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Rational underdevelopment: regional economic disparities under the Heckscher-Ohlin Theorem

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Abstract

This paper analyzes how differences in regional development arise through technological variations and changes. Previous Ricardian-model-based considerations of this phenomenon, known as rational underdevelopment, have ignored migration, elasticities, multidimensional factors and inputs. This study thus re-examines rational underdevelopment in light of the Heckscher-Ohlin Theorem, considering two regions, with two sectors, in two periods. The regions have different factor and technology endowments. The first region has a technology sector, and the second is a technology laggard. Once a new technology that can potentially benefit both regions is introduced, the technology-endowed region offers financial transfers to the technologically lagging region. This equalizes regional incomes but also reduces the possibility that the laggard will adopt the new technology and decrease its developmental disadvantage. We also discuss the influence of mobile factors, which reduce regional inequality. The results show that rational underdevelopment extends beyond wage subsidies to mobile factors and capital. The analysis has implications for economic policies aimed at reducing inter-regional inequality.

Keywords:

regional economic disparities · rational underdevelopment · factor mobility · interregional transfers · regional policy · uneven development

JEL Classifications:

F10 · F11 · F19 · O10 · O11 · R00 · R10 · R15 · R19 · R20

Disclosure statement

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Notes

1. Partial specialization in the first period is also possible.

2. Author’s illustration based on Desmet (2002, 902) and Desmet und Ortín (2007, 13).