EXTRACTIVE INSTITUTIONS DYNAMICS AND ECONOMIC GROWTH UNDER GLOBALIZATION

Chepikov Mikhail,
Senior Lecturer of Chair of International Political Economy,
Belarusian State University, Minsk

Kaili Yuan,
Master's Degree in Economics Student,
Belarusian State University, Minsk

Extractive institutions can be divided into two levels to explain. First of all, the political level. The extractive political institution has been adopted by most countries in history. Japan before the Meiji Restoration, Britain before the Glorious Revolution, and North America during the British Colonial Period and so on [1, 1395]. Some countries are still use extractive political institution such as Africa and most countries of Asia. The characteristics of the extractive political institution are that it is not the whole or the majority of the people of the country that grasps the fate of the country's development. The people have no right to decide, but are determined by a few people who may rule the country through hereditary methods, or may be the soldier who has made tremendous contributions to the country. They can decide how the country develops and can also decide which political institution the state implements. Usually, if a country has extractive political institutions, then the economic institutions are also extractive. The extractive economic institution is established by these few people who control the country. They can obtain monopoly rights in various industries through this institution, so that they can control the market and bring economic benefits to themselves. Most of the economic benefits created by producer but the economic benefits own by producers are far less than what they have created.

Why is the extractive institutions are bad for sustainable economic growth? The national economy adopting the seizure system will grow in a period of time, but will not continue to grow. The reason is that the extractive institution is lack of vitality in political, the right to control is in the hands of a few people, and the rest can only obey, which is leads the economic institution also no vitality. National leaders only consider their own interests. What they think is how to bring more wealth to themselves through economic activities, so they will not consider them from the perspective of the masses, and will not give them a perfect incentive system to encourage the masses to vigorously develop the economy. Leaders fear that their economic development will threaten their dominance and current interests, so the extractive institution is not conducive to the country's sustainable economic growth, both economically and politically.

As Acemoglu and Robinson succeed to show that extractive economic institutions are one of reasons of poor growth experiences in different countries, they also stress out that set of asymmetrical political and economic institutions (inclusive and extractive) means unsustainable growth at certain period of time. [2, 2] It happens because extractive institutions either political or economic tend to convert the other part of the set also to extractive type.

Dynamics of institutions "extractiveness" become of some importance as a predictor of future economic growth. In a recent work prominent researcher of economic inequality Milanovic shows that two types of modern capitalism – liberal meritocratic and political (state-led) – experience indeed rise of extractiveness for several reasons connected to economy openness [3, 129–176].

Corruption obviously makes institutions more extractive, amplifying ongoing rise of inequality in countries of political capitalism (e.g. ranks in 2018 Corruption Perception Index:

China-87, Vietnam-117, Malaysia-61, Laos-132, Singapore-3, Algeria-105, Tanzania-99, Angola-165, Botswana-34, Ethiopia-114, Rwanda-48, and with some reservations Russia-138). In the area of corruption, seven out of the twelve countries score significantly worse than the median country (the median rank was 89, since 180 countries were ranked in 2018). China's score is a bit above than the world median. Botswana and Singapore are the real exceptions here, since their perceived corruption, as measured by Transparency International, is very low [4].

Corruption persists during political capitalism because of at least three reasons [3, 172–174].

The first, hypercommercialization of global economy, where capitalist values of money-making become primary (all means are good for ultimate goal).

The second, openness of capital accounts and availability of laundering services, located either in rich countries or in tax havens.

The last factor for globalization-related corruption is the "demonstration effect" (keep up with Joneses), justified by the existence of large cross-country citizenship premiums or penalties.

Liberal meritocratic capitalism, where extractiveness goes in the other direction (from largest wealth holders to state power), face both desirable and undesirable income and wealth concentration among the richest.

It happens because of:

1) increasing aggregate share of capital in national income;
2) high concentration of capital ownership (capital income is extremely concentrated and is received mostly by the rich);
3) higher rate of return on the assets of the rich;
4) association of high capital and high labor income in the same individuals;
5) greater homogamy (assortative mating);
6) greater transmission of income and wealth across generations. [3, 23–42].

Using Worldwide Governance Indicators by the World Bank (WGI) one can see that overall quality of institutions in USA is somewhat deteriorating from 1996 to 2018. Where as in China these indicators overall are slightly improving except Control of Corruption as a component of WGI [5].

Finally, we can state that political extractiveness rise in both China (typical country of political capitalism) and USA (represents liberal meritocratic capitalism) and slowdown of economic growth evolves in both countries in 1996–018 [6]. It means we cannot reject hypothesis of negative impact of institutions extractiveness increase on long-run economic growth slowdown.

References

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