



Policy Brief

NUMBER 1, 2013

Overview

What, if anything, can today's developing countries learn from the past strategies of more advanced countries? The answer is "a great deal", despite the obvious fact that the development environment has changed significantly. Based on 11 themes, this Policy Brief highlights the synthesis of historical accounts on the development success of a number of more economically advanced countries as gathered from in-depth case studies. The coverage includes four of the Nordic countries (Denmark, Finland, Norway and Sweden), non-Nordic advanced countries (Ireland, Japan and Switzerland) and some transition economies (Czech Republic, Hungary and Poland), along with their respective country-grouping syntheses. The recurrent themes should provide useful lessons for developing countries and emerging economies.

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ISBN 978-92-808-3099-6

ISSN 1814-8026

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Development Success: Historical Accounts from More Advanced Countries

BY VIRTUE OF THEIR SUCCESS IN GROWTH AND development, a number of countries have reached the status of "advanced" country. As such, these countries may offer lessons for development to developing economies of today. The following lessons are based on case studies, along with their respective country-group syntheses, of a select set of advanced countries: Denmark, Finland, Norway and Sweden as Nordic countries; Ireland, Japan and Switzerland as other advanced industrialized countries; and the Czech Republic, Hungary and Poland as transition countries. The emphasis is on relative long-term growth and development. Thus, even though the performance among these selected countries was rather uneven, for instance during the 2008–2010 global financial crisis, it would be myopic to focus on the concomitant country performance as an indicator of success or lack thereof. Employing historical accounts, it is possible to pinpoint certain useful aspects of each sample country's development record within a longer-term perspective, notwithstanding possible missteps in the short run.

Many studies have focused on countries in the developing world as "role models" for other developing economies, since such successful country experiences have been relatively recent. As useful as those case studies are, they nonetheless omit important and potentially valuable lessons from the more advanced countries, which exhibit longer development records.

The derived lessons may, in certain cases, actually be more reliable than those based on countries still undergoing active development, several of which have yet to evince intertemporal robustness. The advanced-economy development strategies have indeed been time-tested and their durability is a strong signal of their reliability. The "success" stories of the transition countries may additionally be quite instructive, given the success of having transformed from command economies to market regimes.

The findings are summarized under the following themes:

- (1) market and public-provision harmony;
- (2) public financing;

of course, not been universally accepted throughout history.

The nineteenth century Meiji state of Japan offers a potentially useful lesson for the developmental role of

“The advanced-economy development strategies have indeed been time-tested and their durability is a strong signal of their reliability”

- (3) social-risk minimization under egalitarianism;
- (4) social welfare sustainability in resource economies;
- (5) openness cum institutional capabilities;
- (6) social and political harmony;
- (7) business–government partnership;
- (8) complementary human capital;
- (9) macroeconomic stability and policy consistency;
- (10) government capacity under transition; and
- (11) industrial structure.

Thematic Discussion

Market and public provision harmony

One of the most challenging issues in the process of development has been, and still is, finding the optimal mix of public versus market provision of goods and services. The basic issue is how far government should go in correcting market failure without risking “government failure”. The current reigning paradigm appears to be that the role of government should be limited to rendering private provision relatively efficient, by facilitating the availability of complementary infrastructures: education, health, ports, roads, security, the legal tenets, etc. This paradigm has,

government. To modernize the industrial, transport and communications sectors, the state set up projects for which it bore the initial losses and then sold them to an emerging private sector, such as the *zaibatsu* conglomerates. This constitutes, of course, a form of industrial policy involving sequential, rather than concurrent, subsidization. It is also similar to the “transfer” of hitherto heavily subsidized state-owned enterprises into private hands in many transition countries, though the trick was the efficiency with which the transfer was executed. With many developing countries having faced or still facing privatization issues, the manner in which such a transfer is conducted could be quite instructive.

Furthermore, Norway in 1972 established a state-owned company, Statoil, which was instrumental in promoting among universities the production of knowledge and learning related to the petroleum industry. As the supply of these new manufacturing skills increased, Statoil ensured complementary demand for those skills by placing orders with privately owned Norwegian firms with linkages to the petroleum industry. Hence, government policies led to backward and forward linkages associated with

petroleum extraction, thus enhancing the expansion of manufacturing industries around the oil industry. Instead of retarding the growth of manufacturing, the oil resource actually expanded the manufacturing sector, thus avoiding the Dutch disease.

Nevertheless, even among the Nordic countries, which have traditionally relied heavily on government participation in the economy, the historical evidence suggests leaving product provision generally in the hands of the private sector. At the same time, an active welfare state provides a basis for an efficient and knowledge-intensive market-oriented economy.

tendency to emphasize social sector spending, greater attention should be paid to a more balanced approach of loan/ODA fiscal allocation that ensures the appropriate complementarity of economic and social infrastructures. Furthermore, the Irish experience suggests that appropriate rationalization of aid conditionality, including auditing, could greatly improve the efficiency of aid allocation.

In the final analysis, though, developing countries must in the long run rely on domestic resources for funding. The Finnish case of tilting funding towards business and away from consumption, via forced saving for instance,

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In sum, the findings point to the historical importance of government in promoting development. That importance has not waned in today's development environment. A crucial question, however, is whether a government is sufficiently capable of performing its expected role. The historical accounts clearly point to the need for a well-developed and -equipped public sector as a critical initial condition.

Public financing

Financing is a key factor for the appropriate conduct of the government's role in development, whether for direct public provision or in support of private production. The Irish case suggests that external support, such as the EU structural funds, could be useful in financing economic infrastructure. Similarly, notwithstanding donors'

remains instructive. Thus, where feasible, governments should reduce their consumption in order to generate savings for infrastructure investment.

Taxing agriculture, especially export crops, has traditionally constituted a major source of domestic funding, though such taxation has had adverse growth consequences.^{1,2} The issue, however, is not whether there should be agricultural taxation, as government revenues in many developing countries have critically depended on such taxes; the question is how and by how much?

The nineteenth century Meiji state of Japan again offers a potentially useful historical account: direct taxation of land by “a fixed percentage on the assessed value of land, which gave the farmer the incentive of the full market price of the crop, rather than by export

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**Development Success:
Historical Accounts from
More Advanced Countries
Edited by Augustin K. Fosu**

UNU-WIDER Studies in
Development Economics
2013

(hardback,
ISBN 978-0-19-966070-4)
Oxford University Press

- Detailed country accounts of time-tested strategies for long-term growth, development and success
- Highlights of common strategies across country groups
- Contributions from leading experts

http://www.wider.unu.edu/publications/books-and-journals/2013/en_GB/Dev-Success/

taxes or marketing board manipulations that have been so prevalent more recently”.³

Social risk minimization under egalitarianism

The Nordic countries are usually cited for their egalitarian qualities: inclusive development involving age and gender, among others. Such attributes have been an important pillar for sustainable growth and development in these countries, as has their political stability. In particular, by minimizing the risk of enterprising, the “universality” of the welfare state has helped garner political support for transitioning from a rural-based resource economy to an urbanized industrialized one. Indeed, “the kind of ‘social capital’ that lies behind the dynamic efficiency of the economy emanates from the security offered by the welfare state”.⁴ Arguably, the “trust”, engendered in considerable part by the relative homogeneity of the population, offers an antidote to the potential free-rider problem associated with the welfare state.

As most developing countries’ populations tend to be relatively heterogeneous, it is not apparent though that the Nordic welfare model would be easily applicable. Nevertheless, it should be feasible to provide some form of safety net that guarantees a minimum level of income security with limited cost implications.

Social welfare sustainability in resource economies

The Norwegian case of oil revenue management is well known for its efficiency. What may be less well publicized is the use of the revenues to sustain the Nordic perspective of egalitarianism. Nor is it common knowledge that Norway, or the Nordic countries generally, had historically been primarily a resource economy

(e.g., fisheries and forestry), just as many developing countries today. With experience managing such primary resources and having already achieved a mature democracy, the country was poised to adopt rules to efficiently govern the allocation of revenues accruing from the subsequent oil discovery. Furthermore, the accumulated petroleum funds were employed to maintain the welfare state as a form of “social capital”.

The most important emerging prospective policy for social welfare sustainability is the need to insulate resource revenues from political whims. The exact criteria in terms of the intertemporal distribution should be determined on a case-by-case basis, depending on country circumstances. Instead of rigidly sticking to a fixed proportion of the revenues to be made available yearly, as in the case of Norway, a more flexible approach should be pursued for developing countries with different priorities. For example, government could “borrow” from an intertemporal fund during down times, coupled with mandated repayments during times of revenue booms. Such an approach should help to obviate the potentially adverse implications of inefficient intertemporal resource allocation for economic growth.⁵

Openness cum institutional capabilities

Openness was an important medium for development for all the select country cases, in large part because it was attractive to foreign direct investment (FDI), while providing discipline for domestic producers and compelling their adoption of efficient production techniques. However, institutional capabilities were required to take advantage of opportunities availed by the open regime. There was also the



need to insure against the downside risk associated with openness, including financial exuberance. One such policy is “social partnership”. Such a partnership, among government, business and labour, is believed to have crucially contributed to the “Irish Miracle” by constituting the framework for national problem solving. Indeed, it is arguably the collapse in 2009 of this arrangement that greatly contributed to the financial excesses that resulted in the death of Ireland’s Economic Miracle. One view is that “the problem was that too little effort was made to [genuinely] embed social partnership within the domestic governance structures for the economy and society”.⁶

Nor should institutional capability be limited to the domestic sector. Among the determinants of the policy space for developing countries are WTO rules. As is apparent from the case studies, many of the developed countries were able to consistently employ the leverage of government in the economy, including the use of government subsidies and more or less freely available technological ideas. Under the WTO, however, this political space is currently severely limited, particularly via the trade-related investment measures (TRIMs) and trade-related aspects of intellectual property rights (TRIPs). While the former constrains government action, the latter limits the use of external technology. On the one hand, these measures have important merits because they protect the viability of the international trading system. Unfortunately, on the other hand, the measures may be severely constraining, especially for low-income and least-developed countries. Finding ways to relieve the constraint would help level the international playing field for these countries. One potential channel would be to extend the window of compliance for such countries.⁷

Social and political harmony

Achieving social and political harmony is indispensable for sustained growth and development. Given its high ethnic composition, Switzerland has something in common with the many multi-ethnic states of the developing world of today. Yet, the country has been able to achieve political stability, thanks to a high degree of “political contestability”, where the various cantons as well as interest groups are given potential veto power over issues. Similarly, notwithstanding the potential for gridlock, multi-ethnic developing countries could consider providing sufficient authority to each of its ethnically based subregions, in order to compel better cooperation among them.

In the Nordic countries, for instance, the state played a key role in ensuring harmony between business and labour. Arguably, “the most impor-

tant is the state’s mediation authority that can be called upon when disputes develop”.⁸ Maintaining peaceful relations between business and labour was important for efficient long-term resource allocation and for sustained growth, as well as for the welfare state whose potential contribution to “trust” was quite crucial. In Ireland, furthermore, “social partnership” became a vehicle for mediating between business and labour.

Business–government partnership

Government played a crucial role in facilitating the operation of private business in order to maintain macroeconomic (and presumably social) stability. In Japan and Ireland, for instance, governmental organs – the Ministry of International Trade and Industry (MITI) for Japan and the Industrial Development Agency (IDA)

Reviews of Development Success: Historical Accounts from More Advanced Countries

“As the importance of getting institutions right to promote development is acknowledged there is a rising need for sophisticated, contextual, historical narratives of how the now prosperous countries managed to do it. This book fills that need, fleshing out not just the Nordic model (with its commonalities and differences) but also compares countries like Switzerland and Ireland. A useful step away from the dogma of a single canonical model of development to the diversity and richness of paths countries have followed.”

Lant Pritchett, Professor of the Practice of International Development at Harvard Kennedy School

“A fascinating account of some lesser known success stories.”

Paul Collier, Professor in Economics and Public Policy, Blavatnik School of Government, University of Oxford

“By drawing together the lessons from successful and diverse historical development experiences of some advanced countries, while insisting on the inherent country specificity of development, this book will be of most practical help to all those seeking effective development strategies for poorer countries in today’s world.”

François Bourguignon, Director, Paris School of Economics, Former Chief Economist in the World Bank

for Ireland – succeeded in fostering reasonable harmony between business and the state, consistent with the pursuit of industrial policy at the time. The role included not only low corporate taxes but, perhaps more importantly, also the reduction of red tape as well as the matching of educational skills to the requirements of business.

Complementary human capital

In most of the country cases, human capital in the form of basic and continuing improvements in education is

meaningful macroeconomic stability, which is credited, in large part, with the sustained growth and development. In particular, avoiding macroeconomic policy reversals would minimize the fuzziness of market signals required for optimal resource allocation, which should prove crucial for long-term productive investment.

Government capacity under transition

Maintaining government capacity has constituted a critical factor for successful transition in Central Europe. The

“Each of the country cases achieved meaningful macroeconomic stability, which is credited ... with the sustained growth and development”

cited as a crucial factor for effective development. Matching the education system to industrial requirements played a key role, particularly in the Nordic industrialization, as well as in Japan and Ireland.

Still, the maintenance of complementary human capital in turn requires physical infrastructure that attracts private investment. Indeed, it can be argued that the provision of such public investment should enjoy priority over the more internationally mobile public human capital investment, mainly because the risk of public human capital loss is likely to exceed that of public physical capital.⁹

Macroeconomic stability and policy consistency

Although the pursuit of macroeconomic stability or policy consistency may not be a sufficient condition for sustained growth, it seems to be necessary. Each of the country cases achieved

art of the policy maker is to create markets without causing government failure, unlike the case of the former Soviet republics. The successful transition countries tended to be those that ensured that a significant portion of government capacity was retained, not only to assist with the transition but also to prevent too drastic a fall in employment while dismantling the state enterprises. Such a policy, as distinct from the “shock therapy” approach, was more inclined to mitigate social costs associated with the transition.

Industrial structure

The current technological world is such that a more knowledge-based strategy should be pursued for developing countries. Advances in technology, in particular the revolution in information and communications technologies (ICT), are likely to facilitate the catch-up efforts of latecomers.

An approach that may be of special interest is the “small scale low-tech” industrial strategy of Denmark. The strategy entailed the reinforcement of successful national innovation systems by upgrading the skills of farmers and linking the upgrading of the knowledge base of agriculture to the formation of new industries.

As many developing countries attempt to transform their respective economies from primarily agricultural to one with greater industrial intensity, the Danish experience could be especially instructive. It should be noted that while upgrading of skills is important, linking the skill improvement to the formation of new industries is even more consequential. An especially promising candidate for this industrial innovation system is agrobusiness, which appears to be the next natural step upward from agriculture for most developing economies.

Concluding Remarks

Despite the above historical “success” accounts, it must be stressed that development strategies are by and large country-specific. They must be situated in the particular context of time and space – a view that indeed flows through the case studies.

The thematic synthesis suggests, nonetheless, that the historical accounts are replete with recurrent attributes, which should be useful to developing countries and emerging economies. Additionally, the specific comprehensive accounts in the country cases, as well as the country grouping syntheses, are likely to be of interest to students of development and policy makers alike.

Notes

1. R. H. Bates (1981) *Markets and States in Tropical Africa*, Berkeley: University of California Press.
2. D. Rodrik (1998) “Trade Policy and Economic Performance in Sub-Saharan Africa”, NBER Working Paper 6562.
3. R. Findlay (2013) “Country Role Models: Ireland, Japan and Switzerland” in *Development Success: Historical Accounts from More Advanced Countries* edited by Augustin K. Fosu, Oxford: Oxford University Press, chapter 10, pp. 216–228.
4. B.-A. Lundvall (2013) “The Danish Model and the Globalizing Learning Economy: Lessons from Developing Countries” in *Development Success: Historical Accounts from More Advanced Countries*, chapter 5, pp. 115–139.
5. See, for example, Table 7 in A. K. Fosu and S.A. O’Connell (2006) “Explaining African Economic Growth: The Role of Anti-growth Syndromes” in *Annual Bank Conference on Development Economics (ABCDE)* edited by F. Bourguignon and B. Pleskovic, Washington, DC: World Bank, pp. 31–66. It is estimated that this “policy syndrome” could reduce per capita sub-Saharan Africa’s gross domestic product growth by as much as 1 percentage point annually.
6. P. Teague and D. Currie (2013) “Committing to Economic Openness in Ireland: The importance of Domestic Institutional Capabilities” in *Development Success: Historical Accounts from More Advanced Countries*, chapter 8, pp. 171–191.
7. The WTO provided implementation-time windows for low-income and least-developed countries; however, these windows are long closed.
8. See note 4.
9. A. K. Fosu (2004) “The Social Impact of Globalization: The Scope for National Policies” in *Understanding Globalization, Employment and Poverty Reduction* edited by M. Vivarelli and E. Lee, New York: Palgrave Macmillan, pp. 327–348.

This Policy Brief is based on *Development Success: Historical Accounts from More Advanced Countries* edited by Augustin K. Fosu (Oxford University Press, 2013). The book in turn emanates from the UNU-WIDER project “Country Role Models for Development Success”, directed by Augustin K. Fosu.



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INSIDE:

Policy Brief

Development Success: Historical Accounts from More Advanced Countries

Historical accounts of select successful development cases from more advanced countries highlighting recurrent themes as useful lessons for developing countries and emerging economies.

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