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Theory of social transformation, political transition and economic growth

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ABSTRACT

In this paper, I develop a model of sociopolitical transition that links the sociopolitical transformational process of countries to the dynamic process of output per capita and economic growth. Social polarization breeds discriminatory practices regarding government redistribution. This brings about inefficient allocation of resources away from production to political power struggle, leading to poor economic outcomes. However, the model shows that social integrative processes may correct this inefficiency over time depending on the degree of social fractionalization, the level of social distance between the groups, the level of production technology, etc. Even though the model predicts long-run convergence of growth rates and output per capita across countries, it shows possible prolonged divergence of these economic variables.

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1. Introduction

After the Second World War, economists started to show greater interest in finding answers to what causes the large gaps among the countries of the world in terms of economic growth and output per capita. This took a more interesting turn in the 1950s and 1960s when neoclassical economists like Solow (1956), Cass (1965) and Koopman (1965) published models predicting eventual convergence of economic growth rates and GDP per capita among the countries of the world. Yet, as time passed by, few, if any, signs emerged to show that this prediction was taking hold. This led to the emergence of

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endogenous growth models in the late 1980s and early 1990s (see, for instance, Romer, 1990, 1996; Lucas, 1988 and Azariadis and Drazen, 1990) which predicted that the differences in growth rates and GDP per capita between the developed world and the developing world may perpetuate. What all these models have in common is that they assume away the social and political environments economies operate in. That is, these models treat countries as if they have similar social and political environments. However, since countries differ considerably in terms of the level of sociopolitical development and maturity, and since the economic outcome is influenced immensely by the sociopolitical environment, this kind of treatment makes these models incomplete, and thus renders their predictions less accurate. Therefore, by embedding the sociopolitical transformational process of countries into the choice process of economic agents, the model in this paper is able to offer a stronger explanation for the dynamic behavior of output per capita of countries, thereby providing a more accurate explanation for the gaps among countries in terms of economic growth and development.

I argue in this paper that social fractionalization in terms of ethnicity, race, religion, etc., breeds discriminatory practices, thereby creating political tensions. This results in an inefficient use of economic resources to struggle for political power in order to take control of government machinery for the purpose of being in charge of the government's redistribution mechanism. Therefore, I show that ethnic/racial or religious fragmentation ultimately leads to economic inefficiency and thus to poor economic outcomes. However, I also show that social dynamics may minimize this inefficiency over time, thereby enhancing economic performance as countries undergo sociopolitical transformation. And since this process may differ from one country to another, gaps among countries will emerge in terms of output per capita and economic growth, especially at the initial stage of the sociopolitical process.

The economy in this model is populated by two groups of people. The groups are defined along ethnic, racial or religious lines. I assume that the government formed by a group is not different from the group as a whole in terms of its objectives. Like Pham (2005), van Long and Shimomura (2004), Corneo and Jeanne (2001), Rauscher (1997), Fershtman et al. (1996), etc., individuals in this model derive utility from both consumption and social status.¹ However, unlike these models, in which social status is determined by relative wealth, relative consumption or level of education, the social status of individual group members in this model is determined by the extent to which the group's sociocultural or religious values or philosophy are promoted. This means that a group would like to control the government and thus have political power because the group is able to more effectively advance its sociocultural or religious values or ideology when in power than when in the opposition. The power struggle between the groups may be so intense at the initial stage of the country's formation that a legal or democratic framework established to dictate a smooth power transition may not work because of the presence of incentives to deviate from established rules. That is, the intensity of a political power struggle at the initial stage may be relatively high, and thus take violent forms. This is the source of economic inefficiency at the initial stage. However, as the groups become more socially integrated, this inefficiency will diminish over time, thereby enhancing economic growth. Nevertheless, the rate of social integration may differ from one country to another, resulting in different growth rates of per-capita output across countries.

Factors that have been cited in the literature to account for social integration include education (see, for instance, de Palo et al., 2006) and intermarriages (see, for instance, Furtado, 2006). In this model, I emphasize the latter. That is, as intermarriages increase, the groups become more socially integrated, and the intensity of the political power struggle and its accompanying economic inefficiency evaporates, since economic resources get reallocated towards productive use.

Although empirical work (see, for instance, Easterly and Levine, 1997 and Keefer and Knack, 2002) has seriously taken into account the crucial role social fragmentation plays in limiting economic growth and thus creating divergence of growth rates across countries, theoretical work in this area tends to take an indirect approach in linking social fragmentation to economic growth and output per capita (see, for instance, Alesina and Drazen, 1991; Alesina and Spolaore, 1997). That is, these models tend to link social fragmentation to issues like public goods provision and macroeconomic stabilization. This paper therefore contributes to this literature by developing a theoretical model that

¹ This utility specification follows Adam Smith's assertion in his 'Theory of Moral Sentiments' (Smith, 1759) that human economic activities aim not only at supplying the necessities of life (consumption) but also at attaining higher social status.

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