Slouching Towards Utopia?:
An Economic History of the Long Twentieth Century

XVII. False (and True) Development in Emerging Markets

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17.1: Ends of Empires

17.1.1: The Colonized Experience

Stable market-promoting government; building railroads, canals and ports; chartering banks for commerce and investment; establishing mass education; and imposing tariffs on those manufactured imports that would in the short-run crowd out production and thus the creation of the communities of engineering practice in those modern industries in which long-run comparative advantage lay—those were what Robert Allen and others have judged to have been the essentials for stepping on to the escalator of prosperity that was post-1970 modern economic growth.

But for the colonized in Asia and Africa before World War II that was not a possibility: they could not do that. Their colonial masters had little interest in and provided no support for such policies. And the competition that their natural resource products and their workers faced from the products and workers or extremely low-wage India and China crippled the wealth of a middle class that might otherwise have provided demand to spur industry, and made globalization more the foe than the friend of economic development.

How about Latin America, which had achieved independence from Spain and Portugal early in the 1800s? How did they do before World War II? Mexico, Columbia, Peru, Brazil, and the others suffered, by and large, from what one might call internal colonialists: a landed elite privileged by property ownership and Iberian descent that feared an educated proletariat, loved foreign-made manufactures, and had Iberian-derived legal systems that did not mesh well with the needs of commerce and industry.

Do not get me wrong: outside of the global north, the world was richer in 1950 than it had been in 1800, and richer by a substantial margin. If the center-of-gravity of what now is the global south was at a living standard of $2 a day in 1800s and $2.25 by 1870, it was about $3.50 by 1913. But, dragged down by China in war and revolution and by an India that had been heavily hit by the disruptions of trade that came with the Great Depression and then war, it was still about $3.50 by 1950. But there were a number of economies that seemed to be taking advantage of opportunities: Japan had already joined the industrial powers. Those parts of Latin America that escaped internal colonization by landed and bureaucratic elites were looked to be catching up: Chile, Argentina, Uruguay, and southern Brazil still looked more like a cross between an Australia and an Italy than like the externally or internally colonized. Venezuela had its oil boom. Cuba and Costa Rica showed signs of escape. Iran, Iraq, Lebanon, Egypt, Morocco, and Algeria; South Africa, Kenya, Zambia, Ghana, and Nigeria; Mexico and Peru all formed a global middle stratum.

But the gap between global north and global south had grown: from 2.5 to 1 in 1800 to 4 to 1 in 1870 and 1913, and to 7 to 1 by 1950.

17.1.2: Political Hopes

After World War II the now-dominant United States would not bless, the needs of reconstruction discouraged financing for, and more enlightened left and center-left governments rejected the civilizing mission of the colonial empires. And so Britain, France, and the others withdrew bit by bit. The “winds of change” brought independence to Asia and Africa. And the fall of kings elsewhere sapped the morale of landed elites of Iberian descent in Latin America.

The decolonized in Asia and Africa, and to a lesser extent those now less firmly leashed in Latin America, began with bureaucracies and structures of government typical of the industrial north: representative parliamentary institutions, independent judiciaries, laws establishing freedom of speech and of assembly, and formally apolitical civil service tradition among the bureaucracy. The hope had been that they would then see normal liberal democratic politics: semi-regular alternation in office of parties somewhat to the left and parties somewhat to the right of some sober centrist center of gravity of median voter preferences. The hope had been that, freed from the oppressive controlling hand of colonial rule our landed aristocracy, democracy in the newly-independent former colonies was thought likely to flourish.

And the hope had been that, since their economies would no longer be controlled in the interests of imperial authority or local landed aristocracy, economic prosperity would follow as well. They could now build the railroads, canals and ports; charter the banks for commerce and investment; establish mass education; and impose judicious tariffs to nurture the creation of the communities of engineering practice in those modern industries in which their long-run comparative advantage lay

But it was not to be.

17.1.3: Political Realities

In much of the global south, the political aftermath of decolonization turned out to be a long-run disappointment. Westminster-style parliamentary politics and independent judiciaries soon became rare exceptions: found only in India (a very important exception indeed) and a few others.

Instead, regimes emerged that derived their authority not from electoral competition between different groups of possible representatives but from the army and the police suppressing dissent with a varying level of brutality, or—in the best case—from populist attachment to a charismatic nation-symbolizing reforming leader. It would take generations after decolonization for the democratic tide to shift from ebb to flood.

The speed with which political democracy collapsed throughout much of the newly-decolonized third world was disheartening. It suggested that the institutions and practices that keep representative political democracy functioning throughout so much of the industrial core were much more fragile, vulnerable, and contingent than triumphalists would wish. But there was no historical reason to suppose that representative democracy and liberal freedom were the wave of the future. The country of Goethe and Schiller could not maintain them by itself, after all. And the democratizing phase of the great French Revolution had lasted for only four years. Why should anyone expect elsewhere to be different? Rather, be impressed by India, which with great tenacity maintained its hold on parliamentary democracy.

17.1.4: Economic Growth Realities

From a center-of-gravity of $3.50 a day as a living standard in 1950 to $6 or so a day in 1975, the global south did grow in the thirty glorious years of the post-World War II social-democratic boom in the global north. But it did not catch up: the gap vis-a-vis the global north grew to 10 to 1. It was true that Iran, Iraq, Turkey, Syria, Lebanon; Mexico and Brazil; and South Africa appeared on the edge of the global north. Less-oppressive modern dictatorships produced rapid and impressive economic growth in the non-Communist fringe of Pacific Asia, and in Saharan Africa.

But elsewhere there was a widening of the relative income gap vis-à-vis the global north.

That widening stopped after 1975. From a global south income-level center-of-gravity of $6 a day in 1975 to $10 a day in 1990 to $15 a day (for the global south excluding China), and with China now at more than $30 a day, there has not for more than a generation been a continuing trend of widening global inequality.

However, Latin America lost a decade of development in the 1980s. Most of those for whom there were great hopes have disappointed: in Latin America today, only Chile and Panama are better-off then China; in Africa, only Botswana; in Asia, only Japan, the Four Tigers—Korea, Taiwan, Hong Kong, and Singapore—Malaysia, and Thailand; and in Latin America, only Chile (with Mexico, Costa Rica, and Brazil equal to) still exceeds China. And the gap between China and the global north is still a factor of 3.5 to 1 or so.

And Africa has fallen way, way behind: South Africa, Kenya, Zambia, Ghana, and Nigeria—all those for which there were great hopes for economic development into the 1960s have failed of their promise. And of the thirty poorest economies in the world today, only four—North Korea, Timor-Leste, Afghanistan, and Haiti—are outside Africa. Benin, Mali, Zimbabwe, Rwanda, Chad, South Sudan, Uganda, Ethiopia, Burkina Faso, the Gambia, Guinea-Bissau, Sierra Leone, Togo, Madagascar, Guinea, Eritrea, Mozambique, Malawi, Niger, Liberia, the DRC, Burundi, the CAR, and Somalia are the places where half or more of the population live lives not that distinguishable from those of our pre-industrial ancestors.

Perhaps most discouraging in Africa was the relatively rapid fall in the generation after independence of the production and exports of crops that had been the staples of African exports. As Robert Bates wrote as early as the start of the 1980s: "Palm oil in Nigeria, groundnuts in Senegal, cotton in Uganda, and cocoa in Ghana were one among the most prosperous industries in Africa. But in recent years, farmers of these crops have produced less, exported less, and earned less…" The only continent in which farmers still perhaps made up a plurality of the workforce was spending an ever-increasing portion of its export earnings on imported food.

What went wrong? The storehouse of industrial technologies developed since the industrial revolution *is* open to all. The forms of knowledge and technologies that make the industrial west today so rich *are* public goods. The benefits from tapping this storehouse *are* enormous, and have the potential to multiply the wealth of all social groups and classes—property owners and non-property owners, politically powerful and politically powerless alike—manyfold. *All developing economies ought to have experienced not just substantial growth in* absolute *living standards and productivity levels, but ought to have closed some of the relative gap vis-a-vis the world's industrial leaders since independence*.

Yet most emerging markets that had seemed well on the escalator to modernity in 1950 or 1975 have failed of their promise. A broadly richer world than in 1950, yes. A world much more integrated in terms of trade, technology, and the networks that are our value chains, yes. But not a more equal world—even if, since 1975, the trend toward increasing global economy has ended.

17.2: False Starts

17.2.1: Kleptocracy

One short and too-simple answer is that the fault—where there is fault—lies in governments: *kleptocracy*—govenment by the thieves, as it has been named in analogy with aristocracy (goverment by the best), monarchy (goverment by the one), and democracy (government by the people)—has impoverished much of the third world over the past generation.

Yet in a historical perspective *kleptocracy*—rule by the thieves—is nothing new. Perhaps the major drawback to the invention of agriculture was that you had to be around to harvest the fields that you had planted. This meant that you could not run away when thugs-with-spears came by to demand the lion's share of your crops. And as this became generally known, people got into the business of supplying spears for the thugs: we call such people "kings."

Looking back at human history, it is easy to conclude that most governments at most times in most places have followed policies that show little interest in nurturing sustained increases in productivity. Why should we expect the modern Third World to be any different? We would expect that governments would take great care to prevent food riots in the capital (and they do), and would follow the advice of the Roman Emperor Septimius Severus and keep the army well-fed, well-paid, and equipped with lots of new weapons to play with (and they do). But the lifespan of the average government is too short to expect it to take a serious interest in the project of long-run economic development.

Where government is stable and secure enough that it does not require draining resources from the rest of society to maintain its politicians in office and provide order for its supporters, then economic growth can take place—and can even be encouraged and accelerated by a developmental state, both because most rulers would be benevolent if they thought they could, and because increasing prosperity can be a powerful source of increased stability and security.

This is the short answer.

17.2.2: Dilemmas of Rule: Non-Democratic and Democratic

We can expand this answer. Think about the case of non-democratic rule. Bureaucrats, army officers, and politicians in nations with emerging market edonomies, as benevolent and as concerned with national wealth as bureaucrats, army officers, and politicians anywhere, have often sacrificed economic development and the long-run interests of all to the short-run interests of a relative few. Why?

In non-democratic regimes, rulers rule because the army tolerates the present rulers, either the politicians or the set of colonels who led the last coup. The first priority, therefore, is to keep the army happy: well-fed and supplied with expensive war toys imported from abroad.

Non-democratic regimes can rule peacefully, when they do rule peacefully, because they control the visible centers of sovereignty: the physical locations in the capital from which the bureaucracy expect to receive their orders, and the centrally-located radio and television broadcast sites through which the rulers speak to the nation. They are thus vulnerable to urban discontent: an urban riot overruns the president's palace, the ministries, or the television stations, and the government's rule is in serious danger. The second priority, therefore, is to avoid urban riots.

And the third priority is to keep the *notables*—the bureaucrats and the political operatives—content, and potential opposition quiet or disorganized.

The pursuit of these aims comes prior to the formation of policy in the minds of rulers. All rulers believe they are the best people for the job: alternative ruling groups are at best incompetent, most likely wrongheaded and corrupt, and at worst amoral and destructive tyrants. Unless the government can stay in power, nothing good will be achieved for the country or the people. And so the first and most benevolent deed they can dois to make sure they remain in power. Only after the government's seat is secure will debates about development policy take place. But the pursuit of a secure hold on power almost always takes up all the rulers' time, energy, and resources-and thus makes their development policies for them.

To achieve the primary aim of damping down potential threats to the government, money is necessary. And not just any kind of money. Urban workers can be appeased by cheap food and high wages. Armies, bureaucrats, and notables require imported luxuries, which requires that the government gain control of exports. Therefore governments of poor countries are likely to tend to squeeze export agriculture: the acquisition of large revenues from it is the most important means to the preservation of the government's authority. And governments squeeze the rest of agriculture next: cheap food helps to avoid urban riots. High urban wages also protect against urban discontent, and urban discontent is dangerous because it immediately threatens the symbols of authority and sovereignty.

Now think about a democratic and representative regime. The army is less important—but it still is important, for in the last analysis a good deal of political power does grow out of the barrel of a gun. The broad electorate that could and might vote you out of office takes the place of the urban workers whose demonstrations might destabilize your regime. The notables are made up of different people with different sources of social power, but there are still notables to be appeased.

The calculus is thus similar, albeit not the same.

Do countries that manage to attain and then maintain stable or semi-stable democracies have an easier time nurturing economic growth? The historical record says *maybe*. Democratic and representative governments have more veto points, and hence current rulers have less freedom of action—but freedom of action can be used for good as well as for ill. Singapore's rulers today are proud that they have not been political democrats since independence. So are China's. So—with much less cause—are Russia's.

If anything, a representative and democratic government may well have less freedom, and be more bound to place a lower weight on technocratic policies to bring growth and a higher weight on fulfilling expectations of what a government is supposed to do. Somewhere—from either inside the government's own deliberations or from outside deliberations that then bering pressure to bear on the government—there must come decisions to prioritize policies that lay the groundwork for economic growth rather than policies that aim at other urgent goals. And somehow people need to know that those pro-growth policies are. There must be developmental knowledge. And there must be either a developmental state or a developmental civil society.

And how does an economy and a polity obtain a developmental civil society? Why don't potential entrepreneurs—those who would benefit most from pro-development policies, and whose enterprises would in turn employ and sell to and thus benefit many others—work to overthrow an anti-development ruling régime? Political scientist Robert Bates asked this question of a cocoa farmer in Ghana, seeking to learn why successful cocoa farmers did not lobby and agitate for a reduction in the huge gap between the price the government paid them for cocoa and the price at which the government sold the cocoa on the world market. "He went to his strongbox," Bates reports:

> and produced a packet of documents: licenses for his vehicles, import permits for spare parts, titles to his real property and improvements, and the articles of incorporation that exempted him from a major portion of his income taxes. "If I tried to organize resistance to the government's policies on farm prices," he said while exhibiting these documents, "I would be called an enemy of the state, and would lose all these"…

Besides, the state can also protect key existing businessmen from potential competition: potential future entrants into industries produce the most social benefit from an economic development perspective, yet have no resources with which to lobby because they have no existing businesses or clients. Restricting them does existing businessmen a favor at very low political cost. Since the overvalued exchange rate has made foreign currency a scarce good, competition from manufacturers abroad can also be easily strangled in selected sectors as a favor to key existing businessmen.

17.2.2: State-Building

These possible clashes between the logic of economic development on the one hand and the logic of political effectiveness on the other are much stronger when a government and a political order are new or shaky than when they are old and established.

Throughout the post-World War II period intellectuals on all sides applauded the strength of the state, on the ground that only a strong state could perform the historical tasks necessary for economic development. As one usually clear-eyed observer, the political scientist John Hall, put it:

> *forced development is socially brutal*. Such development cannot be achieved under the ægis of soft political rule, and this means that the chances of a transition to democracy are correspondingly at a discount. [M]odernization, under whatever politicial ægis, involves at least disciplining the peasantry and at most forcibly removing it from the land. the removel of tribalism, the destruction of rival cultures, the creation of a lingua franca, and the establishment of national bureaucracies. Third World countries have learnt with time that successful modernization is impeded by democracy. For people do not easily accept the loss of their land and of their customary ways of life: this requires force [and] a totalizing ideology…

Now if you look at the successful economic developers of either the nineteenth or the twentieth centuries, you can see that this thinking is fuzzy. Successful development does not require "disciplining the peasantry" or "forcibly removing it from the land." Successful development requires luring the peasantry off the land to higher-wage higher-productivity factory and commercial jobs in the growing cities. The prevalence of the belief that modernization "under whatever political aegis" is socially brutal rejects as a model for development the experience of the United States, France, Italy, Belgium, Japan, Taiwan, South Korea, and others and accepts as a model for development the Soviet Union of the 1930s: Stalin.

But it is fuzzy thinking that has made a—disastrous—difference.

For one thing, building and strengthening a state is a task that requires both the government's attention and the government's resources. Governments and states that wish to be strong need to reward their friends so that they will remain its friends, and to attract more friends. Governments and states that wish to be strong need to make it imprudent to become their enemies. Accomplishing this requires moving resources around: taking from some and granting to others. And if the some that the government takes from are those whose entrepreneurial abilities would have powered the next generation of economic growth? And if those whose entrepreneurship might have been devoted to boosting growth turn instead to figuring out how to profit from becoming friends of the state? Then growth suffers

What is wanted to support successful economic development is a government strong but limited: strong in the sense that its judgments of property rights are obeyed, that its functionaries obey instructions from the center, and that the infrastructure it pays for is built, limited in the sense that it can do relatively little to help or hurt individual enterprises, and that political power is not the only effective road to wealth and status. And, in addition, it needs to be strong enough to steamroll over local and other notables whenever their interest is strongly opposed to that of economic growth.

This is a narrow tightrope to walk. Walking it may not be possible. Walking it is not possible when attempts at "statebuilding", as they often have since World War II, aimed at a state that is strong and *not* limited—and have sometimes wound up with a state that is weak but unlimited: political power is the only effective road to wealth, but functionaries ignore instructions and extort bribes for administrative favors and the infrastructure that it pays for is not built.

17.2.3: Juan Peron and Argentina: A Case

To see how these forces worked themselves out in the years after World War II, take a closer look at one instructive case: that of Argentina.

The first thing to know about Argentina is that it has no business being a middle-income emerging-market economy today. In 1929 Argentina had appeared as rich as any large country in continental Europe. It was still as rich as Europe in 1950, when western Europe had for the most part reattained pre-World War II levels of national product.

In response to the social and economic upheavals of the Depression, Argentina adopted demand stimulation and income redistribution. These policies were coupled with a distrust of foreign trade and capital, and an attraction to the use of controls instead of prices as allocative mechanisms. Argentina's growth performance in the post-World War II period has been very poor. Even in the 1950s, and even relative to Britain, Argentine growth was slow. Spurts of growth have ended in monetary chaos and deep depression. Politics has been nasty: people not arrested but simply "disappeared" nasty; murdered by being thrown out of helicopters nasty, children kidnapped when their parents were disappeared nasty.

The standard analysis starts with the collapse of world trade in the Great Depression. That was a disaster of the first magnitude for an Argentina tightly integrated into the world division of labor. While Argentina continued to service its foreign debt, its trade partners took unilateral steps to shut it out of markets. The experience of the Depression justifiably undermined the nation's commitment to free trade.

In this environment, a charismatic leader like Juan Perón gained mass political support.

> Taxes were increased, agricultural marketing boards created, unions supported, urban real wages boosted, international trade regulated. Perón sought to generate rapid growth and to twist terms of trade against rural agriculture and redistribute wealth to urban workers who did not receive their fair share. The redistribution to urban workers and to firms that had to pay their newly increased wages required a redistribution away from exporters, agricultural oligarchs, foreigners, and entrepreneurs.

The Perónist program was not *prima facie* unreasonable, given the memory of the Great Depression. And it produced almost half a decade of very rapid growth. Then exports fell sharply as a result of the international business cycle as the consequences of the enforced reduction in real prices of rural exportables made themselves felt. Agricultural production fell because of low prices offered by government marketing agencies. Domestic consumption rose. The rural sector found itself short of fertilizer and tractors.

Squeezed between declining production and rising domestic consumption, Argentinian exports fell. By the first half of the 1950's the real value of Argentine exports was only 60 percent of the depressed levels of the late 1930's, and only 40 percent of 1920's levels. Due to the twisting of terms of trade against agriculture and exportables, when the network of world trade was put back together, Argentina was by and large excluded.

The consequent foreign exchange shortage presented Perón with unattractive options. First, he could attempt to balance foreign payments by devaluing to bring imports and exports back into balance in the long run and in the short run by borrowing from abroad. But effective devaluation would have entailed raising the real price of imported goods and therefore cutting living standards of the urban workers who made up his political base. Foreign borrowing would have meant a betrayal of his strong nationalist position. Second, he could contract the economy, raising unemployment and reducing consumption, and expand incentives to produce for export by decontrolling agricultural prices. But once again this would have required a reversal of the distributional shifts that had been his central aim.

The remaining option was one of controlling and rationing imports.

Not surprisingly, Perón and his advisors believed that a dash for growth and a reduction in dependence on the world economy was good for Argentina. Carlos Díaz Alejandro writes:

> First priority was given to raw materials and intermediate goods imports needed to maintain existing capacity in operation. Machinery and equipment for new capacity could neither be imported nor produced domestically. A sharp decrease in the rate of real capital formation in new machinery and equipment followed. Hostility toward foreign capital, which could have provided a way out of this difficulty, aggravated the crisis...

Subsequent governments did not fully reverse these policies, for the political forces that Perón had mobilized still had to be appeased. Thus post-World War II Argentina saw foreign exchange allocated by the central government in order to, first, keep existing factories running and, second, keep home consumption high. Third and last priority under the controlled exchange régime went to imports of capital goods for investment and capacity expansion.

As a result, the early 1950s saw a huge rise in the price of capital goods. Each percentage point of total product saved led to less than half a percentage point's worth of investment. Díaz Alejandro found: "[r]emarkably, the capitalin electricity and communications increased by a larger percentage during the depression years 1929-39 than 1945-55," although the 1945-55 government boasted of encouraging industrialization. Given low and fixed agriculture prices, hence low exports, it was very expensive to sacrifice materials imports needed to keep industry running in order to import capital goods. Unable to invest, the Argentine economy stagnated.

In 1929 Argentina had appeared as rich as any large country in continental Europe. It was still as rich in 1950, when Western Europe had for the most part reattained pre-World War II levels of national product. But by 1960 Argentina was poorer than Italy and had less than two-thirds of the GDP per capita of France or West Germany.

One way to think about early post-World War II Argentina is that its mixed economy was poorly oriented: the government allocated goods, especially imports, among alternative uses; the controlled market redistributed income. Thus neither the private nor the public sector was used to its comparative advantage: in Western Europe, by contrast, market forces allocated resources—even, to a large extent, for nationalized industries—the government redistributed income, and the outcome was much more favorable.

At a deeper level, four factors set the stage for Argentina's relative decline:

1. a politically-active and militant urban industrial working class,
2. economic nationalism,
3. sharp divisions between traditional elites and poorer strata, and
4. a government used to exercising control over goods allocation, and that viewed the price system as a tool for redistributing wealth rather than for regulating the pattern of economic activity.

Yet what was the difference between relative economic failure in Argentina after World War II and the extraordinary economic success of Western Europe? From the perspective of 1947, the political economy of Western Europe would lead one to think that it was at least as vulnerable as Argentina to economic stagnation induced by populist overregulation. The war had given Europe more experience than Argentina with economic planning and rationing. Militant urban working classes calling for wealth redistribution voted in such numbers as to make

Communists plausibly part of a permanent ruling political coalition in France and Italy. Economic nationalism had been nurtured by a decade and a half of Depression, autarky and war. European political parties had been divided substantially along economic class lines for a generation.

Yet Europe avoided this trap. After World War II Western Europe's mixed economies built substantial redistributional systems, but they were built on top of and not as replacements for market allocations of goods and factors. Just as post-World War II Western Europe saw the avoidance of the political-economic "wars of attrition" that had put a brake on post-World War I European recovery, so post-World War II Western Europe avoided the tight web of controls that kept post-World War II Argentina from being able to adjust and grow. In the absence of the Marshall Plan in particular, and of an internationalist United States interested in fighting the Cold War and restructuring western Europe in general, might have Western Europe followed a trajectory similar to Argentina?

In the presence of a first world foreign-aid effort of as large a scale relative to today's economies as the Marshall Plan was to post-World War II economies, might the same virtuous circles that operated in post-World War II western Europe be set in motion throughout most of the global economy's periphery?

17.2.6: Iran Under the Pahlavi Shah: A Case

Could things have been much better in the post-World War II periphery in the first generation? The case of the Iranian Revolution suggests that in some cases at least the answer is "no." For the reasons that the Shah of Iran was overthrown, and Iranian industrialization brought to a near halt, in 1979 had relatively little to do with the faults of the then-Shah (which were many), but had much to do with obstacles to successful economic development.

The pre-1979 Imperial Iranian government was a tyranny. It had a fierce and dreaded secret police. It used revenues from sales of government-owned oil to build up an impressive and powerful military. But these were not the reasons that the Shah was overthrown.

The Shah hoped to use the bulk of oil revenues to turn Iran into an industrial country in one generation. This meant, first, land reform: distribute land to turn tenants and sharecroppers into independent farmers, and compensate landlords with government oil revenues. But rapid population growth and a desire not to offend rich landlords *too* much meant that the plots distributed were small. The boom in oil exports and the rise in oil prices together pushed up Iran's exchange rate by a wide margin: and with an overvalued exchange rate, it became profitable to import food. So newly-propertied peasant farmers found themselves with small plots and facing declining prices for what they sold.

They were supposed to become bulwarks of the regime, grateful to it for distributing land. Instead, they scratched what they saw as an inadequate living off of too-small plots, or moved to the cities. While a large share of the Iranian population saw their incomes growing rapidly in the years leading up to 1979, a large share of the Iranian population did not.

Moreover, as the world became smaller with transportation and communications, the people of Iran could see further into what was happening in other countries. For one thing, Russians and Britons and Americans were showing up—rich and arrogant. Iranians had been used to seeing themselves at the center of an Islamic civilization that had been preeminent among world civilizations for more than a millennium. Indeed, less than three centuries separate the joint Anglo-American-Russian occupation of Iran during World War II (in order to provide a logistical aid channel to the Soviet Union) from the days when the Islamic princes of Turkey and the Ganges Valley were besieging Vienna and overrunning the British East India company's bases in Bengal. How were people to make sense of such a world?

Steps to emancipate women proved unpopular among traditional influence makers as well. Steps to boost education-and the Shah was truly and genuinely committed to turning Iran into a literate, educated, technologically-proficient country-also produced a large body of students and intellectuals attracted to revolutionary politics. The Shah's answer was to turn Iranians into Europeans—to follow an authoritarian state-led development road reminiscent of Japan, and earlier Germany. But this left no place for Islam. And it was highly corrupt.

From exile, the Ayatollah Khomeini—a former opponent of land reform, who had thought it was un-Islamic to dispossess landlords and free peasants from debt bondage—lit the fuse, calling on the Islamic clergy and the people to seize power from the despot and make an Islamic revolution. A forty-day cycle of demonstrations began, during which young religious activists would be shot by the police, thus triggering another demonstration forty days hence to mourn their deaths. In January 1979 the Shah fled into exile.

Thereafter Iran's economy stagnated. Iran today looks to be no richer than it was in 1977. First a decade-long war with Iraq absorbed tremendous resources. Then the newly-dominant religious government had little interest in economic development: they were interested in paradise in heaven, not in utopia here on earth: the Iranian people had not made the Islamic Revolution to lower the price of watermelons.

17.3: Ideological Damage

17.3.1: Damage from Ideologies of the Right

The ideologies of the right did enormous damage to prospects for successful economic development in the first half of the twentieth century. Colonialism itself almost inevitably came with an ideology that the natives were unfit: unfit to rule themselves, unfit to handle complicated machinery, unfit (with a few exceptions) for sophisticated education, unfit to do much of anything other than work on plantations and staff small shops.

The ideologies of the right did further damage to the extent that they caused, deepened, and prolonged the Great Depression. The idea that the only good economy was a gold standard economy helped start the Depression. The idea that a recession had a positive, long-run, social-darwinian effect on the economy helped deepen and prolong the Great Depression. And the fact that integration into the global economy caused large-scale economic disaster during the 1930s taught many governments in the 1940s and 1950s that they should avoid integration into the global economy: strategies of neo-autarky and import-substitution development that were fashionable in the 1950s, and that were by and large unsuccessful, had their roots in an overlearning of the lessons of the Great Depression.

17.3.2: Damage from Ideologies of the Left

If ideologies of the right did massive damage to prospects for economic development before 1950, ideologies of the left did massive damage to prospects for development since 1950. Newly-independent decolonized governments in the 1950s and 1960s listened to intellectuals from the left because the left had been anti-colonial—while the center and the right were, before World War II, imperialist. Thus the Indian National Congress would look to the British Labour Party—their friends in Britain—for advice on how to create the preconditions for successful economic growth.

And left wing political opinions throughout most of the twentieth century have been at least somewhat friendly toward really-existing socialism. And that friendliness carried with it Marx's doctrine that markets are evil in their essence—hence anything that replaced markets must be good. This had a very large influence on third world development policy in the first post-WWII generation.

The tying of left wing commitments first to the really-existing socialist Leninist-Stalinist régime established in Russia after the Bolshevik Revolution, and then to the successor régimes that emerged from decolonization did harm to the political left as a moral entity. Marx had looked forward to immense material wealth evenly distributed, to freedom of occupational and residential choice, to representative governments, to free speech and free association. But the really-existing socialist governments that the political left found itself associated with—the products of the Bolshevik revolution and of decolonization—had relatively little of these.

The commitment to representative government was the first commitment the political left threw overboard: only an educated and informed electorate could exercise its right to vote, and until such an educated and informed socialist electorate could be created, a centralized party was necessary in its place. To rank representative institutions high on any list of the criteria of a good society was, it was mistakenly thought, implicitly to attack decolonization and to defend the late colonial order. The commitment to free speech and free association went next. Nation-building required unity. If politicians and newspapers could whistle different tunes and criticize the government, this would disrupt the fragile unity of new nations. Then advocacy of private economic freedoms disappeared: all of the resources of society had to be mobilized according to a single plan for rapid industrialization.

As liberalism evolved in Europe, it proceeded from a demand for personal rights (freedoms of movement, of occupational choice, and of property, and rights against self-incrimination, against arbitrary arrest, and to justice) through political rights (freedoms of speech, of assembly, and of organization, and the right to choose one's governors) to social rights (to social insurance programs, to a relatively equal distribution of income, and to material wealth). All of these dropped away as the left found itself in an increasingly uncomfortable embrace with the regimes of "really existing socialism" and of post-colonial nationalism.

Thus the left-wing historian E.P. Thompson could write in the 1970s that:

> ...the Communists of the 1930s and 1940s were not altogether wrong, intellectually or politically. [The] visions [we feared] were of Panzers or of Sherman tanks rolling into the East, breathing racial purity or the freedom of capital down the barrels of their guns...

Put to one side the rhetorical pairing (at the end of the 1960s!) of Franklin Roosevelt and Adolf Hitler: either E.P. Thompson is an idiot, or it is an exaggeration not meant to be taken seriously. Note instead that, in Thompson's mind, freedom of speech, freedom from arbitrary execution, freedom to elect the government, and material wealth orders of magnitude greater than that produced by Stalin's bureaucracy—all these piled together—count for little because they come tied to "freedom of capital."

Eggs were broken. The habit of breaking them on whim grew. But no omelet appeared.

Perhaps the worst place to be in the emerging market world in the forty years after World War II was in the Communist regimes of Asia, led by Maoist China.

The Chinese Communist Party had won the civil war (which was interrupted for a while to fight the Japanese during World War II) because of its ability to create a hierarchical organization that could exert power in even the smallest of villages-a legacy that Mao owed to Lenin. Its opponent, the Chinese Nationalist Kuomintang, retreated to Taiwan, reformed itself (after an initial bloody massacre of Taiwanese), and became a model of post-World War II economic development. The People's Republic of China quickly became the personal dictatorship of Mao Zedong, and careened from disaster to disaster.

Chinese agriculture appears to have recovered from the devastation of World War II and the 1945-1949 civil war in the first years of Mao's rule. Official statistics—worth in this case what you pay for them—reported a seventy percent increase in wheat and rice production between the end of the civil war and the mid-1950s. The small share of China's population resident in the cities did worse, as private enterprise was destroyed and social parasites executed or sent off to concentration camps. Considerable technical and economic aid from the Soviet Union aided Chinese development before the Sino-Soviet ideological split in 1960.

The late 1950s, however, saw the beginning of a downward spiral. Agriculture was collectivized: individual farms replaced by village communes dominated by the local party official. The collectivization of agriculture was followed by the "Great Leap Forward": a policy that sprang from Mao's visionary inspiration to lessen China's industrial and human underdevelopment by making use of hte human resources of the whole country—to replace the "material" factor by the "spiritual". Never mind what the technocratic "experts" said could not be done; the "Red" revolutionaries would do it. People would make steel in backyard furnaces. China would industrialize village-by-village, without imports of foreign capital goods or the advice of foreign engineers.

Of course it was a disaster. To command—from the center—that peasants go out and build backyard blast furnaces guarantees that you will get little steel and less grain. Because the dictator had set out this policy on his own, everyone reported that the Great Leap Forward was proceeding magnificently. Perhaps forty million people died in the famine.

As the extent of the disaster became known, Mao's principal lieutenants moved slowly and cautiously against him. In December 1958 Mao was replaced by Liu Shaoqi as head of state, with Deng Xiaoping as Liu's right hand man. In July 1959

Peng Dehuai, one of the highest ranking military officers and Minister of Defense, accused Mao of "subjectivism" and "petty bourgeois idealism", and sought Mao's effective retirement. Mao was retired, but Peng Dehuai was condemned for "rightism" and dismissed from the party and the government.

It took six years before Mao could arrange a counterstroke, using his power as symbol of the regime. His political counteroffensive was a call to destroy the leadership of the Communist Party, to "bombard the headquarters" in order to eliminate bureaucracy. Once again the "Red" was exalted over the "expert". Liu Shaoqi was killed; Deng Xiaoping imprisoned for the heresy of claiming that it was more important to be competent than to be politically correct—"a good cat is not a cat that is red or white, a good cat is a cat that catches mice." Universities were closed; engineers were sent to the countryside to work with the peasants; technocrats of all kinds dismissed from their jobs. Mao's counterstroke was successful—for a while. We know that he or those immediately around him thought they had to assassinate his new defense minister, Lin Piao, to keep Lin Piao from doing to him again what Liu Shaoqi had done a decade before. We are not sure how China was ruled from 1968-1974.

We do not know the human cost of the Cultural Revolution.

We guess that in 1970—after the first phase of the Cultural Revolution—that China's level of material prosperity was perhaps half that of India's, and was the rough equivalent of today's level of material well-being in the very poorest countries on earth.

And the detritus of really-existing socialism still litters the earth: North Korea, and, to a much lesser extent, Cuba.

17.4: Neoliberal Turns and Development States TK

17.4.1: Development States TK

From a cynical perspective the interesting question might be not why was there economic stagnation in much and absolute economic decline in some ofemerging markets, but why there was rapid growth in other portions. Chile, Mexico, southern Brazil, and Panama in Latin America; Algeria in Saharan and Botswana in sub-Saharan Africa; and Hong Kong, Malaysia, Singapore, South Korea, Taiwan, Thailand, and now, of course, China in Asia are countries that have made impressive strides toward closing the relative material prosperity gap vis-a-vis the global north in the post-World War II era. How have they managed to do this? What have been the key factors separating successful from unsuccessful episodes of economic development?

The natural conclusion from emerging-market history is that successful economic development is difficult without either a limited government or a developmental state: the logic of politics is that of favors performed, wealth redistributed, influence exercised, and taxes collected; that is very different from the logic of economic growth. Only a state that is limited in the amount of damage it can do to the economy, or a state that is secure enough, independent enough, and committed to rapid economic growth can avoid this development trap.

These are the two roads to successful rapid development: "neoliberalism," on the one hand; and the so-called "developmental state" approach that has been so successful in East Asia on the other. Either insulate the economy from the (semi-predatory) government so that the government's attempts to tilt the distribution of income in favor of the politically powerful are relatively ineffective and do little harm, or create a government bureaucracy whose first goal is development, and which views interests as its tools to be used in promoting economic growth, rather than as its masters.

17.4.2: Neoliberalism TK

These pressures have, in the post-World War II period at least, been strong enough to counteract the natural tendency for poor countries to learn rapidly about technology and catch up to rich ones. There is no clear reason on the horizon for these pressures to diminish. Optimists hope that the record of economic failure provided by much third world experience in the past generation will lead to the creation of intellectual pressures for reform strong enough to overcome the bias for stagnation.

And if ideas truly are the decisive forces making history in the long run, perhaps the optimists are right.

If the optimists are wrong, then we are all in big trouble. Successful handling of the future's global environmental problems, and successful long-run stabilization of human populations, hinges on successful industrialization in the third world and the consequent—rapid—passage through the demographic transition.

One way to read the economic history is as repeated attempts to produce the second: to create a pro-growth "developmental state." Yet in the last analysis there is nothing worse than state-led development led by an anti-developmental state. And that was what too many post-independence Asian and African and too many post-World War II Latin American states turned out to be.

Thus starting in the 1980s hopes for development—outside of the Pacific Rim, where the successful "developmental state" has been was already clearly a reality — shifted in the direction of "neoliberalism." It seemed better to try to limit the state's involvement in the process of development, because its interventions were more likely to be destructive than constructive. Rely, instead, on the world market as a source of demand, and on the requirements for integration into the world market and cooperation with the international agencies set up after World War II as a source of good-enough governance.

Robert Bates (1981), *Markets and States in Tropical Africa* (Berkeley: University of California Press: 0520052293), p. 1.