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ECONOMISTS IN THE DEVELOPMENT PROCESS: ROLES AND RESPONSIBILITIES*

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Many observers of the contemporary scene note that the international economy is best characterized as being in a massive disequilibrium. The dimensions of this disequilibrium include: (1) the persistent undervaluation of the Chinese renmimbi (yuan), (2) the rapid and sustained rise in the Euro as a consequence of that undervaluation, (3) the huge budget deficit the United States is running, and (4) the massive trade deficit this country has sustained. In addition, there are the large subsidies the United States and the European Union provide to their agriculture, and the distortion these policies create in the developing countries, where they are equivalent to consumer subsidies. Finally, there is the large disparity in per capita incomes that characterize the international economy, with many of the disparities tending to grow over time.

I like the notion that these disequilibria constitute **opportunities** for economists in agricultural, natural resource, and rural development. However, the perspective I take in my remarks today is that as a profession we have a **responsibility** to do something about these multiple disequilibria. Their pervasiveness and magnitude suggest that substantial global income is being sacrificed because of these disparities. Moreover, the disequilibria represent in many of their dimensions substantial equity problems that properly designed economic policies can do a great deal to ameliorate.

Economists who address economic development problems are in a position to contribute a great deal to reduce the disequilibria cited, to bring about a more efficient allocation of the world's resources, and to improve equity in the distribution of income on a global scale. Moreover, as will be explained below, I believe the American Agricultural Economic Association should do a great deal more to help the members of our profession to become more effectively involved in these important tasks.

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The remainder of my remarks is divided into three parts. The first section provides an analytical framework that can be used to address development problems in the international economy. In the second part contains a description of some of the opportunities available to economists in the international economy. In the third section I offer some suggestions on what the Association might do to expand the opportunities for its members to contribute to a more efficient, equitable allocation of the world's resources. At the end I will have some concluding comments.

A Conceptual Framework

I personally engage in a great deal of economic development work at the international level. I find that in doing that work I must take a broad analytical perspective if I am to understand the changes taking place in the international economy and the forces that are driving them. Moreover, in my courses in the Humphrey Institute, I use that same broad perspective, the components of which include modern economic development theory, international trade theory, and the theory pertinent to understanding international financial markets. The challenge of this perspective is that these components have to be integrated into a cohesive whole if they are to be useful.

Perhaps the centerpiece of this approach is a dynamic perspective on international trade that views it as an instrument of economic development and growth. In fact, I teach economic development as being based on two pillars: investments in human capital and international trade. The perspective of trade as an engine of economic growth and development has two analytical bases: (1) Allyn Young and his emphasis on externalities rooted in the **sectoral** division of labor and specialization, and (2) the dynamics of trade liberalization.

The advantage of the Young perspective is that it makes explicit the opportunities open to small economies from participating in international trade. The critical factor here is that most of the world's poor are located in small economies. In such economies the Adam Smith limits from the extent of the market come into play rather early in the development process, and thus doom the citizens in those countries to poverty. The Young perspective puts the division of labor and specialization in a sectoral context. The more traditional Smith division of labor and specialization is specified instead to be among members of the labor force. The sectoral division of labor is an enormously uplifting idea, since it indicates that small economies, where most of the world's poor reside, can continue to have sources of economic growth as the grow. This perspective is equal in importance to the finding that a country's comparative advantage can be changed by investing in human capital. What happens in the Young perspective is that supply industries for larger industries are spun off and can be adopted by small countries. That is consistent with the empirical evidence that most of international trade consists of trade in parts, and not complete products.

The externalities argument of Young is complemented by the emerging recognition of the dynamic effects of reducing barriers to trade. The insight in this case is that reducing barriers to trade induces a more economically efficient allocation of resources, which in turn attracts a flow of capital to the sector (perhaps from outside the country), and with that flow the induced transfer of new production technology that often comes with the inflow of new capital. Traditional analyses of international trade tend to neglect these powerful sources of economic growth and development.

The third component of the framework is the theory of international financial markets. This perspective is important because distortions to trade are often created by distortions in foreign exchange markets, and because the source of many of the disequilibria in the global economy are rooted in the international financial markets. To cite only a few examples, an unhealthy dependency has grown up between the United States and China that is rooted in China's undervaluation of its currency. To sustain that distortion, China acquires large volumes of U.S. Treasury bonds. In so doing, interest rates remain low in the United States. That in turn makes it possible for the U.S. to persist in its large budget deficits (see Schuh, 2005). A corollary of this interaction is the rise in the value of the Euro, which is encouraged in part by the low interest rates in the United States.

To conclude this all too brief description of a rather complex conceptual framework, one should recognize that this is not just a perspective of convenience, but of necessity. One simply cannot understand the world about us by taking a narrower and simpler perspective that consists of either economic development theory, international trade theory, or the theory of international financial markets considered independently. Given the extent and speed of global economic integration, and the unique and important role of the international financial markets, one only misleads oneself if one believes that one can understand any one of the three components of the framework without being sensitive to the constraints implied by the other two.

Details on the Market and Opportunities

A conventional perspective to the topic I was assigned today would be to address the sources of permanent hires by the international development agencies. That would include agencies such as the World Bank, the U.S. Agency for International Development, the World Trade Organization, the U.S. President's Trade Representative Office, Regional Development Banks, and other lesser organizations.

I prefer to focus my limited time on a set of opportunities that perhaps can best be described as coming under the rubric of **outsourcing**. I take this perspective because I believe that in the future this is where the largest number of development employment opportunities will be, and because I think it is where we could do more to promote market and employment enlargement.

An impressive feature of the global economy at the present time is the extent to which national policy leaders are taking steps to promote economic growth, and for the

most part (although not exclusively) with neoclassic economic policies. What is especially important is that leadership for this perspective is coming from China and India, two countries where a major portion of the world's poor are located. A recent World Bank paper (Chen and Ravallion) calls attention to a significant reduction in the world's poor. It is worth noting that this reduction is based in large part on the economic development of those two countries, and not from income redistribution policies.

As more and more developing countries choose to accelerate their rate of economic growth and development, they will undoubtedly turn increasingly to consultants they can hire on a short-term basis. To the extent that agencies such as the World Bank and the USAID have turned away from economic development and emphasized other program initiatives such as human rights and governance, they have created a niche for international consultants.

The parallel development, and one not entirely independent of the emphasis on economic development, is the large number of efforts at economic integration that is being negotiated. At my last count, the number was 72. This is important because these negotiations constitute a significant opportunity for economists. It is worth noting that one of our professional colleagues did a great deal (if not all) of the work for Brazil in preparing the case for the WTO action against U.S. cotton subsidies.

That leads to a parallel set of opportunities -- the reform of the GATT and the creation of the WTO. The growing role for this important international organization opens many opportunities for U.S. economists. My guess is that if Brazil is successful with its case against the U.S. – successful in the sense that the United States responds to the case – many other opportunities will open up.

I am struck that most developing countries have very limited institutional capacity to make their cases for trade liberalization – either internationally or domestically. When these countries begin to realize the potential for growth from economic integration, my thought is that there will emerge a significant market for U.S. economists, and especially for agricultural economists, not only to design such initiatives, but to evaluate their impact on domestic economies.

Still another unexploited market in my judgment is the growing number of graduate programs around the world in economics and agricultural economics. The decline in financial support for such programs from the World Bank and the USAID has not impeded their development. Moreover, in Latin America at least, there has been growing support from domestic funding agencies to hire faculty from abroad. My guess is that this will be another growing market in the future.

The challenge of rural development constitutes another set of issues that cuts across the work on general economic development. The growing specialization in tradable commodities is leaving large numbers of small farmers on general farms in many of the developing countries (Araujo, et.al.) I expect the issue of rural development to receive more attention in the future. Although it is not the case that we have a very

successful track record in addressing these issues in this country, there still could be a significant market for specialists in the future.

Finally, I would be remiss if I did not mention the opportunities right here at home for people with economic development skills to participate in international development activities. It is a sad commentary on our own institutional development activities that our domestic activities dedicated to understanding developments in other countries are so poorly developed. Our experience in Iraq is Exhibit A on this issue. If we are to remain competitive in international markets and to have sensible international diplomatic policy we will need to develop a stronger domestic capacity to understand the rest of the world. Understanding the development process in these other parts of the world will be critical.

In closing this section I want to emphasize the importance of international competition in driving policy reform, international development, and diplomatic relations. That competition is a powerful force for reform and change, and the reforms will in my view open many opportunities in the future for professional members of our profession.

A Proposal for the Association

The discussion of opportunities outlined above motivates me to propose that the Association develop the capacity to help create a market for the members of our profession to take advantage of these opportunities. My original thought was that this service should be limited to members of the AAEA. However, as I thought about the issue, it seemed more appropriate that the service be extended to agricultural economists all around the world. In extending this coverage, we need to remind ourselves of the great amount of income currently being sacrificed in the global economy because of inefficient and inequitable economic policies.

Two kinds of services will be needed. The first is to inform potential decision makers of the services available from members of the profession. That is a significant educational task, but one that has considerable social value in its own right. The second task will be to build a market information system that assembles information on people available for such tasks and their respective skills, and on the positions available and the skills they require. Given the advances of information technology all around the world, such an information system should be feasible with a minimum of costs.

Costs will be an issue, however. Those benefiting from such a system should be willing to pay for the services rendered, however, and that should apply to both users and consumers of the outsourcing services. To start the program it might be possible to obtain grants from philanthropic foundations or other organizations. Agencies such as the World Bank, for example, may be willing to contribute.

The mission proposed for the Association is not innocuous. It will take staff and resources. However, the benefits that follow should be substantial as well. The

Association has added a number of responsibilities to its mission in recent years. Our membership is better off because of the additional services it receives. With the present proposal, more is involved than additional services for the member of the Association. The world as a whole will benefit from higher rates of economic growth and a more equitable distribution of income. Those are important goals.

Concluding Comments

To conclude these remarks I would like to emphasize two points. The first is to recognize the importance of institutional design issues in promoting the skills available from the profession and in identifying proper skills for the solution of the international design issues. Policy is imbedded in institutional arrangements, and to change policy usually requires a change in the institutions.

Second, economists by no means have a monopoly on the solution to the world's policy problems. Other disciplines such as political scientists and anthropologists have a great deal to offer. Members of the natural and biological sciences, as well as engineers, also have a great deal to offer. There is hardly any important policy problem before us that does not require the participation of natural and biological scientists, and/or engineers, to design improved policy. Hence, the new office in the AAEA Secretariat should be sensitive to the need for these additional skills, and be alert to helping identify them when they are needed.

Finally, I realize that these are just preliminary ideas. A great deal of additional work needs to go into defining a new system and to articulate the new services required. The Association's International Committee may want to work on this challenge. Alternatively, the President of the Association may want to appoint a special task force to address the design issues.

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