

THE ILLUSION OF CATCHING UP THE SOCIO-ECONOMIC REGIONAL GAPS*

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Abstract:

There is a sort of scientific bias in the way economics literature approaches the issues of general or regional economic growth and socio-economic backwardness.

The term 'catching up of socio-economic gaps' appears to be rather a contradictio in adjecto, a sort of oxymoron, than a possible evolution of the world's countries. The very idea of 'catching-up' or 'recovery' as a consequence of 'lagging behind' seems to be more specific to sports competitions or post-surgery periods. Transferring the idea of 'backwardness' to human communities (be it tribes, villages or political-administrative entities of higher dimensions) is at least questionable. The contradiction is generated by the very establishment of the benchmarks for identifying 'backwardness'. During the last 50 years, and after 1990 especially, the appeal to such indicators as GDP/capita, HDI, Gini coefficient, convergence criteria etc. became a common place. Nowadays it appears to anyone a matter-of-course, that any geopolitical entity can be "weighed" or "measured" by reference to a set of uniform criteria.

Unfortunately, the global and regional efforts made after WW II towards an accelerated socio-economic growth of both developing and less developed countries succeeded only for few countries to reduce the historically shaped gaps as against developed countries. On the contrary, for the bulk of the 'lagged behind' regions gaps seem to have risen. This is why many questions arose about the inefficiency of the steps made towards 'catching up of socio-economic gaps', such as: "Why after about 70 years of international welfare levelling efforts, gaps between development and living standards of the world regions are still so large?" "Why do economies have to grow at any price?" "Is the forced (artificial), accelerated development beneficial? And if so, to whom?" "Are specific historical socio-economic structures negligible under the pressure of globalization?"

This study tries to identify the fundamental bias of the regional accelerated development efforts.

Key words: economic development and growth, backwardness, development gap, catch-up effect, specific regional policies, macroeconomic indicators.

JEL classification: B25, O10, O43, Q56, Z13

Motto:

People crushed by laws, have no hope but to evade power. If the laws are their enemies, they will be enemies to the law; and those who have most to hope and nothing to lose will always be dangerous. [1]

But the age of chivalry is gone. That of sophisters, economists, and calculators has succeeded; and the glory of Europe is extinguished forever. [2]

INTRODUCTION

During the last 50 years new theories, models and scenarios appeared concerning the objectives and stages of socio-economic growth and development for all world regions. According to established criteria and indicators, countries have been classified in "developed", "developing" and "less (or least) developed".

According to the United Nations Statistics Division, nevertheless, "there is no established convention for the designation of "developed" and "developing" countries or areas in the United Nations system." [3] The same source states that "The designations «developed» and «developing» are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process." [4]

However, the statistical “convenience”, expressed by economic and social indicators annually published by international, regional and national institutions, shows smaller or bigger differences between regions, areas or countries. This is how the issue of *development gap* became a common place.

The origin of the idea of “economic development *gap*” is associated with the obsession of economic *growth*. In both academic and mass media there are “cohorts” of researchers, analysts, commentators who use a more or less wordy language fitting often perfectly to the wooden language sadly recalling the socialism era. [5] So, we got used to consider as objectively *given* some statements that became axioms:

1. The economy, in general, *has to* grow permanently, including of course the inherent cyclical fluctuations.

2. The gaps between the backwards economies and the developed ones *must be* alleviated and finally eradicated.

The above underlined words (“given”, “has to” and “must”) suggest the character of *historical necessity* or objectivity: the economic, political and sociological thinking follow ineluctably this way.

Despite this common, generalized approach, the very issue of “gap” between socio-economic development levels of the contemporary political entities has always been extremely delicate.

As a conference paper aims to reveal not only ultimate truth, but also heuristic issues, here are several questions concerning the fragile issue of *gaps and backwardness*:

- a. How did they get to the **necessity** of featuring the development level of each political or geo-economical entity by the instrumentality of economic macroindicators systems?

- b. Are the accelerated and *at any price* [6] economic development and growth of all inhabited regions of the world the main target of mankind?

- c. How did the imperative of generalized economic growth become a *postulate*?

- d. How much effective is the regions’ ranking by macro indicators (such as GDP/capita, GNP/capita, HDI etc.) for the scientific knowledge, as well as for the *adjusting* actions at the local or global level?

- e. Is it reasonable to compare regions with distinct institutional evolution features, as if they were supposed to follow the same historical path (the Palau, Tonga, Kiribati archipelagos with the USA, Norway, China or Singapore)?

- f. The economies of the advanced, highly civilized regions are outcomes only of free market and private property democratical institutions or rather of their colonial and military expansion?

Perhaps we could not give accurate answers to all these questions. But we must at least agree with Richard Ennals’: “We need to find, develop and test new ways of working together so that problems can be addressed and, if not solved, at least better understood.” [7]

INSTITUTIONAL DIVERSITY AND „HISTORICAL DELAY”

Nowadays human society appears to be still divers, despite the countless efforts towards homogenization.

Over the past two centuries, within the framework of the so-called “modernization” and “globalization processes”, political revolutions and institutional restructuring by reforms aim at diluting the differences given by the traditional peculiarities of each local community.

This is why people strive, individually or collectively, to change their lifestyle, deserting “oldfashioned” customs and traditions for the modern ones. And so, *change* became the leitmotif of the common and scientific thought. The absolutely necessary *change* was converted to a fundamental preconception (or *prejudice*).

There are not only *common* prejudices, but also *scientific* prejudices. Belaboured by famous historians, sociologists, and political scientists (G. Vico, G.W.F. Hegel, K. Marx, W.

Sombart, W. W. Rostow, and many others) the hypothesis of **stage** evolution of mankind became a thesis.

Human society advances from the inferior to the superior (Hegel). Here lies the key of *progress*. [8] The faster evolving regions of the world influence or determine the delayed ones in a *necessarily historical* way.

Such a modeling of the becoming of mankind starts from a series of prerequisites, as:

- There are evolution *models* and *ways* unavoidably and gradually followed by all human societies. [9]

- Each new stage of evolution is obviously superior to the previous one; passing to the new stage is therefore *historically necessary*.

- *Leapfrogging* should occur when it is not possible or necessary to run through each stage already experienced by the developed regions, or when the catch-up estimated period is too short.

- New institutional forms (cultural, religious, political, economical and social organization patterns) are assimilable within longer or shorter historical periods.

- *Ethnical apriorism* (customs, traditions, popular culture, mentalities) is merely a temporary hindrance for the establishment of the new rules.

- For the *backward* regions the next stage is generally already known.

- The very probable incompatibility of the new institutional forms with the mentalities peculiar to the *backward* regions would be solved by centralised decision at the level of state or international agencies.

The application of this theoretical approach would prevent (and actually *has prevented*) the local communities not only from a free (by themselves) evolution, but it also would preclude (and *has precluded*) a specific, own rhythm of change.

Introduced as *integrating* or *holistic* (globalizing) the aforementioned preconception assumes the existence of one or more theoretical and methodological evolutionary model(s) generally available and locally applicable. *Per se*, the historical analysis has become subject of prejudgement and anticipation of the very probable historical stages to reach by the developing or less developed countries.

Therefore, many authors acquainted with the previous progressing evolution of Western capitalism, and following the matrix inherent to new regions integration, use to call as “objectives” the processes derived from the experience of developed regions, such as: building of infrastructure, electrification, industrialization, schooling, literacy, modernization of agriculture, urbanization, etc.

The principle of this approach method is extremely simple. It starts from the prerequisite of the success won by the organization *forms* in certain regions/countries, and, considering that “they shouldn’t reinvent the wheel”, concludes the necessity to direct all the “backwards” on the same *path* on which passed the western wealthy nations.

Unfortunately, the history of “lagging” or “backwards” regions abounds in contradictory facts, data, and events specific to the very processes of institutional, cultural, and behavioural adjustment. And, more than that, there is a permanent pressure put on the development rhythm of *peripheral* regions to catch up with the *core* regions of progress.

It is apparently unreasonable, physically and mentally impossible for a region to build in decades (20-50 years) effective economic and social mechanisms shaped during centuries in other regions. History showed that even more than 150 years were not sufficient for most of less developed regions to catch up with the more developed ones.

“STAGES” OF DEVELOPMENT

After Great Britain’s industrial take-off by the end of the 18th century, during the 19th century the successful industrializing economies were Belgium, France, Germany and the USA. For the beginning of the 20th century they were followed by Austro-Hungary, Russia, Northern Italy, Japan, and the Scandinavian Countries.

The success of the industrial development in Western Europe, USA, Japan and later Australia and Canada opened the way to optimistical expectations for the possible spread of economic progress through industrialisation over other regions of the world. [10]

The economic and social evolution during the past five centuries is generally described as a rather linear process that crossed several stages, from mercantilism (or *commercial capitalism*) and industrialisation to the post-industrial stage. [11]

Starting from the fifth decade of the 19th century economic nationalism emphasized the big role played by the development of the national *productive forces* that is by a vigorous industrial development. [12]

For the new created national states, the first step towards economic growth was considered to be the building of a democratic, free market institutional framework. This process lasted about fifty or more years for the majority of the European regions during the 19th century. The new institutions were supposed to assure freedom and welfare. A fairly timid process of industrialisation took-off as well in the Eastern regions of Europe.

But...! A lot of hindrances were met on the way of a fast industrialization of the agricultural or raw material exporting regions. [13] By the middle of the 19th century, manufactures were little developed in the vast majority of the world countries. Furthermore, the propensity to entrepreneurship and the domestic investment capital were mostly absent. More than that, monetary economy was specific only for a relatively few areas.

Apart from the main prerequisites, such as financial capital, crafts and manufacturing traditions, entrepreneurship and investment propensity, a major obstacle to development was the ideology prevailing for the majority of individuals (the peasantry) in the most “backwards” regions consisting of informal constraints (customs and traditions), the so-called *path dependance*.

The situation changed with very slow rhythms until 1940, despite the endeavours to spread the “institutions of freedom” (free markets and constitutional democracies) in many regions of the world. The assimilation of the foreign modern institutions (constitutions, civil codes) proved to be rather formal than actual.

By 1940 no one could have said how long it would have lasted until less developed regions economies’ structures, such as those of the South-Eastern European countries, would have become compatible with the supply structure of the developed regions. However, the proper, suitable transformation rhythms were too slow as compared to the growth rhythms of the West.

The experience of the Soviet Union was considered an encouraging example, and so socialism became the solution for a number of less developed countries to accelerate their growth and development rhythms.

Leapfrogging appeared to be the solution. Socialism should have been an effective “leapfrog”. But was it indeed? Has Romania and other socialist countries achieved the “catch up” by 1989 or after 1990?

COMPARISON CRITERIA FOR THE UNEVEN REGIONAL DEVELOPMENT

The statistical analyses [14] made during the fourth and fifth decades of the 20th century showed great differences between the factors productivity in agriculture and industry [15], between the standards of living, sanitary and education conditions, etc. of industrialized and raw materials producing regions.

Meanwhile, so many works concerned with growth models and analyses have been belaboured, that it should be really hard to accurately list them. However, the research criteria in the field of economic growth and development can be classified in two significant groups:

The first group of criteria would include growth and development macroindicators used for quantitative cross-countries analyses. [16]

The analysis of macroindicators offers stunning results. Let’s take a simple example looking at the GDP figures produced by the international agencies.

Table 1. Gross Domestic Product of Romania, according to the international estimates

- Billions of US\$ -

	IMF		WB		UN		CIA	
	2014		2013		2013		2104	
Total GDP (nominal)	53	199.9	53	189.6	53	188.1	53	188.9
Total GDP (PPP)	45	392.8	46	379.0	-	-	43	288.5

Source: http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28nominal%29,
http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28PPP%29

Data for *Total nominal GDP* (Table 1) appear to be slightly different: Romania ranks on the 53rd position among the world's countries, regions and dependencies, with about 189-199 billion US\$.

On the other side, the values mentioned for the *Total PPP GDP* show a staggering difference of more than 100 billion US\$: the IMF produces the greatest value, 392.8 billions of US\$ (45th position), while the CIA World Factbook shows only 288.5 billions of US\$ (43rd).

Table 2. Gross Domestic Product of Romania per capita, according to the international estimates

- US\$ -

	IMF		WB		UN		CIA	
	2014		2013		2013		2103	
GDP (nominal)/capita	68	10034	73	9499	75	8705	72	8900
GDP (PPP)/capita	60	19712	59	18974	-	-	77	13200

Source: http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28nominal%29_per_capita
http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28PPP%29_per_capita

The values for Nominal GDP/capita data (Table 2) are once again divergent, lowering Romania's position from 68th with 10034 US\$/capita as given by IMF statistics to 75th place with 8705 US\$/capita mentioned by the United Nations. The same happens with GDP (PPP)/capita: the "optimistical" IMF data place Romania on the 60th position with 19712 US\$/capita, but the "pessimistic" CIA statistics see Romania on 77th place in the world with only 13200 US\$/capita.

These substantial differences reveal not only distinct methodological approaches, but also the relativity of statistical data, given the specificity of each country, region or territory represented.

The second group of criteria, the cultural and institutional background seems to be much more important than the quantitative approach.

The *rising West* covered the area where European shipping, trade and handicraft, developed during the late Middle Ages, made possible the conquest of vast overseas regions that gave birth to the future colonial empires starting from the 16th century.

By the middle of the 20th century the world's economic map was mostly configured. Only a few winners, the already developed countries, were comparable to each other.

For the rest of the "backwards" regions newcomers, who had missed the *take-off*, the predominance of the old established *institutional paths*, mentalities and behaviours **should not allow a reasonable quantitative comparison to the advanced societies.** [17]

To many libertarians the modern constitutional-democratic and competitive free market institutional framework appeared to be successfully applicable everywhere and anywhere. Because it worked somewhere, it would automatically work everywhere, as an engine, or a computer, irrespective of the cultural and educational patterns.

Romania is not a particular case, in spite of its certain "originality". Leapfrogging by importing the main formal institutions intended to a democratical and free market organization was specific to the vast majority of the world regions. Within two or three generations the less developed regions were expected to record growth rhythms superior to the developed countries.

But they didn't! Until 1940 "the Romanian democracy created not even the conscience of citizen", as Emil Cioran magistrally put it.

Adopting and adapting foreign rules is not a guarantee that they will be effective. The radicalism of change as well as the lack of an effective authority to enforce the new constraints begot weak institutional structures. Perhaps more important than the differences between cultures was the manner - *how* - the new patterns were protruded.

The weak institutionally structured economy and society are the main outcome of a hasty transition from unstable political and economical regimes to apparently stable and hard to assimilate structures. History shows that radical and serious institutional changes have been followed by enforcing regimes. From Peisistratids' tyranny to Bonaparte's dictatorship (*Premier Empire*) compelling effectively new systems of laws has been done under strong authoritarian regimes.

Instead of a real authority starting from 1859 until 1940 Romania benefited by a persistent laxity of the newly introduced institutions. The political and economical elites were not able to enjoin a coherent *specific* juridical system. As in many other world countries (regions), the contact with the new western constitutional structures after 1859 led to superficial and formal assimilations of the new institutional framework.

The survival *art* and *techniques* acquired during centuries under the Turk domination and Greek administration taught the landlord as well the peasant, the industrial employer as well the worker to mime adaptation.

The lack of an organic evolution of the economic institutional framework is visible during both the capitalist and the socialist systems. It is hard to speak about "structures", as long as the institutional instability was not *frictional* but quite *symptomatic*: most of the Romanian (economic) subjects learned to permanently adopt and adapt (foreign) institutions, as everybody knows that "laws are done only to be broken".

* * *

Considering only the macroindicators, any comparison between economic entities is possible and allowed. But is any comparison effective or efficient? What should we use quantitative indicators for?

A simple list of tabulated macroindicators such as total or per capita GDP and GNP, "Gini coefficient", or the HDI showing the rank of a country or region in the world might be significant for "quizzes". It would be the same as comparing Mont Blanc, Chomolungma and Moldoveanu peaks, as well as we may compare the number of population or the countries' areas or the land distribution according to properties' size or crops' types etc..

What should we than compare?

Any development is explainable, even if it is considered to be a "miracle".

Let's take, as an instance of such a "miracle": the rough development of Japan. Starting from 1867, during the *Meiji Era*, Japan industrialized rapidly importing capital and modern technologies from Western Europe and USA. After only two generations, Japan was able to successfully engage in two wars within a single decade - the first Sino-Japanese war (1894-1895) and the Russo-Japanese war (1904-1905) – gaining control of Taiwan, Korea and the southern half of Sakhalin. Was it really a "miracle"? Or was it rather an expectable evolution? How had Japan evolved until 1867? After introducing the Chinese characters during the *Heian period* (from eighth to twelfth century) and developing of a system of education in the spirit of discipline, honour and sacrifice for more than ten generations during the *Tokugawa* or *Edo period* (1603-1867) based on *bushido* (samurai code of honour), Japan adopted the Western European institutions after 1967, during the same span of time as Romania. Are these two countries comparable?

How could it ever be reasonable to compare the macroeconomical outcomes of regions with quite different *cultural* or *institutional paths*?

Which are the common cultural background criteria for a reliable comparison between Bermudas, Philippines, Albania, Tanzania, Bulgaria, Columbia, Japan and Norway?

Is it correct to call “backwards” a region or a country only because they didn’t evolve similarly to the developed ones?

And furthermore how could it ever be possible for a “backward” region to really catch up with the advanced ones? Or, put it in other words: a region that was *obedient* for centuries could catch up with an *expansive* (imperial) region, a colony or a neocolony with a metropolis state? USA, Canada and Australia are the great exceptions! On the other hand, the Asian “tigers” Taiwan, South Korea, Hong Kong or Singapore are not at all “miracles”.

Thus the term 'catch up' appears to be rather a *contradictio in adjecto*, a sort of oxymoron, than a reasonable evolution of the world’s countries. The very idea of ‘catching-up’ or ‘recovery’ as a consequence of ‘lagging behind’ seems to be more specific to sports competitions or post-surgery periods. Sportsmen and sportswomen engaged in a competition will not get the same results, but they are compatible to compete: all of them are similarly trained to face competition.

Transferring the idea of ‘backwardness’ to human communities (be it tribes, villages or political-administrative entities of higher dimensions) is at least questionable. The contradiction is engendered by the very establishment of the benchmarks for identifying ‘backwardness’. Applying the same macroindicators to all the countries/regions appears to be as a *Procrustean bed*.

The diversity of endowments prerequisites consisting of capital, natural, human resources, etc., etc. would make impossible a reasonable comparison.

Effective comparisons should be made only if the prerequisites of the historical evolution were compatible: early/late development of an expanding monetary economy, commercial network and trading techniques, crafts traditions, capital resources, investment in education, science and technologies resulting in “national” agricultural, demographic and industrial revolutions, as well as raise in productivity, modern credit institutions, entrepreneurship, occupational diversity, policies’ expanding or defensive character, etc.

Most authors assert the idea of the “unavoidable”, “implacable”, “irreversible” character of globalization. Is it indeed too late to reconsider the way the humanity evolves?

ENDNOTES

- * The present paper was presented in a simplified form at the trimestrial conference of the Section for *Economic history and history of economic thought* of the Romanian Academy on December, 10th, 2013.
- [1] Edmund Burke, *Letter to Charles James Fox (1777-10-08)*
- [2] <http://www.brainyquote.com/quotes/quotes/e/edmundburk149708.html>,
http://www.brainyquote.com/quotes/authors/e/edmund_burke_2.html, retrieved: 2013.08.10.
- [3] <http://unstats.un.org/unsd/methods/m49/m49regin.htm#ftnc>, retrieved 2015.01.23.
- [4] <http://unstats.un.org/unsd/methods/m49/m49.htm>, retrieved 2015.01.23.
- [5] “In the quest for economic growth, free market ideology has been embraced around the world with the fervor of a fundamentalist religion faith”. „În goana după creștere economică, ideologia pieței libere a fost îmbrățișată în întreaga lume cu feroarea unei credințe religioase fundamentale.”; David C. Korten, *When Corporations Rule the World*, Kumarian Press Inc. și Berrett-Koehler Publishers, 1995; *Corporațiile conduc lumea*, Editura Antet, 1997, p. 82.
- [6] The price of economic growth during the last two centuries was the environment’s havoc, resource depletion, support of local, regional, and sometimes global conflicts, as well as dilution of cultural identities in the great ocean of world’s expected welfare. This price of accelerated development rises proportionally with the stifling rhythms of both economic growth and technological progress supported by an exceptional credit expansion (created fake money that became *legal tender*).
- [7] Richard Ennals, *Artificial Intelligence and Human Institutions*, Springer-Verlag, London, 1991, p. 3.
- [8] Cf. Alberto Martinez Piedra, *Natural Law: the foundation of an orderly economic system*, Lexington Books, 2004, p. 88.
- [9] “... a people’s intelligence and strength may not suffice [...], and it may hold to the lower law; or it may happen that another nation has reached its higher constitution, thereby rising in the scale, and the first gives up its nationality and becomes subject to the other.” G. W. F. Hegel, *Lectures on the History of Philosophy*, vol. II, p. 98, *apud* http://en.wikipedia.org/wiki/Hegelianism#Philosophy_of_history.
- [10] “A good deal of our thinking about industrialization of backward countries is dominated – consciously or unconsciously – by the grand Marxian generalization according to which it is the history of advanced or established industrial countries which traces out the road of development for the more backward countries.”

- Alexander Gerschenkron, *Economic Backwardness in Historical Perspective, a book of essays*, Cambridge, Massachusetts: Belknap Press of Harvard University Press, 1962, p.6.
- [11] The taxonomy of development stages of the world regions is obviously much more complex. See, for example, among others, professor's Frithjof Kuhnen excellent synthesis: *Causes of underdevelopment and concepts for development - an introduction to development theories* at <http://www.professor-frithjof-kuhnen.de/publications/causes-of-underdevelopment/3.htm>. Almost all so far existant development theories are synthetically described: "modernization", "dualism", "balanced growth", "unbalanced growth", "stages of growth", "big-push", "development poles", "circular causation", "socio-psychological theories", "sociological explanation of socioeconomic change", "theory of social change", "dependence theories", "external trade theories", "circular deterioration of terms of trade", "theory of immiserizing growth", "imperialism theory", "classical imperialism theory", "modern imperialism theory".
- [12] The neo-mercantilist classical work for the 19th century remains Friedrich List's *Das Nationale System der Politischen Ökonomie*, Stuttgart, Tübingen, 1841.
- [13] "[...] in several important respects the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced economy." Alexander Gerschenkron, *op. cit.*, p.7.
- [14] See for instance *Industrialisation et commerce extérieur*, Société des Nations, Genève, 1945.
- [15] It is worth to mention here the contribution of Mihail Manoilescu in his fundamental work *Forțele naționale productive și comerțul exterior*, Editura Științifică și Enciclopedică, București, 1986, first edited in French, *Théorie du protectionisme et de l'échange international*, Paris, 1929, translated into Italian and English, as well as in a new edition in German: *Die nationalen Produktivkräfte und der Aussenhandel; Theorie des internationalen Warenaustausches*, Berlin, Junker und Dünhaupt verlag, 1937.
- [16] For instance: World Bank's *World Development Indicators*; UNCTAD, *Handbook of Statistics*; European Union, *Eurostat* etc.
- [17] Scholars and generally people may compare anything to anything. So, for instance, one might compare mice with elephants, or worms with snakes. All one needs is to establish the criteria for the comparative analysis.

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20. * * *The Economist*, <http://www.economist.com/economics-a-to-z/c#node-21529531>