Trickle-Down Versus Bottom-Up Development Models, Keynesianism, and the Broken Window Phenomenon

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The economies of developing nations could be treated as a broken window that requires the presence of a glazier on site to fix it. A broken window cannot be fixed from afar. Also, the amount received by the glazier when spent could generate the Keynesian multiplier effect only if the economic participants at the grassroots are cognitive of the economic opportunities in their surroundings. A trickle-down development model, as implemented in sub-Saharan Africa since independence, failed to meet these microeconomic conditions. Development models of countries located in two regions of the world are analyzed. Some countries in Southeast Asia gained their independence in the 1950s and 1960s, similar to many sub-Saharan African nations. Developing countries of Southeast Asia that applied a grassroots bottom-up approach to development, have far greater per-capita GDP after 60 years, and joined developed or upper-middle-income countries compared to their counterparts in sub-Saharan Africa that implemented essentially trickle-down economic models built on macroeconomics. Furthermore, the bottom-up development approach focuses on the communities and people rather than materials and money management. The bottom-up model develops the land, creates all-inclusiveness, induces a sense of belonging, and an egalitarian society. While the trickle-down model fails to incentivize real economic participants that could fix a broken window. Judging by the per-capita GDP of countries, the bottom-up method agrees with the institutional theory in evolutionary economics that economic development occurs through changes in the 'habits of thought.'

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Introduction

A story about a boy in England that unintentionally threw a rock that shattered the window of a bakery, thereby creating an economic opportunity for a glazier, is popular among economists (Palumbo, 2015). . This 19th-century story has become relevant today as it brought about an antithetical economic outcome to the prior popular economic thinking that production or supply creates its own demand—the Say's law. The reckless behavior of this boy induced expenditure from the baker and generated an income for the glazier. This was the bedrock for a later Keynesian theory stipulating that spending on problems creates income. The income is a multiple of the original spending, known in economics as the multiplier effect (Keynes, 1936).

Keynesian economics is based on the aggregate spending by all economic agents, households, firms, governments and the international sector. In U.S. households spending alone accounts for about 70% of the gross domestic product (GDP). Keynesianism suggests that as people, including the retired and the homeless, make a living, they contribute to the economy. The question is, would the multiplier effects occur without a domestic economy that necessitates chains of transactions? It would only occur when economic agents recognize opportunities around them, and take advantage.

Historical Evidence

Nations watched in the 1930s as their economies slid into the Great Depression. The economic mode of thinking then was purely laissez-faire—leave things alone, with no government interventions, and the economy would adjust to correct itself. However, the economy did not correct itself as expected. John Maynard Keynes came up with his book, *"The Theory of Employment, Interest and Money."* He stated that government interventions through changes in fiscal and monetary policies are necessary from time to time to correct intermittent declines in a nation's economic activities. His theory has been the handbook for modern economies.

The expenditure-dependent economy is also supported by historical wars. The U.S., along with Western Europe, experienced a fast rebound from the Great Depression of the 1930s owing to their spending on the 2nd World War that began in 1939. Please do not start another World War because you expect the rebuilding and reconstruction to create jobs! Again, during the mortgage meltdown of 2007–2008, a heavy-handed fiscal response by the Obama administration in the U.S., the Eurozone, and Japan, and the subsequent quantitative easing (QE) in the U.S., in the form of toxic mortgage buy-backs, saved the world from another economic depression. Thus, there is a clear evidence that aggregate spending could be applied to boost and stabilize economic fluctuations while keeping inflation in check.

In addition, some items in any government budget, such as unemployment and social security payments, serve as 'automatic stabilizers' as these payments raise aggregate expenditures during a recession. Although sub-Saharan African nations are too poor to include these payments in their budgets, some practices in sub-Saharan African nations whereby pensions, gratuities, and salaries remain unpaid, contract the economy because withholding payments to the public, according to Keynesianism, reduces spending and dampens income.

One could argue that the baker could have spent his money on something else if the boy had not been mischievous; the same cannot be said about the U.S. spending billions of dollars in a period if not for a World War in Europe. Critics of this theory also believe that the income and jobs created are short-lived and not in the long-run. All the same, expenditures to resolve problems vibrate through the whole economy to generate multiple incomes, assuming a proper economic structure that supports layers of spending exists.

With all the problems in sub-Saharan Africa, why are aggregate spending and the multiplier effects non-existent in the region? Perhaps, the answer could be found in the broken window phenomenon, when adversities become a national economic fortune by creating employment and wealth. Yes, it would be correct to say that eliminating poverty in Africa is tantamount to creating wealth because buildings must exist for neighborhoods to have 'windows.' The buildings here are identical to a well-structured society that induces a series of transactions.

Zero-Order Institutions and Broken Windows

The institutional aspect of fixing a broken window, whether literally or figuratively, that serves as a spur to economic expansion needs to be analyzed. The point is, literally by norms, the sight of a broken window in Europe is considered indecent; it is not condoned and must be fixed quickly. Therefore, there are pressures on the baker, being a business person or household in Europe that encounters 'broken windows' or other facility miscues to take action immediately. It is not an individual's choice, as the 'rational choice' theorists would think, but the collective habits and norms that abhorred indecency compelled the baker to take immediate action and replace the broken windows. Furthermore, the sight of loaves of bread packaged in an unhygienic building would reduce the public's appetite for that bread, leading to a decline in revenues. Not to mention the market values of properties in the entire neighborhood that could plummet due to the presence of a broken window. These are elements of zero-order (traditional) and market institutions, respectively, at play.

But who cares about a broken window in Africa? Broken windows and other minor property damages are accepted and tolerated because Africans feel that life is too precious to be bothered by trivial issues such as broken windows. The notion that my property value will decline because a neighbor has a broken window is still beyond the imagination of Africans. The owner of the home or business with a broken window, who is not under collective pressure, could just relax, and fix it at his/her convenience. By so doing, expenditures, employment, and waves of income are lost. This outcome stems from norms, and values.

In Africa, there are literal and figurative 'broken windows' in industries and towns––'broken window' in housing, 'broken window' in agriculture, 'broken window' in clothing, 'broken window' in transportation, 'broken window' in education, 'broken window' in healthcare, 'broken window' in beliefs, etcetera. Thus, if society does not condone these broken windows, there will be attempts to fix them, resulting in greater employment and income. Therefore, broken windows (poverty) emanate from existing beliefs and norms––institutions. Change the institutions, the mode of thinking, and development will ensue. The Institutionalists explain that all values and 'habits are acquired, learned and routinized.' Which development model would enable people to acquire, learn and retain new institutions? Trickle-down or bottom-up development model?

Trickle-Down Approach—Sub-Saharan Africa

The trickle-down model presupposes that people are entirely "rational." People are capable of disintegrating, and synthesizing economic information signaled from global trade and international finance, using this information to make sound economic choices. If people are divorced from political and economic awareness due to prevailing local institutions, are they still rational? If not, what happens?

Based on trickle-down mainstream neoclassical economic theory, beliefs and norms do not affect economic behaviors. There is the notion that as sub-Saharan African nations export natural resources and get richer, all the existing symbolic broken windows will be automatically fixed, and Keynesianism will kick in. Practically, broken windows cannot be fixed from afar. The glazier would have to come to the site and the grassroots using the appropriate tools. To benefit from Keynesianism, there has to be a proper economic structure in place and layers of economic agents fully cognitive of their situation, lily willing and ready to fix their broken windows.

This is not the case in sub-Saharan Africa. These nations are satisfied with selling commodities and natural resources for reserve currencies as revenue, then stop. Oil, gas, limestones, diamonds, and reserve currencies do not spend; people spend. Therefore, to attain the full economic rewards of fixing a broken window and the subsequent expenditure multiplier, economies must be people-focused. Besides, the revenues received in hard currencies afford sub-Saharan African nations to pay for imported consumer goods. Thus, domestic expenditures are part of overseas' Keynesian aggregate expenditure multipliers. This process does not focus on the broken windows; it is more or less practicing Say's Law—your production and supply of natural resources to the world creates demand for foreign goods. Even worse, when the proceeds from natural resource exports do not cover the costs of imported goods and services, these countries run trade and current accounts deficits year in and year out. Combined with the domestic economy, a major part of which operates underground, with no tax base, leading to budget and twin deficits.

There are numerous economic drawbacks in the trickle-down development model––people are alienated from the economy; domestic resources capable of fixing the windows are left idle; human capitals emanating from a learning curve are not created; local transactions and the multiplier effects are lost; local habits remain unchanged; and real economic developments are halted. If there is a curse on economies that rely on the export of natural resources, it is because such global commodity trade makes developing countries abandon domestic economic agents, and thus do not alter local norms and values. Ruling elites, realizing that people are so alienated, engage in plunder and squandering of public assets.

One could argue that sub-Saharan African nations, perhaps, could have combined natural resource exports with import substitution development model. However, there are lack of human and social capitals to make import substitution development model possible. For example, twin deficits and the resultant currency devaluations are supposed to create economic opportunities at home. But people are alienated and are not economic agents that would recognize and pursue available economic opportunities.

Another development model flaunted on Africans in the wake of independence from Britain was export-led development model that was key to the Japanese economic success. Well, if people could not produce for home consumption as dictated by import substitution model, how could they produce for the world markets? African nations are unable to partake in the export-led model despite a series of restructuring programs. One question in the readers' mind is, where would sub-Saharan African nations find the funds to fix all the broken windows? That's the beauty of the Keynesian theory—in a well-coordinated economy with money and credit, expenditures create income in the nation. The theory also stresses the power of people in any economy because people engage in transactions. Transactions support the velocity of money (a topic for a different paper).

As seen in Table 1, the 1960 Ghana's per-capita GDP ($183), a measure of social wellbeing, is greater than South Korea, Taiwan and Thailand in the same year. Sixty years later (2020), Thailand, with per-capita GDP of $7,197, the lowest among Southeast Asia (see Table 2), is more than triple any nation in sub-Saharan Africa. Also, Ghana, with the largest per-capita GDP among sub-Saharan African nations, expanded by a meager 12 times its 1960 level. Nigeria expanded by 25 times but remained far below South Korea, which expanded by 200 times its 1960 level (Table 2).

<u>Table 1 – Sub-Saharan African – Trickle-Down Model</u>

Country	Development Model: Exporting Natural Resources	1960 Per-Capita GDP	2020 Per-Capita GDP*	Expansion Size After 60 Years
Angola	Crude Oil and Diamonds	N/A	$1,776	N/A
Cameroon	Crude Oil & Cocoa beans	$119	$1,537	13 times
Ghana	Petroleum and Gold	$183	$2,206	12 times
Kenya	Tea, Coffee and Flower	$97	$1,879	19 times
Nigeria	Crude Oil and Gas	$93	$2,097	25 times
Uganda	Gold and Coffee	$63	$822	13 times
*Per-capita GDP data Source: IMF website, downloaded March 26, 2022 at 11:05 pm.				

Bottom-Up Approach—Southeast Asia

The countries of Southeast Asia—Hong Kong, Singapore, South Korea, Taiwan, Malaysia and Thailand—emphasize changing peoples' living conditions, and thus, way of life by implementing bottom-up development models at the grassroots. Malaysia and Singapore, after their separation from Britain, carried out several people-based

Table 2 – Bottom-Up Development Model

Country	Development Model; People-Focused	1960 Per-Capita GDP**	2020 Per-Capita GDP	Expansion Size After 60 Years
Singapore (1960s)	• Home ownership • Universal Education • Public Transportation • Shareholding	$428	$59,798	140 times
South Korea (1950s)	• Universal Education • Land reform • Egalitarian society • National Tax Services	$158	$31,631	200 times
Taiwan	• Universal Education • Land reform • Security • Digital Industries	$150	$28,405	189 times
Hong Kong	• Colonial Legacy • A link to mainland China • Shipbuilding • Sugar, cement factories	$429	$.46,329	108 times
Malaysia (1950s)	• Reducing inequality • Knowledge based population • Poverty eradication • Manufacturing of Microchips and semiconductor	$234	$10,412	44 times
Thailand	• Govt.-private sector alliance • Infrastructure Develop. Plan • Thailand 4.0 – All-inclusive economy, raising human values. • Industrial Exports	$101	$7,187	71 times
**Per-capita GDP data Source: IMF website, downloaded March 26, 2022 at 11:05 pm.				

programs, including home-ownership, no-one-left-out education projects, healthcare, and shareholding in major domestic and international corporations. This was also the case in

South Korea after the Korean War in the 1950s, and reconstruction problems became the main priority. Hong Kong and Taiwan were considered autonomous countries until 1997, when Britain handed the former over to China. Thailand operates a parliamentary democracy and is the only country on the list that was not colonized.

The South Korean Government, recognizing inequality in land ownership, bought lands from rich landlords and resold the land to poor farmers. The poor farmers paid the government in installments. It led to equal opportunities for all and created a 'can do spirit' among the South Koreans. Their autocratic neighbor, North Korea, implemented the same development policy but confiscated land from land owners and redistributed it to poor farmers.

In South Korea, community adult learning centers are spread around the country. It is not surprising that South Korea's per-capita GDP expanded 200-fold in 60 years. (see Table 2). Thailand planned to create an all-inclusive nation where everyone could realize their full potential in its Project 4.0. The Southeast Asian countries combined domestic policies with import substitutions that enabled them to learn by doing, followed by manufactured goods export-led model as they participated in the new technologies.

Cultural (Institutional) Comparison

There is a staggering difference between the two regional development models. The Southeast Asian countries practiced people-oriented bottom-up development model. Psychologically, in terms of hard work, civil disturbance, patriotism, and corruption, how would homeownership, universal education, poverty eradication, and egalitarian society affect the mindsets and habits of people?

In Singapore and the countries in the Southeast region, each has at least three quarreling and acrimonious ethnic groups—Malays, Chinese and Singaporean; and the majority Thai, Thai-Chinese, and Malay in Thailand. Upon independence in Singapore, these groups were reportedly suspicious, and ready to pounce on each other. Ethnic rivalries between major groups in Nigeria were no different. Nigeria has the Hausa, Yoruba, Ibos, plus numerous minority groups. The same is true for Kenya with Kikuyu, Luhya, Kalenjin, among other groups. There are imported religions in both regions—Buddhist, Muslim, and Christianity, along with a dominant philosophy/religion (Confucius) in Southeast Asia, but Muslim and Christianity in sub-Saharan Africa along with local religions.

Leaders in Southeast Asian countries neutralized the ethnic tension and the desire for religious dominance in their countries by implementing bottom-up economic model. The Southeast Asian leaders believe that an educated family man owning properties and stocks, whose life is comparable to his neighbors, would not engage in a civil or religious uprising and would work hard to keep his properties. It is a simple psychology, and it worked for economic development.

This is not the case for sub-Saharan African nations fully dedicated to the trickle-down development model constructed around mainstream-neoclassical ‘rational choice’ theory. Trickle-down economic policies exclude the masses from the economic scheme of things, impoverish them, and induce corruption. As a consequence, religion is the people’s hope in sub-Saharan Africa. Instead of manufactured goods and services, the region has produced pockets of terrorist groups in Nigeria, Mali, Kenya, and other spots. Terrorist activities in sub-Saharan nations in the past decades not only retarded economic progress but have also made young democracies a hold-your-breath exercise.

Many of the first policymakers in both regions received scholarships to study economic policies and the arts of governance in Britain. This was necessary before handing over the reins of governments to the newly independent states. Unlike Singapore, a small nation that built its military from scratch, all the sub-Saharan African nations inherited good security and military apparatus from Britain. Nigeria had a world-class army, air force, navy, and police, in addition to several universities.

What could be responsible for the conspicuous differences in the approach to economic programs and performance in the two regions? Mainstream economics either has no answer to this puzzle, or it is politically incorrect to give meaningful explanations for the apparent disparities in economic progress after 60 years. However, they say, “Religion defines who we are,” and religion is part of zero-order institution. Thus, institutional economics can explain: Confucianism teaches harmony, thrifty (low time preferences), and “Consideration for others is the basis of a good life, a good society.” A thrifty society saves, plans for the future, and are better entrepreneurs. Harmony necessitates an egalitarian society. Consideration for others mandates the leaders to be altruistic and think outside their family members. Therefore, the Southeast Asian leaders were concerned about the whole population, and how to create jobs and improve social wellbeing for everyone. In contrast, the sub-Saharan African leaders were inspired by their local religions that are heavily entrenched in the supernatural and practiced unwritten beliefs that admonish 'destiny dictates social welfare.' Thus, for 60 years, it's hands-off social wellbeing.

Moreover, unlike sub-Saharan African nations, the Southeast Asian countries, being more calculative, recognized the development stage of new states, and placed development spotlight on altering behaviors/habits at the community levels. The Forward to Lee Kuan's book illuminates this point: "It is often overlooked that the institutions of the West did not spring full-blown from the brow of the contemporaries but evolved over centuries which shaped frontiers….The institutions of the West developed gradually, while those of most new States were put into place in elaborated form immediately" (Lee Kuan Yew, 2000, p. ix).

Conclusion

To fix a broken window expenditures, are required, and such expenditures generate the Keynesian multiplier, resulting to layers of income in an economy. A broken window cannot be fixed from afar. A glazier must be on site with the appropriate toolbox. Developing countries could be likened to societies checkered with 'broken windows' in all sectors of their economies. Sub-Saharan African nations, in their attempts to fix these 'broken windows,' embraced trickle-down development models, hoping that economic agents onsite could comprehend information disseminated from macroeconomics, international trade and finance, and synthesize the information to literally fix all the 'broken windows' in their economies. It has become practically impossible for sub-Saharan African nations since broken windows cannot be fixed from a distance.

The Southeast Asian countries, with little or no natural resources, implemented bottom-up policies at the grassroots, where there are 'broken windows' and introduced domestic policies capable of changing institutions that influence peoples' mindsets. These include land and homeownership, universal education, healthcare, egalitarian society, stockholding, public transportation, etcetera. The bottom-up public policies induced a sense of belonging, and spirit of hard-work, eliminated inequality, neutralized ethnic strife, and the desire for religious dominance. The people of the Southeast Asia were transformed by changes in local prevailing institutions.

Using 1960 and 2020 per-capita GDPs of both regions, the Southeast Asian countries performed far better than their sub-Saharan African counterparts. While the latter countries remain poor, the former either developed or are among high-middle-income countries. The successes of Southeast Asians indicate that broken windows are better fixed onsite (bottom-up). This is in agreement with institutional economics that asserts development is a consequence of changes in the local 'habits of thought.'

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