

predicted by the neoclassical growth model.

While there is little doubt that development of human capital is an important variable in the growth equation, the type of human capital that is developed is also important. Talented people tend to enter the occupations where they are able to earn the highest returns on their particular talents. Which occupations individuals choose have direct implications for the allocation of resources, and hence the rate of real economic growth. If talented people become entrepreneurs, they tend to improve the state of technology. The probable result is productivity and income growth. By contrast, if talented people are able to earn a higher rate of return in rent-seeking activities, they will enter these occupations. Rent-seeking activities result in a redistribution of income rather than the creation of income. In addition, as rent-seeking sectors expand they consume a larger proportion of the economy's resources and attract a larger proportion of talented human capital, leaving fewer resources for more productive activities. The result is a general decline in the ability of an economy to fulfil its growth potential. Murphy, et al., look at the growth implications of college enrollment levels in engineering and law, presumably entrepreneurs and rent-seekers. They discover that there is a large direct and indirect positive effect of engineers on growth and a large direct negative effect of lawyers on growth. In their words: "Lawyers are indeed bad, and engineers good, for growth."<sup>17</sup>

● Trade

Export Promotion or Import Substitution: The Debate Revisited

The post-World War II period was a time peppered with optimism regarding the prospects for global trade and economic prosperity. The countries of the industrialized world were committed not to repeat the sequence of events which ultimately resulted in the beggar-thy-neighbour policies of the inter-war period; a period in which countries went through rounds of currency devaluations and retaliatory tariff increases to protect domestic industries. The General Agreement

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<sup>17</sup>Kevin M. Murphy, et al., "The Allocation of Talent: Implications for Growth," *Quarterly Journal of Economics*, Vol. 106, No. 2 (May 1991), p. 529. This statement should not be misinterpreted to mean that lawyers are always and everywhere detrimental to growth. Certainly arguments can (and have) been made for the growth-inducing benefits of a solid legal foundation. In post-communist Russia, for example, potential investors see numerous opportunities but have proceeded cautiously, partially as a result of the lack of well-defined property rights and enforceable contracts.