Discussion

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Steve Dowrick has done an excellent job in mapping the formidable and complex terrain of long-term growth. I found his paper to be a cogent and useful perspective on the determinants of growth, and I am sure that you did as well. In a relatively short span, he has given us some of the stylised facts on growth, surveyed some of the new growth models and has presented a critical overview of the empirical evidence on the determinants of growth. In addition, the paper contains some interesting and unexpected results. For instance, I would not have guessed that initial conditions would explain such a large proportion of the variance in post-war growth rates of countries in Asia and the OECD. Another example is his discussion of the relationship between government expenditures and growth, which I found quite illuminating.

This paper covers a great deal of ground, and it would be hard for me to respond to all the issues that have been raised. My own comments, therefore, will be more limited; they can be divided into two parts. First, I want to comment on a couple of interrelated issues that the paper focuses on – specifically, the recent rapid growth in East Asia and what it tells us about catching up and convergence. Second, I want to talk about the role of policy in growth, and cover some aspects that Dowrick has not discussed as much. (Since Andersen and Gruen, in this Volume, talk about the role of macroeconomic policies and growth, I will stay away from those questions.)

Convergence

One of the important themes in the paper is that the rapid growth in East Asia over the past three or four decades represents the process of catching up with developed economies. In other words, a substantial part of the difference in growth rates between the members of the OECD and countries in East Asia can be explained by differences in initial income levels. This view implies that one should not read too much into the fact that the OECD economies have not grown as fast as the East-Asian economies over this period, and that the discrepancy in growth rates between the two groups will be eliminated as the rate of growth of the East-Asian economies slows down towards that of the more mature economies.

This argument appeals to me, and indeed, it is one that I would make myself. However, I am not quite sure that I would be willing to take the next step that Dowrick takes, which is to suggest that the growth experience of the East-Asian economies over the past three or four decades may not be that unusual. Specifically, while it is not difficult to find some members of the OECD that have grown as fast as the countries in East Asia over a ten year period – controlling for initial income, of course – it is much harder to do so once the post-war period is taken as a whole. Thus, an important reason why the East-Asian experience is unusual is that the high growth rates have been sustained for several decades.

Another way to put the East-Asian experience in perspective is to compare it with the behaviour of other countries that also had low levels of income (or of labour productivity) at the beginning of this period. In other words, if these sustained, high growth rates are not that unusual for low-income countries, why didn't other low-income countries grow at the same pace? Dowrick's answer is that for a large number of countries the problem was a productivity level that was too low. Specifically, the level of productivity in these countries was so low that they did not have the capability – in terms of education levels, infrastructure, etc. – to absorb foreign technology and grow. The consequence is the emergence of 'convergence clubs,' with low-productivity economies converging to an equilibrium with little or no growth.

I find the idea that one needs a minimum level of skills to absorb foreign technology to be a reasonable one. And certainly the concept of convergence clubs enjoys widespread support. For instance, in recent work using very different techniques, both Baumol (1994) and Quah (1995) find support for this concept. However, it is worth pointing out that even if one accepts that sustained growth occurs once productivity levels of four to five thousand (1985 US) dollars per worker are attained, one still has to explain why most less-developed economies have failed to attain these productivity levels over the post-war period.

Note also that not all countries fit neatly into this scheme. Dowrick points to the case of Latin America as an exception, and labels it a 'puzzle'. I suspect that it will not be the only puzzle for long. Labor productivity in the old Soviet Union, for instance, exceeded ten thousand (1985 US) dollars per worker in 1989 (according to the Heston-Summers data). It is not obvious to me, at least, that their growth path over the next couple of decades will look more like the recent performance of East Asia rather than that of Latin America. Of course, this is not a problem for the convergence-club model alone; the more general point is that the growth rate of an economy depends on a large number of factors, so that no simple model or scheme can satisfactorily account for the growth experience of every country.

The Role of Policy

I want to turn to the second factor that I had mentioned before – that is, the role of policy in growth. In his paper, Dowrick talks about certain kinds of policies such as expenditures on education. Here I want to talk about other policies that also might be important for growth.

Let me begin by describing some recent work by Sachs and Warner (1995), according to whom convergence clubs are better defined by the policy choices made by countries. 'Appropriate policies' can be divided into two subsets: those relating to property rights and those relating to how open the economy is. Under the property rights test, a country fails to qualify if it has either a socialist structure, or extreme domestic unrest (revolutions, strikes, war) or extreme deprivation of civil or political rights. (Note that Dowrick's exclusion of the former Soviet Union and the eastern bloc countries from his regressions is consistent with this criterion.) A country fails the openness test if either a high proportion of imports or exports are subject to quotas or if it has a black-market premium that exceeds the official exchange rate by 20 per cent. They show that about 35 countries qualify on these two criteria. It turns out that low-income qualifiers have grown faster than non-qualifiers, and faster than high-income qualifiers as well. (China, with close to two decades of extremely rapid growth, is an obvious exception here.) Finally, the group of qualifying countries are shown to converge unconditionally.

The kinds of policies Sachs and Warner are recommending are not very controversial; basically, they are stressing the need for good institutions. To borrow a phrase from Michael Sarel's paper, most economists would put them in their list of 'good' policies. Things get more controversial once one gets beyond this point. However, since my priors are that other kinds of government policies can make a positive contribution to economic growth, I will briefly discuss some of the recent work that supports such a conclusion. An important example is a recent paper by Page (1994) of the World Bank, who (in a discussion based on the World Bank report) assigns a central place to government policies that help firms become more export oriented. More specifically, he states that the promotion of manufactured exports was a significant source of measured total-factor productivity change in East Asia.

Since enough has been said on the issue of policies that encourage exports, I will not pursue it further here. What is interesting to me is that a lot of these policies look like industrial policies, in that East-Asian governments were targeting specific industries. South Korea, to take one example, used selective credit subsidies and export targets for individual firms. As you probably already know, not everybody agrees with such a statement. John Page (for example) draws a sharp distinction between the two kinds of policies, and does not believe that industrial policies contributed very much to the rapid growth in East Asia.

Since there are a number of ways to interpret evidence such as the South Korean experience, it is useful to ask if there is more formal support for this position. It turns out that a number of recent models – some of which Dowrick cites in his paper – can be used to support such a position; specifically, these are models that feature increasing returns and exhibit (demand or technological) complementarities across sectors. According to these models, policies that subsidise groups of industries which exhibit strong complementarities could lead to a permanently higher level of output. I am not claiming that such models provide us with a clear-cut case for large scale intervention; for example, in practice it may be hard to identify sectors whose growth would lead to large positive externalities for other sectors.

For most countries in the world, however, the problem may not be one of having to identify the sectors with such complementarities; they could simply get by looking at the experience of the 'leader' country (or at the experience of a small group of leaders). Indeed, one important reason why industrial policy may have made a positive contribution in East Asia may be that the course to be followed had already been chartered by the developed nations over the last century or so. Thus, government policy may have a somewhat different role to play in 'follower' countries. It is worth noting out that this distinction between the role of policy in leader and follower countries echoes Dowrick's prescription for research policy in Australia.

Let me conclude by reiterating that I am not claiming that government policies will have unambiguously positive payoffs, or that such policies will be easy to implement. However, I believe that government policies potentially have a significant role to play in determining an economy's growth rate, and that the recent experience in East Asia, in particular, suggests that this potential can be quite large.

References

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2. General Discussion

While there have been highly disparate growth performances in the post-war period, it was observed that groups of countries exhibit similar growth patterns so that they form convergence clubs. Initial levels of income appear to be a major determinant of this. However, a more important question than the process of convergence is what *causes* initial conditions to differ across countries. For this reason it was argued that it may be more useful to define convergence clubs in terms of policy choices. For example, policy choices with respect to institutional arrangements (such as systems of property rights) or macroeconomic objectives (such as inflation performance or trade exposure), can be expected to influence growth performance.

Given that initial conditions vary across regions, another theme for discussion was why some countries, such as those in Latin America, failed to exploit their promising initial conditions. This raised a debate about the role for policy.

Policy was considered by some to be of fundamental importance. Others considered it to be less important than the ‘natural’ growth dynamic, although it was generally agreed that some role for policy existed in ‘getting the basics right’ in terms of macroeconomic stability, a good system of property rights and integrity of the financial system. Disagreement related to the efficacy of specific growth-promoting policies, such as strategic industry policy and whether it had played a role in East Asia’s success. Even where this was believed to be the case, it was acknowledged that there is great difficulty in identifying the causal effect of policy.

Some argued that attention should not be confined to post-war patterns of convergence. Taking a more historical perspective, growth performance since the 1850s indicates that the post-1950 era marks superior growth performance for *all* countries, not just East Asia. Understanding this feature of the data is crucial to predicting whether per capita income levels in East Asia will eventually be constrained to those levels possessed by leading OECD nations, or whether they will surpass the income levels of the first world.

However, East-Asian growth has already been sustained for longer than in European countries in their hey day, leading some to claim that East Asia *is different* and does not fit the convergence club story because it continues to grow at extraordinary rates. But perhaps comparisons of the performance of cities such as Hong Kong and Singapore with other countries is unreasonable; typically the performance of cities leads that of the hinterland. As one discussant put it, we need only be impressed when per capita income in Hong Kong exceeds that of Manhattan.

Discussion of economic performance in cities and the hinterland raised debate about other influences of geography on economic performance. Were there 'coat-tail effects' of living next door to a high performing economic region? Was there the possibility of catch-up and convergence between regions within a country?

The issue of why we have a new era of highly disparate growth performance remained unresolved. The surge of productivity that permitted the advanced economies to 'take off' in the 1950s may have reflected the arrival of a wave of invention and ideas. It may have also reflected the focus of business on maximising market share and a tendency to be geared for upswings. Now it could be argued that firms are focussed on surviving downswings, and that there has been a depletion of ideas and innovation that awaits a new wave. The reality, though, is that the leadership of economic performance changes hands only infrequently. Despite the acceleration of per capita income growth in the newly industrialising countries, for most, income levels still remain significantly behind those of the post-war leaders.