Comments on "The Past, Present, and Future of Economic Growth" by Dani Rodrik

Zia Qureshi[1]

Dani's paper was a pleasure to read. It is an excellent paper—substantive, insightful, and well written. It carries his trademark out-of-the-box thinking. The paper is impressive in the ground it covers, both in terms of the history of economic growth and growth analytics. I find myself in agreement with much of what the paper says. There are, however, a few aspects of the paper where I think the narrative could be somewhat different. In the few minutes that I have, I will confine myself to two sets of comments: one on the strategic and policy framework for growth; and one on the prognosis for growth.

Growth Strategy and Policies

In this paper, and in his other writings, Dani has developed well the argument for "heterodox" policies in promoting economic growth. There is now substantial supporting evidence that the successful economies employed a range of such policies. I agree with the view that "orthodox" or "Washington Consensus" type polices alone may not be enough and that unorthodox policies, including a more direct and active role of government, may be necessary in specific contexts to launch and boost growth. However, I have some issues with the way this view is framed and presented in parts of the paper.

The paper identifies two "dynamics" or "forcing variables" that drive growth: it calls one fundamental capabilities and the other structural transformation. One flaw that I see with this framing is that it mixes policies or inputs with outcomes. Fundamental capabilities are defined as accumulation of human capital and improvement of regulatory framework and institutions (basically the "Washington Consensus" type polices) while structural transformation is defined in terms of the rate of industrialization. Insofar as fundamental capabilities support industrialization and structural change, the latter is not independent of the former. It would be better to define both the drivers of growth in policy terms.

[1] Zia Qureshi is Director of Strategy and Operations in the Office of the Chief Economist and Senior Vice President of the World Bank. These comments were prepared for the "Towards a Better Global Economy" conference organized by the Global Citizen Foundation in Geneva on July 12, 2013. The author alone is responsible for the content.

When the paper does map structural transformation or industrialization to policies, it maps it primarily to narrow, targeted, direct government policies to support the birth and expansion of new industries, in contrast to the broader reforms that enhance the fundamental capabilities. While at times the paper recognizes the complementarity between these two sets of policies, often the narrative tends to treat them orthogonally or in a dualistic way. The effectiveness of unorthodox policies may not be independent of orthodox reforms. The mere fact that some successful economies implemented unorthodox policies does not necessarily mean that the success is wholly or mainly attributable to those policies. The prevailing context of capabilities and other reforms also matters. I am sympathetic to a similar point made by Prof. Hsieh in his comments on the paper.

The design and implementation of targeted policies require certain basic institutional capabilities. The paper in general underplays the role of governance in ensuring policy effectiveness. The direct measures that worked in China or other East Asian countries may not be as effective in another governance and institutional context, such as in parts of Africa. The paper appears a bit sanguine on the portability of the particular unorthodox interventions. I would have liked to see a clearer and more consistent message on policy interconnection and complementarity and on the dependence of the precise policy design, mix, and sequencing on the country context.

All unorthodox policies are not created equal. Justin Lin, the World Bank Chief Economist until last year, distinguishes between what he calls “comparative advantage following” and “comparative advantage defying” industrial policies. His detailed argument is set out in two recent books: *New Structural Economics* and *The Quest for Prosperity.* He documents the failure of industrial policies that defy a country’s comparative advantage and support predominantly import-substitution industrialization and the success of industrial policies that support outward-oriented strategies by facilitating the growth of industries in line with a country’s current and potential comparative advantage. So successful unorthodox policies work with the market rather than go against its grain. I missed a reference to this work in the paper. Comparative advantage based specialization is not the enemy of product diversification, as seems implied on page 23 of the paper, if comparative advantage is viewed dynamically.

Some of the narrative is cast in a way that brings to mind the stages-of-growth literature. There are references to poverty and middle-income traps. The point is made that the narrower, targeted, unorthodox policies have a greater role to play at lower levels of income (in moving workers out of farms and into factories) while at higher income levels broader policies affecting fundamental capabilities take on a more important role (in raising productivity within factories and developing the services sector). Now it is true that the growth model and related policy challenges evolve as countries develop and move up the income scale, but this happens more as a continuum rather than in the form of sharp discontinuities or distinct stages of development. Factories do not wait until the last surplus laborer has been absorbed before they begin to improve the productivity of workers who had arrived already.

On the middle-income trap, recent research at the World Bank does not find any systematic tendency for countries' growth to slow at particular middle-income levels. In some cases it slows, in others it doesn't. The research does find some common attributes of those who successfully transitioned to high-income status in the past half century. These include: faster transformation from agriculture to industry; higher total factor productivity growth; stronger outcomes on human capital and innovation; greater openness and export orientation; macroeconomic stability; and avoidance of sharp increases in inequality. This is an agenda that spans elements of both structural transformation and fundamental capabilities in Dani's framework.

Prognosis for Growth

I agree that future growth faces some tough challenges. But, in my view, the paper's prognosis about future growth in emerging economies may be on the pessimistic side. The paper's prognosis of a significant slowing of emerging economy growth is overly centered on prospects for manufacturing, reflecting the central role accorded to manufacturing in the paper as the driver of growth. There does not seem to be an adequate recognition of new possibilities for growth in other areas, including in services as Kemal Dervis noted in his comments, and advances in ICT that open up new opportunities and could even allow countries to leapfrog traditional stages of development. Using the paper's terminology, in many emerging economies, the overall potential for unconditional convergence remains large, including in some large economies that have grown rapidly in the past couple of decades. For example, despite rapid growth, China's per capita income is still only about one-tenth of that of the United States and India's only 3 percent. And if emerging economies continue to extend and deepen progress in structural and institutional reforms, overall growth would continue to be boosted also by conditional convergence, including enabling the more advanced emerging economies to avoid the so-called middle-income trap.

Part of the paper's relative pessimism about emerging economy growth prospects stems from the less favorable external environment these economies are likely to face as growth remains subdued in advanced economies. The negative effect of weak advanced economy growth through the trade channel could be offset, in part at least, by the rapidly rising intra-emerging economy trade, which contributed to the relative resilience of emerging economy growth in the aftermath of the global financial crisis and which continues to offer a substantial upside potential. The paper seems to underplay the potential for further boost to growth from globalization. The paper also mentions increased competition from China as a constraint to growth in other emerging economies. But if the increased competition reflects continued strong growth of the Chinese economy, this in fact would be a good thing for overall emerging economy growth. And as wages rise and China moves up the value chain, its resulting exit from labor-intensive manufacturing will create opportunities for growth in those industries for lower-income countries.

In sum, these considerations suggest that if emerging economies continue to build on structural and institutional reforms that helped improve their growth performance in the past two decades or so, they could continue to capture growth opportunities in the period ahead and sustain robust growth.