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Learning from the past: Which of the past/current development strategies are best suited to deal with the 'quadruple crisis'?

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Abstract

During the last decade, the world economy has experienced a worsening in financial stability, food prices, income inequality and environmental conditions. Seven development strategies are evaluated to determine which could help solve 'quadruple crisis'. These strategies are assessed using a common methodology which first documents the economic, social, environmental and food security policies adopted, and then assesses their outcomes using 11 performance indicators. The strategies are then ranked on the basis of their overall success score. While all strategies produced some positive results, the East Asian Miracle and the new Latin American development approach generated the greatest number of favourable outcomes.

JEL classification: E16, I38, O1, O16, P16, Q5

Keywords: development strategies, quadruple crisis, financial instability, income inequality, food insecurity, environmental degradation, public policies.

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Learning from the past: Which of the past/current development strategies are best suited to deal with the ‘quadruple crisis’?

Giovanni Andrea Cornia and Milica Uvalic

This paper was originated as a contribution to the work programme of the Committee for Development Policy (CDP), a subsidiary body of the United Nations Economic and Social Council, on the United Nations development agenda beyond 2015. This research effort aimed at analysing and proposing alternative development models that could contribute to a sustained improvement in human wellbeing worldwide. While the views expressed here do not necessarily coincide with those of the CDP or the United Nations, the paper has benefitted from the discussions conducted at various workshops and plenary meetings of the Committee. Additional information on the CDP and its work is available at http://www.un.org/en/development/desa/policy/cdp/index.shtml.

1. Challenges posed by the ‘quadruple crisis’

The Millennium Development Goal (MDG) development strategy which has dominated the debate during the last decade has mainly been framed in terms of ‘social- and aid-policies’ and has said little about the national development strategies and changes in domestic and global governance required for their achievement. Because of this omission, the national strategies often have - by default – relied on macroeconomic policies pivoting around an unfettered liberalization of domestic and external markets, including financial markets, and on weak environmental policies. As a result, such an approach has not helped preventing the emergence of four intertwined sets of problems – called for convenience the ‘quadruple crisis’ - which have severely affected the economies of many developing countries and delayed the achievement of the MDGs and of sustainable growth.

The four sets of problems just alluded to concern (i) mounting macroeconomic and financial instability which periodically erupts into costly financial crises; (ii) rising food prices, hunger and malnutrition; (iii) a worsening of income inequality in the majority of the developed, transitional and developed economies; (iv) long term, but already evident environmental problems which exacerbate the need for costly mitigation and adaptation measures to prevent additional economic costs and personal and environmental damage. In all these areas, the search for new sustainable development models is in order, to deal with the crises themselves and for sustaining the drive towards the achievement of the MDGs.

One way to build a new development strategy which simultaneously satisfies the traditional requirements (adequate growth and sustainable macroeconomic balances) and the new ones (financial stability, tolerable inequality, food security, and environmental sustainability) consists in reviewing the lessons from the past development strategies, so as to learn about what worked and what did not, while being aware that conditions change, and present conditions may differ from those under which the past strategies emerged. Before we review the positive and negative aspects of a few development models, we need to identify in greater detail some critical aspects and policies of any development strategy.

2. Dimensions of a development strategy

How can we best characterize a development strategy? Until a decade or so ago, a development model was basically characterized by a '*driving idea*' (for example: import substitution, export promotion, market liberalization, and so on), a relatively *small set of key policy instruments* (trade protection, industrial policy, macroeconomic stabilization, and so on), and a limited number of *performance indicators* (the current account balance, inflation, GDP growth, and so on.). Given the four crises mentioned above, a development model now needs to be assessed on the basis of a greater number of performance indicators. This means in particular identifying *explicit indicators, policies and policy objectives* in the field of financial and macro regulations, short and long term food security, income inequality, and climate change, adaptation and mitigation. It means also designing or selecting appropriate *performance criteria* for each of these four areas. Some of them are straightforward (as in the case of inequality), but in the field of climate and financial regulation new indicators and performance criteria may have to be developed. In addition, it is important to consider the '*political regimes*' under which the development strategies considered have evolved. The main point here concerns the type and degree of democracy under which such strategies have developed. In fact, given two alternative regimes - the first democratic and the second authoritarian - which achieved the same economic, social, environmental and inequality objectives, the former should be valued more favourably than the latter, as democracy also has an intrinsic value.

3. Past and recent development strategies considered

We focus on the following past (the first two) and more recent (the second five) development strategies, paying particular attention to the political regimes which implemented them, the policy regime that characterized them, and their outcomes in the economic, social and environmental areas. The development strategies analysed include:

(i) Past development approaches, in which imports were controlled to some degree, such as:

- the Import Substituting Industrialization in Latin America (LA-ISI) in the 1960s and 1970s;
- the export-led and investment-led East Asian Miracle (EAM) over the same period;

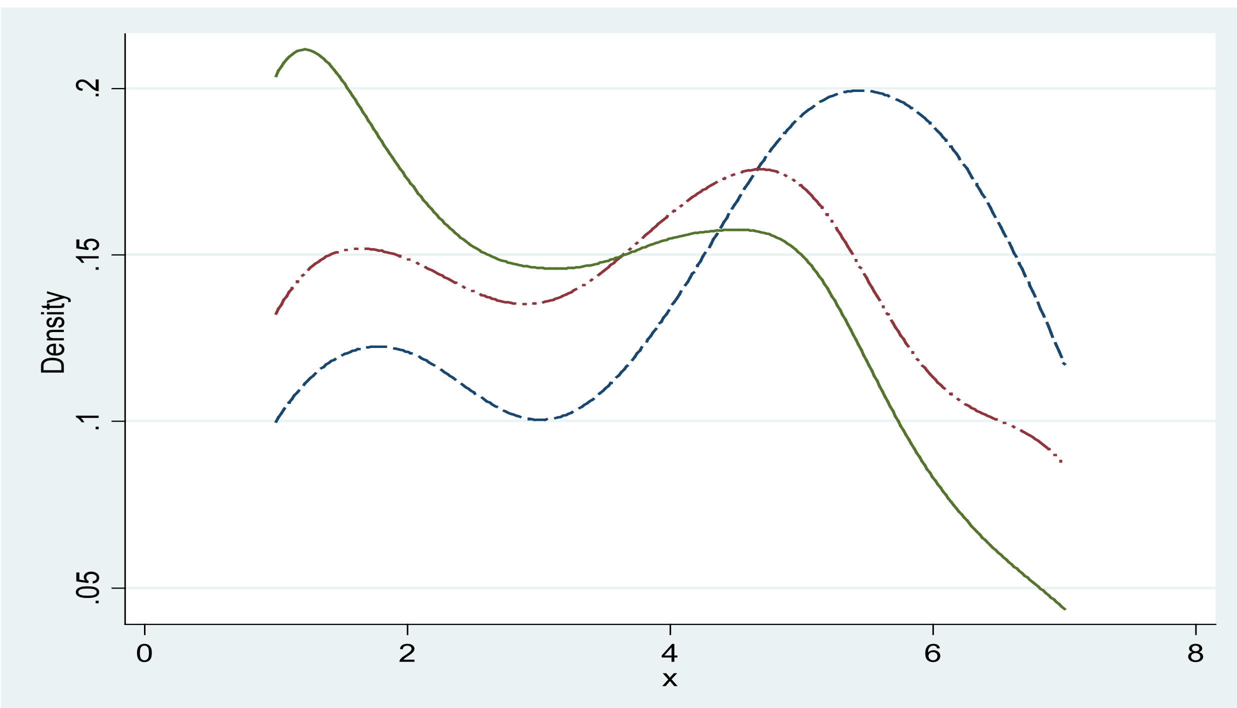
(ii) More recent open-economy development approaches, such as:

- the Washington Consensus applied in Latin America (LA-WC) between 1980 and 2000;
- the Chinese export-led, mixed-economy approach over 1990-2010;
- the new version of the neo-liberal approach followed in 11 countries of Eastern Europe and the former Soviet Union (EE-11)[1] over the years 2000s;
- the new liberal Indian service-oriented approach during 1990-2010;
- the Latin American 'Open Economy Redistribution with Growth' (OERG) model which has evolved since the early 2000s.

1 The 11 countries included in the analysis are Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Ukraine. Although Ukraine differs in many ways from the other countries, it was included because in the 2000s it faced similar external constraints as most countries in this group, particularly regarding the growing current account deficit/GDP ratio.

The distinction between 'past' and 'new' development strategies is highly relevant, as the new regimes have emerged under substantially different contextual and policy conditions which impose new constraints on policy-making, but also offer new opportunities. To start with, political regimes evolved almost everywhere towards greater democracy (figure 1), a trend desirable for both its intrinsic and instrumental value, but which may constrain the adoption of efficient-but-socially-costly measures, or of measures which produce benefits only over the medium and long term. Yet, democracy may also lead to the election of governments more sensitive to distributive and environmental issues. In turn, the policy and contextual conditions have also evolved markedly (table 1). The major changes have concerned: much greater (endogenous and policy driven) trade and financial liberalization and economic integration, as shown in table 1 by the drop in the average regional import tariffs and increase in the Kaopen Index, which signal a rapid international economic and financial integration which increases the possibility of both positive and negative contagion. At the same time the policy space at the national level has been narrowed by the obligations entailed by international agreements such as the World Trade Organization (WTO), Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Basel 3, Kyoto and so on which have been underwritten by the vast majority of the developing countries.

Figure 1. Density function of the extent of democracy (proxied by the civil liberties index) in 1975, 1990 and 2009



Source: Authors' elaboration on Freedom House data.
Note: A rise in the index indicates less democracy.

Table 1. Changes in policy stance in the field of domestic and external liberalization[a]

Regions	1982-90	1991-1997	1998-2002	2002-2010
A. Average Import Tariff*				
South America	40	19	12.2	10.6
Central America and Mexico	46.6	18.1	8.8	7.2
Sub-Saharan Africa	26.7	24.9	14.5	13.2
MENA	29.7	21.9	17.3	16.2
South Asia	62.9	52.9	20.8	14.9
East and South East Asia	20.3	16.7	7.6	6.9
Asian economies in transition[b]	44.5	38.9	15.5	12.5
EE-FSU[c]	…..	11	9	6
Advanced economies	8.5	7.1	3.3	4.2
B. Kaopen Index of Capital Account Openness**				
South America	-0.78	-0.17	0.76	1
Central America and Mexico	-0.84	0.29	1.18	1.67
Sub-Saharan Africa	-0.91	-0.82	-0.59	-0.56
MENA	-0.64	-0.35	0.02	0.36
South Asia	-1.29	-0.74	-0.93	-0.9
East and South East Asia	0.85	0.96	0.5	0.57
Asian economies in transition[b]	-1.75	-1.31	-1.05	-0.58
EE-FSU[c]	-1.84	-0.53	0.01	0.65
Advanced economies	0.83	1.89	2.28	2.32

Source: Cornia (2011) on the basis of *Economic Freedom Dataset (2011), World Development Indicators (2011), **Chinn and Ito (2011). The Kaopen index is a positive function of openness.

Notes: [a] Regional unweigthed averages.

[b] China, Viet Nam, Laos and Cambodia.

[c] It concerns the entire region and not only the 11 countries covered in tables 3 and 4.

Furthermore, the formulation of domestic public policy has been affected by the significant liberalization of domestic financial markets and a wave of regional trade and financial agreements. These changes obviously represent an opportunity for faster economic growth thanks to greater access to export markets, technology and domestic and world savings.

Yet, the same changes impose new legal and economic constraints which may limit the policy choices of developing countries, especially of the smaller and poorer ones. Under these conditions the achievement of financial stability, food security, and an acceptable level of income inequality may become more problematic. Finally, the new development strategies face an additional constraint, that is, the obligation to reduce the emissions of Green House Gases (GHGs) and to invest in both adaptation and mitigation to climate change. These were not major considerations before 1990 when most of these strategies were initiated.

While the evolution of the international context has generally narrowed the scope of domestic policy, it is also true that the 1980s and 1990s witnessed a sharp reduction in some chronic problems, such as large budget deficits, high inflation, and unsustainable public debt/GDP ratios (table 2) which often led to devastating macro crises, thus allowing policy makers to focus on growth, structural transformation and equity.[2]

Table 2. Indicators of macroeconomic balance in developing regions, selected periods

Regions	1982-90	1991-1997	1998-2002	2002-2010
Budget balance/GDP (deficit<0)*				
South America	-5.3	-3.7	-5.1	-0.5
Central America and Mexico	-2.4	-0.8	-2.8	1.9
Sub-Saharan Africa	-5.1	-3.9	-3.5	-0.7
MENA	-1.8	-1.9	-1.8	0.1
South Asia	-6.9	-6.2	-6.0	-4.7
East and South East Asia	0.8	4.5	-0.7	-0.2
Asian economies in transition[a]	-1.6	-1.7	-3.3	-2.5
EE-FSU[b]	-10.1	-5.3	-3.2	-1.1
Inflation*				
South America	386.3	111.7	11.7	7.6
Central America and Mexico	361.5	15.8	7.0	7.4
Sub-Saharan Africa	20.1	165.5	35.0	8.2
MENA	29.4	20.4	7.6	6
South Asia	10.3	9.3	5.9	8.3
East and South East Asia	6.5	5.7	5.9	3.9
Asian economies in transition[a]	69.7	26.7	14.5	6.4
EE-FSU[b]	15.0	528.2	16.6	6.7
Public debt/GDP**				
South America	56.8	47.7	52.5	44.4
Central America and Mexico	111.7	121.9	66.9	49
Sub-Saharan Africa	93.1	105.8	105	69.2
MENA	62.3	89.8	72.2	61.8
South Asia	92.1	80.4	76.9	76.9

2 We are here referring to the developing world. The current sovereign debt crisis in the European Union is not directly relevant for the context of the present paper.

East and South East Asia	46.6	39.8	52.6	46.4
Asian economies in transition[a]	4.6	11.9	40.3	42.3
EE-FSU[b]	32.1	72.7	45.1	31.9

Source: Authors compilation on * IMF (2011), ** ERS/USDA International Macroeconomic Database (2011) and World Bank (2011). For Public Debt, additional data are taken from Reinhart and Rogoff (2010).

Notes: [a] China, Viet Nam, Laos and Cambodia

[b] It concerns the entire region and not only the 11 countries covered in tables 3 and 4.

Before closing this section we would like to explain why no economic policy model for Sub-Saharan Africa was included in our analysis. After the mid-late 1990s, a few countries in this region recorded improvements in the field of democracy, growth and income distribution (Radelet 2010, Gualdani 2012). According to both the Polity IV and Freedom House index, the number of democracies rose from three (Botswana, Mauritius and Namibia) in the early 1990s to 20 (out of 44 countries) in 2008. In turn, growth of GDP per capita – negative over 1980-1995 in two thirds of the countries - turned positive in nearly 80 per cent of them over 1995-2010. Finally, during this period, the distribution of income improved in sixty per cent of the 21 countries with reliable information. While these gains concern less than half of the countries in the region (17 according to Radelet 2010), they are nevertheless encouraging. No doubt, the achievement of macroeconomic stabilization in the mid-late 1990s and the end of the debt crisis helped reduce volatility. Yet, the gains of the 2000s are highly heterogeneous, are often exogenously determined (rather than deriving from the implementation of a new economic policy model), and may not be sustainable over the long term. The main sources of the recent growth and decline in inequality are an exogenous improvement in the global economic environment, namely: (i) a rise of international prices and demand of commodities exported by the region, such as oil, copper and other metals, diamonds, rare earths, wood and so on; (ii) greater Chinese foreign direct investment (FDI) in the primary and infrastructural sector (in Ethiopia, Mozambique, Ghana, Angola, Zambia and, especially, South Africa); (iii) slowly rising tourist receipts (in Cape Verde and Rwanda) and migrant remittances; and (iv) a large increase in aid (in Tanzania).

More sustainably, growth also intensified due to domestic changes like the adoption of new technologies (such as cell phones) or of the policy-driven diversification of the economy (as in Mauritius and Uganda) and better technology policies and incentives to farmers (as in Malawi and Mozambique) which helped the recovery of agriculture in about half of the region. Overall, after many years of decline, agriculture and food production have grown at low but positive rates until 2008, in most cases leading to an equalizing increase in food production per capita. Thus, the sources of the welcome and important gains recorded in parts of the region are very heterogeneous, mostly exogenous, and may not be sustainable over the very long term (as the increase in commodity prices). Such a growth pattern also exacerbates the previous overemphasis on a (neo)-colonial primary-product driven division of labour. Meanwhile, some of the traditional problems - poor governance, slow growth and political instability - still grip about half of the continent. Thus, while there is reason to hope that a new economic policy model may emerge in Sub-Saharan Africa, no single sustainable model has yet done so.

4. Analysis of the main development paradigms

Hereafter, we summarily analyse in a standard format the seven development models mentioned above, their main policy components as well as their successes and failures. All this is done on the basis of a common methodology which focuses on: (i) the *political regimes* (defined on the basis of the extent and quality of democracy, proxied by the Polity 2 and Freedom House indexes, and by the dominant interest groups which influenced most policy making); (ii) the *main economic and social policies* (in the field of trade, capital account, exchange rate, tax, fiscal and monetary policy, industrial and environmental policy, labour market measures, human capital formation and social assistance/insurance/food security) which characterized each development paradigm; and (iii) their *economic and social performance indicators* in terms of: growth of GDP, income inequality, structural transformation (measured by changes in the share of industry on GDP), human capital formation, twin deficits, foreign indebtedness, resilience to shocks, food security and environmental impact.

As these ten indicators cover periods of different duration (roughly from one to two decades), we measure performance in these areas not only by means of their period average but also – and more importantly – in terms of their yearly rate of change (so as partially to remove the influence of regional structural effects). As a final step, we 'rate' each of the seven development models considered by summing up in an ordinal fashion their 0 (negative) or 1 (positive) scores for each of the eleven political, economic, social and environmental performance indicators identified above. This will allow us to determine which of these development strategies performed the best taken as a whole. The information provided will help the analysis of whether any one (or parts) of the seven development strategies can inspire a 'desirable development strategy(ies)' capable of addressing the financial-food-inequality-environmental crises which erupted recently and which threaten the achievement of a sustainable and inclusive development in the future.

4.1 The Import Substituting Industrialization development strategy adopted in Latin American in the 1960s and 1970s

The structuralist development paradigm dominated the decades of the 1950s, 1960s and 1970s, though scarcity of data prevents detailed documentation of the policy measures introduced during the first years of this policy period.

Political trends, dominant class and driving idea

The ISI-LA model was developed under semi-democratic or military regimes as shown by the low values of the Polity and Freedom House indexes in table 3. A new and dynamic nationalist bourgeoisie, quite dissimilar from the traditional '*burghesia compradora*', played a major role in guiding the overall development effort by working closely with state institutions in the fields of production, investment coordination and industrial policy. The key driver of such strategy was the development of industry which, as argued by the structuralists, was the only sector capable of generating both growth and long term modernization of the economy.

Table 3. Political and policy regimes of the seven models

Political – policy dimensions	Index	Metric	Latin America ISI 1950-1975	Asian miracle 1960s-70s	Latin America WC 1981-2002	Eastern Europe 2000-2010	Chinese model 1990-2010	Indian model 1990-2010	Latin America OERG 2002-2010
Political regimes									
Extent of democracy	Political regime	Partly democratic	Authoritarian	Military technocracy	Technocratic democracy	One party system	Democratic	Mostly Social Democratic	
	Polity 2	Period average	-0.99	-3.69	**5.51**	**9.02**	-7	**8.74**	**7.94**
	Freed.. House	Period average	1.91	2.22	1.52	1.05	3	1.35	1.44
Dominant Class			State and nationalist bourgeoisie	State and nationalist bourgeoisie	Financial technocracy	Liberal - populist parties	Communist party and new elites	Political elites and private business	Broad class alliances
Policy regimes									
Trade openness	Type of regime		Fairly Closed	promote X, slow M liberalization	Free trade	Free trade	Promote X, slow M liberalization	Fairly closed, slow M liberalization	Free trade
	Tariff rate(%)	Period average	45.3	5.2	15.8	6.4	16.4	30.4	9.1
Capital account Openness	Type of regime		Close	Closed	Open	Open, big external debt	Selectively Open	Selectively open	Open
	Kaopen index	Period average	0.04	-0.24	-0.18	1.24	-1.25	-1.15	1.33
Capital Controls	Extent of controls		Complete	Complete	None	None	Important	Important	Limited
	Frazer Instit. Index	Period Average	3.08	5	4.51	5.88	3.36	2.83	6.19
Exchange Rate	Type of exchange rate		Fixed nominal rate	Competitive	‘2 corners Solution’	Mainly fixed	Fixed till 2005, after competitive	Competitive	Intermediate
Fiscal policy	Type of fiscal stance		Expans-ionary	Prudent	Prudent	Prudent	Prudent	Expansionary	Prudent
	Industrial policy		Active, not always efficient	Active and efficient	Absent	Absent	Very active	Active	Weak or absent
Taxation policy	Extent of tax effort		Limited	Moderate	Limited falling	Falling, Flat tax	Low but rising	Rising	Rising
Labour Market			Segmented	Promote labour –int. sectors	Regressive	Regressive	Segmented	Very segmented	Progressive
Human capital formation			Limited	Strong	Falling	Falling from high level	Falling from high level	Gradually increasing	Growing

Political – policy dimensions	Index	Metric	Latin America ISI 1950-1975	Asian miracle 1960s-70s	Latin America WC 1981-2002	Eastern Europe 2000-2010	Chinese model 1990-2010	Indian model 1990-2010	Latin America OERG 2002-2010
Social expenditure			Low	High (education)	Falling	Falling	Falling	Growing	Rising
Social insurance	Type of policy approach		Dualistic, regressive	Modest	Declining, regressive	Important, regressive	Declined	Low	Growing Still dual
Social Assistance	Type of policy approach		Absent or limited	Community based	Absent	Absent	Modest	Modest	Rapidly expanding

Source: Authors' compilation based on the following sources: democracy: Teorell et al. (2011); trade regimes (average import tariffs) and capital. controls: Gwartney et al (2011) of the Fraser Institute; the Kaopen index on capital account openness: Chinn and Ito (2009). Notes: The Polity2 index ranges from +10 (strong democratic institutions) to -10 (strong autocratic institutions); the Freedom House index takes the value of 1 (free), 2 (partly free) and 3 (not free), with data starting in 1972; the Kaopen index is a positive function of the capital account openness and varies between -2.5 (complete closure) to +2.5 (complete openness); the index of controls on the international capital movements ranges from 0 (total controls) to 10 (absence of controls). A yellow mark means a positive outcome, sufficient extent of democracy.

Policy approach

Industrial development was to be reached as follows:

Trade and capital account policies

Trade policy aimed at protecting infant industry through quotas and steep import tariffs averaging 45 per cent for the region during the period considered (table 3) and in some cases reaching 200-300 per cent. Tariffs on non-competing imports were much lower, especially for investment goods and intermediate inputs. Overall, trade policy emphasized the role of the domestic markets and trade was assigned a limited role. In turn, the capital account was fairly closed (table 3). The only capital movements were FDI and, after the 1973 crisis, sovereign borrowing.

An accommodating monetary policy and an overvalued exchange rate

The ISI monetary policy pivoted around low or negative real interest rates (so as to promote investments), rationed credit (benefitting the modern sector) and an accommodating money supply which – in the view of the ISI advocates – had to increase steadily to compensate the erosion of real money supply due to a high 'structural inflation'. Fast growing money supply and high inflation were not seen as major problems as long as they facilitated capital accumulation, while the difficulties faced in the field of taxation meant that the state taxed the households via a highly disequalizing 'inflation tax'. In turn, most countries adopted a policy of fixed nominal or administered exchange rate which in many cases led to an appreciation of the real exchange rate, a contraction of non-commodity exports and a weakening of the trade balance. To deal with this problem, some countries introduced multiple exchange rates and currency rationing, while Argentina, Brazil and Uruguay borrowed abroad, though this inevitably led to a rapid rise of the foreign debt.

A passive tax and fiscal policy

Trade and corporate taxes (which exhibited, however, many exemptions) and a myriad of ad hoc taxes and excises generated on average some 10 per cent of GDP throughout the period. Hardly any tax was levied on personal income and wealth due to the resistance of the elites. As a result, in the 1960s Costa Rica and

Plurinational State of Bolivia had respectively more than 300 and 400 different taxes. At the same time, the industrial subsidies to the infant industry placed a large burden on the state budget and often led to some deficits (see later) which were covered through seignorage, financial repression (that is the compulsory purchase of low-interest state bonds by the Central Bank and commercial banks), or foreign borrowing at variable interest rates.

Industrial and environmental policies

In addition to high tariffs and other trade barriers, industrial policy supported '*infant industry*' by means of an array of subsidies on industrial inputs and credit, the creation of domestic infrastructure to reduce transport costs, an overvalued exchange rate to reduce the cost of imported machinery and low food prices to reduce real industrial wages. Such an approach caused, however, large fiscal costs and affected allocative efficiency, which was further exacerbated by the absence of competition among firms. Since energy saving and environmental protection had not become a global priority, no policies were launched in these areas.

Labour market and social policies

The labour market was strongly dualistic. Workers in the modern (mostly urban) sector were covered by collective bargaining and social insurance (which grew into an embryo of welfare state) and enjoyed fairly high salaries relative to GDP/capita, while people working in the informal and rural sector had much lower earnings and were not covered by any social assistance. With few exceptions (Chile, Costa Rica, Cuba and Uruguay), welfare improvements were inferior to those achieved in other developing regions or obtainable on the basis of available resources. After 30 years of ISI-LA, a large section of the population was still excluded from the essential services and social assistance. In addition, while in S.E. Asia the anti-rural bias of such policies was in part offset by a progressive land reform and an increase in school enrolments in rural areas, such compensatory policies were largely absent in Latin America.

Economic, social and environmental outcomes

Economic performance and resilience to shocks

It is beyond question that the ISI strategy – and, more generally, the Latin American *Desarollismo* - generated important positive results in terms of 30 years of almost uninterrupted GDP growth averaging 5 per cent a year for the region (table 4), diversification of the productive structure, technological upgrading, with an expansion of the industrial base. Such growth was also relatively stable as only 7.1 per cent of the country/years were characterized by negative rates of growth, with GDP dropping by a sizeable 4.56 per cent a year on such occasions (table 4).

The results in these areas were relatively satisfactory (except for the accumulation of foreign debt) – even if they were not the main focus of public policy. The tax, fiscal and monetary policy accommodated (or even led to) very high rates of inflation but budget deficits averaged a modest two per cent a year (table 4). Foreign debt grew on average by a sizeable two per cent a year. In turn, despite an often overvalued exchange rate, the current account deficit remained on average manageable. At the same time, banking and currency crises were not allowed to come into the open due to the prevailing 'financial repression'.

Table 4. Comparison between the economic, social and environmental outcomes of the seven policy regimes

Policy area	Index	Measure	Latin America ISI 1960s -1970s	East Asian miracle 1960s-70s	Latin America WC 1981-2002	Eastern Europe 2000-10	Chinese model 1990-2010	Indian model 1990-2010	Latin America OERG 2002-10
Fiscal performance	Budget deficit/ GDP	Period average	**-2.0**	**-0.2**	-3.8	-3.1	**-2**	-7.6	**-1.1**
Current account balance	CA/GDP	Period average	**-1.6**	…..	-3.8	-5.5	**3.6**	**-1**	**-1.2**
Foreign Debt	Stock of foreign debt/GNI	Period average	32.3	40	76.5	70.5	13.6	23.1	44.4
		Yearly variation	2	1.22	0.55	5.22	**-0.31**	**-0.52**	-4.85
Growth performance	GDP Growth	Yearly % change	**5**	**9.1**	2.4	**4**	**9.9**	**6.5**	**4.5**
Income inequality	Gini Index	Period average	47.4	32.3	50.3	29.8	37.1	33.1	51.8
		Yearly variation	0.04	**-0.34**	0.22	0.19	0.87	0.26	**-0.57**
Human capital formation	Years of education (people 25+)	Period average	3.61	4.84	5.82	10.92	6.39	3.63	7.25
		Yearly variation	0.08	**0.11**	**0.1**	0.05	**0.13**	0.07	**0.1**
Structural Transformation	Industry VA/ % of GDP	Period average	31.8	29.7	31.7	31.6	46	26.9	31.5
		Yearly variation	**0.27**	**0.89**	-0.03	-0.44	**0.27**	-0.03	0.04
Resilience to shocks	Years of GDP growth <0 / n years	Ratio (%)	**7.1**	**3.5**	22.2	11.6	**0**	**0**	**8.7**
	Mean drop when GDP growth < 0	Period average	-4.56	-2.79	-3.79	-7.72	0	0	3.03
Environmental impact	C02 emissions/ GDP(Kg/1 million $)		**0.57**	**0.74**	**0.66**	2.1	3.58	2.49	**0.67**
Food security	Calories per capita/day	Period average	2282	**2660**	**2469**	**3140**	**2834**	2296	**2599**
	Protein per capita/day	Period average	60.9	**70.4**	**65.1**	**91.7**	**80.9**	55.2	**70.7**

Source: Authors' compilation based on the following sources: current account balance /GDP: IMF (2011), but the 1960-80 data on the Asian Miracle concern only Republic of Korea, while those for ISI-LA refer only to Argentina, Brazil, Chile, Mexico and Venezuela (Bolivarian Republic of) (Baer, Miles and Moran 1999); CO2 emissions (kg per GDP unit expressed in 2000 US$), industrial value added/ GDP, external debt/GNI, and GDP growth rates: World Development Indicators (2012) of the World Bank (2012), but Taiwan's Province of China GDP growth rates are from ERS International Macroeconomic Dataset; the Gini index of income inequality: SWIIDv3, Eurostat and IDLA databases; years of education of people aged 25+ years: Barro and Lee (2010); calories and protein supply per capita and per day: FAOSTAT.

Note: *Bold numbers indicate positive outcomes.

Structural transformation and human capital formation

An important achievement of the ISI policy was a non negligible increase in the industrial share of GDP (table 4), though this objective was at times achieved at the cost of microeconomic efficiency of the newly created firms due to the lack of competition among domestic firms and strong import controls. The results achieved in the field of education were similar, namely an increase in the supply of the human capital of workers (especially those engaged in the urban industrial sector) which however neglected rural education and a broader based approach to secondary and higher education.

Income inequality

Income inequality stagnated at a high level during the ISI period, as the strategy neglected the structural causes of inequality in the region, that is a high concentration of land and human capital, the curse of natural resources, and a growing urban-industrial bias resulting from the industrial policies mentioned above. Thus, despite a robust growth and a non negligible structural transformation towards industry, inequality rose with the exception (until the mid 1970s) of Argentina, Costa Rica, Uruguay and Venezuela (Bolivarian republic of), that is comparatively more urbanized countries which had created a more extensive welfare state.

Food security and environmental contamination

Due to their focus on industry, the ISI policies by and large neglected the agricultural sector, while food price policies were consistently biased against agriculture. The effect of such an approach was that the income of the majority of rural households stagnated, while access to the land remained problematic for millions of hungry landless farmers. Thus, food security remained precarious both because the average availability of calories and proteins remained comparatively low (table 4) and because of the skewed distribution of income. On the other side, given the low initial level of consumption per capita and industrial development, even a comparatively robust growth of output and incomes generated a low level of environmental contamination and average CO2 emissions (table 4).

4.2 The East Asian Miracle

During the first 10-15 years after the end of the World War II, the East Asian economies (Hong Kong Special Administrative Region (SAR) of China, the Republic of Korea, Taiwan Province of China and Singapore as well as Japan, not discussed hereafter) followed a moderate ISI strategy aimed at improving their manufacturing capacity. Yet, in the mid 1960s there was a clear shift towards an equitable export-led strategy characterized by high rates of investment, macroeconomic stability, sizeable public investments in education and health, and an explicit and successful industrial policy, especially in Japan, the Republic of Korea and Taiwan Province of China , although less so in Hong Kong SAR (World Bank 1993).

Political trends and dominant class

The EAM took place under authoritarian (but non neo-patrimonialist and not anti-poor) regimes in Taiwan Province of China and Singapore, and a military regime in the Republic of Korea. As the elites accepted the principle of '*shared growth*', such an approach was supported by a growing middle and lower-middle class. The success of EAM was also due to the relative probity and competence of the bureaucracy and the creation of institutional mechanisms to facilitate the coordination between firms and the state. Johnson (1982) went as far as arguing that the EAM success was due to the combination of some of the best features of both the capitalist and socialist systems, yet avoiding the major weaknesses of each.

Policy approach

Trade and capital account policies

The policy towards the external sector changed drastically around the mid 1960s. Selective exports were subsidized, the subsidized sectors were asked to export a given quota of their output, and general trading companies (such as the *chaebols* in the Republic of Korea) were created to support the exports of small firms (World Bank 1993). As a result, the EAM share of world manufacturing exports rose from 1.5 per cent in 1965 to 5.3 in 1980 (World Bank 1993, table 1.5). Import tariffs were abolished steadily so as to fall to around 5 per cent for the period considered (table 3), with some exceptions for the sectors facing the most severe international competition. The capital account was closed, and the only inflows were FDI. In spite of this, capital accumulation was very rapid thanks to a high saving rate (estimated at 28 per cent of GDP), and – as noted by Hellman, Murdock and Stiglitz (1997) – a policy of 'financial restraint'.

Monetary and exchange rate policy

Monetary policy was characterized by a low inflation target (between 5 and 10 per cent), a seignorage limited to 1-2 per cent of GDP, and an explicit 'financial restraint' which entailed low but real interest rates on deposits (World Bank 1993, figure 3.2), deposits insurance and the regulation of the maximum interest rates on loans. In addition, all governments maintained tight control of their financial and banking systems and mobilized domestic savings to support national development priorities, with the result that these exceeded on average 30-33 per cent of GDP. Preferential credit facilities were provided for industries targeted as strategic over the long term. In turn, the nominal exchange rate was devalued substantially around the mid 1960s, and from then the authorities adopted an intermediate competitive exchange rate regime focusing on its stability in real terms.

A pragmatic fiscal and tax policy

A prudent fiscal and monetary policy was followed during the EAM experiment with the objective of ensuring monetary stability and preventing the accumulation of public debt. Budget deficits rarely exceeded 2 per cent of GDP, and whenever the subsidy policy conflicted with the target deficit, the latter objective prevailed. In the early years the governments imposed steep wealth taxes, but later on taxation avoided placing too heavy a burden on the enterprise sector and the tax/GDP ratio remained relatively low.

Industrial and environmental policies

A key feature of the EAM model was an explicit and selective industrial policy focusing on '*picking the winners*', an approach which sharply contrasted with the 'neutral industrial policy' of the liberal model. Such policy made use of subsidies, tariffs, licensing, priority credit allocation to key sectors (for example steel, chemistry, shipbuilding, computers and so on) and large public investments in infrastructure and applied research. There was also an effort to fill the technological gap through imports of foreign technology and attracting FDI. While noting that industrial policy can generate large efficiency costs, the World Bank (1993) concluded that the EAM countries limited the costs and duration of such interventions and withdrew support when the targets were not achieved. Taiwan Province of China and the Republic of Korea also enacted highly equalizing land reforms, and promoted the development of rural cooperatives (as the *Saemaul Udong* in the Republic of Korea). These measures underpinned the industrial strategy as they helped the development of rural infrastructure and the broadening of markets for simple consumption goods rather than elite goods. In this case too, as there were no major environmental concerns, public policy did not introduce specific measures in this area.

Labour market, social policies and redistribution

Labour policies aimed at full employment by allocating the most efficient part of the labour force to the traded sector, leaving the rest to the non-traded sector where productivity and wages were lower. Policies in the formal sector of the economy also emphasized stable employment, the life-long attachment of workers to their companies, and the creation of new jobs rather than minimum wages and wage hikes. Social insurance was less important than in other economies, as full employment made unemployment benefits and public works redundant (in the Republic of Korea they were introduced only after the 1997 crisis when unemployment rose from 1-2 to 4-5 per cent). Family benefits were also modest as families (women in particular) were given the role of being welfare providers. Meanwhile, full employment, fast growth and an egalitarian distribution of income quickly reduced poverty and the need for anti-poverty transfers.

All EAM countries allocated considerable resources to human capital formation including – inter alia – primary and secondary education, health and other social sectors. Education policy emphasized secondary and higher education in science and technology with the result that the number of scientists per 100.000 people quickly reached levels 3-5 times higher than those of other developing countries with similar GDP/capita.

Economic, social and environmental outcomes

Though opinions vary (Krugman for instance criticized the 'extensive nature' of the EAM pattern of growth), most economists agree that the EAM model generated excellent results in many areas (Wade 1992):

Overall performance and resilience to shocks

During the period of analysis growth consistently averaged over 9 percent a year (table 4), while cyclical fluctuations were minimal (Wade 1992), suggesting that the EAM economies were sufficiently diversified and competitive to absorb the large global shocks of the 1960s and, especially, the 1970s.

Macro and financial stability

The annual rate of inflation during this period remained below 10 per cent. All other macro indicators were positive: the average budget deficits were small (table 4) or positive, the current account balance was in most cases positive, and the public debt/GDP ratio hovered on average at around 40 per cent with a tolerable increase in the foreign debt/GNI of 1.2 per cent a year, resulting mainly from the oil crisis. Banking and financial crises were extremely rare.

Structural transformation and human capital formation

Rapid growth was accompanied by an equally rapid change in the structure of output and exports, and technological upgrading. Indeed, one of the most impressive results of the EAM strategy was a major increase in the share of industry in GDP, which rose on average by 0.89 points per year, the fastest of all models analysed in this paper (table 4). This trend turned these economies into very efficient manufacturing producers in just two decades. Such effort was supported by a steady and rapid expansion in the average number of years of education of the labour force (0.11 school years per year –table 4) following the adoption of the educational policies discussed above.

Income inequality

Another important achievement of the EAM development strategy was the decline of income inequality from already low levels and during a period of extremely fast growth. Hong Kong SAR, Taiwan Province of China, and Singapore showed a fairly rapid decline in inequality until the late 1970s. In Taiwan Province of China, for instance, the Gini coefficients of the distribution of net income fell from 0.32 to 0.28 between 1964 and 1980 thanks to a rapid expansion of employment for both low-skilled and well-educated workers. While the demand for all types of labour expanded quickly, the demand and wages of low-skilled workers rose more than the average.

Food security and carbon emissions

Rapid income growth and supportive food pricing and input policies avoided the excesses of the *urban bias* observed, for instance in the ISI-LA model, with the result that land yields preceded or accompanied industrial growth. As a result, the national supply of calories and proteins averaged an adequate 2660 calories and 70.4 proteins, values which combined with low income inequality ensured a broad-based access to food by all or most social classes. Though the attention to environmental issues during this period was modest, the carbon emissions per one million US dollars of value added remained fairly low (table 4), signalling a fairly efficient energy use.

4.3 Latin America's Washington Consensus of 1981-2002

Political trends and dominant class

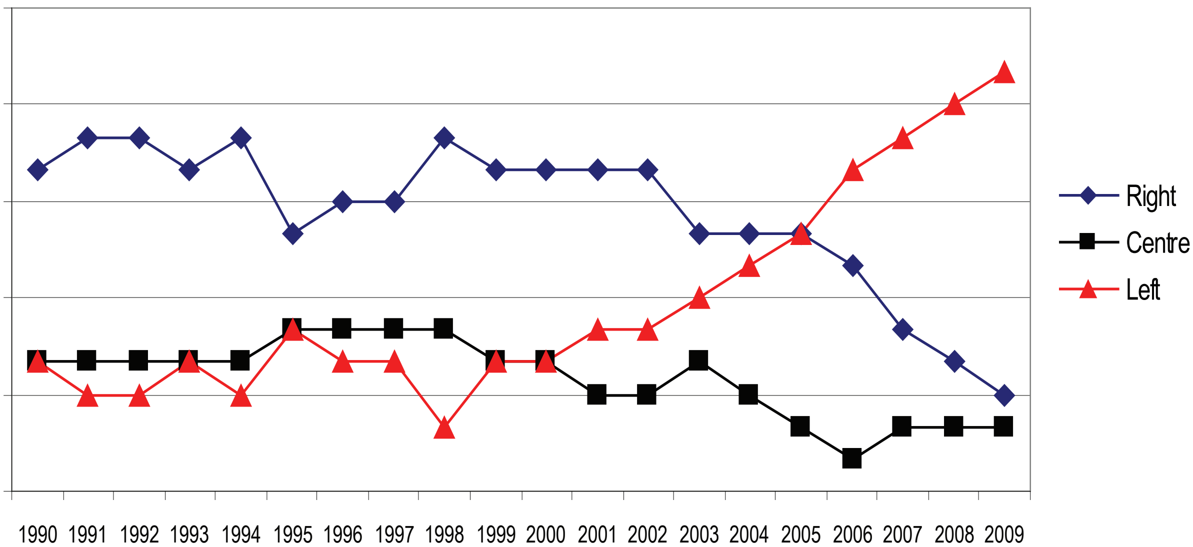
During the 1980s and most of the 1990s, the political landscape in Latin America was dominated by authoritarian and military regimes, particularly in the Southern Cone and Central America which experienced civil wars in El Salvador, Guatemala and Nicaragua. Even after the re-establishment of democracy, the traditional agrarian and commercial oligarchies as well as the new financial élites which emerged in the aftermath of the liberalization of the financial sector retained control of political life (figure 2) through the recourse to clientelistic policies. The immediate objective of the LA-WC was to respond to the macroeconomic crisis which had erupted in 1982 and to liberalize the domestic markets and external transactions of the economies of the region. Such a model differed drastically from the prior LA-ISI. In particular, it privileged stabilization and liberalization (by focusing on macroeconomic tools) and broadly neglected structural policies, social or real-economy objectives such as growth, structural change and inequality.

Policy approach

Free trade and capital account policies

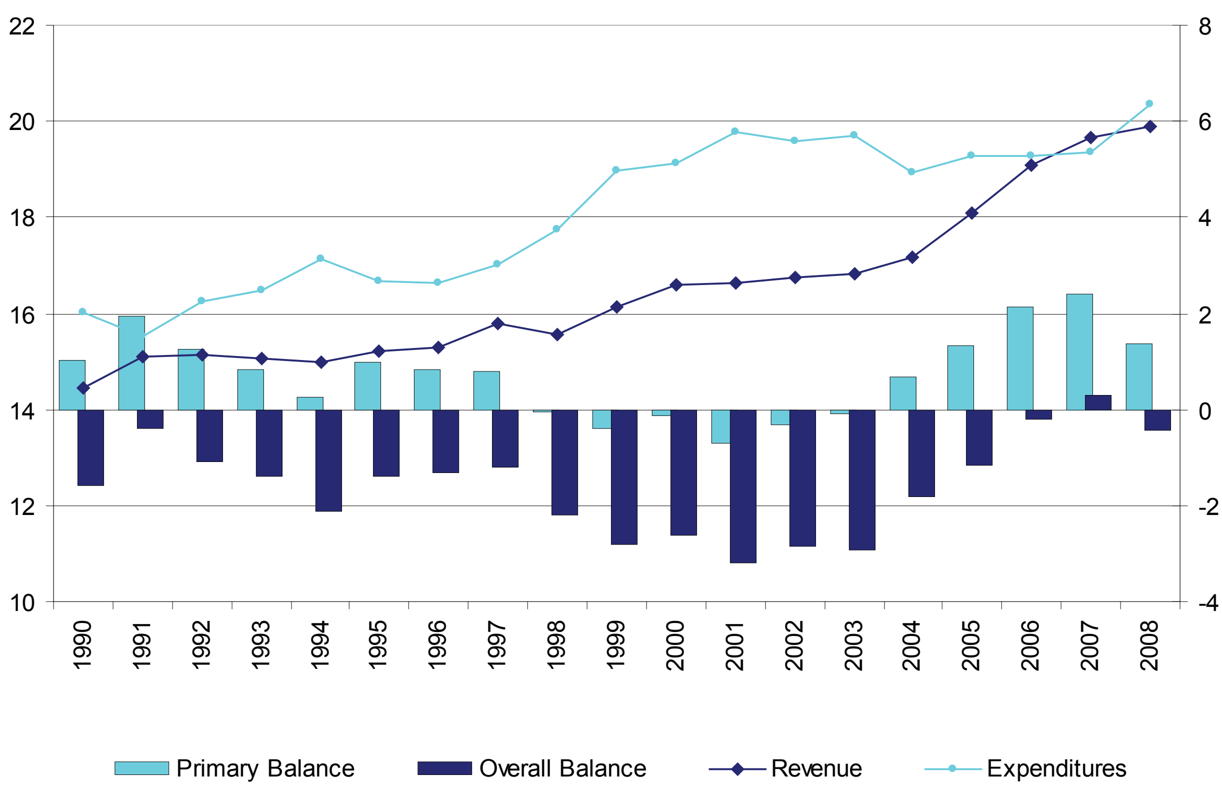
As shown in tables 1 and 3, trade policy included sharp cuts in import tariffs and other non quantitative restrictions – with the regional tariff dropping from an average of 45 per cent during the prior two decades to about 15 per cent over 1980-2002. A similar, if clearly less intense, liberalization concerned the

Figure 2. Trend in the number of left, centre, and right governments in 18 Latin American countries, 1990-2009



Source: Cornia and Martorano (2011).

Figure 3. Average Fiscal Indicators (percent of GDP) for Latin America, 1990-2009



Source: Cornia, Gomez-Sabaini and Martorano (2011) on CEPAL data.

capital account, as suggested by the Kaopen Index in tables 1 and 3 and the Frazer index in table 3. During this period, Colombia and Chile were the only countries which introduced capital controls, as in the case of the famous *encaje* introduced over 1990-95 in Chile (Contreras and Ffrench Davis 2012).

A fiscal and tax policy focusing on deficit reduction on the expenditure side

As noted, the LA-WC strategy focused on reducing the budget deficits and three digit inflation inherited form the LA-ISI regimes, and on tackling the debt and fiscal crisis of the early 1980s. Yet, the deficit reduction was not pursued through a rise in low tax/GDP ratios but by means of cuts in public expenditure (figure 3) which reduced GDP growth and tax revenue, leading in this way to an 'illusory adjustment', as the deficit widened again in line with the adjustment-induced slowdown of GDP (Perry, Servén and Suescún, 2008). The reluctance to increase taxation was due to the emphasis placed on government failures and the belief that 'it may be more appropriate to reduce the size of government…, than to increase the level of taxation significantly above historical levels' (World Bank, 1991: 18). Trade taxes were replaced by value added tax (VAT) and other consumption taxes, while personal and income tax rates were reduced or abolished (Cornia, Gomez-Sabaini and Martorano 2011).

A cyclical monetary policy and an exchange rate regime inspired by the 'two corner solution'

As in the case of fiscal policy, monetary policy remained cyclical as the objective to fight inflation was generally pursued through the control of money supply, rises in interest rates and constraints to credit expansion, regardless of the business cycle. Inflation control relied also on the adoption of a fixed nominal peg. Indeed, after the explosion of inflation in the 1980s and early 1990s, during which Argentina and Brazil recorded four digit rates, in the rest of the 1990s inflation fell to 7-11 per cent (table 2). The 1980s and 1990s also saw a dominance of fixed pegs (fixed nominal rates, currency boards, and dollarization, often used as an anti-inflationary anchor) and, to a lesser extent, free floats. While the fixed pegs did contribute to a rapid disinflation, they unavoidably entailed an appreciation of the real exchange rate, a loss of competitiveness of the non-commodity traded sector, and rising current account deficits. The latter were to be offset by FDI or capital inflows attracted by high interest rates. The appreciation of the real exchange rate, however, also entailed rising unemployment, job informalization, and wage compression in the traded sector of the economy.

Labour market and social policies

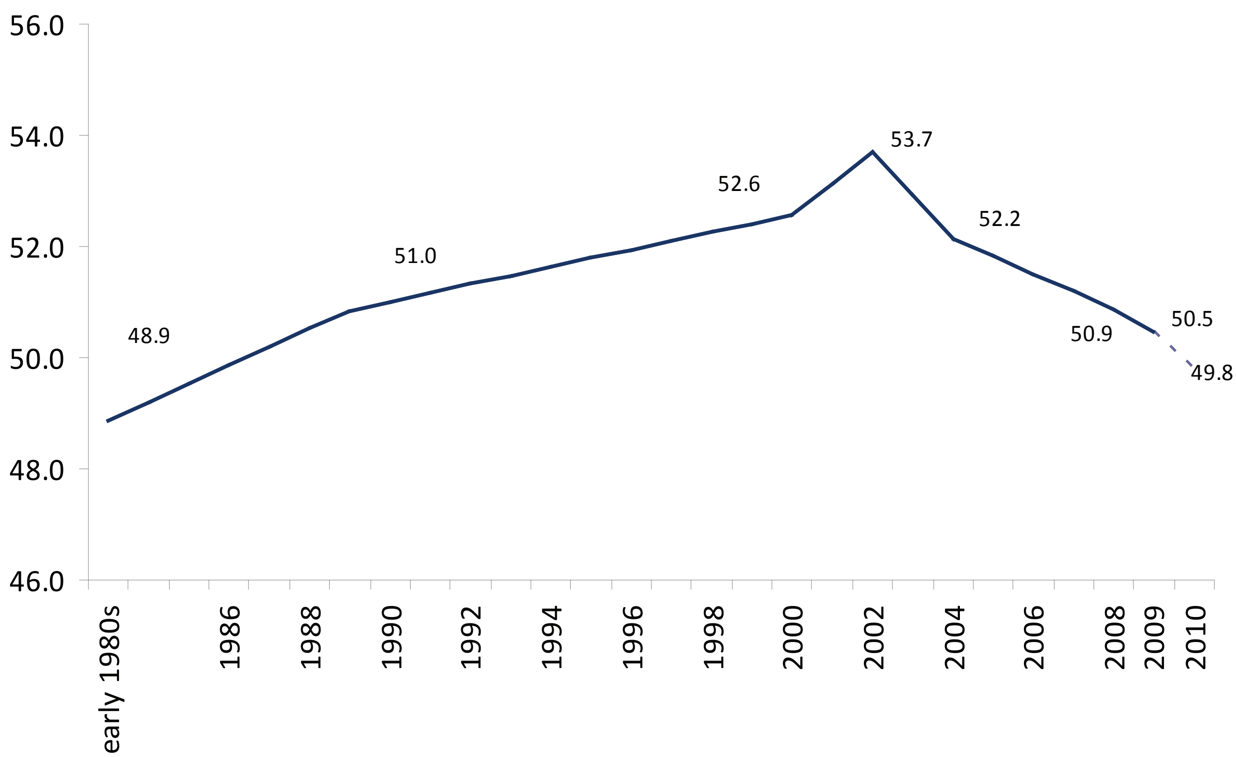
Particularly in the authoritarian Southern Cone regimes, public policy aimed at reducing the scope of collective bargaining, relaxing regulations on workers dismissals, restricting the power of trade unions, suspending wage indexation, and reducing the coverage of the minimum wage, which severely affected jobs creation, informality, and minimum and average wages. As a result of rising informality and unemployment (table 5), the coverage of social insurance declined, while there was a drive towards the privatization of pension funds (inspired by the example of Chile). The contraction of employment and rise in poverty of the 1980s and 1990s triggered the launch of interim measures to offset the social costs of adjustment, which included semi-autonomous Social Emergency Funds (SEF) aimed at compensating the 'adjustment poor' by means of anti-cyclical income maintenance and social expenditure programmes, as well as Social Investment Funds (SIFs) which shifted the focus to the community-based provision of social services. However, these programmes played a minor role in reducing the number of unemployed and 'adjustment poor' (Cornia 2001).

Table 5. Labour market trends for Latin America as a whole, 1990-2009

	Activity rate (% of pop. of 15-64 years)	Unemployment Rate (%)	% wage earners on total workers	% formal sector workers	Wage	
					Average	Informal/ Formal Sector
1990	61	6.2	62.6	55	384	0.54
2002	63	10.7	60.9*	52.8	397	0.43
2008	64.7	7.3	63.7	50.3	421	0.46
2009	64.3	8.2	63.2	50.7	434	0.47

Source: Cornia (2012).
Note: Refers to 2000.

Figure 4. Trend in the average Gini coefficient of the distribution of household income per capita, Latin America, early 1980s to 2010



Source: Cornia (2012).

Abandonment of industrial policy and a weak environmental policy

The WC-LA model rejected the idea of industrial policy as it was thought that state interventions would distort the optimal allocation of resources. As a result, tariffs were reduced sharply and state subsidies to key sectors were cancelled. Though problems of climate change had been gradually accumulating over time, between 1980s and 2000 there was no high-profile environmental policies in the vast majority of the countries of the region.

Economic, social and environmental outcomes

Despite its promises, the LA-WC model generated only few positive results (for example in the field of inflation control) while it worsened the situation in several others.

Overall performance and resilience to shocks

During the entire 1981-2002 period, the regional GDP growth fell to 2.4 per cent per year (table 4) that is below that achieved during the ISI-LA (5 per cent) and the OERG decade (4.5 per cent). In addition, during this period the investment/GDP rate declined on average by 2-3 percentage points. The region experienced also a high GDP volatility and limited resilience to the crises which hit the region during this period, as 22 per cent of the country-years recorded negative growth.

Macro and financial stability

Despite the strong emphasis placed on macroeconomic stabilization, the achievements of the LA-WC model were modest (tables 2 and 4): the twin deficit hardly declined, the high public debt/GDP even rose by some 0.55 percentage point of GNI per year and so did the foreign debt/exports ratio. In addition, the international financial liberalization and a botched domestic financial liberalization raised the number of banking, financial and stock market crises, which often demanded huge and un-equalizing budgetary interventions to prevent the collapse of the banking system. Indeed, the greatest failure of the LA-WC regime was the minimal results achieved in re-establishing macroeconomic balance.

Structural transformation and human capital formation

Unlike during the ISI-LA and EAM experience, the share of industry in GDP declined modestly, thus reversing earlier gains in terms of economic diversification towards well paying and higher tech manufacturing jobs (table 4). In contrast, despite some cuts in public expenditure on human capital formation, the number of years of education of the population of more than 25 years increased annually by 0.1 years, though this mainly reflects (as in all other strategies analysed in this paper) efforts carried out in prior decades.

Income inequality

Most likely, the worst results were recorded in the fields of inequality and poverty. Indeed, the decades of the 1980s and 1990s were characterized by a drastic increase of an already high income inequality (figure 4). On average, between the early 1981 and 1990 the Gini coefficient of the distribution of household income rose on average by of 2.3 Gini points, while between 1990 and 2002 it rose by another 2.5 points. The increase affected practically the entire region, as the Gini rose between the early 1980s and 2002 in 14 of 18 countries of the region with reliable data.

Food security and carbon emissions

The slow growth of these two decades, and a policy approach which focused almost exclusively on macro issues and neglected agriculture, did not increase the rather low average calories and protein supply per capita much. In addition, with a decline in incomes per capita, worsening of income distribution (see above), the weakness of the measures introduced to face off the crises generated a stagnation or even an increase in the rate of malnutrition during the period considered. Meanwhile, with slow growth of output and incomes, the carbon emissions per unit of GDP remained fairly low.

4.4. The neo-liberal approach followed in Eastern Europe between 2000 and 2010

Political trends and dominant class

The fall of the Berlin Wall in November 1989 marked the end of the communist regimes in Eastern Europe (EE), enabling the introduction of multi-party democracy. Over the past ten years there was a further consolidation of democracy; although some of the most advanced EE countries are still considered 'flawed democracies', the state of democratic institutions is today comparable to many West European countries. Despite the heterogeneity of the region, populist and liberal parties have dominated the scene. During the last decade, there was a decline in the number of left of centre and nationalist right-of centre regimes, a stagnation at a low level of centrist regimes, and the parallel rise of pragmatic 'independent' regimes which tend to adopt liberal policies, favour domestic liberalization and global integration (Cornia 2011). As a rule, social-democratic parties have remained marginal on the political scene. The EE countries quickly moved from being highly egalitarian societies towards the disappearance of the middle class, in parallel with the strengthening of the 'new rich' elite that enjoyed the major benefits of liberalization and privatization.

Policy approach

The approach followed in EE countries was based on fast economic liberalization, rapid trade and financial integration, prudent macroeconomic policy and quick privatization, thus very much in line with the recommendations of the Washington Consensus. The growth model was based on strong FDI inflows, fast expansion of bank credit and increasing foreign borrowing, thus reproducing many of the negative consequences experienced by the Latin American countries in the 1980s.

Trade and capital account regime

The EE countries very quickly liberalized both their foreign trade and financial transactions. Import tariffs fell to a low 6.4 per cent average over the past decade and most countries became very open economies, with an exports/GDP ratio well over 50 per cent. The EE countries quickly integrated with the EU economy, even before their entry into the EU in 2004-07. Western Europe today accounts for 60-90 per cent of trade and financial transactions of the EE countries. Trade diversification was greatly facilitated by the arrival of multinationals that restructured many industries and secured export specialization, whereas practically none of these countries have tried to diversify trade through active government policies. Financial liberalization was also very marked, since EE countries have opened their capital account for FDI, foreign loans and other forms of capital inflows. The privatization of banks led to massive sales of assets to foreign banks, leading to dominant (even more than 90 per cent) foreign ownership of banking systems (in all countries except Slovenia). During the past decade, an increasing amount of loans was extended to households and enterprises, frequently in foreign currency, along with increasing cross-border borrowing, contributing to a rapid increase in private debt. Governments did little to curb foreign borrowing, so gross foreign debt rapidly increased, by October 2008 reaching or surpassing 90 per cent of the respective countries GDP in a number of cases (Bulgaria, Estonia, Hungary, Latvia and Slovenia).[3]

Monetary and exchange rate policy

Due to extreme monetary instability in the early 1990s, the EE governments have given high priority to macroeconomic stabilization. Inflation was successfully kept at low levels through restrictive monetary policies, mainly high interest rates and exchange rate anchors. Although there is great variety of exchange rate regimes in EE, rigid regimes have prevailed. Estonia, Slovakia and Slovenia have formally introduced the Euro; Bulgaria, Latvia and Lithuania have a currency board, Ukraine has adopted a dollar peg, while the Czech Republic, Hungary, Poland and Romania have a managed float regime. The exchange rate has not been used for promoting particular sectors or overall exports; on the contrary, the policy of overvalued currencies has often provoked just the opposite effect. Tight monetary policy, often in combination with rigid exchange rate regimes and increasing capital inflows, has led to the appreciation of national currencies, negatively affecting international competitiveness. The more flexible regimes have permitted an easier adjustment to external shocks, including the recent global economic crisis (Nuti 2009).

Fiscal and tax policy

EE countries followed a very cautious orthodox approach with regard to public finance. Public deficits have generally been low and falling, but have increased during the last three years. Public debt has been at low levels during the past decade, substantially lower than in the other regions and falling (see table 2). Tax reforms aimed at raising tax revenues included a simplifications of taxes, lowering of tax rates, the introduction of VAT and of a personal and corporate income flat tax rate. While the three Baltic countries retained the highest pre-reform income tax rate and generally increased the no-tax area (thus making the tax schedule relatively more progressive), the other countries adopted very low rates (for example 10-15 per cent for the personal income tax and 9-25 per cent for the corporate income tax), equal to the lowest pre-reform tax rates (Cornia 2011).

Industrial and environmental policy

None of the EE countries followed a pro-active industrial policy (Kolodko and Nuti, 1997), but adopted mainly horizontal measures equal for all enterprises, in line with the EU approach towards industrial policy aimed at enhancing firm competitiveness (simplifying bureaucratic procedures, creating a supportive business environment, offering services for the creation of enterprise networks). Enterprise restructuring, modernization and upgrading of production processes has taken place mainly under the influence of privatization and the arrival of foreign investors. Regarding the environment, it is well known that the socialist firms were highly polluting. CO2 emissions/GDP ratio has remained very high in EE, one of the highest among the considered policy regimes, despite recent EU obligations to reduce energy intensity and increase the use of renewable energy sources.

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3 The only country that in late 2008 had a relatively low gross foreign debt – under 38 per cent of GDP - was the Czech Republic (see Svejnar and Uvalic, 2009).

Labour market and social policies

The transitional recession raised unemployment rates to very high levels. Although rapid growth since 2001 facilitated a substantial decline in unemployment, the global crisis has again brought its rapid increase, particularly in the Baltic countries. Labour market policies have remained weak: only some categories of workers qualify for unemployment compensation while the minimum/average wage ratio has stagnated in many countries (Cornia 2011). During the last ten years, social differentiation grew further and income distribution worsened. Most EE countries have adopted the liberal social model, characterized by limited political consultation, low coverage of collective agreements and declining trade union membership (Giannetti and Nuti 2008). The liberal policies have given rise to a pattern of growth that was often anti-poor, not aimed at developing safety nets that can moderate earnings inequality, particularly in periods of crisis. There was a rise in inequality after 2000, though less pronounced than in China or India (table 4). Privatization benefitted only a small group of the population, introduced user fees in formerly free public services, and greatly reduced social transfers. Despite this rise in inequality in EE, it still remains well below the level of most developing countries (Cornia 2011).

Economic, social and environmental outcomes

The approach implemented in EE generated positive effects in terms of economic growth, but these countries have fared poorly regarding most other indicators, having experienced in most cases a fast increase in trade and current account deficits, foreign indebtedness, unemployment and inequality.

Overall performance and resilience to shocks

Most EE countries were quickly integrated with the EU economy through trade, FDI, finance and banking. Massive inflows of FDI and foreign loans were a welcome supplement to low domestic savings and have helped economic growth, but have greatly increased their dependence on foreign capital and EU markets. During the 2009-11 crisis, the dependence on foreign capital made EE countries excessively vulnerable to a sudden stop in capital inflows, with negative effects on growth and income inequality. In several respects, the recent EE crisis is a repetition of the Latin American credit-led growth and debt accumulation pattern of the 1970-80s.

Macro and financial stability

An important achievement of the strategy adopted in much of EE is considerable macroeconomic stabilization, primarily low inflation. Fiscal deficits and public debt have also been relatively low, but have again increased substantially in recent years. There was also a huge increase in indebtedness of the private sector (both households and firms), frequently in foreign currency, thus increasing the economies' vulnerability to external shocks (see Nuti 2009). The rigid neoliberal policies reduced the space for changes in fiscal, monetary and exchange rate policies to respond to the 2008 crisis, particularly in countries with fixed exchange rates.

Structural transformation and human capital formation

The EE countries have gone through a process of very fast structural changes, characterized in most cases by rapid deindustrialization and a fast increase of the share of GDP in services (table 4). The sharp cuts in public expenditure have brought a substantial fall in human capital formation. Still, the average years of education of people above 25 remains the highest among the regimes considered, though the annual increases point to the lowest improvements.

Income inequality

This is probably the area in which twenty years of liberal policies in EE have shown the strongest impact, since these were highly egalitarian societies before 1989. While some increase in inequality was unavoidable during the recessionary decade of transition, the extent of deterioration was much greater than expected. During the past decade, inequality worsened despite considerable income growth. One of the consequences is the increasing dissatisfaction of the population throughout the region, as confirmed by recent surveys (EBRD, 2006).

Food security and carbon emissions

The strong bias against agriculture of the communist era has not been overcome in many EE countries. Agriculture was not given priority even in countries where it has a comparative advantage. The policy of strong currencies has favoured massive imports from the EU at the expense of local agricultural producers. Food security does not pose particular problems, as confirmed by the high values of reported indicators, the highest among all the considered regimes (table 4). Regarding environmental degradation, ongoing reforms during the transition have not substantially reduced the carbon emissions/GDP ratio, which remains the third highest among the considered current policy regimes (table 4).

4.5 The Chinese export-led, mixed-economy approach between 1990 and 2010

Political trends and dominant class

China has maintained a one-party political system, so the Communist Party has retained strong control over many aspects of the economy, including large state-owned enterprises in the producer-goods sectors, oil, telecommunications and transport, as well as over the banking and financial system. The dominant class in power is the communist elite in close alliance with the new bourgeoisie ('red-hat' capitalists) that hold key positions in state enterprises, banks and other state-controlled institutions (Bardhan 2010). The gradual decentralization of the political and economic system has led to the establishment of local level alliances between the political bureaucracy and businesses, though only about one third of the private entrepreneurs are members of the Communist Party. Some state-owned enterprises are controlled by powerful political families, giving rise to a new political managerial class, the members of which have converted their positions of authority into wealth and power. Regional decentralization and the decentralized governance structure have limited the power of the central government, but without effective mechanisms of democratic accountability.

Policy approach

The Chinese government has implemented ample economic reforms from 1992 onwards aimed at introducing elements of a market economy and gradual internal and external liberalization (table 3). Export-led growth has been promoted through a series of measures, including special economic zones, strong incentives for export-oriented firms, various privileges for FDI and an active industrial policy. Although today half of the economy is under mainly private ownership, the state still dominates many important sectors (Wu 2011).

Trade and capital account regime

China has substantially opened up its economy, particularly after it joined the WTO in December 2001. Though average tariffs have remained relatively high over the last twenty years (16 per cent), they have been continuously reduced and have been half of India's average tariffs. The deliberate pursuit of export-led growth has been supported by the government's policy in favour of FDI and processing trade, which has facilitated China's becoming an important processor and assembler in the value-chain of many international production networks. Foreign investors have been offered extremely concessional conditions - low tax rates, tax rebates, long tax holidays, hidden subsidies in energy use, lax regulations of environment protection, free infrastructure, low or negative rents on use of land. However, capital controls have remained quite important in China (though less so than in India, see table 3). China has opened its capital account selectively, primarily for FDI. An effective capital-control system has prevented short-term inflows aimed at arbitrage, rent-seeking, and speculation, as well as free capital outflows. One of the consequences is that foreign savings have not been a significant source of total investment finance. China has had a twin surplus - on the current account and on the capital account - over a large part of the past two decades. It is only after 2009 that there was further liberalization of cross-border capital controls. However, foreign funds have not been used to buy foreign capital goods, technology or managerial skills, but have flown back to the United States of America government bond market, making China a capital-exporting rather than a capital-importing country (Yu 2006).

Monetary and exchange rate policy

Large capital inflows have compromised China's macroeconomic management in recent years, but restrictive monetary policy has kept inflation under control. In order to combat the negative consequences of large capital inflows, the central bank has often used sterilization measures. Since 1995 China has officially had a managed floating exchange rate regime, although the currency until 2005 was *de facto* pegged to the US dollar. Thereafter the central bank introduced more flexibility and allowed greater exchange rate fluctuations, which led to strong appreciation of the national currency and rapid accumulation of foreign reserves.

Fiscal and tax policy

The Chinese government adopted a very prudent fiscal policy, trying to keep its budget balanced or the fiscal deficit low (at 2 per cent on average, over the 20-year period). With relatively low explicit government debt and a modest budget deficit, China clearly does not face immediate concerns of fiscal sustainability. The tax burden has been relatively low, though rising over the past decade. The ample reforms of the tax system since 1994 have centralized revenue collection and allocation, but the reforms have had many negative consequences. Centre-local fiscal relations have not been effective in reducing income disparities across provinces.

Industrial and environmental policy

China has applied a highly interventionist industrial policy, which has been urban-biased, privileging foreign private business and restricting the development of small-scale entrepreneurial businesses. China's investment rates have been very high, and its savings rates even higher (Yu 2006). Export promotion, combined with domestic technological capacity building and state encouragement of experimentation, have been at the core of the development strategy. The financial system has been at the service of a state-directed industrial policy, with large state-owned banks playing a crucial role in industrial finance. Economic decentralization has led to a more diverse and diffused industrial policy, with a great deal of regional variance in industrial capability and business practices. Local autonomy has sometimes interfered with the implementation of a coordinated industrial policy in the country as a whole. FDI from multinationals has increasingly been concentrated in capital-intensive heavy chemistry, large-scale infrastructure, high technology industry and the service industry. The government's policy shift in recent years is toward technology promotion and high-tech output composition, major spending on research and development, encouraging the transfer of large foreign firms' research activities into the country, investing in high-quality higher education, expansion of biotechnology in agriculture and industry, with the intention of sustaining high total factor productivity growth. Energy-intensive industries still dominate the economy, presenting great challenges to decoupling emissions from growth. The Chinese government has launched energetic countermeasures aimed at reorienting the incentives from growth to environmental objectives, but it is yet to be seen what will be the effects.

Labour market and social policies

China is characterized by a dualist economy and a very rigid and segmented labour market. Until the late 1990s the government restricted the dismissal of workers, but the new 2008 labour law also partially secures the tenure of long-time workers. The post-1994 tax reforms reduced the incentives and capacity of the local bureaucracy to serve social needs. The autonomy given to local public services, such as schools and hospitals, has commercialized them to such an extent that the poor are often priced out of their services (Bardhan 2010). The urban-rural disparity in social services increased with a near-collapse of the rural social services, whereas in urban areas the social services still serve the majority of the resident urban population. The decline of the commune's basic services, inadequate central fiscal transfers and charging of high fees for services has made access to social services decline substantially, particularly for the poor and in geographically internal areas. After 1994, many local areas were left with unfunded mandates for basic social services. The fiscal reforms of more recent date clamped down on some of the arbitrary fees and taxes that many local governments had imposed on the local population. In a rather short period of time, China essentially moved from one of the most impressive and egalitarian social-service systems to an effectively privatized system (Bardhan 2010: 106-9).

Economic, social and environmental outcomes

China's strategy based on gradual liberalization, fast trade integration and increasing FDI has produced a number of positive outcomes, including the highest growth rates of all models considered. However, China has also experienced rapidly increasing inequality and environmental degradation and, having retained a one-party political regime, fares worst regarding all democracy indicators.

Overall performance and resilience to shocks

The Chinese model has led to the attainment of extraordinary growth rates, high macroeconomic stability and a rapid increase in foreign reserves, which are the largest among all emerging economies. This is one of the reasons why the growing integration of China into the world economy has not increased its vulnerability to external shocks.

Macro and financial stability

An important achievement of the strategy in China is considerable macroeconomic stability: low inflation, low fiscal deficits (or surpluses) and a very low public debt. China also has a very low foreign debt which has declined over the last 20 years (table 4).

Structural transformation and human capital formation

The Chinese economy has experienced rapid structural transformation based on very fast industrialization. Human capital formation has been falling from high levels, however, reflected in reduced public social expenditure and modest social assistance. Still, China continues to perform well regarding some education indicators, such as years of education of people above 25 where it has registered significant annual improvements, higher than the other policy regimes (table 4).

Income inequality

Although the average Gini coefficient of 37.1 over the 20-year period is not the highest among the policy models considered, the annual variations have been the most pronounced, suggesting a very rapid increase in income inequality (table 4). The very fast increase in income inequality is partly due to the initial conditions which were highly egalitarian.

Food security and carbon emissions

China does not face a major food problem. The average values of the most important food indicators (calories and protein per capita per day) have been much higher than in India, and somewhat higher than those in Latin America during the past decade. However, China has registered the highest values of CO2 emissions/GDP among all models considered (table 4). China relies on coal to meet 70 per cent of its commercial energy needs (compared with 24 per cent in the United States and 16 per cent in Europe). The severe environmental damage acts as a constraint on effective economic growth and human welfare and may in the near future be larger in China than in India.

4.6 The Indian service-oriented approach during the years 1990 – 2010

Political trends and dominant class

India is one of the oldest democracies in the world, but it is also one of the most heterogeneous and fragmented societies in terms of language, religion, caste and ethnic divisions. The Congress Party used to coordinate negotiations among different political groups in various parts of the country, but with time it has lost power. The old rent-sharing equilibrium among firms, employees, and rich farmers has changed in favour of the capitalist business, so the dominant class today is represented by alliances of political elites and private business. High corruption and weak government continue to represent key features of the Indian society. Local democracy remains inadequately developed, as regular elections at the district level and below are not followed up with effective accountability of governance to the local people. Still, democracy in India, however imperfect, has deepened over the last six decades and has allowed the media and civil society organization to operate relatively freely (Singh 2009: 19). The Indian model has shown ability to balance different interests through formal democratic processes as well as informal political bargaining, but a heterogeneous society, riddled with social and economic inequalities and conflicts, makes collective action for lasting change difficult (Bardhan 2010).

Policy approach

From 1991 onwards, India has implemented many internal and external liberalization reforms and has been one of the fastest growing economies in the world. This was achieved not by following the conventional route of producing and exporting labour-intensive manufacturing goods, but through a growth path that has been characterized by capital and skill intensities (Singh 2009), thus becoming an important exporter of services. However, economic growth has not been accompanied by much improvement in basic social and human development indicators (Ghosh 2010). Human development indicators such as literacy, educational attainment and infant mortality show significant deficits (Singh 2009). Moreover, fast economic growth was based on a relatively fragile pattern of increasing external dependence so the country has recently suffered from increasing trade and current account deficits and rising inflation.

Trade and capital account regime

Gradual trade opening has taken place particularly after India joined the WTO in 1995. Trade liberalization has involved the removal of quantitative restrictions on trade and exchange controls, substantial scaling down of import tariffs and restrictions on FDI, with some exceptions in financial services, the media and retail trade. Trade to GDP ratio went up from about 16 per cent in 1990-91 to more than 45 per cent in recent years. India's import tariffs have remained over 30 per cent on average over the 20-year period (thus double those in China, see table 3), while its antidumping measures have been among the most protectionist in the world. Although India has attracted far less FDI than China, in recent years net capital inflows have been rising sharply. The fast-growing services sector has contributed greatly to export growth, which has taken place particularly in software, information technology-enabled services and some manufactures. India's information technology-enabled services have attained a world reputation, although they employ less than half per cent of the total Indian labour force and provide a relatively small part of the total service-sector output. India relied very little on external borrowing, so its external debt is very low and has even declined during the last 20 years (Singh 2009). Capital controls have been gradually liberalized primarily on the inflow side, as liberalization of capital outflows has been very gradual. Restrictions remain regarding foreign purchases of Indian bonds and resident outflows. Some restrictions on capital inflows have also been introduced recently, primarily on corporate borrowing.

Monetary and exchange rate policy

Inflation control has remained high on India's public agenda, which has brought restrictive monetary policies throughout most of the period (until 2008). A continued conservative monetary management has kept inflation rates low until recently, but after 2007 inflation has been on the rise, by 2010 jumping to 12 per cent. The Reserve Bank of India has heavily managed the exchange rate with the aim of maintaining competitiveness. Only more recently has it allowed greater exchange rate flexibility to absorb pressures from capital inflows.

Fiscal and tax policy

In the past, the public sector banks and the Reserve Bank of India served as a vehicle for monetization of government deficits. By 2003, the amount of assets that banks were required to lend in the form of statutory liquidity ratios were greatly reduced (to 30 per cent), but the Reserve Bank of India can still influence these ratios. After 2003 the Reserve Bank of India ceased to participate in the primary market for government securities and stopped lending to the government. As late as 2004, the state still owned 75 per cent of bank assets. With high government borrowing, the cost of capital in the Indian economy remains high. India has a huge informal lending market, much larger than China's, which remains the major source of finance for most ordinary people and small businesses. Regarding tax policy, a major tax reform was undertaken in the 1990s with significant lowering and restructuring of direct and indirect taxes, along with some streamlining of tax administration. Despite India's recent impressive revenue performance, fiscal consolidation has stalled. Over the 1990-2010 period, expansionary fiscal policies have produced an average 7.6 per cent budget deficit/GDP ratio and a public debt of 75 per cent of GDP (table 4).

Industrial and environmental policies

India has had a heavily regulated industrial environment (Bardhan 2010). Although private firms have a long history, they have played a subsidiary role with respect to the privileged state enterprises in the strategic and heavy industries. Most of the key strategic industries are in the public sector, although India has a much larger private sector than China. In the formal sector, state-owned companies still account for about 40 per cent of total sales. The Indian government has supported its key industrial sectors through regulated interest rates, requirements for credit to be allocated to specific sectors and the licensing regime which assured monopoly to strategic firms. In agriculture, support measures have included subsidized inputs, support prices for grains, and public investment for surface irrigation. The Indian economy has been liberalized through the abolition of most licensing in industry, many restrictions on firm entry or capacity expansion, but even after the major deregulatory reforms the government holds considerable power over new firms in getting land, water and electricity connections and labour and environmental clearances. The official lending rules have remained rigid, so India has one of the highest costs of financial intermediation in the world; its private sector companies pay interest rates that are on average nearly twice as high as the rates in China. India also has important bottlenecks in infrastructure. There is serious underpricing of water and electricity, fertilizers, domestic fuels such as kerosene and liquefied petroleum gas and gasoline, railway passenger fare, tuition in higher education institutions, along with the over-manning of the public payroll and a refusal to tax the better-off farmers. India's countermeasures against environmental degradation have yet not reached the scale of the Chinese, but the environmental movement is more active in India (World Bank 2010).

Labour market and social policy

Caste and other forms of social discrimination have produced a highly segmented labour market, so employers were able to utilize social characteristics to ensure lower wages to certain categories of workers. Many studies have found that occupation and wages differ dramatically across social categories (Ghosh 2010). Caste, religious and gender-based discrimination has operated in both urban and rural labour markets. India's restrictive laws on hiring and firing labour have limited the country's capacity to generate employment in labour-intensive manufacturing (Singh 2009). The limited shift of the labour force out of agriculture has implied that agriculture continues to account for well above half of the total work force and more than two-thirds of the rural work force, even though its share of GDP is now less than 15 per cent (Ghosh 2010). Structural reforms are needed to remove infrastructure gaps and improve education to meet rising shortages of skilled labour. The Indian informal sector, mostly private, employs nearly 94 per cent of the labour force. The poor quality of services in public clinics and hospitals often drive patients to private doctors. In most parts of India, for the poor there is no rural safety net. For most social services the poor turn to private providers, in spite of some major initiatives taken by the government in the past years. Only about 15 percent of the people in India have any health insurance, primarily through their employers, and the share of out-of pocket spending on health care exceeds 70 percent, which is higher than in China (Bardhan 2010).

The current pattern of skill-intensive growth may be endangered by increasing inequality of income and increasing regional inequality.

Economic, social and environmental outcomes

The policies implemented in India over the 1990-2010 period have generated fast economic growth, but have not been very successful in substantially reducing inequality, malnutrition and environmental problems.

Overall performance and resilience to shocks

Gradual liberalization and the growing integration of the Indian economy into the global economy have been accompanied by very high growth rates, driven in part by a fast increase in exports of services. For many years the high level of foreign reserves has rendered the economy resilient to external shocks, but after 2008 the Indian economy has been adversely affected by the global economic crisis. The economic boom that preceded the current downturn was dependent upon greater global integration in three ways: greater reliance on exports particularly of services, increased dependence on capital inflows, and the role these played in underpinning a domestic credit-fuelled consumption and investment boom (Ghosh and Chandrasekhar 2009: 725).

Macro and financial stability

An important achievement of the Indian strategy, until recently, has been considerable macroeconomic stability, but primarily in terms of low inflation. The average fiscal deficit over the twenty-year period has been the highest of all the policy regimes considered and has been on the rise, leading to an increasing public debt. Moreover, inflation has also been increasing since 2007.

Structural transformation and human capital formation

India has experienced important structural changes since the early 1990s, but an important failure is the absence of a major shift of the labour force out of low productivity activities, especially in agriculture, to higher productivity and better remunerated activities (Ghosh 2010: 4). Human capital formation has remained dismal, while the delivery of essential social services has been highly inegalitarian. Thus India scores worst in terms of years of education of people over 25 of all policy regimes considered (see table 4).

Income inequality

The impact of growth on poverty reduction has been weaker in India than in China partly because of great differences in initial conditions, including larger inequality of assets and opportunities in India (greater inequalities of land, education and social status). India's pace of poverty reduction has also been slower than in China because growth has been faster in China. The increase in wage inequality in India is consistent with the skill-intensity of its economic growth pattern (Singh 2009). Other forms of inequality include those regarding land distribution in rural India and educational inequality which is among the worst in the world. The rate of decline in poverty in India has not accelerated during the period of intensive opening of the economy, compared to the pre-1990s period.

Food security and carbon emissions

Pollution, degradation and over-exhaustion of nature has led to loss or declining quality of cultivable land and crop failures. Malnutrition remains a serious problem in India. Both the average calories and proteins per capita a day are the lowest of all the current policy models considered (see table 4). The environmental impact of fast economic growth has been very strong, as evidenced by the very high CO2 emissions/GDP ratio (the second highest, after China, of all the models considered). Like China, India also heavily relies on coal, which accounts for 53 per cent of its commercial energy demand (World Bank 2010). According to some assessments, India's aggregate score regarding environmental indicators is worse than China's, particularly regarding environmental degradation in agriculture (Bardhan 2010: 16).

4.7 Latin America's 'Open Economy Redistribution with Growth' model, 2002-10

Political trends and dominant class

During the last two decades, Latin America witnessed a return to democracy, its subsequent consolidation (table 3) and, from the late 1990s, a shift in political orientation towards different types of left-of-centre (LOC) regimes (figure 1) so that by 2011, of the 18 main Latin American countries, only Colombia, Mexico, Chile, and Panama were run by centre-right regimes. The LOC parties are broad coalitions comprising not only the traditional left, but also sectors of business and the middle classes, the urban and rural poor, the unemployed and the informal sector workers. All LOC regimes placed a growing emphasis on social justice, but at the same time retained a prudent approach to macroeconomics. In most cases policy was consistent with the 'Redistribution With Growth' model (Chenery and others 1974) rather than the radical 'Redistribution Before Growth'.

Policy approach

Preserving an open trade and capital account regime

The free trade measures adopted in the past were not overturned while any remaining anti-export bias inherited from the past was removed (tables 1 and 3). However, there was an explicit attempt to increase trade within the region and with East Asia, a fact that reduced the 2009 contagion originating from the OECD. The region also sustained the openness of the capital account, though controls on portfolio flows were introduced in some countries. At the same time, countries reduced their external indebtedness, and accumulated sizeable currency reserves. Also, to minimize the impact of financial contagion, most countries introduced a stricter prudential regulation of their domestic banking-financial system, while assigning to state banks a greater role in the financing of economic activity. As a result, the number of financial crises dropped drastically during the last decade.

A counter-cyclical monetary policy and an intermediate exchange rate regime

During periods of bonanza, the monetary authorities attempted to control the expansion in money supply and credit through an accumulation of reserves and sterilization, while during the crisis of 2008-9 they adopted counter-cyclical policies, tolerating low or negative real interest rates and higher inflation rates than recommended by the orthodox approach. With the exception of Brazil and Venezuela (Bolivarian Republic of), most countries abandoned the free floats and fixed peg regimes of the 1980s and 1990s, and opted for a managed exchange rate (table 3) aiming at limiting its real appreciation. However, in 2006-7 and 2010, the real exchange rate came under pressure owing to increases in export prices, capital inflows and remittances which led to a modest appreciation (4.8 per cent) of the extra-regional real exchange rate of the region. However, without the accumulation of reserves and sterilization, countries would have shown stronger symptoms of Dutch Disease.

A counter-cyclical fiscal policy supported by a pro-active tax policy

The last decade witnessed an intensification of the efforts initiated in the 1990s towards the reduction of the budget deficit while at the same time allowing for short term increases during crises. Practically all countries promoted equalizing income transfers targeted at the poor, that came to play the role of unemployment insurance in the OECD (Barrientos 2011). The decline of fiscal deficits was mainly achieved by broadening and making more progressive the income tax (as in Ecuador and Uruguay), reducing exemptions, extending taxation to the informal economy, introducing a surrogate tax on financial transactions and/or (as in Argentina and Brazil) progressive export taxes, making excises more progressive while leaving unchanged VAT, wealth taxes and social security contributions.

A weak 'open economy' industrial policy and environmental policy, but improvements in human capital formation

The OERG model lagged behind in developing an explicit industrial policy compatible with WTO rules, despite evidence that Australia, Finland, the Republic of Korea, Malaysia, , let alone China and Viet Nam, diversified output, exports and technology thanks to proactive policies. As a result the structure of output and exports in the region risks being affected by 're-primarization' (Ocampo 2012). Exceptions include Argentina (which relied on a competitive exchange rate), Chile (which adopted a microeconomic industrial policy to diversify its exports thanks to an alliance between the public and private sectors) and Costa Rica (which attracted high-tech FDIs with linkages to domestic firms). At the same time the OERG strategy intensified the formation of human capital, focusing in particular on secondary schooling, especially for the children of low income families (Cornia 2012). Despite an already significant impact of global climate change which is expected to further affect the regional ecosystem in the future (Vergara 2007), the region has not yet developed a low-carbon development model, and sooner or later might face a trade-off between slow growth and greater emissions.

Labour market and social policies

Public policy explicitly addressed the problems inherited from the prior two decades by strengthening the institutions of wage bargaining, formalizing employment, expanding social security coverage, and raising minimum wages while letting average wages grow moderately (table 5). In turn, social expenditure continued the upward trend initiated in the 1990s in most of the region (table 3), while its incidence became more progressive (Lopez Calva and Lustig 2010) as democratization shifted the focus away from clientelistic redistributive policies. In addition, practically all countries introduced progressive social assistance programmes (social pension, income transfers, employment schemes, training of the unemployed) to complement the coverage of social insurance, with expenditures ranging between 0.2 and 0.8 per cent of GDP, and a coverage of 85 million families at risk (Cornia 2012).

Economic, social and environmental outcomes

The OERG model appears to have generated very positive results in all but in two areas (in part due to the very poor conditions which prevailed in 2001-2002), and to have helped preserving acceptable macro stability and income inequality during 2009.

Overall performance and resilience to shocks

The LA-OERG model generated a satisfactory growth performance of 4.5 per cent (table 4) thanks in part (but not only) to higher world commodity prices and demand. Between 2002 and 2008 GDP growth averaged 5.8 per cent a year, higher than that recorded during both the LA-ISI and LA-WC strategies. Faster growth was accompanied by a moderate rise in investment/GDP ratio which should promote future growth. While the region did not suffer from any financial or banking crisis, in 2009 GDP dropped on average by 3 per cent, suggesting that despite growing export diversification and improved financial regulation, the region is still affected by real economy shocks.

Macro and financial stability

One of the main achievements of the OERG model is that improvements in growth, investments and food security were achieved in a context of very low inflation, low twin deficits (or surpluses) and the near absence of banking and financial crises. In fact, during the period under consideration, the budget and current account deficits were a tiny 1.1 and 1.2 per cent (table 4), while Latin America's gross foreign debt declined by a yearly average of 4.45 points of GNI.

Structural transformation and human capital formation

One of the weak points of the LA-OERG model is that – with the exception of Argentina and Mexico – the share of industry on GDP did not increase (table 4), because of strong endogenous pressures on the real exchange rate, and a generally weak industrial policy, despite an important increase in the years of education of the workforce, which is now second only to the higher income economies in transition of Europe. In fact, stagnation in the productive structure is causing concerns about the 're-primarization of production' (Ocampo 2012) driven by the expansion of output and exports of primary commodities.

Income inequality

Possibly, the most important achievement of the OERG model was the average regional decline of about 4 Gini points (figure 3), equivalent to a yearly drop of 0.57 points (table 4). Inequality fell in 14 of the 18 countries of the region, with faster declines observed in the LOC countries (*ibid*). These results are particularly relevant as they follow two decades of inequality rises, and have no parallel during this period in other developing regions (Cornia 2012). The evidence shows that such progress was due to a variety of factors, including improvements in the distribution of human capital among workers (and subsequent fall in the skill premium), a rise in minimum wages and income transfers and the improved distributive impact of taxation (Cornia, Gomez-Sabaini and Martorano 2011).

Food security and carbon emissions

Average calories and protein availability in the region rose to acceptable levels (though it always was more than adequate) (table 4). While malnutrition is still widespread in Central America, rising incomes, a better income distribution, a rapidly falling incidence of poverty and the subsidies measures introduced to face off the food price crisis of 2007-8 and 2010 (food subsidies, income transfers and taxes on the export of food) meant that its incidence declined during the period considered. As far as the environmental impact of LA-OERG, the carbon emissions per unit of output in the region are very low (table 4) and substantially lower than those of the other models analysed. However, the region contributes an estimated 25 per cent of all carbon sink losses due to deforestation in Brazil and, less so, in Mexico.

5. Comparing and ranking the seven development strategies analyzed

The above review shows that all development models have produced positive results in some areas but that - as a whole - the East Asian EAM and Latin America's OERG models produced a greater number of 'positive outcomes' (in bold in tables 3 and 4),[4] that is ten out of eleven (the ten criteria adopted in table 4 plus the degree of democracy measured by Polity IV index) in the latter and nine out of ten in the former (for which it was impossible to compile the data on the current account deficit).[5] Obviously, both regions (particularly Latin America) are heterogeneous, and somewhat different approaches and outcomes were adopted in countries subgroups part of the same region. Yet, the results presented in table 4 are broadly in line with the general discourse found in the literature about the development impact of the strategies analysed.

Be that as it may, both the EAM and OERG strategies generated a fast GDP growth (which was much higher in EAM), falling inequality, a rapid accumulation of human capital, current account equilibrium (less clearly in the EAM), considerable resilience to external shocks, low fiscal deficits and public indebtedness (only in Latin America), limited carbon emissions per million US dollars and an improvement in food security. However, the EAM policy model set into motion a much deeper structural transformation (as its share of industry on GDP rose steadily, while in that of Latin America it stagnated), a fact that would make the EAM model look more efficient than the OERG model. But the EAM's exceptional results were achieved under conditions of partial import liberalization, closed capital account (the opening of which created havoc in 1997-8), and freedom to conduct an active industrial policy, that is options that are no longer/less available to the Latin American countries. Furthermore, while the EAM model produced on the whole socially progressive results, its policies were designed under authoritarian regimes which suppressed several individual and collective freedoms. If these two factors are taken into account, the LA-OERG model seems moderately superior even to the EAM

4 The criteria used to consider as 'positive' a given outcome are the following: budget and current account deficit less than 2 percent of GDP; growth rate of GDP more than 4 percent; income inequality: a negative yearly variation; structural transformation: a yearly variation more than 0.1 percent; resilience to shocks: number of years with negative growth lower than 10 percent; Kg of carbon emissions per 1 million of value added lower than 1; food security: calories and proteins availability respectively more than 2450 and 65.

5 The simple ordinal approach used to rank the different development strategies included in table 3 consists in assigning 0-1 scores for each of the 11 indicators (10 economic and social and one political) listed in tables 3 and 4, and in dividing the number of positive outcomes (on the basis of the thresholds described above) by the total number of outcomes (namely 11). This implies that each outcome is assigned the same weight, a choice which may bias the ranking. In addition, this ordinal approach neglects 'how positive' was the performance of each strategy. For instance, the 4.5 per cent GDP growth of the OERG model and the 9 per cent of the Chinese model are assigned the same '1' value, as both exceed the threshold of 4 per cent. However, while numerically feasible the adoption of a cardinal approach (such as that used for calculating the human development index (HDI)) would require similarly arbitrary hypotheses about the scaling of the various performances (which requires setting a theoretical minimum and maximum for each of the performance indicators). Also, such HDI-type approach faces some theoretical problems. In view of all this, the results of our analysis have to be taken with a pinch of salt.

model. The LA-OERG strategy has however failed in promoting an evolution of the industrial structure, and it is still to be seen if it can do so in the years ahead.

An analysis of the data in tables 3 and 4 shows also that – as a whole – the LA-OERG model performed better than the LA-WC strategy which recorded positive results only in four areas out of eleven while doing poorly in terms of growth, income distribution, macroeconomic balance, foreign indebtedness, structural change, and resilience to shocks. In addition, in several countries/years of the LA-WC experiments, democracy was limited or suppressed by *juntas*, including in the most advanced Southern Cone nations. More surprisingly, the LA-OERG model appears to have achieved better results also than the LA-ISI which did fairly well in six areas, that is in the field of budget and current account balances, structural transformation, growth, resilience to shocks and carbon emissions. However, this model failed in terms of inequality, human capital formation, food security and – in the 1970s – debt accumulation. In addition, during this period, the political regimes which dominated the region were less democratic than those which ruled the region since the late 1990s-early 2000s.

One of the interesting findings of the analysis of this paper is that both the EAM and LA-OERG strategies did better than the much celebrated 'Chinese export-led' and 'Indian service-oriented' models. The remarkable economic achievements of these two large countries during the last 20 to 30 years are certainly among the most positive developments in recent economic history. Indeed, the Chinese model - and to a lesser extent the Indian model - generated a much faster GDP growth, larger current account surpluses, low budget deficits (only in the case of China), a rapid growth in net foreign assets, relative food security (only in China), and a profound structural transformation (table 4). However, both approaches did poorly in other areas, a fact that is frequently ignored in the current debate. Indeed, both models recorded a fast rise in income inequality (at 0.47 the Chinese Gini coefficient is now higher than those of Argentina and Uruguay), small gains in the field of health and social assistance, and fast rising environmental contamination. In this respect also, in China such achievements were obtained under a non-democratic (if slowly evolving) political regime, while in LA the recent improvements coincided with the onset and consolidation of democracy (a positive thing in itself) and a shift towards distribution-sensitive regimes.

Table 6. Ranking of the seven development strategies on the basis of 11 criteria

Model (period)	Rank	Number of positive outcomes	Percentage of positive outcomes
LA — OERG (2002-2010)	1	10/11	91
EAM (1960s - 1970s)	2	8/10*	80
China (1990-2010)	3	8/11	73
LA — ISI (1960s-1970s)	4	6/11	55
India (1990-2010)	5	5/11	45
LA — WC (1980s-2002)	6	4/11	36
EE-FSU (2000-2010)	7	3/11	27

Source: Tables 3 and 4.

Note: *Data is not available for one criteria (current account balance).

Finally, both the LA-OERG and EAM strategies (as well as the Chinese and Indian development strategies) appear to have performed better than the neo-liberal model adopted in the 11 countries of EE analysed in this paper. In particular, the LA-OERG and EAM strategies appear to have largely outperformed the EE development model which recorded negative outcomes in all three areas of macroeconomic performance, inequality, human capital formation, structural transformation, resilience to external shocks and environmental impact (table 4), while it did well in terms of GDP growth, food security, and democracy**.**

Summing up, the approach proposed in this paper suggests that an initial ranking of the development strategies examined is the following (table 6): (i) LA-OERG (10/11, or 91 per cent), (ii) EAM (8/10, or 80 per cent),[6] (iii) Chinese model (8/11, or 73 per cent), (iv) LA-ISI(6/11 or 55 per cent); (v) the Indian model (5/11 or 45 per cent), (vi) WC-LA (4/11 or 36 per cent) and (vii)WC-EE (3/11, or 27 per cent).

In conclusion, despite all its limitations,[7] such a comparative approach offers some suggestions about the nature of the development strategies which need to be adopted in the future to achieve the MDGs in the post-2015 era, while avoiding being trapped in food, financial, inequality and environmental crises. As noted, the most successful options could be a reformulation and update under open economy and democratic conditions of the East Asian model, the Latin American OERG model and – to some extent - the Chinese model. Each of them requires adaptations to respond to the critical problems which are emerging, in particular in the field of climate change.

6 The current account criterion in this case is not considered because of the lack of sufficient information for the years considered.

7 A major limitation of our evaluative approach is that we do not consider explicitly the influence of changing word market conditions on the policies adopted and the outcomes as achieved by the seven development models analysed . For instance, the LA-ISI and EAM models benefited from an expansion in world trade and fairly stable global macro conditions, while the same cannot be said about the LA-ISI model. A second problem with our results is that it is unclear how sustainable would our three most successful models (OERG, EAM, China) be in the future. The weak points of each of the three models (lack of an industrial policy in the LA-OERG model, impossibility to use selective trade policies for the EAM, and the continued repression of domestic consumption in the case of China) have been duly highlighted in the relevant sections (a fact that lowered their overall development score) but – in practice – such problems may derail their entire policy approach in the future. This is a point which we did not discuss but which cannot be dismissed.

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