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.

• 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 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.