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Chapter 4

Learning from the past:

Which of the past/current development strategies are best suited to deal with the “quadruple crisis”?

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4.1 CHALLENGES POSED BY THE QUADRUPLE CRISIS

The MDG development strategy has mainly been framed in terms of social and aid policies and has said little about the national development strategies and governance changes required for their achievement. Because of this omission, national strategies have, often by default, relied on an unfettered liberalization of domestic and external markets and weak food security and environmental policies. Such an approach has done little to prevent the emergence of a “quadruple crisis” which has severely affected the economies of many developing countries and delayed the achievement of the MDGs. The elements of the “quadruple crisis” are (i) a mounting macroeconomic instability which periodically erupts into costly financial crises; (ii) rising food prices, hunger and malnutrition; (iii) a worsening of income inequality; and (iv) long-term environmental problems which raise the costs of the mitigation and adaptation measures needed to prevent additional personal and environmental damages. In all these areas, the search for new development approaches is in order, to deal with the crises themselves and to support the drive to achieve the MDGs.

One way to shape a new development strategy which simultaneously reaches the usual targets (adequate growth and sustainable macroeconomic balances) and the new ones (financial stability, tolerable inequality, food security, and environmental sustainability) consists in evaluating the past development strategies, so as to find out what worked and what did not, while being aware that the current conditions often differ from those under which the past strategies were developed.

How can a development strategy be characterized? Until a decade or so ago, a strategy was basically characterized by a *driving idea* (such as import substitution, market liberalization, and so on), a *small set of key policy instruments* (trade protection, monetary policy, and so on), and a limited number of *performance indicators* (the twin deficits, inflation and GDP growth). Given the four crises mentioned above, this is no longer sufficient. Any development model now needs to make explicit its *objectives, policies and indicators* also in the fields of financial and macro regulation, short-term and long-term food security, income inequality and climate change, both adaptation and mitigation. This means also designing or selecting appropriate *performance criteria* in each of these four areas. In addition, it is important to consider the *political regimes* under which the development strategies have evolved. In the case of a democratic or authoritarian regime achieving the same economic, social, environmental and inequality objectives, the former should be valued more favourably, as democracy has an intrinsic value.

4.2 PAST AND RECENT DEVELOPMENT STRATEGIES CONSIDERED

We focus on seven development strategies, paying particular attention to the political regimes under which they were developed, the policies applied, and their outcomes. The distinction between “past” and “recent” development strategies is relevant, as the new policy regimes have emerged under contextual conditions that constrain domestic policymaking but also offer new opportunities. The first recent major difference in relation to the past is a generalized spread of democracy, a trend which is desirable for its intrinsic and instrumental values but which may constrain the adoption of measures that are efficient but socially costly, or that produce benefits only over the very long term. On the positive side, democracy may lead to the election of governments more sensitive to distributive and environmental issues. Other contextual conditions that have changed markedly during the last two decades include the massive liberalization of international trade and finance,

as confirmed by the drop in import tariffs and the increase in the Kaopen Index of international financial integration (table 4.1). As a result, for many developing countries the achievement of financial stability, food security and a tolerable income inequality has become more complex due to their increased vulnerability to external shocks and contagion and to the legal and economic constraints imposed by participation in the WTO, TRIPS, Basel III, Kyoto and various regional trade agreements. At the same time, the globalization of trade and finance offers an opportunity to accelerate growth thanks to greater access to export markets, technology and world savings. In addition, the 1980s and 1990s witnessed a sharp reduction in chronic

Table 4.1

Policy stance in the field of domestic and external liberalization^a, 1982-2010

Regions	1982-1990	1991-1997	1998-2002	2002-2010
A. Average Import Tariff				
South America	40.0	19.0	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	..	11.0	9.0	6.0
Advanced economies	8.5	7.1	3.3	4.2
B. Kaopen Index of Capital Account Openness^d				
South America	-0.78	-0.17	0.76	1.00
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	-0.90
East and South East Asia	0.85	0.96	0.50	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 and Uvalic (2012) on the basis of the sources indicated therein.

Notes: a Regional un-weighted averages; b China, Vietnam, Laos and Cambodia; c concerns the entire region and not only the 11 countries covered in tables 4.3 and 4.4; d the Kaopen index varies between -2.5 (complete closure) and 2.5 (complete liberalization).

Table 4.2

Indicators of macroeconomic balance in developing regions, 1982-2010

Regions	1982-1990	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 (annual average rate of change)				
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	6.0
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	49.0
Sub-Saharan Africa	93.1	105.8	105.0	69.2
MENA	62.3	89.8	72.2	61.8
South Asia	92.1	80.4	76.9	76.9
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: Cornia and Uvalic (2012) on the basis of the sources indicated therein.

Notes: a China, Vietnam, Laos and Cambodia; b concerns the entire region and not only the 11 countries covered in tables 4.3 and 4.4.

macroeconomic problems, that is high budget deficits, inflation, and public debt/GDP ratios (table 4.2), which allowed policymakers to focus on growth, structural transformation and equity under open economy conditions.

In closing this section, we would like to explain why no development model for sub-Saharan Africa is included in our analysis. After the mid-late 1990s, a few African countries recorded important improvements (Radelet, 2010). According to the Polity IV and Freedom House index, the number of

democracies rose from three 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, the distribution of income improved in 13 of the 21 countries with reliable information. Yet, the sources of these gains are highly heterogeneous and mostly exogenous, and may not be sustainable over the long term (as in the case of the recent increases in commodity prices). Indeed, the recent gains can be traced to an overall improvement in the global economic environment, that is: a rise of international prices and demand for the commodities exported by the region; greater Chinese FDI; slowly rising tourist receipts and migrant remittances; and a large increase in aid. More sustainably, growth also intensified due to domestic changes like the adoption of new technologies (such as cell phones), the policy-driven diversification of the economy and better technology policies and incentives to farmers, which helped the recovery of agriculture. However, poor governance, slow growth and political instability still grip half of the continent. Thus, while there are glimmers of hope, there is no clear evidence so far that a new sustainable economic policy model has yet emerged in sub-Saharan Africa.

4.3 AN ANALYSIS OF SEVEN MAIN DEVELOPMENT STRATEGIES

Hereafter we analyse in a standard format seven development strategies on the basis of a common methodology which focuses on: their *political regimes* (that is the extent and quality of democracy, proxied by the Polity 2 and Freedom House indexes); their *economic and social policies* in the field of trade, capital account, exchange rate, tax, fiscal and monetary policy, industrial and environmental policy, labour market, human capital formation, social assistance/insurance and food security; and 11 *performance indicators* including political criteria, GDP growth rate, income inequality, structural transformation (proxied 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 the development strategies considered cover periods of different duration, we measure performance in all these areas not only by means of regional period averages but also—and more importantly—in terms of their average yearly rate of change so as to remove level effects. As a final step we “rate” each of the seven development strategies by summing up in an ordinal fashion their 0 (negative) or 1 (positive) scores for each of the 11 performance indicators identified above. This allows to

determine which of them performed the best and whether any one of them can inspire, *in toto* or in part, a “new development strategy” capable of addressing the current financial-food-inequality-environmental crisis which threatens the achievement of the MDGs and of sustainable development in the future.

Latin America’s import-substituting industrialization (LA-ISI) strategy of the 1960s-1970s

Political trends, dominant class and driving idea

The LA-ISI model was developed under semi-democratic or military regimes (table 4.3) in which a nationalistic bourgeoisie played a major role in coordinating with state institutions decisions in the fields of production, investment and industrial development, which was considered the only approach capable of generating simultaneously growth and the modernization of the economy.

Policy approach

Industrial development was to be reached through a trade policy protecting the infant industry through quotas and tariffs averaging 45 per cent for the region as a whole (table 4.3) but reaching in some cases 200-300 per cent. Tariffs on non-competing imports were much lower, especially for investment goods and inputs. As the strategy emphasized the role of the domestic market, exports were assigned a limited role in promoting growth, while the capital account was fairly closed (table 4.4). Only FDI and, after the 1973 crisis, sovereign borrowing were allowed during this period.

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 its advocates—had to offset the erosion of real money supply due to a high structural inflation. A fast-growing nominal money supply and the ensuing high inflation were not seen as a major problem as long as they facilitated capital accumulation, while the difficulties faced in tax collection meant that the state relied massively on a highly regressive “inflation tax”. Most countries adopted fixed nominal exchange rates which often led to a real appreciation, a contraction of non-commodity exports and the weakening of the trade balance. Trade and corporate income taxes (characterized by many exemptions) and a myriad of *ad hoc* taxes and excises generated on

Table 4.3
Political and policy regimes of the seven models

Political– policy dimensions	Index	Metric	Latin America ISI 1950-1975	East Asian Miracle 1960s-1970s	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	-7.00	8.74	7.94
	Freedom House	Period average	1.91	2.22	1.52	1.05	3.00	1.35	1.44
Dominant class			State and nationalist Bourgeoisie	State and nationalist Bourgeoisie	Financial technocracy	Liberal and populist parties	Communist Party and new elites	Alliances of political elites and private business	Broad class alliances
Policy regimes									
Trade openness	Type of regime		Fairly closed	X promotion slow M liberalization	Free trade	Free trade	X promotion 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		Closed	Closed	Open	Open, big exter. 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 Institute Index	Period average	3.08	5.00	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		Expansive	Prudent	Prudent	Prudent	Prudent	Expansive	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	Promoted lab. intensive sect.	Regressive	Regressive	Segmented	Very segmented	Progressive
Human capital formation policy			Limited	Strong	Falling	Falling from high level	Falling from high level	Gradually increasing	Growing

(cont'd)

Table 4.3 (cont'd)

Public 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: Cornia and Uvalic (2012) on the basis of the sources indicated therein.

Notes: The Polity2 index ranges between +10 (strong democratic institutions) to -10 (strong autocratic institutions); the Freedom House index varies between 1 (free), 2 (partly free) and 3 (not free); for the Kaopen index see the notes to table 4.1; the index of controls on the international capital movements ranges from 0 (total controls) to 10 (no controls). A bold number indicates an acceptable degree of democracy. See note 2 for the countries in Eastern Europe.

average a low 10 per cent of GDP, as hardly any tax was levied on personal income and wealth. At the same time, industrial subsidies placed a large burden on the state budget and raised the deficit, which was financed by means of the seigniorage, “financial repression” or foreign borrowing at variable interest rates.

In addition to tariff and non-tariff barriers, industrial policy supported the infant industry by means of subsidized inputs and credit, the creation of infrastructure, an overvalued exchange rate, and low food prices so as to keep real industrial wages low. However, this approach entailed large budgetary outlays and affected allocative efficiency, which was further exacerbated by limited competition among domestic firms. As energy saving and environmental protection had not become a global priority, no policies were launched in these areas.

Workers in the modern sector were covered by collective bargaining and social insurance and enjoyed fairly high salaries relative to GDP/capita, while the workers in the informal and rural sectors had low earnings and no insurance coverage. With few exceptions (Chile, Costa Rica and Uruguay), welfare improvements were inferior to those achieved in other regions or obtainable on the basis of available resources. In addition, while in South-East Asia the anti-rural bias of the ISI approach was in part offset by a progressive land reform and rising rural school enrolments, such measures were conspicuously absent in the ISI-LA model.

Economic, social and environmental outcomes

It is beyond question that the ISI strategy led to 20-25 years of an almost uninterrupted GDP growth averaging 5 per cent a year, a diversification of production structure, technological upgrading, and an expansion of the

Table 4.4

Comparison between the economic, social and environmental outcomes of seven development strategies

Policy area	Index	Measure	Latin America ISI 1960s-1970s	EastAsian miracle 1960s-1970s	Latin America WC 1981-2002	Eastern Europe 2000-2010	Chinese model 1990-2010	Indian model 1990-2010	Latin America OERG 2002-2010
Fiscal performance	Budget deficit/GDP	Period average	-2.00^a	-0.20^b	-3.80	-3.10	-2.00	-7.60	-1.10
Current account balance	CA/GDP	Period average	-1.60^a	..	-3.80	-5.50	3.60	-1.00	-1.20
Foreign Debt	Stock of foreign debt/GNI	Period average	32.30	40.00	76.50	70.50	13.60	23.10	44.40
		Yearly variation	2.00	1.22	0.55	5.22	-0.31	-0.52	-4.85
Growth performance	GDP growth ^c	Yearly % change	5.00	9.10	2.40	4.00	9.90	6.50	4.50
Income inequality	Gini Index	Period average	47.40	32.30	50.30	29.80	37.10	33.10	51.80
		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	0.10	0.05	0.13	0.07	0.10
Structural transformation	Industry VA/ GDP	Period average	31.80	29.70	31.70	31.60	46.00	26.90	31.50
		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 (%)	7.10	3.50	22.20	11.60	0.00	0.00	8.70
	Mean drop when GDP growth < 0	Period average	-4.56	-2.79	-3.79	-7.72	0.00	0.00	3.03
Environmental impact	CO2 emissions/ GDP (Kg/1 million \$)		0.57	0.74	0.66	2.10	3.58	2.49	0.67
Food security	Calories per capita/day	Period average	2,282	2,660	2,469	3,140	2,834	2,296	2,599
	Protein per capita/day	Period average	60.9	70.4	65.1	91.7	80.9	55.2	70.7

Source: Cornia and Uvalic (2012) on the basis of the sources indicated therein.

Notes: a refer only to Argentina, Brazil, Chile, Mexico and Venezuela; b refers to the Republic of Korea only; c the growth rates for the Taiwan Province of China are from ERS International Macroeconomic Dataset. Bold numbers indicate "positive" outcomes. See not 2 for the countries in Eastern Europe.

industrial base (table 4.4). Growth was also relatively stable, as only 7.1 per cent of the country/years recorded negative growth rates. While the tax, fiscal and monetary policies accommodated (or led to) high rates of inflation, the budget deficit averaged a modest two per cent of GDP (table 4.4) though the foreign debt grew by two GDP points a year. Finally, despite a widespread overvaluation of the exchange rate, the current account deficit remained manageable, while banking and currency crises were not allowed to come into the open due to a widespread “financial repression”.

An important achievement of the ISI policy was a sizeable increase in the industry share in total output (table 4.4), though this objective was at times achieved at the cost of microeconomic efficiency. The results in the field of education were similarly unbalanced, as an increase in the level of education of industrial workers went hand in hand with a neglect of rural education and a narrow approach to secondary and higher education.

Income inequality stagnated at a high level, as the ISI strategy did not try to reduce the high concentration of land and human capital, “curse of natural resources” and urban bias of public policy affecting the region. Thus, despite a robust growth and a non-negligible structural transformation, inequality rose with the partial exception of Argentina, Costa Rica and Uruguay. Due to the ISI’s urban bias, rural incomes stagnated while access to the land remained problematic for millions of landless peasants. Thus, food security remained precarious both because the average availability of calories and proteins rose slowly (table 4.4) and due to a persistently skewed distribution of income. Finally, given the low initial level of consumption per capita and industrial development, even a robust growth caused a modest environmental contamination and CO₂ emissions (table 4.4).

The development strategy of the East Asian Miracle (EAM)

Political trends and dominant class

The EAM evolved under authoritarian regimes which promoted a “shared growth” approach and so counted on the support of the middle class. Its success also depended on the competence of the bureaucracy and on the creation of institutions to ease the coordination problems among firms and with the state. Johnson (1982) argued that the EAM success was due to the combination of some of the best features of both the capitalist and socialist systems, and avoidance of the major weaknesses of each.

Policy approach

Trade policy in the region changed around the mid-1960s when governments devalued the national currency and targeted a competitive exchange rate, selective exports were subsidized, the protected firms were asked to export a quota of their output, and general trading companies were created to promote the exports of small firms (World Bank, 1993, table 1.5). Import tariffs were gradually reduced to an average 5 per cent (table 4.3) except for sectors facing a strong foreign competition. As a result, the share of the EAM countries in world manufacturing exports rose from 1.5 per cent in 1965 to 5.3 per cent in 1980. The capital account was broadly closed. In spite of this, capital accumulation was very rapid thanks to a high savings rate and a policy of “financial restraint” (Hellman, Murdock and Stiglitz, 1997).

Monetary policy targeted an inflation rate of 5-10 per cent, low positive real interest rates on deposits, deposits insurance and limits to the maximum interest rate on loans (World Bank, 1993). Governments maintained a tight control of the banking systems, actively mobilized domestic savings and channelled credit on a preferential basis to key industries. The fiscal and monetary stance aimed at ensuring macro stability and avoiding the accumulation of public debt. Budget deficits rarely exceeded 2 per cent and seigniorage 1-2 per cent of GDP. In the early years the governments imposed steep wealth taxes, but later avoided placing too heavy a tax burden on firms. A key feature of the EAM model was a selective industrial policy focusing on “picking the winners” (steel, shipbuilding, and so on) and supporting them by means of tariffs, preferential credit allocations, investments in research and infrastructure, imports of technology and pro-FDI incentives. While industrial policy can cause efficiency problems, the EAM countries limited the costs and duration of such interventions and withdrew support when the targets were not achieved (World Bank, 1993). As there were no major environmental concerns, public policy did not adopt specific measures in this area.

The Taiwan Province of China and the Republic of Korea enacted equalizing land reforms and promoted the development of rural infrastructure thus broadening the market for simple consumption goods. Labour policies emphasized the creation of new jobs rather than wage increases while social insurance remained undeveloped (in the Republic of Korea unemployment insurance was introduced only after the 1997 crisis). Social benefits were modest as families were given the role of being the main welfare providers. Meanwhile, full employment and fast and egalitarian GDP growth reduced

poverty and the need for anti-poverty transfers. All EAM countries allocated considerable resources to human capital formation, in particular secondary and higher education on science and technology. As a result, the number of scientists per 100,000 people reached levels 3-5 times higher than those of other countries with similar GDP/capita.

Economic, social and environmental outcomes

Though some economists have criticized the “extensive nature” of the EAM pattern of growth, most of them agree that it generated excellent results in many areas (Wade, 1992). Growth averaged over 9 per cent a year (table 4.4) while cyclical fluctuations were minimal (Wade, 1992). Inflation remained below 10 per cent, the average budget deficit was small, the current account balance was in most cases positive, and the public debt/GDP ratio rose by a tolerable 1.2 points a year (table 4.4). Banking and financial crises were rare. Fast growth was accompanied by an equally rapid change in the structure of output and exports and technological upgrading, as shown by 0.89 points average surge per year in the share of industry in GDP (table 4.4) which turned these economies into very efficient manufacturers in just two decades, also thanks to the 0.11 points annual increase in the average years of education of the labour force (table 4.4). Another important achievement was a decline of inequality from already low levels. In the Taiwan Province of China, for instance, the Gini coefficients 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. Meanwhile, rapid growth and supportive food prices and input policies reduced the urban bias of public policy. As a result, average food availability per person/day rose to 2660 calories and 70.4 grams of proteins, which, combined with reduced income inequality, ensured a broad-based access to food by most people. Though the attention to environmental issues was modest, the carbon emissions per one million US\$ of value added remained low (table 4.4), signalling a fairly efficient energy use.

Latin America’s Washington Consensus (LA-WC) 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. Even after the return to

Figure 4.1
Trend in the political inclination of the governments of
18 Latin American countries, 1990-2009

Source: Cornia (2011).

democracy, the traditional parties and the new élites retained control of political life (figure 4.1). Such a model differed from the prior LA-ISI, as it focused on macro stabilization and liberalization and neglected growth, structural change and inequality.

Policy approach

Trade liberalization reduced tariffs from 45 per cent during the two prior decades to 15 per cent over 1980-2002 while quantitative restrictions were reduced even more. A similar, if less marked, liberalization concerned the capital account, as suggested by the Kaopen and the Frazer indices (tables 4.1 and 4.3). The LA-WC strategy focused on reducing the budget deficits and high inflation inherited from the LA-ISI regime and on tackling the debt and fiscal crises of the early 1980s. Yet, the deficit was not reduced through a rise in low tax/GDP ratios but by means of cuts in public expenditure which depressed growth and revenue collection, leading in this way to an “illusory adjustment”, as the deficit widened again in line with the adjustment-induced slowdown of GDP (Perry and others, 2008). Trade taxes were

replaced by VAT and other consumption taxes, while personal income tax was reduced or abolished (Cornia, 2012). Monetary policy remained procyclical as inflation was controlled through changes in the money supply, rises in interest rates, constraints to credit expansion and the adoption of fixed nominal exchange rates. As a result, after peaking in the 1980s and early 1990s, during the rest of the decade inflation fell to 7-11 per cent (table 4.2). Though contributing to rapid disinflation, the fixed pegs unavoidably entailed an appreciation of the real exchange rate, a loss of competitiveness, rising unemployment, job informalization, wage compression, and rising current account deficits which were offset by FDI or portfolio inflows.

Particularly in the authoritarian Southern Cone regimes, public policy reduced the scope of collective bargaining, relaxed regulations on dismissals, suspended wage indexation, and reduced minimum wages. These measures severely affected jobs creation, unemployment, job informality, average wages (table 4.5), and the coverage of social insurance. The 1980s and 1990s also witnessed the launch of semi-autonomous Social Emergency Funds (SEF) aimed at compensating the “adjustment poor” by means of income-maintenance programmes. However, these programmes had a limited impact on the number of unemployed and “adjustment poor” (Cornia 2001). The LA-WC model did not adopt any industrial policy which was thought would distort resource allocation. As a result, tariffs were reduced sharply and state subsidies cancelled. Though problems due to climate change had been gradually accumulating, between 1980s and 2000 no high-profile environmental policies were launched in the vast majority of the countries of the region.

Table 4.5

Labour market trends for the Latin America region as a region, 1990-2009

	Activity rate (% of pop. of 15-64 years)	Unemployment rate (%)	% wage earners on total workers	% formal sector workers	Wage	
					Average monthly wage (constant 2000 US dollars)	Informal/Formal sector
1990	61.0	6.2	62.6	55.0	384	0.54
2002	63.0	10.7	60.9 ^a	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: a refers to 2000.

Economic, social and environmental outcomes

The LA-WC model generated a few positive results but worsened the situation in several areas. During the entire 1981-2002 period the regional GDP growth fell to 2.4 per cent per year (table 4.4), that is, below that achieved during the LA-ISI (5 per cent). In addition, the investment/GDP rate declined on average by 2-3 points. The region also experienced a high growth volatility and low resilience to crises, as 22 per cent of the country-years recorded negative growth. In addition, despite the strong emphasis placed on macroeconomic stabilization, the achievements in this area were modest (tables 4.2 and 4.4): the twin deficit hardly declined, the public debt/GDP ratio rose by 0.55 GDP points per year and so did the foreign debt/exports ratio. In addition, a botched domestic and international financial liberalization raised the number of banking, financial and stock market crises, which demanded huge and un-equalizing injections of state funds to prevent a collapse of the banking system. Indeed, the greatest failure of the LA-WC regime consisted in its poor results in re-establishing macroeconomic stability.

Unlike during the LA-ISI and EAM strategies, the share of industry in GDP declined, thus reversing earlier gains in terms of economic diversification

Figure 4.2
Trend in the average Gini coefficient of the distribution of household income per capita, Latin America, early 1980s to 2010

towards well-paid and higher-tech manufacturing jobs (table 4.4). In contrast, despite 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 reflected efforts carried out in prior decades. The 1980s and 1990s recorded also a drastic increase in already high levels of inequality (figure 4.2). On average, the Gini coefficient of the distribution of income rose by of 2.3 Gini points during the 1980s, and by 2.5 points between 1990 and 2002 (figure 4.2). The slow growth of these two decades, and a policy approach which focused almost exclusively on macro issues and neglected agriculture, did not increase a low average calories and protein supply per capita. In addition, stagnation in incomes per capita and a worsening of income distribution generated no improvement or an increase in the rate of malnutrition. Meanwhile, with slow growth of output and incomes, the carbon emissions per unit of GDP remained low.

The neo-liberal approach followed in Eastern Europe in 2000-2010

Political trends and dominant class

The last decade in Eastern Europe (EE)² saw a further consolidation of democracy. Populist and liberal parties dominated the scene, while social-democratic parties remained marginal. The region quickly moved from being highly egalitarian to being highly segmented, while the middle class was hollowed out and only the “new rich” enjoyed most benefits of liberalization and privatization.

Policy approach

During the 2000s, trade liberalization cut average import tariffs to 6.4 per cent while the exports/GDP ratio rose to over 50 per cent in most countries. Trade diversification was facilitated by the arrival of multinationals that restructured many firms and secured export markets. Financial liberalization was marked, as the capital account was liberalized for all types of inflows. The privatization of banks led to a dominance of foreign ownership which often exceeded 90 per cent of total assets. Increased cross-border borrowing contributed to a surge in foreign indebtedness which by October 2008 exceeded 90 per cent of GDP in Latvia, Estonia, Slovenia, Bulgaria and Hungary.

The priority given to macroeconomic stabilization kept inflation low by means of high interest rates and the use of the exchange rate as an anti-

inflation anchor. Although exchange rate regimes varied greatly³, the exchange rate policy was seldom used for promoting exports, as a tight monetary policy in combination with increasing capital inflows often led to the appreciation of national currencies. Only the countries with more flexible exchange rates were able to adjust to external shocks, including the recent ones (Nutti, 2009). A cautious orthodox approach kept public deficits low until recently, while the public debt remained substantially lower than in other regions. Tax policy simplified tax regimes, lowered tax rates, and pivoted around fairly low VAT and flat-tax rates for both personal and corporate income (Cornia, 2011). None of these countries implemented a pro-active industrial policy, and enterprise restructuring and technological upgrading were carried out mainly when state enterprises were purchased by foreign investors (Kolodko and Nutti, 1997). The environmental problems inherited from the communist era were reduced in part, but CO₂ emissions per unit of GDP remained among the highest in the world.

After the sharp increase in unemployment recorded in the 1990s, some improvements took place during the last decade. Yet, labour market policies remained weak: only some categories of workers qualified for unemployment benefits, the minimum/average wage ratio stagnated in many countries (Cornia 2011), consultation with the unions remained sporadic, and the coverage of collective agreements and trade union membership declined (Giannetti and Nutti, 2008). Social differentiation grew further and inequality rose, though less than in the 1990s and in China or India (table 4.4). Privatization benefitted only a small group, while the introduction of user fees in formerly free public services and greatly reduced social transfers contributed further to social polarization.

Economic, social and environmental outcomes

These policies led to fast GDP growth and, until recently, low inflation and fiscal deficits, but fared poorly in most other areas. A pattern of growth based on strong FDI inflows, fast expansion of bank credit and increasing foreign borrowing raised the vulnerability of the EE economies to external shocks (Nutti, 2009) as already observed in Latin America in the 1980s. Furthermore, a rigid approach to macro policies reduced the space for fiscal, monetary and exchange rate adjustments to respond to external shocks, including on occasion of the sudden stop of capital inflows in 2009-2011.

Growth based on liberalization, privatization and FDI led to rapid deindustrialization and the fast expansion of services. In addition, the cuts in public expenditure caused a slowdown in human capital formation.

Though the average years of education remained by far the highest among the models considered, the average annual change indicates that the rate of improvement was the slowest of all analysed strategies. The liberal approach also had an impact on inequality, which, despite considerable GDP growth, continued to worsen during the 2000s, exacerbating popular dissatisfaction (EBRD, 2006). Meanwhile, the policy of real appreciation favoured massive food imports at the expense of local production, but food security was not a problem (indicators in this area remained the best among the seven models considered). Finally, the carbon emissions/GDP ratio remained the third highest among the seven strategies considered (table 4.4).

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

Political trends and dominant class

Regional decentralization has limited the power of the central government, but the Communist Party still retains strong control over much of the economy, as power is in the hands of the communist elite in close alliance with a new bourgeoisie of “red-hat capitalists” (Bardhan, 2010). Decentralization has also led to the creation of local alliances between the bureaucracy and businesses, as about one third of private entrepreneurs are members of the Communist Party. Meanwhile, a few state-owned enterprises are controlled by powerful political families (Bardhan, 2010).

Policy approach

China substantially opened up its economy after joining the WTO in 2001, though average tariffs remained relatively high, at 16 per cent. Capital controls have remained important as China opened its capital account selectively, primarily to FDI (table 4.3). This approach has prevented the entry of short-term speculative inflows as well as free capital outflows, with the result that China recorded a surplus on both the current and capital account over much of the past two decades. However, such surpluses were not used to import capital goods, technology or managerial skills but to buy US treasury bonds, making China a capital-exporting country (Yongdin, 2006). A restrictive monetary policy kept inflation under control. Since 1995, China officially adopted a managed floating exchange rate, although the currency until 2005 was *de facto* pegged to the US dollar. Thereafter

the central bank allowed greater exchange rate fluctuations, which led to a strong currency appreciation. A prudent fiscal policy kept the average fiscal deficit at 2 per cent over the period considered. The tax burden has been relatively low, though rising after 2000. Since 1994, a marked reform of the tax system centralized revenue collection and allocation, but centre-local fiscal relations have not been effective in reducing income disparities across provinces.

China has applied a highly interventionist industrial policy. Though half of the GDP is generated by the private sector, the state still controls important industries (Wu, 2011). Export-led growth has been promoted through special economic zones, incentives to export-oriented firms, and incentives to FDI (low tax rates, tax rebates, long tax holidays, low or negative rents on use of land, and so on). The state-owned banks played a crucial role in industrial finance and have been at the service of a state-directed industrial policy. FDI traditionally concentrated in capital-intensive projects, large-scale infrastructure, high-tech and service industries, though recently policy has emphasized the promotion of research and development, high quality education and biotechnology. Energy-intensive industries still dominate the economy, presenting great challenges to decoupling CO₂ emissions from growth.

China has a dualistic economy and a segmented labour market. The new 2008 labour law partially secures the tenure of long-time workers. At the same time, the post-1994 tax reforms reduced the capacity of local bureaucracies to serve social needs. Schools and hospitals have been commercialized to such an extent that the poor are often priced out of social services (Bardhan, 2010). The decline of basic services, inadequate fiscal transfers and high fees reduced substantially access to social services, particularly for the poor. 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

The Chinese model has produced a very high growth rate of GDP and considerable macroeconomic stability, but also rapidly increasing inequality and environmental degradation. Despite China's growth integration into the world economy, high foreign reserves have protected it from external shocks. China has a low foreign debt which shrank over the last 20 years. Rapid structural transformation has taken place through fast industrialization and exports growth. Human capital formation has

been falling from medium-high levels, however, due to a drop in public expenditure, though there have been improvements in some areas, as for the years of education of people above 25 (table 4.4). As noted, China also experienced a very rapid increase in income inequality. China does not face a major food problem, as its food indicators have been better than in India and slightly better than in Latin America (table 4.4). Since China relies on coal to meet 70 per cent of its commercial energy needs (compared with 16 per cent in Europe), its CO₂ emissions per unit of GDP are the highest of all models considered (table 4.4).

The Indian service-oriented approach over 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 fragmented societies in terms of language, religion, caste, and ethnic divisions. The Congress Party used to coordinate negotiations among different political groups but with time has lost power. The old rent-sharing equilibrium has changed in favour of a capitalist class which operates in close cooperation with the political elites while local level democracy is inadequately developed and corruption remains widespread (Bardhan, 2010).

Policy approach

Trade liberalization was introduced following India's entry in the WTO in 1995, with the removal of quotas, a reduction in import tariffs and the abolishment of restrictions on FDI (except for financial services, the media and retail trade). Nevertheless, average tariffs remained at over 30 per cent (double those in China) over the 20-year period considered (table 4.3). India's trade/GDP ratio increased from 16 per cent in 1990-91 to 45 per cent in recent years, thanks also to fast-growing exports of information technology services which have attained a world reputation, though they employ less than half a per cent of the total labour force (Singh, 2009). The liberalization of capital outflows has been gradual and restrictions on foreign purchases of Indian bonds, resident outflows and corporate borrowing remain in place. Yet, the opening up has raised external dependence, leading to growing current account deficits.

A conservative monetary policy has kept inflation low, though after 2007 it rose to 12 per cent by 2010. The central bank has heavily managed the exchange rate and only recently has allowed some flexibility to absorb

pressures from capital inflows. The monetization of government deficits was frequent in the past, but it was discontinued after 2003. Since official lending rules have remained rigid, India has one of the highest costs of financial intermediation in the world and private firms pay interest rates twice as high those charged in China. Tax reforms undertaken in the 1990s have significantly lowered and restructured direct and indirect taxes. Expansionary fiscal policies have produced an average 7.6 per cent budget deficit/GDP ratio over the 20-year period and a public debt of 75 per cent of GDP (table 4.4).

India's industrial sector has traditionally been heavily regulated (Bardhan, 2010). Private firms have played a subsidiary role with respect to strategic state enterprises which were supported through regulated interest rates, preferential credit allocations and the licensing regime. Though many restrictions were abolished, the government still holds considerable power over new firms in getting land, water and electricity connections and environmental clearances. Important bottlenecks remain in infrastructure, with serious underpricing of water, electricity, fertilizers, and domestic fuels. Pollution, degradation and over-exhaustion of soils has led to declining quality of cultivable land and to crop failures. Measures to control environmental degradation so far have been modest.

Caste, religious and gender-based discrimination are behind a highly segmented labour market where employment opportunities and wages differ dramatically across social categories (Ghosh, 2010). Restrictive laws on hiring and firing labour limit employment in labour-intensive manufacturing, preventing a shift of the labour force out of agriculture (Singh, 2009). Only 15 per cent of the population has any health insurance and the share of out-of-pocket spending on health care exceeds 70 per cent (Bardhan, 2010). Social services remain of low quality, so people frequently turn to private providers. No major improvements have taken place in literacy, educational attainment and infant mortality (Ghosh, 2010).

Economic, social and environmental outcomes

India's development strategy has led to fast economic growth and considerable resilience to external shocks. However, the pre-2008 economic boom was dependent upon exports of services, capital inflows and the role these played in underpinning a domestic credit-fuelled consumption and investment boom (Ghosh and Chandrasekhar, 2009: 725). Since 2008, macroeconomic stability has been endangered by increasing inflation and rising fiscal deficits.

Despite important structural changes, there was no major reallocation of the labour force to higher productivity and better remunerated activities. Agriculture continues to account for well above half of the total workforce, even though its share of GDP is now less than 15 per cent (Ghosh 2010). Human capital formation has remained dismal while the delivery of essential social services has become highly non-egalitarian. India scores worst, among all policy regimes, regarding the years of education of people over 25 (table 4.4).

The impact of growth on poverty reduction has been weaker in India than in China, due to less favourable initial conditions, greater land, education and social polarization, and slower growth. The increase in wage inequality is also consistent with the mounting skill-intensity of India's growth pattern (Singh 2009). Malnutrition remains a serious problem; food indicators are the worst in comparison with the other models analysed (table 4.4). Coal still accounts for 53 per cent of commercial energy demand in India, so the CO₂ emissions per unit of GDP is the second highest among the policy models analysed while environmental degradation, particularly in agriculture, remains high (Bardhan, 2010: 16).

Latin America's "Open Economy Redistribution with Growth" (LA-OERG) model, 2002-2010

Political trends and dominant class

During the last fifteen years, Latin America witnessed a return to democracy, its consolidation and a shift towards left-of-centre regimes (figure 4.1) which placed growing attention on social justice while following a prudent approach to macroeconomics. In most cases, policy was consistent with the "Redistribution With Growth" model (Chenery and others, 1974) rather than with the more radical "Redistribution Before Growth".

Policy approach

The free trade measures adopted in the 1980s and 1990s were not overturned and any remaining anti-export bias was eliminated (tables 4.1 and 4.3). However, there was an increase of trade within the region and with East Asia. The region also sustained the openness of the capital account (though controls on portfolio flows were introduced in some countries), external indebtedness was reduced and currency reserves soared. Most

countries introduced stricter regulations of their banking system, while assigning to state banks a greater role in the financing of economic activity.

As for the macroeconomic policy, during periods of bonanza the authorities controlled the expansion of money supply through the accumulation of reserves and sterilization, while during the crisis of 2008-9 they adopted counter-cyclical monetary and fiscal policies. Most countries abandoned the fixed peg regimes and opted for a managed exchange rate (table 4.3). However, in spite of these measures, the extra-regional real exchange rate appreciated by 4.8 per cent for the period as a whole owing to export bonanzas, capital inflows and remittances. The last decade witnessed also an intensification of past efforts at reducing the budget deficit by raising progressive income taxes, taxing the informal economy, introducing a financial transaction tax and making excises less regressive.

The OERG model has generally lacked an explicit industrial policy. At the same time there was an increase in investments in human capital, focusing in particular on secondary education and on the children of the poor (Cornia, 2012). Despite an already significant impact of climate change (Vergara, 2007), the region has not yet developed a low-carbon development strategy, and sooner or later might face a trade-off between GDP growth and CO₂ emissions.

Public policy explicitly addressed the problems inherited from the LA-WC regime by strengthening wage bargaining, formalizing employment, expanding social security coverage and raising minimum wages (table 4.5). Social expenditure continued the upward trend initiated in the 1990s (table 4.3), while its incidence became more progressive. In addition, all countries introduced progressive social assistance programmes (social pension, cash transfers, employment schemes) costing 0.2-0.8 per cent of GDP (Cornia, 2012).

Economic, social and environmental outcomes

The OERG model appears to have generated positive results in all but one area. It produced a satisfactory GDP growth of 4.5 per cent a year (table 4.4) driven in part by higher world commodity prices and a rise in the investment/GDP ratio. Though the region avoided a financial crisis in 2009, GDP decelerated on average by 3 percentage points despite greater export diversification and improved financial regulation. Improvements in growth, investments and food security were achieved in a context of low inflation and twin deficits (table 4.4) and the near absence of banking crises, while the gross foreign debt declined on average by 4.45 points of GNI a

year. However, with the exception of Argentina and Mexico, the share of industry on GDP did not increase (table 4.4) owing to continued pressures on the real exchange rate and a weak industrial policy, fuelling fears about a possible re-primarization of production and exports (Ocampo 2012).

One of the key achievements of the OERG model was a 4-point decline in the Gini coefficient (figure 4.2) due to an improved distribution of human capital among workers, a rise in minimum wages and transfers, better macro policies and more progressive taxation (Cornia, 2012). Average calories and protein availability per person/day rose to acceptable levels (table 4.4). While still widespread in Central America, the incidence of malnutrition fell due to rising incomes, a better income distribution and the subsidies introduced to head off the food crises of 2007-8 and 2010. Carbon emissions per unit of GDP remained lower than in other continents (table 4.4). However, the region contributes 25 per cent of all carbon sink losses due to deforestation in Brazil and Mexico.

4.4 COMPARING AND RANKING THE SEVEN DEVELOPMENT MODELS

The above review shows that all development models analysed produced positive results in some areas but that as a whole the East Asian EAM and Latin America's OERG models generated a greater number of positive outcomes,⁴ that is, ten out of eleven in the latter, and eight out of ten in the former (for which it was impossible to obtain current account data).⁵ Obviously, both regions are heterogeneous, and approaches varied among subgroups within each of them. Yet, these results are broadly in line with the discourse of the literature about the development impact of the strategies analysed.

Be that as it may, both the OERG and (especially) EAM strategies generated a fast GDP growth, falling inequality, a rapid accumulation of human capital, current account equilibrium (less so in the EAM), resilience to external shocks, low fiscal deficits and public debt (in Latin America), limited carbon emissions per unit of GDP and an improvement in food security. However, the EAM model set into motion a deeper industrial transformation than in Latin America. Moreover, the EAM's exceptional results were achieved under conditions of limited import liberalization, closed capital account, and freedom to conduct an active industrial policy, options now precluded for 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 individual and collective freedoms. If these two factors are taken into account, then the LA-OERG model appears marginally superior to the EAM. Yet, the OERG strategy has failed to promote an evolution of the industrial structure and it remains to be seen if it can do so in the years ahead.

The data in tables 4.3 and 4.4 show 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, inequality, macroeconomic balance, foreign debt, structural change and resilience to shocks. In addition, in several years of the LA-WC experiment, democracy was suppressed. The LA-OERG model also appears to have achieved better results than the LA-ISI which did reasonably well in the field of budget and current account balances, structural transformation, growth, resilience to shocks and carbon emissions, but failed in terms of inequality, human capital formation, food security, debt accumulation and, in part, democratic governance.

One of the interesting findings of the analysis is that both the EAM and LA-OERG strategies did better than the celebrated “Chinese export-led” and “Indian service-oriented” models. The remarkable achievements of these two large countries are no doubt some of the most positive news in recent economic history. However, both countries recorded a fast rise in income inequality (at 0.47 China’s Gini coefficient is now higher than those of Uruguay and Argentina), small or no gains in the field of health and social assistance, and rising environmental contamination. In addition, in China such achievements were obtained under a non-democratic (if slowly evolving) political regime. Finally, both the LA-OERG and EAM strategies (as well as the Chinese and Indian development strategies) appear to have over-performed the neo-liberal model adopted by 11 countries of Eastern Europe (EE-11). This was particularly true in most macroeconomic areas, inequality, human capital formation, structural transformation, resilience to external shocks and environmental impact.

Summing up, this paper suggests the following ranking of the seven development strategies: (i) LA-OERG (10/11, or 91 per cent success rate), (ii) EAM (8/10, 80 per cent),⁶ (iii) Chinese model (8/11, 73 per cent), (iv) LA-ISI (6/11, 55 per cent); (v) Indian model (5/11, 45 per cent), (vi) LA-WC (4/11, 36 per cent) and (vii) EE-11 (3/11, 27 per cent). Despite its many limitations,⁷ our comparative approach provides some indications about the nature of the development strategies which could be followed to achieve the MDGs

in the post-2015 era, while avoiding being trapped in the food, financial, inequality and environmental crises. As noted, the most suitable option could be a reformulation and update under democratic and open economy conditions of the East Asian model, the Latin America OERG model and, to some extent, the Chinese model. Yet, each of them requires adjustments to respond to new challenges, particularly in the field of climate change.

NOTES

- 1 The authors would like to thank José Antonio Alonso, Frances Stewart and a few members of the UN Committee for Development Policy for their insightful comments on a prior version of this paper, as well as Bruno Martorano for his comments and assistance in compiling the empirical material included in this paper. The usual caveats apply.
- 2 The 11 countries in Eastern Europe 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 it faced similar external constraints in the 2000s as most countries in this group, particularly regarding the growing current account deficit/GDP ratio.
- 3 Slovenia, Slovakia and Estonia have introduced the euro; Latvia, Lithuania, and Bulgaria have a currency board, Ukraine has adopted a dollar peg, while the Czech Republic, Hungary, Poland and Romania have a managed float.
- 4 The criteria used to consider as “positive” a given outcome are the following: budget and current account deficit smaller than 2 per cent of GDP; growth rate of GDP greater than 4 per cent; income inequality: a negative yearly variation; structural transformation: a yearly variation greater than 0.1 per cent; resilience to shocks: number of years with negative growth smaller than 10 per cent; Kg of carbon emissions per 1 million US\$ of value added smaller than 1; food security: calories and proteins availability respectively greater than 2450 and 65 grams.
- 5 The simple ordinal approach used to rank the seven development strategies in table 4 consists in assigning 0-1 scores to 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 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 HDI) would require the adoption of 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 any HDI-type approach faces a number of well-known problems. In view of all this, the results of our analysis have to be taken with a pinch of salt.
- 6 The current account criteria in this case is not considered because of the lack of data for the years considered.
- 7 A limitation of our evaluative approach is that we do not consider explicitly, as mentioned in the introduction, the impact of changes in world market conditions on the policies adopted and the outcomes achieved by the seven development models analyzed. A second problem 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 them (lack of an industrial policy in the LA-OERG example, impossibility to use selective trade policies for the EAM, and the continued repression of domestic consumption in the case of China) were duly highlighted in the paper but may derail these entire policy approaches in the future.

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