Day 1 - Summary

[JULY 27, 2026]

[Saieh Hall, Room 146]
[5757 S. University Avenue, Chicago, IL 60637]

Lecture Summaries
Week 1, Day 1 Sessions

Session 1 | 9:00 AM – 10:30 AM

Lecture Summary – Creative Destruction and the Middle-Income Trap

In this lecture, Dr. Somik Lall introduced the World Development Report 2024 "Middle-Income Trap" framework for understanding why many middle-income countries struggle to sustain economic growth. He argued that the traditional debate between investment-led growth and innovation-led growth misses a critical middle stage. As countries become richer, growth increasingly depends on their ability to adopt, adapt, and diffuse existing technologies ("infusion") before becoming frontier innovators. Successful development therefore requires a gradual transition from investment, to technology diffusion, and ultimately to innovation.

The lecture emphasized that the biggest challenge facing middle-income countries is not a lack of resources, but the inefficient use of capital, talent, and energy. Many productive firms fail to grow while less productive firms remain in the market, talented individuals are prevented from reaching their full potential because of institutional barriers and weak social mobility, and energy is used inefficiently. These inefficiencies explain why many countries experience prolonged growth slowdowns despite continued investment and expanding education systems.

Drawing on Schumpeterian growth theory, Dr. Lall argued that successful economies balance three forces: creation, preservation, and destruction. While new firms and new ideas are essential, the greatest obstacle in many middle-income countries is excessive preservation of the status quo.

Policies often protect incumbent firms, industries, or institutions from competition, reducing incentives to innovate and preventing resources from flowing toward more productive activities. Rather than simply weakening incumbents, policy should discipline them by creating an environment where both established firms and new entrants compete to innovate and improve productivity.

The lecture illustrated these ideas with examples from Korea, Poland, Brazil, China, Chile, and other countries. Korea's success was attributed to a carefully sequenced strategy of investment, technology adoption, and later innovation, supported by openness to global knowledge and strong institutions. In contrast, countries that attempted to leap directly to frontier innovation without first building the necessary capabilities often experienced disappointing productivity gains. These examples reinforced the importance of tailoring policies to a country's stage of development rather than copying policies designed for advanced economies.

Dr. Lall concluded by outlining a new policy agenda for middle-income countries. Policymakers should move beyond traditional indicators such as firm size or GDP alone and instead focus on value creation, business dynamism, social mobility, and energy efficiency. Stronger economic institutions, greater economic freedom, better data, and policies that reward merit while fostering competition are essential for enabling productive firms to grow and economies to escape the middle-income trap. The central message was that long-run prosperity depends not only on creating new ideas, but also on ensuring that institutions allow those ideas, firms, and talented individuals to flourish.

Session 2 | 11:00 AM – 12:30 PM

Lecture Summary – The Economics of Creative Destruction

In this lecture, Nobel Laureate Philippe Aghion presented the Schumpeterian theory of economic growth, arguing that long-run prosperity is driven by a continuous process of innovation and creative destruction. Building on the work he developed with Peter Howitt, he explained that growth does not simply come from accumulating capital, but from entrepreneurs creating new technologies that replace older ones. While innovation requires temporary rewards and profits, successful economies must also ensure that incumbent firms cannot use their market power to block future innovators. The central challenge for policymakers is therefore to strike the right balance between rewarding innovation and preserving competition.

Professor Aghion showed how extending the Schumpeterian framework helps explain firm dynamics, competition, and the evolution of industries. Competition encourages firms close to the technological frontier to innovate in order to stay ahead, while excessive market concentration can discourage new entrants and slow technological progress. Using evidence from the United States and Europe, he argued that the recent productivity slowdown reflects the growing dominance of "superstar" firms that were initially highly innovative but later became obstacles to new entry and knowledge diffusion. Dynamic competition policy should therefore focus on preserving innovation and lowering barriers for future competitors.

The lecture also provided a Schumpeterian explanation for the middle-income trap. Countries initially grow rapidly by adopting existing technologies and catching up with global leaders, but as they approach the technological frontier they must shift toward frontier innovation. This transition requires stronger competition, high-quality universities, venture capital, long-term research funding, and policies that encourage entrepreneurial risk-taking.

Professor Aghion further argued that innovation and social inclusion should not be viewed as competing objectives. Policies such as Denmark's flexicurity system, investments in broad-based education, and dynamic competition policy can simultaneously foster innovation, improve social mobility, and protect workers from the disruptions of creative destruction.

The lecture concluded with a discussion of artificial intelligence. AI has the potential to substantially accelerate productivity growth by making both production and idea generation more efficient. Realizing these gains will require competitive markets, open innovation, investment in education and worker retraining, and policies that allow new firms and new ideas to emerge.

Session 3 | 1:30 PM – 3:00 PM

Lecture Summary – Firm Productivity, Entrepreneurship, and Industrial Policy

In this lecture, Prof. Ufuk Akcigit argued that sustainable economic growth is driven not simply by higher investment, but by continuous improvements in productivity and the efficient allocation of resources. While governments often celebrate GDP growth or job creation, these outcomes are meaningful only if they stem from stronger productivity and are therefore sustainable over the long run. Because public resources are scarce, every policy intervention involves trade-offs, making it essential to understand not only whether governments should intervene, but also how interventions affect the entire economy through general equilibrium effects.

A central theme of the lecture was that productivity growth depends not only on generating new technologies, but also on ensuring that resources flow toward the firms and entrepreneurs that use them most effectively. Drawing on evidence from countries including South Korea, Poland, China, South Africa, Türkiye, Germany, and Ukraine, Prof. Akcigit demonstrated that many middle-income economies suffer from persistent resource misallocation, where productive firms fail to expand while less productive firms remain in business. He introduced the concept of responsiveness—the extent to which firms are able to grow following positive productivity shocks—as a key measure of economic dynamism, arguing that economies become more productive when labor and capital rapidly move toward higher-performing firms.

The lecture also emphasized the importance of distinguishing between different types of entrepreneurs. Most new businesses arise from necessity and remain small, while a much smaller group of transformative entrepreneurs possess the ambition, skills, and innovative capacity to create rapidly growing firms that generate new technologies and jobs. Using evidence from linked employer-employee data, Prof. Akcigit showed that these entrepreneurs can be identified early in their life cycle and argued that industrial policy should move away from blanket support programs toward performance-based approaches that selectively nurture high-potential firms. The French "Gazelle" program illustrated how governments can use observable firm performance rather than firm size alone to better target support.

Another major theme was the role of institutions in enabling creative destruction. Through examples ranging from East Germany's post-reunification privatization to financial crises and industrial policy, the lecture illustrated how policies designed to preserve employment or protect incumbent firms often delay necessary restructuring and reduce long-run productivity growth. Sustainable job creation comes from helping productive firms innovate and expand organically rather than from temporary subsidies that artificially maintain employment. Effective policy therefore requires efficient labor and capital markets, well-designed financial systems, competitive markets, and institutions that facilitate the rapid reallocation of resources toward more productive activities.

Finally, Prof. Akcigit presented a broader framework for thinking about economic development. Countries progress through different stages of growth, moving from investment-led development toward technology adoption and eventually frontier innovation. At each stage, policymakers must diagnose country-specific bottlenecks rather than imitate policies from advanced economies. Investments in education, entrepreneurship, access to finance, openness to foreign investment, diaspora engagement, and AI readiness all play complementary roles in building a dynamic economy. The overarching message was that successful growth strategies must focus on productivity, business dynamism, and the institutions that allow talented individuals and transformative firms to flourish, creating sustained improvements in living standards over time.

Session 4 | 3:30 PM – 4:30 PM

Session Summary – Growth Academy in Action

The day concluded with a presentation by Dr. Furkan Kilic, who showcased the Growth Academy's research model and demonstrated how the Academy works in partnership with countries to generate policy-relevant insights. He explained how the Growth Academy combines country-specific microdata, close collaboration with local institutions, rigorous empirical analysis, and structural general equilibrium models to diagnose country-specific growth challenges and evaluate policy alternatives. Using examples from Ukraine and Colombia, he illustrated how this framework helps identify productivity bottlenecks, resource misallocation, and effective policy interventions. He also highlighted several ongoing projects—including research on AI readiness, firm dynamics, skill mismatches, and industrial policy—emphasizing the Growth Academy's mission of producing evidence-based, country-specific research that directly informs policymaking and supports long-term economic growth.

The day concluded with an Academy participant presentation by Asgar Alakbarov, who presented an overview of Azerbaijan's economy. He discussed the country's recent economic performance and ongoing policy priorities, providing participants with valuable insights into Azerbaijan's growth strategy and development agenda. The presentation also served as an opportunity to connect the day's discussions on productivity, innovation, and structural transformation to a concrete country case, fostering an engaging exchange between participants and faculty.