

## MOTIVATING FACTORS OF LIBERALIZATION AND PROTECTIONISM DECISIONS IN THE KNOWLEDGE-BASED SOCIETY

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### Abstract

In the paper we present and analyze the influence of the main factors that underly the economic liberalization and protectionism decisions. Without no doubt, the economy and the society supports some obvious changes as a result of the increase in knowledge volume and knowledge development sphere.

In this conjuncture, we analyze, from temporary and doctrinal perspective, the possible changes that may occur in the hierarchy of the factors that support economic development decisions and motivate the measures of economic liberalization and protectionism.

In time, these factors have changed their position and role in the economy and society, they have evolved through the accumulation of knowledge, and their applicability effects are changing once with the economic and social dynamics. The same factor, once considered the driving engine of economic growth and development, currently it can be efficient only if it incorporate enough knowledge; otherwise it will have a secondary role in the economic scene if other factors acts more efficient in a three dimensional plan: economic, social and environmental.

The list of main motivators of economic liberalization and protectionism, as they were acting at certain periods of time, gives us the full image of liberalization and protectionism current features by establishing the trends of the two processes characterized by knowledge.

**Key words:** knowledge, knowledge based society, economic liberalization, economic protectionism, decisions

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### MATERIAL AND METHOD

This is a theoretical paper, written on the basis of the analysis of the main doctrines, concepts and theories, by means of synthesis, description, quantitative and qualitative comparisons, following research of the specialized literature, with a view to determining the stage of knowledge in the researched field.

### RESULTS AND DISCUSSIONS

Over the time, many controversies have taken place as for the factors that determine the economic development and growth, and motivate the measures of liberalization and protectionism.

The necessary conditions for the perpetuation of welfare are explained by *Maurant*: there is a good method to make wealth increase. Those who produce should grow in number, while those who spend should decrease. Those who work should double their endeavours, those who administrate should be economical. Then, wealth will be permanently plentiful (*Maurant, S, 1997*).

The economists' attempt to thoroughly explain the sustained growth of labour productivity and wealth implies the consideration of more and more explanatory factors. In the period of the '40s

and of the '50s, the economic theory underlined the importance of the 'capital' factor in the long run economic growth, by the direct correlation of the phenomenon of economic growth with the process of the capital accumulation (high investments sustained by a high rate of savings) and by a given largess in the circulation of products between states. By the end of the 1950s, explaining the economic growth by capital accumulation is already an unsatisfactory answer.

The 19<sup>th</sup> century theories, according to which demographic growth represents the key-factor of the economic growth, were brought back to life. The capital, now relatively cheaper, is used in bigger proportions to save labour, now relatively more expensive. The possibility to substitute factors of production results from the possibility to modify technology. Starting with the '60s, indeed, the economists' concern is to try to explain the economic growth by the technological innovations that most of the countries have access to after the liberalization of the markets.

The research received a new impetus in the '60s, when the analyses underlined the significant influence of education, of the skills and abilities generated as part of the educational process and put to good use in the production field.

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In spite of the obvious preoccupations for economic growth and liberalization, though the concept of “human capital” has been known since *Adam Smith*, neither *Thomas Malthus* nor the later studies paid much attention to the human capital.

In the knowledge-based economy, the economic analyses of education demonstrate the existence of a tight relationship between the investments in the human and educational capital, the economic performances, liberalization and protectionism.

In the '70s, the theorists revived the lessons of the works written in the first half of the century by *Joseph Schumpeter*, *Ludwig von Mises* and *Friedrich von Hayek*. They had made a deep analysis of the role the enterpriser plays in the economic progress in the context of the competitive mechanisms. The progress made at the level of knowledge, of technological innovations and of economic structure is supported by agents that accept the risks of discovering the wanted information and adjustments in the structure of production. This process is conditioned by the existence of a system of financial stimuli that could justify and guide the entrepreneurial activity and the allocation of resources in the structure of production.

From this perspective, innovation and entrepreneurial activity look like a cause of economic growth and liberalization, and the stock of natural resources, that of physical and human capital, occupies a secondary position. The importance of the entrepreneurial activity is justified by the very fact that real economy is characterized by incertitude, and the amount, quality and intensity of the entrepreneurial activity are consequences of some given favourable economic and social conditions.

Liberalization, economic growth and development are sustained by the fact that the entrepreneurs, the managers and people in general manifest their preference for cooperation and progress.

Since the World War II until now, several factors have been regarded as a cause of economic development and growth and as motivators of economic liberalization and protectionism, according to the case. The investments in industry, the investments in infrastructure, industrialization by substituting imports, rise of the society's education level, the import of high technology and the wide implementation of the technological progress, the preferential treatment of the less developed countries in the international trade, the annulation of foreign debts and the increase of the international economic aid, political stability and democracy, information and knowledge, etc. have

been regarded, one by one, as major factors of economic development and growth and as reasons to eliminate the obstacles in the way of the movement of products and people between countries and to find new modalities to protect economy and society.

The succession of these strict and primordial conditions occurred faster than the really beneficial life changes in the undeveloped countries, which were the most affected ones following the imposition of economic measures that aimed at a high degree of openness.

For a long while, *J. B. Say's theory of the production factors* greatly influenced the economic thought, decisions and policies. The essence of this theory is given by the fact that in any economic activity participate, to different extents, the classical factors of production: labour, capital and land. These three factors of production have registered important qualitative and quantitative modifications that affected the whole structure of economic life, and now they are strongly marked by the increase of the knowledge degree.

*Peter Bauer* thought that economic development is much too complex a process to be restricted to a mono-causal relation: “economic performance depends on political, cultural and personal factors, on the people's capabilities and motivations, on political and social institution. Wherever they are favourable, the capital will be generated locally or will be attracted from abroad, and if the land is a rare factor, aliments will be obtained by its intensive farming or by the exportation of other goods” (Bauer P, 2000). In other words, liberalization presupposes the capitalization of the plus-production by exportation and the covering of internal deficits by imports.

Over time, the unilateral thought had gradually lost credibility, a given consensus existing in the current literature towards the economic development-growth-liberalization relationship with regard to the multitude of the determinant factors.

*Nicholas Stern* wrote, at the beginning of the 1990s, about a multitude of factors with an impact on economy and society: the accumulation of capital, the human capital (including the education process), research and innovation, management and organization, infrastructure, the allocation of the output between the directly productive sectors (Bauer P, 2000).

*William Easterly* showed that there are proximal causes and fundamental causes for economic growth and implicitly for liberalization and protectionism. The proximal causes are the accumulation of capital under different forms and technological change (usually measured by the rise

of the total productivity of the factors). The fundamental causes are the structures (institutions, geography, demography, etc.) and the policies that facilitate or hinder the accumulation of capital and the technological change (Easterly W, 2003). The factors that support economic growth depend on liberalization and protectionism, according to the target they have.

The English economist *Kaldor* thinks that the essential factors of economic growth are: the rise of the employment rate, of the investments and production of goods for investments (of the fixed capital) and the rise of the production of exports. This last factor does not become effective unless a number of measures are applied that should lead to the increase of the degree of economic liberalization.

Referring to the numerous causes of economic growth, underlined, over time, by the economists, *A.K.Cairncross* noticed that three of them are more important than the others: the development of the markets, the accumulation of capital and the technical progress (Cairncross A.K., 1992), which is generally obtained by importation from the countries that owe it, so that, for the economies that have to acquire it, liberalization is the only method of rapid access to the new technologies.

*Solow*, using the data furnished by the American economy in the period 1909-1949, reached the conclusion that only 20% of the GDP growth rate is due to the evolution of the capital and of labour, while 80% is assigned to technical-economic progress, a high enough percentage to justify the measures of economic liberalization.

*Michael Porter* thought that the process of economic growth is influenced by bottom factors and top factors. The bottom factors include elements that can be found, to different extents, in all national economies: natural resources, low-qualified labour, climate conditions, geographical conditions, etc. The top factors are specific to economically developed countries. If the former category of factors exist in a natural way and presuppose generally low investments for their perpetuation and development, the top factors (infrastructure, highly qualified labour, research-development activity, etc.) emerge, exist and develop as a result of important internal and external investments, and therefore under conditions of economic liberalization.

Economic development and growth presuppose the correlation of several factors, so that economic results as good as possible could be obtained. *Ioan Erhan* asserted that economic growth... a complex phenomenon by its own nature, is determined by several factors; it is

important for the countries to adopt intelligible, clear, wide strategies, in order to develop an economic environment favourable to economic growth" (Erhan I., Mitran I, 1997), and this implies measures of economic liberalization.

After 1960, in *Gunnar Myrdal's* and *Joseph Schumpeter's* works appeared the idea that an important role in economic development is played by culture, and therefore by knowledge. *Myrdal* thought that the major obstacle in the way of evolution of the economic and social activities, which, in their turn, influence to a huge extent a country's stage of development.

The understanding of the place and role of the "classical" factors should not be regarded in a simplistic way, but should be correlated with a big number of productive and non-productive factors, including the influences of the technical-scientific progress, that affects the qualitative side of all factors of production, while knowledge has started to find its place in the category of the factors with an impact on the socio-economic processes.

The traditional factors of production (labour, land, capital) keep on influencing the economic activity, but they occupy a secondary place. They can be easily obtained if knowledge or the necessary information exists. Science is an instrument, a mean to obtain social and economic results (Drucker P., 1994), and culture comes to support, like a pillar, the other components.

The fact that information and knowledge will play an important part in the processes of economic development and growth and will be the major motivators of the process of liberalization for the countries that do not owe enough knowledge or cannot apply it effectively enough, but also of the protectionist process for the countries that owe knowledge and can also apply it, does not mean that the role of the other factors (the classical ones) will be diminished, but rather that an important part will be given to both labour, at a high level (the quality of the human factor) and technology, and this way important modifications will occur within each determinant factor in economy.

Presently, factors that contribute to the economic development and growth and motivate the two antagonistic processes, liberalization and protectionism, develop themselves under the impact of knowledge, having a direct or an indirect action, according to the case, although in most of the cases the contribution of one and the same factor is both qualitative and quantitative.

## CONCLUSIONS

Economic and social growth and development and the processes that support them, like liberalization and protectionism, have been determined by a wide range of factors with a broad spectrum of action, which have changed their form, structure, place, role and effects over time, as the economic theories demonstrate. Society and economy have developed from subsistence to knowledge, crossing significant transformations in terms of form and content, on an exponential trend with an obvious tendency towards economic openness and, concomitantly, to impose measures characteristic of protectionism, indirectly able to reduce uncertainty and to grant economic and social confidence. If the economic theory has supported, one by one, factors of different nature as being the determinant factors of the process of economic liberalization, development and growth, nowadays knowledge is paid most of the attention. No factor fulfils its role in an effective way unless it incorporates an as high as possible level of knowledge.

The volume of information and the sphere of knowledge are the elements that mark the transition from an economic and social development of extensive kind to one of intensive kind; liberalization comes to facilitate access to knowledge, information and the results of their

application, while protectionism helps them to be preserved in the economy that issued them, so that temporary advantages following the monopoly position could be reached.

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