The Middle-Income Trap

 more politics than economics

By Richard F. Doner and Ben Ross Schneider

Economists have identified the existence of a middle-income (mi) trap but have yet to analyze the politics of this trap. The authors argue that countries in the mi trap face two major institutional and political challenges. First, the policies necessary to upgrade productivity—as in human capital and innovation—require enormous investment in institutional capacity. Second, these institutional challenges come at a time when political capacity for building these institutions is weak, due primarily to the fragmentation of potential support coalitions. Politics are stalled in particular by fractured social groups, especially business and labor, and more generally by inequality. These conditions result in large measure from previous trajectories of growth. The empirical analysis concentrates on nine of the larger mi countries.

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