

Is There Convergence in the Future of Global Capitalism?

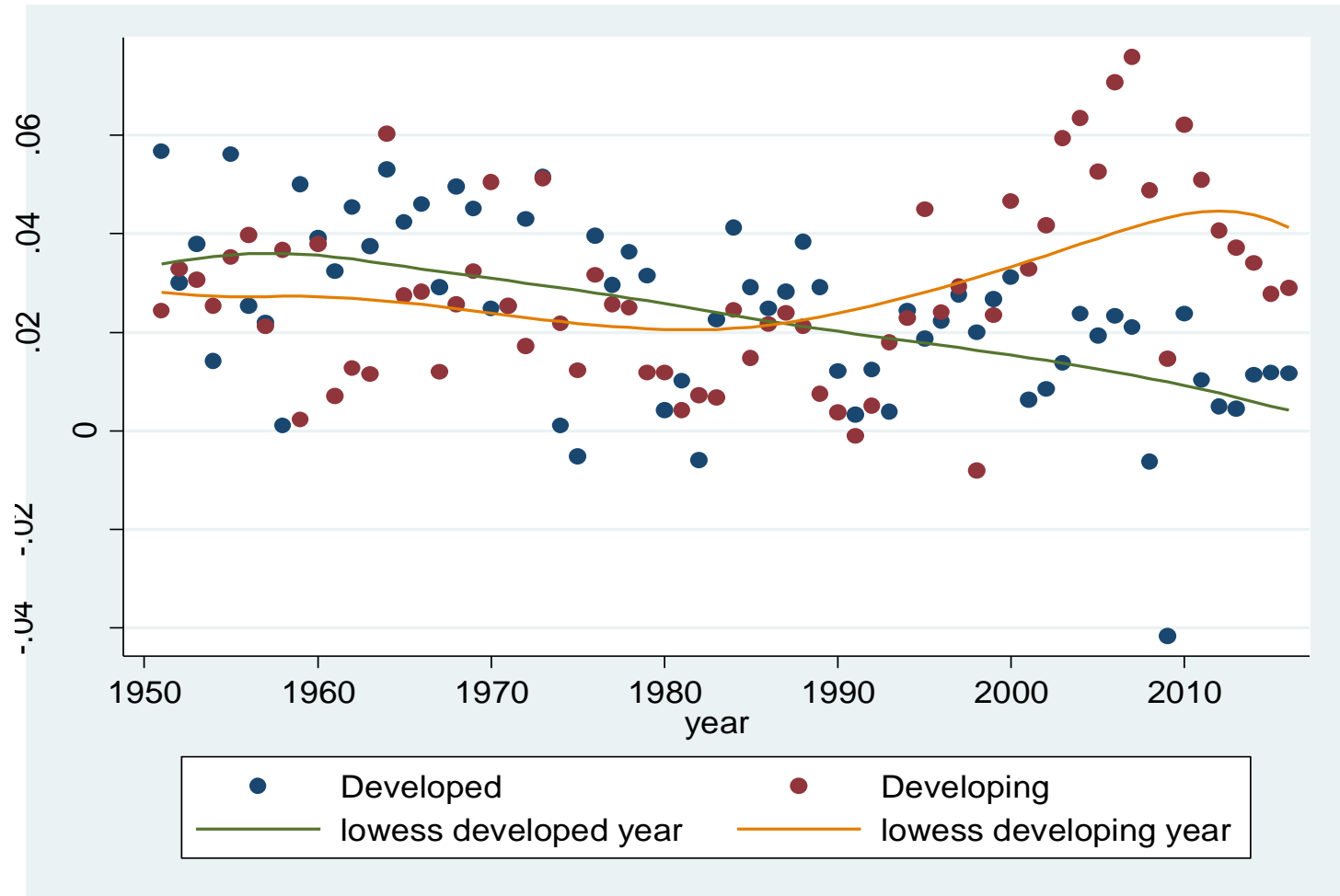
Dani Rodrik

April 2017

Convergence of what?

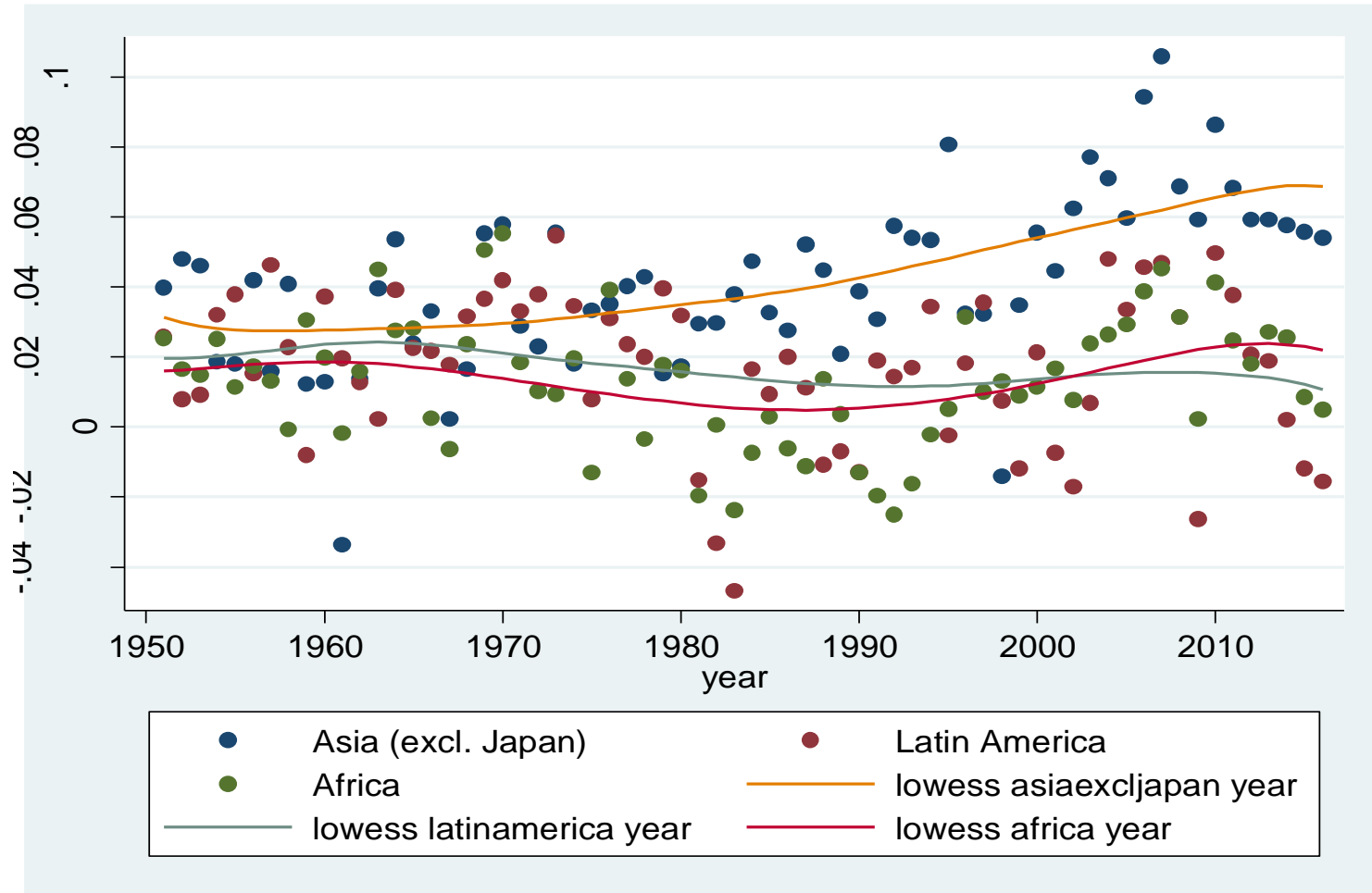
- Economics: standards of living
 - GDP per head
- Politics: models of governance
 - liberal/social democracy
- On the face of it, some convergence recently along both dimensions

Economic convergence: growth since 1950



Growth trends in developed and developing countries 1950-2016
(per-capita GDP)

Growth trends – by region



Growth trends in developing regions since 1950 (per-capita GDP)

Political convergence?

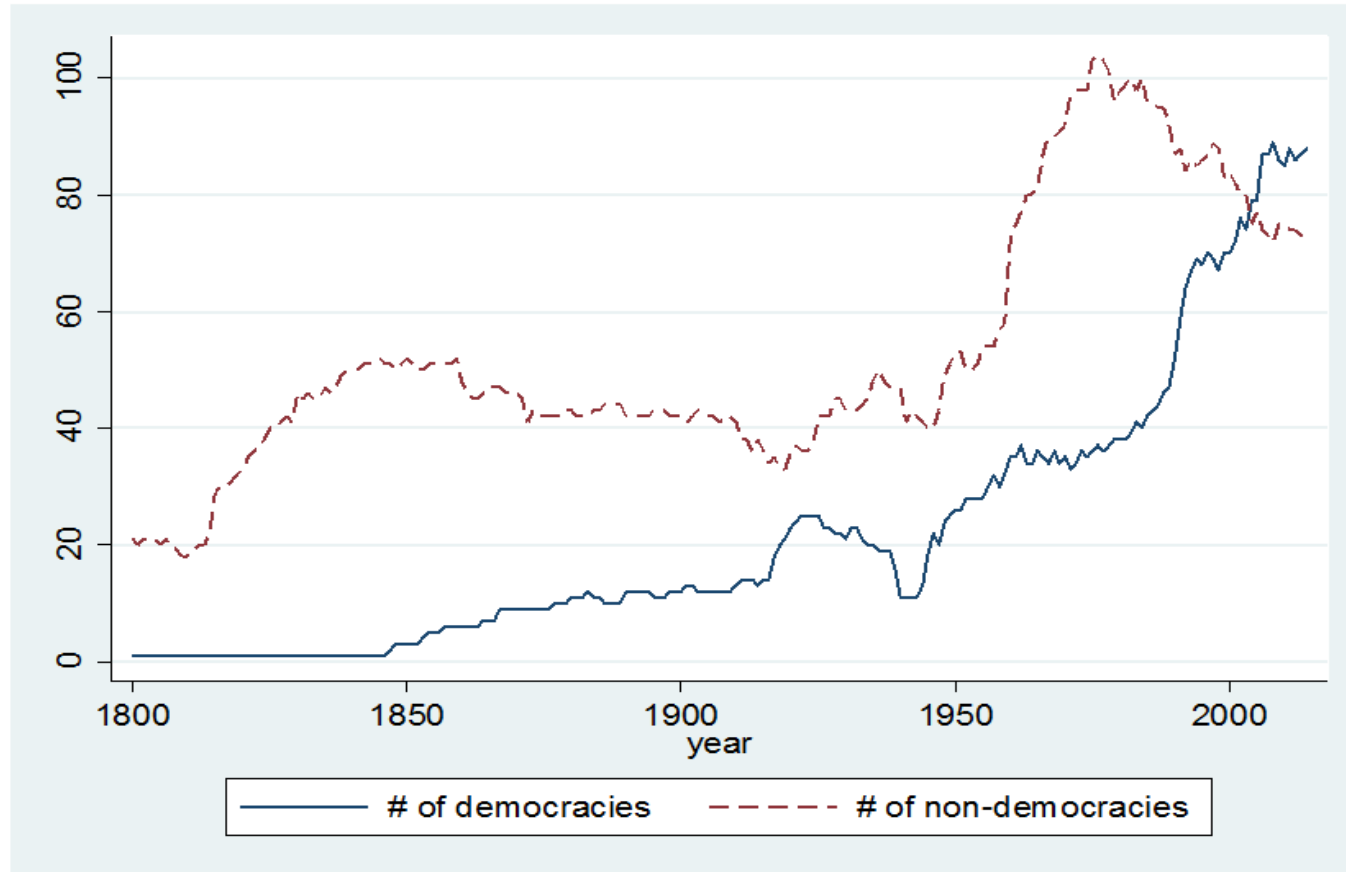


Figure 1: Numbers of democracies and non-democracies since 1800

Data are from Polity IV (<http://www.systemicpeace.org/inscrdata.html>). “Democracies” are countries that receive a score of 7 or higher in the Polity’s *democ* indicator (which takes values between 0 and 10), while “non-democracies” are countries with a score below 7.

Doubts on economics....

Recent convergence was driven by unusual combination of factors:

- low interest rates, plenty of foreign capital
- exceptionally rapid Chinese growth
- high commodity prices
- expansion of global trade volumes ahead of GDP
- making up of lost ground as macro and political stability restored (LAC and SSA)

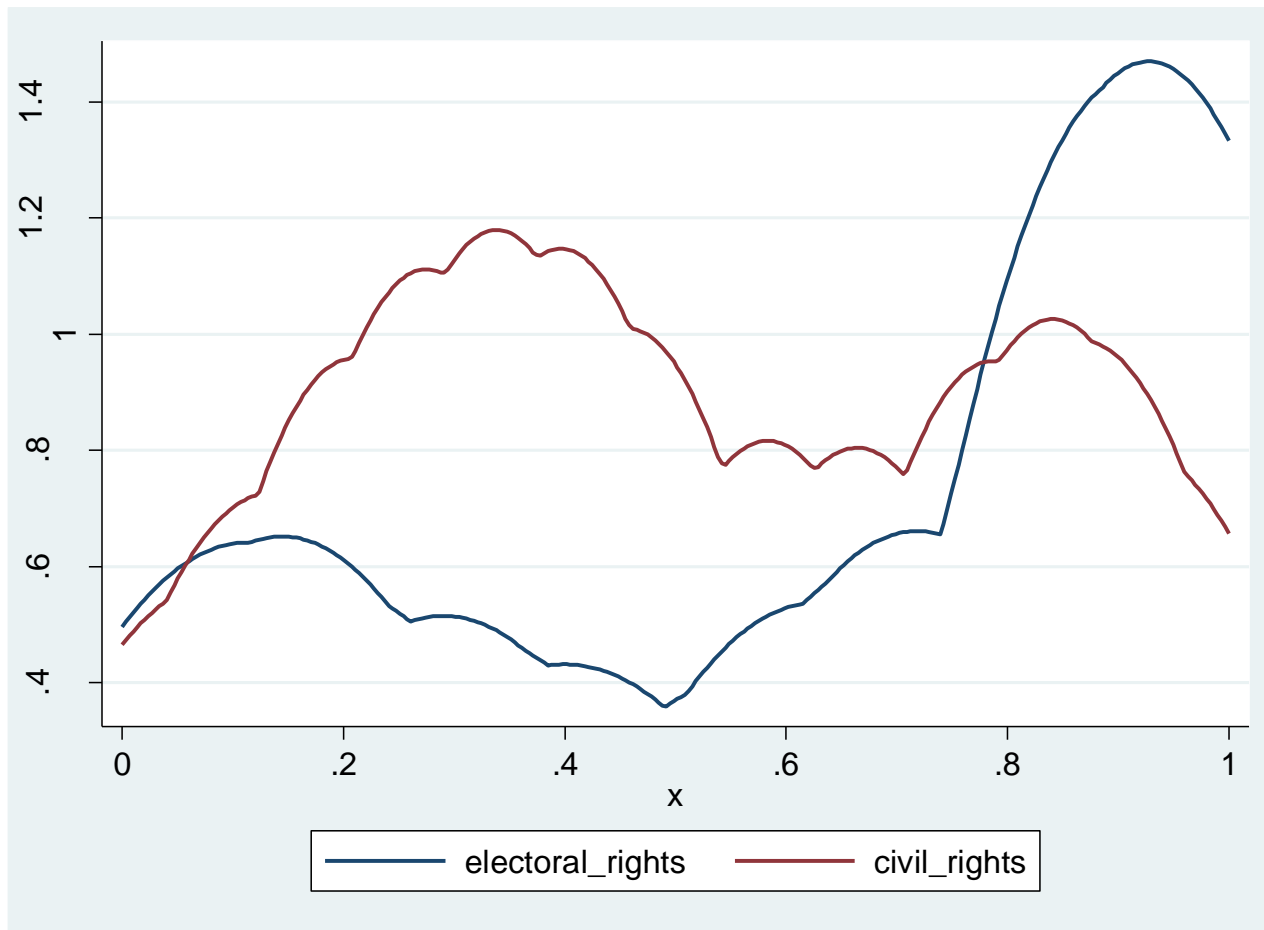
And (unconditional convergence) has been exception rather than the rule in general

So future may not look like recent past

And on politics: what kind of democracy?

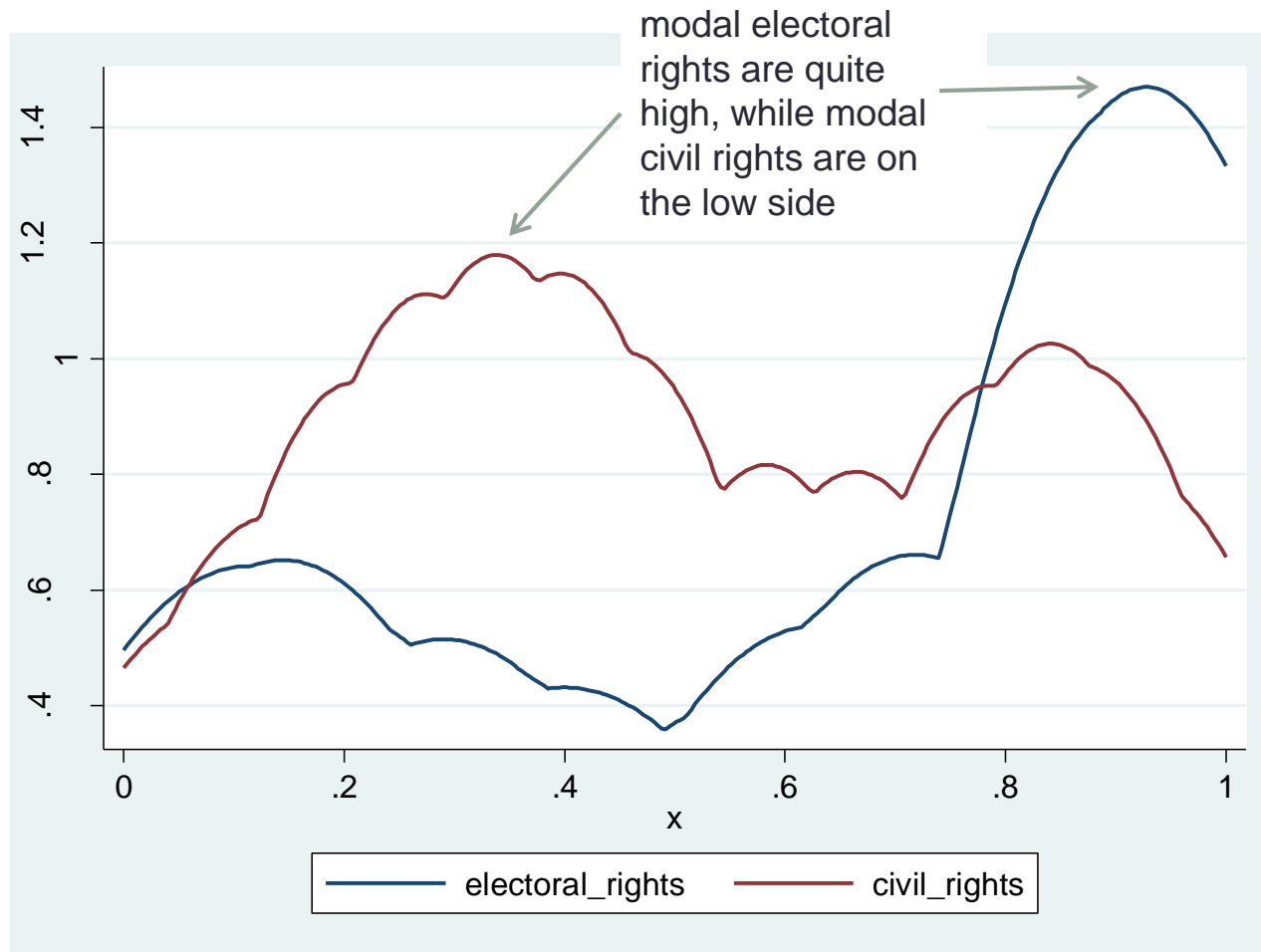
- widespread rights violations
 - discrimination against minorities and opposition groups in many OECD countries: Hungary, Croatia, Israel, Mexico, Turkey
 - much worse in many others
 - even though elections remain in principle free and competitive
- preponderance of intermediate regimes
 - Fareed Zakaria (1997): “illiberal democracy”
 - Steve Levitsky and Lucan Way (2010): “competitive authoritarianism”

Distribution of political and civil rights



Source: Based on Freedom House raw scores for 196 countries. “Electoral rights” refer to free and fair elections (A1+A2); “civil rights” combine measures of independent judiciary (F1), rule of law (F2), and equal treatment (F4).

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Argument

- Premise: advanced contemporary economies and polities are the product of industrialization and its consequences
 - technology, economics, social class
- Fact: “premature” de-industrialization today
- Implication: weak prospects for economic convergence and liberal/social variants of democracy
- Background papers:
 - “Ideas and Interests: A Unified Political Economy Framework” (with Sharun Mukand), April 2016
 - “The Political Economy of Liberal Democracy” (with Sharun Mukand), revised, March 2017.
 - “Is Liberal Democracy Feasible in Developing Countries?” *SCID*, March 2016.
 - “Premature Deindustrialization,” *JOEG*, 21(1), March 2016.
 - “Unconditional Convergence in Manufacturing,” *QJE*, 128 (1), February 2013.

Outline

- Evidence on premature industrialization
- What's so special about manufacturing?
 - for economic growth
 - for provision of democratic rights
- The economics and politics of services
- What might alternative paths look like?

Growth miracles are almost always manufacturing miracles

| | period | average growth rate (per capita) |
|-----------|-----------|-------------------------------------|
| Italy | 1945-1973 | 6.1% |
| Spain | 1945-1973 | 4.6% |
| Japan | 1945-1973 | 7.6% |
| S. Korea | 1959-1997 | 6.2% |
| Taiwan | 1958-1988 | 6.4% |
| Malaysia | 1971-1995 | 5.0% |
| Mauritius | 1971-1991 | 4.6% |
| China | 1978-2010 | 6.6% |

Long-term growth rate of U.S.: 2%

Low-income countries, 1966-2015: 0.7%

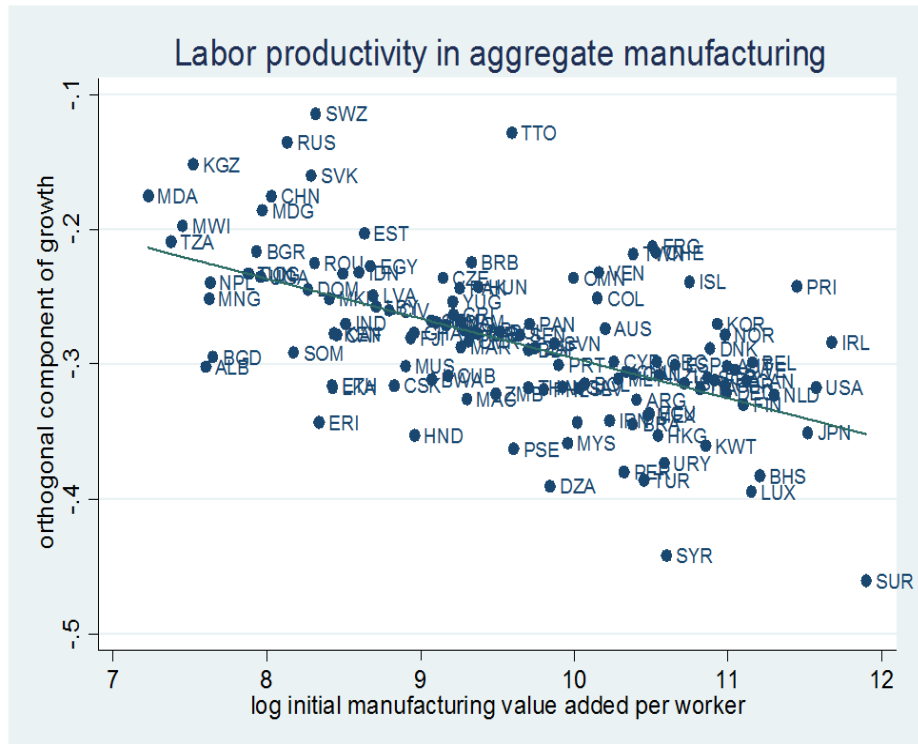
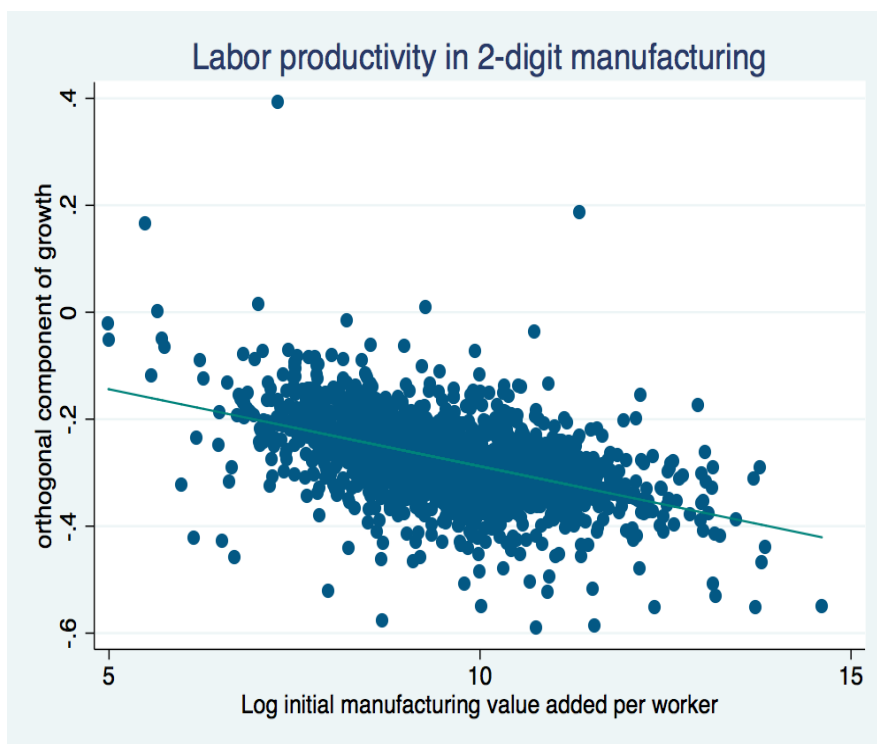
Why manufacturing industries are special

1. Productivity dynamics
 - [unconditional convergence](#)
2. Labor absorption capacity
 - intensive in low-skill labor (traditionally)
3. Tradability
 - can expand without turning terms of trade against itself

Specialization in narrow range of manufactures can be potent engine for growth

Narrower focus also eases policy challenges of economy-wide reform

Productivity convergence in (formal) manufacturing appears to be unconditional and quite general (regardless of period, region, sector, or aggregation)



$\beta \approx 3\%$ (t-stat ≈ 7), implying a half-life for full convergence of 40-50 years!

Notes: Data are for the latest 10-year period available. On LHS chart, each dot represents a 2-digit manufacturing industry in a specific country; vertical axis represents growth rate of labor productivity (controlling for period, industry, and period \times industry fixed effects).

Source: Rodrik (2014)

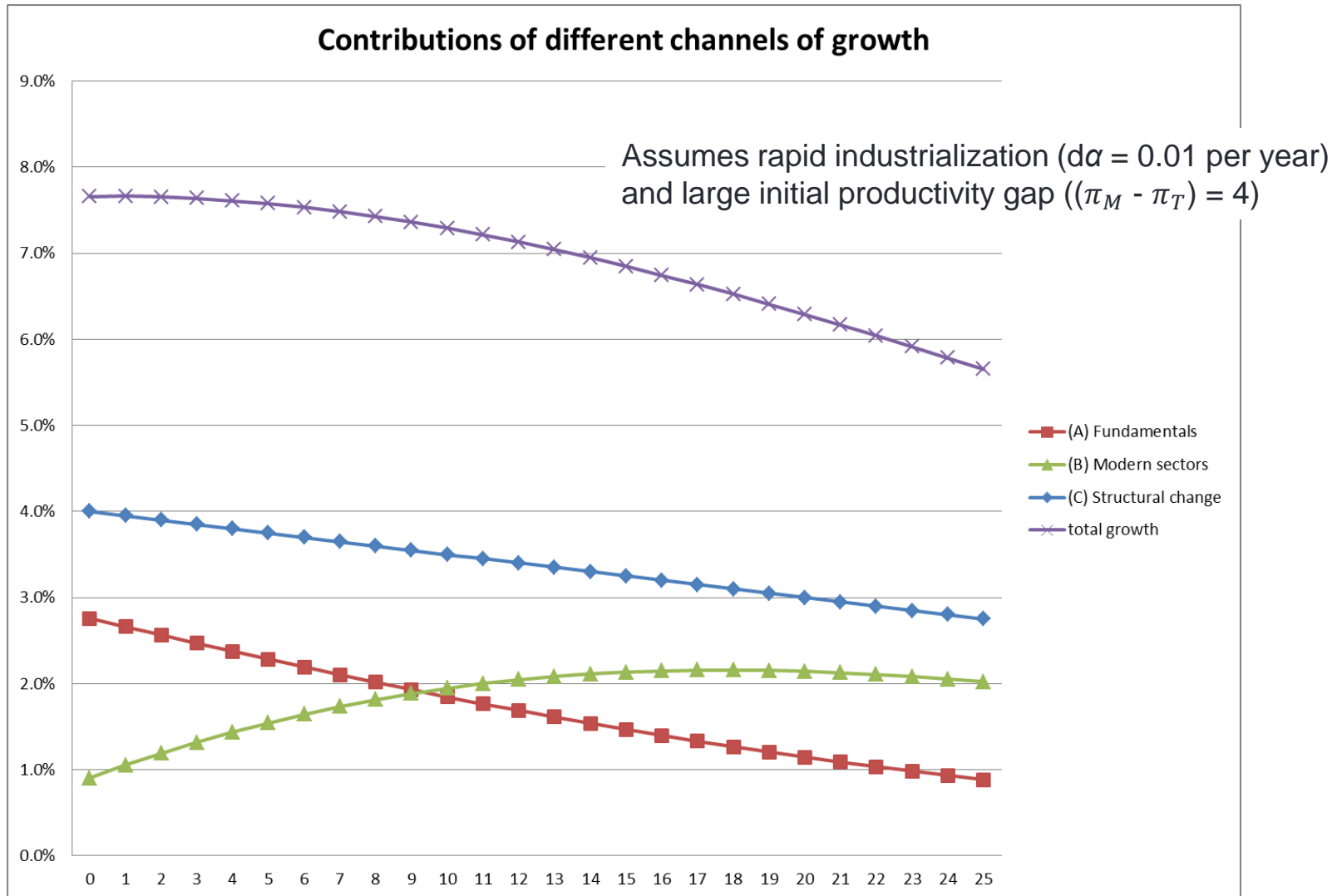
Reconciling unconditional and conditional convergence: role of dualism

- Economic dualism is endemic
- Traditional activities (with rel. productivity π_T)
 - traditional agriculture; small, informal firms
- Modern activities (with rel. productivity $\pi_M \gg \pi_T$)
 - high productivity, exhibiting (unconditional) productivity convergence
 - share (α_M) too small to produce significant aggregate effects early on (B)
- Economy-wide productivity requires steady accumulation of “fundamentals,” which is slow
 - human capital, institutions (A)
- Rapid growth possible nonetheless by expanding modern activities (C)
- Which requires policies that overlap with, but are not same as, fundamentals

$$\begin{aligned}\hat{y} &= \gamma(\ln y^*(\theta) - \ln y) & (A) \\ &+ \alpha_M \pi_M \beta (\ln y_M^* - \ln y_M) & (B) \\ &+ (\pi_M - \pi_T) d\alpha_M & (C)\end{aligned}$$

Standard convergence is augmented by two additional terms

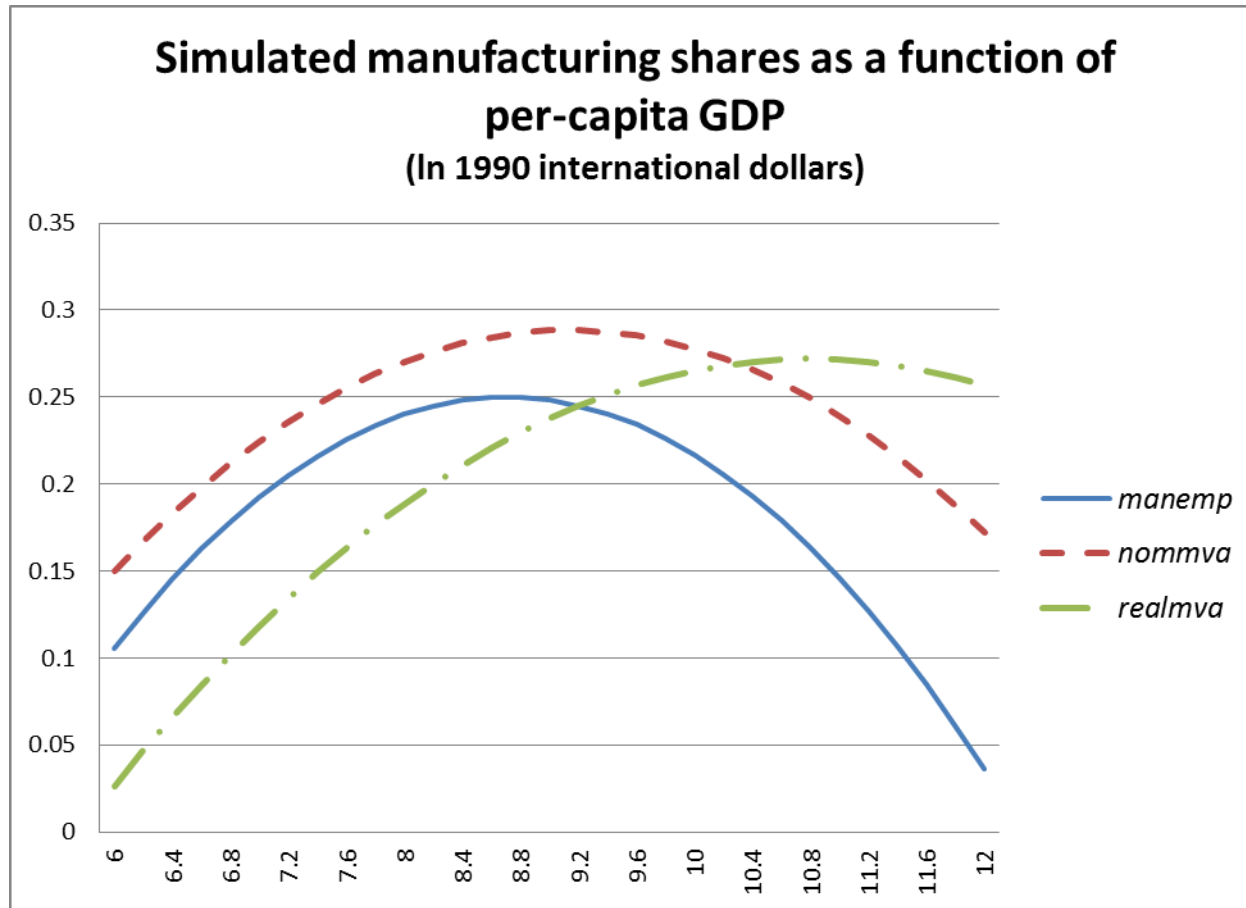
How structural change enables growth miracles



No more growth miracles?

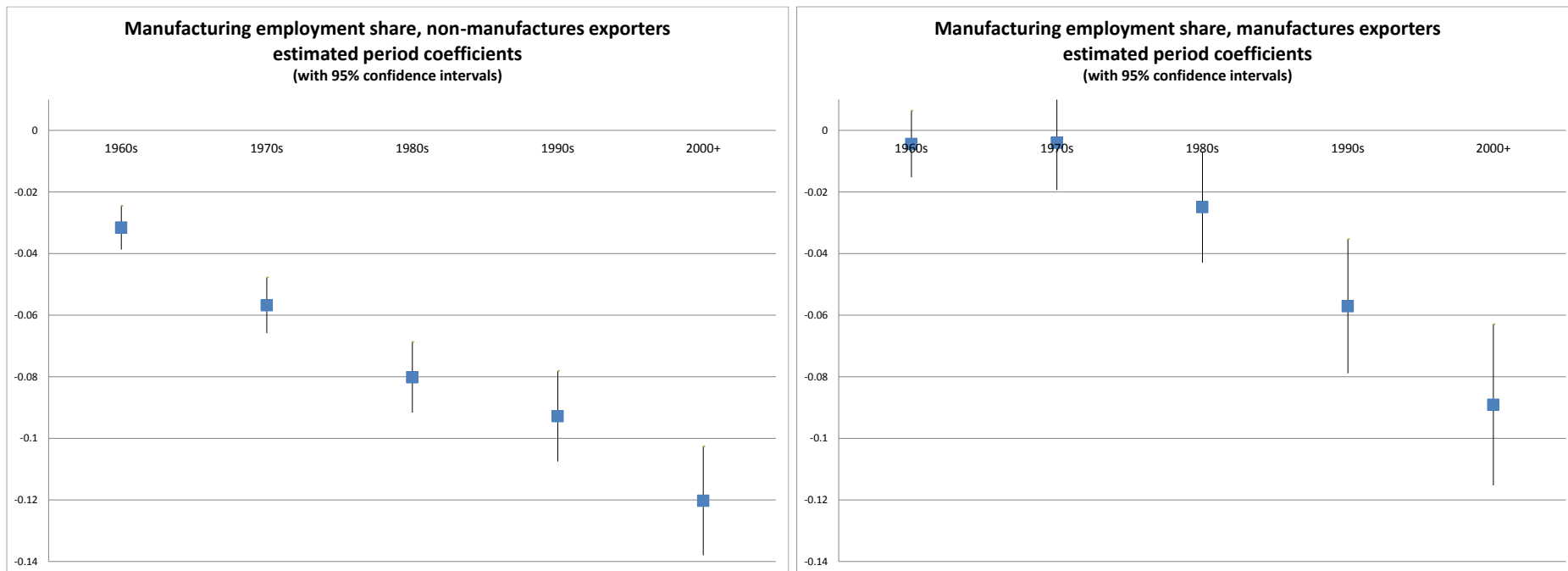
- Premature de-industrialization, result of:
 - globalization: manufactures concentrated in fewer countries with strong comparative advantage
 - shifts in global demand: away from goods and into services
 - technological change: manufacturing increasingly skill-intensive
- Why services are not like manufactures

The manufacturing curve



... has been shifting down at a rapid clip

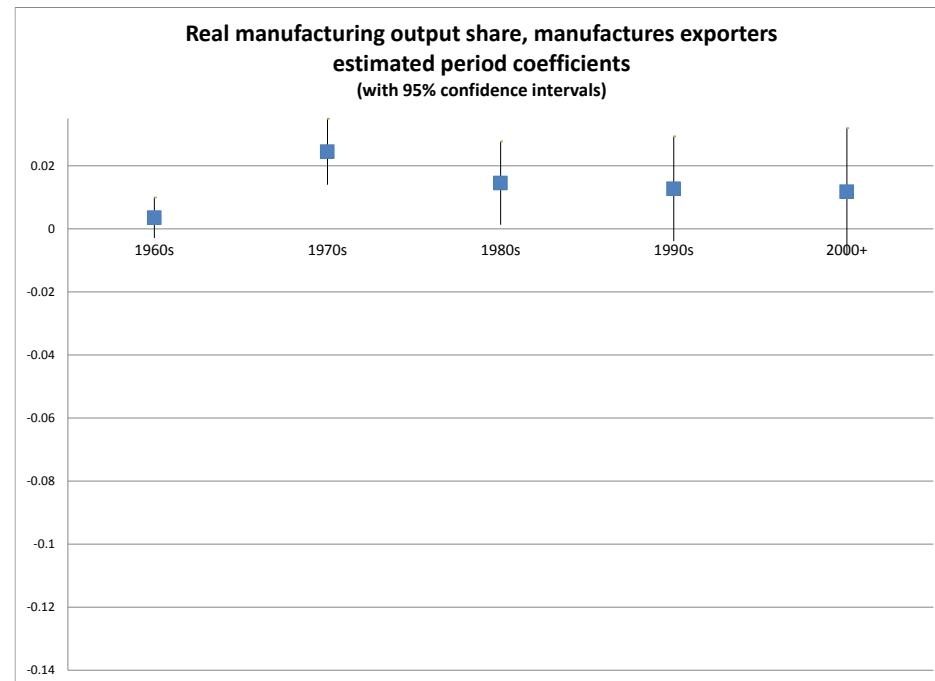
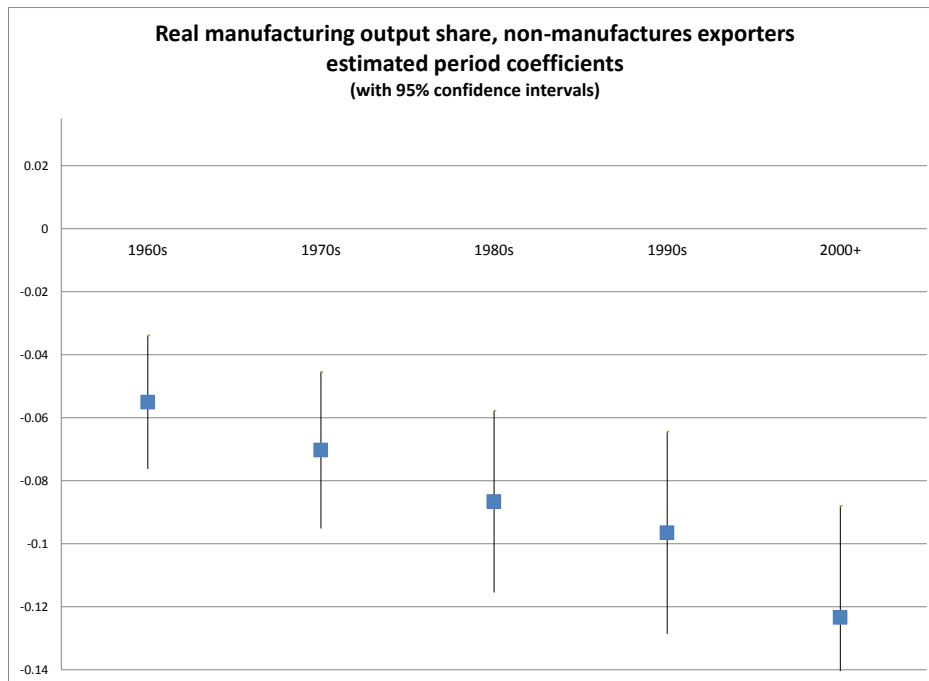
Employment



Estimated coefficients on decade dummies from a regression where manufacturing shares are regressed on income, population (and their squares), country fixed effects, and period dummies

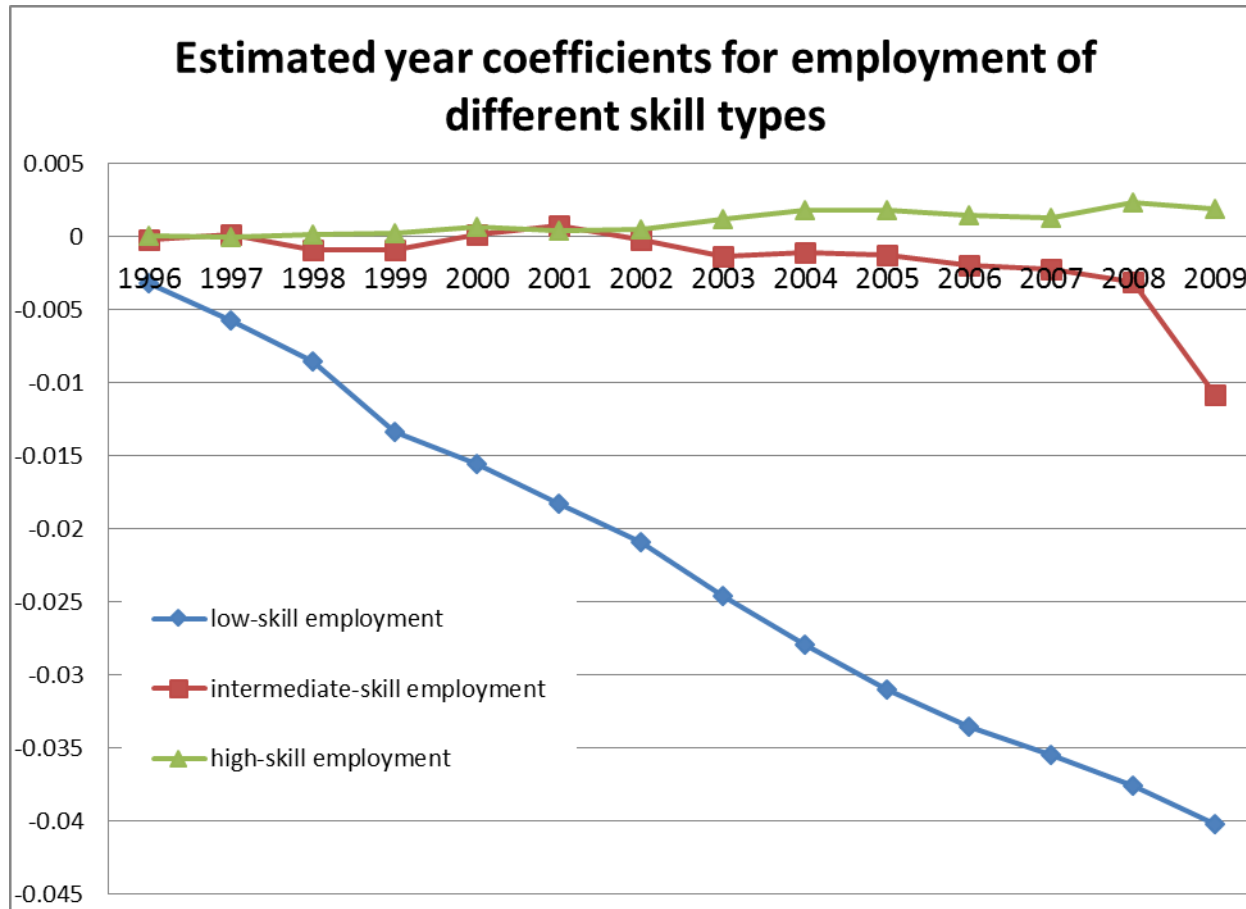
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Output

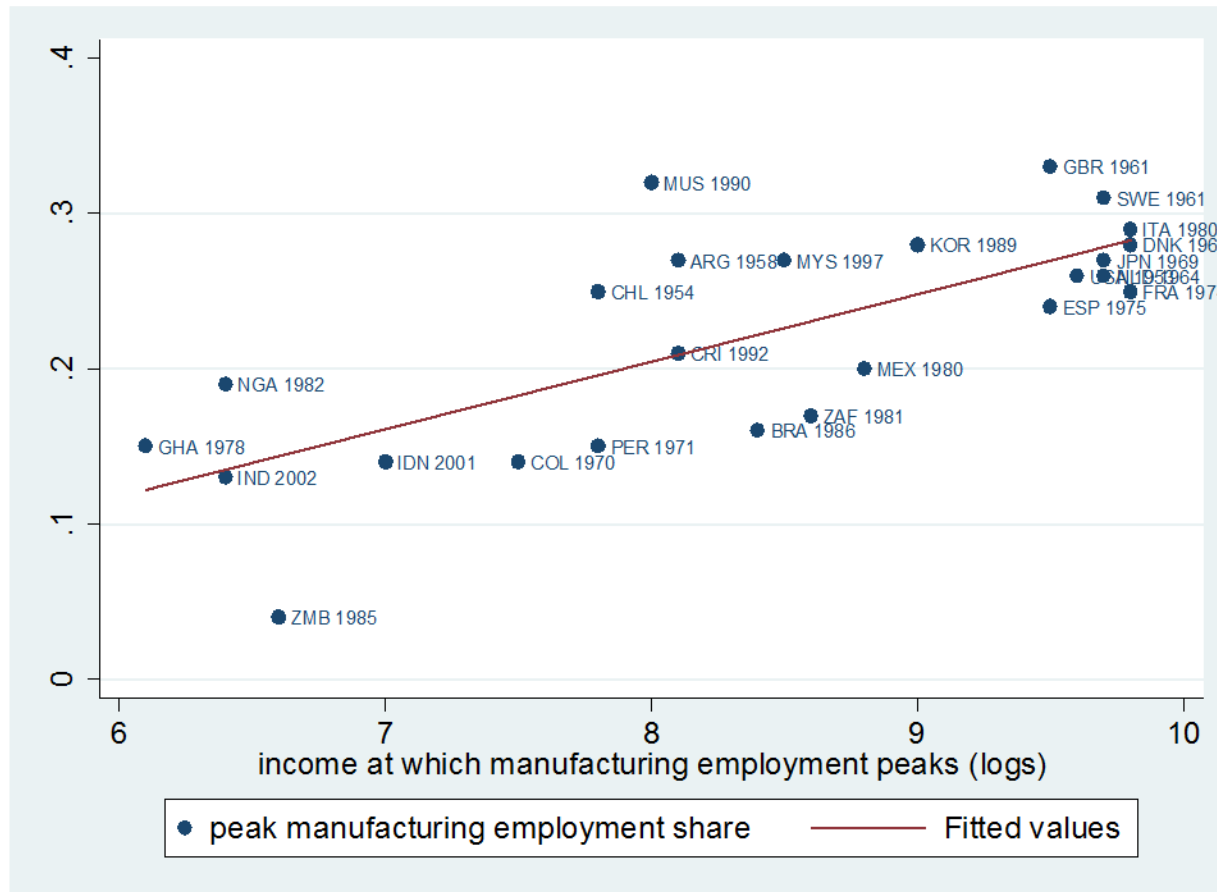


Estimated coefficients on decade dummies from a regression where manufacturing shares are regressed on income, population (and their squares), country fixed effects, and period dummies

Employment de-industrialization by skill type



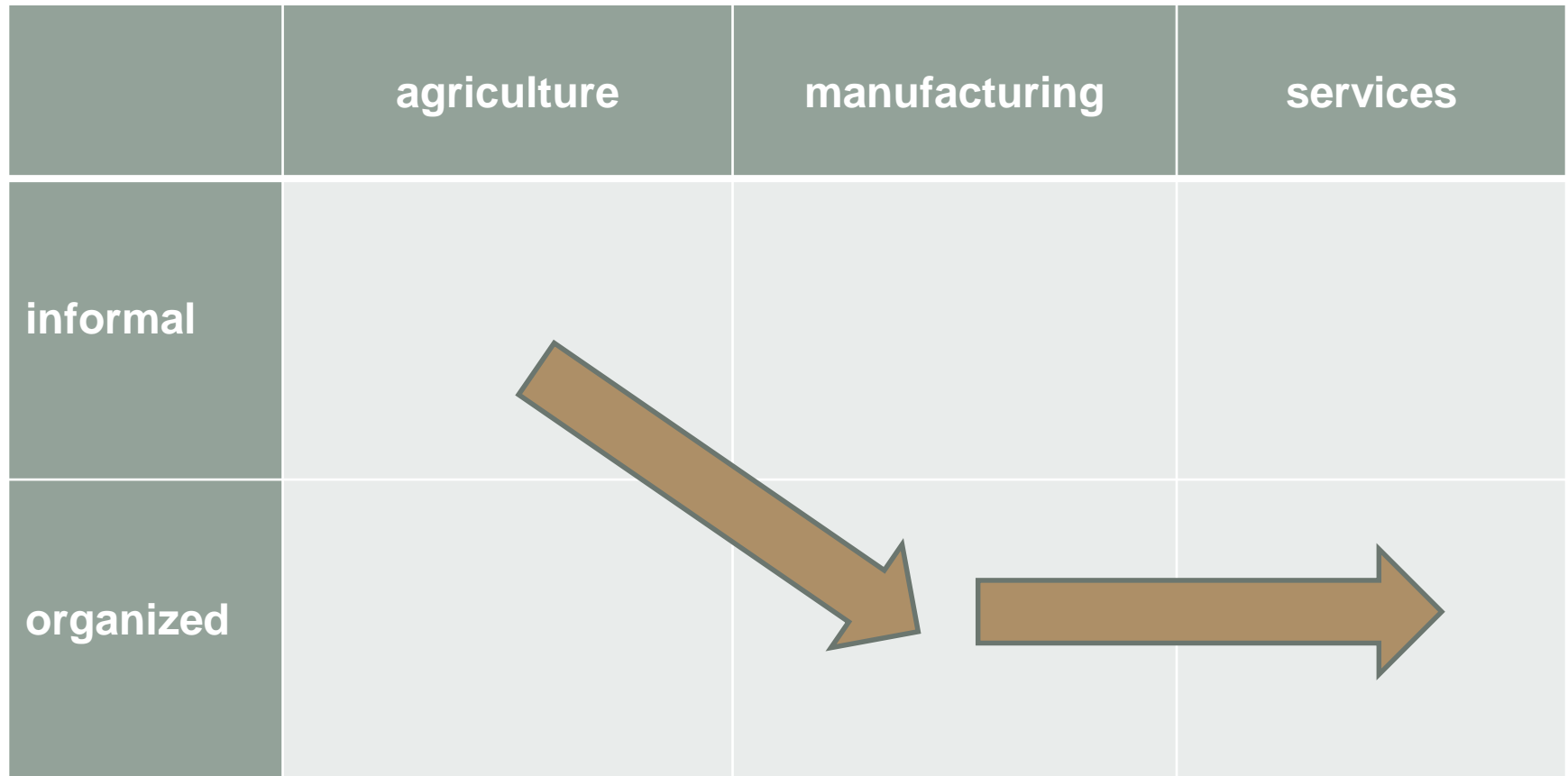
Premature de-industrialization



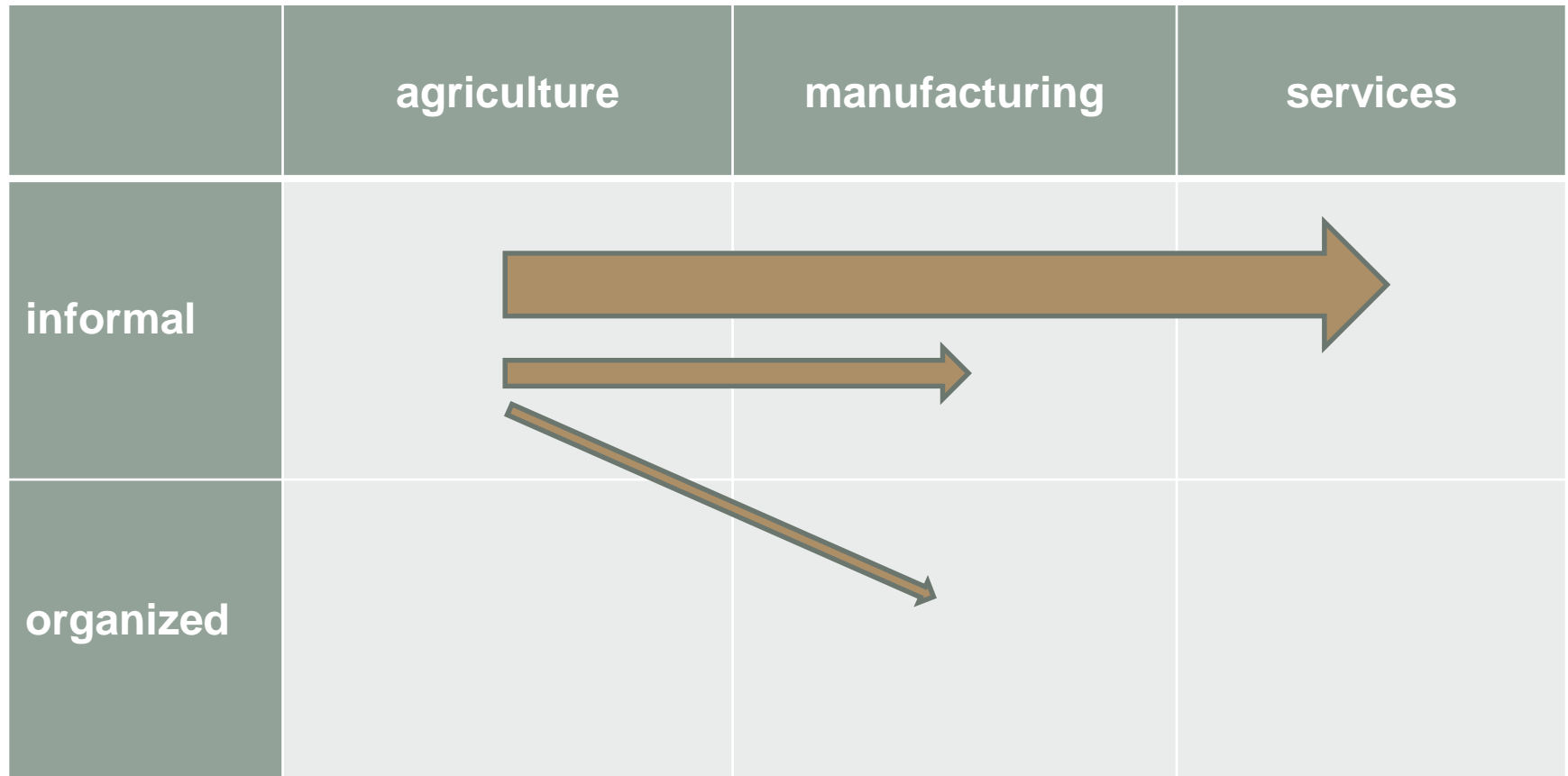
Patterns of structural change

| | agriculture | manufacturing | services |
|-----------|-------------|---------------|----------|
| informal | | | |
| organized | | | |

Patterns of structural change: advanced countries (+ East Asia perhaps)



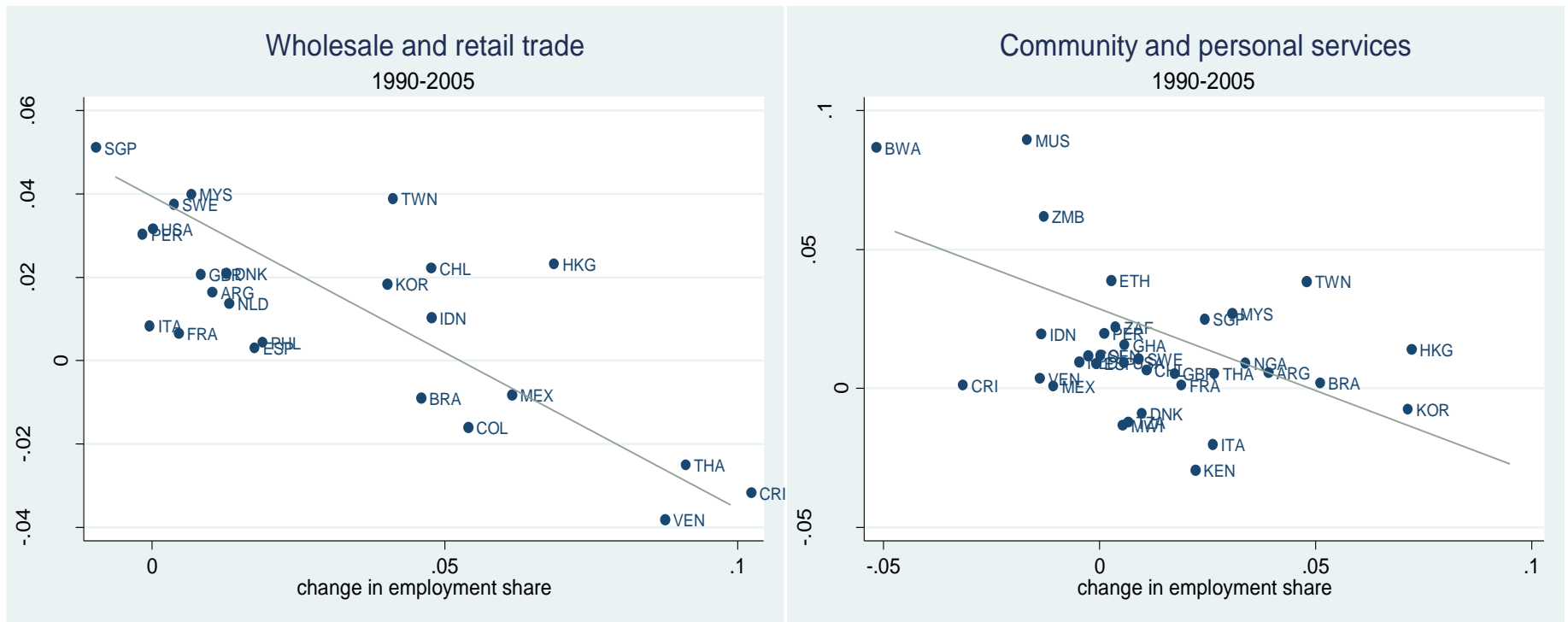
Patterns of structural change: developing countries today



Why services are not like manufactures

- Two types of services
 1. High-productivity (tradable) segments of services cannot absorb as much labor
 - since they are typically skill-intensive
 - FIRE, business services
 2. Low productivity (non-tradable) services cannot act as growth poles
 - since they cannot expand without turning their terms of trade against themselves
 - continued expansion in one segment relies on expansion on others
 - limited gains from sectoral “winners”
 - back to slow accumulating fundamentals & slow convergence

Not many examples of productivity growth and employment expansion in services



Service sectors that have best productivity performance typically shed labor; labor absorbing sectors typically have worst productivity performance.

Source: Author's calculations from GGDC data.

Politics: four sets of rights

- Property rights protect asset holders and investors against expropriation by the state or other groups.
- Political rights guarantee free and fair electoral contests and allow the winners of such contests to determine policy subject to the constraints established by other rights (when provided).
- Civil rights ensure equality before the law – i.e. non-discrimination in the provision of public goods such as justice, security, education, health, and speech.
 - restraints on what those in power can do
- Social rights ensure universal provision of social insurance and welfare (health, education, old-age, etc. benefits)

-- cf. T.H. Marshall (1950)

Political regimes

- Electoral democracy (ED): property rights + political rights
- Liberal democracy (LD): ED + civil rights
- Social democracy (SD): LD + social rights [- civil rights?]

Politics: the West versus the rest

- In the West, liberalism comes before mass franchise
 - restraints on the executive predates electoral democracy (ED)
 - extending the franchise is a compromise for liberals
 - ED arrives when social mobilization is based on class (rather than ethnic/religious identity)
 - SD product of bargain/conflict between working class and elites
- In developing countries, bleaker prospects for LD/SD
 - social mobilization in the context of identity politics (decolonization, wars of secession or national liberation)
 - ethnic/identity cleavages comparatively strong
 - delayed industrialization (and premature de-industrialization), so class-based cleavage comparatively weak
 - easier for elite to divide and rule, when class interests of non-elite less crystallized
 - e.g., employment concentrated in informality, petty services

Why the two cleavages are different

- Income and identity cleavages are both (partly) endogenous
 - determined by ideational as well as structural and ideational factors
- Fundamental political difference between income/class versus identity cleavages
 - both cleavages can serve as basis for illiberal, majoritarian populism
 - but populism of the “left” does not restrict citizenship and aims to ultimately overcome income cleavage (expand “elites” or create new ones)
 - as with SD and welfare states
 - while populism of the “right” depends on exacerbating identity cleavages, and necessarily deepens them
- Therefore income/class cleavage is less antagonistic to democracy than identity cleavage

Final words

- A perverse possibility: convergence not to advanced economy models, but to developing economies?
- Are economic/political trends in developing nations a precursor to those in advanced economies?

Patterns of structural change: developed countries today

| | agriculture | manufacturing | services |
|-----------|-------------|---------------|----------|
| informal | | | |
| organized | | | |

