1980

Economic Policy for Semi-Industrialized States and Proposal for a Center for the Study of the Political Economy of Semi-Industrialized States (with emphasis upon Latin America).

Hyman P. Minsky Ph.D.

Economic Policy for Semi-Industrialized States.

Hyman P. Minsky
Economics Department
Washington University
St. Louis, Mo. USA

The experience of the 1980's belies the proposition that a process of capital accumulation will lead to the industrialization of the poor countries and a relatively accelerated growth of their per capita incomes, so that the difference in per capita incomes between the poorer and the richer economies will narrow. During the 1980's, for a large group of countries and regions within countries, the stylized facts that require explanation are:

1. the growth process that had been so evident in the previous decades and which had been a cause for optimism, came to a halt.
2. In many places the absolute level of private incomes fell and the services delivered outside the price system deteriorated.
3. As a result the dispersion of per capita incomes among economies increased.

In particular, for a group of Latin American countries which had exhibited significant progress in the aggregate in the 50's 60's and 70's the 1980's were disasterousw. For these countries the halt to the growth in per capita income and in the process of industrialization was accompanied by a severe depression, which led to absolute declines in income. During the 1980's depressions were accompanied by bouts of accelerating inflation and recurrent financial crises. Furthermore the international creditworthiness of both public and private institutions was destroyed and nationals diversified their portfolios by acquiring assets based on foreign economies. Even as the ability to finance internationally disappeared the ability of the national financial system to finance domestic expansion was effectively destroyed.

The great lesson of Adam Smith was that a system of decentralized markets, in which agents are motivated by their own ideas of their self interest, results in coherent outcomes. The experience of the 1980's, in a group of relatively advanced Latin American countries, seems to be that incoherence results from the way the market mechanisms operated in their countries. Intermittent descent into what can be characterized as incoherence seems to be a present day characteristic of these economies.

Recent developments in economic theory indicate that the outcomes of policy interventions are both initial condition and path dependent. This implies that effective policy prescriptions cannot result from the application of universally valid rules to a particular situation but rather that the effect of a particular policy intervention or of a particular institutional change depend upon the initial conditions and the past of the economy. Initial condition and path dependency also implies that an economic policy that is valid when adopted can lose it's validity as the structure of the economy evolves.

The countries whose economic progress was abruptly halted in the 1980's and whose financial institutions were destroyed can be characterized as semi-industialized. We will
1. describe semi-industrialized economies,
2. specify the functions that the financial structure performs,
3. define the steps necessary to create an effective financial structure for a country which has lost its international credit worthiness and
4. specify some policy paths that are open open to such economies.

The theme of what follows is that a major problem of development is the creation of a financial structure that is conducive to economic growth.

1. Semi industrialized economies

2. Functions of the financial structure

The ephor

3. The creation of an effective financial structure

I want a version that I can use while in Bergamo

Proposal for

A Center for <u>THE STUDY OF THE POLITICAL ECONOMY OF SEMI-INDUSTRIALIZED STATES</u>

(with emphasis upon Latin America)

(and the states emerging from rigid ministerial Socialism?).

<u>Fundamental proposal</u>

To establish linked and coordinated research and perhaps teaching centers at the National University of Mexico and a United States University or Research Institute, that investigates from various theoretical perspectives the linkage between Economic, Institutional, Social and Political factors in determining the

1. emergence of semi-industrialization as a recognized economic and social situation

(Note: A European Research and Teaching Center that coordinates with the Mexican and U. S.effort should not be ruled out.)

2. factors that block the transformation of semi industrialized economies into full fledged industrialized economies.

(Note: semi-industrialized as a social-and political economy category may very well apply to regions within an economy i.e. the south of Italy.)

Definitions and concepts

The idea that some states are industrialized and others semi-industrialized implies that there is a third category of pre or non industrialized states. The three way division

Semi industrial states: a changing population that consists mainly of those economies which are not of the poorest in the per capita income tables such as Africa south of the Sahara and the Indian subcontinent, but which are far below the standards achieved in the rich countries of the Atlantic basin and selected Pacific countries. There are problems of measurement as well as ad hoc explanations of why the phenomena exists.

Combination of inadequacy of capital and human resources and institutional weaknesses that block resource development underlies the concept of semi-industialization.

Political economy; Dependence of the impact of economic policies upon the political, social and cultural characteristics of an economy. Among the questions to be investigated are: Is a society capable of administering an institutional arrangement? Is the propensity to evade and avoid regulation and control institutionally and historically determined? The universality of the principle agent problem or equivalently the universality of private agendas.

The concept of successful and failed capitalisms. Is success a transitory state?

Political Economy as here defined embraces Social Economy, i.e. the impact of insitutions such as the family structure, religious precepts, educational system upon the motivation and competence of various sectors of the population.

Background

1. During the past five years faculty members at Washington University (Professors John Caskey, Steven Fazzari, David Felix and Hyman Minsky) and at the National Autonomous University of Mexico (Professors Francisco Baez, Leon Bendesky, Julio Lopez and Clemente Ruiz) have collaberated on examining the financial crisis in Latin America, largely though not exclusively within a framework that emphasized the potential destabilizing effects of heavy debt structures. This collaberation has resulted in two international conferences, one in 1997 in Cocoyoc, Mexico and the second in 1988 in Anna dale on the Hudson, New York, USA. This second conference was jointly sponsored by the Jerome Levy institute of Economic Research at Bard College.

2. The