
CASE STUDIES

“Case Studies” presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

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DEVELOPING COUNTRIES

Developing countries have an industrial economy, in which labor and capital are complements. Undeveloped countries have a Nature’s economy in which labor and capital are substitutes (fishermen on a lake, hunters in a forest). Developing countries have both. If workers are free to move from one to the other, with a single real wage.

In countries just beginning to develop, the wage will be dominated by Nature’s economy. Industry won’t have to pay what labor is worth in an industrial economy—the marginal product of labor. Workers will be artificially poor and industrial employers will be artificially rich. Because labor and capital are substitutes in Nature’s economy, as it loses workers they become more valuable until the gap with [the] industrial economy disappears. Fully industrialized countries, who have to pay their own workers what they are really worth, create colonies to take advantage of the cheap labor in underdeveloped countries. But by investing abroad, rather than at home, the colonizing countries are depriving their own workers of jobs.

This probably works best with undemanding, repetitive mass production of tradable goods.

Of course, industrial countries can resort to war to reduce their unemployed workforces.

Questions

Don’t we want to avoid increasing the colonizing real wage?

Could we be repaid only by investments that improve the colony’s trade balance?

Moral: Only local services can make workers more valuable.

Don’t we want to invest only in tradable goods plant?

But can’t we use the colony’s trade balance to make investments in home goods plant to make investments in home goods plant in our own country?

Aren’t we reducing the size of Nature’s economy in the colony?

What If Nature’s economy is growing too fast?

Aren’t the workers unlikely to do the saving?