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SOME TRENDS AND PERSPECTIVES ON GLOBALIZATION, ECONOMIC GROWTH, EQUALITY, AND DEVELOPMENT

Giuseppe Ammendola

email : ga17@nyu.edu

Giuseppe Ammendola, *Dott., Ph.D*. is an international and multilingual consultant and public speaker. He writes on international finance, trade, strategic management, and government. He teaches at New York University at the graduate level, has taught at the City University of New York, and has been a visiting professor and has lectured at several Italian graduate schools. He is the author, among others, of *From Creditor to Debtor: the US Pursuit of Foreign Capital* and the country analysis "Italy" in Michael Curtis (ed.) *Western European Politics and Government*. He is the editor and main author of *The European Union: Multidisciplinary Views*. He consults on strategic management, marketing, and business plan evaluation and writing. He has given hundreds of presentations in several languages to corporate, government, and nonprofit decision-makers as well as general audiences from all over the world on many aspects of the global economy. He holds doctoral degrees from the United States and Italy, from where he originally arrived as a Fulbright scholar. He is *Joseph Schumpeter* Visiting Professor in International Economics at the Universidade Autonoma of Lisbon.

Abstract

The world economy is more complex than it has ever been. This paper looks at some frameworks used for description, analysis, and prediction in the three areas of economic growth, equality, and development, while also highlighting some important past and current trends. The selection of frameworks and trends represents clearly a necessarily brief and subjective choice of the author on the basis of his perception of their "usefulness" for purposes of public and private decision-making.

The paper starts by discussing how economic growth is impacting the classification of the economies of the world. It then looks at how countries' economies can be viewed in terms of ease of doing business, of adaptability to openness and change, and of types of capitalism adopted. In the second section, issues of economic inequality within and between the countries of the world and their citizens are examined. In the third section, the paper looks at development. It starts by briefly discussing the merits of going beyond GDP and of looking at the Human Development Index (HDI) in order to try to measure other forms of progress, such as in health and education. The paper then traces the evolution of development economics and the advice given to policy makers in developing countries, and also examines the role of institutions in development and the controversies surrounding foreign aid. It concludes by looking briefly at additional dimensions of human development such as empowerment and sustainability.

The picture that emerges is one of a world in which decision-makers have to make use in a combined way of a plurality of disciplines to understand the realities confronting them and to design and implement good policies. In so doing, they have to confront the challenges of appropriate sequencing, must very often choose second-best options, and have to make clever use of the lessons learned from countries with very different geographical, political, economic, social, legal, technological, and cultural environments and constraints.

Keywords

Globalization; economic growth; equality; development; decision-making

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SOME TRENDS AND PERSPECTIVES ON GLOBALIZATION, ECONOMIC GROWTH, EQUALITY, AND DEVELOPMENT

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Introduction: Analytical challenges

The world economy at the beginning of the second decade of the twenty-first century displays very complex features. It shows countless trends and presents many challenges for public and private decision-makers. Moreover, perspectives and frameworks drawn from multiple disciplines aiming at describing, analyzing, and predicting the global economy or specific dimensions of it abound and they can and do often overlap. Further, all too often, for the many variables that analysts look at, causes and effects are most difficult if not impossible to distinguish.

Many are the factors at the basis of this complexity. Certainly, the increase in the number of nation states, reflected in the UN membership growth from 51 in 1945, to 99 in 1960, to 154 in 1980, to the current 193 has augmented the magnitude of data gathering and analysis problems. A larger number of countries means, among other things, that there is a greater difficulty in assessing the quality of the data submitted to international institutions such as the International Monetary Fund (IMF) and this contributes to make comparisons and contrasts more difficult. Moreover, the shift of countries like China and India and those of the former Soviet bloc to free or freer market policies has increased considerably the level of their internal economic activities as well as their economic role in, and interaction with, the rest of the world. Higher levels of interaction among all countries of the world have in turn both been made possible by and promoted huge technological advances in communications and transport. It can therefore be easily argued that goods, capital, and people have never been as mobile as they are now and thus, in many respects, more challenging to follow in their movements. Furthermore, the number of scientists in the world, a sort of proxy for gauging the flows of ideas and product development prospects, has clearly never been higher.

Given that the economies of the world are at this juncture more integrated and interdependent than ever and that their interaction displays ever growing complexity, it is very important to try to find ways to organize our thinking about them.

In the present paper, we shall look at how some key concepts and trends associated to economic growth, equality, and development—discussed in that order—can contribute to our understanding of the world economy. The choice of frameworks is clearly subjective, necessarily limited in its inclusiveness (it is a choice, after all), and informed also to their perceived usefulness for both public and private and decision-makers[1].

[1] Given the profound influence that through various channels the two categories of decision-makers exert on each other, I consider their informational and analytical requirements usually rather similar. This is particularly true in the case of the trends and frameworks discussed in this paper because of their broad nature.

Economic growth

On GDP and growth

At the beginning of 2011 it was clear that the gross domestic product (GDP) growth rates of major developed economies were definitely lower than those of many developing countries and economies in transition. This is congruent with a trend observed for several years preceding the Great Recession of 2007-2009 from which the global economy is now emerging[2]. More specifically, at the beginning of the new millennium, the rich countries' share of global GDP on a purchasing power parity (PPP) basis was two-thirds, while by 2010 that percentage had gone down to about a half, with many forecasting it to go down in the next ten years to 40 percent[3]. An economic historian would point out that this reflects largely a major "catching up" by emerging markets[4]. After all, in the 18 centuries preceding 1820, these economies accounted for about 80 percent of world GDP[5].

Since 1820, from the beginning of the industrial revolution to the wave of globalization that is associated with the gold standard era between 1870 and 1914, to several decades after the reconstruction following World War II, Europe (and the relatively slowly increasing number of what we have come to know as the developed countries, including of course the United States) experienced much higher growth rates than developing countries. This clear economic supremacy, among other things, paved the way to a major shift in thinking that led emerging economies to the espousal of the free market orientation that is known as Washington Consensus[6].

The recent greater dynamism displayed by emerging markets is captured by a large variety of figures. Here are some examples. First, the increase of 30 percent in the number of the unemployed across the world since 2007 to the current estimated level of 210 million has been accounted for by emerging markets only by a quarter, with the balance of 75 percent taking place in the advanced economies (IMF, 2010: 4). Second, after having recently become the second largest economy in the world and claiming to have built the fastest supercomputer on the planet, China is expected to become in 2011 the largest manufacturer on the planet, overtaking the United States (Franklin, 2010; Hille, 2010). Third, India's growth rates are seen by many as poised to match (and even exceed) China's impressive ones very soon. Fourth, it is anticipated that within the next decade 700 million individuals from emerging markets will enter the middle class, much to the joy of marketing executives worldwide[7]. Lastly, at the end of

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2 The Business Cycle Committee of the National Bureau of Economic Research considers the recession in the United States to have started in December 2007 and ended in June 2009. See the NBER web site: www.nber.org

3 *The Economist* (2010). GDP comparisons between countries are complicated by the differences between estimates made in terms of nominal values and those made on a PPP-basis, which aim to measure and contrast purchasing powers of different countries.

4 Antoine van Agtmael (2007) is credited with having created the term "emerging markets".

5 *The Economist* (2006), echoing work done by Angus Maddison.

6 Born as a set of economic recipes for Latin America, these principles were soon extended to the rest of the developing world. See infra.

7 Wooldridge (2010:131). On the limitations associated to the concept of middle class in a global context see however Milanovic (2011: 171ff.)

2010, the number of high net worth individuals (HNWIs) in the Asia-Pacific area reached 3.3 million, overtaking the Europeans (3.1 million) for the first time[8].

Emerging markets

There is no shortage of typologies to classify the economies of the world using their economic growth, realized or potential. We have read of "The West vs. the Rest" or expressions created earlier such as "North-South divide" or developed *vs.* less developed (or developing) countries or emerging markets or of a first, second, or third world. I anticipate that the fine tuning of these types of classifications, with all its implications, will be an interesting area of debate for the months and years ahead.

In the first place, some discussions with regard to the label "emerging markets" will increasingly take place. First and foremost, there are the BRICs, *i.e.* Brazil, Russia, India, and China. This acronym, originally introduced by Goldman Sachs, has recently been questioned. Some go as far as proposing dropping Russia (with its demographic and corruption problems) in favor, say, of Indonesia, a country with improving social and political institutions, innovative companies, fiscal rectitude, and a 6 percent growth in 2010 (Farzad, 2010; Wooldridge, 2010). In addition to the BRICs, or BRIICs if one adds Indonesia, a distinction can be drawn between those emerging markets which are of the "overlooked" kind and which "can rival the BRICs in terms of prosperity", and those "frontier" markets "that are just beginning to emerge from their chrysalises" (Wooldridge, 2010: 131). In this typology, examples of "overlooked" countries are South Africa, Botswana, Mauritius in Africa to the South of the Equator and to their North, Egypt, Morocco, Tunisia, Libya with their access to that major vehicle of opportunities which is the Mediterranean Sea, a benefit that accrues also to Turkey, which straddles geographically and culturally two different worlds[9]. Saudi Arabia can also arguably be put in this group and so can Mexico, especially if its crime problems are held in check. On the other hand, "frontier markets" are characterized by their being "poorer and riskier than the overlooked ones." (Wooldridge, 2010: 132). In this group one can include countries like Sri Lanka, Bangladesh, and Pakistan in Asia and in Africa Kenya, Nigeria and Ruanda (*ibidem*).

That in these "frontier markets" the foreign investor faces very substantial risks there can be little doubt. Opinions can also shift very rapidly. Vietnam, was viewed as extremely well positioned to take away outsourcing jobs from China in no small measure on account of its young workforce and high literacy levels (Wooldridge, 2010: 132). However, the recent default on a loan of $600 million by its large state-owned shipbuilding company has led many to pay more attention to the country's budgetary, banking, currency, and overall transparency problems (Nguyen, 2010; The Economist, 2011a).

8 North America, at 3.4 million, is only slightly ahead. HNWIs are defined as those having investable assets of $1 million or more. See Capgemini and Merrill Lynch World Wealth Report (2011). On the Forbes list, which also attests to the growing numbers of rich individuals from emerging markets, see for instance Rappeport (2011).

9 There can be little doubt that the events that since December 2010 have taken place in North Africa have shown that the risks associated to the countries in the region may have in general been underestimated.

Four-speed world

Another categorization that is very interesting and worth monitoring in its evolution is one recently proposed by the OECD. It uses as a foundation the framework for analysis originally put forth by James Wolfensohn, a former president of the World Bank, who introduced the concept of a "Four-Speed World" (Wolfensohn, 2007; OECD, 2010: 32ff.)

In this typology, there is on top the group of "affluent" countries, including clearly the US and most of Europe, which for the last fifty years have maintained a firm leadership on the world economy. Most notably, with only 20 percent of the world population, these countries account for approximately 70 to 80 percent of world income[10]. In Wolfensohn's view, these countries would continue to improve their standards of living, while their "economic dominance is being contested by" the second category (Wolfensohn, 2007). In my opinion, nothing symbolizes more the erosion of economic power of the "affluent" group than the growing importance of the Group of Twenty (G-20), although doubts over the newcomers' willingness and ability to accept the burdens that come from global leadership and governance lead many to reasonably question its present and future effectiveness (Castañeda, 2010; Bremmer and Roubini, 2011).

The second tier, which the OECD labels "converging" markets, is a group of poor and middle income nations which have been experiencing rather consistently high growth rates, in general more than twice those of the highest-income group. In this group, which has in general learned how to take advantage of the process of globalization, there are clearly India and China. A third tier is characterized by slower growth rates (still higher than those in the affluent cohort). While in general not receiving international aid, they are labeled by the OECD "struggling", also on account of their irregular growth rates. The fourth group of countries, in the main located in sub-Saharan Africa, is characterized by stagnating or even falling incomes and by being most vulnerable to globalization's vagaries, such as climate change and higher commodities prices. The OECD calls them "poor" and, with their total population reaching a billion, are a great burden and challenge for the rest of the world[11]. They tend to be the countries where the reaching of the Millennium Development Goals (MDGs) is going to be more arduous[12].

The OECD emphasizes that this four-way classification has largely historical value, being centered on the evolution of the countries from the 1990s to the 2000s, and does not offer assessments of prospects or potentiality of a specific country (OECD, 2010: 32). The OECD has however tried to differentiate among the four categories of countries (affluent, converging, struggling, and poor) in terms of their integration into the global economy by using a well known index developed by Dreher (2006). This index "summarises the different dimensions of integration: the *economic*, which measures economic globalisation in terms of the long-distance flows of goods, capital and services[13]; the *political*, characterised by diffusion of government policies; and the

10 OECD (2010: 32). I believe this is an estimate that has to be intended as referring to nominal and not to PPP numbers.

11 The lists of the four categories of countries can be found in OECD (2010: 170-74).

12 On the development millennium goals, see infra.

13 Incidentally, this reminds me of one useful definition of economic globalization as between-country integration in three markets: commodity, labor, and capital. See Bordo, Taylor and Williamson (2003).

social, expressed as the spread of ideas, information, and people." (OECD, 2010: 38, emphasis added).

Thus, the OECD (*ibidem*) notices that Dreher's study, which looked at 123 countries between 1970 and 2000, points to the conclusion that, on average, those countries that globalized more experienced higher growth rates: put it differently, "globalization is good for growth" (Dreher, 2006 : 1105). In applying his methodology to the four-speed world and using data from 2000-7, the OECD states that affluent countries definitely score higher than poor countries in terms of the overall index and the economic sub-index. Instead, the differences for the converging and struggling countries are less clear-cut and even contradictory somewhat for the political and social sub-indices, especially if one adds the poor countries to the mixture. One example renders manifest how tentative and complex this nevertheless important line of inquiry is. Between 1990 and 2000 the share of trade in GDP for sub-Saharan countries went up from 51 to 65 percent, yet during the same period their share of global output went down by a quarter (OECD, 2010: 39). On the whole, the OECD concludes, converging countries seem to have confronted the challenges of integrating in the world economy better than struggling or poor ones[14].

Decoupling

An issue that is very much connected to those of growth rates and globalization is that of "decoupling". Casting aside the old and over-worn saying "When the US catches a cold, the rest of the world gets pneumonia", believers in decoupling think that emerging markets are destined to be less and less dependent on the fortunes of developed markets. Rather than relying on advanced countries as targets for their exports, the emerging markets, so the theory goes, will be as time goes by increasingly able and prone to rely on stronger domestic demand. Accordingly, in a study comparing four recessions taking place in advanced economies in 1974-5, 1980-3, 1991-3, and 2001, it was shown that emerging markets' economies performed better in the last two (Decressin, Scott, and Topalova, 2010: 13).

It is important to note that there are many studies which maintain that there is growing integration of emerging countries into world trade and capital markets and that this "seems to contradict the decoupling hypothesis" (Decressin, Scott, and Topalova 2010: 15). In reality, and this will continue to be the object of study in the months and years ahead, it is possible to reconcile the apparently contradictory notions that emerging economies are more connected with the advanced economies and yet are also less affected by their recession. One strong possibility is that emerging markets may have become better at macroeconomic management (Decressin, Scott, and Topalova, 2010: 15; Harrison and Sepúlveda, 2011). In the context of the recent crisis, for instance, the accumulation of large foreign exchange reserves in many emerging markets (the result of having learned a painful lesson in the 1998 East Asian Crisis when the sudden exit of "hot foreign money" caused major havoc), can be seen as having been of great help[15]. Another set of views stresses that, while the South's GDP has fallen less than the

[14] As we shall refer to later, there is an issue of causality vs. correlation between trade and growth here, even though "in practice the question for a given country is not whether to integrate into the global economy, since few have much choice in the matter, but rather how to manage that integration." (OECD, 2010 :39).

[15] On the accumulation of foreign exchange reserves by Asian countries see Rajan (2010: 75ff).

North's, the social impact has been greater in developing countries, in light of their lower per capita income and the relatively greater importance of poverty in their economies[16].

Doing Business

Starting from the premise that the enhancement of business activity contributes to economic growth, private and public decision-makers have in recent years paid much attention to a classification developed by the World Bank. In its annual publication *Doing Business*, the World Bank ranks 183 countries along nine areas pertaining to the life cycle of a business (Starting a business; Dealing with licenses; Registering property; Getting credit; Protecting investors; Paying taxes; Trading across borders; Enforcing contracts; and Closing a business)[17]. While impressive, by the Bank's admission, this is a range of activities in the areas of regulation and rights that is rather limited, since its focus is on how easy or difficult it is for a local entrepreneur to conduct business.

The range of activities monitored does not measure the costs and benefits or regulation from a social point of view. Nor, most assuredly, does Doing Business measure all dimensions of interests to investors. Notably, "it does not, for example, measure security, macroeconomic stability, corruption, the labor skills of the population, the underlying strength of institutions or the quality of infrastructure. Nor does it focus on regulations specific to foreign investment", or on assessing the strength of the financial system or of market regulation (World Bank 2010:13)[18]. And this is exactly the type of broad information and analysis that foreign investors will continue to seek avidly in the future and which many private services will try to continue to provide[19].

Typology building and the ranking of countries along several dimensions can help identify trends of a shorter duration, whose continuation across time would have to be monitored. For instance, building on the comparisons of business regulation among countries that the World Bank's Doing Business project has undertaken since 2003, the publication's authors highlight several trends for the year ending in June 2010 (World Bank, 2010: 2-3). First, since the global crisis has brought up the number of insolvencies and debt controversies, sixteen economies, largely in Eastern Europe, Central Asia, and belonging to the high-income OECD group have reformed insolvency policies by improving court and bankruptcy procedures so as to ensure quick reallocation and use of assets and therefore higher recovery rates for creditors. Second, there has been a most distinct improvement in the previous year among the economies in East Asia and the Pacific in the area of overall ease of doing business. Third, in Sub-Saharan Africa and the Middle East and North Africa many reforms have been introduced to promote trade, in no small measure because of the regional

16 Addison, Arndt, and Tarp, (2010) talk about a triple crisis in the areas of finance, climate, and malnutrition/hunger (due to growing food prices). Vitols (2010) also talks about a triple crisis: financial, ecological, and social).

17 The employment of workers (no longer ranked) and the "getting of electricity" (on its availability), are two additional areas of a company's life cycle where indicators are developed by the Bank but they are not part of the ranking system described in the text.

18 For an example of some of the informational and analytical challenges related to foreign direct investment in the European Union, see Ammendola (2008b).

19 Among the companies providing such information and analytical services there are The Economist Group, the Financial Times Group, Bloomberg, Reuters, Thomson Financial.

integration processes going on these areas (e.g. Southern African Customs Union) (World Bank, *ibidem*). Fourth, there has been a noticeable worldwide move toward greater adoption of technology so as to "make it easier to do business, lower transaction costs, and increase transparency" (World Bank, 2010: 3). In this area starting points matter, as the authors of the report indicate (World Bank, 2010: 7). For instance, countries like "Finland and Singapore, with efficient e-government systems in place and strong property rights protections by law, ha[ve] less room for improvement" than countries like Italy where there has been implementation of "several regulatory reforms in areas where results might be seen only in the longer term, such as judiciary or insolvency reforms" (*ibidem*).

Lastly, it has to be noted how treacherous in the analysis of the global economy is the establishment of causality. It was already mentioned earlier the dilemma with regard to growth causing integration or viceversa. In the case of the regulatory environment (measured through both legal scoring indicators and time and motion indicators) and its impact on firms, jobs, and growth, correlation may not mean causation. Concurrent developments such as macroeconomic reforms and/or country-specific factors may play an important role (OECD, 2010: 39; World Bank, 2010: 7).

On the whole, however, in spite of the limitations discussed, the Doing Business criteria represent another set of tools useful to gain insights into the way countries' economies operate. Interestingly, in *The Aid Trap*, Hubbard and Duggan (2009) apply the framework to the Roman Empire, which in their opinion would have received pretty high marks (Hubbard and Duggan, 2009: 20).

Growth, openness, and change

The quest for higher growth rates may push countries to become more open. This may, however, come at the price of stability. One interesting analytical construct is Ian Bremmer's J-curve (Bremmer, 2006). In brief, Bremmer puts on a two-dimensional graph two variables: on the horizontal axis he plots the variable *openness* while on vertical axis he places the variable *stability*. As a country with an authoritarian leadership moves toward greater political and economic openness to the rest of the world, the level of stability decreases and the risk of rebellion against the regime increases[20]. At one point the decline in stability bottoms out and then stability starts to go up again as the benefits of openness set in. It is obviously when openness is associated to decline in stability that the risks of rebellion for the autocratic leadership are greatest.

Bremmer's model presents significant challenges such as measuring both stability and openness in general as well as with reference to the specific nature of the society under scrutiny, the nature of its government, and their capacity to evolve along a most uncertain timeline of reference. Such challenges are evident with China, an ethnically and religiously diverse country of 1.3 billion with significant and growing desires of internal mobility (geographical as well as social and cultural) and a political regime born in a different era that has to adapt to a rapidly integrating world. Nevertheless, I

[20] On the relationship between openness to trade and economic growth, Rodrik (2011: 166) attributes the success of South Korea, Taiwan, Indonesia, and Mauritius to their reducing barriers to imports *only after* having built significant manufacturing capabilities. See infra on the sequencing of policies.

believe the model is useful in terms of contributing to our ability to make sense of the complexity around us[21].

In a different way, also useful as an explanatory and possibly predictive device is another, older, "J-curve" model developed by James C. Davies which states that when people's expectations diverge too much from what they perceive as their needs in terms of goods, status and power, they can revolt (Davies,1962)[22]. The advances in telecommunications that have taken place since the Davies theory was first articulated, by making comparisons of living conditions across countries easier to make, can arguably render populations more aware of their plight and thus more inclined to rebel against those who rule them. Clearly, that explains the measures that authoritarian political regimes try to implement to prevent "excessive", unfiltered, exposure to the societies of the West.

Types of capitalism

The victory of capitalism over communism that the fall of the Berlin Wall in 1989 came to symbolize (Baumol, Litan, and Schramm, 2007; Yergin and Stanislaw, 1998; Fukuyama, 1992) was, to a very high degree, the result of a failure by centralized governments to deliver economic growth rates comparable to those achieved by the market economies. But capitalism was not and is not homogeneous or undifferentiated and any student of the world economy and growth has to look at the various forms of it that exist. For instance, for the authors of "Good Capitalism, Bad Capitalism", there are four types of capitalism (Baumol, Litan, and Schramm, 2007: 60-92)[23].

The first is *state-guided capitalism*, where the state dominates and tries to guide the market by typically picking winners. The authors cite as examples India, China, and most countries in Southeast Asia. The second, *oligarchic capitalism*, differs from the first because of its focus not on growth but on the promotion of the interests of a very small segment of the population, typically the autocrat and his/her family and friends. In the view of the authors, notable examples can be found in much of Latin America, in many states of the former Soviet Union, in many states in Africa, and in most of the Arabic Middle East (once again, the recent turmoil in this region comes to mind). The third type is *big-firm capitalism*, where established giant enterprises carry out the main economic activities. Examples offered by the authors are Continental Europe, Japan, Korea, and parts of other economies, including the United States. The fourth, *entrepreneurial capitalism*, is characterized by the very important role played by small enterprises which are seen as crucial in the introduction of the radical innovations (such as the telegraph, the automobile, the airplane, electricity, the air conditioner) that transform economies and create sudden jumps in productivity. The United States is considered the quintessential example of such a type of capitalism and the authors see Ireland, Israel, and the United Kingdom as having or being in the process of

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21 For a brief recent analysis using his framework, see Bremmer (2011).

22 The J-curve that can be found in textbooks of international economics has to do with the adjustments in the trade balance deriving from changes in the exchange rate.

23 The literature on capitalism is immense and has evolved across several centuries and has been contributed to by scholars with different disciplinary backgrounds. One of its major subcomponents is "varieties of capitalism" (Hall and Soskice, 2001), to which the typology being discussed, while distinct, belongs.

abandoning the shepherding role of the state and moving toward a greater emphasis on entrepreneurial activities capable of offering very positive externalities.

Some points need stressing with regard to this four-fold typology. First, the only element that all kinds of capitalism discussed truly share is the recognition of the right of private property ownership. Second, the oligarchic variant of capitalism is nearly always very negative for growth and development and the authors appropriately stress this. Nothing good can come from this variant's very low levels of intra and intergenerational mobility and the waste of human talent associated to it is an economic and social tragedy. Third, one has to note that no country displays just one form of capitalism. For example, the United States displays prominently a blend of big-firm and entrepreneurial capitalism and Continental Europe and Japan have clever and innovative small entrepreneurs. Nor, it needs stressing, are the boundaries among types of capitalism within any country fixed across time. For instance, some could argue that the current US administration is trying to move the country toward more state-guided capitalism. Others would say that China and India are trying to foster more of a "small entrepreneur" culture and that Russia arguably has been moving from oligarchic capitalism to state-guided capitalism while also officially supporting small and medium enterprises[24]. Thus, each country has its own unique blend of three (or may be four if one includes the undesirable oligarchic variant) or two variants of capitalism and such a mix does indeed vary across time.

The challenges associated with the creation and monitoring of effective indicators for these four categories of capitalism attest once again to the complexity of the world economy. One of the central goals of the creators of this typology is the identification of the courses of action that policymakers should pursue to have an innovative economy. Among them: the establishment of an environment in which companies face low barriers of entry and exit (think about Europe's rigid labor markets)[25]; the creation of an effective system of rule of law (with good property and contract rights), a balanced patent system and a system of taxation that is not too burdensome to the entrepreneur; the introduction of disincentives against forms of unproductive entrepreneurship such as criminal behavior, political lobbying, and frivolous litigation (most prominent in the United States); and the fashioning of policies preventing innovative entrepreneurs from turning into rent-seekers who attempt to discourage Schumpeterian disruptive innovations. This latter should be done by maintaining strong antitrust laws and in general a competitive environment, also through the avoidance of trade protectionism (Baumol, Litan, and Schramm, 2007).

The three broad typologies last described (Bremmer, 2006; Davies 1962; Baumol, Litan, and Schramm, 2007) attest to how any analysis of the world economy and the nation states that compose it cannot be conducted ignoring the fact that markets and production exist in political, social, and cultural settings[26].

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[24] The difficulties for entrepreneurs in Russia are recognized by its top leaders. In this sense Wladimir Putin, quoted by Baumol, Litan, and Schramm, (2007: 76).

[25] Here the use of the criteria and indicators used in *Doing Business* seems most appropriate.

[26] A useful (and natural, I daresay) way of analyzing individual countries broadly is that used by the contributors in Michael Curtis ed. *Western European Politics and Government*. In that work, in the section I wrote (Ammendola, 2003), I looked at Italy's political development (history, society, and culture), its political processes and institutions (elections, political parties, interest groups, the legislature, the government, the presidency, the public administration, and the legal system), and public policy (I chose economic policy and foreign policy).

Equality

Inequality in developed economies

Looking at economic growth in its relationship to its distributional causes and effects is particularly complex. While in times of economic prosperity debates on equality can be relatively subdued (on account of the "a rising tide lifts all boats" factor), economic crises inevitably increase substantially the intensity of discussions.

In the case of the Great Recession of 2007-9, one has to note that it followed a prolonged period of increased gains for top income earners compared to the rest of the population and that it led to high costs to the taxpayer in order to rescue financial institutions (too-important-to-fail) where very well compensated individuals had arguably been "gambling" with the implicit guarantee of public money. If one adds to these elements the slow and unimpressive nature of the recovery process (especially in terms of job creation), it is hard to imagine that distributional issues will not be a growing part of the political, economic, and social discourse in the months and years ahead[27].

Most controversial among the books that came out during the Great Recession has been Richard Wilkinson and Kate Pickett's *The Spirit Level* (Wilkinson and Pickett, 2009). The work's central claim is that egalitarian societies do better in terms of social problems. The authors set out to support this by comparing societies with smaller disparities of income such as the Scandinavian countries and Japan to others such as the United States and Britain. Using a wide range of social indicators and looking at data from 23 of the world richest countries and from the 50 US states, the authors claim that "the countries with the biggest difference between the rich and the poor have …more violence, higher teenage birth rates, more obesity, lower level of trust, lower levels of child well-being," their "community life is weaker and more people are in prison"[28]. What better proof that government intervention is needed to redistribute income and even out standards of living? Proponents of social democratic ideas rejoiced.

Since the publication, various critics, typically from the right, have pointed out the limitations of the bivariate analysis that the two co-authors employ (as opposed to a more desirable multivariate analysis) and their ignoring of outliers. They also have accused the authors of neglecting to mention that suicide rates, alcohol consumption, divorce rates, and HIV infection rates are all higher in more egalitarian countries[29].

The authors have also been accused of neglecting the importance of culture and history, the crucial dimensions of individuality of each country. These criticisms are also often associated to accusations that Wilkinson and Pickett's arguments tend to underestimate the complexity of society[30].

One point that I found very interesting in one of their rebuttals is that they think that greater inequality increases the need for a large government role in the economy and

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27 The very intense debate in the United States in the Summer of 2011 over the debt ceiling may be viewed as attesting to this.

28 From their interview to Mukul Devichand, "The Spirit Level: Britain's new theory of everything" available at http://www.bbc.co.uk/news/uk-politics-11518509. For other views, see also Bagehot (2010); The Economist (2009); The Economist (2011b); Coyle (2011).

29 One of these critics is Saunders (2010).

30 A rebuttal by Wilkinson and Pickett (2010a) can be found at http://www.equalitytrust.org.uk

society because of the need for more police and prisons, together with more health and all manner of social services[31]. This argument also brings to mind the often blurred divide between liberal market economies and coordinated market economies that characterizes the "varieties of capitalism" literature (Hall and Soskice, 2001). At any rate, the discussion on inequality has obviously to be extended beyond the confines of the developed economies.

Inequality in the world economy

The study of world inequality, not unlike that of economic growth, is very complex because of the difficulties that exist with data collection (of varying quality across time and space) and the many and sophisticated statistical methods that can be applied to their analysis[32]. Further, the fact that inequality (possibly even more than economic growth) lends itself to being delved into by scholars and thinkers from a broad range of disciplines, while enriching it as a subject, also contributes to its complexity[33].

With regard to measuring inequality, public and private decision-makers make their lives easier by relying mostly on just one indicator which happens to be relatively easy to understand, the Gini coefficient. The Gini coefficient ranges in value between 0 (complete equality—every individual has the same income) and 1 (complete inequality—one individual has all the income). More broadly, among the typologies developed to analyze global equality in an organized fashion, I believe that the one used by Branko Milanovic of the World Bank in his book *The Haves and the Have-Nots* is most useful and linear (Milanovic, 2011). First, there is the inequality that exists among individuals belonging to the same nation. Second, there is the inequality that can be observed when comparing countries. Third, is the inequality that exists among all the citizens in the world (Milanovic 2011). Let us look at each more specifically, keeping in mind that they are all connected with one another[34].

> 1. *Inequality among individuals within a nation* is the type that most immediately comes to mind, since it is the kind that we observe most directly. It leads to three clusters of fundamental questions (Milanovic, 2011). What determines it? And, in relationship to growth, is inequality going to increase as a consequence of growth? And what happens to inequality when growth is zero or negative (recession)? A second cluster of questions sees inequality instead as a major independent variable. Thus, moving in the opposite direction of probing: what is the impact of inequality on economic growth? And on governance, on the attraction of foreign investment, on the

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31 Wilkinson and Pickett (2010b) This is an argument also usable for the extension of health care to the uninsured so as to prevent the costs to the entire society of having a sizeable percentage of individuals that are more prone to spread infective diseases to other segments of the general population.

32 See for instance Silber (1999), Lall *et al*. (2007: 135-69), and Cowell (2000). The website of the World Bank (www.worldbank.org) has an excellent "Inequality around the world" section.

33 Even specific works on economic equality are clearly influenced by other disciplines. See for instance Sen (1997).

34 Rodrik (2011), Rajan (2010), Coyle (2011), and Spence (2011) offer insights that can add interesting dimensions to Milanovic's typology and analysis.

> educational level of the population (Milanovic, 2011: 5) or on its health? A third cluster of questions revolves around ethical issues. Milanovic asks: "Is inequality acceptable only if it raises the absolute incomes of the poor?" And, very cleverly from the point of view of intra and intergenerational mobility: "Should inequality due to one's better family circumstances be treated differently than inequality due to superior work and effort?" (Milanovic, 2011: 5-6).

Just looking at one dimension, education, among the many suggested or implied by such questions for the United States, shows the difficulty of conducting analyses that lead to effective policies. Notably, some think that one of the major sources of inequality in the United States (and, arguably in other countries as well) is the unequal access to education, which creates a major divide between skilled and unskilled workers (Rajan, 2010; Lemieux, 2006). But attempts to improve access to education (including those directed at blacks and Hispanics) have achieved limited results (Rajan, 2010: 31). Further, it has also to be noted that some significant evidence points to the fact that in countries like Britain and the United States the social class of parents plays a bigger role in children's prospects than in more egalitarian countries (Bagehot, 2010).

More generally, to remedy inequality, taxation and redistribution strategies have proven extremely difficult to implement, because of the increasingly polarized nature of Congress (Rajan 2010). Thus, politicians have tried the much less difficult path of making access to credit easier for the lower socio-economic segments of the population, and in so doing they have "created" a class of homeowners who bought houses they could not have otherwise afforded and facilitated a consumption level that was unsustainable (Rajan 2010). The resulting impact through, respectively, securitization and excessive indebtedness became evident with the onset of the recent global recession.

Also interesting to notice in connection with the inequality within a nation is the hypothesis introduced by Simon Kuznets in 1955 (Kuznets, 1955; Milanovic, 2011: 83ff.). Going much beyond Alexis de Tocqueville (Milanovic 2011: 7), Kuznets talked about an inverted U-curve that shows the evolution across time of inequality. As a society moves from agrarian stages, where inequality is low, to industrial stages, increasing urbanization (China comes to mind, of course) combines with industrialization and causes increases in inequality. This is so "both because productivity and incomes in the nonagricultural sector are higher and because in cities themselves there is more income differentiation (more professions, a greater variety of skills)" (Milanovic 2011: 89). Then, Kuznets maintained, because of the rise of mass education and social policies such as social security, unemployment benefits, and welfare some redistribution among classes takes place. The testing of Kuznets' hypothesis has been the subject of hundreds of papers. In general, Milanovic points out, during the Industrial Revolution Western European countries and the United States displayed a pattern conforming to that posited by Kuznets. The United States, for instance, reached the peak in inequality in the 1920s (the expression "roaring twenties" comes to mind) to diminish in the ensuing decades. But, in the last twenty-five years, we have seen a considerable reversal in the trend of decreasing inequality, not just in the United States but nearly everywhere (Milanovic, 2011: 91).

For the student of globalization, this trend of growing inequality needs to be examined in relationship to the role that trade with emerging markets plays (The Economist, 2008). More specifically, the traditional view of mainstream economists that the impact of trade on income distribution in advanced economies is not major is being seriously reconsidered. The traditional view focused on technological innovation and its favoring skilled workers. More recently, explanations focusing instead on the much smaller wages paid in emerging markets and the downward pressure they exert on wages in the West have become vastly more pervasive (The Economist, 2008; Krugman, 2008; Blinder, 2006; Harrison, McLaren, and McMillan, 2010). While the evidence is still being heavily debated, there can be little doubt that US public opinion, anticipating this turnaround by some distinguished economists, has been convinced for years that globalization hurts workers. This is an issue that inevitably has grown in saliency after the beginning of the recent global crisis and I think will continue to do so.

2. *Inequality among countries in the world*, the kind that we tend to notice when we travel or when we watch the news (Milanovic, 2011: x) constitutes the second broad type of inequality in the typology we are examining.

One of the most interesting issues in this area of inquiry has to do with the contribution that the study of inequality has to offer to our understanding of the economic growth success experienced by developing countries that I mentioned at the beginning of this paper. For instance, using data sets constructed by the late economic historian Angus Maddison, Milanovic draws an interesting comparison between Great Britain and China. While Great Britain's GDP per capita was in 1820 three times that of China, today, in spite of the fact that Great Britain is no longer the richest country in the world and that China has grown at spectacular rates for the past three decades, that difference has doubled to six times. More revealingly still, "the ratio between the richest and the poorest [countries] in the world has increased to more than one hundred to one." (Milanovic, 2011: 100). Therefore, a careful reading of Milanovic adds some needed nuances to the story of the "rise of the rest" described at the beginning of this paper. For instance, in the last two decades of the twentieth century, while Latin America and Eastern Europe stagnated or worse and Africa in general experienced declines in income, the West had respectable growth rates. Thus, in that regard, there was in general what economic historians would characterize as an ongoing "income divergence" between the advanced economies and the rest of the world[35]. However, if one looks at intercountry income differences adjusting for population size, China and more recently also India considerably decrease the global level of intercountry inequality. And this is a development that is globally of a "converging" nature. In this sense, I would add that the fact that the recent global economic crisis has affected much more the West has also reinforced this worldwide trend.

At any rate, differences in per capita income between advanced economies and emerging markets are still very high in absolute terms. Indeed, in spite of the spectacular overall economic growth in recent years in the non-Western countries

35 Milanovic (2011: 100ff.). On various aspects of convergence and divergence see for instance Spence (2011); Lindert and Williamson (2001); Coyle (2011). See also infra.

mentioned earlier, such differences constitute most often a crucial motivation for people to emigrate to the advanced industrial countries. But their arrival raises concerns for their possible downward impact on wages, especially among less skilled workers, and this is one of the main reasons why immigration is regulated significantly (whether efficiently and effectively is another issue) in all industrial countries[36].

It is not just the movement of people and goods and services that matters for inequality and economic growth. Financial flows matter as well. In a nutshell, contrary to the prediction inherent in classical economic theory that capital should flow from rich to poor countries, in reality what has been happening in the current globalization is the reverse[37]. This so-called "Lucas Paradox", has been explained on various grounds, including sovereign risk and information asymmetries (Alfaro, Kalemli-Ozcan, and Volosovych, 2005). It seems reasonable, however, to think that often several causes may be at work simultaneously and that among them institutional explanations must play a significant role[38]. As one major study points out: "…during the period 1970-2000 low[er] institutional quality [in poor countries] is the leading explanation for the "Lucas Paradox" (Alfaro , Kalemli-Ozcan, and Volosovych, 2005).

It is also very important to note that the connections among the flow of capital moving across borders, the building up of very large global imbalances (especially if they continue to grow as a percentage of GDP), income distribution, and economic growth will increasingly be the object of heated debates. And it could not be otherwise, given that capital inflows and outflows permit to change the timing and modalities of consumption and investment patterns and thus inevitably impact income distribution both inter and intra-generationally in both creditor and debtor countries[39].

> 3. *Inequality among all citizens in the world*, or global inequality is the third category of inequality proposed by Milanovic (2011) on the basis of the work done by him and his colleagues at the World Bank. It is essentially the sum of the previous two categories which were just mentioned: inequality among individuals within a nation and inequality between nations. Milanovic (2011: 149) points out how data for the latter, the between-nations type, can be estimated rather well

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36 Incidentally, I wish to point out that one of the reasons why in the previous era of globalization (1870 to 1914) barriers to immigration were much lower compared to today, was that immigrants could not benefit from the redistributional benefits of the modern welfare state because they were basically inexistent. There was just no local constituency of citizens-beneficiaries to oppose the new arrivals.

37 Instead, in the previous era of globalization the theory applied, with capital flowing from rich to poor countries. Milanovic, (2011: 106).

38 The concept of " institutions", which appears across this paper in several contexts, has been the object of great study by Douglass C. North , one of the men most associated to institutional theories of economics, who pointed out in his Nobel Prize lecture, that "Institutions… the humanly devised constraints that structure human interaction…are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies. Institutions and the technology employed determine the transaction and transformation costs that add up to the costs of production." (North, 1993). North has acknowledged the contribution of Ronald Coase (1960) in making "the crucial connection between institutions, transaction costs, and neoclassical theory." (North, 1993).

39 In balance of payments terms current account considerations are the other side of the coin of capital account ones. See any major textbook of international economics and Wolf (2010) and Ammendola (1994).

from the beginning of the nineteenth century and adequately for some ancient societies as in the case of the Roman Empire[40]. In the case of the former, inequality within a single nation, reliable data "are much more recent" (Milanovic, 2011: 149). To measure global inequality, instead, the challenge was to get a data set that encompassed at least 90 percent of the world's population and income. Milanovic adroitly notes that it was only when household surveys from China, the Soviet Union (thanks to glasnost), and Africa became available since the 1980s that such a data set could be constructed. With the usual caveats about their definitiveness, one finding seems to me to stand out among several mentioned by Milanovic. Looking at a "typical" developed country, the ratio of the average income of the top 10 percent of the population divided by that of the bottom 10 percent rarely exceeds ten to one. For the global inequality data set just mentioned, the ratio is eighty to one![41] The world as a whole is thus very unequal and these statistics add a global dimension to the purely "inter-country" motivations to emigrate mentioned earlier.

Development

Going beyond GDP

The frameworks for analysis and the perspectives presented thus far cast light on several aspects of economic growth and inequality. Explicitly or implicitly, they also point to various other considerations that need to be made and questions that need to be asked to improve our understanding of these phenomena.

Most prominently, I would like to emphasize at this point the limitations that GDP presents as a measure (Samuelson and Nordhaus, 2001; Coyle, 2011; Norberg, 2011).

There is first of all a problem of inclusion. Among the activities which are included in GDP calculation there are ethically questionable (although often necessary) items such as weapons production, tobacco products sales, and spending on prisons. Clearly, these types of activities overstate welfare[42]. More significant still is what does *not* enter in the calculation of GDP. Improvements in the quality of goods, mostly deriving from technological advances (think of computers), are never completely incorporated in the GDP statistics. Further, valuable activities such as parental care, meals preparation, laundering, and house cleaning are not usually paid for and therefore are not computed in calculating GDP. Many activities in the underground economy such as work performed by illegal immigrants, bartering of services, gambling, drug dealing, and

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[40] Thanks also once again to the pioneering work of Angus Maddison. See Maddison (2007: especially 11-68.

[41] Milanovic (2011: 152), who also points out that the Gini coefficient of the global data set mentioned is around 70, vastly greater even than that of most unequal societies like South Africa and Brazil, which are about 60.

[42] In a somewhat similarly misleading way, activities such as those connected to the reconstruction of areas destroyed by the earthquake in Japan will be counted as an increase in GDP, although such reconstruction should not result in a dramatic improvement in the standard of living but simply in a restoration of the status quo ante (unless perhaps the new buildings will be more earthquake-resistant).

prostitution are also excluded on purpose because some of "these are by social consensus 'bads' and not 'goods.'"(Samuelson and Nordhaus, 2001: 449)[43].

GDP presents limitations also in regard to what it is not designed to measure. To remedy this shortcoming, over twenty years ago, in the first Human Development Report (HDR), the United Nations Development Programme (UNDP) offered a new approach which avoided "concentrating on only a few traditional indicators of economic progress (such as gross national product per capita)": human development accounting (UNDP, 2010: vi). It "proposed a systematic examination of a wealth of information about how human beings in each society live and what substantive freedoms they enjoy." (Ibidem). Human development was thus conceptualized already in 1990 "as a process of 'enlarging people's choices', emphasizing the freedom to be healthy, to be educated and to enjoy a decent standard of living." (UNDP, 2010:2). [44] Clearly, the replacement of a single number like GNP or GDP with a multitude of tables would have been unhelpful from the point of view of conciseness and ease of use. Thus, a simple index, the Human Development Index (HDI), was designed as a tool to compete with the GNP or the GDP (Gross National Income, GNI, is currently used) by adding to national income indices of life expectancy and literacy.

Perhaps the most notable finding emerging from an examination of HDI across time is that people on the whole are in better health, more educated, and richer than they were in 1990. The world's HDI has gone up 18 percent since 1990 and 41 percent since 1970. The 2010 HDR adds that "poor countries are catching up with rich countries in the HDI. This convergence, this narrowing of gaps, suggests a far more optimistic picture than a perspective limited to trends in income, where divergence has continued." (UNDP, 2010: 3, emphasis added). This convergence/divergence dichotomy is part of an analysis with many qualifiers. Not all countries have experienced "rapid progress" in the HDI and the slowest improvements have been seen among the countries in Sub-Saharan Africa (deeply affected by the spread of HIV) and the countries of the former USSR (with their higher adult mortality rates) (UNDP, 2010: *ibidem*). Broken down broadly, progress has on the whole been considerable across countries in education, to some degree less in health, and much more variable with regard to income (UNDP, 2010: 25).

That the concept of convergence is most elusive and debatable can be seen by the fact that of the 13 success stories of countries with high growth rates over long periods since 1950 highlighted by the respected Spence Commission on Growth and Development (CGD), only four (China, Indonesia, South Korea and Oman) are included in the list of top 10 movers in HDI from 1970 to 2010 (UNDP, 2010: 28, 29, and 120, note 13; Brady and Spence, 2010). Agreement is instead substantial among the UNDP, the Spence Commission, the World Bank, and several governments of developed countries in noting that even in the presence of similar policy regimes, there is

[43] Incidentally, one of the ways to try to measure the size of the underground economy is to look at the amount and growth of currency in circulation. In this sense, the fact that almost three quarters of all the $100 dollar bills circulate outside the United States attests to the importance of the greenback in this questionable component of the world economy (Eichengreen, 2011: 2). Interestingly, in one view expressed well over a decade ago, the European Union's "decision to issue large notes constitutes an aggressive step towards grabbing a large share of developing country demand for safe foreign currencies." (Rogoff, 1998: 264).

[44] Interestingly, the change in outlook took place at the same time of the collapse of Communism. On human development, the socialist system, and the concept of "agency" (which we discuss later), see Ivanov and Peleah (2010).

considerable variation in growth outcomes and that there is no general recipe for achieving sustained growth (UNDP, 2010: 21). This view, confirmed by the economic successes of Brazil, China, and India, is better understood if one keeps in mind the evolution of thinking in economic development, to which we now turn and sketch by very broad strokes.

Development economics

The interplay of broad concepts such as economic growth, equality, human development, and the policies associated to their improvement is an integral part of the study of development economics, which includes poverty and institutions. This field of inquiry, basically the study of the economics of what the World Bank calls middle and low income countries, "has made excellent use of economic theory, econometric methods, sociology, anthropology, political science, biology and demography, and has burgeoned into one of the liveliest areas of research in all the social sciences" (Ray, 2008). Once again, my aim is to identify some key organizing principles and intellectual signposts that emerge from the literature. In this sense, a brief overview of the evolution of thinking on development economics provides a natural way of organizing our ideas.

The Development Consensus

The end of World War II marked the beginning of an extensive decolonization process which saw the new states gaining independence adhering to several crucial and connected guiding strategies of development (Nayyar, 2008; Birdsall, de la Torre, Caicedo, 2010; Kondonassis, 2011). First, there was a clear effort at limiting the integration in the world economy, born in no small measure from the former colonies' negative experience with depending on the export of raw materials, whose prices in the two preceding decades had been severely affected by the Depression. Second, given the associated shortage in foreign exchange, national production of manufactures became necessary and import substitution industrialization (ISI) became an overriding goal. In order to implement these two strategies, in various ways and degrees several, when not all, of the following tools were used: nationalization of banks and firms, subsidization of infant industries, controls on interest rates and on the granting of credit, price controls, high quotas and tariffs on imports, and central planning[45]. Therefore a third strategy, that of giving a vastly greater role to the state, accompanied the first two. Such a strategy found justification in the early development literature (Rosenstein-Rodan, 1943; Gerschnkron, 1962; Hirschman, 1958; and Rostow, 1959) which did not believe that markets could function properly in developing countries and believed instead that the paramount objective of capital accumulation could be best achieved by the state (Birdsall, de la Torre, and Caicedo, 2010). After all, the reasoning went, it was the state that, in implementing Keynesian policies designed to remedy market failures, had brought the West back from the economic abyss of the Depression.

[45] Birdsall, de la Torre, and Caicedo (2010). Therein is also noted that this consensus economic development model was more inward-oriented in Latin America and the Caribbean than in East Asia.

International organizations like the World Bank (a creature of Keynes, after all) also espoused the state-centered approach. Moreover, the rapid economic progress being made by the USSR, which led it, among others, to be perceived to be an equal competitor of the US in the game of gaining influence and allies worldwide or even to be thought of as having the lead in the space race with Washington, bolstered the standing of central planning.

The consensus over the need for state control of the economy, limited internationalization, and industrialization was kept strong also by memories of the subordinate relationship between developed and less-developed-countries (to use the terminology of the time). Such memories were kept very vivid by the intellectual constructs associated to dependency theory (e.g. Gunder Frank, 1967) and to the notion of declining terms of trade for the primary products produced in the "periphery" for the benefits of the consumers of the rich countries at the "center" of the world economy[46].

This "Development Consensus" held sway from the late 1940s to the early 1970s (Nayyar, 2008). And its popularity was not surprising, since from the mid-1950s to the early 1970s many developing countries experienced, not unlike developed countries, faster growth rates than before. A large part of this growth was accounted by catching up, just as European countries were narrowing the gap with the United States, but with the advantage of coming so much from behind that for developing countries just the simple "adding a little industry and expanding the scope of commercial agriculture made a large difference to their performance." (Yusuf *et al*., 2009: 10).

The economic orthodoxy connected to the Development Consensus and the techniques (such as input-output tables) associated to it reached a very high standing (Yusuf *et al*, 2009:11). Further, the creation of the United Nations Conference on Trade and Development (UNCTAD) in 1964 as a counterweight to the West-controlled General Agreement on Tariffs and Trade (GATT) and the formation of the G77 group (currently comprising 131 countries) were felt as attesting to the growing power of developing countries.

Poverty as an issue also gained greater saliency. Inspired by the 1964 declaration of war on poverty by US President Lyndon B. Johnson, the World Bank's President, Robert McNamara (who was part of the Johnson Administration a decade earlier) in 1973 moved the institution toward a decidedly more aggressive stance against poverty, which would lead in 1978 to the publication of the first *World Development Report*. This publication would enhance considerably the visibility of international development issues in the decades ahead, become a central point of reference with its analysis and policy recommendations, and would be a trailblazer for other publications like the aforementioned Human Development Report issued by the UNDP.

Last, in the wake of the quadrupling of oil prices in 1973-74, many developing countries felt that they could organize as producer cartels of other commodities and thus duplicate the successes obtained by OPEC. This sense of power and great economic potential that pervaded many among the leaders in the South, also at the basis of their calling for a New International Economic Order (NIEO), was destined to be short-lived.

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[46] This is the well known Prebisch-Singer thesis, and the increase in commodity prices that are currently projected for the foreseeable future will most likely lead to rethinking and debates.

The Washington Consensus

As economic uncertainty and turmoil materialized across the 1970s worldwide, some major rethinking on development took place[47].

Many started to seriously question the validity of the Kuznets hypothesis, according to which economic growth in the South would at one point lead to declines in inequality, and also to doubt the merit of the Solow growth model's central contention that poor countries' faster growth would make them converge with developed ones (Saad-Filho, 2010: 1).

At around the same time, the two most populous countries in the pro central planning camp, China and India, came to be considered a clear example of everything that could go wrong (Nayyar, 2008). Further, just as it became progressively clearer that organizing effective producer cartels like OPEC was going to be very difficult, the unity of the countries of the South came even more into question on account of the clear materialization of a significant divide in terms of interests between oil-exporting and oil-importing developing nations. Last, but most important, in the advanced economies, with the optimistic faith on the inevitability of economic progress being dented by stagflation and high unemployment, the heretofore dominant Keynesian doctrine gave way to monetarism.

This rethinking in macroeconomic theory and policy reverberated beyond the world of economic experts because of changes in the political arena, where Margaret Thatcher and Ronald Reagan came to power championing an agenda incorporating monetarist ideas that gave back to markets the role of balancing supply and demand and fostering innovativeness and economic growth. Concern over market failures was out, replaced by an emphasis on government failures. Thinking on development could not be unaffected by this paradigm shift toward neoliberalism taking place in the industrial countries.

Years later, John Williamson in 1990 compiled a list of ten policy guidelines for developing markets' economies that reflected this shift in thinking and which became known as the "Washington Consensus" (WC)[48].

The original ten guidelines are the following:

1. Fiscal discipline
2. Reorientation of public expenditures
3. Tax reforms
4. Financial liberalization
5. Unified and competitive exchange rates

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[47] Incidentally, but most importantly, one has to note that the economic problems of the 1970s (e.g. stagflation in the West, commodity and financial markets fluctuations, and the overall sense that the economic progress of earlier decades had come to a halt) "in the absence of tested political institutions, accepted modes of political succession, and rules for sharing of power and wealth among the heterogeneous groups" contributed significantly to turn "many of the new nations" into "battlegrounds for rivalries between factions, between elites, and between ethnic groups and tribes" (Yussuf *et al.*, 2009: 14).

[48] There is a lot of disagreement on the use of the expression "Washington Consensus" by the proponents and opponents of the policy list. See for instance Williamson (1999; 2004). On the whole, Williamson takes his distance from a very rigid application of the policy prescriptions. He basically considers himself a compiler rather than a supporter of the whole list. The list that we use here is from Rodrik (2006).

6. Trade liberalization

7. Openness to Foreign Direct Investment

8. Privatization

9. Deregulation

10. Secure Property Rights

Each one of these items has meant and means something (slightly or significantly) different to different economists or policymakers (Rodrik, 2006; Spence, 2011; Saad-Filho, 2010; Birdsall, de la Torre, and Caicedo, 2010). But in general, taken together, the principles embodied in these policy prescriptions would suggest to everyone a connection with the political, ideological, and economic beliefs of the "Thatcher-Reagan revolutions". There was also a need to have a counter to "the endless list of policy follies to which poor nations had succumbed" during the Development Consensus and the WC list captured for any competent economist "the obvious truths of the profession: get your macro balances in order, take the state out of business, give markets a free rein. 'Stabilize, privatize and liberalize' became the mantra of… technocrats… and the political leaders" they advised (Rodrik, 2006: 973).

Essentially, as it emerges from the 1981 World Development Report, there was a great need for structural adjustment, which had to take place through macroeconomic and microeconomic policies (Yusuf *et al*., 2009: 28), arguably both aiming at creating an environment more favorable to economic growth. The former, macroeconomic policies, were meant to stabilize the economy, with fiscal policies aiming at lowering demand and exchange rate policies seeking to channel more of the economy's resources toward exporting. In addition to cutting down domestic and external imbalances, stabilization policies were designed to reduce inflation (Yusuf *et al.*, 2009: 29). The latter, the microeconomic policies, entailed deregulation, privatization of state-owned enterprises, the streamlining of public sector entities and the reduction of public payrolls, and the removal of price controls, all aiming at eliminating distortions to the functioning of the free market (Yusuf *et al., ibidem*).

Evaluating the Washington Consensus

Any evaluation of these policies can benefit from careful reading of *Economic Growth in the 1990s: Learning from a Decade of Reform*, a study published by the World Bank in 2005 (World Bank, 2005), which focused on the period between the early 1990s, when the Washington Consensus Decalogue had acquired preeminent status among policy advisers, and the date of publication.

To start with, "there were several negative surprises" (World Bank, 2005: 8). For instance, the transition from communist, centrally planned economies to capitalist ones proved to be vastly more difficult than anticipated, with an output collapse of unpredicted depth and duration. While noting that for instance the Czech Republic, Hungary, and Poland (not coincidentally benefiting from the European integration process, I would point out) were recovering, the report added that "it will take years, and in some cases, decades, for most former Soviet countries to regain their per capita income levels prevailing at the beginning of the transition." (World Bank, 2005: 8). Further, the report adds, with regard to Sub-Saharan Africa, in spite of good policy reforms, foreign aid, debt relief, improvements in governance, a good external climate, and some modest success stories like Mozambique, Tanzania, and Uganda, no major take-off had taken place. The report also noted how the financial crises of the 1990s were less predictable (using yield spreads) than those in the previous two decades, citing as examples, Mexico in 1994-95, Korea, Malaysia, Thailand, and Indonesia in 1997-98 (which taught many developing countries to build a large foreign exchange reserves buffer, as I noted earlier), Russia and Brazil in 1998, Turkey in 2001, and Argentina in 2001-02 (World Bank, 2005: 8). Last, but not least, there were negative surprises in Latin America, where the region by 1990 had most definitely rejected the Development Consensus logic of the past in favor of macroeconomic stabilization, fiscal rigor, trade liberalization, and privatization (World Bank, *ibidem*)[49]. While major successes were achieved in the fight against inflation since the beginning of the 1990s, the results in terms of growth were disappointing and the decade saw altogether less growth on a GDP per capita basis in comparison to the US than in the period between 1950 and 1980 (Birdsall, de la Torre, and Caicedo, 2010: 3; Rodrik, 2006: 975). Latin America experts had problems understanding exactly what had gone wrong. Regardless, the sense of disenchantment toward the Washington Consensus in the region certainly grew as a consequence of the financial crises in Ecuador (1999-2000), Uruguay (2002), the Dominican Republic (2003), in addition to the one in Argentina that was just mentioned (Birdsall, de la Torre, and Caicedo, 2010).

Along with these negative surprises, as Rodrik (2006) cleverly points out, there was the unexpected progress made on the front of global poverty. Most notably, according to World Bank estimates (Chen and Ravallion, 2004), in 2001 the number of individuals living on $1 a day was 1.1 billion, down nearly 400 million from twenty years before. To a very large degree this stems from the rapid economic growth achieved by China and India[50].

In terms of the assessment we are trying to make, Washington Consensus supporters would have some difficulties in attributing the economic successes experienced by the two most populous nations in the world to their policy prescriptions. This is so because the narrative centered on two giants awakening in 1978 (China) and in 1991 (India) from a prolonged slumber to a new sunrise of economic liberalization is extremely simplistic (Nayyar, 2008: 274). It leaves out the period of "near-stagnation" between 1900-50, when China and India were "among the most open and the least regulated economies in the world" (Nayyar, 2008: 274). It underplays the yearly GDP growth rates between 1950 and 1980 for both China (5 percent) and India (3.6 percent) (*ibidem*). And, in citing the extraordinary yearly GDP growth rates of China (9.7 percent) and India (5.8 percent) between 1981 and 2005, the Washington Consensus-inspired narrative of economic liberalization and openness to globalization clashes against actual policies of national development (*ibidem*). Notably, informed by gradualism and active strategic (and not passive) integration in the world economy (Nayyar, 2008), these two nations proceeded "with high levels of trade protection, lack

[49] In finance, liberalization policies were most aggressive, while they were most modest in the tax area, and basically nil in labor markets (Birdsall, de la Torre, and Caicedo, 2010). However complicated the picture is, there seems to be little doubt that the new orthodoxy was adopted widely and was instrumental in showing the region's worthiness of receiving debt relief through the Brady plan. See Marangos (2009).

[50] See also supra in the section on inequality. On the difficulty of counting the world's poor see Chandy and Gertz (2011) who estimate that by 2015 there will be almost 600 million people living on less than $1.25 a day.

of privatization, extensive industrial policies, and lax fiscal and financial policies through the 1990s" (Rodrik, 2006: 975)[51].

Two additional clusters of concepts contribute further to appreciating the complexity in evaluating analytical approaches to development: institutions and foreign aid.

Institutions

Institutions are important in the study of economics and globalization[52] but the emphasis of the Washington Consensus was on policy changes, not on the institutional conditions needed for them to have lasting and positive effects (Rodrik, 2006).

Things started to change during and after the brief tenure (1997-1999) as chief economist of the World Bank of Joseph Stiglitz, an influential supporter of the "new institutional economics" school (Saad-Filho, 2010). This school of thought moves away from the neoclassical stress on competition and assumed perfection of markets towards "the institutional setting of economic activity, the significance of market imperfections, and the potential outcomes of differences or changes in institutions." (Saad-Filho, 2010: 3).

A compilation of ten reforms related to institutions, clearly not exhaustive and subject to modifications based on the individual preferences of policy advisers and decision-makers, has been provided by Rodrik (2006: 978): Corporate governance; Anti-corruption; Flexible labor markets; WTO agreements; Financial Codes and Standards; "Prudent" capital account opening; Non-intermediate exchange rate regimes; Independent central banks/inflation targeting; Social safety nets; and Targeted poverty reduction. This list, described by many as a "second-generation" of reforms, combined with the ten original policy prescriptions, has been dubbed "Augmented Washington Consensus" (Rodrik, 2006) or "Post-Washington Consensus" (Saad-Filho, 2010).

This expanded version (20 *items*) tries to remedy problems such as having trade liberalization without proper fiscal institutions to compensate for the lost revenue, capital markets inadequately providing funds to growing sectors, and customs officials who are incompetent or dishonest (Rodrik, 2006). The remedies come through discretionary state intervention "across a much wider range of economic and social policy than the WC." (Saad-Filho, 2010)[53].

It is important to point out that it is very difficult to find a link between any specific institutional design and economic growth (Rodrik, 2006; Spence, 2011; World Bank, 2005; UNDP, 2010; Rodrik ,2011)[54]. Further, "institutional function does not uniquely determine institutional form" as Rodrik points out, offering the example of the Chinese and Russian experiences of the mid-1990s (Rodrik, 2006: 979). The institutional form of Western-style property rights prevailing in Russia should have made, on a prima

51 This rejection of the application of the Washington Consensus principles to China and India's actual policies is not very different from the East Asian tigers' experience of "strategic forms of intervention and unorthodox policies to attain conventional objectives." (Nayyar, 2008: 273).

52 Institutions, it bears repeating it, play a key role in all types of analyses on the world economy and have relevance for essentially all topics discussed and mentioned in this paper.

53 The quest for a new "consensus" is ongoing. For instance one reads about a "Beijing Consensus" (Huang, 2011) or a "BeST (Bejing-Seoul-Tokyo) Consensus" (Lee and Mathews, 2010).

54 Institutional design such as that seen in recent years in the European Union deserves much attention for the lessons that it can offer to countries contemplating or going through any type of integration process in other regions of the world. See for instance Ammendola (2008a).

facie basis, investment inflows therein much more sizeable than in China, where its public ownership system was based on townships and villages. However, what happened was the reverse, most likely on account of investors' preferring to deal with perhaps less profitable but more secure realities in China than with the uncertainties deriving from poorly protected property rights in Russia, at the complete discretion of untrustworthy local courts (Rodrik, 2006: 979). One should also remember that China started its rapid growth rates in the late 1970s without any changes in property rights or in the trading system and that India's "transition to high growth in the early 1980s was preceded (or accompanied) by no identifiable institutional changes"; this, together with other national experiences, would seem to point to the limitations of an approach that requires that institutional reforms come temporally before everything else (Rodrik, 2006: 980). This is clearly part of the even broader issue of getting right the "sequencing" of policies, a challenge found in all growth and development strategies, meeting which is leading to an emerging consensus toward the need to experiment and be ready to change course rapidly (Spence, 2011)[55].

Foreign Aid

The other major cluster of concepts I am going to mention here has to do with foreign aid. Viewed by some as the third pillar of US (but clearly not just US) national security after foreign policy and defense, foreign aid is a central dimension of the debates on development. In looking very quickly at its evolution, it is most important to mention upfront the largest aid program in favor of business ever implemented, the Marshall Plan (Hubbard and Duggan, 2009: 90). The Marshall Plan provided funds to European governments, which in turn lent them to private companies, whose repayments would then be used by governments to restore public infrastructure while enacting other pro-business measures (Hubbard and Duggan, 2009: 90-1)[56] The Plan helped reconstruct Europe and bring it back to solid economic functionality, it gave the United States access to significant markets as well as allies for its defense and foreign policy, it created the basis for US-led multilateralism, and arguably contributed to expanding citizens' rights on both sides of the Atlantic. Thus, given that foreign aid had been so successful in Europe, why should it not work its magic "everywhere else"? (Moyo, 2009: 13).

The logic followed in granting foreign aid outside Europe was influenced by the need to support leaders (no matter how autocratic) who were on one's side in the Cold War and by the Development Consensus outlined earlier. Thus, aid went prominently to fund large infrastructural and industrial projects such as roads, bridges, railroads, dams, power stations, and sewage systems in the main neglecting "the institutional issues involved, such as how the project would be managed, operated and maintained." (Ghani and Lockhart 2009: 89).

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55 On policy analysis in general, see the work of Brewer and deLeon (1983). They view the policy process as going through six phases (Initiation, Estimation, Selection, Implementation, Evaluation, and Termination). I used their model to analyze issues of international finance and taxation of significant importance for public and private decision-makers. See Ammendola (1994).

56 This is a narrative that runs counter to the typical "mistaken view" that the Marshall Plan distributed free necessities and built back infrastructure. Instead, "to qualify for the plan countries had to enact certain pro-business policies to make sure that their local businesses could use the loans as well." (Hubbard and Duggan 2009:xi). Here again the importance of well-functioning institutions is clear.

Health and education, as we have seen crucial components of the HDI, for a long while were not deemed to provide adequate economic returns (Ghani and Lockhart, ibidem). Their elevation in status occurred with the shift toward poverty alleviation supported by Robert McNamara, who also moved the World Bank toward smaller scale agricultural and rural development projects. In spite the World Bank's overtaking the United States in 1973 as the largest donor to developing countries (Moyo, 2010 :17), a prominent critic argues that these "changed priorities" did not get "enough time to gel and be implemented in a comprehensive manner" (Saad-Filho, 2010: 3).

In the 1980s, the surplus funds from the oil exporting countries, particularly the "low absorbers" (those with small populations) found their way via international banks into many developing countries, whose credit risk was probably underestimated because of the overall commodity boom. When interest rates went up as a result of the US move against inflation, the difficulties of meeting interest payments on debt largely based on variable rates led to a major wave of defaults across the South, with the August 1982 Mexican declaration of inability to pay its debt acting as a major trigger. The response to the crisis centered on the restructuring of the debt, which was, as Moyo (2010:19) pointed out, "merely a reincarnation of the aid model… with the Bretton Woods institutions… reclaim[ing] their central positions as chief lenders to emerging economies." Thus, starting in the early 1980s, an increasing number of low-income countries came to benefit from repeated reschedulings on concessional terms (Gunter, 2003: 91-117).

The goal of breaking the cycle of repeated debt terms modifications thus became an ongoing concern. Its importance is highlighted by the fact that by the late 1980s, when the Washington Consensus had taken hold, emerging markets' debt had reached at least $1trillion (Moyo, 2010: 22). On the positive side for borrowers, it has to be noted, part as a result of creditors' forgiveness and a better interest rates climate, the trend across the 1990s was one of lower interest payments on external debt (World Bank, 2005: 72).

It is also important to note however that borrowing countries' economic growth and their ability to service debt cannot have benefited from the priority given by the World Bank (arguably not unlike other international official financial institutions) to volume lending over the quality of the projects underwritten, at least up to the early 1990s (Ghani and Lockhart, 2010: 96).

It is probably fair to say that by the 1990s all the elements that currently influence the debate on foreign aid (including donor fatigue, the relevance of governance, and the role of celebrities (Moyo, 2010) were intertwined with and often indistinguishable from "a web of relationships between multilateral and bilateral donors, UN agencies, private contractors, and NGOs" (Ghani and Lockhart, 2010 : 97).

No wonder that at present we are confronted with an immense literature on foreign aid which, it bears repeating, is also integral part of the debate on overall development. One extremely useful, albeit necessarily streamlined, way of categorizing foreign aid along these broad contours is given by the opposite positions held on the subject by those who share Jeffrey Sachs's views on the one hand, and those who partake William Easterly's on the other[57]. Let us look at them.

Development and the pros and cons of aid

Briefly put, Jeffrey Sachs, a professor at Columbia University and the President of its Earth Institute, is an enthusiastic supporter of aid. For him more of it is better. William Easterly, who teaches at New York University where he is also Co-director of the Development Research Institute, instead, is very skeptical. To him, the track record of foreign aid is unimpressive at best.

Jeffrey Sachs wants to put an end to poverty, especially that affecting "the extreme poor" of the world, the one billion individuals who fight for survival every single day[58] He believes that many of the poorest countries of the world (most of them in Sub-Saharan Africa) are in a "poverty trap", where all income goes to consumption and nothing is left for savings and where it is nearly impossible to raise significant funds from taxation and to invest in infrastructure. Further, these countries have to live with the burden of massive debt.

Sachs, while acknowledging many of the excesses of the past, downplays the importance of explanations for the current plight of these countries centered on the exploitation by the West (in its colonialist and neocolonialist forms) and on the role played by the Cold War. He believes that economic development is not a zero-sum game and that the real story is instead one of different growth rates (Sachs, 2005: 31).[59] Most importantly, Sachs downplays the role of corruption. Notably, he points out, "relatively well-governed countries in Africa, such as Ghana, Malawi, Mali, and Senegal, failed to prosper, whereas societies in Asia perceived to have extensive corruption, such as Bangladesh, India, Indonesia, and Pakistan, enjoyed rapid economic growth." (Sachs, 2005: 191).

For Africa, in particular, it is the unfavorable interaction of geographic and economic factors such as the lack of navigable rivers leading to the oceans, lack of irrigation, very variable rainfalls, population heavily concentrated in landlocked resource-scarce areas (Collier, 2006), farmers without "access to roads, markets, and fertilizers", and depleted soils that is truly important (Sachs, 2005: 208). Thus, Sachs adds that "[w]ithout transport, telecommunications, clinics, and fertilizers, the hunger-disease-poverty nexus has only deepened." (Sachs, 2005: *ibidem*).

From this poverty trap, the only way out is not through the typical advice offered by the IMF and the World Bank under the influence of the Washington Consensus. Their structural adjustment policies of privatization, deregulation, free markets, and belt tightening (which we mentioned supra) impose a burden that is often too heavy for the

[57] While representative of the overall debate, clearly the opinions of these two scholars on foreign aid are not always entirely shared by people who are in their respective camp. Many differences and nuances exist. However the dichotomy, which encompasses also broader considerations on development economics, is still very helpful as an intellectual organizing device.

[58] Sachs (2005: 18). In general, nations employ different definitions of poverty; international organizations and scholars in the field typically use an income cap of $1 or $2 a day, (Spence, 2011: 45).

[59] Of course very high birth rates in poor countries must enter into this analysis and Sachs, while acknowledging the progress made on this front in many countries (e.g. in Bangladesh the fertility rate went from 6.6 in 1975 to just 3.1 in 2000), talks in this sense about a "demographic trap". See Sachs (2005: 64-5).

poorest among the developing countries. Instead, Sachs argues, these policies must be accompanied by "trade reforms in the rich countries, debt cancellation" and, most importantly "increased foreign assistance for investments in basic infrastructure" (Sachs, 2005: 80).

Further, there must be ever stronger support for the eight Millennium Development Goals (MDGs) proclaimed at the United Nations in New York in 2000: Eradicate extreme poverty and hunger; Achieve universal primary education; Promote gender equality and empower women; Reduce child mortality rate; Improve maternal health; Combat HIV/AIDS, malaria, and other diseases; Ensure environmental sustainability; and Develop a global partnership for development[60]. To achieve these goals, Sachs wants the West to adhere to the commitment made by the heads of fifty major nations at Monterrey in Mexico in March 2002 to support the move by all developed countries to bringing the level of official development assistance (ODA) to 0.7 percent of GDP[61].

William Easterly (2006) is not unsympathetic to the plight of those living in extreme poverty. It is a tragedy, he argues, that children are dying from diseases whose prevention and cure costs incredibly low sums on a per capita basis. For instance, bed nets preventing children from becoming infected with malaria cost only four dollars, he points out. This is a tragedy, Easterly adds, that gets the attention of "visionaries, celebrities, presidents, chancellors of the exchequer, bureaucracies, and even armies" (Easterly, 2006: 4).

But, Easterly maintains, there is another tragedy that besets the world's poor. It has to do with the lack of understanding of why the terrible stories of extreme poverty, disease, and malnutrition are still with us in spite of the $2.3 trillion spent over the previous five decades. In other words why, in spite of this huge sum spent on aid, "the West… still had not managed to get the four-dollar bed nets to poor families"? (Easterly, 2006, *ibidem*). That is what Easterly feels is the most important task ahead: not stopping foreign aid, but stopping the evidently wrong practices that have been followed by the West thus far. To this effect, Easterly explains, it is crucial to understand the difference between what he calls the "Planners" and the "Searchers".

The Planners for him are people like Jeffrey Sachs who believe in grand designs like the Millennium Project and in the abilities of the United Nations' Office of the Secretary General to coordinate the activities of UN agencies, the World Bank, the IMF, and donors. Easterly finds Planners' "top-down" approach to development, their "big-push" theories (taking a leaf from Rosenstein-Rodan's views on development and Rostow-like concepts like "take-off") , their good intentions without any idea on how to motivate anyone to implement them, their raising expectations without assuming any responsibility to meet them, their determining what needs to be supplied, and their lack of specific knowledge in the field as the factors underlying the overall undeniable failure of aid.

Searchers (like himself), Easterly points out, are vastly more pragmatic. They are not guided by broad global designs but try to figure out what works in the field by trial and error. They know they do not have a priori answers, they take responsibility for their mistakes, and they are demand and customer driven (Easterly, 2006: 5 ff.). Easterly

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60 On the millennium development goals, see for instance http://www.un.org/millenniumgoals/

61 In 2010 only five of the major industrial countries had exceeded the ODA/GNI ratio of 0.7%: Norway, Luxembourg, Sweden, Denmark, and The Netherlands. See http://webnet.oecd.org/oda2010/

dismisses the importance of the "poverty trap". For him it is bad government that is to blame for slow growth. Further, Easterly adds, even in a good policy environment there is no evidence that aid really works (Easterly, 2006: 48). What probably works, Easterly says, are small plans, gradual approaches, trial and error, and a focus on individuals and not on governments. This is the analytical "vision" of the Searcher.

Other distinctions in the debate

Outlined this way, these two positions and narratives are the basis for the highlighting of the divisions between those who hold more radical views in what one might characterize as ideological terms.

"To the left" of Jeffrey Sachs one encounters the supporters of pro-poor growth (PPG) strategies (Saad-Filho, 2010; McKinley, 2009). This is a group that in looking at the evolution discussed earlier from Development Consensus to Washington Consensus, and on to Augmented or Post-Washington Consensus, believes that by the late 1990s the majority of development specialists had to concede "that poverty reduction and redistribution were not spontaneous by-products of growth, the correction of macroeconomic imbalances, or improvements in macroeconomic policies and governance. Instead, poverty has to be addressed directly through a dedicated set of economic and social tools" (Saad-Filho, 2011: 8).

Thus, here another conceptual divide materializes (Saad-Filho, 2011: 8; Zepeda, 2011) between those who believe that PPG should focus on economic growth that reduces poverty (Ravallion, 2004; Ravallion and Chen, 2003) and those who believe that this is not enough. The latter (Kakwani, Khandker, and Son, 2004) believe that, going beyond a focus only on absolute poverty, it is necessary instead to think of PPG as centered on increasing the income share of the poor. In other words, the poor must benefit proportionally more than the rest of the population (Zepeda, 2011), a clearly redistributive logic.

The confluence of views over time between the thinkers most readily associated with this divide, Ravallion and Kakwani, means that they now support both faster growth aiming at the absolute improvement in the standard of living of the poor and greater relative improvements in comparison with the non-poor. This is a convergence of the debate that is viewed by some (Saad-Filho, 2010; McKinley, 2009) as a nondesirable de facto abandonment of redistributive aims.

Similarly, one prominent such critic (Saad-Filho, 2010:10) criticizes the approach found in publications such as the World Bank's *Economic Growth in the 1990s* (World Bank, 2005) and the Commission on Growth and Development's *The Growth Report: Strategies for Sustained Growth and Inclusive Development*[62]. These reports "ostensibly avoid offering blueprints for development" (which I would submit is broadly speaking instead a "Planner's preference") "and instead emphasize the virtues of experience, selective reforms, eclecticism, experimentation, the middle ground and learning by doing" (which seems to me largely a "Searcher's wish list") and, most importantly, give little or no importance to distributional issues (Saad-Filho, 2010: 10).

[62] An independent group of policy makers, business leaders, and academics, the Commission's work was supported by the World Bank, the Hewlett Foundation, and the governments of Australia, Netherlands, Sweden, and the United Kingdom. See CGD (2008: 13).

Inclusive growth (Spence, 2011: 87-88; World Bank, 2009), a concept included in the Commission on Growth Report, is also criticized for its being well within the logic of the Washington Consensus and its Augmented version (Saad-Filho, 2010:17). In the words of World Bank officials while "the pro-poor approach is mainly interested in the welfare of the poor… inclusive growth is concerned with opportunities for the majority of the labor force, poor and middle-class alike" (World Bank, 2009: 1)[63]. Going back to the distinction between absolute and relative difference mentioned earlier (Ravallion, 2004 *vs*. Kakwani, Khandker, and Son, 2004), inclusive growth is thus congruent with the absolute definition of pro-poor growth. Instead, the relative definition (preferred by those who share Saad-Filho and McKinley's views on the need to focus on inequality and redistribution) is criticized by the World Bank (2009: 3) because it "could lead to sub-optimal outcomes for both poor and non-poor households".

Along the ideological spectrum, "to the right" of William Easterly one finds scholars with an even more skeptical outlook. They share with him the view "that aid has not achieved goals such as promoting rapid economic growth, changes in government economic policy to facilitate markets, or promotion of honest and democratic government." (Lal, 2006). But, while also sharing a great antipathy for the planners, those who hold this view also tend to think that "the aid agencies accountable for specific tasks through rigorous evaluation of outcomes" will not deliver (Lal, 2006), in spite of the better transparency, feedback, and accountability pursued by the likes of Easterly[64]. The aid agencies are essentially unreformable (Lal, 2006; Sorens, 2009; Lal, 2005), part of a large international business in which a significant number of professionals, labeled by Graham Hancock (1989) "The Lords of Poverty" make a good living (Lal, 2006).

Along similar lines, for Dambisa Moyo, foreign aid is downright pernicious for the recipient countries. In her work (Moyo, 2009), which centers on Africa but contains reflections applicable worldwide, she distinguishes between emergency aid, charity-based aid, and systematic aid. While not too enthusiastic about the first two, it is the third type, which involves direct payments from Western governments or from multilateral institutions such as the World Bank to governments of poor countries that deserves the most criticism. This is so also because, in terms of size, direct official aid to governments dwarfs the other two types of aid. Further, systematic aid to governments is all the more important if one adds (as she does) to actual grants official loans given on concessional terms. This is a necessary inclusion, she maintains, because of the blurring of the distinction between grant and concessional loans, engendered by the tendency toward "forgiveness" promoted so very visibly by celebrities (Moyo, 2009).

Some (Vreeland, 2003; Sorens, 2009) point out that those who see the IMF and the World Bank as heavily influenced by the US and the West tend to ignore that the conditions attached to IMF loans are in actuality sought by the recipient countries. This way, their leaders can implement unpopular economic reforms that they want without

[63] The terms of this debate reflect a similar discussion on "equality of opportunity versus equality of results" that one finds in the advanced economies and which the economic crisis and its aftermath have brought into greater prominence.

[64] Interestingly, Lal (2006) notes that by the time the typical projects are completed, the officers who were making the loans have moved on, their career benefiting from volume and not quality of projects. This "time lag" reminds me of a pattern observed in the reckless lending to governments by commercial banks' officers at the basis of the Third World Debt Crisis that exploded in the 1980s.

incurring voters' backlash[65]. To put it briefly, on the whole, this group of thinkers believes that the decisive factor in poor countries' development is not outside assistance but their willingness to "do the right thing" (Lal, 2006), relying on markets and their own improved institutions[66].

Some empirical evidence

Clearly those who favor more aid and those who want less of it or its elimination find their positions justified by an empirical literature on the effectiveness of aid that arrives at markedly different conclusions.

For instance, Arndt, Jones, and Tarp (2010) state that the overall evidence and their own findings show that eliminating or cutting back dramatically foreign aid would be a mistake since over the long run aid has a positive and significant causal effect on growth. Mekasha and Tarp (2011) maintain that, on the basis of meta-analysis, the effect of aid on growth is positive and significant. Feeny and McGillivray (2011) share the same view and state that a "big push" in foreign aid is not necessarily subject to diminishing returns and "can lead to increases in economic growth and, by implication, reductions in poverty" (*ibidem*: 63).

Doucouliagos and Paldam (2011) instead, in looking at decades of research, point out that "on average, aggregate development aid flows are ineffective in generating growth."(*ibidem*: 403). Chong, Gradstein, and Calderon (2009) confirm that this ineffectiveness exists even when good institutions are present. Further, they add that foreign aid does not seem to ameliorate the quality of democratic institutions and that "by itself does not appear to have a statistically significant effect on inequality and poverty reduction."(*ibidem*: 79). Interestingly, Kalyvitis and Vlachaki (2011) find that there is a negative relation between foreign aid and democracy, which is less strong when aid flows follow economic liberalization. Rajan and Subramanian (2008) find that aid does not increase or decrease economic growth in a significant way, that it does not seem more effective in better geographical or policy environments, and that there is no evidence that certain types of aid are more effective than others. Rajan and Subramanian (2011) also find that aid inflows most likely affect a recipient country' s competitiveness in adverse ways through the exchange rate channel because of currency appreciation[67].

The findings of Garces-Ozanne (2011) are most emblematic of the difficulties of reaching simple conclusions in this area of research. Notably, she states that aid is most likely not a good promoter of economic growth and that human and good economic policies do not seem to have unique and significant effects on the Millennium Development Goals. However, she finds that "when human and economic policies are

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65 This reminds me of the blame placed on EU institutions by national leaders of member states when implementing measures to comply with EU rules.

66 For instance, Moyo (2009) advocates borrowing in international markets, more trade with the Chinese, more microfinance, more remittances and domestic savings. These should all replace aid, which should come to an end within five years. See also Ammendola (2010).

67 To those familiar with the literature this is a significant example of "Dutch disease". Another, usually much more important, variant of the disease is associated to the damage done to other types of exports by the currency appreciation stemming from substantial natural resources exports. The damage that a wealth of natural resources can do to economic growth and development is known as "resource curse".

allowed to interact with aid, these become more robust indicators of the effectiveness of aid in helping achieve the MDG" (*ibidem*: 37).

In light of all the things we mentioned so far, the multiplicity of factors to evaluate when designing policies for development is really daunting. The framework for analysis known as "growth diagnostics", which has in recent years gained increasing popularity, tries to tackle this complexity.

Growth diagnostics

The scholars most closely associated with the "growth diagnostics" approach, Ricardo Hausmann, Dany Rodrik, and Andrés Velasco (HRV, henceforth) point out that policymakers, when "presented with a laundry list of needed reforms" such as those we mentioned earlier when discussing the Washington Consensus and its Augmented Version and arguably those of the earlier Development Consensus, "…have either tried to fix all of the problems at once or started with reforms that were not crucial to their countries' growth potential" (HRV, 2006: 12). Such reforms have often "gotten in each other's way, with reform in one area creating unanticipated distortions in another area." (Ibidem)[68].

Proponents of the growth diagnostics approach maintain, instead, that it is much better to try to identify the major binding constraints, whose removal would permit a "growth spurt." (Felipe and Usui, 2008: 2). In the framework developed by HRV (2005), a decision tree is used to look at the problem of low levels of private investment and entrepreneurship. HRV (2006: 13) explain that "[i]n a low-income country, economic activity must be constrained by at least one of the following two factors: either the cost of finance is too high, or the private return to investment is too low. If the problem is with low private returns" (HRV use as an example El Salvador), "that in turn must be due either to low economic (social) returns or to a large gap between social and private returns (what we refer to as low private appropriability)." In the case of high cost of finance (HRV use as an example Brazil) the decision tree is also divided in two branches: bad international finance and bad local finance.

Going down from one branch of the decision tree to the next leads the researcher to look at factors of most varied nature such as geography, infrastructure, physical and human capital, institutions, governance (Felipe and Usui, 2008). At each node, the researcher asks "what kind of diagnostic signal the economy would emit if the hypothesized constraint were indeed the binding one" (Rodrik, 2010: 35). Going from branch to branch, one achieves ever greater levels of disaggregation and Rodrik (2006: 984) maintains that the value of going along the many paths associated to diagnostic analysis, even in a "rudimentary" way, "can sometimes reveal important gaps or shortcomings in traditional reform packages".

The second step in growth diagnostics is to design the policies best suited to relax the constraints (Rodrik, 2010; Rodrik, 2006). One principle stands out: "target the policy response as closely as possible to the source of the distortion." (Rodrik, 2006: 984). For instance, if credit constraints are a major constraint and this results in large bank spreads, promote competition in the banking sector (*ibidem*).

[68] This clearly is an issue very often related to sequencing.

Supporters of growth diagnostics are aware of the difficulties of designing and implementing effective reforms, especially in light of the fact that developing countries confront greater challenges and more constraints than developed nations, that binding constraints change across time, and that policies can interact with one another in an adverse manner. This is in line with the broad consensus mentioned earlier in connection with the evaluation of the 1990s, whereby it is very difficult to find a link between institutional design and/or specific policies on the one hand, and growth on the other. More specifically, the economic policy advice given to public decision makers has to abandon a logic of first-best practices (always worth studying in a theoretical way) in favor of one of second-best real world ones and experimentation, in the awareness that an economic system may not respond to policies in a predictable way (Zagha, Nankani, and Gill, 2006; Rodrik, 2008; Rodrik, 2010).

Growth diagnostics seems at this point to be a very important tool for development practitioners. One criticism directed against it by someone who finds much merit otherwise with the approach, is that it "focuses exclusively on economic growth" (Felipe and Usui, 2008: 7). This is, as we have seen, part of a debate that deals with the limitations of GDP and its change across time not just as a measure of economic activity but more importantly of human well-being and development.

More on human development

All manners of organizations (governmental and nongovernmental, national and international, for profit and not-for-profit) publish information on the state of many types of human development and often provide indicators and country rankings. Some indicators are inevitably a great source of controversy, deriving for instance from the way they are constructed, measurement problems, or the very objectivity of the issuing entity. We shall continue our earlier brief examination of the UNDP's Human Development Index (HDI) and use it to offer some additional considerations on human development in general.

The need to expand the concept of human development has been felt for a while. For instance, the 2010 Human Development Report, referring to the 1990 HDR, reminds the reader how the latter "emphasized that development is about freedom, both human choice (opportunity freedoms) and a participatory process (process freedoms)." (UNDP, 2010: 12). The distinction, borrowed from Amartya Sen (2002), in other words, separates "the freedoms which give us greater opportunities to achieve those things we value (opportunity freedoms)," from " those that ensure that the process through which things happen is fair (process freedoms)."(Klugman, Rodríguez, and Choi, 2011: 264). Thus, it has been noted that the HDI can at present be characterized as an index of opportunity freedoms and that the authors of the HDR 2010 are aware of the need to consider process freedoms (*ibidem*), which involve empowerment and democratic practices (UNDP, 2010: 23).

The HDR 2010 looks at "empowerment, equity, and sustainability" because they "are among the intrinsic parts of people's freedom to lead lives they have reason to value." (UNDP 2010: 65). The major overall HDR's finding with regard to these three dimensions is that their relationship with HDI is not on the whole straightforward. In other words, there is an overall lack of correlation between HDI and empowerment and sustainability. With regard to inequality, the pattern shows that it is negatively related to HDI, but even that relationship shows considerable variation. Thus on the whole, "[c]ountries may have a high HDI and be undemocratic, unequitable and unsustainable—just as they may have a low HDI and be relatively democratic, equitable and sustainable." (UNDP, 2010: 65).

Empowerment. Empowerment is a concept for which there is much disagreement in the literature, both in terms of definition and measurement (Klugman, Rodríguez, and Choi, 2011: 264). In the 2010 HDR, following Sen (1985), empowerment is characterized as requiring both agency, "people's ability to shape their own destinies" and "supportive institutional structures" (here institutions come again to the fore) (UNDP, 2010: 23).

In this context, technology has been a major source of change. By the end of 2010 there were 2 billion internet users worldwide (double the number in 2005), of which 1.2 billion in developing countries[69]. There are still significant differences regionally, with Europe at 65 users per 100 inhabitants, the Americas at 55, CIS at 46, Arab States at 24.9, Asia and Pacific at 21.9, and Africa at 9.6. Interestingly, China is the country with the largest number of Internet users, over 420 million. More impressive still are the data with regard to access to mobile cellular technology. The developing world has increased its share of mobile subscriptions from 53 percent of total mobile subscriptions at the end of 2005 to 73 percent at the end of 2010, with Africa possessing the greatest potential for growth and the advanced economies at present at or near saturation levels. If one adds to these technologies satellite television, people's ability to make informed choices, gaining voice, and hold governments accountable has definitely increased (UNDP, 2010), as the so-called Arab Spring may attest, even though some (Morozov, 2011) have strong doubts about the Internet's democratizing impact on account of governmental action and others (Wu, 2010) on account of corporate behavior.

The drafters of the HDR 2010 also point out that globalization's leading to greater international transmission of issues and concerns can be evinced from one trend among many: the number of international organizations has increased by a factor of five from 1970 to 2010, to an estimated 25,000 (UNDP, 2010: 68).

Distinguishing between democratic and nondemocratic states is also difficult. Regardless, using a "minimalist definition" of democracy, the HDR maintains that on the whole the share of HDI countries which are democracies went from less than a third in the early 1970s to more than 50 percent in 1996, to over sixty percent in 2008 (UNDP, 2010: 68). Two trends stand out: (1) most of the countries with a very high HDI are democracies and (2) of the countries with low HDI none was a democracy in 1990, while now slightly over 30 percent are (*ibidem*). This trend toward greater democratization encompasses a rise in local participatory processes, with a better political inclusion for many identity based movements (e.g. indigenous groups in Latin America and the Caribbean or lower caste groups in India in individual states) (UNDP, 2010: 70). This overall rise in empowerment as a trend needs to be qualified by the fact that "democracy embraces an array of institutional arrangements and power configurations—and that autocracies are not monolithic either" and that "reported

69 All data on Internet and mobile telephony are from International Telecommunications Union *The World in 2010 Facts and Figures* (available at http://www.itu.int).

levels of human rights violations have remained virtually unchanged globally over the past 40 years" (UNDP, 2010: 69, 71)[70].

Inequality. The 2010 HDR Report has recently added one dimension, inequality, to the three HDI original dimensions of income, health, and education. Taking advantage of better data availability than twenty years ago, new indices called Inequality-adjusted HDI, the Gender Equality Index (with findings revealing interesting if negative developments in terms of women's empowerment in the Caucasus and Central Asia), and the Multidimensional Poverty Index have been developed. The main finding, not on the whole contradicting what we discussed earlier on inequality, and with the usual caveats with regard to data gaps, is that "progress in reducing inequalities around the world has been limited, with some serious reversals. Income inequality is increasing in most countries, except in Latin America and the Caribbean." (UNDP, 2010: 77).

Vulnerability and sustainability. The human development of countries and people is vulnerable when it can decline on account of various risks such as "aggregate shocks or individual accidents." (UNDP, 2010: 78)[71]. For analytical purposes, it is helpful to note that risks can affect individuals (e.g. loss of a job), communities (e.g. floods or earthquakes), or countries (e.g financial crises) (UNDP, 2010: 78), where clearly the impact runs the gamut from local to global but the lessons learned are increasingly shared by an ever better connected global community of scholars and practitioners.

Sustainability is a much discussed concept, closely connected to vulnerability. HDR 2010 uses the Brundtland Commission's definition of sustainable development as "progress that meets the needs of the present without compromising the ability of future generations to meet their own needs" (UNDP, 2010: 78). Neumayer (2010) notices that this definition puts on a same plane intra and inter-generational equity and laments that intra-generational equity issues are usually passed over in most debates on sustainability. Most advocates for the poor would tend to agree with that.

Neumayer also draws an interesting distinction between *weak* sustainability and *strong* sustainability. Supporters of weak sustainability view natural and other forms of capital as basically substitutable and hold that it is the total value of capital stock that should be preserved. Supporters of strong sustainability counter that certain forms of natural capital are nonsubstitutable and that their importance is so great that their decrease cannot be offset "by investment into other forms of capital, such as man-made (manufactured) and human capital" (Neumayer, 2010:4).

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70 One dimension of empowerment that I think is going to be of growing relevance as a field of inquiry (also in light of the importance of the global crisis and its consequences on our lives) is happiness research. Interestingly, the HDR 2010 acknowledges that "happiness… is not fully explained by income or …by the HDI" but states that it considers "happiness" as "complementing other measures of well-being [and] not as a sole measure." (p. 22) In terms of its relevance to public policy, thinking on happiness will have to confront and weave together effectively issues such as: problems of definition and measurement (Wilkinson, 2007), the usefulness of surveys on their own and for cross-country comparisons (Kenny, 2011), the problem of too many choices in capitalist societies (Schwartz, 2004) or not (Wilkinson, 2007), the biases of happiness indices compared against the more objective nature of GDP (Norberg, 2010), and the capacity of human beings to adapt to prosperity and adversity (Graham, 2010).

71 In this context, the distinction between sensitivity and vulnerability drawn by Keohane and Nye in *Power and Interdependence* comes to mind. For them, sensitivity has to do with degrees of responsiveness in the absence of a change in policy, while vulnerability deals with the costs incurred even after changes in policy.

With regard to ensuring environmental sustainability - one of the eight Millennium Development Goals - the United Nations (2011) highlights some interesting trends. [72] Most importantly, emissions of carbon dioxide (CO2) have gone from 21.8 billion metric tons (bmts) in 1990 to 30.1 in 2008[73]. More specifically, developing countries' emissions have gone from 6.8 to 16.0 bmts, while developed countries' have gone from 15 down to 13.9 bmts. It is interesting to note that since 1990 emissions per unit of output "have gone down "by more than 36 percent in developed regions and by about 9 percent in developing regions." (United Nations, 2011: 50). Further, in 2008 developing regions emitted 0.58 kilograms of CO2 per dollar of economic output, while the corresponding emissions of developed regions were 0.38 kilograms (United Nations, *ibidem*). On the other hand, in developing regions in 2008 the per capita CO2 emissions were only 2.9 metric tons against 11.2 in the developed regions (United Nations, *ibidem*). In the years ahead the debate over individual countries' absolute emissions (with blame placed on developing countries, especially China) and *per capita* emissions (with blame placed on developed countries, especially the United States) will certainly intensify[74].

Among other trends of significance related to environmental sustainability, there are the following (United Nations, 2010; 2011): the rate of deforestation, while decreasing also because of tree-planting programs, is still worryingly elevated; dramatic decreases have been achieved in the levels of global consumption of ozone-depleting substances since the mid-1980s, clearly a major success for developed and developing countries; progress in the area of reducing biodiversity loss is not satisfactory, with species' decline in terms of both population and range and with the data being relatively more worrisome for developing countries; challenges remain in the areas of fisheries (overfishing, pollution, and loss of habitat) and also with regard to bridging the gap in sanitation between developed and developing countries and rural and urban sanitation; the MDG of halving by 2015 the proportion of the population without sustainable access to safe drinking water will most likely be reached, but concerns over the quality of drinking water in the future loom large.

All these areas are very much related to the state of the world economy since conservation and sustainability policies carry with them economic costs. As a matter of fact, it is in times of economic crisis that, while the use of natural resources may decrease, environmental concerns tend to become less important for policymakers and voters.

Conclusion

The trends and frameworks presented in this paper confirm the complexity of globalization. Describing, analyzing, and predicting aspects of the world economy such as economic growth, equality, and development, is both necessary and difficult.

[72] The data and trends mentioned here are part of a periodic assessment of the progress being made toward the achievement of the MDGs. See United Nations (2010; 2011)

[73] On the merits of a "carbon tax" versus those of "cap, auction, and trade" see for instance http://www.thebulletin.org/web-dition/roundtables/carbon-tax-vs-cap-and-trade

[74] Two indices of sustainability seem to reflect adequately the two opposing positions. The Happy Planet Index, created by the New Economics Foundation considers the ecological footprint of developing countries as "light" and that of developed countries "heavy" (Norberg, 2010). The Environmental Sustainability Index, created by the Center for Environmental Law and Policy at Yale University, basically reaches opposite conclusions (Norberg, 2010).

Effective institutions are difficult to design, causes and effects of behaviors are often hard to distinguish, and decision-makers have to constantly face challenging decisions over the appropriate sequencing of policies. Optimal policies have often to give way to second-best courses of action because of the complex interplay of a myriad of ever changing factors.

Beyond the scope of the present paper, two broad observations need to be made. One, that the complexity is also compounded by the rapidity of change. Opinions on countries' stability and economic prospects can be modified rapidly and the equity and debt instruments issued therein, along with their currencies, can quickly move up and down in value, subject to very sudden markets' reassessments of the relationship between risk and return. Notably, it is this very complexity that should caution us not to expect nearly-inevitable, smooth, and almost automatic continued and rapid increases in income per capita for all, most, or even select developing countries. To achieve growth in a sustainable way, economically and especially environmentally, policymakers will have to be most clever and cooperative with one another, within and without national boundaries.

Further, it has to be noted that the frameworks and trends discussed are among those that will be affected by the lessons that the global financial crisis and its aftermath have taught and will continue teaching leaders in both developed and developing countries. The teaching and learning will flow in both directions, as they will between public and private decision-makers. The ability and, even more importantly, the willingness to truly understand these lessons and cleverly adapt them to different realities will be of great importance in the months and years ahead for the world economy.

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