Working Paper No. 2012/71

Development Success: Historical Accounts from More Advanced Countries

Augustin Kwasi Fosu*

August 2012

Abstract

Based on eleven themes, this paper synthesizes in-depth case studies that present historical accounts on the development 'success' for a number of more economically advanced countries. The coverage includes Nordic countries (Denmark, Finland, Norway, and Sweden), non-Nordic advanced countries (Ireland, Japan, and Switzerland) and transition economies (Czech Republic, Hungary, and Poland), along with their respective country grouping syntheses. The overall thematic synthesis finds that the historical accounts are replete with recurrent attributes, which are likely to prove useful as development strategy guides for certain developing countries with the proximate conditions.

Keywords: development success, historical accounts, advanced countries

JEL classification: N10, O50, P52

*Deputy Director, UNU-WIDER, and Visiting Scholar, University of Ghana; Honorary Research Associate: Centre for the Study of African Economies, University of Oxford, and Brook World Poverty Institute, University of Manchester; email: fosu@wider.unu.edu.

This study has been prepared within the UNU-WIDER project on Country Role Models for Development Success, directed by Augustin Kwasi Fosu.

UNU-WIDER gratefully acknowledges the financial contributions to the project by the Finnish Ministry for Foreign Affairs, and the financial contributions to the research programme by the governments of Denmark (Royal Ministry of Foreign Affairs), Finland (Finnish Ministry for Foreign Affairs), Sweden (Swedish International Development Cooperation Agency—Sida) and the United Kingdom (Department for International Development—DFID).

ISSN 1798-7237 ISBN 978-92-9230-534-5

UNU World Institute for Development Economics Research (UNU-WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Typescript prepared by Lisa Winkler at UNU-WIDER

1 Introduction

By virtue of their success in growth and development, a number of economies have been transformed to ‘advanced’ countries. These countries may, thus, offer lessons for development to developing economies of today. Based on a select set of advanced countries, the following volume provides historical accounts on development lessons: A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*, Oxford: Oxford University Press (2012). The emphasis is on long-term growth and development. Thus, even though the performance among these selected countries was rather uneven during the recent 2008–10 global financial crisis for instance, it would be myopic to focus on the concomitant country performance as an indicator of success or lack thereof. Employing historical accounts, the volume is able to pinpoint certain useful aspects of each country’s development record within a longer term perspective.

Many other studies have, rather understandably, focused on countries in the developing world as ‘role models’ for other developing economies, since such successful countries’ 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. Country cases are selected ex ante for inclusion in the volume because they are believed to exhibit useful lessons based on successful development. This selection criterion does not, of course, imply that a successful country is necessarily the only case to offer a given set of valuable lessons. Nor does it mean that the country did everything right. Nonetheless, specific strategies pursued by all of the selected countries, and highlighted herein, have proved successful in the development process of these countries over the relatively long term.[1]

The usual format for each case study is to present at the outset the country’s ‘successes’. The case then attempts to delve into the respective root causes: initial conditions, local and international factors shaping the development strategy, relative contributions by domestic and external agents to the development process, as well as prognosis for future challenges. It must be emphasized from the outset, however, that development successes can seldom be replicated. What the volume targets are the implied lessons, derived from the historical accounts, which other countries with proximate conditions could draw upon. The volume is designed to capitalize on the important and unique attributes of the longer historical records of the relatively advanced countries. Of course, what worked in the global economy 100 years, 50 years, or even 25 years ago may not be directly applicable today in the more globalized development environment, especially in trade and finance. For example, the international context for export-led manufacturing has changed radically over the last decade or so under the WTO, and so has the level of competitiveness among countries. Having withstood the test of time, however, many of the advanced countries, as documented in the volume, have salient historical accounts

[1] Indeed, the case studies show that the development process was not necessarily linear in many instances, with missteps along the way. The ability to recognize mistakes ex post would be instructive. Furthermore, current and future challenges are discussed, as lessons are drawn, in all the cases presented in the present book.

that could prove useful for development strategies. The derived lessons may, in certain cases, actually be more reliable than those based on countries still undergoing active development, several of which are yet to evince inter-temporal 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 economies, which are also included in the present book, may additionally be quite instructive. At the very least, they should offer hope to many developing countries around the world that transitioning from a planned to market economy can be appropriately managed. Understanding development strategies from a historical context may also point to the need to alter global governance, including certain WTO provisions, such as the trade-related investment measures (TRIMs) and the trade-related intellectual properties (TRIPs), in order to more appropriately accommodate the developmental requirements of especially the least developed latecomers. The volume is organized in three parts based on the following country groupings: The Nordics, Other Industrially Advanced Countries, and Transition Economies. Following the presentation of case studies for each part, a synthesis of the cases is provided, in order to highlight the most important aspects of the historical accounts for the grouping.

2 Synthesis

To encapsulate the messages emanating from the historical accounts, the present chapter provides the overall synthesis for the book under the following themes: (1) Market and public provision harmony; (2) Public financing; (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. Each theme is next discussed in turn based on the case studies, as well as on the syntheses for the respective country groupings.

2.1 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 the complementary infrastructures: education, health, ports, roads, security, legal tenets, etc. This paradigm has, of course, not been universally accepted throughout history. Nonetheless, the ‘success’ case studies presented in the volume provide considerable support for the paradigm.

Although the Nordic countries have traditionally relied heavily on government participation in the economy, the historical evidence points to leaving product provision generally in the hands of the private sector. It is true that Finland, for instance, engaged in interventionist policies: ‘public saving and forced saving, outright economic planning, the creation of publicly owned companies, selective industrial policy plus the rationing of credit to manufacturing sector capital investment at the expense of households’ consumption needs’ (Vartiainen 2012). Nonetheless, the government had a basic commitment in upholding the market economy. The Finnish policy strategy could, thus, be characterized as a 'judicious mix of heavy governmental intervention and private incentives' (Jäntti and Vartiainen 2012). Indeed, under the 'Swedish model', which is often viewed to be applicable generally to the Nordic countries, an active welfare state provides a basis for an 'efficient and knowledge intensive market oriented economy' (Kokko 2012).

The focus on investing in economic infrastructure to complement human capital has proved especially potent for development in most of our advanced country cases. A particularly vexing problem currently facing many developing countries entails the high unemployment of youths with secondary level education and emigration of those with tertiary education. That many of these individuals are often, furthermore, educated with non-trivial government subsidies suggests potentially large public capital losses. Much of this 'depreciation' could be attributable to the lack of adequate complementary investment by the private sector. That in turn is the result primarily of poor economic infrastructure (physical and institutional capital), which tends to be relatively immobile. Progress in this form of infrastructure has been painfully slow in many developing countries.

Development partners have usually emphasized expenditures in the social sector, e.g., in education and health, especially as part of debt relief under the highly indebted poor country initiative. Such an emphasis has its merits, on the one hand, as social sector spending tends to raise human development even if economic growth is stagnant (Fosu and Mwabu 2010).[2] That human capital is more mobile than economic infrastructure implies, on the other hand, that the expected 'social capital loss' can be minimized by paying greater attention to the latter (Fosu 2002). In effect, there needs to be a more appropriate balance between spending in social sectors and investing in physical/economic infrastructure, in order to minimize the risk of human capital loss by providing the complementary capital required for sustained growth and labour absorption.

The Ireland case study points to a major investment in physical and institutional infrastructures to complement human capital investment. Ireland, furthermore, demonstrates how the provision of such infrastructures, financed in part by EU funding, was instrumental in attracting FDI. Thus, the role of government in this regard is fundamental (Teague and Savage 2012).

The Japan case is similar. According to Kimura (2012), although there was considerable 'quantitative expansion of Japan's education system' during the post-war period until the mid-1970s, the focus of government investment was on economic infrastructure. Just as in developing countries today, economic infrastructure was a serious bottleneck for Japan in the post-war years and required special attention. Kimura (2012) further writes, 'Spending for social infrastructure was maintained at a low level, at around 30 per cent, while substantial amounts were allocated to economic infrastructure'. The point here, however, is not that social sector spending should be disregarded; it is that there ought to be a more appropriate balance with economic infrastructure, that is, if the benefits from complementarities are to be fully exploited.

---

2 For most African countries, improvements in education and health (life expectancy), rather than in GDP, were the main contributors to increases in the UNDP Human Development Index during 1970-2005 (ibid.).

Government may also appropriately intervene to guide market forces. Norway, for example, ensured sustained growth by avoiding the ‘Dutch Disease’, involving declines in the non-resource sector, a phenomenon that is often associated with resource-rich economies. To optimally capitalize on the exploitation of its oil resource, the ‘government focussed on technology transfers from foreign companies’ (Cappelen and Mjøset 2012). One of the main mechanisms was the establishment in 1972 of a state-owned company, Statoil. The company was instrumental in promoting in the university system the production of knowledge and learning related to the petroleum industry. As the supply of the 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 oil resource actually expanded the manufacturing sector, thus avoiding the Dutch Disease.

The 19th century Meiji state of Japan also offers a potentially useful lesson for the role of government. To modernize the industrial, transport and communication 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 (Findlay 2012). This constitutes, of course, a form of industrial policy involving sequential, rather than concurrent, subsidization. It is also similar to the ‘transfer’ of the hitherto heavily subsidized state-owned enterprises into private hands in many transition countries, though the trick was the efficiency with which the transfer was done. With many developing countries having faced or still facing privatization, the manner to which such a transfer is conducted could be quite instructive, an issue that is further discussed below.

The above examples suggest the historical importance of government in promoting development. That importance has not waned in today’s development environment. A crucial question, though, is whether a government is sufficiently capable of performing its expected role. The historical cases presented in the volume generally point to a well-developed and equipped public sector as an important initial condition.

2.2 Public financing

A critical dimension for the appropriate conduct of government’s role in development is financing, whether for direct public provision or in support of private production. The Ireland case study suggests that external support, such as the EU structural funds, could be useful in financing economic infrastructure (Teague and Savage 2012). Similarly, notwithstanding donors’ tendency to emphasize social sector spending, the success of the Irish financing experience suggests further that greater attention be paid to a more balanced approach of loan/ODA fiscal allocation that ensures the appropriate complementarity of economic and social infrastructures.

In the final analysis, though, developing countries must in the long run rely on domestic resources for funding. The Finland case of tilting funding toward business and away from consumption, via forced saving for instance, remains instructive. However, the current tendency of domestic financial liberalization to limit government intrusion may render such a policy less desirable in the present atmosphere. A more practical lesson here is the need for government, where feasible, to reduce its consumption and to generate savings for infrastructure investment. The specific mechanisms employed by

Finland in this regard (see Jäntti and Vartiainen 2012) may be worth serious consideration.

Taxing agriculture, especially export crops, has traditionally constituted a major source of domestic funding. Such taxation has had adverse growth consequences, however (Bates 1981; Rodrik 1998). The issue, though, 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 19th century Meiji of Japan offers a historical account bearing on the issue. Findlay (2012) writes: 'One useful lesson for contemporary developing countries was the manner in which agriculture was taxed directly by a fixed percentage tax on the assessed value of land, which gave the farmer the incentive of the full market price of the crop, rather than by export taxes or marketing board manipulations that have been so prevalent more recently'.

2.3 Social risk minimization under egalitarianism

The Nordic countries are often cited for their egalitarian qualities: gender, age, inclusive development, etc. The present case studies indicate that such attributes have been an important pillar for the Nordics' sustainable growth and development. Contemporaneous and inter-temporal inclusiveness of the welfare state assures citizens, ex ante, of its reliability and hence encourages (labour force) participation. The 'free-rider' problem associated with public provision remains, though. One way to mitigate this problem is through monetary disincentives for non-participation in the cost of provision. Indeed, the Nordics appear to have been moving in that direction generally (Andersen 2010). In addition to such disincentives, however, a certain amount of 'trust' (social capital or cohesion) is apparently required to ensure that others would equally share in the cost of production (Cappelen and Mjøset 2012). Trust 'makes transactions less costly and interactive learning more efficient' (Lundvall 2012). Indeed, 'the kind of 'social capital' that lies behind the dynamic efficiency of the economy emanates from the security offered by the welfare state' (Lundvall 2012). Furthermore, by helping build social capital and culture of trust, the relative homogeneity of Nordic populations is often cited as having contributed to meeting the requisite conditions for solving this free-rider problem.

As most developing countries' populations tend to be relatively heterogeneous, it is not apparent that the Nordic welfare model would be easily applicable. Nevertheless, it may still be feasible to provide a limited form of a safety net that guarantees a minimum level of income security with limited cost implications. Such a scheme would limit the risk for any randomly selected individual (regardless of economic or social attributes) falling below some critical level of standard of living. It could therefore create the social buy-in that is required to elicit citizens' willingness to contribute to the common good in support of a limited welfare state. The implied economic security should reduce the rate of time preference for the potential individual investor. That would, in turn, encourage risk-taking for longer term ventures, and thus facilitate the transformation of micro informal businesses to larger more efficient firms. It could, indeed, help militate against the engagement of households in the relatively inefficient subsistence form of economic activities.

The assurance of some standard of living 'floor' also facilitates the process of reform, as that minimizes the risk of citizens falling below daily subsistence, thus reasonably bounding the downside risk associated with reforms. For example, the Czech Republic established under transition a social safety net of unemployment compensation and social security benefits. This scheme helped galvanize support for the post-Cold War reform (Svejnar and Uvalic 2012).

Egalitarianism may also serve to insure against political disorder by minimizing polarization. Recent history of the Nordic countries shows a great deal of political stability, which has crucially supported growth and development. In particular, security provided by the welfare state helped to garner political support for transitioning from a rural-based resource economy to an urbanized industrialized one. As Vartiainen (2012) writes, 'the development of a capitalist and internationalized market economy coincided with the introduction of social insurance that mitigated the risks'.

2.4 Social welfare sustainability in resource economies

The Norway 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 discussed above. Nor is it common knowledge that Norway, or the Nordic countries generally, had historically been primarily a resource economy—fisheries, forestry, and hydropower generation. However, the country had already garnered rich experiences with resource management and had achieved high industrialization before the oil discovery. Democratic institutions were already solid as well in Norway, as in the case of the other Nordics, and remained resilient to the potentially corrosive power of oil (Cappelen and Mjøset 2012).

As presented above, Statoil was created in 1972 to address the issue of the potential problem of Dutch Disease by linking the oil sector with the rest of the economy. Nevertheless, Norway experienced a host of problems thereafter: fluctuating revenues emanating from volatile oil prices, escalating debt, high inflation, and declining non-petroleum sectors of the economy, inter alia. These are, of course, the usual ills experienced by many resource-rich developing economies. To deal with these problems, as well as limit the potential corrosive power of oil, Norway introduced policy rules. In particular, the Norway Petroleum Fund, now called the Norway Pension Fund, was established in 1990, two decades after the country's oil production began in 1970. To delink the economy from the vagaries of the oil revenues, a key policy associated with the Fund was that only the expected earnings from it (estimated to be 4 per cent of the domestic value of the fund) would be transferred to the state budget every year, with any change in the transfer rules to be approved by parliament. In effect, the fund was treated as an endowment fund (ibid.).

Many developing countries today face budgetary difficulties, and it would be unreasonable to treat a resource revenue fund strictly as an endowment fund with only the earnings considered spendable. However, as the recent case of Nigeria aptly demonstrates, it is not enough to just set up a fund.[3] A well-defined legal framework for

---

[3] In 2003, Nigeria also established the Excess Crude Account (ECA), intended to save windfall revenues during periods of above-benchmark high oil prices. By 2007, the Account had accumulated US$17.3 billion from its level of $5.1 billion in 2004 (Sovereign Wealth Fund Institute – Nigeria, website, 2/19/2008). 'However, permissive governance structures have allowed extensive ad hoc withdrawals, reducing the ECA balance by almost 85%, or 16 billion dollars, in just 18 months'. (*Africa News*, website, 30 July 2010). Unlike the case of the Norway Petroleum Fund, Nigeria's ECA

the fund's operation must accompany the setup ex ante, as in the case of Norway's Pension Fund. The most important emerging prospective policy here is the need to insulate the resource revenues from political whims. The exact criteria in terms of the inter-temporal distribution of the revenues should, however, be determined on a case-by-case basis, depending on a country's circumstances.

2.5 Openness cum institutional capabilities

Openness played a major role in the success stories in a large number of cases presented in the volume. All the transition economies adopted openness to various degrees, though in each case there was a reorientation from the traditional Council of Mutual Economic Assistance toward the EU, along with increasing competition in domestic markets. Each of the other developed countries included in the volume has been highly open as well 'during the most successful phases of their development, with Switzerland as the most consistently so' (Findlay 2012).

As a small, landlocked country, Switzerland has relied for centuries on external trade. Except for agriculture, the country has pursued 'open borders' with the rest of the world. This 'economic competition' is credited as one of the two key factors for the country's success, the other one being 'political contestability' (Weder and Weder 2012).

In the most recent history paralleling that of most developing countries of today, however, the story of Ireland may be the most instructive. Like many developing countries, the country engaged in substantial import substitution from the 1930s into much of the 1950s. However, this 'self-sufficiency programme was a disaster for the Irish economy, retarding economic growth and industrialization, causing employment generation to falter…' (Teague and Savage 2012) Openness, more precisely courting FDI, began in the 1960s. FDI is credited with the major economic success of the country, especially over the last decade or so. The success of this courting, though, hinged not so much on openness per se but on building domestic institutional capabilities: improving macroeconomic stability, and strengthening institutional and human infrastructures.

The Ireland case is particularly instructive. Openness has been credited with the tremendous growth of the country during 1990–2007, mainly as a result of the various domestic institutions that the country established to take advantage of its liberalized regime. Yet, as Teague and Savage (2012), further argue, there was still not sufficient institutional capability to rein in the excesses of the financial sector, resulting in the death of the 'Irish Miracle' during the 2008–10 global financial crisis. Another example provided for the Irish case is the collapse of 'social partnership' that seemed to have worked so well earlier in fostering peace among government, business, and labour in the light of openness. Indeed, Teague and Savage (2012) bemoan:

---

does not have a well-defined legal framework for its operation, allowing powerful political interests to prevail on its disposition (ibid.). The withdrawals might be prudent in terms of meeting unanticipated exigencies, as associated with, for example, the 2008–09 economic crisis; however, the process also underscores Nigeria's weak governance and the lack of ex ante rules for the Account's operation.

‘A national regime of social partnership was hugely important to economic success during the 1990s, but its influence weakened continuously in the following decade until it collapsed in 2009. The problem was that too little effort was made to genuinely embed social partnership within the domestic governance structures for the economy and society. Thus, a really useful institutional innovation that would have strengthened domestic problem solving and learning was allowed to wither away’.

The institutional infrastructure for Ireland included in-built measures for performance and transparency, as well as for cost-benefit analysis. Also strengthened were ‘best-practice’ financial and accounting methods for evaluation and monitoring. A noteworthy point here is that the EU awarded ‘structural funds’ to Ireland (2.3–3.0 per cent of Irish GDP) to help the country gear up for EU monetary union membership. These funds ‘did positively contribute to the economy, particularly by helping to finance a wide range of infrastructural projects’ (Teague and Savage 2012). Thus infrastructural strengthening was aided by such fiscal transfers. Perhaps just as importantly, there were strict best-practice requirements attached by the EU for expending these funds. And, ‘when these methods were found to create high standards of programme transparency and financial accountability, the Irish government ‘mainstreamed’ the procedures to manage all public projects in the country’ (ibid.).

The EU fiscal transfers to Ireland could actually be viewed as official development assistance (ODA). Furthermore, the strings attached to the transfers could similarly constitute a form of ‘donor conditionality’. Yet, conditionality associated with present day ODA is often criticised for its lack of efficiency and efficacy. The Irish case provides an interesting ‘best-practice’ example in terms of the effectiveness of external aid with donor conditionality.

Nor should institutional capability be limited to the domestic sector. Among the determinants of the policy space for developing countries are WTO rules. As 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 freely available technological ideas. Under WTO, however, this political space has now been severely limited, via particularly the TRIMs and TRIPs. While the former constrains government action, the latter limits the use of external technology. On the one hand, these measures have important merits, as they protect the viability of the international trading system. Unfortunately, on the other hand, the measures may be severely constraining for especially low-income and least developed countries. Finding ways to relieve the constraint for these countries, therefore, would help level the playing field for them, from an inter-temporal equity perspective at least.[4]

2.6 Social and political harmony

Social and political harmony is sine qua non for sustained growth and development. In some sense Switzerland of yesteryear, and even today, ‘has something in common with the many multi-ethnic and multi-confessional states of the developing world of today’ (Findlay 2012). Yet, the country has been able to achieve much political stability. Such an achievement was engendered via a high degree of ‘political contestability’, where the

[4] Although WTO also provided implementation-time windows for low-income and least-developed countries, these windows are long closed.

various cantons as well as interest groups are given potential veto power over issues (Weder and Weder 2012).

While the Swiss system has worked quite well so far, we must nonetheless be circumspect in its application elsewhere, as a critical requirement for its effectiveness is economic openness (ibid.). Weder and Weder (2012) caution that, the system could actually lead to ‘sclerosis if economic openness is lacking since short-term losers have considerable power to resist reforms’. Furthermore, property rights of natural resources would require appropriate delineation between localities and the central/federal government in order to obviate such sclerosis. Nonetheless, in countries represented by a relatively small number of ethnic groups defined by locality, the Swiss political model could be instructive. A higher level of local autonomy that assured non-marginal representation and greater ‘voice and accountability’ (Weder and Weder 2012) might go a long way toward minimizing the potential for rivalry and discontent that could sow the seeds for political disorder.

Hungary alternatively attained social and political harmony via ‘limited pluralism’, where ‘interaction between the leaders and the population created a continuously evolving set of interrelationships and change…’ (Csaba 2012). Also applied successfully in this regard was ‘embedded neoliberalism’, where major measures, contemplated or implemented, were subjected to broad approval across various social groups (ibid.).

Through its method of allocating public assets during transition, the Czech Republic also paved the way for social and political harmony. The Czech privatization was conducted through a ‘mass’ voucher allocation, which engendered equitability and thus minimized potential domination of the economy by few politically connected individuals. In addition, the Czech government ensured that unemployment remained low during much of the 1990s by limiting the closure of public enterprises. This action then assuaged the economic and social pain associated with the adjustment, as well as fostered partnership with labour (Svejnar and Uvalic 2012).

Ireland also engaged in ‘social partnership’ through a mechanism for mediating between business and labour. Such a process allowed real wage increases but resulted in decreasing unit labour cost, as wage growth fell short of productivity increases. Even though the public sector was excluded from this exercise, the rapidly rising share of the private sector meant that the moderating influence of social partnership on the whole economy became increasingly important (Teague and Savage 2012). Similarly, under the ‘Danish model’, as in the other Nordic countries, the state played a key role in ensuring harmony between business and labour (Lundvall 2012). According to Lundvall, ‘the most important is the state’s mediation authority that can be called upon when disputes develop’.

2.7 Business-government partnership

Government played a crucial role in facilitating the operation of private business in order to maintain macroeconomic (and presumably social) stability, as in countries like Japan and Ireland. In the case of Japan, the Ministry of International Trade and Industry (MITI) was especially powerful in this regard. Although MITI is usually recognized as ‘picking winners’, Kimura (2012) argues quite persuasively that it often got it wrong, and the success of Japan’s industrialization was in spite of such an intervention by

MITI. If so, then trying to pick winners today would be even dicier; developing countries would be well-advised to stay away from such a strategy. What appears to be incontrovertible, though, is that MITI and other government organs succeeded in fostering reasonable harmony between business and government, consistent with the pursuit of industrial policy at the time.

Similarly, Ireland created the Industrial Development Agency (IDA), whose main objective was to attract foreign firms to the country. In this regard, IDA helped foster a complementary partnership between business and government. The role included ensuring that a more conducive business environment was created. This function included not only low corporate taxes but, perhaps more importantly, also the reduction of red tape as well as matching educational skills to the requirements of business (Teague and Savage 2012).

2.8 Complementary human capital

In most of the country cases presented in the volume, human capital in the form of basic and continuing improvements in education is cited as a crucial factor for effective development. In Japan, for example, universal primary education was in place by 1948, while enrolment increased tremendously in upper secondary school and also in junior colleges/university: by 50 percentage points, and 20 percentage points, respectively, between 1950 and 1985. These increases on the supply side complemented well the requirements of business (Kimura 2012).

Similarly, matching the education system to industrial requirements played a key role in the Nordic industrialization. As Lundvall (2012) argues in the case of Denmark, ‘The education system fostering personal competence and the system of lifelong training supported by the public sector match the industrial structure well’.

Ireland presents a particularly compelling case of the complementary role of education with production activity. To ensure that skill requirements for existing and prospective businesses were met, successive governments maintained high levels of investment in education. Consequently, the share of the labour force with upper secondary and tertiary education increased substantially. Particularly noteworthy was the rapid expansion of institutes of technology, which yielded high numbers of graduates with science and engineering degrees. Major curricular reforms were, moreover, implemented to emphasize practical skills that were more sensitive to the needs of business (Teague and Savage 2012).

2.9 Macroeconomic stability and policy consistency

The Bretton Woods Institutions have often emphasized in their reforms programmes the importance of macroeconomic stability—minimal inflation and budget deficits, both domestic and external. There has been much controversy about the relative emphasis placed on this pillar of reform. What the present case studies show, however, is that each of the country cases achieved meaningful macroeconomic stability, which is credited, in large part, with the sustained growth and development. According to Findlay (2012), all three countries (Japan, Ireland, and Switzerland) ‘provide strong evidence in favour of this view’. Switzerland for example is often cited for its financial stability, with low rates of inflation and unemployment supported by conservative

monetary and banking policies. Japan has traditionally also pursued conservative monetary and fiscal policies.
Moreover, the Nordic countries have generally employed stable monetary policies and fiscal discipline, via high taxes to balance expenditures in maintenance of the 'welfare state'. In particular, as observed above, Norway established the Petroleum Fund in 1990 precisely as a policy response to high inflation and increasing debt (Cappelen and Mjøset 2012).

The transition economies present a useful example of macroeconomic stability as well. Svejnar and Uvalic (2012) write, 'The cases of the Czech Republic and other Central and Eastern Europe countries show that inflation can be contained in the presence of robust economic growth'. These authors also caution, though, that 'excessively restrictive monetary policies can be detrimental and can impede fast catching up' (ibid.).

Ireland presents an excellent case of policy consistency. The government did whatever practicable to ensure that all policies were consistent with its core policy vision of economic openness and to portray Ireland as the country to do business. This consistency included successive Irish governments teaming up with various British governments to block passage of business costly EU social policies. As discussed above, the government also used social partnership arrangements, which moderated wage increases, in order to provide a stable labour environment for business (Teague and Savage 2012). Even at the height of its economic crisis in 2010, Ireland insisted on keeping in place its unusually low corporate tax rate (currently 12.5 per cent and 25 per cent on trading and non-trading incomes, respectively). Some observers may, of course, see such obdurateness as foolhardy given the country's apparently dire economic circumstances. Nevertheless, this stance is further testimony to Ireland's commitment to maintaining inter-temporal policy consistency. In the long-run, such a consistent position should prove attractive to not only FDI but also to domestic business. In the short-run, however, the country might be losing potentially substantial revenues.

Although the pursuit of macroeconomic stability or policy consistency may not be a sufficient condition for sustained growth, it is likely to be necessary. Avoiding policy reversals with respect to macroeconomic stability would minimize the fuzziness of market signals required for optimal resource allocation, which should prove crucial for long-term investment. Meanwhile, ensuring policy consistency, as in the case of Ireland, would fortify policy credibility, making it much more likely that development policy objectives would be achieved. In the short-run, though, there are likely to be considerable economic and social pain associated with such policies, necessitating the employment of social protection measures to mitigate the adverse social impacts.

2.10 Government capacity under transition

Maintaining government capacity in transitioning is crucial (Popov 2012). As the transition countries' historical accounts aptly indicate, even the adoption of the 'shock therapy' should be accompanied in the main by the availability of at least some critical level of capacity. Svejnar and Uvalic (2012), for example, argue that the subsequent economic success enjoyed by the Czech Republic was predicated, in great part, on the fact that 'the Czech government was reluctant to close large loss-making state-owned firms and tolerated significant inter-enterprise debt, which prevented massive lay-offs'. Not only did this policy buy social harmony, as alluded to above, but it also preserved government capacity that was later relocated to the growing private sector.

Similarly, in Poland, ‘neoliberal doctrinarism was abandoned for a pragmatic approach based on economic rationalism’ (Kolodko 2012). Kolodko credits the ‘commercialization’ of the public sector that preserved institutional capacity during 1994–97, rather than its potential destruction under ‘shock therapy’ in 1990–93, with the subsequent economic success of Poland. Liberalizing by allowing greater private enterprise operation and subjecting public enterprises to competition apparently resulted in ‘market selection’, with inefficient public enterprises eventually dying naturally. Finally, Popov (2012) argues that the preservation of government capacity, along with liberalization by the Central European Countries (including the Czech Republic, Hungary, and Poland) was a critical factor for successful transition. Popov writes: ‘The art of the policy maker is to create markets without causing the government failure, as has happened in many Commonwealth of Independent States countries’.

2.11 Industrial structure

The current technological world suggests that a more knowledge-based strategy be pursued for developing countries. Advances in technology, in particular the revolution in information and communication technologies (ICT), should facilitate the catch-up efforts of latecomers. Finland for instance was a predominantly rural society until the end of the Second World War, and a recipient of World Bank lending until the 1960s; however, the country has since successfully diversified away from dependence on timber and has developed a high-technology sector, which is now a world leader (Jäntti and Vartiainen 2012).

Strengthening institutional capabilities, Ireland has also admirably succeeded in restructuring its economy toward an ICT base; and so have several of the transition economies, which have shown that the use of ICT can help overcome initial conditions associated with transitioning from planned to market economies. This is a lesson that might be particularly relevant to many countries in Africa, Latin America, and elsewhere in the developing world, where similar socialistic development strategies as those in the transition economies have held sway.

An approach that may be of special interest is the ‘small scale low-tech’ (low R&D intensity) industrial strategy of Denmark (Lundvall 2012). The Danish innovation system is characterized as comprising many SMEs with few large firms, and is buttressed by continual upgrading of skills. In particular, Lundvall (2012) writes, ‘The Danish case shows that successful national innovation systems may be reinforced 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 greater industrial intensity, the Danish experience could be especially instructive. It should be noted, though, that while upgrading of skills is important, linking the skill improvement to the formation of new industries seems critical. An especially promising candidate for this Danish industrial innovation system is agro-business, which appears to be the next natural step upward from agriculture for most developing economies.

3 Conclusion

Despite the above ‘success’ historical accounts, it must be stressed again that in the final analysis development strategies are by and large country-specific. They must be situated in the particular context of time and space. This view indeed flows through the case studies. The above thematic synthesis suggests, nonetheless, that the historical accounts are replete with recurrent attributes, which may prove useful as development strategy guides for certain developing countries with the proximate conditions. Additionally, the specific comprehensive accounts in the country cases, as well as the country grouping syntheses, should be of interest to students of development and policy makers alike.

References

Andersen, Torben (2010). 'Why Do Scandinavians Work?' CESifo Working Paper 3068. Munich: Center for Economic Studies.

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

Cappelen, Ådne, and Lars Mjøset (2012 forthcoming). 'Should Norway Be a Role Model for Natural Resource Abundant Countries?' In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Csaba, László (2012 forthcoming). 'The Janus Faced Success Story: Hungary'. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Findlay, Ronald (2012 forthcoming). 'Country Role Models: Ireland, Japan, and Switzerland'. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Fosu, Augustin (2002). 'International Trade and Labor Market Adjustment in Developing Countries'. in D. Greenaway, R. Upward and K. Wakelin, eds., *Trade, Investment, Migration and Labour Market Adjustment,* London: Palgrave/Macmillan.

Fosu, Augustin, and Germano Mwabu (2010), 'Human Development in Africa'. UNDP Human Development Reports Research Paper 2010/08.

Jäntti, Markus, and Juhana Vartiainen (2012 forthcoming). 'The Finnish Developmental State and its Growth Regime'. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Kimura, Fukunari (2012 forthcoming). 'The Japan Model of Economic Development: Relevant and Non-relevant Elements for Today's Developing Economies'. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Kokko, Ari (2012 forthcoming). 'The Swedish Model'. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Kolodko, Grzegorz (2012 forthcoming). 'A Two-thirds of Success: Polish Transformation and Economic Development in 1989–2008'. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Lundvall, Bengt-Åke (2012 forthcoming). 'The Danish Model and the Globalizing Learning Economy: Lessons for Developing Countries'. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Popov, Vladimir (2012 forthcoming). 'What are the Lessons for Development Success from Transition Economies: Putting the Success Stories in the Post-Communist World into a Broader Perspective'. In A. K. Fosu (ed.), *Development Success:*

Historical Accounts from More Advanced Countries. Oxford: Oxford University Press.

Rodrik, Dani (1998). ‘Trade Policy and Economic Performance in Sub-Saharan Africa’. NBER Working Paper 6562.

Svejnar, Jan, and Milica Uvalic (2012 forthcoming). ‘The Czech Transition: The Importance of Microeconomic Fundamentals’. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Teague, Paul, and Denise Savage (2012 forthcoming). ‘Developing Ireland: Committing to Economic Openness and Building Domestic Institutional Capabilities’. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Vartiainen, Juhana (2012 forthcoming). ‘The Nordic Development Models: The Riddle is Still There, But We May Be a Little Wiser’. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.

Weder, Beatrice, and Rolf Weder (2012 forthcoming). ‘Switzerland’s Rise to a Wealthy Nation: Competition and Contestability as Key Success Factors’. In A. K. Fosu (ed.), *Development Success: Historical Accounts from More Advanced Countries*. Oxford: Oxford University Press.