

Natural Order of Life or a sign of a Broken System?



E. How to Get the Good Life? - Part 1

Having examined the vast inequalities in the world, one question rises to the forefront: what can be done in the impoverished regions to develop the “Good Life”?

Unfortunately, the answer is unclear. Societies have struggled over the last 60 years to solve this problem as the world’s economy faces increased globalization and technological evolution. The next three sections examine the leading theories and philosophies which dominated the development landscape since the 1950s. It explores the strengths and flaws of these theories while examining the consequences of the pursuit of “The Good Life.”

WARNING! This section presents many challenges and must be read carefully *multiple times*. The ideas are the foundation of the rest of the course, but can seem very abstract and hard to grasp or visualize at first. Also, these theories share certain words, but give them different meanings.

Economic Development Policy 101: Understanding the Variables

Development policies evolve around three key variables or components: government involvement, freedom of trade, and citizen equity. Each development plan must make critical choices regarding these variables since each decision creates a ripple effect impacting people locally, regionally, and globally. This section explores the decisions policy makers must make and the outcomes of those decisions.

Government/State Involvement.

The single greatest point of contention and conflict within economic policies is the debate surrounding the level of government involvement. On the far “right” of the economic spectrum is Adam Smith’s idea of *laissez-faire*, or the idea that the government should keep their hands completely off the economy. Government leaders should remove all taxes, regulations, restrictions, and barriers that place limits upon businesses. Instead, the economy should be driven by the “invisible hand of the market,” where consumers’ demands are supplied by businesses. As consumers’ demands change, businesses will compete to supply these new demands. As businesses compete, products will become higher quality and will cost less. The invisible hand of the market should make the economy highly efficient, consistently advancing new technologies while also removing products that are no longer desired by the customers. The strong businesses survive, the weak die. Adam Smith feared that governments were slow, out of touch, inefficient, and corrupt. These qualities made the government a barrier to market success. Smith believed these principles applied across all scales, from the local farmer’s market all the way to global trade. Let the businesses compete free of government involvement, and everyone will win.





The Evolution of Recorded Music Technology

The music industry serves as a compelling example of laissez-faire policy. Over time, companies have developed new technologies for recording and distributing music. In 1900, if people wanted music they either created it themselves or listened to another person perform the music live. In the 1930s, vinyl records were the mind-blowing technology, being able to capture and record 15-20 minutes of music on each side that could be played back at any time! In the 1960s, the American companies RCA, Ampex and Ford collaborated to create the 8 Track Tape that could hold eight songs AND could be enjoyed in the car. In the 1980s, they invented cassette tapes, allowing consumers to listen to two hours of recorded music AND record songs from the radio. Cassettes could be enjoyed in the car AND on the Japanese invention: the portable Walkman. The Walkman allowed people to listen to cassette tapes anywhere they went. In the 1990s, with the advancements in personal computer technology came the CD and MP3 players, creating hours of endless enjoyment. Now, music lovers can have endless music that flies invisibly through the air to their phone or watch. Even headphones no longer need wires. Privately owned businesses competing for profit created all of these technological advancements in music enjoyment, meeting the demands of the consumers. The government had zero involvement - just the way Adam Smith would have liked it.

APPLICATION

#1 Reflect on how recorded music has evolved in the past 100 years. How does this exemplify Smith's idea of Laissez-faire? Identify & describe two other technologies that have experienced a similar evolution?

On the far "left" side of the economic spectrum is the Marxist-Communist belief that high government involvement is essential to economic development. The Marxists believe that businesses and their owners are greedy and will make decisions based upon what will improve the owner's personal wealth at the cost of what is beneficial to workers or consumers. As a result, Marxists believe that a free market economy run by private businesses will only benefit the few rich business owners, leaving the masses in poverty. Instead, a communist "command economy" promotes a system where the government leaders plan all the economic activities. The government would publicly own all the factories and service providers, planning all the economic decisions: what products are manufactured, how many are created, how/when/where it will be sold, what options will be available... With the government in command, they can make sure that every person has the goods and services they need, creating equitability amongst all citizens. The Soviet Union (USSR) ran a communist command economy, complete with their 5-year plans for production and publicly owned government factories.

In between laissez-faire and communism are the mixed economies - commonly referred to as socialism. Socialism is a mixture of both free market capitalism and the command economy of communism. There is a wide range of possibilities with a mixed economy, with no two societies operating in the same way. Society decides which businesses are free to be privately owned/operated and which services will receive government oversight or ownership. In Great Britain, the banks and technology companies are privately owned by citizens and are "free" to compete around the world. Meanwhile, their government decided that health care and education should be provided equally to all citizens and that both services should be protected from corporate drive for profit. The British medical system is run entirely by the government and every citizen has access to all the medical care they need for no extra cost (paid for by tax dollars). Every high school graduate accepted into college attends for no tuition (paid for by taxes). Socialist economies can swing from "Left" to "Right" as the people see fit, evolving with the ever changing tide of society. For example, in Chicago, Illinois from the early 1900s, the bus system was a publicly owned government service. Since the mid-2000s, private companies have run the bus system.



APPLICATION #2

Which of the following services do you think should be privately run by companies or public run by the government & Why:

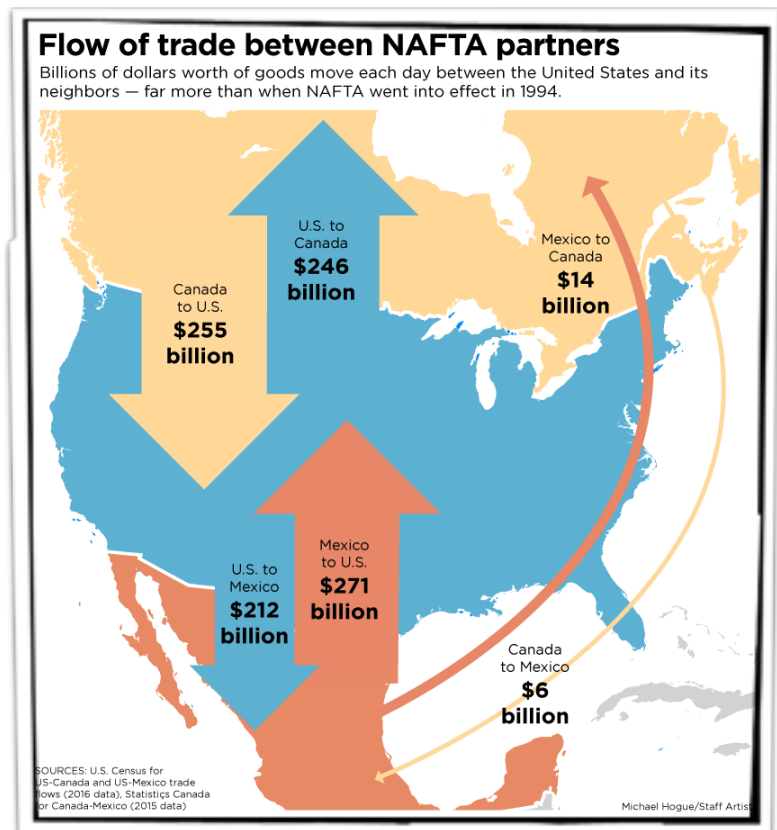
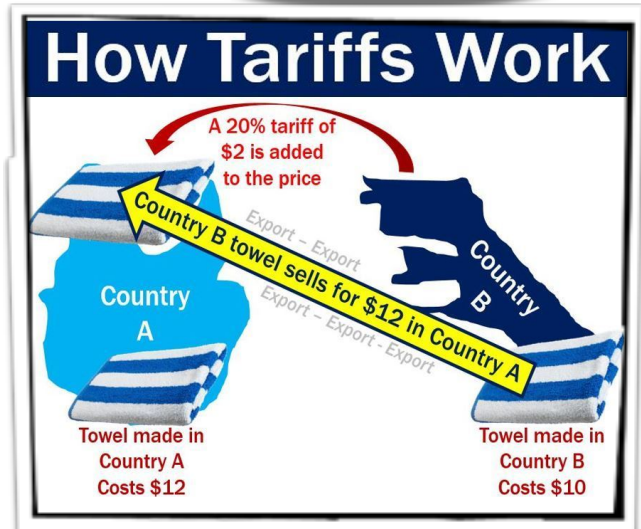
- (1) Fire department
- (2) Shirt makers
- (3) Police department
- (4) Colleges/Universities
- (5) Health Care
- (6) Air Planes
- (7) City Busses
- (8) Steel Production
- (9) Cars Assembly

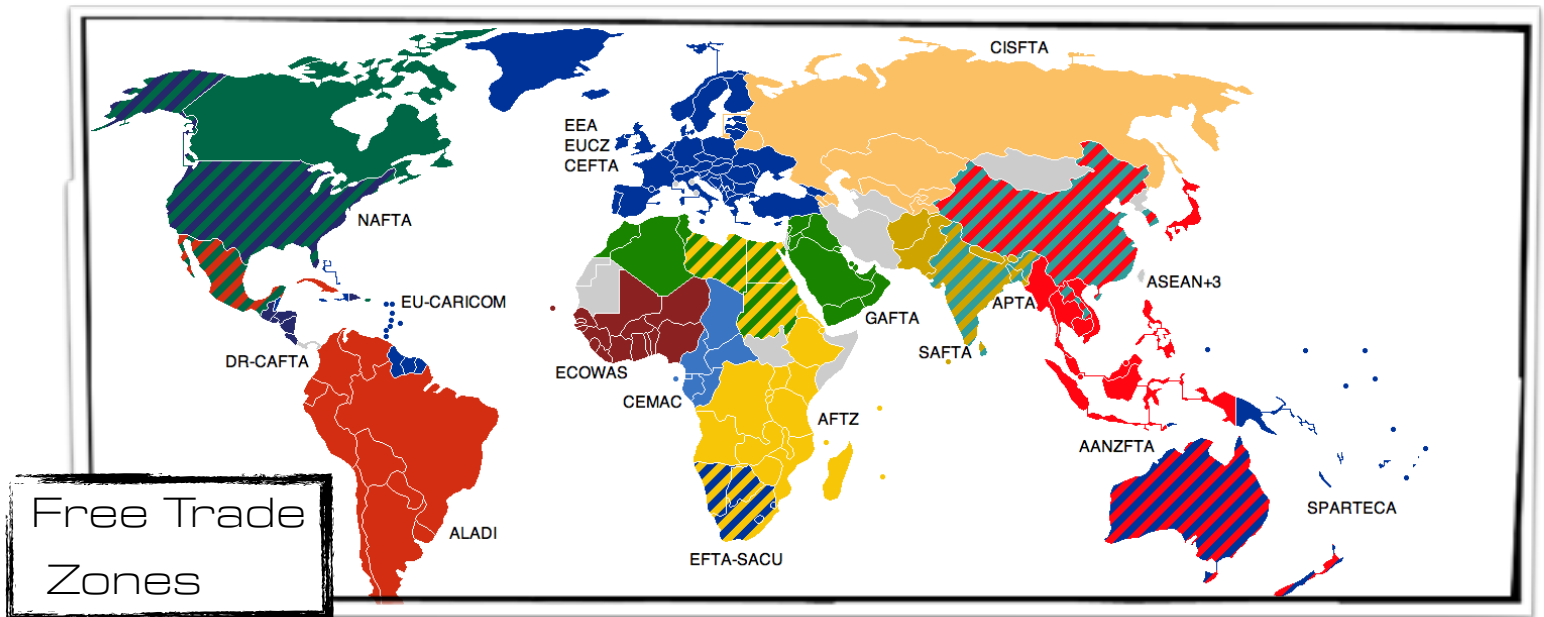
Freedom of Trade.

A second area of contention in the field of Economic Policy is the role and nature of international trade within the economy. The free market promotes trade internationally, free from government involvement by using trading blocs or free trade agreements. Within free trade agreements, every business and society seeks to maximize their comparative advantage. Comparative advantage means the product or service a business or society can provide better, cheaper, or faster than other businesses or countries. Customers will purchase the product they feel gives the best quality for the least cost. If Country A makes computers for \$200 while Country B makes the same computer for \$400, who will customers purchase from? The customers will purchase from Country A because they have a comparative advantage over Country B (assuming comparable product quality).

Within free trade zones, businesses can export their products internationally without trade barriers like tariffs or quotas. Tariffs are taxes on imported goods which cause imported goods to be priced significantly higher than domestically made products. Let us pretend China produces keyboards for \$10. American companies produce keyboards for \$15. If put on the same shelf, customers will buy the \$10 Chinese keyboard. If America sets a 100% tariff, on Chinese keyboards, the Chinese keyboard will be priced on the shelf at \$20. This dramatically increases the chances that people would buy the American-made product. Quotas are a set limit to the amount of a product imported from a foreign country by the government. Returning to the keyboard scenario, the US Government could set a quota of 200,000 keyboards that can be imported from China. Once 200,000 have been imported, no more Chinese keyboards may enter the USA. Economists promoting free trade believe tariffs and quotas interfere with a business's ability to compete and bring the best products to customers at the lowest cost.

The North American Free Trade Agreement (NAFTA) is a recent example of a free trade agreement from the mid-1990s that allows free trade between USA, Canada, and Mexico. The USA has a comparative advantage in agriculture production, plastics, advanced technology development, and advanced machinery assembly. As a result, the US leads in exports of airplanes, cars, heavy machinery, robotics, corn, soy, and wheat. Canada has a comparative advantage in certain machinery production, meat production, technology services, and oil production from their vast Tar Sands region. Mexico has a comparative advantage in crude oil production and also has New Manufacturing Zones (also known as Special Economic Zones) called Maquiladoras. Maquiladoras give Mexican factories a comparative price advantage because of cheap land, cheap labor, and cheap taxes. Mexico leads in exports of oil, car parts, computer parts, and consumer electronics (TV's, Computers, Tablets). As a result of NAFTA, close to \$1 trillion crosses the Mexico-USA-Canada borders... every day. As a result, borders lose their value and relevance as economies interconnect and become interdependent.





Citizen Equity.

Economic Policy's third component centers on the question of equity and asks, "To whom do the wealth and profits belong?" Do they belong to the risk taking capitalist entrepreneur/business owner and investors? Do they belong to workers who make the actual objects or service being sold? What level of equality in lifestyle should be sought in society?

To laissez-faire capitalists, inequality is a "natural law" that should be considered a normal and unavoidable part of life. There are the haves and the have-nots, the rich and the poor. Thus, the profit and wealth belong to the risk-taking business person focused on improving their business and growing their wealth. Executives and investors will re-invest earned money into buying machines, hiring more people and purchasing other company's stocks. As a result, demand will increase for more products and services, creating more jobs for more people across all sectors of society. Thus, having a large gap between rich and poor is the expected norm within the free market society. Restricting the wealth of the rich will crash the economy and free markets AND will violate the natural laws of the universe. However, people will be encouraged to innovate and take risks to make more money and improve society. They will be able to keep most of their earnings and be able to choose what to do with their money. Personal responsibility is for success a key motivational factor in a laissez faire economy.

On the socialist-communist side of the economic spectrum, the profit belongs to the workers. The workers performed the labor to produce the goods and provide the services being sold. If Jeff Bezos, the head of Amazon, and all the investors took the day off, the Amazon packages would still get delivered. The company would function normally. However, if all the workers did not show up to the warehouses or delivery trucks, production would screech to a halt and the company would risk going bankrupt. Even with this disparity, in the modern economy the average CEO makes 361 times the salary of the average worker in the company. Thus, according to the socialist-communist theory since the workers do the most valuable work, the profits should be redistributed to the workers. Governments use higher tax rates on high income earners to generate the wealth needed to pay for the services for the working population. The government's role would be to ensure everyone in society a reasonable quality of life. While perfect equality is not obtainable, government policies should guarantee that every person has their basic needs met: affordable housing, nutritious food to eat, clothes on their back, educational opportunities, public transportation, medical care, etc. Citizens of a society have a responsibility to ensure that everyone has their basic needs met, out of the dignity of being a fellow human being.



Development Theories Graphic Organizer

There are three primary schools of thought that guide economists and government decision makers. These theories are VERY important as they will appear in each of the remaining units of the course. Neither of these approaches will be labeled as “good” or “bad.” Instead, the strengths and criticisms of each set of theories will be presented to give the most complete understanding about the topics.

Copy the chart below into your notebook or print and tape it in. Use it to help sort out and identify key information about each development theory.

	Rostow/ Modernization (2d)	Structuralism (2e)	Sustainable Development (2g)	Wallerstien/ Dependency (2e)
What scale is the focus?				
What generates wealth?				
Who Gets the Wealth?				
What about the poor?				
What is the role of the gov't in development?				
Participation in Int'l Trade?				
Feelings about Tariffs and Quotas?				
Views on Environment				
Summarize: This theory creates development by...				
Criticisms				

Theory #1: Rostow's Stages of Development

About Economic Liberalism

Rostow's Stages of Development (also known as Modernization Theory) is an essential development theory founded in classical economic liberalism. Economic liberalism (or Classical Economics) originated during the European Enlightenment in the 1700s. At the time, Kings were in power and controlled all the land and wealth in society and took money from the people to fund lavish palaces or to fight wars. In this environment, Adam Smith wrote about laissez-faire capitalism and echoed the thoughts of other philosophers that every in saying that man has the right to life, liberty and property (well... every white adult land owning man, but this eventually grew to include almost everyone). Thus, an economy should be liberated (freed) from any government involvement. To clarify, the people's ability to thrive in their work needed to be freed from the involvement of the King and Nobility who controlled all forms of wealth and land.

Economic liberalism has a set of core beliefs that guide the philosophy:

- **Logical Man & Businessmen.** At the core of classical economic liberalism is Homo-Economicus: the economically logical man. Liberalism holds to the idea that mankind is driven by the selfish desire to promote his own self-interest: to work hard to ensure his own profit and personal comfort. This desire is so engrained into people's DNA that any action or activity that a person to sacrifice for the benefit of someone else would be unnatural. People are also naturally wired to be hardworking and rational (or logic driven). People will always value the powers of science as more important than the mysticism of religion.



Businesses are the heartbeat of the Liberalist economic ideology. Businesses are started by entrepreneurs who risk their time, talent and money to create products or services that strive to meet the demands of other people and groups for wealth. Adam Smith claimed that the baker does not bake bread each morning because she cares about other people. Instead, she bakes bread for her own self-interest of making a profit from the bread she bakes.

Liberalism promotes that any economically logical business person will compete fiercely to make a bigger profit and seek upward social mobility. People will only make choices that profit their company, winning "battles" for customers against companies. With profit and success as the motive, any logical person will make rational choices and use hard work to achieve them. Conversely, any person who is unsuccessful (as in, the poor, homeless, jobless, etc) is either acting illogically or is just not trying hard enough.

Two case studies of people who embody economic liberalism are Steve Jobs, the founder of Apple, and Bill Gates, the founder of Microsoft. These men started off in their garages with a dream and an ambition. Both fought ruthlessly to grow their businesses against stiff competition. Eventually, both men moved up through the social ladder, creating multinational companies out of nothing because of their drive for success, becoming unfathomably wealthy. To paraphrase the epic poet Drake, "They started from the bottom now they're here."

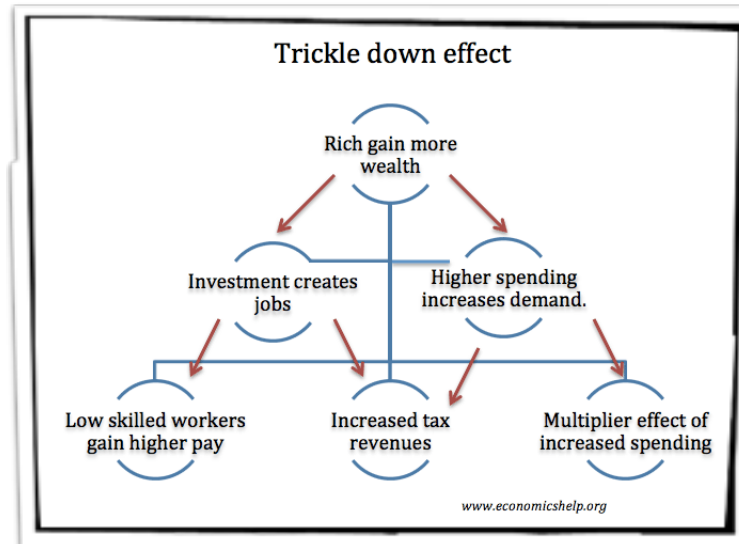
In order for the entrepreneur to be successful, they need the government to ensure certain rights are protected. First, the entrepreneurs must have property rights: the right to own their own equipment, building, and land that no one can take away from them. The entrepreneur must know that they can profit from their land and



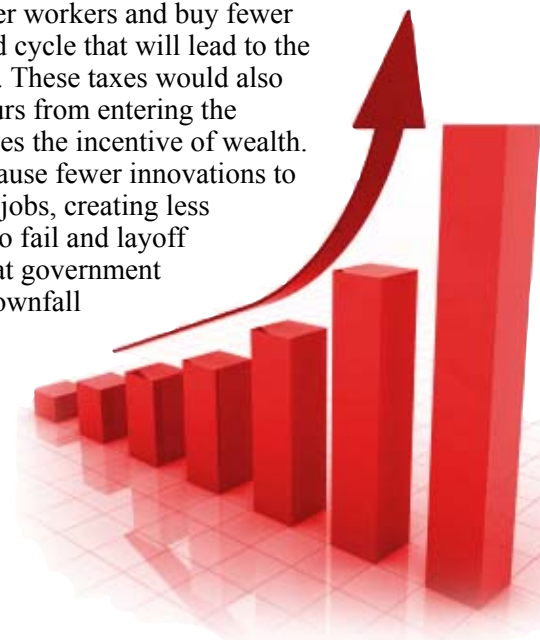
resources without fear that the government - or any other person - will come in and suddenly rob them. Second, the government must support and protect copyright laws. The enforcement of copyright laws protects the entrepreneur so that only the entrepreneur can profit from their idea. The law and government officials must punish anyone else who tries to steal or copy the entrepreneur's idea. It is the government's sole job to ensure the protection of business property and prosperity, or else entrepreneurs cannot successfully launch businesses.

- **About Wealth & Mobility.** The number one rule of business is to make money; therefore the logical goal for a business is to make as much money as possible. When businesses create products or services to sell for a profit, they must determine the value or worth of the product. Liberalism advocates that the price/value of a product be determined by the cost of the materials and the value of the labor. Goods created by low-skilled labor will have low price/value. Goods created by highly skilled labor have a high price/value. As goods and services are sold, it creates wealth. The more goods sold, the more wealth produced. At the core of Liberalism is the belief that the consumption of goods is the chief driver of a society's economy.

If selling goods creates wealth, where does all the wealth go? Liberalism believes it is a "natural law" for profits to be primarily paid to business executives or investors. These businessmen risk their wealth and property in running the business; thus the largest share of the profits should go to them. As the business increases in profitability, the businessman will use the wealth to hire more workers and buy more equipment. These purchases will further stimulate the economy by increasing the demand for more products from other businesses. As these businesses grow in their success, they will hire more workers. The hiring of more workers spreads money to more people, allowing them to purchase more goods and services. These purchases increase the demand for goods, creating wealth for more businesses.... and the cycle continues to the benefit of all. Consumption leads to job growth, which leads to prosperity for everyone in society.



Liberalism fears government involvement. Taxing or moving money away from business owners threatens their ability to take action and grow a company. Plus, the businessmen feel the government is penalizing them for being successful - redistributing their hard earned wealth to people who didn't work hard to earn it. If the government has high taxes, the business owner can hire fewer workers and will purchase less equipment from other businesses. With fewer people employed, there will be a decrease in demand for the goods and services across society. The decreased demand will hurt other businesses who will have less profit, who will hire fewer workers and buy fewer goods... creating a downward cycle that will lead to the eventual ruin of the economy. These taxes would also discourage future entrepreneurs from entering the competition because it removes the incentive of wealth. Fewer entrepreneurs would cause fewer innovations to be developed, creating fewer jobs, creating less demand, causing businesses to fail and layoff workers... Liberalists fear that government involvement will cause the downfall of the entire society.



- **International Capitalism.** Liberalism promotes that free market economics should be the dominant feature of the global economic system. International trade should be free, with minimal use of barriers like tariffs and quotas. Countries should assess their resources and labor talent in order to maximize their comparative advantage. Then, the country should use the profits from their exports to purchase the goods they could NOT produce as effectively. For example, if Columbia can grow and sell higher quality coffee beans better and cheaper than other countries, Columbia should focus on maximizing their profits through coffee exportation. Then, Columbia could use the profits from their cash crop (coffee) to import wheat from the USA - since the USA produces more wheat, cheaper than Columbia. If Canada has tar sand they can use for exporting crude oil, Canada should use their comparative advantage in crude oil to maximize their profits. Canada would use the profits from oil to purchase coffee from Columbia. If everyone works to their comparative advantage, and if the governments keep out of the way, the global economy will produce higher quality goods, cheaper. As a result, everyone in the world (who are willing to work) will prosper.

Maximizing Comparative Advantage on the Global Markets

Where can I get some coffee?



Where can I buy some gas for my truck??



Rostow's Stages of Economic Development

During the 1970s, W.W. Rostow proposed the Stages of Growth/Modernization Theory using the principles of Liberalism. The world had just witnessed the rapid decolonization of the former European empires, most of whom had been struggling in extreme poverty for over twenty years. Rostow attempted to give a liberalist strategy for development at the national scale, giving the world a clear path towards the "Good Life." Each country could be analyzed within this model using indicators, giving countries a clear path to growth. The ultimate goal of Rostow is to grow each country's economy, eliminating poverty around the world.

Stage 1: Traditional (Low-Periphery). The Traditional Stage is characterized by a highly structured society: the King/Dictator and rich Nobility at the top, with everyone else at the bottom. The citizens have minimal rights, typically without property rights and copyrights. Aside from the Dictator's palace, the country has minimal physical infrastructure such as roads, railway, electricity, communication lines, sanitation, or sources of clean water. There is also a lack of social infrastructure like education or healthcare. Traditional societies score poorly on practically every indicator. Their HDI scores are horrendous. Their economy has low GDP and income per capita. They suffer from high infant, child, and maternal mortality rates, along with shortened life expectancies.

Economically, the vast majority of the population works in the primary sector. The main occupations are intensive subsistent agriculture, as well as mining. Intensive subsistent agriculture requires farmers to invest high amounts of time and effort, using primitive tools, barely making enough food to survive. In the Traditional Stage, there is a minimal surplus to sell at the local market or to export. As a result, families and governments have little money to purchase items, often living on less than \$2 per day. As a result, people rely on informal markets to meet their daily needs. Families barter and exchange goods for goods or services for services, instead of paying for items. For example, trading eggs for milk, or a haircut for bread. The lack of productivity and surplus makes it impossible to export goods to global markets.

Historically, the vast majority of human history lived at Stage 1 development until the 1900s. The Greeks, Romans, Egyptians, Zulu, and Mayan empires would all be classified as Stage 1 societies. As of 2010, all countries developed beyond Stage One, as every country in the world has some level of industrial development. However, there are regions within the periphery and semi-periphery countries that still function like a Stage One society: Amazonia in Brazil, the Sahel in Chad, the highlands of Ethiopia.

Rostow Advice for Stage 1 Development: To summarize, life is “bad.” To improve, a society should:

- Find the comparative advantage and begin exporting. Any improvements in a society require wealth. Wealth is generated through exports. Typically, this will be some type of natural resource in the primary sector unique to that region of the world. For example: Oil in the Middle East, Coffee in Columbia, Sugar in Brazil, and Rubber in the Congo.
- Identify the biggest societal need and seek help in developing a fix. If it is the lack of clean water, build a dam. If it is transportation, build a road. If it is the lack of energy, create hydro-electric or solar power plants. Talk with the United Nations or other Non-governmental Organizations (NGOS) about resources that can help. Begin talks with the International Monetary Fund (IMF) about development loans, although banks typically require evidence of a growing GDP - which is where the growth in exports comes into play.
- Change government policies to allow for private property and copyrights to encourage entrepreneurship.

Stage 2: Preconditions for Take Off (Middle-Periphery). Stage 2 comprises societies who have begun industrial development. These countries have laid the infrastructure foundations needed to support the early stages of industrialization, but still have a long way to go. The society has at least one larger urban center that is home to both the country’s political power and a few factories. The factories typically produce cheap textiles or process raw natural resources for export; whichever maximizes the region’s comparative advantage in cheap labor, cheap land, and cheap resources. They also have started to import tractors, allowing farmers to produce a surplus of food with less effort, freeing workers to leave the farm to pursue other occupations. Thanks to the increased number of businesses, the number of wealthy elite has grown. A middle class has also started to form, thanks to the increased number of “managers” at the factories.

As a result of these early industrial efforts, people have begun to rapidly migrate to the urban center. The majority of the population still works in the primary sectors of subsistent agriculture and mining, but there is a growing secondary sector because of the new factories. The work is hard in the factories with long hours and harsh conditions. However, the \$1-2 a day is significantly more wealth than the worker had earned on their subsistence farms. Plus, many farmers were losing their land to richer farmers who had purchased tractors and were reaping the profits. Factory workers could pay for food, clothing, and shelter any time of year. This was especially valuable for women, for whom the factories were a chance to support themselves away from the confines of their families. Living in the urban center gave the people access to infrastructure they did not have access to in the rural regions: electricity, sewers, health care, education, transportation, etc.



Vietnam: Textile Factory



Zimbabwe: Coal Mine



Bolivia: Highway



Cuba: Tractor

Rostow Advice for Development: To summarize, this society needs to “build.” The first area of focus for a Stage 2 country is the increased construction of physical infrastructure:

- Because infrastructure is expensive, the country should choose one location to begin installing infrastructure improvements, preferably along the coast or along key lines of transportation to encourage international trade. The intended result is for goods will be exported to the global market, while also improving the ability to import needed supplies.
- Lines of transportation and communication should be built from the port to key resources or pockets of population to improve space-time compression and increase the flow of goods, people, and information across the region. Trains are typically built first because they are efficient, powerful, and require only a few trained operators. Highways are developed later, depending on the region’s access to automobiles. Bridges and tunnels are built to overcome difficult natural features that were a barrier to movement.
- Dams provide the society with a stable, controllable water source and are critical for a society’s success. They allow for irrigation systems for farms and water treatment facilities for cleaning and piping water. Dams can also be used to create electricity without relying on imports or expensive fossil fuels.
- Energy power stations and power grids allow the delivery of electricity across the region, which improves people productivity, health, and safety.
- Sanitation systems reduce illness by keeping feces away from drinking water and out of people’s homes.
- Tractors bringing mechanized power to the farms and increasing productivity while decreasing the amount of required labor. As a result, more food becomes available with fewer people needed to do the work.
- Schools are built, both for local and regional populations and for all sectors of society. Education is a critical resource to developing a local supply of educated talent. If the society does not have the ability to start their own universities, they pay for students to go to prestigious universities in the Core countries, in order to bring the knowledge and skills back to their home country.



Kenya's New Dam



Chad: Power Plant



Indonesia: Schools

One problem for Stage 2 countries is their lack of access to money. These infrastructure projects are very expensive and require highly skilled workers to plan and complete the project. Unfortunately, the vast majority of the country is impoverished and undereducated; especially the women. This means that very few people would have the knowledge or training to complete such elaborate and highly technical projects. How is an under-funded and undereducated country going to get funding for such improvements?

- A gradual, intentional building up of savings from the increased exports over a very long time. This scenario is possible but highly unlikely, especially when less than 25% of the world even has a savings account at a bank.
- A loan from a multinational organization like the United Nations’ International Monetary Fund (IMF), World Bank, or Asia Development Bank. These organizations specialize in providing large loans to periphery countries for the purpose of funding infrastructure projects and needed development.
- Foreign Direct Investment (FDI). Periphery countries need money, talent, and infrastructure. Multinational companies need cheap land, cheap labor, cheap resources/materials, and limited government interference regarding taxes and regulations. The periphery countries can use their comparative advantage of cheap land, labor, resources, and taxes to persuade multinational corporations to build new factories in their country. The government setups up New Manufacturing Zones (often referred to as Export Processing Zones, Special

Economic Zones, or Free Trade Zones) to specifically encourage companies to relocate. In exchange, the multinational organization businesses build the factories, along with the needed roads, energy systems, and sanitation systems needed to run their facilities. FDI provides the region with improved infrastructure plus new employment opportunities.

Stage 2 represents life in the bulk of the periphery: Subsaharan Africa, Caribbean, Central and SE Asia.



China's New Dam



Philippines: Power Plant



S.Africa: Schools

APPLICATION #3

Compare the pictures of Stage 1, Stage 2 & Stage 3.
Describe the changes and improvements as societies progress between the stages.

Stage 3: Take Off (Semi-Periphery/High Periphery). With infrastructure in place, the economy begins to boom. More secondary sector businesses begin to build up and agglomerate in multiple cities. Because of the increased use of machines, there is a sharp decrease in jobs in the primary sector. The decreased number of primary sector jobs are replaced by the rapid growth in the secondary sector jobs. Thanks to the investment in education, there is an increase in the number of skilled workers as well as home-grown entrepreneurs. Many families are now the second or third generation to live in city, creating a whole generation of workers who have grown up with access to these improved educational opportunities. As a result, there are more advanced industries being built. These factories produce complex consumer and business products like toys, TVs, car parts, and complex machinery.

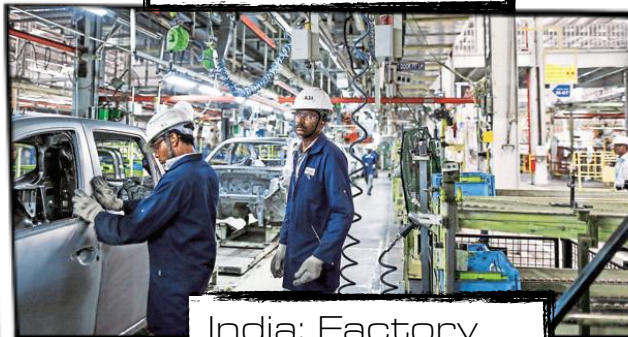
The increase in advanced secondary sector jobs also leads to an increase in workers earning better wages. These workers have more wealth to spend on better quality housing, food, transportation, and recreation. Because of the increase in wealth and opportunity, there is an increase in tertiary sector jobs. These tertiary sector jobs provide services for the businesses and workers: think restaurants, laundromats, cleaning services, taxis, etc.

The key word for Stage 3 is *better*. The massive increase in GDP has drastically improved the quality of life for people in the country. The government, businesses and people strive to make everything in society better. The increased GDP has created an increase in tax money for the government. As a result, the government begins to provide higher quality services: better education, better housing, better health care, better sanitation, better social security, better police, better EMS, and better fire fighters. Work conditions are improving and wages increase. Almost all children are able to attend primary and secondary school instead of being forced to labor for 60-80 hours a week in the factories and mines. Because of the port, the tractors, and the increased GDP, the country is able to provide a stable food supply for the people - both from domestic farms as well as importing nutritious foods from around the world.

As a result of these improvements, Stage 3 countries experience a significant improvement in many critical indicators. Because of the improved education, food, water, and health care, infant mortality and maternal mortality rates drastically



Brazil: Tractors



India: Factory

drop. Death from malnutrition, water born diseases and infectious diseases also improve, causing an increase in the average life expectancy. As a result of the economic and social success of the cities, more people migrate from rural to the urban areas. In highly successful countries, multiple urban centers form with strong businesses and services.

Stage 3 is marked by vast income inequality. As new businesses form, the rich rapidly increase in wealth to become very rich. There is also a growth in the “manager” middle class classes, where workers have the opportunity to improve their social status. Meanwhile, the poor are very poor. These vast, extreme differences create tensions between the wealth and the impoverished.

Rostow Advice for Development: To summarize, life is “better.” However, better does not mean the society does not have issues. All of the improvements are costly. The good news is that businesses are thriving, creating a pool of money to fund these improvements. However, to keep growing in wealth and opportunity, the society needs to look beyond its own borders. The Stage 3 society needs to improve its influence and image around the world. This is done through:

- Increased participation in the United Nations and other NGOs. Assisting other societies helps increase political influence and allies when key issues arise that are critical to that society.
- Begin to provide financial tools to other developing countries. Use the wealth gained from the increased exports to GIVE loans instead of ASKING for loans. The Stage 3 society should create banks and NGOs that provide other countries the opportunity to receive assistance in their development projects. This includes the encouragement of domestic business to take part in providing Foreign Direct Investments (FDI) to less developed countries. This allows the businesses from Stage 3 economies to gain access to new markets in the developing world, increasing opportunities for both wealth and global influence.

Stage 3 is equivalent to the Semi-Periphery/Newly Industrialized Countries (NIC): China, India, Russia, Brazil, Mexico, S. Korea, S. Africa, Saudi Arabia, Nigeria, Argentina.

Stage 4: Drive to Maturity (Low-Core). Multiple generations have passed since the society was in Stage 2. The Stage 4 society has become highly urbanized and industrialized, with multiple generations growing up with reliable food, clean water, and quality education from the country’s high quality universities. Each passing generation uses their health and education to create the next round of innovations. People flow rapidly across the country through the high speed transportation networks in their personal cars along highways, or purchasing tickets to ride bullet trains and airplanes. Internet and cellphone service is widely available, being considered an indispensable part of life. Hospitals work on new heart transplant procedures and curing cancer. Grocery stores and restaurants offer food from around the world just minutes from people’s houses in the suburbs.

The economy is very diverse and innovating. The primary sector employs less than 5% of the working population. The primary jobs have either been mechanized/automated or lost to overseas competition from an underdeveloped country selling cheap resources. The bulk of the people work in the robust secondary sector. This highly skilled labor force has advanced engineers, robotics machinery, and other cutting-edge technologies. These factories are driven by innovation and advancement. With each newly educated generation, the tertiary and quaternary sectors increase. The new workers create jobs as bankers, stockbrokers, real estate agents, lawyers, computer programmers, teachers, scientists, journalist, researchers... The increase in highly skilled and tertiary sector labor has caused an increase in demands on employers: higher wages, better work conditions, benefits, retirement packages, etc. As a result, it has become very expensive for secondary sector businesses to stay competitive in the global economy.

Stage 4 is equivalent to the low-Core: Australia and many of the “weaker” European economies like Spain and Greece.

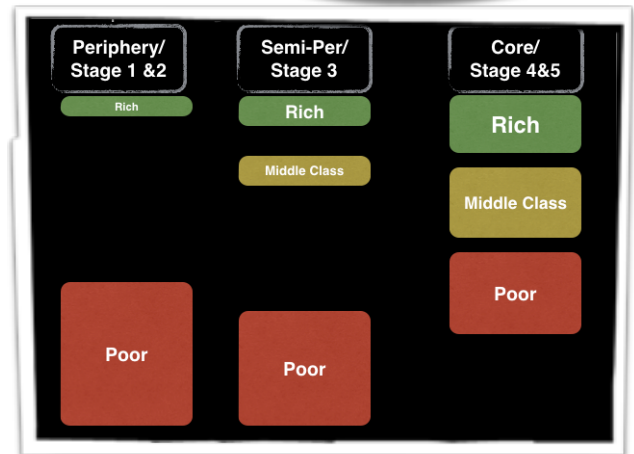


Stage 5: High Mass Consumption (High-Core). Stage 5 is the most advanced stage of the model. The economy is booming, thanks to strong innovation and powerful financial companies (banks, stock markets, etc). The people are living a well fed urban existence, driving their personal cars to their tertiary and quaternary sector jobs and going home to their house in the suburbs full of advanced appliances and cool gadgets. This economy is driven by the residents spending their abundance of money to keep local and multi-national businesses successful. Every indicator points to a lifestyle where life is “good.”

This prosperous status came at a steep and unexpected cost. Because of the high land, labor, tax costs, increased government regulations and safety requirements, the Stage 5 country became too expensive for the secondary sector companies. Secondary sector companies relocated overseas in a “race to the bottom,” trying to find locations where they can operate for the lowest cost. Stage 1-2 countries used their comparative advantage of cheap land, labor, resources, and low taxes to lure the Stage 4 companies “off-shore,” resulting in the mass deindustrialization of the Stage 5 societies.

The deindustrialization of the core has caused a massive economic restructuring. As businesses went overseas, they left old factories buildings abandoned; empty shells taking up valuable land in the central business districts of once-prosperous city centers. This change has crippled once thriving industrial cities, forcing industrial regions to remake themselves around a new economic identity. Some cities in the U.S., like Pittsburg, used their local universities to attract Bio-Medical Technology businesses. Others, like Detroit, filed for bankruptcy with a doom-and-gloom future outlook. In these Stage 5 societies, low-skilled workers no longer have easy access to profitable work as they lack the skill sets to prosper in more advanced jobs. All new tertiary and quaternary sector jobs either require a college degree with a good salary OR they are low skill and pay minimum wage.

Changes in Income Inequality. Rostow views this as a natural part of life. Stage 1 & 2 societies had a few very wealthy people, the vast bulk poor. By stage 3, a small middle class emerges. In Stage 4 & 5, more people rise to join the middle and upper classes. Poverty is still present, but the quality of life has risen. It is better to be poor in a Stage 5 country than to be poor in Stage 1.



Rostow Summary Chart	Stg 1: Traditional	Stg 2: Precond. for Take-Off	Stg. 3: Take Off	Stg 4: Drive to Maturity	Stg 5: High Mass Consumption
Magic B Word	Bad	Building	Better	Beautiful	Best
Primary Sector	Vast Majority	Vast Majority	Declining	Few	Very Few
Secondary Sector	Very Few	Few/Slow Growth	Rapid Growth, Vast Majority	Stable, Vast Majority	Declining
Tertiary Sector	Very Few	Very Few	Small Growth	Rapid Growth	Vast Majority
Next Step	Build infrastructure	Attract more businesses.	Improve! Better, better, better... everything.	Build highly skilled labor force	Sustaining tertiary & financial sectors. Restructuring post-industrial.
Source of Funding	None	IMF/World Bank	IMF/World Bank	Gov't, Banks, Stock Exchange	Gov't, Banks, Stock Exchange