

# **Economic Research Forum**

## **THE MACROECONOMICS OF DEVELOPMENT POLICIES BEYOND THE CRISIS**

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## DEVELOPMENT STRATEGY POST CRISIS

- Three Simultaneous Existential Crises: Pandemic, Ukraine War and Climate Change.
- Each Exposed Challenges and Problems
- Pandemic – Limits and challenges of Globalization – Disruption of Supply Chains, Just-in-time Health System and Unequal World.
- War in Ukraine – Inflation, Disruption of Supply Chains, particularly Food and Energy.
- Climate Change –Growth as a Threat to the Planet.
- What Can We Depend Upon?
- We Cannot Depend on Neoclassical Economics to Underpin Policy.
- Keynesian Economics –In the Long Run we are all Dead.
- Import Substitution – Failed Policies
- The Asian Tigers – Are They still Relevant?

# SUCCESSFUL DEVELOPMENT STRATEGY AT ANY TIME

- ◎ The Search for Successful Development Policy Continues and should continue.
- ◎ The Success of Asian Tigers Have Set An Example for the Countries of the Global South for Decades. The Example Remains Relevant?
- ◎ The Successful Example Rested on a Number of Critical Factors:
  - High rates of savings
  - High rates of investment in human and physical capital
  - High levels of exports
  - Equitable distribution of income and wealth
  - Stable governments
  - Macroeconomic stability
  - Competitive Manufacturing

# MANUFACTURING WAS KEY BUT NOT THE ONLY FACTOR

- ◎ These governments recognized the limitations of markets and their failures to generate desirable outcomes and pursued deliberately a specific set of policies, which involved the following:
  - Gave Precedence to economics over politics.
  - Generated overall macroeconomic stability.
  - Regulated markets to ensure that they function properly.
  - Created markets when they did not exist.
- Directed investment towards high growth and high export sectors.
- Created a conducive environment for private investment and private initiative within publicly defined goals.
- Reversed market inequitable outcomes and distributed resources more equitably

## MANY OF THE TRADITIONAL POLICIES REMAIN RELEVANT CRITICAL IF NOT NECESSARY

- Minimized rent-seeking behavior.
- Created a merit-based civil service system.
- The government intervened in all markets, but its intervention was measured and carefully balanced.
- They designed a novel system of Performance-Based Reward structure that provided strong export and growth oriented incentives and formed the basis for allocating government subsidies.
- Heavy reliance on Industrial Policy
- Encouragement of Cooperation
- Managing Competition
- Equitable Growth
- Export-Lead Growth
- Adaptive Developmental State

## SUCCESSFUL DEVELOPMENT POLICY IN TIMES OF CRISIS:

- 1.** The Basic Premise and evidence used by Dr. Rodric shows that manufacturing GVA is rising while manufacturing employment is falling. Countries can no longer depend on manufacturing to provide sufficient jobs to absorb new entrants into the labour market.
- 2.** The new productive services are highly skill intensive and they too cannot create the needed jobs.
- 3.** Innovation and technology drive growth and development. Apart from the textbook cases of market failure from externalities, public goods and monopolistic markets, the failures that affect technology development arise from the *nature of the capability building process*, which neoclassical theory simply assumes absent. Technology development and innovation are critical ingredients for growth development, but cannot create the employment opportunities at the scale needed. We need a New Development Strategy.

## SUCCESSFUL ASIAN TIGERS: ISSUES

- 4.** As a result, free markets without government intervention can lead to under-investment in 'difficult' technologies, where private agents would not be able to recoup their costs fully or with confidence. Even if successful, they will not create the needed jobs.
- 5.** Protection by itself cannot be enough if firms cannot lead to competitive capabilities if there are failures in the factor markets in which firms operate.
- 6.** Economic Policy has to be an Integral Part of a Larger Strategy. Uniform support across activities in the presence of these technology-specific differences makes as little sense as non-intervention.
- 7.** Infant Industry Argument: It can only work if enterprises take advantage of protection to invest in building capabilities, promote innovation and competitiveness..

## SUCCESSFUL DEVELOPMENT POLICY III

- 8.** The Secrets of a Successful Development Policy. The real secret of effective development policy then lies in combining the sheltering of learning with the stimulation of firms to build competitive capabilities and for governments to pursue inclusive and equitable development.
- 9.** They should *not* be the haphazard, open-ended and non-selective protection used by typical import-substituting regimes. These regimes have not offset the cushion offered by protection with the sharp edge of competition necessary to success. They should be forward looking, dynamic and adaptive.
- 10.** Intervention, policy initiatives and reform should be introduced gradually, not to slow down the process but to allow for a strategy of supporting relearning, building the missing institutions and harmonising the social order.



## SUCCESSFUL DEVELOPMENT POLICY IV

- 11.** The Case for Industrial Policy: Need to always Evaluate Whether market failures are less costly than government failures.
- 12.** Effective Interventions: Effective trade interventions have been mounted successfully in several East Asian economies, but under certain strict conditions.
- 13.** The Need for Coherence: All these measures form a *coherent package*.

**THANKS!**