What it all means

- Economic development in the 20th century is a tale of divergence and convergence
  - Why modern economic growth began first in Europe and its overseas offshoots is still not entirely understood: many factors, continuing debate.*
  - Why it was slow to spread to other parts of the world is a second complex question: observers point to geographical disadvantages, the burden of colonialism, etc.
  - Declining transport costs allowed early industrializers to exploit economies of scale (to enjoy agglomeration effects), which worked to deindustrialize the rest of the world, and accentuate divergence.
  - In the first era of globalization, then, the benefits were unequally shared.

* An entertaining recent treatment is Gregory Clark, *The Conquest of Nature* (Princeton University Press, 2007).

- More recently, there are growing indications of convergence, although there remains dispute over its durability and extent (about who is included in the "convergence club").
  - Independence allows new nations to shed the burden of colonialism.
  - Technical change can help to overcome the burdens of geography.
  - Decline in costs of information and corporate control has allowed economies of scale and scope to be reaped without concentrating production in one place (global production chains, offshoring, outsourcing, etc.)
  - In principle, this allows the benefits of the second age of globalization to be widely shared.

- But, at least until very recently, obstacles have remained to developing countries reaping the benefits.
  - Deregulation, opening, and globalization have meant instability disruptive to growth.
    - We saw this in our discussions of financial crises.
  - Institutional strengthening needed to reap the benefits remains difficult: institutional legacies of earlier historical experience remain deeply embedded.
  - But there is also the more optimistic reading of recent experience, namely that progress is possible. China, India, Latin America, Central and Eastern Europe, even parts of Sub-Saharan Africa and the Middle East appear to have joined the Convergence Club.

- But the obstacles to development and convergence are deeply embedded.
  - Institutions with deep historical roots are hard to change.
  - Special interests that benefit from growth-stifling policies resist reform.
  - And when these institutional and policy problems persist, the standard policy prescription (the Washington Consensus) can fail to produce the desired results.
  - This is the disturbing implication of the experience of countries (like Bolivia) covered in the Powerpoints that, despite extensive Washington-Consensus-style reform, have not enjoyed significant economic growth for more than a generation.

- These objections are valid and important, but what to do in response is less clear.
  - Saying “address institutional problems and root out political resistance to reform” is little more than to assume a solution to the problem.
    - This approach, which has led the Washington Consensus to be superseded by Washington Consensus II, encourages a lack of prioritization and results in reform overload and fatigue.
  - But the alternative of government direction of the development process has a record of failure. It opens the door to capture by the politically connected.
    - Historically, many countries that have succeeded in pursuing it have been characterized by “strong states” (often code for authoritarian governments) capable of resisting capture and legitimized by external threats.
    - But is this possible following the third wave of democratization?

- Here the experience of the now advanced countries of Europe, and Japan, after World War II illustrates the possibility of reconciling a coherent growth/development strategy with democratic politics.
- Liberalization of product prices, strong property rights, sound policies, and trade opening were part of the growth miracle.
- But so to was industrial targeting and corporatist wage restraint. Selective intervention appears to have worked despite in a democratic political environment.

- But the circumstances were special.
  - Strong political institutions (prior experience with democracy).
  - Strong economic institutions (reliable contract enforcement, an information environment in which the price mechanism could work).
  - The task for planners was no mystery: in thinking about the industrial structure to be promoted, Europe and Japan could simply emulate the United States.
    - Can developing countries now similarly look to, say, China?
  - Thus, an appreciation of the historical circumstances cautions us that what worked in one context may not necessarily work in another.

- This broad-brush description of the 20th century in terms of divergence followed by (uneven) convergence of course leaves out important detail.
  - The Great Depression and the end of the first age of globalization dramatically interrupted these processes.
  - The Soviet Union, the countries in its sphere of influence, and not a few developing countries took a long detour from the market.
  - A historical perspective helps one understand why this alternative proved sustainable for a time but is unlikely to be viable now.

- Any effort to extrapolate into the future must be built on assumptions, as the preceding slides make clear.
- It is tempting to assume that both globalization and democratization are now irreversible.
- But if the history of the 20th century teaches us one thing, it is that nothing is inevitable.