Summary

The concept of Immiserizing growth, introduced by Professor Jagdish Bhagwati, refers to that situation where an increase in a country’s export commodity leads to such deterioration in its terms of trade that there is a net decline in its export earnings and social welfare.

By transferring resources from one country to another, the goal is generally to make the receiving country better off. It follows from the theorem that quirks in the market mechanism render that goal impossible to achieve at equilibria.In the past, transfer payments were in the form of restitution payments imposed by the winning or conquering country over the repressed country.

Nowadays, the transfer-problem controversy is very much alive in the context of the ongoing debate on current account rebalancing at both regional and global levels. While there is considerable uncertainty about the timing and drivers of current account movements, the basic mechanism of adjustment requires a transfer of real resources from debtor countries to surplus countries. Such transfer involves a decrease in domestic spending relative to production in the debtor countries, accompanied by a simultaneous relative increase abroad.

From the perspective of comparative statics, it is noteworthy that the transfer problem can be observed only for sufficiently large volumes of trade.