

Using Traditional Best Practices in Building a Vision for the Economic Development of Ukraine

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SINCE 1990 THE WASHINGTON INSTITUTIONS HAVE PROVIDED A STRING OF RED HERRINGS

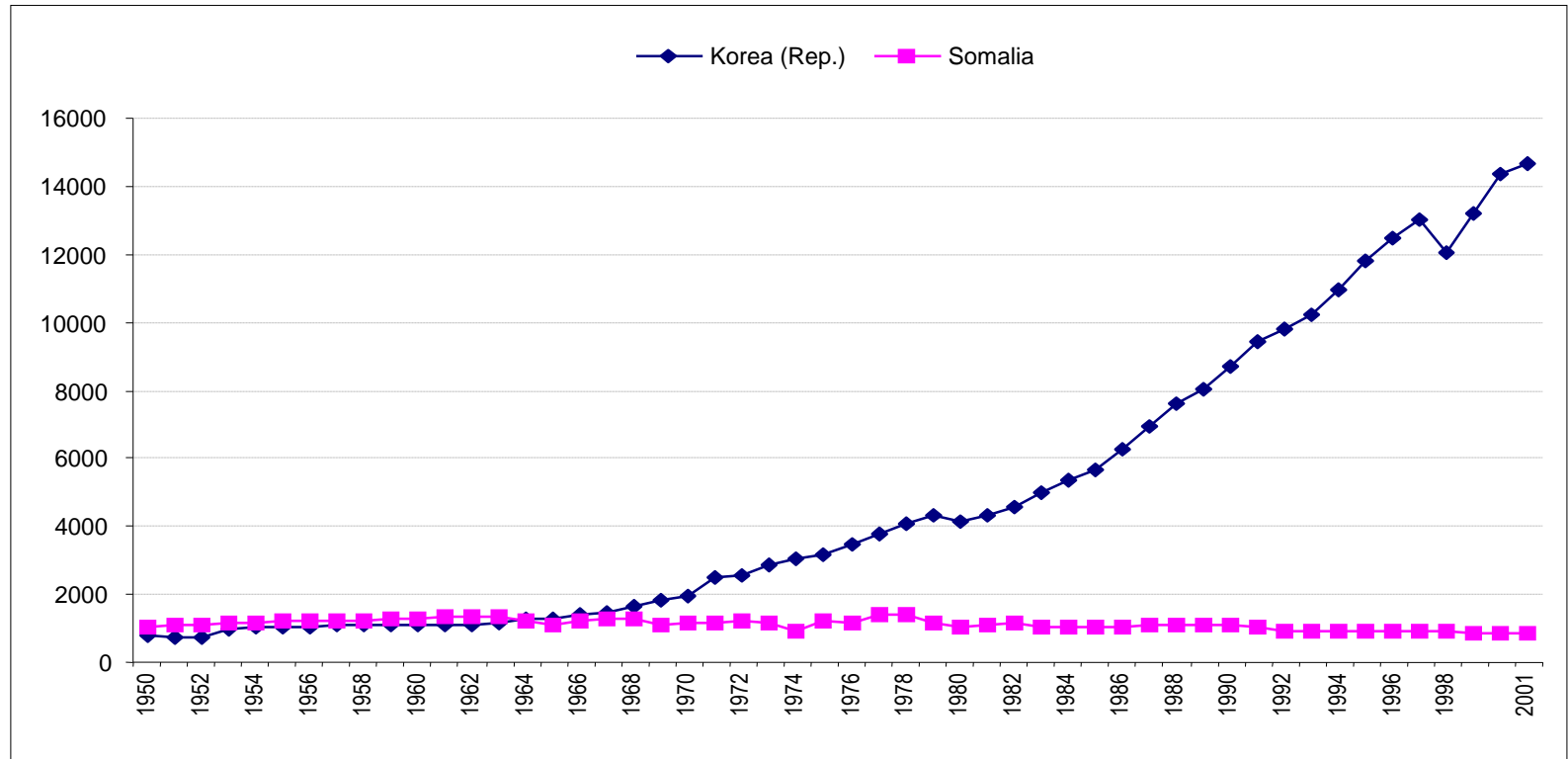
- 'get the prices right'
- 'get the property rights right'
- 'get the institutions right'
- 'get the governance right'
- 'get the competitiveness right'
- 'get the innovations right'
- 'get the entrepreneurship right'
- 'get the education right'
- 'get the business climate right'
- 'get the corruption right'
- 'get the culture right'

Missing dimension:

'GET THE ECONOMIC ACTIVITIES RIGHT'

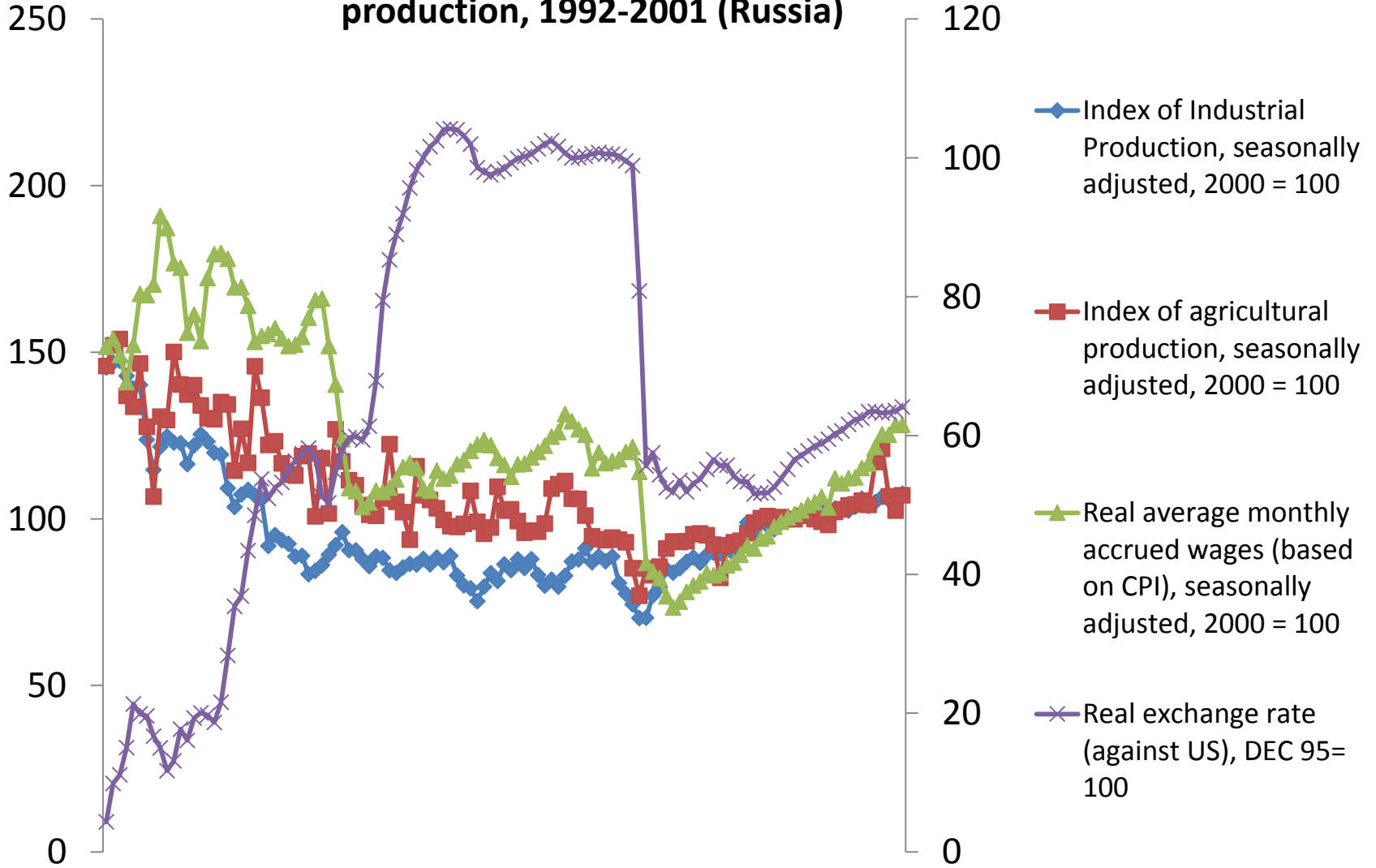
The Path from the Third World to the First World

Korea (Rep.)-Somalia, GDP per Capita 1950-2001



Source: original data extracted from Angus Maddison, *The World Economy*, Paris, 2003

The Second World: Exchange rate (right axis), real wages and production, 1992-2001 (Russia)



Manufacturing matters: The lost wisdom we had after WW II.

“The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. **This division of labor is the basis of modern civilization.** At the present time it is threatened with breakdown.”

George Marshall, announcing the future Marshall Plan, Harvard, June 5, 1947

Forgotten economic understanding which is
now key to the Ukraine.

‘There is the illusion that the New
Germany left after the annexations can be
reduced to a *pastoral state* (i.e. without
industry). **It cannot be done unless we
exterminate or move 25,000,000 people
out of it’.**

Herbert Hoover, Report from Germany to
President Truman, March 18, 1947.

Economic structure and population carrying capacity

Hunting and gathering soc. 1-2 persons / km²

Agricultural societies 40 persons / km²

Industrial soc (ex. Holland) 400 persons / km²

By killing manufacturing industry you severely cut a nation's ability to support its own population.

Having an inefficient industry is infinitely better than having none at all!



An idea that united capitalism and communism:
wealth cannot be created without manufacturing

The World Bank confirms F. List:

“Except for a few oil-exporting countries, no countries have ever gotten rich without industrialization first’

Justin Yifu Lin. World Bank Chief Economist, *New Structural Economics: A Framework for Rethinking Development and Policy*, Washington DC: World Bank Publications, 2012, p. 350.

European and US economic strategy since 1485

First **EMULATION**: emulate the economic structure of the leading nation(s)

And only then:

COMPARATIVE ADVANTAGE

In other words: the **TIMING** of free trade is a crucial variable.

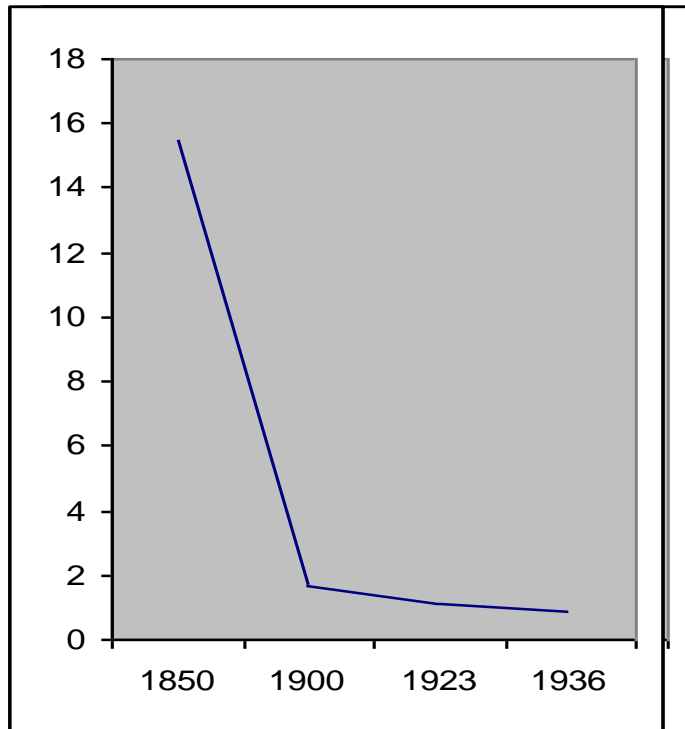
A cautious diagnosis of Ukraina.

The country may suffer from what Albert Hirschman, development economist, diagnosed as *Fracasomanía*.

The cult of things going wrong! (3rd world)

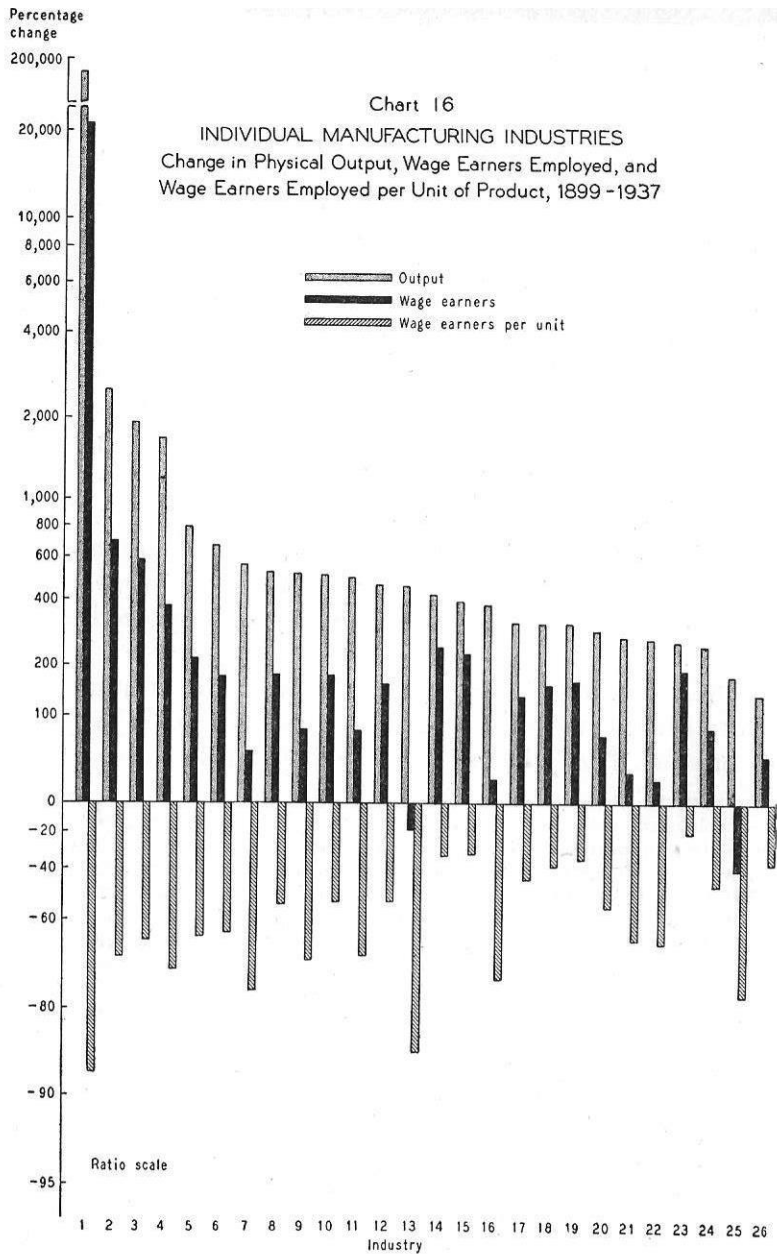
If there is one Russian heritage you should get rid of it is this one. Here you can learn from the Americans.

USA: Learning Curve of Best-Practice Productivity in Medium Grade Men's Shoes'.



Man-Hours Required by Best-Practice Methods of Producing A Pair of Medium-grade Men's Shoes at Selected Dates in the U.S.

| Year | Man-Hours Per Pair |
|-------------|---------------------------|
| 1850 | 15.5 |
| 1900 | 1.7 |
| 1923 | 1.1 |
| 1936 | 0.9 |



- INDUSTRY
- 1 Automobiles, incl. bodies and parts
 - 2 Chemicals, industrial, incl. compressed gases and rayon
 - 3 Petroleum refining
 - 4 Beet sugar
 - 5 Fruits and vegetables, canned
 - 6 Ice
 - 7 Glass
 - 8 Paper and pulp
 - 9 Silk and rayon goods
 - 10 Knit goods
 - 11 Printing and publishing, total
 - 12 Butter, cheese and canned milk
 - 13 Cigars
 - 14 Rice
 - 15 Paints and varnishes
 - 16 Coke-oven products
 - 17 Zinc
 - 18 Liquors, distilled
 - 19 Steel-mill products
 - 20 Tanning and dye materials
 - 21 Copper
 - 22 Explosives
 - 23 Wood-distillation products
 - 24 Fertilizers
 - 25 Blast-furnace products
 - 26 Jute goods

- INDUSTRY
- 27 Cotton goods
 - 28 Hats, wool-felt
 - 29 Shoes, leather
 - 30 Cane sugar
 - 31 Salt
 - 32 Meat packing
 - 33 Cottonseed products
 - 34 Leather
 - 35 Woolen and worsted goods
 - 36 Liquors, malt
 - 37 Shoes, rubber
 - 38 Carpets and rugs, wool
 - 39 Lead
 - 40 Cordage and twine
 - 41 Gloves, leather
 - 42 Hats, fur-felt
 - 43 Chewing and smoking tobacco
 - 44 Flour
 - 45 Ships and boats
 - 46 Cars, railroad
 - 47 Lumber-mill products
 - 48 Turpentine and rosin
 - 49 Linen goods
 - 50 Locomotives
 - 51 Carriages, wagons and sleighs

