Freie Universität Berlin

Proseminar 15162 – International Political Economy

(GEND) The Politics of Economic Growth

Winter term 2016/17
Tuesday, 16.00-18.00 c.t.
Ihnestr. 22/UG 2

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Office hours: Thursdays, 15.00-17.00
(appointment by email)

Course description:

Half a century of efforts by governments, international organizations, NGOs, aid agencies and private actors notwithstanding, the world remains divided into low-, medium-, and high-income countries. Why? Why and how is it that economic processes and outcomes persistently differ so widely across the world, despite all struggles to change the status quo? These puzzles and questions motivate the seminar. The first part of the course addresses conceptual concerns. We will discuss indicators of measuring economic development, consider recent modifications, and contemplate Amartya Sen's seminal critique (1999). Furthermore, we will engage with feminist assessments of economic growth, apprehend gender studies and postcolonial approaches to development as well as interpret Ziai's call to abandon the concept of 'development' altogether (2013). The second part takes an in-depth look at standard theories of economic growth: the Harrod-Domar model, the Solow model, and the more recent endogenous growth theories. The discussion of development economics will be enriched by adopting gender critiques of economic modelling. In the third part, we will analyze theory and practice of development politics over the past decades, contrasting the international development agenda and empirical shortcomings with theoretical responses: such as dependency theory, domestic institution-approaches, criticisms of economic advice provided by high-income countries, and arguments stressing the detrimental effects of development aid and aid agency activities. Finally, a closer look at the few successful 'catch-up' economies in Eastern Asian will reveal a political-economic approach quite distinct from recommendations of international institutions and donors. The course provides an introduction into economic theories of growth, mixed disciplinary perspectives on the concepts of economic growth and development, and an overview of the ambiguous outcomes of development politics. The course is open to all interested, but targeted at advanced BA students.

Course structure/ individual sessions:

- Sessions begin with the lecturer giving a short recap of prior weeks' topics and embedding the subject of the day into the broader theme of the seminar. Then follow presentation and explanation of key concepts by the lecturer as well as a Q&A addressing understanding and comprehension
- The first section is followed by the student presentation, which provides a more detailed and/or critical perspective on the topic of the day
- Group work and a general discussion then takes up the various threads before the session concludes with a brief summary

Course requirements:

Certificate of attendance ('Teilnahmeschein'):

- Regular and active participation
- Minutes *or* presentation *or* essay

>> Example: Regular and active participation + minutes = Teilnahmeschein

Full certificate ('Leistungsschein'):

- Regular and active participation
- Minutes *or* presentation *or* essay
- 'Referatsausarbeitung' (3000 words) or term paper (4000 words)

>> Example: Regular and active participation + presentation + term paper = Leistungsschein

Regular and active participation: A successful and enriching seminar depends crucially on the engagement of all participants. This presupposes attendance, interest as well as thorough preparation by all students. The *required reading* for each session ranges between 20-40 pages, demanding at least two hours of preparation. Please plan accordingly.

Minutes: For each session, select students will write minutes of 2-3 pages to be posted on Blackboard. These should roughly display the contents of the session, the topics we discussed as well as the different points of view. Please send me the minutes as Word-Document at the latest one week after the respective session. Furthermore, minutes takers are required to add *at least* 5 key concepts + definition to the *Key Term Sheet* on Blackboard. Please include your initials in parentheses behind the concepts you added. Minutes slots will be allocated during the introductory session.

Key Term Sheet: During the course, we will discuss various concepts and analytical terms of different disciplines. To provide a guide to the concepts we use, the Key Term Sheet will be built up over the span of the course and provide helpful definitions, explanations, and examples.

Presentation: As explained above, the sessions will not follow the 'presentation-questions-discussion' structure. Presentations are placed towards the middle of each session, and intended to provide further empirical material, a pro and con perspective, or an inherently critical account of the topic of the day. The presentation should last about 10-12 minutes, time will be checked. Please meet me in advance after class or during office hours to discuss the structure of the presentation. Presentation slots will be allocated during the introductory session.

Essay: The essay is a well-referenced opinion piece. Make sure the opinion-part does not fall short. Feel free to engage with a given topic in the realm of politics, economics, finance, international relations in the way you consider appropriate. Deadline is on 31.03.2017, word count is ca. 1000 (meaning 800-1200 words), excluding footnotes and bibliography.

Referatsausarbeitung and *Term paper:* The deadline for the assignment is the 31.03.2017, extensions only for legitimate reasons and after advance notification. Please send your paper as PDF to: vincent.dreher@fu-berlin.de
You are strongly encouraged to send me a one- to two-page outline of your topic or idea in advance, explaining what question or puzzle you want to analyze, why it is interesting, and how you want to answer it (or how you could imagine answering it). I will comment on your work by e-mail or we can meet to discuss your project.

- FU students: the word count for 'Referatsausarbeitung' is ca. 3000 words and for term paper ca. 4000 words, excluding footnotes and bibliography. **Important!:** apart from the word count, in this course the requirements for a 'Referatsausarbeitung' and term paper are the same. This includes the paper structure, i.e. it is not just a summary of a presentation.
- ERASMUS and exchange students: a certificate of attendance will give you 3 ECTS, a full certificate 7 ECTS. Term paper for a full certificate should count 3000 words, excluding footnotes and bibliography. Please prepare the 'Leistungsnachweis' and bring it to the last session: http://www.polsoz.fu-berlin.de/polwiss/studium/auslandsstudium/llp_erasmus/leistungs_und_teilnahmeschein_fb_polsoz.pdf

Grading: The Referatsausarbeitung and term paper will be graded according to an 'Evaluation sheet', which is available in the Introduction folder on Blackboard.

Further guidelines on academic writing: Please refer to the "Introduction and Guidelines to Academic Research and Writing" by the Institute of Political Science at the University of Bremen for an excellent overview, available in English and German in the Introduction folder on Blackboard.

Course goals:

After finishing the course students will be able to:

- Critically assess theoretical approaches and concepts in the field of development politics
- Discuss standard models of economic growth, understand their strengths and weaknesses
- Comprehend gender and postcolonial perspectives on economic modelling, economic growth theory as well as development politics in practice
- Understand the ambiguous outcomes of half a century's attempts to generate economic growth in low- and middle-income countries
- Recognize external and internal causes/conditions conducive to long-term economic growth
- Recognize external and internal causes/conditions detrimental to long-term economic growth

Course schedule:

Required readings are obligatory for participation. *Further readings* provide additional literature on the topic. Be aware of the *text questions* while reading, for memorizing the essential information.

Important! The sessions on October 25, November 1 and 8 have been cancelled. Replacement sessions are scheduled for November 15, 22 and February 7 from 18-20 (thus three double-sessions from 16-19:30h).

1. Introduction (18.10.2016, 16-18)

Further reading:
Strange, Susan (1988): States and Markets. 2nd ed [1994]. London: Continuum (Prologue, Some Desert Island Stories, 1-6).
Lukes, Steven (2003): Liberals and cannibals. The implications of diversity. London: Verso (Chapter 12, Five Fables of Human Rights, 154-107).

PART I – What is economic growth? What is 'development'?

2. Economic indicators of growth (15.11.2016, 16-18)

Required reading:
Ray, Debraj (1998): Development economics. Princeton, NJ: Princeton Univ. Press, page 7-33

Text questions:
1. What is the relationship between level of per capita income and economic development according to the author?
2. What is the difference between the exchange rate method and purchasing power parity for comparing economic indicators across countries?
3. What has been the 'growth experience' over the past 50 years in East Asia, Latin America, and sub-Sahara Africa?
4. What is the relationship between income distribution and economic growth in low- and middle-income countries? What does the 'Kuznets curve' show?
5. What is 'human development'? What elements does the author assemble under the concept? Why does the author ultimately argue that per capita income is a good proxy for human or economic development?
6. If you would become head of statistics at an international development agency and mandated to set up a new measure (made up of several indicators) for 'human development' – which indicators would you pick?

- Presentation 1: What matters? Description of low- and middle-income countries in most recent World Bank report

World Bank Group (2016): Global economic prospects, June 2016. Washington, D.C: World Bank Group, Chapter 1 (particularly page 20-23)

Further reading:
Luque, Mariano; Pérez-Moreno, Salvador; Rodríguez, Beatriz (2016): Measuring Human Development. A Multi-criteria Approach. In Soc Indic Res 125 (3), pp. 713–733
Ray, Debraj (2007): Development Economics. Prepared for the New Palgrave Dictionary of Economics, edited by Lawrence Blume and Steven Durlauf
Ray, Debraj (2013): Notes for a Course in Development Economics
Senik, C. (2014): Wealth and happiness. In *Oxford Review of Economic Policy* 30 (1), pp. 92–108

3. Development 'as freedom' (15.11.2016, 18-20)

Required reading:
Sen, Amartya (1999): Development as freedom. 1st ed. New York: Knopf, page 13-33

Text questions:
1. For what ends are income and wealth desirable according to the author? What has Aristotle to say about it?
2. What 'varieties of unfreedom' does the author discuss?
3. What does the author mean when talking about the process aspect and the opportunity aspect of freedom? What is the agency aspect?
4. What is learned from the comparison of poverty in high-income and low-income countries?
5. In what way does the author relate the concepts of market and freedom? What is the particular role of the market? How does it relate to the 'freedom of labor'?
6. Do you think the approach to evaluate development in terms of 'freedoms' is reasonable? What speaks in favor, what speaks against it?

- Presentation 2: Sen's Development as freedom – "one of the most important books of the current era" (Pearce 2000, 907) or "pragmatic neoliberalism" (Sandbrook 2000, 1071)?

Pearce, Neil (2001): Development as freedom. In *International Journal of Epidemiology* 30 (4), pp. 907–908
O'Hearn, Dennis: Amartya Sen's Development as Freedom: Ten Years Later', Review. In *Policy & Practice: A Development Education* (8), pp. 9–15
Sandbrook, Richard (2000): Review: Globalization and the Limits of Neoliberal Development Doctrine. In *Third World Quarterly* 21 (6), pp. 1071–1080
Des Gasper; van Staveren, Irene (2003): Development as Freedom v - v and as what else? In *Feminist Economics* 9 (2-3), pp. 137–161

Further reading:
Chandler, D. (2013): 'Human-Centred' Development? Rethinking 'Freedom' and 'Agency' in Discourses of International Development. In *Millennium - Journal of International Studies* 42 (1), pp. 3–23
Corbridge, Stuart (2002): Development as freedom. The spaces of Amartya Sen. In *Progress in Development Studies* 2 (3), pp. 183–217
Evans, Peter (2002): Collective capabilities, culture, and Amartya Sen's Development as Freedom. In *St Comp Int Dev* 37 (2), pp. 54–60

Sen, Amartya (2006): Development as Freedom: An India Perspective. In *Indian Journal of Industrial Relations* 42 (2), pp. 157–169

4. Gender and development (22.11.2016, 16-18)

Required reading:
Benería, Lourdes; Berik, Günseli; Floro, Maria Sagrario (2016): Gender, development, and globalization. Economics as if all people mattered. Second edition. New York, London: Routledge, chapter 3

Text questions:
1. What are the defining features of 'neoliberal globalization'?
2. Who is the 'Davos man'? How does the concept relate to women's roles in societies?
3. Describe the 'financialization of lives'; what are possible effects for the more vulnerable segments of society?
4. Why is there a concentration of wealth, and what is meant by the new 'proletarianization'?
5. How has the labor participation of women changed over the past decades? What are driving factors of the changes? What role does education play?
6. Why do exporting sectors of the economy increasingly prefer women as workers? Which changes in the work force participation can be observed across the sectors of manufacturing, agriculture, and services?
7. In what way has globalization (and economic development in general) had a 'Liberating Effect' for the opportunities of women? In what way an 'Intensifying Effect' on gender inequalities?

- Presentation 3: Gender and Development: A historical overview

Benería, Lourdes; Berik, Günseli; Floro, Maria Sagrario (2016): Gender, development, and globalization. Economics as if all people mattered. Second edition. New York, London: Routledge, chapter 1.
Momsen, Janet Henshall (2004): Gender and development. Reprinted. London: Routledge, chapter 1.

Further reading:
Moser, Caroline O. N. (2014): Gender planning and development: Revisiting, deconstructing and reflecting. In *DPU60 Working Paper Series: Reflections NO. 165/60*
Moser, Caroline O. N.; Moser, Annalise (2005): Gender Mainstreaming since Beijing: A Review of Success and Limitations in International Institutions. In *Gender and Development* 13 (2), pp. 11–22.
Moser, Caroline O. N. (1993): Gender Planning and Development: Theory, Practice and Training. London: Routledge
Peterson, Spike V. (2005): How (the meaning of) gender matters in political economy. In *New Political Economy* 10 (4), pp. 499–521

5. Postcolonial perspectives on economic growth (22.11.2016, 18-20)

Required reading:
McEwan, Cheryl (2009): Postcolonialism and development. London: Routledge, chapter 1

Text questions:

1. Which two anniversaries in the year 2007 bring the subject of postcolonial studies into the limelight of our conscience, according to the author?
2. In what form did wealthy countries intervene in the rest of the world over the past centuries? How did it change over time? What were the lines of conflict between settler societies and indigenous groups? With what outcome?
4. What is ‘development’? How can its normative and instrumental facets be distinguished?
5. Assess the meanings of the term subaltern.
6. Describe postcolonialism as a) temporal period, b) a condition, c) as a literary theory, d) as anti-colonialism
7. What is postcolonial theory’s perspective on the ‘development project’? What are the 6 key points as listed by the author?

- Presentation 4: The discourse of “development” and why the concept should be abandoned

Ziai, Aram (2013): The discourse of “development” and why the concept should be abandoned. In *Development in Practice* 23 (1), pp. 123–136

Further reading:

Research project by Master students of the Otto-Suhr-Institute: http://manufacturingrace.org/

Brigg, Morgan (2002): Post-Development, Foucault and the Colonisation Metaphor. In *Third World Quarterly* 23 (3)

Briggs, John; Sharp, Joanne (2004): Indigenous Knowledges and Development: A Postcolonial Caution. In *Third World Quarterly* 25 (4)

Corbridge, Stuart (1998): 'Beneath the pavement only soil'. The poverty of post‐development. In *Journal of Development Studies* 34 (6), pp. 138–148

Escobar, Arturo (1992): Imagining a Post-Development Era? Critical Thought, Development and Social Movements. In *Third World and Post-Colonial Issues* (31/32), pp. 20–56

Kapoor, Ilan (2002): Capitalism, Culture, Agency: Dependency versus Postcolonial Theory. In *Third World Quarterly* 23 (4), pp. 647–664

McEwan, Cheryl (2001): Postcolonialism, feminism and development: intersections and dilemmas. In *Progress in Development Studies* 1 (2), pp. 93–111

Sylvester, Christine (1999): Development Studies and Postcolonial Studies: Disparate Tales of the 'Third World' 20 (4), pp. 703–721

Ziai, Aram (2012): Postcolonial perspectives on development. In *Zentrum für Entwicklungsforschung* Working Paper 103.

PART II – Economic Growth Theories

6. Capitalism and the foundations of the Harrod-Domar Model (29.11.2016, 16-18)

Required reading:

Ray, Debraj (1998): Development economics. Princeton, NJ: Princeton Univ. Press, page 47-57

Text questions & explanation:
1. What was the development of economic growth rates over the past centuries?
2. What is the difference between consumption goods and capital goods? How does consumption by households and production by firms relate to it? How would you interpret the statement “savings and investment are two sides of the same coin”?
3. Think through the 5 following concepts of the Harrod-Domar model. Please do not feel put off by the mathematics, the economic reasoning behind it will be explained thoroughly during the course. The Harrod-Domar model and its implications are still relevant in today’s practices of development economists and agencies (it was first devised in 1946):

1) the *rate of economic growth* (denoted by ‘g’): the annual percentage change in a country’s total output.
Example: The annual growth rate of total output (= GDP) in Germany in 2015 was about 1,8%, which can be written as 0,018 (when 1 = 100%)

2) the *rate of population growth* (denoted by ‘n’): the annual percentage change in a country’s total population.
Example: The annual population growth rate in Germany in 2015 was 1,2%, which can be written as 0,012

3) the *savings rate* (denoted by ‘s’): all savings in the economy are divided by all output in the economy.
Example: Let’s say Germans on average use 80% of their income for consumption and put 20% of their income in the bank (or buy shares), then their savings rate is 20%, which can be written as 0,2

4) the *capital-output ratio* (denoted by ‘θ’, pronounced “theta”): total capital (= all machines used for producing output) in the economy is divided by all output in the economy in a year.
Example: If all capital is worth €40.000 and the value of all economic output per year is €10.000, then the capital-output ratio is 40.000/10.000 = 4 (let’s just assume that for our German example as well)

5) the *depreciation rate* (denoted by ‘δ‘, pronounced “delta”): over time, machinery for production wears of and needs to be replaced.
Example: If after one year 200 machines in a factory of 10.000 machines need to be replaced, then the depreciation rate is 200/10.000 = 0,02 (equivalent to 2% of all machines)

The Harrod-Domar equation says (transformation of the equation 3.7 on page 56):

$$g = s/\theta - n - \delta$$

meaning: economic growth = savings rate / capital-output ratio – population growth – depreciation rate

With the numbers of the Germany example, this looks like:

$$0{,}018 = (0{,}2/4) – 0{,}012 – 0{,}02$$

$$0{,}018 = 0{,}05 – 0{,}012 – 0{,}02$$

$$0{,}018 = 0{,}05 – 0{,}032$$

$$0{,}018 = 0{,}018$$

So our model solves for German GDP growth in 2015 being 1,8%. Now we can use the model for thinking what we could to do to change the growth rate. Let's say we want the German economy to grow by 3%. Then we take our equation and say:

$$0.03 = s/\theta – n – \delta$$

Now we assume that capital-output ratio stays at 4, population growth at 0,012, depreciation at 0,02 – what savings rate would we need to achieve 3% GDP growth?

$$0{,}03 = s/4 – 0{,}012 – 0{,}02$$

$$0{,}03 = s/4 – 0{,}032$$

$$0{,}062 = s/4$$

$$0{,}248 = s$$

Thus, the savings rate would need to be 24,8%. With this result, we can approach the German government and advice that the German population should save on average 24,8% of their income, if they want to achieve an economic growth rate of 3%.

4. What do you think of the model? Is their something missing? (There is). What are implications of this kind of advice? What could be reasons for such models being so influential?

- Presentation 5: Gender and economic growth models

Elson, Diane (2000): Talking to the boys: gender and economic growth models. In Cecile Jackson, Ruth Pearson (Eds.): Feminist visions of development. Gender, analysis and policy. Repr. London u.a.: Routledge (Routledge studies in development economics), pp. 156–171

Jaquette, Jane S. (1982): Women and Modernization Theory: A Decade of Feminist Criticism. In *World Politics* 34 (2), pp. 267–284

Further reading:

Easterly, William (1997): The Ghost of Financing Gap. How the Harrod-Domar Growth Model Still Haunts Development Economics. Draft for World Bank seminar

7. Harrod-Domar and the foundations of the Solow Model (06.12.2016, 16-18)

Required reading:
Ray, Debraj (1998): Development economics. Princeton, NJ: Princeton Univ. Press, page 64-73 (74-84 of relevance too)

Text explanation:
1. Please have a look at the text first, but don't get hung up with the mathematics – skim over, maybe get an idea what the economic reasoning is behind the algebra, then have a look at the following explanations, then look again at the text…:

The Solow model builds on the Harrod-Domar model, but has several distinct underlying assumptions. First, it adds *labor* as a factor into the model. Thus, we have first a look at the so-called production function (generally central to economic theory):

$$Y = F(K, L)$$

Where Y = total output of an economy, K stands for the input factor Capital ("K" because of german 'Kapital' as factor of production, which was coined by Karl Marx), L stands for the input factor Labor, and F() literally means "a function of". In text form the equation says: Total output in the economy is a function of the factors of production capital and labor.

2. The second point is the assumption of *diminishing returns to individual factors of production*.
This is based on the following idea: Imagine one worker (1 x L) uses one machine (1 x K) for production. On a given day the worker can produce one entity of output (1 x Y).
If a second worker joins the first worker, then two workers (2 x L) use one machine (1 x K) for production. Although they manage to produce more than just the first worker alone, they cannot double output because the one machine may run faster than before but cannot produce twice as much. So the second worker only adds let's say one half entity of output (0,5 x Y). So two workers (2 x K) can use one machine (1 x K) to produce one and a half entities of output (1,5 x Y).
If a third worker joins the first two workers, then three workers (3 x L) use one machine (1 x K) for production. Again, the three workers can produce more, but the third worker adds less than the second worker to total output, only a quarter entity of output more (0,25 x Y). Thus, three workers (3 x L) use one machine (1 x K) to produce one and three quarters of output (1,75 x Y).
If a fourth worker joins the other three, again there is an increase in total output, but an even smaller one, only an eighth of output (0,125 x Y). Thus, four workers (4 x L) use one machine (1 x K) to produce one and seven eighth of output (1,875 x Y).
If a fifth worker… and so forth. But ultimately, with one machine (1 x K) output will never be more than just below two entities of output (meaning 1,9999.. x Y).
And these are 'diminishing returns to labor'. The more labor is added to one entity of capital, the less output (=return) is produced per each added entity of labor (the workers).

Diminishing returns to capital work the other way around: One worker (1 x L) uses one machine (1 x K) to produce one entity of output (1 x Y). One worker (1 x L) uses two machines (2 x K) to produce one and a half entities of output (1,5 x Y). One worker (1 x L) uses three machines (3 x K) to produce one and three quarter entities of output (1,75 x Y). One worker… and so forth.

3. *The steady state*: If we follow the assumptions of diminishing returns to capital, and look at an entire economy, we can conclude that for a given amount of capital (say 1.000 x K), there is a total maximum of production per day, close to two thousand entities of output (1.999,99.. x Y), no matter how many workers we add. This is the steady state for this given amount of capital in the economy. However, if more capital in the form of machines is added (through savings, which turn into investment), more workers find a productive job and *the level* of the steady state is increased.
One caveat: This does not mean that the economy does not grow at all at the steady state. The economy appears to stagnate in per capita terms (an assumption of the model we do not discuss in detail), but it only means that output per person stays the same. Because the overall population might be growing by say 2% per year, the economy grows also by 2% per year.

What can it tell us about the real world? With this model, we would assume that middle-income countries grow rapidly. They have a comparatively low stock of capital, and high availability of workers. They usually have also a high level of savings, which can be used as investment, which then adds more capital (meaning machines) to the economy. And with each added new machine, more workers get a productive job and the rate of economic growth is high. An example of this trend could be China during the past decades.
High-income countries, however, grow slower. There are already many machines present, most workers are employed. When we add further machines, they just produce a little more output, if at all. An example of these patterns could be North America and Western Europe.
Low-income countries finally have, like middle-income countries, a low level of capital and high availability of workers. However, they have a low level of savings, because the majority of the population lives on subsistence levels, meaning they spend all their income on consumption and cannot put money in the bank (they have very low savings rates). With a low level of aggregate savings in an economy, there is little investment, and little new capital – and therefore economic growth is slow. Examples could be some sub-Saharan economies.
(along the way, we added several further assumptions – such as middle-income countries have high level of savings, low-income countries have low levels of savings.. But this is parsimonious model building..)

What follows from these assumptions? Over the long run, we only need to increase the savings rate of low-income countries and give middle-income countries some more time, and all will converge on the level of high-income countries. This is the *hypothesis of international convergence*.
Of course, the real world looks quite different. In light of these discrepancies between theoretical assumptions and empirical reality, economists continued to puzzle.

- Presentation 6: The feminist challenge to neoclassical economics

Woolley, Frances (1993): The feminist challenge to neoclassical economics. In *Cambridge Journal of Economics* 17 (4), pp. 485–500

Further reading:

Solow, Robert (1956): A Contribution to the Theory of Economic Growth. In *The Quarterly Journal of Economics* 70 (1), pp. 65–94

8. The Solow Model and further implications (13.12.2016, 16-18)

Required reading:
Reread the parts of Debraj (1998) Chapter 3 assigned for sessions 6 and 7 and the explanations provided in the syllabus. See also the appendix "Solow model – Explainer"

(only) Additional recommended reading:
Maré, David C. (2004): What do endogenous growth models contribute? Motu Working Paper, New Zealand. Available online at http://motu-www.motu.org.nz/wpapers/04_04.pdf, checked on 8/22/2016
Parker, Jeffrey (2012): Theories of endogenous growth. In *Economics 314 Coursebook*. Available online at http://www.reed.edu/economics/parker/s12/314/Coursebook/Ch_05.pdf, checked on 10/7/2016

Text explanation for additional reading (Maré 2004):
1. *Technological progress*: So far, the relationship between capital (K) and labor (L) has been predetermined. One worker (1 x L) and one machine (1 x K) could produce one entity of output (1 x Y). Two workers (2 x L) and one machine (1 x K) could produce one and a half entity of output (1,5 x Y), and so forth. But what if the worker could get some extra *training*, to be better able to use the machine? Let's assume that with extra training, one worker (1 x trainL) could use one machine (1 x K) to produce two entities of output (2 x Y). The same could apply to the input factor capital. A new, more advanced machine replaces the old machine and produces twice as much output with the same labor input. Then one worker (1 x L) and one new machine (1 x newK) could produce two entities of output (2 x Y). And now, imagine in what way output could grow if one worker with extra training (1 x trainL) uses a new machine (1 x newK)…?

The point is that with extra training for workers or similarly with newly developed machines, the old constraints of diminishing returns to factors of production do not hold anymore. With technological progress, the way workers or machines produce can be improved, can be made *more efficient* (meaning they produce more output with the same inputs). And these efficiency changes are caught in the term of technological progress or simply *knowledge*. Thus we can add this almost magical potion of new knowledge to any of our three types of economies – low-, middle-, and high-income – and explain why they might be growing faster than if we only were to consider untrained labor (L) and old machines (K).

Knowledge comes in many varieties, each of which displays different qualities. For example, *human capital* is a variant of technological knowledge and usually comes in the form of a highly educated and trained work force. Such a work force presupposes well-funded systems of schooling and higher education in a region, research facilities of applied sciences as well as secure job opportunities later on (i.e. the presence of large, thriving corporations). Therefore, human capital is not easily transferred to other economies or parts of the world. *Intellectual property*, on the other hand, usually refers to ideas and know-how – which, in theory, can be more easily shared across the globe. That is why

extensive regimes of know-how protection were developed, such as patents, trademarks, and copyrights, all captured in the term *intellectual property rights*.
Presumably, human capital and intellectual property are both necessary components for sustained economic growth. Without human capital, accessible intellectual property could not be made use of. Without intellectual property, companies relying on even the best work force would not know what to do (and hence fail to remain competitive in global markets).

Now, this might provide one explanation for why international organizations, development agencies et al. stress the value of more and better education. It surely is sensible to call for schooling and higher education in general, but there is targeted economic thinking behind these initiatives.

Text questions for additional reading (Maré 2004):
1. What was Adam Smith' contribution to the debate of economic growth, according to the author? What three 'ingredients' does the author discuss?
2. What is 'Total Factor Productivity' (TFP)?
3. What role does the 'discovery process' (or knowledge/innovation) play in the neoclassical growth framework?
4. What do economists mean when they say that ideas are 'non-rivalrous'? How does the concept of spill-over relate to this?
5. Briefly skim pages 10-15, you do not need to go into the details of the different models.
6. What does the author conclude with regard to the use of models? What do you think are key points to take away from the reading?

- Presentation 7: Technological progress and gender

Chang, Ha-Joon (2011): 23 things they don't tell you about capitalism. London: Penguin Books, 'Thing' 4
Jacobsen, Joyce P. (2011): The Role of Technological Change in Increasing Gender Equity. Available online at http://siteresources.worldbank.org/INTWDR2012/Resources/7778105-1299699968583/7786210-1322671773271/jacobsen-final-draft-april23-2011.pdf, checked on 8/23/2016.
Albanesi, Stefania; Olivetti, Claudia (2007): Gender Roles and Technological Progress. Cambridge, MA: National Bureau of Economic Research

Further reading:
Kremer, Michael (1993a): Population Growth and Technological Change: One Million B.C. to 1990. In The Quarterly Journal of Economics
Kremer, Michael (1993b): The O-Ring Theory of Economic Development. In The Quarterly Journal of Economics 108 (3), pp. 551–575
Romer, Paul M. (1990): Endogenous Technological Change. In *Journal of Political Economy* 98 (5).

PART III – How did it work so far?

9. Dependency theory (03.01.2017, 16-18)

Required reading:

Vernengo, M. (2006): Technology, Finance, and Dependency. Latin American Radical Political Economy in Retrospect. In *Review of Radical Political Economics* 38 (4), pp. 551–568

Text questions:
1. Why did dependency theory almost disappear? Which are the two schools of dependency? What do they have in common?
2. How did Paul Baran describe the center-periphery relationship? What is produced in the center, what in the periphery? How does he propose to break the dependency relationship? What did André Gunnar Frank mean by "the development of underdevelopment"?
3. What were criticisms by classical Marxists of the American-Marxist tradition? What would the Latin American structuralist school of dependency criticize?
4. Import Substitution Industrialization (ISI) explainer (proper definition lacking in text):

> "ISI policies were initially implemented by countries in the global South, where the intention was to develop self-sufficiency by creating an internal market within each country. The success of ISI policies was facilitated through subsidization of prominent industries such as power generation and agriculture, as well as subsidizing nationalization, greater taxation and protectionist trade policies. Developing countries slowly turned away from ISI in the 1980s and 1990s after insistence was placed on global market-driven liberalization, a concept based on the structural adjustment programs of the International Monetary Fund (IMF) and the World Bank" (Investopedia 2016).

5. What were the views of Cardoso and Faletto on foreign capital? How could it possibly interact with domestic investment? What role would in their view the domestic political economy play?
6. Why did the focus of the Latin American structuralists turn from ISI to export-oriented development?
7. Why did financial deregulation occur? What role does the author assort to the Unites States in the international monetary system? What is 'financial dependency'? What does it imply for economies in the periphery?

- Presentation 8: Sixty years of ECLAC: structuralism and neo-structuralism

Bielschowsky, Ricardo (2009): Sixty years of ECLAC: structuralism and neo-structuralism. In *CEPAL Review* (97), pp. 171–192

Further reading:
Cardoso, Fernando Henrique (1972): Dependency and Development in Latin America. In New Left Review I/74
Emeh, Ikechukwu Eke Jeffry (2013): Dependency Theory and Africa's Underdevelopment: a Paradigm Shift from Pseudo-Intellectualism: the Nigerian Perspective. In *International Journal of African and Asian Studies* 1
Foster-Carter, Aidan (1976): From Rostow to Gunder Frank: Conflicting Paradigms in the Analysis of Underdevelopment. In *World Development* 4 (3), pp. 167–180
Frank, André Gunder (1978): Development of Underdevelopment or Underdevelopment of Development in China. In *Modern China* 4 (3)
Frank, André Gunder (1977): Dependence is dead, long live dependence and the class struggle: an answer to critics. In *World Development* 5 (4), pp. 355–370

Matunhu, Jephias (2011): A critique of modernization and dependency theories in Africa: Critical assessment. In *African Journal of History and Culture* 3 (5), pp. 65–72
Prebisch, Raúl (1950): The Economic Development of Latin America. New York: United Nations Publication
Prebisch, Raúl (1963): Towards a Dynamic Development Policy for Latin America. New York: United Nations Publication
Rostow, Walt Whitman (1959): The Stages of Economic Growth. In *The Economic History Review* 12 (1), pp. 1–16

10. Domestic institutions (10.01.2017, 16-18)

Required reading:
Soto, Hernando de (2001): The mystery of capital. Why capitalism triumphs in the West and fails everywhere else. London: Black Swan, chapter 1 & 3

Text questions:
Chapter 1
1. Why does capitalism remain as the only option in the author's point of view? What are the effects? And what is the purpose of the book?
2. What is the central argument of the book? What role plays capital in it?
Chapter 3
3. What means that "80 percent of the world is undercapitalized?"
4. What different meanings of capital does the author discuss? How does he conclude? What is the energy hidden in assets?
5. Which six principles does the author identify to have allowed high-income countries' populations to generate capital?

- Presentation 9: Lessons of US history & the case of property law

Soto, Hernando de (2001): The mystery of capital. Why capitalism triumphs in the West and fails everywhere else. London: Black Swan, chapter 5 & 6

Further reading:
Acemoglu, Daron; Johnson, Simon; Robinson, James (2001): The Colonial Origins of Comparative Development: An Empirical Investigation. In *The American Economic Review* 91 (5), pp. 1369–1401
Acemoglu, Daron; Johnson, Simon; Robinson, James A. (2005): Chapter 6: Institutions as a Fundamental Cause of Long-Run Growth. In Steven Durlauf, Philippe Aghion (Eds.): Handbook of Economic Growth, vol. 1, pp. 385–472
Atkins, Fiona (1988): Land Reform: A Failure of Neoclassical Theorization? In *World Development* 16 (8), pp. 935–946
Bromley, Daniel W. (2009): Formalising property relations in the developing world. The wrong prescription for the wrong malady. In *Land Use Policy* 26 (1), pp. 20–27
Bromley, Daniel (1989): Property relations and economic development: The other land reform. In *World Development* 17 (6), pp. 867–877
North, Douglass C.; Thomas, Robert Paul (1977): The First Economic Revolution. In *The Economic History Review* 30 (2), pp. 229–241

North, Douglass C.; Thomas, Robert Paul (1970): An Economic Theory of the Growth of the Western World. In *The Economic History Review* 23 (1), pp. 1–17
Rodrik, Dani; Subramanian, Arvind; Trebbi, Francesco (2004): Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development. In *Journal of Economic Growth* 9, pp. 131–165
Runge, Carlisle Ford (1986): Common property and collective action in economic development. In *World Development* 14 (5), pp. 623–635
Scully, Gerald W. (1988): The Institutional Framework and Economic Development. In *Journal of Political Economy* 96 (3), pp. 652–662
Sjaastad, Espen; Bromley, Daniel W. (1997): Indigenous Land Rights in Sub-Saharan Africa: Appropriation, Security and Investment Demand. In *World Development* 25 (4), pp. 549–562

11. Kicking away the ladder (17.01.2017, 16-18)

Required reading:
Chang, Ha-Joon (2003): Kicking Away the Ladder: The "Real" History of Free Trade. In *FPIF Special Report*

Text questions:
1. What does the author argue with regard to the relationship of free trade and development? What about the narratives of today's high-income countries?
2. What is the relationship of laissez-faire and interventionist policies with respect to international trade in the high-income countries' narrative? How does it retell the past two centuries?
3. What is the real story of trade, industrialization, of economic growth in general, according to the author, for today's high-income countries of
   - Britain? (what is Friedrich List, quoted at length at the end of the section, arguing?)
   - United States of America? (and what agenda did Alexander Hamilton pursue?)
   - Germany? What role for the Prussian state?
   - what about French 'dirigisme'?
   - Sweden?
   - the Netherlands?
   - Switzerland?
   - Japan and East Asia?
4. How do these histories contrast with today's low- and middle-income countries?
5. 'Kicking away the ladder' – Do you think that is an accurate moniker? Do today's high-income countries effectively disguise the true story of their ascent to prosperity? If so, why?

- Presentation 10: Women Empowerment and Economic Development

Duflo, Esther (2012): Women Empowerment and Economic Development. In *Journal of Economic Literature* 50 (4), pp. 1051–1079

Further reading:
Babb, Sarah (2013): The Washington Consensus as transnational policy paradigm. Its origins, trajectory and likely successor. In *Review of International Political Economy* 20 (2), pp. 268–297
Ban, Cornel; Blyth, Mark (2013): The BRICs and the Washington Consensus. An introduction. In

Review of International Political Economy 20 (2), pp. 241–255
Blustein, Paul (2008): The Nine-Day Misadventure of the Most Favored Nations How the WTO's Doha Round Negotiations Went Awry in July 2008. In *Brookings Global Economy and Development*
Bucheli, Marcelo (2008): Multinational corporations, totalitarian regimes and economic nationalism. United Fruit Company in Central America, 1899–1975. In *Business History* 50 (4), pp. 433–454
Chang, Ha-Joon (2007): Kicking away the ladder. Development strategy in historical perspective. Reprinted. London: Anthem (Anthem world economics)
Gallagher, Kevin P. (2007): Understanding developing country resistance to the Doha Round. In *Review of International Political Economy* 15 (1), pp. 62–85
Hall, Derek (2004): Japanese spirit, Western economics. The continuing salience of economic nationalism in Japan. In *New Political Economy* 9 (1), pp. 79–99
Helleiner, Eric (2002): Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the 19th Century. In *International Studies Quarterly* 46 (3)
Nakano, Takeshi (2004): Theorising economic nationalism*. In *Nations Nationalism* 10 (3), pp. 211–229
Olson, Mancur (1987): Economic Nationalism and Economic Progress. In *World Economy* 10 (3), pp. 241–264
Wade, Robert Hunter (2003): What strategies are viable for developing countries today? The World Trade Organization and the shrinking of 'development space'. In *Review of International Political Economy* 10 (4), pp. 621–644
Young, Alasdair (2007): Trade Politics Ain't What It Used to Be. The European Union in the Doha Round. In *JCMS: J Common Market Studies* 45 (4), pp. 789–811

12. Neopatrimonialism (24.01.2017, 16-18)

Required reading:
Chabal, Patrick; Daloz, Jean-Pascal (1999): Africa works. Disorder as political instrument. Oxford: International African Institute in association with James Currey (African issues), Introduction, Chapter 1, Chapter 10

Text questions:
Introduction
1. What are the five dimensions of the authors' approach? What is the central argument of the book with regards to the 'politics of disorder'?
Chapter 1
2. What is the authors' argument with regard to institutionalization of the state in sub-Sahara Africa? How does it in their point of view differ from the modern Weberian state? What means 'patrimonial'?
3. What are 'the three most common analytical interpretations of the post-colonial state on the continent'? How do they differ from each other?
4. How do the authors' define their own approach? What do they say about the state, politics, and society in sub-Sahara Africa?
Chapter 10 , the conclusion of the book, is added as recommended reading

- Presentation 11: Is neopatrimonialism an appropriate concept? A concept at all?

Mkandawire, Thandika (2015): Neopatrimonialism and the Political Economy of Economic

Performance in Africa. Critical Reflections. In *World Pol.* 67 (03), pp. 563–612

Further reading:

Alence, Rod (2004): Political Institutions and Developmental Governance in Sub-Saharan Africa. In *The Journal of Modern African Studies* 42 (2), pp. 163–187
Bovcon, Maja (2013): Francafrique and regime theory. In *European Journal of International Relations* 19 (1), pp. 5–26
Bratton, Michael; van de Walle, Nicolas (1994): Neopatrimonial Regimes and Political Transitions in Africa. In *World Politics* 46 (4), pp. 453–489
Cammack, Diana (2007): The Logic of African Neopatrimonialism. What Role for Donors? In *Development Policy Review* 25 (5), pp. 599–614
Chafer, Tony (2005): Chirac and 'la Françafrique'. No Longer a Family Affair. In *Modern & Contemporary France* 13 (1), pp. 7–23
Eisenstadt, Shmuel Noah (2000): Multiple Modernities. In *Daedalus* 129 (1), pp. 1–29
Eisenstadt, Shmuel Noah (1973): Traditional patrimonialism and modern neopatrimonialism. Beverly Hills, London: SAGE Publications
Médard, Jean-François (2014): Patrimonialism, neo-patrimonialism and the study of the post-colonial state in subsaharan Africa. In *Occasional Paper*. Available online at http://rossy.ruc.dk/ojs/index.php/ocpa/article/download/3642/1822, checked on 10/7/2016
Muchiri, Michael K. (2011): Leadership in context. A review and research agenda for sub-Saharan Africa. In *Journal of Occupational and Organizational Psychology* 84 (3), pp. 440–452. DOI: 10.1111/j.2044-8325.2011.02018.x
Ndulu, Benno; O'Connel, Stephen A. (1999): Governance and Growth in Sub-Saharan Africa. In *The Journal of Economic Perspectives* 13 (3), pp. 41–66
Pitcher, Anne; Moran, Mary H.; Johnston, Michael (2009): Rethinking Patrimonialism and Neopatrimonialism in Africa. In *African Studies Review* 52 (1)
Tsamenyi, Mathew; Onumah, Joseph Mensah; Sa'id, Hadiza (2009): Neopatrimonialism and the Failure of Control & Accountability Systems in State Institutions in Less Developed Countries: The Case of Ghana and Nigerian Airlines. In *Working paper*. Available online at https://research.mbs.ac.uk/accounting-finance/Portals/0/docs/2008/NeopatrimonialismandtheFailure…pdf, checked on 10/7/2016
Soest, Christian von (2007): How Does Neopatrimonialism Affect the African State's Revenues? The Case of Tax Collection in Zambia. In *The Journal of Modern African Studies* 45 (4), pp. 621–645

13. Dead Aid (31.01.2017, 16-18)

Required reading:

Moyo, Dambisa (2009a): Dead aid. Why aid is not working and how there is a better way for Africa. 1. publ. London: Lane, introduction, Chapter 1, 2, 3, 4, 10

Text questions:

Preface and Introduction

1. What are the common ties, according to the author, that bind sub-Saharan Africa together? What is "the pop culture of aid"? How would you describe the central argument of the book?

Chapter 1

2. Which three factors account for the recent rise in positive news about sub-Saharan Africa? But what does the author ultimately conclude?
3. Define humanitarian/emergency aid, charity-based aid, and systematic aid. Which forms does systematic aid usually take?
Chapter 3
4. What is the argument of alternative explanations for why sub-Saharan countries "have failed to generate persistent economic growth"?
- What does Jared Diamond propose?
- What argument is put forward by Paul Collier?
- What is the idea of Max Weber's book "The Protestant Ethic and the Spirit of Capitalism" (1905)?
- What about tribal divisions? (how does this argument relate to our session on 'Neopatrimonialism'?)
- What can institutional explanations by David Landes, Niall Ferguson or Dani Rodrik contribute?
And how does the author respond to all of the above-mentioned approaches?
5. What are differences between the US Marshall plan and aid flows to sub-Saharan Africa? Who are the IDA graduates? What about conditionalities?
6. What role for democracy in the development aid discourse? And what did the dictators of countries with successful economic growth have in common in view of the author? (the implications of such an argument are of course far-reaching – we will discuss these throughout the course; see also Acemoglu et al. (2014) and Pozuela et al. (2016) in the *further reading* section below)
7. What's the story of the mosquito net maker? What does the author think of the pledge of high-income countries to provide 0,7% of GDP as development aid? And why is the mantra of 'more aid will help' continued, despite abundant evidence of the contrary?
Chapter 4
8. What is the 'vicious cycle of aid'? How does aid relate to corruption? What happens to large amounts of the corrupted money?
9. What are aid's effects on a) civil society, b) social capital, c) civil war, d) savings and investments, e) inflation, f) the export sector?
10. How does the author describe aid dependency?
Chapter 10 is not among the required readings, but proposes the summary of the author's proposed solutions and is thus added to the readings.

- Presentation 12: Review of Dead Aid, Easterly, and other voices

Easterly, William (2009): Review of Dambisa Moyo's book Dead Aid. Available online at https://williameasterly.files.wordpress.com/2011/07/moyoreviewforlrbjune2009neverpublished.pdf, checked on 8/23/2016
Sachs, Jeffrey (2009): Aid Ironies. Available online at http://www.huffingtonpost.com/jeffrey-sachs/aid-ironies_b_207181.html, checked on 8/23/2016
The Guardian (2005): Feed the world. Review of End of Poverty. Available online at https://www.theguardian.com/books/2005/apr/23/highereducation.news2, checked on 8/23/2016
Moyo, Dambisa (2009b): Aid Ironies. Response to Jeffrey Sachs. Available online at http://www.huffingtonpost.com/dambisa-moyo/aid-ironies-a-response-to_b_207772.html, checked on 8/23/2009
The Guardian (2013): Bill Gates and Dambisa Moyo spat obscures the real aid debate. Available online at https://www.theguardian.com/global-development/poverty-matters/2013/may/31/bill-gates-dambisa-moyo-aid

Further reading:

Acemoglu, Daron; Naidu, Suresh; Restrepo, Pascual; Robinson, James (2014): Democracy Does Cause Growth. In *NBER Working Paper* (20004)

Bräutigam, Deborah A.; Knack, Stephen (2004): Foreign Aid, Institutions, and Governance in Sub‐Saharan Africa. In *Economic Development and Cultural Change* 52 (2), pp. 255–285

Collier, Paul; Hoeffler, Anke (2004): Greed and Grievance in Civil War. In *Oxford Economic Papers* 56 (4), pp. 563–595

Bloom, David E.; Sachs, Jeffrey D.; Collier, Paul; Udry, Christopher (1998): Geography, Demography, and Economic Growth in Africa. In *Brookings Papers on Economic Activity* (2), p. 207

Easterly, William; Kremer, Michael; Pritchett, Lant; Summers, Lawrence (1993): Good Policy or Good Luck? Country Growth Performance and Temporary Shocks. In *NBER Working Paper* (4474)

Easterly, William; Levine, Ross (1997): Africa's Growth Tragedy: Policies and Ethnic Divisions. In *The Quarterly Journal of Economics* 112 (4), pp. 1203–1250

Easterly, William; Levine, Ross (2003): Tropics, germs, and crops. How endowments influence economic development. In *Journal of Monetary Economics* 50 (1), pp. 3–39

Pozuelo, Julia Ruiz; Slipowitz, Amy; Vuletin; Guillermo (2016): Democracy Does Not Cause Growth: The Importance of Endogeneity Arguments. In *IDB Working paper series* (694)

Rajan, Raghuram; Subramanian, Arvind (2007): Rajan, Subramanian (2005) - Does aid affect governance. In *The American Economic Review* 97 (2), pp. 322–327

Rajan, Raghuram; Subramanian, Arvind (2006): What Undermines Aid's Impact on Growth? Paper presented at the IMF Conference on Trade and Growth, January 2006

Rajan, Raghuram; Subramanian, Arvind (2005): Aid and Growth: What Does the Cross-Country Evidence Really Show? In *NBER Working Paper* (11513)

14. Eastern Asia I (07.02.2017, 16-18)

Required reading:

Huff, W. Gregg (1995): The developmental state, government, and Singapore's economic development since 1960. In *World Development* 23 (8), pp. 1421–1438

Text questions:

1. Why has Singapore been praised so widely? Who was Lee Kuan Yew?
2. Which two features make Singapore unique, according to the author? When did it engage heavily in building up the manufacturing sector, when financial services, and why?
3. In what way did Singapore's government intervene in a) labor markets, b) direct foreign investment, c) domestic savings, d) taxation and fiscal matters, e) state-owned enterprises, f) macroeconomic stability, and g) the development to become an international financial center?
4. How does the author describe the Singaporean model of the 'developmental state'? What five areas are crucial from his point of view? What role did Singapore's leadership play?

- Presentation 13: East Asian growth and gender wage gaps

Seguino, Stephanie (2000): The effects of structural change and economic liberalisation on gender wage differentials in South Korea and Taiwan. In *Cambridge Journal of Economics* 24 (4), pp. 437–

459.

Further Reading:
Aspalter, Christian (2006): The East Asian welfare model. In International Journal of Social Welfare 15 (4), pp. 290–301
Collins, Susan M.; Bosworth, Barry P.; Rodrik, Dani (1996): Economic Growth in East Asia: Accumulation versus Assimilation. In *Brookings Papers on Economic Activity* (2), pp. 135–203
Grabowski, Richard (1994): The Successful Developmental State: Where Does it Come From? In *World Development* 22 (3), pp. 413–422
Öniş, Ziya (1991): The Logic of the Developmental State. Review Article. In *Comparative Politics* 24 (1), pp. 109–126
Stubbs, Richard (2009): What ever happened to the East Asian Developmental State? The unfolding debate. In *The Pacific Review* 22 (1), pp. 1–22
Wong, Joseph (2004): The Adaptive Developmental State in East Asia. In *J. East Asian Stud.* 4, pp. 345–362

15. Eastern Asia II and Outlook (07.02.2017, 18-20)

Required reading:
Wade, Robert (2014): Growth, Inequality, and Poverty: Evidence, Arguments, and Economists. In John Ravenhill (Ed.): Global political economy. 4. ed. Oxford u.a.: Oxford Univ. Press, pp. 305–343 – focus on page 305-315 and 336-342.

Text questions:
1. How does the author describe the past decades of the increasing globalization of trade and finance? How does he assess the narrative of 'neo-liberal' market expansion?
2. What does the author mean when he says "Moving from where economic growth is exceptional to where it is normal"? What is the core institution of capitalism?
3. How many non-Western countries have reached high-income status over the past two centuries, according to the author? And what role did external threats to these nations play in the development? What were the 'three waves' of globalization?
4. What does the author argue with regard to income inequality between and within countries? And how does he explain the "globalization consensus" (page 336-342)?

- Presentation 14: China as a Developmental State

Knight, John B. (2014): China as a Developmental State. In *World Econ* 37 (10), pp. 1335–1347

Further reading:
Brynjolfsson, Erik; McAfee, Andrew (2015): Will Humans Go the Way of Horses? Labor in the Second Machine Age. In *Foreign Affairs* (July/August 2015 Issue)
Cudd, Ann E. (2015): Is Capitalism Good for Women? In *J Bus Ethics* 127 (4), pp. 761–770
Elias, Juanita (2013): Davos Woman to the Rescue of Global Capitalism. Postfeminist Politics and Competitiveness Promotion at the World Economic Forum. In *Int Polit Sociol* 7 (2), pp. 152–169
Evans, Mary (2013): Gender in an Age of Austerity. In *Women's History Review* 22 (5), pp. 838–840
Gordon, Robert (2012): Is U.S. Economic Growth Over? Faltering Innovation Confronts the Six

Headwinds. In *NBER Working Paper* (18315)
Hoskyns, Catherine; Rai, Shirin (2005): Gendering International Political Economy. Available online at http://wrap.warwick.ac.uk/1948/1/WRAP_hoskyns_wp17005.pdf, checked on 8/23/2016.
Lindsey, Linda L. (2014): Sharp Right Turn. Globalization and Gender Equity. In *The Sociological Quarterly* 55 (1), pp. 1–22
Milanovic, Branko (2015): Global Inequality of Opportunity. How Much of Our Income Is Determined by Where We Live? In *Review of Economics and Statistics* 97 (2), pp. 452–460
Milanovic, Branko (2014): The Return of "Patrimonial Capitalism". In *Journal of Economic Literature* 52 (2)
Mokyr, Joel; Vickers, Chris; Ziebarth, Nicolas L. (2015): The History of Technological Anxiety and the Future of Economic Growth: Is This Time Different? In *The Journal of Economic Perspectives* 29 (3), pp. 31–50
Nordhaus, William (2015): Are We Approaching an Economic Singularity? Information Technology and the Future of Economic Growth. In *NBER Working Paper* (21547)

16. Conclusion (14.02.2017, 16-18)

Appendix: Solow model – Explainer

The Solow Model

"All theory depends on assumptions which are not quite true. That is what makes it theory. The art of successful theorizing is to make the inevitable simplifying assumptions in such a way that the final results are not very sensitive. A 'crucial' assumption is one on which the conclusions do depend sensitively, and it is important that crucial assumptions be reasonably realistic. When the results of a theory seem to flow specifically from a special crucial assumption, then if the assumption is dubious, the results are suspect.
I wish to argue that something like this is true of the Harrod-Domar model of economic growth."

Solow, Robert (1956): A Contribution to the Theory of Economic Growth, page 65

The Solow model (according to Ray, Debraj (1998), pages 64-68)

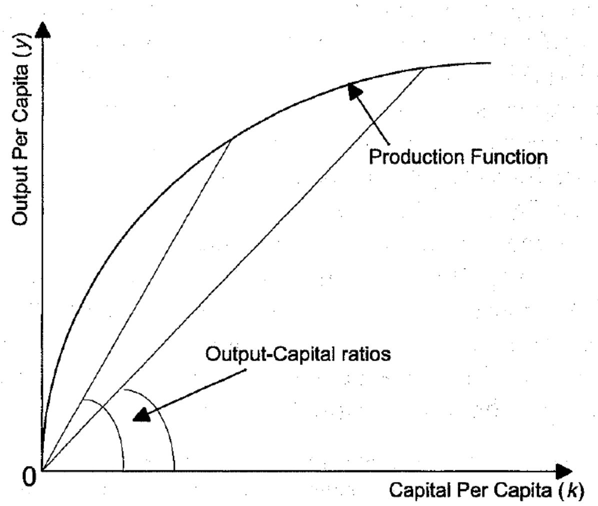

Figure 3.3. How capital per capita produces output per capita.

The model starts with the production function: Y = F (K, L). The function states that outcome (Y) is a product of machines (K) and workers (L). F(,) stands for "a product of" and signifies production technology, but does not further specify how technology brings the two factors of production (K, L) together for producing outcome (Y).

The graph (page 65) depicts two dimensions of the production function. The vertical dimension shows output per capita (y). Per capita means per person in the economy. Because this simple model assumes that every person in a society is a worker, it can be designated with the typical L for labor. To indicate that it is output (Y) per capita (L), the lowercase y is used.

y = Y/L

When population is growing – n indicates the rate of population growth – then the number of workers (L) is growing correspondingly too.

The horizontal dimension shows capital per capita or K per L. Again, the lowercase k is used to indicate that it is capital (K) per capita (L).

2) k = K/L

The production function is curved (concave) because of diminishing returns to capital (see syllabus). The more machines (K) we add to a given number of workers (L), the less extra output (Y) per worker (L) we gain from adding extra machines (K).

The Solow equations (Ray 1998, page 64)

Time matters in the equations: (t) stands for this year, (t+1) for next year. But as these are theoretical concepts, they could also stand for today = (t) and tomorrow = (t+1)

$K(t+1) = (1 - \delta) K(t) + sY(t)$ Equation (3.8), page 64

The left-hand side: $K(t+1)$

$K(t+1)$

It says capital (K) in the economy next year ((t+1)). So the left-hand side of the equation basically asks: what will K be in the economy at t+1?

The right-hand side: $(1 - \delta) K(t) + sY(t)$

$(1 - \delta) K(t)$ can also be written as $K(t) - \delta K(t)$

It says capital this year (K(t)) minus the depreciation rate (δ) times capital this year(K(t)). The depreciation rate (δ) indicates that over time a fraction of machinery for production wears of and needs to be replaced. So $(1 - \delta) K(t)$ tells us that every year capital will be reduced a bit.

$sY(t)$

It says the savings rate (s) times total output this year (Y(t)). So the term indicates how much of total output (Y) is saved this year. Remember that a baseline assumption of these economic models is that all output which is not saved is consumed [and thus plays no role in this model anymore]. But that fraction of output that is saved this year (sY(t)) will be invested (I), and thus turned into new capital (K).

>> The whole equation says:

$K(t+1) \quad = K(t) \quad - \delta K(t) \quad + sY(t)$

capital next year = capital this year – depreciated capital this year + saved output this year

Equation (3.9) on page 64 just adds constant population growth. The two steps to get there are as follows: Divide by population this year (P(t)) to convert all variables in per capita terms. When divided by P(t) all variables are written in lowercase. Then

$K(t + 1) = (1 - \delta) K(t) + sY(t)$ becomes

$k(t + 1) = (1 - \delta) k(t) + sy(t)$

capital per capita next year = capital per capita this year – depreciated capital per capita this year + saved output per capita this year

But if we want to include that population also grows between this year and next year, we have to divide by the bigger population of next year to have a correct per capita measure. Thus we add that total capital next year ($K(t + 1)$) must be divided by total population next year $(1 + n) P(t)$, which we can also write as $P(t) + nP(t)$. This says that population this year ($P(t)$) plus the rate of population growth (n) times population this year ($P(t)$) gives us the total population next year ($P(t+1)$).

Thus in full the equation (3.9) reads

$$\mathbf{(1 + n)\, k(t + 1) = (1 - \delta)\, k(t) + sy(t)}$$

capital next year per next year's capita = capital per capita this year – depreciated capital per capita this year + saved output per capita this year

From this we can already think about the underlying dynamics. There are two factors, which have a negative effect on capital per capita next year ($k(t + 1)$): the depreciation rate (δ) or depreciated capital per capita this year ($\delta k(t)$), because it needs to be replaced with parts of the saved fraction of output per capita this year ($sy(t)$); and population growth (n), because total capital next year ($K(t + 1)$) will be divided by total population next year ($P(t + 1)$) for assessing capital per capita next year ($k(t + 1)$).

There is one factor, which has a positive effect on capital per capita next year: output per capita this year ($y(t)$).

Additionally, we could consider increasing the savings rate (s) in order to increase the fraction of the output per capita this year ($y(t)$) which is saved and invested into new capital per capita next year ($k(t + 1)$).

Now we can look at the essential graphs:

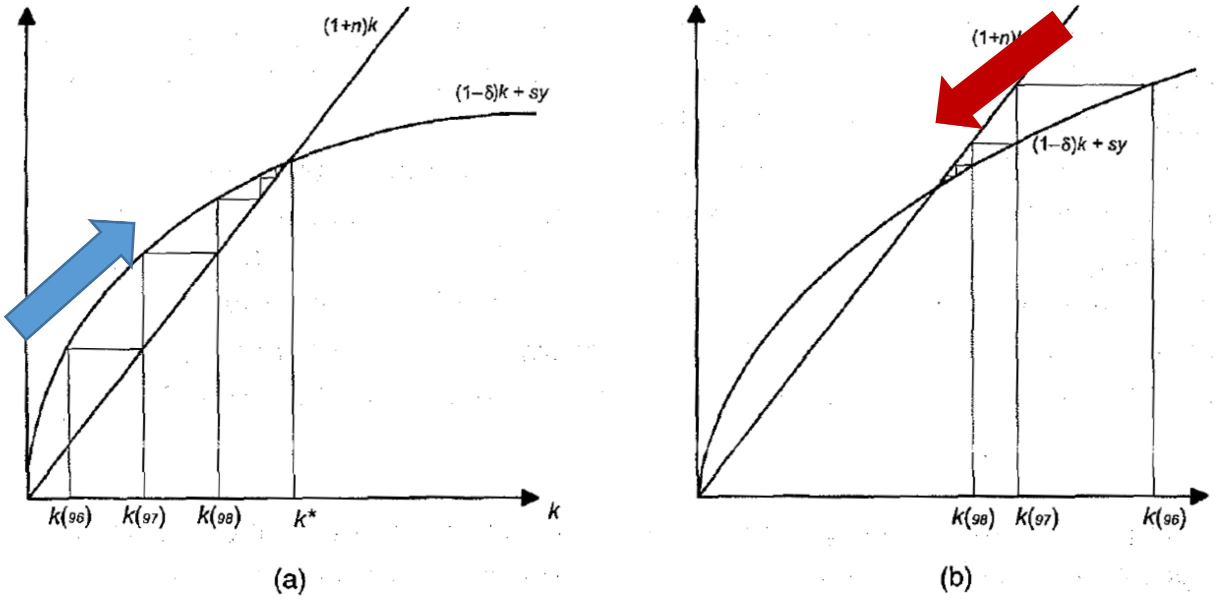

Figure 3.4. The dynamics of the Solow model.

The straight line (1 + n)k indicates constant population growth (n) as capital per capita (k) changes.

The curve (1 – δ) k + sy indicates capital per capita (k) minus fraction of depreciated capital per capita (δk) plus saved output per capita (sy), which explains how much capital per capita is newly added next year (k(t + 1)).

Figure 3.4 (a), beginning in left-bottom corner of graph: At low levels of capital per capita (k), the output-capital ratio (meaning how much output per machine is produced) is high if new capital (K) is added. This also means high output per capita (y), of which a fraction is saved (sy), and which translates into relatively high new capital per capita added next year (k(t + 1)). The economy moves up and to the right in the graph (blue arrow). Population is growing (n), only at a medium rate but steady. When new capital (K) is added at a higher rate than population is growing (n), the capital per capita (k) ratio increases.

>> Illustratively, capital stock growths at 6% and population at 2% per year.

But the more capital is added relative to labor, the sooner the output-capital ratio begins to decrease. When diminishing returns to capital start to set in, the growth rate in output per capita (y) decreases. This means that less new output per capita (y) is generated, and less new capital is added to the economy next year (k(t + 1)). Population is growing, at a medium rate but steady.

>> Illustratively, capital stock growths now at 4% and population at 2% per year.

If medium levels of capital per capita are reached (indicated by k* in the graph), there is a medium output-capital ratio, output per capita (y) has further decreased, and only a medium amount of new capital per capita (k) is added to the economy next year. This coincides with the steady medium rate of population growth (n) – meaning at this medium point, every year such an amount of output is produced (which is then partly saved and turned into new capital), that it coincides with population growth. Thus, the rate of output per capita and the rate of capital per capita are steady at that specific population rate – the steady state (k*).

>> Illustratively, capital stock growths at 2% and population at 2% per year. Put differently: At the steady state machines (K) and workers (L) grow at the same rate. Thus, the rate of change between the two, the rate of change of capital per capita, is 0%.

Figure 3.4 (b): At high levels of capital per capita (k), however, the output-capital ratio is low because returns to capital have largely diminished. At this point, any extra capital added has little to no effect on output per capita (y). This means generally low extra output per capita (y), which translates into relatively low new capital per capita next year (k(t + 1)).

Population is growing as always, at a medium rate and steady. But when capital per capita (k) growths at a low rate and the population growths at a medium rate, the population growths faster. Therefore, next year total capital (K) has to be divided by a bigger population (L), which translates into a lower capital per capita ratio (k). Thus, when there is low output per capita because of a low output-capital ratio, the faster population growth reduces the capital per capita ratio again, and the economy moves left in the graph (red arrow).

>> Illustratively, capital stock growths now at 1% and population at 2% per year.

Because the capital per capita (k) ratio is decreasing, the output-capital ratio is slowly increasing again, leading to relatively higher output per capita (y), leading to more new capital per capita added next year (k(t + 1). So the economy's left-ward movement in the graph is slowed down, until it stops at the point where the rate of new capital added per capita (k) coincides with population growth (n) – the steady state (k*).

>> Illustratively, capital stock growths again at 2% and population at 2% per year.

In a sense, the steady state can be understood as a general equilibrium of growth theory (remember the price equilibrium in the graph of the supply and demand curve). Whatever shock occurs to the central factors – e.g. an earthquake destroys much of the capital stock – over the long run the economy will return to this steady state of balanced growth, which is solely determined by the rate of population growth.

The steady state equation (Ray 1998, page 68)

$$\frac{k^*}{y^*} = \frac{s}{n + \delta}$$

k* = steady state capital per capita

y* = steady state output per capita

s = savings rate

n = population growth

δ = the depreciation rate

Putting all relevant variables together, this equation provides insights regarding the impact of manipulating individual factors. By increasing s (or decreasing δ) permanently, the *level* of output per capita (y) in the economy will be increased. This is because if permanently a higher fraction of total output (sY) will be reinvested in new capital (K) next year, total output clearly increases. Therefore, there is more total output to distribute among the population.

>> Illustratively, if s is increased, more capital per capita (k) is added, and the growth of capital stock jumps up to say 6% again. Because population growth is still at 2%, more capital is generated, and ultimately more output per capita (y) then before. However, because of diminishing returns to capital, the above described dynamics set in again. So over time the output-capital ratio decreases, less new capital per capita (k) is added relative to population growth, and capital stock growth adjusts to the 2% of population growth. The effect is still there, however, because the savings rate (s) is still higher than before, and more output in total terms is created. But the capital per capita ratio has returned to the steady state (k*).

The only way to permanently change the *rate* of capital per capita growth and thus the rate of output growth in this version of the Solow model is to change the rate of population growth (n). Thereby, the rate of capital stock growth is changed as well – because, as the model tells us, the rate of capital stock growth will adjust to mirror the population growth rate at the new steady state (k*).

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