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The political economy of export driven and consumption driven growth models

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Abstract

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The Political Economy of Export Driven and Consumption Driven Growth Models

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Abstract

Prior to the world-wide financial crisis of 2008-2009, the dominant growth model for Asia was an export driven model. This paper explains that model and its consequences (using China as an example), explains the origins of the current crisis (the Asian financial crisis that started in Thailand in 1997), and argues that Asia cannot return to the same export driven model after the crisis. The export driven growth model is contrasted with a consumption driven growth model which is being advocated by the Chinese government. Historical examples of consumption driven growth are provided.

The Political Economy of Export Driven and Consumption Driven Growth Models

I. The Current Asian Development Model:

The goal of the current Asian Development Model is the promotion of exports. However, different countries have followed slightly different routes to this goal. Some countries have promoted exports by fixing their exchange rates at lower than market clearing levels. In order to eliminate the resulting shortage of their currencies, these countries print more of their currencies and exchange it for US dollar reserves or for US securities. Of course, these countries could buy Euros, or Yen, or other currencies instead of US dollars, but most international reserves have been held in US dollars since WWII. Countries also can promote labor intensive exports by suppressing wage rates and labor power. This type of strategy causes domestic markets to develop slowly, if at all. The export promotion- wage suppression combination makes it possible for the rich owners of export industries to further enrich themselves (keep all the returns as profits) with relatively minimal improvement occurring for labor.

An example of this type of strategy is China. As of January 2009, China had accumulated over US $ 2 trillion in foreign reserves, the largest holdings of foreign reserves in the world for all of history. Meanwhile, China has promote profits and suppressed wages in the post-Mao period, causing an increase in inequality. The Gini coefficient is the most common measure of inequality. This coefficient would be 0 if a society had complete equality and 1 if a society had

complete inequality (one person receives all the income of that country). Because larger countries tend to be less equal, it is especially noteworthy that China was one of the most equal countries in the world in 1983 with a Gini coefficient of only 0.28. However, by 2001, China's Gini had risen to 0.447, making China less equal than Korea (Gini=0.32), India (Gini=0.325), Indonesia (Gini=0.34), the USA (Gini in 2000=0.408) and Thailand (Gini=0.43). Although China is not yet as unequal as some Latin American countries like Brazil (Gini=0.59) or Mexico (Gini=0.55), there is probably "no other case where a society's income distribution has deteriorated so much, so fast" (Naughton, 2007, pp 217-218). Furthermore, China's Gini has continued to rise; as of 2006 it was 0.47 (Xin, 2008).

It is important to realize that, by suppressing wages and thus the domestic market, countries like China must export their excess production. Furthermore, for an export promotion strategy to succeed there must be an importer. Individuals, businesses, and countries will not continue to produce if there is no one to buy what they produce. Some countries employing the Asian Development Model entice other countries to buy their goods by keeping the prices of their exports extremely low. Prices are sometimes kept low by fixing exchange rates below their market clearing levels (and thus accumulating foreign reserves) and by keeping the cost of production low via suppressing wage rates. A country's net "exports" (exports minus imports) is its "trade surplus" which equals the amount that country produces over and above what it consumes domestically, which equals its "excess savings." Trade surpluses can be

maintained only if other countries have off-setting trade deficits. One country can have excess savings (produce more than it consumes domestically) only if other countries have off-setting excess consumption (consume more than they produce domestically). Thus the “Export Promotion” strategy underlying the current Asian Development Model could have been named the “Trade Surplus Strategy” or the “Excess Savings Strategy” and these strategies necessarily imply that there must be trade deficit countries with excess consumption (Leightner, forthcoming).

Again, China provides an example of the “Excess Savings Strategy.” Modigliani and Cao (2004, p165-166) state,

> By the early 90s, the Chinese personal saving rate had reached a remarkable level of nearly 30 percent …. This occurred despite the fact that, even with the high growth rate, the per-capita income remained one of the lowest in the world. The saving rates are stunningly high in comparison with those of the United States, one of the world’s richest nations. During those same years, the personal saving rate in the United States was 7.6 percent: and even the “private” saving rate, which is the sum of personal saving and corporate saving (profit retention), rises to only 10 percent…. Since then the saving rate has slipped further with the personal down to 3 percent and the private down to 5 percent.

Corporate savings (or retained profits) are also huge and rising in China due largely to the tremendous increase in profits due to the suppression of wages and labor. Furthermore, “until very recently, state-owned enterprises were not required to pay dividends to their shareholders or to the state, thereby creating an incentive for these firms to retain their profits rather than distribute them” (Prasad, 2009, p. 13).

An “Excess Savings” strategy can be maintained if and only if year after year (forever more) a country accumulates more and more savings (i.e. if they

keep accumulating more and more US dollar reserves and never use them). If a previously export promoting country would stop accumulating more savings and start spending those accumulated savings, then it would run a trade deficit. If the rest of the world is willing to ship their exports to the US and then to hold on to the dollars they are paid and never cash those dollars in, then the US has gotten those exports for printed paper. In this type of deal, the US is the big winner. The big losers are the Chinese consumer and worker. The winners in China are the rich who own the companies that export – they get to keep the profits which are artificially high due to the suppression of labor and wages.

II. The Origins of the Current Crisis:

In order to understand how the current crisis will affect the Asian Development Model, it is helpful to understand the origins of the crisis. Although it is possible to trace the current crisis to earlier dates (like to Japan's troubles in the late 1980s or to the rise of US dollar as the world's reserve currency after WWII); I will start my explanation of the current crisis with the Asian financial crisis that started in Thailand in 1997. From 1986 to 1995, Thailand was one of the fastest growing countries on the earth and the IMF lauded it as a model for other lesser developed countries to imitate. However, by the early 1990s, this growth was causing wages in Thailand to grow quicker than wages in Thailand's neighbors -- Cambodia, Laos, Malaysia, Burma (Mayamar), Vietnam, and Southern China. The Thai government (like the US government with the Mexican border) was concerned that either Thai companies would move their

production facilities to neighboring countries or that Thai exports would not remain internationally competitive. The Thai government's response to this concern was to help Thailand's neighbors grow. The plan was for Thailand to be the older brother (patron) and Thailand's neighbors to be the younger siblings (clients). As the clients grew, then hopefully their wage rates would also rise. However, even if the wage rate in Thailand's neighbors did not rise to match Thailand's, the younger siblings would be responsive to their older brother's needs out of gratitude for Thailand's earlier help. Therefore the Thai government created many business incentives (like tax breaks, legal help, assistance with negotiating, etc) for Thai businesses to invest in Thailand's neighbors (Leightner, 1999 and 2007).

A good patron also provides financing. Thus, in 1993 Thailand opened the Bangkok International Banking Facility (BIBF). The purpose of the BIBF was to acquire money from Japan, the US, and Europe and then re-lend that money to Thailand's neighbors. However these good intentions were not realized due to the profit maximizing objectives of BIBF banks. The interest rate was much higher in Thailand than in its neighboring countries. Thus, when the BIBF attracted large amounts of foreign money, much of that money was re-lent in Thailand, not in its neighbors.

This foreign money financed a speculative bubble in Thailand's real estate market. As the price of Thai real estate increased, more and more people bought real estate and/or built houses and office buildings because they expected the price to keep rising. As more and more speculators purchased more and more

property, the price of property did rise, causing even more speculative buying. Ultimately, when hundreds of thousands of new houses and many new office buildings in Bangkok did not sell, the Thais realized that there was a speculative bubble in the Thai real estate market which caused the Thai real estate market to collapse -- the bubble burst (Leightner 1999, 2000, 2008, Mummery and Hobson, 1889).

In 1996, the Bangkok Bank of Commerce (BBC) was the first of Thailand's 15 banks to experienced critical cash flow problems due to builders not paying back their loans. When the BBC examined its records to identify everyone who was delinquent in their loan payments, it found some very high level politicians that had never made payments on their loans. At first the politicians denied that they had ever taken out the loans, but when proof was provided by the BBC, the politicians then claimed that the loans were bribes and did not have to be paid back. The Bank of Thailand, wanting to prevent a major political scandal which could negatively affect foreign investment, hid the BBC problems. When a top official of the BBC fled Thailand with several suitcases full of BBC money, the BBC problems could no longer be hid. When the BBC problems were revealed, the Bank of Thailand looked like an accomplice, ruining its reputation as one of the most competent central banks in the world and as being incorruptible (Leightner, 1999, 2007).

On March 3, 1997, the Bank of Thailand (BOT) shut down ten weak finance and securities companies and increased reserve requirements for all Thai financial institutions. The BOT was worried that its actions would cause a

panicked dumping of Thai financial institution's stocks and bonds. Thus the Thai government suspended the trading of all bank and finance company stocks on the stock market immediately prior to their March 3rd actions. Never before, in the 21 year history of the Thai stock market, had trade been suspended. These events were immediately followed by a run on all Thai finance and securities companies (Leightner, 1999, 2007).

The above described events gave currency speculators the ammunition they needed to initiate a speculative attack against the Thai baht. Because I do not know the actual numbers used in the speculative attack, I have made up the numbers in the rest of this paragraph in order to illustrate what the speculators did. First speculators purchased forward currency contracts that would allow them to exchange baht into dollars at a rate of 26 baht per dollar in January 1998. Second, the speculators advertised Thailand's problems (see above) and advised everyone to quickly sell all their holdings of baht. By doing this, speculators successfully created a massive selling of Thai baht based on a fear that the value of the baht was on the verge of collapse. Throughout the spring of 1997, the Thai government attempted to defend its 25 baht per dollar fixed exchange rate by buying up surplus baht using its holdings of US dollars as payment. In the first six months of 1997, the Thai government used (or obligated itself to use in the future) approximately 30 billion dollars of its 39 billion dollars of reserves in what ultimately became a futile attempt to defend Thailand's fixed exchange rate. On July 2, 1997, the Thai government floated the baht (stopped buying and selling baht in order to keep its value fixed). Between July 1, 1997

and January 1998 the baht fell from 25 baht per dollar to 54 baht per dollar. In January 1998, the speculators could acquire 54 billion baht for 1 billion dollars on the spot market. They can then use their forward contracts to trade this 54 billion baht for more than 2 billion US dollars – more than doubling their money (Leightner, 2007). The speculators made a huge profit and Thailand was devastated.

When the exchange rate for the baht fell from 25 baht per US dollar in June of 1997 to 54 baht per US dollar in January of 1998, the baht price that Thailand paid for imports doubled and the dollar price for Thai exports was cut in half; causing in a serious recession. On August 19, 1997, the International Monetary Fund and the World Bank loaned Thailand 17.2 billion US dollars. The IMF conditions agreed upon when Thailand accepted this loan had the goal of stabilizing the exchange rate by improving foreign confidence in Thailand's future. However, these conditions caused the Thai economy to contract further and resulted in the survival of only 35 finance and securities companies (out of the original 91) and the Thai government taking over 7 of these remaining finance and securities companies and 4 of Thailand's 15 commercial banks (Leightner 1999, 2007). These events lead to economic and political problems that have plagued Thailand from 1997 to today and for which there is no end in sight (Leightner, 2007).

Thailand's crisis spread through out Asia and the world. Between August 1997 and November 1998, Thailand, Indonesia, South Korea, Brazil, and Russia accepted IMF loans and IMF conditionality. The world was shocked. If Thailand,

which was lauded by the IMF as a model for the world, could fall so hard and so fast, then what country was safe? Furthermore, if problems in Thailand could start a panic that could force four other countries to such desperation that they would accept IMF loans and conditionality, then what country was safe? Moreover, before Thailand's crisis its foreign reserves of 39 billion US dollars were viewed as more than adequate to handle any problems Thailand could face. When the events of 1997-1998 showed that these reserves were inadequate, many countries started to accumulate as many dollars as they could. These countries did this either out of the fear of facing a similar fate as Thailand and/or out of a desire to keep their exchange rates artificially low in order to promote exports.

Total reserves (minus gold) for all countries in the world grew 3.23 fold from 1,265 billion SDRs in 1997 to 4,080 billion in 2007. For just developing countries, total reserves grew 4.55 fold from 683 billion SDRs in 1997 to 3,107 billion in 2007. For just Asian countries, total reserves grew 4.92 fold from 384 billion SDRs in 1997 to 1,891 billion in 2007. For just China, total reserves grew 9.13 fold from 106 billion SDRs in 1997 to 968 billion SDRs in 2007 (International Monetary Fund, 2008). Much, but not all, of these increases in foreign reserves were held in US dollars or US treasury bills.

Between 1997 and 2007, the US gained tremendously from the world's increased appetite for US dollar reserves. However, this appetite also set up the US for the current crisis. If we assume that two trillion of the increase in foreign reserves for the world between 1997 and 2007 was US dollars (which is a

conservative estimate), then this means that the US received two trillion dollars of foreign goods or physical assets in exchange for other countries accepting printed US paper in the form of US dollar bills, treasury bonds, etc. If the world would never cash in these US dollar bills or treasury bonds, then the US has received two trillion dollars of goods and physical assets for free.

This US gain is compounded when nations fix their exchange rates below market clearing levels. Lindsey (2006), focusing on just China's fixed exchange rate, explains:

> The Chinese clearly undervalue their exchange rate. This means American consumers are able to buy goods at an artificially low price, making them winners. In order to maintain this arrangement, the People's Bank of China must buy excess dollars, and has accumulated nearly $ 1 trillion of reserves [this is now over $ 2 trillion]. Since it has no domestic use for them, it turns around and lends them back to America in our Treasury, corporate and housing loan markets. This means that both Treasury borrowing costs and mortgage interest rates are lower than they otherwise would be. American homeowners and taxpayers are winners as a result.

Lindsey recognizes that US producers who compete with Chinese imports lose from China's fixed exchange rate; however, he insists that the US consumer, tax payer, and homeowners gain more than US producers lose. What Lindsey (2006) did not consider is that China and the rest of the world accumulating US dollar reserves would fund a speculative bubble in the US that would lead to the worse recession the US has suffered since the great depression. Nor did Lindsey consider the possibility that China might someday cash in their US dollar reserves.

Just as the Bangkok International Banking Facility (BIBF) lead to an inflow of money into Thailand that funded a speculative bubble in real estate, the world

sending the US its excess savings funded a speculative bubble in the US (Zhou Xiaochuan as quoted in Batson, 2009). The deceptive actions of certain corporate leaders in the US and confusion about the true risks from financial derivatives compounded the US bubble. Once this bubble burst, the US greatly reduced its imports, which created a crisis for the Export Promoting Asian Development Model. Recall that in order to have an export promotion strategy, you must have someone who is willing to import your goods.

III. After the Crisis, Can Asia Return to its Export Promoting Model?

The only way that Asia could return to its export promotion model after the crisis is if countries like the US would return to their excess consumption and Asian countries would return to their accumulation of US dollar reserves. It is unlikely that Americans will return to excess consumption in the next decade because this crisis has scared many Americans into saving much more than before. The memory of this crisis will fade slowly, meaning that a return to excess consumption will return slowly, if ever.

It is also unlikely that Asia will continue to accumulate US dollars after the crisis in the volumes that have been accumulated in the last decade. Already, with both actions and words, China has threatened selling some of its US dollar assets. On March 13, 2009, Wen Jiabao (premier of the State Council of the PRC), “spoke in unusually blunt terms … about the ‘safety’ of China’s $ 1 trillion investment in American government debt, the world’s largest such holding, and urged the Obama administration to offer assurances that the securities would

maintain their value” (Wines, et al, 2009). In response, the US Treasury and the White House made reassuring statements. Even before Premier Wen Jiabao expressed his concern so publicly and bluntly, the US Secretary of State (Hillary Clinton) personally reassured China when she visited China in February 2009 (Wines, et al, 2009).

Moreover, Zhou Xiaochuan (the governor of China’s central bank) has urged the world to stop using the US dollar as the world’s reserve currency and instead use an IMF issued currency, like Special Drawing Rights (Wang, 2009). At the G-20 meetings of November 2008, Hu Jintao (China’s President, General Secretary of the Chinese Communist Party, and Chairman of China’s Central Military Commission) proposed a complete reform of the international financial system (Wang and Xin, 2008). Although President Hu did not explicitly say it, such a reform would entail replacing the US dollar as the world’s reserve currency.

Not only are Chinese officials making strong statements about abandoning the US dollar as the world’s reserve currency, they are making these statements with the full knowledge that their words are likely to cause the value of the US dollar to fall. On November 7, 2007, Cheng Siwei, a vice chairman of an advisory board for China’s parliament, said “foreign reserves should take into account the strength of currencies, as strong currencies such as the euro could offset weak ones such as the U.S. dollar” (Molinski, 2007). Within one day of Cheng Siwei’s statement the euro surged 1.2% to a new record high against the US dollar. If Cheng Siwei’s statement implying that China should increase the

percent of its reserves held in euros gets such a strong reaction, then what does China expect to happen when it suggests a world wide abandonment of the US dollar as the world's reserve currency?

Even more disturbing than these words and their expected impact on the value of the US dollar is the fact that China has probably already started selling relatively small amounts of dollars in recent months. From January 2000 to March 2009 (a total of 110 months) China's foreign reserves fell in only four months – December 2003, October, 2008, January 2009, and February 2009 (Leightner, 2009).

Some experts argue that China will not sell its US dollar assets because selling part of their US assets would drive down the value of the rest of their US dollar assets (Wines, et al, 2009). Using a new analytical technique (Leightner and Inoue, 2007) that solves the omitted variables problem, Leightner (2009) finds that the value of the US dollar would fall in Europe and Asia by 4.42 % if China sold 10% of its foreign reserves.

> [Thus] if 1.27 trillion of China's reserves are in US dollar assets (or 65% of the total reserves as estimated by Molinski, 2007), then China selling ten percent of its reserves (for 195.4 billion dollars) could cause the value of China's remaining reserves to fall by 50.5 billion dollars (1.27 x 0.90 x 0.0442), greatly diminishing China's return. Given this large effect, China has the incentive to either sell none of its US dollar reserves or to sell all of its US dollar reserves. If China was convinced that the value of the US dollar would fall by a significant amount, no matter what China did, then it would be rational for China to sell as many of its US dollar assets as possible and as quickly as possible. If China sold all of its US dollar reserves then the value of the US dollar would plummet by at least 44 percent which would cause the value of US exports to fall by 44 percent (as measured in other currencies) and the dollar price the US pays for imports to increase by 44 percent. Such changes in exports and imports would drive the US economy much further into recession.

The US has gained tremendously by having the dominant currency in the world. Specifically, the US has received four trillion dollars of goods and assets from the rest of the world in exchange of printed paper (US currency, treasury bills, etc). However, now the world has four trillion dollars of claims against future US production. Four trillion dollars of leverage puts the US in a very vulnerable position.

Because the current crisis is revealing to the world the weakness of the US, the world is unlikely to return to accumulating US dollars after the crisis. Given what the current crisis has revealed and given that world leaders, especially from China, are promoting the replacement of the US dollar as the world's reserve currency, I do not believe that a return to the pre-crisis international system is possible. The pre-crisis international system made the past Asian development model possible. Asia will not be able to return to that model.

IV. The Next Asian Development Model?

The previous Asian Development Model depended on the US and Europe purchasing Asian exports. A major part of the financing of this model was done through exporters accumulating US dollars. If the world is unwilling or unable to return to the large scale accumulation of US dollars, then where will Asia find the buyers needed to propel its future development? It is unlikely that Asia can find another country whose currency they trust enough to accumulate as they have recently accumulated the US dollar and that also will be willing to immerse itself

in excess consumption like the US has. In the post crisis world, Asia is unlikely to enjoy the huge trade surpluses they have enjoyed in the past. Returning to an export promotion strategy is unlikely to be a viable option.

What Asia needs is a new buyer for its goods. There is no greater potential source of buyers on this earth than the relatively underdeveloped domestic markets of Asia. These markets could blossom if governments across Asia would use taxation and spending tools to transfer money from profits into wages or from the rich to the poor. In order to let its domestic market fully develop, China has the additional task of solving problems in its health care and pension systems. These problems are the primary reasons that the Chinese save so much (Prasad, 2009, and Leightner, forthcoming). If these two systems could be fixed, then the Chinese would probably reduce their savings and consume more of their income. With the Chinese market being so large, increased consumption could lead to several waves of domestic investment and growth. This type of phenomenon has happened before in Japan and in the US.

Ozawa (1985) describes how a large increase in the real income of Japan's working class lead to several waves of domestic demand driven investment during the 1960s. At first, Japan's working class spent part of its increased real income on washing machines, automatic rice cookers, TVs, air conditioners, and automobiles. In response to this increased demand, Japanese companies built new factories and expanded old factories in order to increase their production of these consumer items. Japanese housewives who acquired these goods discovered that they had an increase in their leisure time. The

average Japanese housewife spent 11 hours per day on household chores before the war, but less than 8 hours every day by 1969. This increase in leisure time produced increased demand for, and investment in, domestically produced leisure goods and services.

The US in the 1920s also enjoyed several successive waves of demand driven growth. Rosenberg (2003, p. 4) explains:

> Though invented earlier, the full impact of the automobile on the US economy was not felt until the 1920s. Car production increased three-fold during this decade. This generated strong demand for investment in the automobile industry as well as in other industries dependent on car production such as tires, auto parts, plate glass and steel. Roads and traffic lights needed to be built and gas stations soon followed. The automobile fostered the growth of the suburb. With suburbanization came increased spending on new housing. Many of the new homes would be electrified and have telephones and radios. Thus, investment spending in the electric power, telephone and communications industries took off.

President Hu Jin Tao has pledged to encourage the growth of the Chinese domestic market. This is the direction that Asia needs to go. Asia needs buyers for its goods. If the Asian consumer/worker could earn more money and if they did not have to live in fear of health problems destroying their futures and the futures of their children, then Asian growth could become self sustaining.

Please note that I am not advocating a turning of our backs on trade. I am advocating a redistribution of income from profits to wages and from rich to poor. I believe that such a re-distribution would cause self-sustaining growth and much more balanced trade. Asia would no longer be so dependent on the US and Europe buying Asian goods. The risk of Asia being pulled into a crisis that began in the US or Europe would also diminish.

V. Conclusions

Economists for decades have advocated increasing savings which will fund investment which drives growth. The current crisis has revealed flaws in this argument. The current crisis has shown that countries with relatively high savings rates can enjoy greater investment and growth only if there is a buyer for what their investment produces (Leightner, 2000 and forthcoming). When that buyer goes into crisis, he will pull the seller into it with him. A much better (but admittedly more complex) strategy is to correctly balance savings with consumption. Savings provides the funds for investment, but consumption provides the reason for the investment. Both are needed. Furthermore, if consumption and savings are correctly balanced, then speculative bubbles will not occur (Leightner, 2008).

A corollary to the above conclusion is that a correct balance needs to be found between profits and wages. Mr. Deng Xiaoping is famous for saying that "What ever makes profits is good for China." However, the current crisis has revealed that profits, at the expense of wages, results in a "trade surplus growth strategy" which makes a country vulnerable.

Finally a less obvious conclusion from the current crisis is that countries should carefully consider both the gains and loses from having their currency be the world's reserve currency before advocating for it. By having the world's reserve currency, the USA has gained tremendously over the last 60 years. The

US has gained prestige and power. The US has gained trillions of dollars of goods and assets in exchange for printed paper. The standard of living in the US is much higher because the US dollar has been the world's reserve currency. Clearly the US has gained by having the dominant currency of the world.

Due to these gains, several countries have made bids to replace the US dollar as the world's reserve currency with their own currencies. An explicit goal underlying the establishment of the Euro was to replace the US dollar as the world's reserve currency. In the early 1990s Japan tried to convince other Asian countries to hold Japanese Yen instead of US dollars in their reserves. Some experts believe that China is now laying the groundwork needed to replace the US dollar as the world's reserve currency with the Chinese yuan (LeVine, 2009).

However, the down side of the US having the dominant currency in the world is that other countries accumulating US dollars is what funded the speculative bubble that caused the current crisis. Furthermore, the world now has trillions of US dollars which if a large holder (like China) tried to dump, a panic would result, the value of the US dollar would plummet, the entire international financial system would go into crisis, and the American economy would collapse. Leightner (2009), using a new technique that solves the omitted variables problem, finds that if China would sell just ten percent of its foreign reserves, the value of the dollar would fall by 4.4% diminishing the value of the rest of China's reserves. Thus China has the incentive to either sell none of its dollars or all of its dollars. If China would sell all of its foreign reserves, then the value of the US dollar would plummet by at least 44 percent. Thus, the US is

now vulnerable to China. Any time that China disagrees with US policy, it can mention the possibility of it selling its dollar holdings. Yes, the US had gained tremendously from having the dominant currency in the world, but now the US is vulnerable. Yes, the international financial system needs to be changed. However countries need to consider carefully the current vulnerability of the US before they advocate replacing the US dollar with their own currencies.

Finally Asia will be unable to return to its pre-crisis economic development model. Asia's best hope for future development is a redistribution of income from profits to wages and from rich to poor which can drive several waves of domestic demand, investment, and growth. This type of growth occurred in Japan in the 1960s, in the US in the 1920s, and it can happen in developing countries in the 2010s.

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