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

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Dani Rodrik's paper on "The Past, Present and Future of Economic Growth" provides a powerful synthetic overview of a huge amount of empirical and theoretical research and offers a simple but elegant and convincing analytical framework that both explains basic trends observed in the past and provides a prognosis for the future. In many ways, it is a tour de force. It distills a lot into a short space, and the analytical framework offered, while simple, draws on both the more recent "institutional-historic" literature and the "sources of growth" and "labor absorption" traditions that started with Robert Solow and Arthur Lewis. The interaction of the rate of industrialization and the development of broad institutional and human capabilities determines whether there is slow or rapid growth and whether it is episodic or sustained.

I am in strong agreement with the way in which the paper presents the broad history of economic growth and also with its policy conclusions. The paper emphasizes that there does not seem to be a "one-size-fits-all" recommendation that emerges from past experience and underlines how in many cases an active role of the state was beneficial to growth and development.

There are two aspects of the paper about which my basic message would be somewhat different. The first has to do with the decomposition of global inequality into between-country and within-country inequality. Rodrik writes that "it is *increasingly* (emphasis added) the country in which one is born that determines one's economic fortune," basing that statement on Milanovic (2011) as well as the evidence presented in tables 2.1 and 2.2 and figure 2.2.

Figure 2.2, which presents the decomposition for 1820, 1929, and 2005, appears to show a continuing increase in the percentage of "between-country" inequality. In fact, close analysis of the data available shows that this powerful stylized fact was correct for the long period from the

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beginning of the 19th century to the 1990s. But as shown in table 2.2 of the paper, the share of within-country inequality actually increased between 1988 and 2005, from 19.4 percent to 26.5 percent for the log mean deviation and from 22.0 percent to 26.5 percent for the Theil index.

I would argue that there are strong reasons to believe that this is a new trend, which emerged around 1990. What has happened since 2005 (the last year in the paper's tables and figures)? Over the last eight years, the difference in the per capita economic growth rates between the aggregate group of developing and emerging economies on the one hand and the rich advanced countries on the other widened, due to both continuing strong growth in the former and the 2008–09 crisis–induced recession in the latter. At the same time, the trend of increasing within-country inequality is continuing in many economies, including most of the largest countries, such as the United States and China. Projections for the next few years move in the same direction: continued, much more rapid growth in the emerging economies and developing countries and increasing within-country inequality almost everywhere. So we can already say with some confidence, that, contrary to the 1820–1990 period, the 1990–2020 period will be one in which the share of "within-country" inequality in overall global inequality grew very substantially. What will happen after about 2020 is much more uncertain. But that there will have been this "reversal of trend" in the decomposition for close to three decades is quite clear, if current projections to 2020 are even roughly correct. In any case, the reversal has already taken place for at least 20 years.

I agree with the author's answer to his question "is it better to be rich in a poor country or poor in a rich country?" until approximately 2010. For a long time, the broadly correct answer has been, as suggested, that it is better to be poor in a rich country. But this is changing. It still is true if by poor countries one takes the poorest 10 percent of countries in the world, which includes many very small or failed states. This is the definition of "poor country" the author uses. His conclusion would most likely no longer be true if he defined poor countries as the 30 percent poorest or the group of countries in which the poorest 30 percent of the world population lived. And as time has passed, over the last 25 years, stagnation of lower-income groups' incomes in the Unites States and now Europe, combined with accelerating income growth for the large majority of people living in emerging economies, is making it more and more likely that to be in the bottom deciles in the advanced countries may no longer be better than to be in the top percentiles in emerging economies.

I would also add that "relative" income within a society may be a better—or at least useful additional—indicator of "happiness" or "life satisfaction" than income compared with the income of a person in a far away country. Citizens in Spain, Greece, or the United States compare themselves with people in or close to their country, not to people in Africa or South Asia. While this point is not central to a paper on growth per se, it does deserve mention as a qualifier to the discussion on where one would like to be born.

The second point on which I have a somewhat more qualified view has to do with the prognosis for the future. The paper argues convincingly that unconditional or even conditional convergence in manufacturing will be insufficient to perpetuate the strong average income convergence trend observed since the late 1980s for many developing countries compared with the rich countries. Moreover, using individual countries as units of observation, Rodrik states "the growth rate of economies is basically uncorrelated with their initial level of productivity or distance from the technological frontier." I would argue, first, that the dividing line between manufacturing and what we broadly call "services" is becoming increasingly blurred. He accepts the possibility that new forms of convergence to the technological frontier may emerge in parts, at least, of the service sector. So the strongest driving force behind convergence may affect a much larger portion of developing economies in the future. Within the paper's analytical framework, this is more likely to happen in countries that are able to accelerate enhance their "capabilities."

Moreover, in terms of the basic overall message about convergence or divergence, size matters. The fact that very large economies such as China, India, Brazil, and Indonesia may continue to "converge" will lead to a different world economy than if the converging countries were small economies. So both of the following statements may turn out to be true when we look back in 10 years: (a) the number of developing countries reducing the relative distance between their average incomes and the average income of the richest countries may not be larger than the number of countries for which the gap widens and (b) the relative distance between the average income of all developing countries taken as an aggregate and the average income of rich countries will decline very rapidly. Both trends have been evident in the last three decades, and in my view, are likely to continue for at least the next decade or so.

Neither of these two qualifiers detracts from the very rich analysis, the elegant simplicity of the basic framework, or the policy conclusions of the paper. Moreover, over medium-term horizons, economic growth performance remains critically important for the well-being of most of the inhabitants of our planet. The historical, comparative, and quantitative analysis of growth found in this paper should be invaluable for designing policies to support rapid and globally more inclusive growth.