Development is about improving people's lives through economic, social, political, and technological change. It is a transformation that certainly requires incomes to grow but it is also about reducing poverty and inequality, building individual skills, having access to social services, and raising the quality of life. And economic growth and development both depend on distributive politics—how society deals with vested interests and social conflicts. New priorities are emerging as development economics reviews its track record over the 20th century.

We now know that early consultation with stakeholders and involving beneficiaries in implementation are central to successful policymaking as the contributors to this magazine’s Sounding Board feature have asserted.

In a recent speech, World Bank president Robert Zoellick advocated a new approach to development economics and indeed to development lending itself, one that is more cooperative and experience-based while less restricted to “elites.”

In our interview on his book, Zombie Economics, John Quiggin questions the relevance of some longstanding economic beliefs sorely called into question after the crises of recent years. He proposes some new directions for the 21st century. And do we need a Development 3.0 as Shanta Devarajan suggests, where communication technologies enable civil society to engage in monitoring and correcting government failures?

Mixed Results

Sixty years of development experience tells us that the pathways to development are varied, guided by different visions, different strategies, and different definitions of progress. If sustained growth is the measure, then progress has also been mixed. Between 1990 and 2008, the developing economies have grown nearly twice as fast on average as the developed countries. But over the past six decades, only a dozen countries have sustained their growth for twenty years or more because of frequent shocks, redistributive conflicts, and difficulty in sustaining reform efforts over time.

The number of people in developing countries who live in absolute poverty (less than $1 a day) dropped from 40 percent of the population in 1981 to 18 percent in 2004 (Ferreira and Ravallion 2008). The largest reductions have been in China and India, countries with high growth rates; the smallest in the countries of Sub-Saharan Africa. But inequality has been on the rise worldwide (Ferreira and Ravallion 2008; and Firebaugh and Goesling 2007). Clearly, the benefits of development have not yet reached the neediest.

Markets Versus State: A False Dichotomy

Over the past several decades, economic theories have espoused various systems of resource allocation, ranging from free market to state intervention and centrally-planned systems. The collapse of the Soviet Union and various crises in other state-controlled economies in the 1990s prompted development thinkers to return to the Washington Consensus with its policies of economic liberalization, privatization, and macroeconomic stabilization programs. This yielded mixed results and considerable controversy. A number of countries, however, had successfully applied mixed models of government
intervention in otherwise fundamentally market-based systems of resource allocation.

Yifu Lin in his essay proposes an alternative pathway to economic development, describing a proactive role for the state in promoting selected industrial policies—a role that complements market mechanisms and compensates for negative externalities. Yao Yang's article attributes China's recent success to its embrace of certain features of the Washington Consensus reinforced by constant experimentation. Is there a synthesis of Washington Consensus and Beijing Consensus that could serve as a model for a given set of developing countries?

**KEY SUCCESS FACTORS**

**WE KNOW** that the upper middle- and high-income countries have grown mainly because they have become more productive.

Most researchers believe that **sustained long-term growth** is a function of the quantity and quality of the factors of production (labor, capital, land, energy) all of which contribute to total factor productivity (TFP). Successful developers have, to varying degrees, emphasized five objectives in their pursuit of growth, with a view to increasing total factor productivity:

- **Creating a learning economy** that values skills, ideas and technology, and lays the foundations for domestic innovation. This includes the schooling and vocational training systems, tertiary education, research by universities and public institutes and by domestic and foreign businesses, and the harnessing of digital information using state-of-the-art information and communication technology (ICT). The important research findings of Dale Jorgenson and Kuong Vu show that labor productivity can be enhanced by investing in human capital and ICT. In this context, Eric Hanushek’s essay argues that improving the quality of education is a priority that requires not only qualified teachers, but also a combination of local autonomy for setting teacher salaries, combined with accountability through testing by a central agency. Abhijit Banerjee’s and Esther Duflo’s work with randomized trials describes a complex education system of interconnected incentives, behaviors, and choices involving parents, teachers, and students.

- **Stimulating entrepreneurship and organizational efficiency.** Where entrepreneurship is weak, innovation and technology adoption is slow. Entrepreneurship must be complemented by strong managerial skills to keep the businesses going and to make the best use of existing as well as frontier technologies.

- **Promoting competition and openness.** Trade openness (as opposed to protectionism) is associated with higher growth and the adoption of new technologies. Public ownership, procurement rules, local regulations and standards, labor market rules affecting entry and exit of firms, and financial market constraints, can dampen competition if they are not carefully designed or controlled. Regional integration is enhanced by open borders and regional transport networks but the cost of doing business is a constraint.

- **Building effective institutions.** In complex modern economies, governments must craft an institutional infrastructure to implement their long-term strategies. Institutions, such as the legal system or governance mechanisms in the public and private sectors, need to consider the interests of both labor and the business community (Bhagwati 2010), and to strengthen the administrative capabilities of the state to formulate and implement policies and service delivery programs. Pranab Bardhan’s essay, for example, emphasizes the need for creating land markets as a means of transferring land from lower-productivity farming to the higher-productivity manufacturing and services sectors, especially in densely populated countries such as...
India and China. At the same time, he highlights the need for fair treatment and involvement of the displaced farmers.

Managing urban systems that take advantage of agglomeration economies and positive spillover effects to other parts of the economy. Development relies increasingly on the urban sector which is much more productive and innovative than the primary or rural sector. Urban populations will continue to grow and urban gross domestic product (GDP) already accounts for between 60 and 80 percent of total GDP. Industry gravitates to urban centers and there has been a correlation between urbanization and development (Polese 2005). But, over the past twenty years, research shows that the composition of industrial production and the size of cities are interrelated and can raise productivity through agglomeration and scale economies. Tim Campbell’s essay describes the search for and exchange of knowledge and innovative ideas that goes on among fast-growing cities in the North and the South.

LONG-TERM SUSTAINABLE GROWTH and development also depends on other factors. For example, population growth is negatively correlated to per capita income levels and its growth across countries. One of the main challenges is to productively employ working-age people. To do so requires public policies that invest in health, education, and labor thereby promoting more rapid economic growth (see the article by Bloom and Canning). In contrast, the growth of aging-populations that is occurring in many countries places a burden on public budgets and curtails productivity. What are the best social safety nets for the elderly and the vulnerable?

Energy is another factor that affects sustainable “green” growth. Carraro and Massetti in their essay show that higher growth creates higher per capita energy consumption, which if unchecked could lead to higher carbon emissions and global warming. To reduce carbon emissions to zero over the
next two decades, research and development spending on new technologies will have to increase fivefold, which in turn requires carbon pricing and perhaps some government funding to support research.

Although we know a great deal about the role of public budgets and finance in development, we can’t seem to avoid periodic fiscal and financial crises. There are many questions that still need to be answered: What are the limits to globalization—that is, the free movement of capital, labor, goods and services across countries? What is the optimal regulation of finance? Of utilities? How does one manage economic booms and busts? What is the policy for affordable housing?

UNDERSTANDING THE SOCIOPOLITICAL LANDSCAPE

EVERY GROWTH and development policy has an economic and social dimension as well as a political dimension. As Daron Acemoglu (2010) observes: “There is increasing recognition that institutional and political economy factors are central to economic development. Many problems of development result from barriers to the adoption of new technologies, lack of property rights over land, labor and businesses, and policies distorting prices and incentives. Typically policymakers introduce or maintain such policies to remain in power or to enrich themselves, or because politically powerful elites oppose the entry of rivals, the introduction of new technologies, or improvements in the property rights of their workers or competitors.”

Affluent individuals or groups, private firms, or oligarchs attempt to “capture the state,” that is, to shape the laws, public policies, rules, and regulations to their own advantage. This shaping may be done by private firms, rich elites, ethnic groups, or the military. In countries where the state is highly captured, all or most institutions may be affected: parliament, political parties, the executive including ministries and public enterprises, judicial courts, and key bureaucracies.

Kent Glenzer’s essay underscores the need to accelerate development through international development NGOs (IDNGOs), as well as through social entrepreneurs, philanthropists, and corporate social responsibility. Levy’s essay on the intersection of politics and institutions speaks to the need to tailor policy interventions to the sociopolitical context, moving away from “best practice” to “best fit.”

Mansuri and Rao assess participatory approaches to development and find that decentralization of resources and more authority to local governments can lead to experimentation and innovation and, under the right conditions, improve the welfare of the many and not only the few. In response, John Gaventa’s piece argues that participation takes many forms and that we need to think more broadly about what makes it work, where, and why.

Finally, Archbishop Njongonkulu Ndungane appeals for a steady focus on the most important development objective: “…promoting the common good, building a just world fit for all the inhabitants of our planet.”

The pathways to development are narrow and winding and all too often blocked by political obstacles. Successful development depends not only on good policies but also on domestic political dynamics that under ideal circumstances should be highly supportive or at least neutral. This issue of Development Outreach highlights some of the current research on a few of the key issues that will shape the future of development. □

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References


