

WHERE TO NOW?

There can be no doubt that the global economy accumulated more economic wealth between 1975 and 2006 than during any period in the past. It is always hazardous to measure the economic attributes of earlier periods; however, the guesstimates for the eight centuries extending from AD 1000 to the eve of the Industrial Revolution show that global gross domestic product (GDP) grew from US\$121 million to US\$371 million, and living standards of the average English or Chinese citizen changed little. Populations crept upward ever so slowly at 0.2 percent per year, kept in check by horrendously high mortalities and by agricultural and energy resource constraints. For the vast majority, even under the umbrella of a social compact, existence (in the language of Hobbes) could be nasty and brutish and was almost always short. Better data from about 1800 show that parts of the global economy were beginning to cast off the tethers that had been responsible for maintaining a low-level equilibrium across the world for several millennia. Between 1870 and 1950, despite the cruel wars and depressions that periodically caused immense economic damage, the size of the global economy rose from US\$1,111 billion to US\$5,337 billion, implying a growth rate of 2 percent per year. Between 1950 and

1975, the pace picks up to an average of 4.7 percent per year. And in the most recent stretch, from the mid 1990s up to 2006, growth was at its highest ever—5.2 percent per year—compared with that of earlier times (Maddison 2007).¹

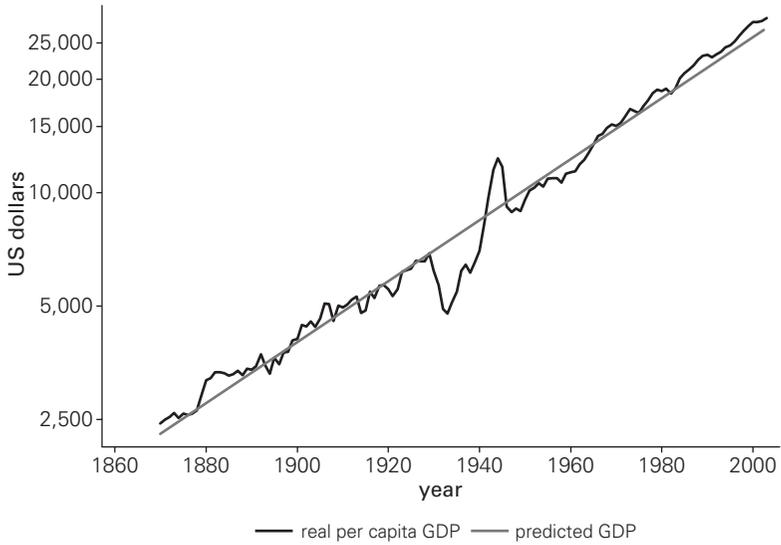
When the “technology of development” is so widely shared—not the least through the *WDRs*—why are there so many laggards? Why is there a great and widening divergence? Why aren’t the ranks of “tiger economies” growing by the year? This topic is so fascinating that it attracts a steady trickle of imaginative and illuminating books.² Each book has contributed to our knowledge of the circuitous pathways to development and has sensitized us to the obstacles along the way. Every year, along comes a *WDR*—plus other reports—that adds more details on development, more analysis, more layers of complexity, more anecdotes, more factual information. If only this knowledge could render policy making less of an art and less subject to slippages and uncertainties, the whole world would be developed and growing by 7 percent per year, much like the more fortunate East Asian economies, several of which were forging ahead before the first *WDR* was written and which have occasionally flouted some of the messages in the *WDRs* while sustaining their remarkable and largely unwavering performance.

Perhaps the biggest lacuna in the corpus of knowledge contained in the *WDRs* is a lucid and detailed diagnostic explaining why even with good policies, the growth of the typical developing country rarely climbs much above 3 to 5 percent per year, which is impressive by historical standards, but countries in a hurry to catch up aspire to faster rates of growth. Figures 4.1 and 4.2 show the steady 1.8 percent per year growth of per capita GDP in the United States over a 140-year span and the faster 5.8 percent per year increase in the per capita GDP of the Republic of Korea over a 23-year period. The stability of this growth over extended periods, during which policies and circumstances varied, is quite remarkable and again raises questions regarding what economic policies are able to accomplish.

1. Lucas (2003) estimates that world output grew fourfold between 1960 and 2000, which translates into a per capita increase of 2.3 percent per annum.

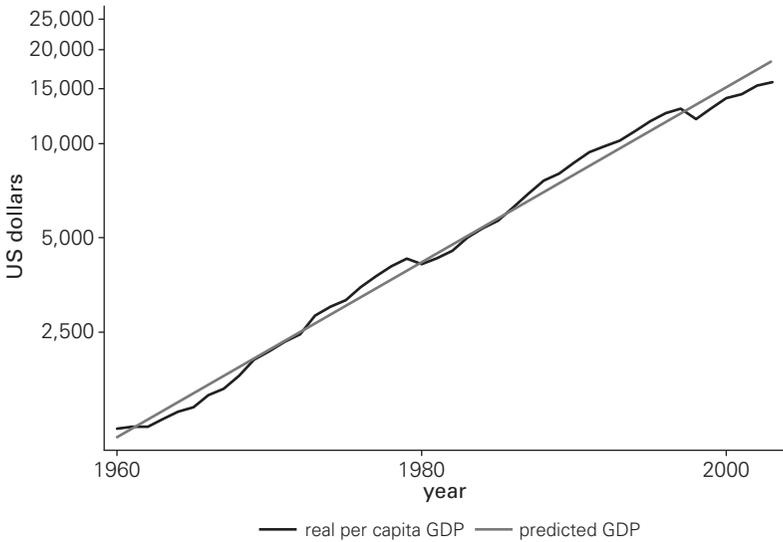
2. Among them are G. Clark (2007), Collier (2007), Diamond (1999), Goldstone (2008), C. Jones (2008), Landes (1999), North and Thomas (1976), Rosenberg and Birdzell (1986), Sachs (2008).

Figure 4.1: Per capita GDP Growth of the United States, 1870–2003



Source: Maddison 2007.

Figure 4.2: Per capita GDP Growth of Korea, 1960–2003



Source: Maddison 2007.

Since 1978, policy makers in the developing economies have benefited from vast transfers of capital and of knowledge on economic management—with the *WDRs* being only one among hundreds of formal and informal conduits for the transfer of policy-making expertise. However, the Ghanas, the Mexicos, the Pakistans, and the Philippines of the world have struggled to raise the growth speed limit. Sustained per capita GDP growth of 6 to 7 percent, which China has achieved seemingly effortlessly, has persistently eluded these countries. Impoverished inland provinces in China have grown for two decades at rates almost double those attained by Pakistan and the Philippines. And yet it could be difficult to claim that Ghana, Pakistan, or the Philippines are relatively disadvantaged compared with inland Chinese provinces with respect to resources, human capital, and policy-making skills. In fact, policy-making expertise is and was probably greater in the Philippines than in Guangxi, Ningxia, or Gansu. The role of the state in Guangxi is large, market institutions have a shorter history, and the business environment is no better and might be a good deal less welcoming for private business.

Possibly the answer does not lie mainly in the characteristics of the business environment, the readiness of market institutions, or the supply of human capital—the ground plowed over by the *WDRs*. Policies and the quality and determination of the leadership leave a deep imprint on economic performance. Similarly, the composition of interest groups in society and the balance struck between actions that promote development and the rent-extracting actions of the elites can reinforce or counter the orientation of the leadership and determine whether a country moves into the front ranks of developers, oscillates near the middle of the pack, or remains stuck in the rear.

The *WDRs* have devoted much space to institutions, to the role of the state, and to a narrow view of governance. The political economy of development has been touched on in the 2004 and 2008 *WDRs*, but with a focus on the economic rather than the political determinants of development. The point can be made that the success of a China or a Korea or a Singapore rested on the state's readiness to trim the public sector, encourage private enterprise, and build market institutions, but in each case, the state has remained large, powerful, and interventionist. Directly and indirectly, the public sector encompasses a major share of GDP. The

small, fast-growing Nordic countries are not too dissimilar. The public sector is large, the state is active in promoting new industries through the national innovation system, and its not-so-hidden hand is everywhere, as it is in Singapore. The state in Brazil and Mexico has a lesser role, and market institutions have had a longer time to take root. The volume of human capital is surely adequate to support rapid growth, the domestic market is large, the geographic neighborhood is dynamic enough, but the achievements pale before those of China and now even India.

The interest of policy makers lies not in whether the state should be large or small or more or less interventionist; the interest is in what specific forms of intervention over a period of time yield the best results under similar external circumstances. The same is true regarding institutions. Everyone can see that market institutions in successful East Asian industrializing countries are at best functional and at worst weak and minimally supportive. The interesting issue is how an assortment of institutions of varying capabilities and degrees of maturity can, with the help of a strong developmental state, produce good results using the local knowledge that policy makers surely have (Rodrik 2007). In a world where conditions in any country are always less than ideal, we need to be able to explain how countries can transform a fishing vessel into a serviceable cruise liner while on the high seas and in the absence of a detailed blueprint.

Undoubtedly, the *WDRs* are doing a creditable job of deepening knowledge and collecting an immensity of experience, but in doing so there is a risk that they might be rendering policy making more complex. So many more necessary conditions are being identified while the sufficient conditions seem ever more elusive. In successful economies, policy makers worked with simple decision rules and with reference to a few—or just one—practical model. By keeping things straightforward and above all practical, they made and implemented decisions quickly. That mistakes were also made is certainly true—they are still being made, although thanks to the *WDRs*, we cannot cite ignorance—but in a simpler decision environment, it was and is easier to rectify them without lengthy research.

In short, by striving to convey the full richness of research and practical experience on a topic, the *WDRs* might be catering more to the

student of development than to their primary audience of policy makers looking for practical guidance and rules of thumb. This closing section briefly alludes to few of the topic areas where there is an urgent need for raising awareness and mobilizing effort across countries, for identifying key issues, and for providing policy makers with a framework for organizing information and formulating policies.

Putting Knowledge to Work

Few could deny the salience of technological progress in explaining growth most emphatically after the mid 18th century. The earlier references to the growth “residual” and to total factor productivity underscore the contribution of science. In our times, making science flourish and making the scientific endeavor productive are easily among the leading objectives of countries strongly committed to promoting industrial competitiveness and growth and to improving the quality of life. Technology policies and national innovation systems are becoming a preoccupation of policy makers even in the low-income countries, and by styling itself as a knowledge bank, the World Bank has evinced an awareness of this trend.³

Increasingly the questions policy makers are asking revolve around identifying technologies with the greatest longer-run potential in terms of growth and employment.⁴ These questions lead to further questions about, for example, the volume and allocation of public funds to catalyze and build capacity in the selected areas, the ways to share the burdens of investment and risk with the private sector, the scale and range of incentives to be offered to firms and researchers, the rules governing intellectual property, and the means for expeditiously commercializing research findings. Smart policies are inseparable from targeting areas for technology development and steering public and private resources into these areas generally for long periods of time. They entail investment in specialized skills with support from public funding of scholarships, and they call for public spending on universities, research institutes, incubators, intermediaries, and science

3. The 1998/99 *WDR* addressed technology development and the pursuit of innovation. Others, such as the 2008 *WDR*, have devoted a chapter (or a box) to this topic.

4. Phillips (2008) lists some of the challenges as well as the mechanisms for ferreting out technologies and forecasting change.

parks (Howells 2006; Romer 2000; Yusuf 2008). The public sector generally must foot part of the bill for venture capital, and in many instances, whether it is pharmaceuticals, armaments, electronics, or software, the public sector is a major purchaser. There is no dearth of material on the knowledge economy (see, for example, Foray 2004) and on innovation systems, but middle- and low-income countries are looking for strategies and ways of implementing such systems, which the Bank could highlight. Doing so might require a reappraisal of the Bank's belief in minimizing the involvement of the state in open-ended infant-industry activities with no definite payoff and its strong views on anything that smacks of industrial targeting.

Warming Climate, Scarce Water

The climate change that lies in our future will bit by bit transform the physical world and demands adjustments and adaptations on many fronts. Low-income countries lying in the tropical belt will be affected the worst by climate extremes, higher temperatures,⁵ desertification, water scarcity, coastal flooding, and far more hazardous epidemiological circumstances.⁶ Among these changes, the long-run effects of seasonal water shortages and exceedingly variable rainfall arguably could impose the heaviest burdens on rural and urban inhabitants alike. A succinct summary of the economic issues being debated with respect to climate change can be found in Heal (2008).⁷ The seriousness of global warming is unfolding daily in scientific and popular publications. The Intergovernmental Panel on Climate Change report (IPCC 2007), the *Stern Review* (Stern 2007), and detailed exegeses on these reports provide the closest reading

5. One of the deadliest and thus far relatively neglected weather-related catastrophes is the heat-wave, which has wreaked havoc even in developed countries. The examples of Chicago in 1995, France in 2003, and Hungary in 2007 come to mind. See Klinenberg (2003) for a detailed account of how heat and humidity resulted in 700 excess deaths in Chicago during the week of July 12, 1995.

6. Dell, Jones, and Olken (2008), drawing on data from the past 50 years, emphasize the negative effects of higher temperatures for the poorer countries.

7. A similarly compact account of the ethical issues associated with discounting future costs is provided by Broome (2008). On the issue of discounting and providing for future generations, see Summers and Zeckhauser (2008). Dyson (2008) also offers a typically lucid review of two major publications, one by William Nordhaus exploring the implications of different rates of discounting and the other by Ernesto Zedillo.

of where matters rest, and some plausible and alarming scenarios are spelled out in Campbell (2008). Additional information is flowing in thick and fast, very little of it reassuring. As fresh water becomes increasingly precious, markets alone might not be able to handle rising and competing demands.⁸ It has frequently been noted that the sharpest conflicts in the future could erupt over water resources. These conflicts might arise between users located at different points along a major waterway, between rural and urban consumers of surface or underground water, and among countries that share water resources. A number of populous countries face the predicament of having to divide among themselves the bounties of a shared river or a subterranean aquifer. The populations and needs of these countries are rising even as the future supplies of water are set to dwindle with the retreat of mountain glaciers, deforestation, and sparser rainfall in upstream catchment areas (Orlove, Wiegandt, and Luckman 2008).⁹ Under such circumstances, food security will surely reemerge as a paramount concern imperiling the stability of several low-income countries with large rural populations and perhaps also jeopardizing crucial elements of partial and hard-won trade liberalization—one of the key benefits of globalization.

Securing, conserving, fairly allocating, and efficiently using water resources will be at the very heart of development as these issues were some decades ago (Pearce 2006; Rogers 2008; UNDP 2007). These issues could once again challenge the broad skills of the Bank: operational, analytic, technological, and diplomatic. The Bank's role in crafting the Indus Basin treaty (a slow process that commenced in 1951 and came to a close in 1960) and in helping to finance the network of dams and canals in the Punjab ranks as one of its finest achievements, and efforts on a similar scale but in many regions might be required in the future. A *WDR* could chalk out a framework for tackling the problems associated with dwindling supplies of

8. Water stress is mounting in parts of Asia, which has 60 percent of the world's population but only 27 percent of the world's fresh water. In Africa, the situation is even more serious, with close to two-thirds of the population relying on limited and highly uncertain sources of supply and with some estimates suggesting that 40 percent of the existing supplies of irrigation water will not be sustained. (Smil 2008b: 198). See also Smil (2008c) on the advances in the capacity and efficiency of facilities desalinating water through reverse osmosis, which offers hope for parched coastal communities with access to affordable energy supplies.

9. Ten major watersheds lie in Tibet, and the rivers flowing from them provide water to almost one-half of the world's population.

fresh water and advance the dialogue on desirable actions among affected countries. Among the actions to be explored are building a storage and distribution infrastructure, developing sharing arrangements and institutions to strengthen water markets, and investing in sewage facilities to reduce the contamination of available fresh water. We can also include new technologies to purify or desalinate water; investment in the infrastructure that cities would need to use water of different grades for different purposes; investment in urban distribution systems to cut the 20 to 25 percent losses from leakages; technologies for minimizing the losses from evaporation and increasing the efficiency with which farmers use water (“Running Dry” 2008); new cropping patterns using genetically engineered crops that are tolerant of water stress and salty or brackish water (Hindo 2008; “Next Green Revolution” 2008); exploitation of the potential of urban agriculture through “sky farming,” which minimizes water loss and pollution and also lessens the energy costs of shipping fresh food from distant places for urban consumption; planting of vegetation that provides cover but minimizes the loss of moisture through evapotranspiration; and, last but not least, resettlement of people currently living in areas that will be receiving a declining amount of fresh water (or will be endangered by rising sea levels).¹⁰ This is not the only niche for the Bank that could be an

10. The wide-ranging increase in commodity prices since 2000 and the steep rise in the prices of foodstuffs that started in 2007 could have significant positive implications for the low-income economies with large rural populations. Higher agricultural prices, on balance, benefit the poor, and as they are likely to persist, offer a golden opportunity to do away with agricultural price supports and trade barriers in developed countries. The gains, mainly accruing to a number of lower- and middle-income countries that export foodstuffs, range from US\$460 billion to US\$2.5 trillion (Anderson and Winters 2008). However, importers of foodstuffs will need to take account of the changing circumstances, and water-stressed regions will have to reconsider the benefits of exporting “virtual water” (Allan 2003). At least three kinds of strategic opportunities have arisen that could be grist for a *WDR*. First is the opportunity to begin building research, innovation, and extension systems that will enhance urgently needed agricultural technology capability in low-income countries. Such capability has lagged, especially in Africa, affecting the availability of crop varieties that are more productive (and less dependent on natural gas-based nitrogen fertilizer for their yields), richer in nutrients, more resistant to disease, and better able to survive water stress (Paarlberg 2008). The future of agriculture depends on the infusion of technology. Second, the future of smallholder-based agriculture needs to be reconsidered in the light of ongoing climatic changes and estimates of the population that viable rural systems could support over the longer term. Rather than entrenching populations in rural areas with the help of institutions and infrastructure, sketching scenarios of urban development for a faster rural exodus would be more helpful. Third, stimulating agricultural economies could set the stage for the kind of growth spurt and the associated declines in poverty that occurred in China and Vietnam (Lin 1992; Rozelle and Swinnen 2007; World Bank 2008b) in the 1980s and 1990s. The chances of this rejuvenation happening can be increased if, down the road, the Doha Round is revived by highlighting the scale of the benefits for all participants.

outgrowth of climate change; however, it is one that could harness the existing or latent strengths of the Bank—possibly more so than carbon trading, for example. And to reiterate the earlier point, this problem is a topic for a *WDR*, possibly cast in the mold of the earliest reports, that succinctly maps out issues and strategy. The details and an exhaustive review of the literature can be left to specialized reports.

The Geography of Human Habitation

Climate change coupled with resource and energy scarcities will call for a very different kind of urban environment. The cities we now live in arose with minimum planning in a world where energy was cheap and water plentiful. The advent of the automobile and, more recently, of advanced telecommunications and the Internet¹¹ has encouraged horizontal expansion and the increasing consumption of housing space. More space, as incomes rise, is associated with higher costs for space heating and cooling. Urban sprawl eats up prime agricultural land in the vicinity of cities and necessitates expensive supporting networks of infrastructure to provide transport, energy, water, and sanitation services.¹²

Initial construction costs aside, there are additional recurring costs of maintenance and replacement, plus the losses from transferring electricity and water over vast networks of wires and pipes. Many of today's megacities were built up piecemeal without an eye to the efficiency of land use—from a long-term standpoint—or to cost containment in terms of energy, congestion, and time devoted to intraurban travel. In a crowded, largely urban world constrained by increasing scarcities of water and energy, urban planners will need to partially reconstruct many of the existing megacities in the developing world and to carefully plan the expansion of existing

Defining the benefits and elucidating the political economy of sharing and of the ways of surmounting likely hurdles could, together with the above, mean that a decisive victory might be won in the long struggle against poverty.

11. Computerization and the increasing reliance on information technologies have added to the energy intensity of urban living. Running and cooling faster microprocessors and vast server farms consume 10 percent of all the electricity generated in the United States. Creating, packaging, storing, and moving 10 megabytes of data consume 900 grams of coal (Hamm 2008; Mckenna 2006).

12. Among the worst instances is the “decentralized dense sprawl” of the Los Angeles area, with its high population density, congestion, air pollution, and lack of both public transportation and recreational amenities (Eidlin 2005). Sprawl, which is in part the outcome of land-use restrictions in the central city, pushes urban development outward and contributes to greater greenhouse gas emissions (Glaeser and Kahn 2008).

urban centers with an eye not only to resource conservation, but also to convenience, livability, and the health of urban inhabitants. For example, monocentric cities with a radial pattern of roads that give rise to congestion during peak hours will need to morph into polycentric cities with ring roads, public transport services, and other changes in travel and commuting patterns and residential development. Floor area ratios will have to be raised so as to encourage densification, especially around nodes. Mixed use of land will be needed to minimize the proliferation of office canyons that are only used for part of the day. Ribbon development along the main transport arteries will have to be actively discouraged. Technological advances in transport, in road-user charges differentiated by time of day, in waste disposal, and in recycling will need to be incorporated in existing cities and become an essential feature of new urban areas.

There is scope for significant technological gains in the design and construction of buildings, which collectively account for 45 percent of gross energy consumption and greenhouse gas emissions (“Science/Technology: Construction” 2008). What are now viewed as somewhat exotic “eco-friendly” and “green” technologies will need to become the norm. All this improvement will entail huge new expenditures, but more than that, it calls for fundamental shifts in urban living conditions in arguably more compact cities, in the direction of technological advances,¹³ in the rapid incorporation of the technologies, and in urban planning for the longer term that anticipates massive systemic reform.

Some of the spatial issues are tackled by the 2009 *WDR*; however, there remains an awareness-raising and strategy-defining role for the Bank to play in helping urbanization come to terms with the looming scarcities of energy and water and with the need to both manage and safeguard ecosystems.¹⁴ The future of urbanization is intertwined with climate change¹⁵ because there are cities whose prospects are uncertain because they are located in

13. Downsizing, material conservation, and heightened advantages of further miniaturization (which Japanese firms have raised to a fine art) could spur a new round of innovation (Phillips 2008).

14. The energy needs of modern living are examined in detail by Smil (2008a), and the links between energy use on the one hand and urbanization, transport, health, and climate change on the other are explored by Haines and others (2007); Wilkinson, Smith, Beavers, and others (2007); Wilkinson, Smith, Joffe, and Haines (2007); and Woodcock and others (2007). Humanity’s transformation of ecosystems and the effect of cities is the topic of a valuable paper by Kareiva and others (2007).

15. Urbanization appears to be on an inexorable upward trend, especially in Asia and Africa, and it has major implications for climate change, both local and global (Grimm and others 2008; Montgomery 2008).

low-lying coastal areas or in areas where warming, water scarcity, and the costs of supplying water from elsewhere will seriously affect habitation.¹⁶ Some cities, therefore, might not be worth expanding or rebuilding, and the time is now to start thinking about the geography of human settlement.

This situation leads to the whole question of future regional development and poverty alleviation in the more inhospitable corners of our planet and migration. Migration will be the only cure for poverty in these parts of countries where the potential for agricultural or urban development is minimal and becoming less promising day by day as global warming tightens its grip. Migration out of these areas will need to be channeled to cities with longer-term growth possibilities. Bringing infrastructure and services to areas that are certain to become depopulated would be a waste of resources. Thus, regional development has to be redirected and intermeshed with urban strategies. Moreover, in many instances, migration out of parts of the tropics will be unavoidable, and multilateral arrangements will be required to absorb people in places where the climate and water resources are conducive to habitation and economic activity. The sociopolitical upheavals that this migration will involve are immense. A *WDR* could launch and help focus the debate. It could also initiate a parallel debate on the future role of the state and of global governance arrangements in a world where inframarginal discussions will be made—by the state—on where and how people can live in order to fit into the global budget of resources and global public goods. Markets will certainly help, but the enormity of the tasks ahead will be far beyond the capacities of the market, given how little time is left before irrevocable and painful changes in the environment are upon us.

Resilient Complex Societies

As societies develop, the degree of complexity of numerous interlocking systems has increased—infrastructure, industry, finance, energy, health, and transport to name a few. This complexity mirrors technological sophistication

16. Gullede (2008) notes that the United States has the largest number of coastal cities that would be vulnerable to rising sea levels. Delta areas are also highly susceptible. A one meter rise in the sea level would inundate the entire Mekong Delta, which is home to 20 million people and is a major producer of rice.

and underpins prosperity. However, complexity and its associated interdependencies are also a source of vulnerability: they can rapidly magnify a problem by diffusing a shock widely throughout a regional or a national economy (MacKenzie 2008a, 2008b). We are all aware of how urban life can be brought to a halt by a major electricity outage. Shocks administered by a lethal outbreak of disease,¹⁷ an earthquake, a weather-related event, a terrorist strike on a key urban or energy node, or a climatic event that dramatically affected the water supply and sewage systems of a region that was densely populated, water stressed, or both could trigger sudden and disastrous outcomes for urban societies in particular.¹⁸ Such events could result in very large migrations in a short period of time, and these migrations could quickly overwhelm organizations and services in affected areas. We have had a foretaste with recent earthquakes, droughts, tsunamis, and hurricanes (“East Africa: Disasters” 2008). Avian flu and bovine spongiform encephalopathy (BSE, or “mad cow disease”) have caused immense damage and disrupted production of beef and poultry as well as trading patterns. So far, a disease outbreak affecting humans on a large scale has been mercifully avoided, but specialists warn us that it is in the cards. Any outbreak of sufficient lethality would be exceedingly difficult to contain given how integrated the world has become (“Infectious Disease” 2006; Smil 2005).¹⁹ The contagiousness of the financial crisis linked to subprime mortgages that started in 2007 and the resulting squeeze on interbank lending in many of the leading industrial countries is another example of this phenomenon.

Climatic, economic, demographic,²⁰ and political trends strongly argue for building resilience into the complex, globally integrated urban

17. For example, the outbreaks of avian flu in Southeast Asia have radically changed the structure and composition of the trade in poultry products (Nicita 2008).

18. Posner (2007) notes that scientific advance can increase the probability of catastrophic risks. He goes on to observe that low-probability risks are inherently harder to deal with.

19. The limited capacity to cope with a surge in health care requirements and some of the reasons for this decreased capacity are delineated in a study of the state of Indiana in the United States (Avery and others 2008). One major problem is the depleted shelf of potent antibiotics (especially those effective against gram-negative bacteria); the thin pipeline of new antibiotic drugs; limited funding available for research on such drugs; and the time it takes to develop, test, and win approval for new vaccines (Groopman 2008; and Baker 2007 for a more positive reading on the future course of antibiotic development).

20. The youthfulness of populations in many developing countries, the high ratio of males to females, insufficient stable job opportunities, and limited scope for emigration could become a source of social turbulence (Hudson and den Boer 2004; World Bank 2006).

societies that are mushrooming all around.²¹ Such resilience is a function of the quality, design, and robustness of the infrastructure (soft and hard);²² organization; good contingency planning; fail-safe information technology (IT) systems; plenty of built-in redundancies; social capital;²³ well-financed institutions for absorbing shocks; and institutions and instruments for insuring against risks and pooling those risks internationally.²⁴ In a crowded, warming world with lopsided demographic structures and substantial income disparities, shocks are likely to be more frequent and deadlier. How to partially shockproof societies that are likely to be at the epicenter of such events is a major challenge. And how to prepare their neighbors and the rest of the world is a major secondary concern. There is a dearth of thinking on this problem and a lack of preparedness, which is apparent from the disorganized and clumsy responses to recent crises and the absence of long-run efforts to strengthen global capabilities for worsening crises. The *WDR* can become a vehicle for ideas for factoring such longer-term capabilities into the normal activity of development.

An Equal Marriage of Politics and Economics

It was Gunnar Myrdal (1968) who, by drawing attention to the frequently ineffectual nature of the soft state, imported politics into the analysis of development. Few would doubt that the distribution of political and economic power determines the direction and dynamics of development

21. Sheffi (2005) discusses resilience in organizations.

22. A recent study by the U.S. Department of Transportation indicates just how vulnerable the infrastructure is to adverse weather extremes and how much needs to be done to change standards of design and construction (Kintisch 2008). Other research shows how the design of infrastructure impinges on and threatens vital ecosystems (Doyle and others 2008).

23. The work of Diego Gambetta and Robert Putnam on trust and social capital is relevant in this regard. See, for example, Bacharach and Gambetta (2001); Gambetta (1988, 2006); and Putnam (2000, 2007).

24. The importance of the Internet and the extent to which it is worming its way into every corner of our lives has given rise to worries about the consequences of a collapse of this complex system. These worries have been fanned by accidents affecting undersea cables, attacks on major hubs, and denial of service attacks. Again the answer is built-in resilience through greater cooperation among operators, greater bandwidth, redundancy, and more effective management (“Science/Technology: How Likely Is Internet Collapse?” 2008). Catastrophe bonds, weather derivatives, and insurance pools are among the instruments now available, although the market’s appetite for derivatives is modest, as it is for disaster insurance.

(Bardhan 2006; Feng 2003). But the Bank's charter forbids commentary on the politics of a country. "The Bank is not to be influenced by the political character of the country requesting credits" (Shihata, Tschofen, and Parra 1991: 72). The *WDRs* talk of the role of the state in largely apolitical terms and "have suffered from an enforced reticence on political matters. Generally anything that might offend politicians of particular countries has been avoided so there is a pervasive weakness in the reports on matters of political economy" (Stern and Ferreira 1997: 571). The discussion of political economy in the 2004 *WDR* is on mechanisms for making service providers more accountable by giving people more voice and access to better information; the 2008 *WDR* calls for building coalitions of stakeholders that will give agricultural producers, small and large, a greater voice and the ability to advance the cause of agricultural development. These suggestions are constructive; however, the inability to explain fluctuations in growth rates, the weaknesses of policies and the failure of implementation, the factors that make democracy more or less effective and contribute to "democratic capital,"²⁵ the disappointing consequences of official development assistance at the macrolevel, the factors contributing to the failure of states and the measures needed to retrieve failed states from political paralysis and cycles of violence,²⁶ the extreme seriousness of future challenges, and the changing constellation of what Fareed Zakaria (2008) calls "the rise of the rest"²⁷ all suggest that economics needs to forge much closer ties with the social disciplines, with the engineering sciences, and with the branches of technology that have a large hand in defining the physical environments we live in. Other disciplines such as engineering are seeing the value of multidisciplinary training. Economists remain highly specialized, and most

25. See the succinct review of the political economy literature by Alesina (2007). See also S. Ahmed and Varshney (2008) and "India: Democracy Is Embedded" (2008) on the political economy of India's development.

26. Failed states lead to great hardship for their citizens and can have spillover effects on countries near and far. Containing violence and constructing the social fabric for recovery is a difficult process that is attracting increasing attention. See Ghani and Lockhart (2008); Haims and others (2008).

27. A new and more diffuse power structure is emerging, and among the leading powers, new and old, there is an upsurge of competition and of rivalries that threatens to unravel trade agreements (Mahbubani 2008). Robert Kagan (2008: 4) believes that after a short spell of integration the world is entering an age of divergence: "Struggles for status and influence in the world have returned as central features of the scene. The old competition between liberalism and autocracy has also reemerged, with the world's great powers increasingly lining up according to the nature of their regimes."

view development from extremely narrow perspectives. This narrow outlook is leading to the accumulation of the increasingly specific findings I referred to above. However, given the diversity of talent in the Bank and its capacity to tap resources externally, the institution is well placed to explore fresh analytic and interdisciplinary angles,²⁸ strike out in new directions, and experiment with new policy recipes. This is a worthy ambition for the next 30 years.

The unfinished development agenda is large, and there is much for the Bank to do. The *WDR* can again become a vehicle for mobilizing global opinion and for guiding strategy. Something comparable to the vision that gave birth to the first *WDR* could be recovered or rediscovered. Exhaustive *WDRs* packed with myriad microempirical findings may be running into diminishing returns outside and inside the Bank. So many other similar reports are on the market that the voice of the *WDR* and its uniqueness are in danger of being lost. At a time when the Bank—along with other international financial institutions—is attempting to reinvent itself and define its longer-term role, reinventing the *WDR*, differentiating it from the herd, and using it to deliver messages on crucial elements of development strategy would signal that the Bank is ready once again to pick up the mantle of leadership on development.

28. The Independent Evaluation Group report (World Bank 2008a: 41) observes that “the Bank’s understanding of political economy is improving, but much of it is still at a general level without connection to details of the [public sector reform] agenda.... The Bank has done some work and could do more to understand the political foundations of governance.”