started paying more attention to developing countries and as a result they started doing better
 - More foreign aid from the US
 - Population surges because of a reduced death rate.
 - Smallpox vaccination
 - Malaria control/DDT
- Color bar is still a major problem
 - The idea is that companies won't hire particular races for particular occupations.
 - Severely hampers development
- 1854 – Modern Indian textile industry begins
 - Indians and Chinese develop modern cotton textile industries
 - Artisans did most of the work pre-modernization
 - They were self-employed, but not innovators, and thus didn't contribute toward a truly growing economy.
 - Destroyed by the advent of mechanization.
 - In today's world, small business workers/owners are innovators. However, small business workers in developing countries don't innovate like those in the US
- 1945-1975 – Foreign aid goes to big industry in developing countries
- 1980-now
 - Bias in favor of giving foreign aid on a small scale
 - Created a conflict between development and growth vs. employment
 - Mass production and big industry has less of an advantage in today's world
- Switzerland and Hong Kong
 - Two examples of countries with huge technological assets, because of the way they developed
 - Because of their technological assets, they can compete in the world market

The Peasant Export Economies (Ghana, Senegal, Haiti, Burma, West coast of Africa are examples)

- Agrarian, exporters, small land holdings
 - Why didn't they do better?
 - When Imperialism came, they forced these people to create cash crops. The problem with cash crops is that you are no longer self-sufficient in food.

- During seasons of bad weather, peasants are forced to borrow money at really high interest rates
- When they couldn't pay it back, they were ruined
- Therefore, division of labor is very dangerous in this type of economy.