

Economic Development in Historical Political Economy¹

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Abstract

Understanding the primary causes of human prosperity is one of the most important endeavors of social scientists. Much research in the 20th century followed a neo-classical approach which emphasized important factors such as physical capital, human capital, and technological change, but was nonetheless devoid of historical context and political factors. In recent decades there has been a resurgence of political and historically-embedded explanations of economic development, which have greatly expanded upon the works of early political economists such as Adam Smith, John Stuart Mill, and Karl Marx. This chapter provides an overview of this recent research on geography, institutions, and human capital, along with their interactions, as drivers of long-term economic development. We then move beyond these paradigms to argue that explanations focused on state capacity and state-led development have been largely overlooked by many historical political economists. A better understanding of the state should help scholars identify paths to break away from the low-growth equilibrium of less-developed countries.

Keywords: economic development, geography, institutions, human capital, state-led development.

I. Introduction

Current debates on the origins of economic development and welfare across societies take a somewhat bipolar approach, whereby development is often the result of either political institutions or human capital. On the one hand, a dense body of literature emphasizes that “getting the right political institutions” is critical for development. In economics in particular, some have emphasized that institutional constraints on executive power are a *sine qua non* for development. Under this paradigm, (i) limits on rulers’ capacity to govern dictatorially are very important because they improve policy and reduce arbitrary extraction that citizens may otherwise suffer, and (ii) political stability and the legal protection of property rights encourages investment, thus fostering development.

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On the other hand, some scholars place human capital and technological innovation front and center. In this view, the education level of a society and its capacity to deploy cutting-edge productive knowledge and technologies are the key sources of economic growth. The Solow model of (long-run) economic growth provides an important theoretical foundation to this literature. An educated labor force and innovation through ideas are fundamental to increase productivity (the output per unit of input) and thus growth (Barro, [2001](#)). Since Solow, many political economists have realized that education and ideas do not occur in a vacuum but in a political context, hence adopting a political economy approach to understand diverging patterns of human capital accumulation over time and space (Franck and Rainer, [2012](#)).

While these paradigms are part of the answer in many contexts, simple stylized facts about the world also illustrate their limits. For one, there is substantial variation in economic well-being between localities within the same country. Institutions that constrain executive power, provide political stability, and protect property rights are typically established at the national level, so the institutionalist view cannot fully account for within-country differences. Secondly, institutional constraints on the state cannot explain the string of national economic successes in East Asian countries in the last 60 years, or in Western countries earlier on, because these states were empowered rather than constrained. Indeed, some have argued that interventionist states fostered economic development, first in Europe and North America and later in East Asia. At the same time, many developing countries have dramatically improved access to education and health services but only some have converged to high levels of prosperity. Similarly, knowledge-based and ideas-based explanations for development cannot fully explain cross-country differences in development in today's globalized world. Indeed, while cutting-edge growth (growth at the technological frontier) is difficult and depends on innovation, catching-up growth (the sort of growth that can be achieved by "copying" ideas and practices from developed countries) has remained limited in many underdeveloped countries in spite of today's increased access to information and codified technologies.

The purpose of this chapter is to take stock of the Historical Political Economy (HPE) literature on economic development and to suggest paths for future research in the field. For the remainder of the chapter, we first describe how the industrial revolution not only allowed for the "Great Acceleration" away from subsistence income levels, but also led to the "Great Divergence" in living standards between "Western" countries and the rest of the World. We then introduce the main arguments and key contributions behind the geographic, institutional and human capital paradigms in HPE. Finally, we present a cross-disciplinary body of work that discusses why some regimes with largely unconstrained executives and low initial levels of human capital may nonetheless pursue effective policies that induce economic development. We conclude the chapter by arguing for increased academic attention to instances of policy and institutional experimentation as potential means for societies to discover locally-effective paths to prosperity (Canen et al, 2022).

II. Historical explanations of current differences in economic development

Key facts to be explained: The Great Acceleration and the Great Divergence

Galor (2005) and Clark (2007) argue that the history of economic growth can be segmented around the Industrial Revolution into a Malthusian and a post-Malthusian period. For most of human history, standards of living remained largely stagnant. Technological progress before the 19th century was meager, and so were gains in productivity. Negative population shocks brought about by war and disease, such as the Black Death, could induce discrete improvements in average standards of living, but these were largely offset over time by population growth. Similarly, population growth quashed with the potential benefits derived from better access to land, resources and technologies in some areas of the world. So while better endowed societies had larger populations, they were not much richer. Events until the turn of the 19th century were largely in line with the predictions from Malthus (1798), who argued that geometric population growth combined with linear growth in food production lead to an equilibrium characterized by high mortality rates which limited the total population to a size consistent with subsistence income levels. Yet, inadvertently, these “dismal” patterns began to change at the time of Malthus’ writings.

The Industrial Revolution, which started in England at the beginning of the 19th century and quickly spread through Western Europe, radically altered patterns of production and induced workers to transition from agricultural work in the countryside to manufacturing activities in cities. These parallel processes of structural transformation and urbanization underpinned an economic take-off that allowed for a *Great Acceleration* on living standards, initially attenuated by the concomitant increase in population growth. However, towards the end of the 19th century, fertility rates fell drastically as continued technological progress and productivity gains incentivized female labor participation and investments in the human capital of children. Following this *demographic transition*, productivity gains mapped directly to improvements in the average incomes enjoyed by the population, breaking from the prior Malthusian equilibrium (Clark, 2007).

Western Europe and the “Western Offshoots” (the United States, Canada, Australia and New Zealand) experienced sustained growth in GDP per capita since the beginning of the 19th century. By contrast, total output growth rates in Latin America, Asia and Africa only started ascending at the turn of the 20th century, and their population growth rates did not abate until its end. The later and overall slower take-off in these regions explains the stark differences in standards of living across the world today. Pritchett (1997) provides a number of measures that help illustrate this *Great Divergence* (Pomeranz, 2000). While the richest country in the World was only 8.7 times richer than the poorest country in the World in 1870, this ratio grew to 38.5 in 1960 and to 45.2 in 1990. According to data from the [World Bank](#) in 2020, the ratio between the

GDP per capita of the richest and poorest countries in the World, Luxembourg and Burundi, at comparable prices was 152.8.⁵

One of the main objectives of historical political economists is to explain how history and politics help account for these differences in economic development. The remainder of this section overviews the dominant long-run explanations for current differences in development across countries.

Geography can underpin differences in economic development between countries

Can geographic differences explain why some countries are rich and others are poor? Collier (2007) argues that there exist largely geographic “development traps”, such as being landlocked with bad neighbors. Land-locked and equatorial countries as well as hinterland regions tend to be poorer. These fixed characteristics can determine the development potential of a society by imposing higher trade costs, lower agricultural productivity, and a worse disease burden (Gallup, Sachs and Mellinger, 1999). For example, malaria-ridden countries tend to be poorer because they suffer from higher mortality rates and lower levels of productivity, which in turn deter investments in physical and human capital as well as political centralization (Gallup and Sachs, 2001). Additionally, Alsan (2015) finds that the TseTse fly has also long hindered the development of agricultural surplus in African regions where it is prevalent.

The most popular account to highlight the impact of geography on both political and economic development is provided by Jared Diamond (1997). In *Guns, Germs, and Steel*, he argues that geography explains why Europe conquered the Global South and not the other way around. His “continental axis hypothesis” argues that the longitudinal (East-West) orientation of the Eurasian continent allowed for large territories to share similar ecological conditions that eased the spread of crops, domesticated animals and human populations. This in turn enabled trade, the diffusion of technologies, and the creation of centralized states. By contrast, the latitudinal (North-South) orientation of the Americas and of Africa constrained the flow of goods and people. Scholars have since shown rigorously that “tall” territorial units are more linguistically diverse than “wide” ones (Laitin et al., 2012) and that technologies flow more easily over an East-West axis than over a North-South axis (Pavlik and Young, 2019).

Diamond provides a plausible macro explanation for the relative strength of Eurasia over other continents. However, it cannot explain why certain countries in Europe took off while others did not, the *timing* of the Great Acceleration, or even “reversals of fortune” - the fact that richer colonies around 1500 became poorer by the 1900s (Engerman and Sokoloff 2011; Acemoglu, Johnson and Robinson, 2002).

Similar to Koyama and Rubin (2022), we argue that the role of geography on long-term development is contingent on geography’s interaction with changing political, economic and

⁵ Grier and Grier (2007) find that economic divergence in the second half of the 20th century occurred despite policy and institutional convergence. Yet, recent contributions point to a possible reversion in these trends starting at the turn of the 21st century (Kremer, Willis and You, 2022).

technological environments. This point is most obvious in regard to the role of natural resources in development. For example, oil was unimportant before the internal combustion engine, and guano ceased to be valuable with the advent of industrially-manufactured fertilizers. Economic geographers often refer to “locational fundamentals” to describe characteristics of a place that, while fixed, change in economic importance over time (Davis and Weinstein, [2002](#)).

Vast amounts of coal and internally navigable waterways are two locational fundamentals that might have allowed Britain to lead the Industrial Revolution. Koyama and Rubin ([2022](#)), however, argue against this view. Coal abundance was not unique to Britain and could have been easily imported by countries lacking it. Moreover, the start of the Industrial Revolution was powered through water mills. Similarly, the intensity of investments on connectivity infrastructure in Britain during this time is evidence that the country was not naturally endowed with adequate means of transportation ex ante. Nonetheless, while geography alone cannot explain the advent of the Industrial Revolution in Britain, geographic proximity to Britain does account for the faster technological adoption and earlier growth acceleration in Continental Europe (Gerschenkron, [1962](#)).

Institutions and the incentives for growth-inducing activities

As discussed above, geography is at best a partial explanation of differences in growth since 1800. Many HPE scholars have turned their attention towards how different societies shape the incentives of economic agents and governments to engage in activities that are conducive to economic growth. For instance, early growth in Western Europe emerged in cities and regions that had long protected property rights, which allowed individuals to invest and innovate while deterring arbitrary expropriation and rent-seeking (North and Thomas, [1973](#)). North ([1990](#), [1993](#)) refers to the “rules of the game” that shape economic incentives as institutions, and defines them as “humanly devised constraints that structure human interaction.” Whether formal (constitutions, laws) or informal (norms, conventions), these rules and their enforcement condition people’s behavior by forming generalized expectations about the consequences of pursuing different activities. While some institutional arrangements invite individuals to invest and trade, others may induce individuals to avoid entrepreneurial endeavors and invest in rent-seeking. A visible example of how national institutions shape economic development is the discrete change in the level of emitted night-time lights at the border between North Korea and South Korea, whereby South Korea is lit and North Korea dark.



Figure 1: Nighttime lights in South and North Korea.

What are, then, the institutional foundations of long-term economic growth? On the economic front, scholars focus on institutions such as property rights that protect one's land and capital and that foster competitive environments and labor mobility. On the political front, authors pay special attention to institutional constraints on executive authorities (i.e., the president or prime minister). These constraints may stem from civil society and from other political authorities like a parliament). The adoption of these institutions is often the result of sufficiently economically or ethnically homogenous societies (Engerman and Sokoloff, [2011](#)), or of high degrees of social equality that force regimes to build broader "winning coalitions" (Bueno de Mesquita, Smith, Siverson and Morrow; [2003](#)).

The institutional paradigm identifies the existence of institutional constraints on expropriation and taxation as the key cause for the Great Divergence, in particular the divergence between parts of Western Europe and the rest of the World. In a seminal contribution, North and Weingast ([1989](#)) find that England's economy took off after civil conflicts in the 17th century concluded in parliamentary controls on the Crown, yielding credible commitments over the protection of property rights. While the absolutist regimes in Europe, such as Spain and France, levied high taxes to maximize their revenues into the 18th century, English and Dutch political elites faced checks and balances from the merchant class that prevented confiscatory taxation and allowed for economic growth. This is consistent with quantitative evidence that absolutist regimes in Europe tended to underperform economically in the period between 1050 and 1800 (DeLong and Shleifer, [1993](#)). Beyond Europe, Acemoglu, Johnson and Robinson ([2001](#)) argue that higher settler mortality rates at the time of colonization induced the establishment of "extractive" institutions that allowed for only a few settlers to dominate over much larger indigenous populations to extract local resources. As a consequence, they argue, colonies with higher settler mortality rates are poorer today because they continue to offer worse institutional environments compared to colonies with constrained and inclusive institutions inherited from larger colonial settlements. Finally, some scholars emphasize the role of colonies' legal origins

in determining the establishment of growth-inducing institutions. La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) argue that Common-Law countries experienced stronger financial development because the system offered stronger protections of property rights, especially for smaller investors (see also Widner 1994).

For all their appeal, institutional explanations leave a number of questions unanswered. While executive constraints in some European cities and regions such as England preceded the advent of the Industrial Revolution, there also existed economic differences between regions with and without these institutional constraints. Such constraints resulted from slow processes of urban agglomeration and pre-industrial technological development (Galor 2005, Abramson and Boix 2019). Institutional constraints in Europe, then, likely evolved jointly along limited preindustrial economic growth rather than being a root cause (Abramson and Boix, 2019).

Furthermore, as we mentioned above, institutions tend to be largely fixed at the country level, and yet there are lots of within-country differences in living standards. For example, Acemoglu and Dell (2010) document that within-country income differences are greater than between-country income differences for Latin American countries. In a short empirical exercise for this chapter, we assessed the share of the subnational variation in economic development (as proxied by the logarithm of nighttime lights per person) that can be accounted for by national borders. We find that between-country differences explain between 50% and 75% of the total variation. While national institutions are part of these country-fixed differences, the exercise suggests that up to half of the variation in development cannot be explained by national institutions or other country-fixed characteristics.

These results highlight how cross-national approaches to the study of development leave a lot of unexplained variation in development and rarely offer causally identified evidence. Some scholars have turned to more “micro” empirical approaches that leverage natural experiments, often at the cost of studying only one country or continent. In the case of Africa, Michalopoulos and Papaioannou (2014) compare ethnic groups that were partitioned by colonial borders. Under the assumption that such split groups are comparable on either side of the border, they find surprisingly limited effects of national political institutions on local development outcomes. This suggests that institutions may matter little in contexts of weak state capacity, a variable that we examine in the next section. Similarly, a number of studies by Melissa Dell and her co-authors challenge the assumption that inequality and extractive activities are inherently negative for economic development. For instance, Dell (2010) studies long-term differences in development outcomes between areas differently affected by colonial forced-labor policies in Peru, and finds that slave labor eroded economic development by preventing the establishment of large plantations (*haciendas*), which in turn allowed for development-enhancing local public goods. Similarly, Dell and Olken (2019) find that colonial sugar cane extraction and refining activities in Indonesia led to stronger economic development in the long-term.

Overall, institutions provide an endogenous and, at any rate, incomplete account for the Great Acceleration and the Great Divergence.

The development of—and access to—ideas: Human capital and technological innovation

The Great Acceleration and Divergence is, at its core, a story of technological progress. The Industrial Revolution led to sustained increases in productivity and consequently in wealth that allowed Western countries to overcome the Malthusian Trap. Current differences in income cannot be adequately explained by differences in the relative access to productive capital inputs, but by the relative productivity in the use of those inputs (Jones and Romer, [2010](#)). That is why some scholars focus on technological innovation and its main enabler, human capital, as the root causes of the subsequent political and economic divergence between Western and non-Western countries. The importance of ideas and technological innovation in the Solow growth model is a foundational contribution in that vein. So is modernization theory, which argues that development—education, industrialization and urbanization—is a prerequisite for inclusive institutional changes (Lipset, [1959](#)). From both of these perspectives, human capital is a key determinant of both economic and political development.

A recent body of quantitative literature supports the view that human capital, and the innovation associated with it, can account for modern economic growth. For example, Cantoni and Yuchtman ([2014](#)) find that the advent of the Commercial Revolution in Germany was determined by the proximity to Medieval universities that provided the necessary human capital for trade-enhancing legal institutions to be developed. Mokyr (2002) also points to the appearance of new technologies in England near the turn of the 19th century, made possible by the uniquely dense and interconnected network of knowledge-enhancing organizations, such as universities and professional societies. But the importance of human capital is not limited to the university-educated. The high quality of the British labor force in the second half of the 18th century, matched by relatively higher wages, allowed for faster technological innovation and adoption than elsewhere in continental Europe (Kelly, Mokyr and O'Grada, [2014](#)). Continental Europe eventually caught up, as is well-known. What is less well-known is that technological adoption and innovation were not the result of adopting British institutions but largely the result of continental efforts to acquire the necessary British technological know-how through patents and engineers (Milward and Saul, [1973](#), [1977](#)). This is also true of Prussia, where technological catch-up was driven by regions with higher levels of education (Becker, Hornung and Woessmann, [2011](#)). In the case of France, the local presence of knowledge elites led to faster growth during the country's industrialization through the improved access to technologies enshrined in British patents (Squicciarini and Voigtländer, [2015](#)).

Collectively, these results strongly suggest that the capacity to tap into and deploy British know-how drove the diffusion of the industrial revolution throughout Western Europe. Recent evidence suggests that migration helped these very processes of human capital diffusion at the start of the Great Acceleration. For example, Prussian areas benefiting from the arrival of relatively skilled French Huguenots in the early 18th century displayed stronger capacities for textile manufacturing a century later (Hornung, [2014](#)). Similarly, U.S patenting increased disproportionately in the fields of Jewish German scientists that migrated to America after being purged from German universities by the Nazi regime (Moser, Voena and Waldinger, [2014](#)).

Human capital, rather than institutions or geographic factor endowments, may also be critical to understanding why some colonies were rich and others poor. Settler mortality rates may have led to colonial underdevelopment, not by inducing extractive institutions that allowed for unconstrained executives, but by limiting the diffusion of human capital embedded in settlers themselves into the colonies (Glaeser, La Porta, Lopez-de-Silanes and Shleifer, [2004](#)).

This is precisely the headline finding of a robust literature on the persistent positive economic effects of historical educational interventions, and of European missionaries in particular. Wantchekon, Klašna and Novta (2015) leverage the fact that missionaries had little knowledge of local conditions and decided arbitrarily to settle on the left bank on the Oueme River of present-day Benin. People in villages in the left bank, especially educated ones, enjoyed higher standards of living during colonial rule, and so did their descendants in those same villages. Similarly, Valencia Caicedo ([2019](#)) studies the location of Jesuit missions in the Guaraní area of Paraguay, Brazil, and Argentina. These “Misiones” instructed indigenous inhabitants in reading, writing and different crafts. Despite being abandoned when the Jesuit order was banned in 1773, treated areas remain much richer than originally similar locations *even today*, most likely because of their capacity to adapt high productivity technologies in agriculture and to transition towards manufacturing activities. These results highlight the relative importance of education for local development and are consistent with the finding that 50 percent of subnational differences in well-being in Latin American countries can be accounted for by differences in human capital (Acemoglu and Dell, 2010).

Discussion

We have seen that there is rich evidence to support the view that geographic endowments, institutions, and human capital help us account for between and within-country differences in growth. Institutions have been particularly emphasized in the political economy literature as perhaps the most important factor, so it is worth noting that institutions are chosen by elites and can change rapidly. This means that they can often be *endogenous* to a society’s education, technological characteristics, geography, ethnic composition and demography, among other slow-moving variables (exceptionally, sudden revolutions or shocks induced by war or colonization may sometimes lead to swift and exogenous institutional change). Thus, institutions can be epiphenomenal insofar as they are the result of these factors. Moreover, the recent microeconomic evidence discussed above has tended to erode a number of basic tenets of the institutional paradigm, while also establishing a strong and independent causal connection between historical investments in education and current living standards in Europe (Cantoni and Yuchtman, 2014), South America (Valencia Caicedo, 2019), Africa (Wantchekon, Klašna and Novta, 2015; Ricart-Huguet, 2021), and elsewhere. After all, human capital and innovation often underpin institutional choices and can have an independent and direct effect on economic development. We conclude with a third takeaway: Explanations *integrating* factor endowments,

human capital, and institutions to explain growth—while ambitious—may hold the most promise (Koyama and Rubin, 2022).⁶

III. Beyond the institutions vs. human capital debate: Development-enhancing public policies?

There is little doubt that factor endowments, institutions, and human capital are determinants of growth, and examining their interactions seems promising to understand the persistent disparities between high growth vs. low growth countries. However, these determinants are better at explaining *long-run* and persistent differences in growth than take-offs. The role of the state and of policy-making is conspicuously absent in all three of these paradigms. The mainstream institutionalist explanation for development is consistent with neoclassical economics in that it takes a strikingly limited view of public policy, arguing that the main responsibility of the government is to *not* infringe on property rights and to *constrain* itself. Growth resides entirely in the hands of the private sector, and the government's role is only to create an adequate legal framework for market competition. Government, however, is not defined by its negative actions alone. Politicians under various regime types may try to *actively* foster growth, whether that is in order to gain reelection in democracies or to gain legitimacy through economic performance in autocracies. These incentives mean that governments have long been active in setting and steering economic policy *for the better and for the worse*.

Some governments have used “non-standard” trade and industrial policies to foster early-stage development and achieve comparative advantages in certain sectors (e.g., South Korea and Taiwan) while others have failed (e.g., Senegal and Brazil). One key variable that seems to separate most successes from failures since World War II is state capacity (Wade, 2004; Evans, 1995; Kohli, 2004). We put these successful and failed cases of “engineering development” in historical perspective to argue that state interventions were important at the advent of the Industrial Revolution. Active industrial and trade policy to develop a country's technology and improve its terms of trade are anything but new—they were used by most early industrializers, including the United Kingdom in the 18th century, the United States, and many continental European powers in the 19th century. We discuss examples of state-led policies that have led to growth historically; and we conclude by suggesting that political economists should pay more attention to how different societies experiment with alternative policy and institutional arrangements in finding locally sustainable paths to economic growth.

State-led development policies: contemporary and historical examples

The view that economic policy can help stimulate development is not new. Monetary policy is perhaps the most famous example and dates back to the 17th and 18th centuries in Sweden, Britain, and other Western countries. However, other types of economic policies have long been

⁶ For examples of such comprehensive explanations of long-run development, see Engerman and Sokoloff (2000, 2011) concerning the Americas, Abramson and Boix (2019) concerning Europe, and López Jerez (2014) concerning Southeast Asia.

used in attempts to foster development. Many of these policies were justified under the view that development is “path-dependent”, so that in the absence of decisive government intervention, poorer countries would be at a persistent disadvantage.⁷ Development economists in the mid-20th century argued that a “big push” was necessary to achieve large-scale production and industrialization in developing countries, and that states were primarily responsible in that endeavor (Rosenstein-Rodan, [1943](#)). Relatedly, some argued that subsidies and protection were necessary to allow for “infant industries” to grow prior to competing with those of advanced economies. These ideas date back at least to the Tudor period in England (1500s) and to the Report on Manufactures in the United States by Alexander Hamilton ([1791](#)), who coined the term “infant industry”. We discuss the recent examples of high growth in East Asia but also draw on historical evidence from Britain, Western Europe, and the United States.

For the many failures of import-substitution strategies in Latin America and Africa, the East Asian Miracle (Page, [1994](#)) remains a relevant and contested puzzle for the field. East Asian countries other than Japan were mostly lagging in wealth and education in the 1950s, many with GDP per capita similar to other underdeveloped regions. Nonetheless, they took off with unparalleled speed. This degree of success occurred both under democratic regimes, such as Japan, and dictatorial ones, such as in Taiwan and South Korea. Furthermore, South Korea’s and Taiwan’s democratization experiences seem consistent with modernization theory, as they only democratized after becoming rich and educated. The more recent Chinese growth miracle (Lin, Cai and Li, [2003](#)), however, challenges both the institutional and the modernization notions of economic development. Its unparalleled experience of fast economic growth has blended liberalization with active state regulation and intervention in the absence of initially high endowments of human capital, and without conceding democratic liberties or constraining the executive. This is not to say that state-led development was the only way to grow in East Asia. Under British rule, Hong-Kong strategically adopted a laissez-faire approach, more so than Singapore’s developmental state, to become the financial hub of East Asia.

There has been substantive attention to the developmental state success experiences of East Asia. Focusing on the case of Taiwan, Wade ([1990](#)) argues that the regime’s legacy capacities to manage economic dynamics during wartime allowed it to be a “contrapuntal partner of the market”, mobilizing resources towards upstream industries relevant for military defense and economic growth. Woo ([1992](#)) discusses the political economy of South Korea’s

⁷ Path-dependence may lead to persistent multiple equilibria in economic development in the absence of policy intervention (Prebisch, 1950; Singer, 1950; Krugman, 1991; Pierson, 2000). Initial economic differences may persist in time for reasons other than their historical motives if economic activity shows increasing returns to scale, allowing early winners to converge to high-productivity equilibria that remain unavailable to others. For example, historic portage sites in the US remain economically advantaged despite the obsolescence of portage activities (Bleakley and Lin, [2012](#)). Such divergences may be robust to sizable shocks. For instance, the relative sizes of Japanese cities, determined by historic “locational fundamentals”, were robust to their leveling by Allied aerial bombardments during WWII (Davis and Weinstein, [2002](#)). Azariadis and Stachurski ([2005](#)) offer a thorough literature review on the related concept of “poverty traps” - the idea that poor countries are stuck in vicious circles that keep them from converging to higher income levels.

industrialization, arguing that General Park deployed state capacities first acquired under Japanese colonial rule to pursue “big push” industrialization efforts in the face of North Korean invasion threats (see also Mattingly, 2017). The capacity of East Asian states to redistribute agrarian and financial resources in favor of industrialization might have been key for the region’s economic take-off (Studwell, [2014](#)), especially compared to similar attempts in low capacity African and Latin American states, such as Ghana and Brazil. According to Wade ([2004](#)), who analyzes the Taiwanese, Japanese and Korean experiences, building an “industrial policy bureaucracy [...] that is motivated to achieve its intended objectives” is the main challenge for countries hoping to replicate these successes. Of course, a bureaucracy needs to be supported and financed by a capable state, and Queralt (2022) investigates the origins of state capacity. He shows that states that developed a tax base in the 19th century, such as Japan and Chile, are developed today. By contrast, countries that borrowed heavily from international finance like Argentina—often to pay off debts or pay for wars—became “pawned states” and, after a short period of growth, tend to be poorer today.

Recent quantitative work complements these arguments. South Korea’s developmental efforts led to persistent comparative advantages in protected sectors and downstream industries (Lane, 2022). Further, government subsidies of upstream sectors, those producing the material inputs for industries in downstream sectors and commerce, likely fostered aggregate growth in 1970s South Korea and in contemporary China (Liu, 2022). These cases and literature emphasize the merits of industrial policy, and thus challenge the neoliberal assumption that the only productive role of the state in the economy is to establish market-enhancing institutions and provide public goods. Taken together with the disappointing record of “Washington Consensus” type of reforms (Rodrik, [2006](#)), and exceptions such as Chile notwithstanding, the historical record suggests that the neoliberal approach is not necessary and is rarely sufficient for relatively underdeveloped economies to accelerate their growth.

An HPE approach is useful to realize that economic policies that enhance long-run growth are anything but new. Gerschenkron ([1962](#)) made this point when analyzing how industrialization occurred under different institutional and policy regimes in Continental Europe. He argued that, after England’s early take-off under relatively few interventions, the process of catch-up in other countries depended on fast and large-scale efforts in multiple sectors. Follower countries needed to pursue activist policies to overcome large disadvantages in access to human and physical capital and develop the necessary scale to become competitive. Countries such as Germany, France and Russia pursued different combinations of state activism, protectionism, and central banking policies to catch up with Britain.

It is less well-known that successive governments in Britain and the United States also engaged in state-led development; and it is contentious to argue that such engagement is a primary cause of the long-term growth of Britain and the United States. Nonetheless, that is precisely what Chang ([2002](#), 2007) persuasively argues: the wide range of policy interventions (tariffs, subsidies, import bans, etc.) pursued by Britain and the US in the 19th century diverge dramatically from the set of market-enhancing institutions that developed countries often recommend to developing ones (see also Bairoch, [1993](#)). In the United States, Hamilton was in

favor of developing “infant industries” in manufacturing while Jefferson and other Southerners favored free-trade agricultural exports. Lincoln increased tariffs once in office and so did his successors in the second half of the 19th century. In Britain, these interventions began at least as early as the Tudor monarchs. According to Chang (2007, p. 24), “Especially Henry VII and Elizabeth I used protectionism, subsidies, distribution of monopoly rights, government-sponsored industrial espionage and other means of government intervention to develop England’s woolen manufacturing industry—Europe’s high-tech industry at the time.” These policies did not end after the Glorious Revolution, as a mainstream institutionalist account would suggest. Prime Minister Walpole passed the Calico Acts in 1721, legislation that sought to protect British manufacturers from foreign competition. He subsidized them and encouraged their exports, much like Korea, Japan, and Taiwan did more than two hundred years later. The ban on Indian cotton products to allow Britain to develop its own “infant industry” is perhaps the best-known example. Only by the late 1700s, when Britain’s industries were the most efficient and Adam Smith was espousing free-market policies, were these protections rolled back to allow British manufacturers to conquer much of the world market.

Reasons for pursuing—and for success in pursuing—developmental policies

From a Political Economy perspective, a key question is why unconstrained executives would ever be interested in pursuing developmental policies and not simply in maximizing extraction. Olson (1993) offers a very simple logic: “stationary bandits” may realize it is in their interest to moderate their extraction and induce economic growth in order to maximize their total rents. At the heart of Gerschenkron’s (1962) analysis is the idea that backwardness creates domestic expectations for achieving the levels of economic development attained elsewhere, and that this tension leads to political action and institutional innovation. This idea is connected to the principle of “performance-based legitimacy” of autocratic yet partly meritocratic regimes in East Asia, including China’s (Bell, 2015). Indeed, centralized decisions on the political turnover of Chinese provincial leaders seem determined by the economic performance of their provinces during their tenure (Li and Zhou, 2005).

Another motive for unconstrained regimes to pursue developmental policies concerns the presence of external and even existential threats to national security. This was apparent in the cases of South Korea and Taiwan, threatened by North Korea and China respectively, and which did not democratize until the late 1980s. Singapore faced similar existential threats from neighboring Malaysia and Indonesia (Lee Kwan Yew, 1998) as it transformed into an important entrepot without democratizing. In Finland, Soviet demands for war reparations in the mid-1940s induced the government to engage in temporary industrialization efforts that inadvertently favored the structural transformation of the Finnish economy (Mitrinen, 2021). Israel’s fast pace of economic growth since its foundation can also be traced to state-led developmental efforts in response to external and existential security threats (Halevi, 2008). The presence of external threats and competition has long been identified as a potential motive for development-inducing policies. Tilly (1992) argued that warfare and competition between European powers led to the creation of early modern states with high military, bureaucratic and tax capacities. Consistent with Tilly, recent contributions argue that external wars are conducive to the

accumulation of state capacity (Besley and Persson, [2009](#); Scheve and Stasavage, 2010). Overall, foreign threats, competition and pressure may induce authorities to engage in developmental activities that yield broad economic benefits.

That even non-democratic governments may have clear incentives to perform and to facilitate growth does not mean that they always succeed. As discussed above, the legacy capacities and bureaucracies of South Korea and Taiwan were important for the success of their industrialization experiences (Wade, 2004).⁸ These two factors were largely missing in developmental efforts pursued in Latin America and Africa, although African states with more historical legitimacy grew more in the second half of the 20th century (Englebert, 2000).

Finally, some have argued that the “Asian values” of collectivism and social harmony (de Bary, [2000](#)) may have been fundamental for the independence and credibility of authorities providing temporary subsidies to industrial production. Greif and Tabellini ([2010](#)) and Nisbett ([2004](#)) have advanced economic and psychological arguments to explain the cultural bifurcation between the East and the West. Critics of culture-centric explanations rightly emphasize that cultural values alone cannot explain rapid economic growth because they are largely constant in the short-run. However, the collectivist norms in East Asia may have interacted with the prevalence of state developmental ideas in the aftermath of World War II to facilitate growth. Such a cultural emphasis is in fact compatible with state-centric explanations because the success of developmental efforts may depend on cultural norms such as generalized trust and cooperation.

We conclude this section with a note of nuance. While some countries like South Korea embarked on *rapid* infant industry creation, that need not be the only path for state-led development. The Chinese government learned from its mistakes during the Great Leap Forward and the Cultural Revolution, and that may very well be why its transformation into a mixed economy proceeded *gradually*. The transformation of China into a mixed economy began in the 1980s, including gradual liberalization through Special Economic Zones, and highlights the importance of policy and institutional experimentation as means for societies to identify nuanced, locally sustainable paths for successful economic reforms (Romer, [2010](#)).

Likewise, the recent economic catch-up experienced in some African countries like Ghana and Kenya, and some Latin American countries like the Dominican Republic and Peru, might be explained by their earlier pursuit of economic liberalization and of democratization. Moreover, small countries as diverse as Singapore, Rwanda, Panama and the Baltic Republics grew quickly after adopting nimble policies that favored foreign direct investment (FDI) and that situated them as regional or even worldwide entrepôts. Legitimacy through economic performance can again explain why leaders like Lee Kuan Yew or Paul Kagame adopted policies that opened up the country to international capital flows as a way to grow, rather than instituting capital controls, subsidies and other interventionist policies to develop comparative

⁸ Specifically, Evans ([1995](#)) argues that the success of the developmental state in East Asia was due to its “embedded autonomy” - the independence, capacity and interconnectedness of the bureaucrat class in charge of promoting industrialization to lead a dialogue with society about its economic goals and the policies to achieve them.

advantage first and deliver export-led growth next. Collectively, the historical record suggests that “no size fits all.” The right institutional and policy mix for different societies to accelerate growth is determined by their specific histories, strengths, and sizes. From this view, there is ample room for studying how societies engage in policy and institutional experimentation as they discover their own paths to prosperity.

IV. Conclusion:

We finish by outlining three main messages. The first is that theories and empirical approaches that combine geography, institutions, and human capital seem most promising to understand paths to prosperity. We do not mean simply *additive* approaches—there is little argument that particular institutions and innovation can foster growth—but actually *integrative* approaches. Of course, such theoretically ambitious approaches may best explain development in one continent, such as Latin American (Engerman and Sokoloff, 2011) or Europe (Abramson and Boix, 2019), as opposed to globally. That is a worthy trade-off. After all, many historically-inclined political economists as ourselves would argue that explanations for levels of development around the world may be more continent-specific than some political economists would like to believe.

Second, we noted that mainstream institutionalist explanations for development, especially in economics, take a strikingly limited view of public policy, asserting that the main responsibility of the government is to not infringe on property rights and to constrain itself. The state is at best a passive and indirect enabler of growth when it creates the right legal framework for market competition. In reality, history shows us that political leaders have often engaged in active economic and industrial policy—sometimes successfully and other times not—to gain political legitimacy and reelection through economic growth (e.g., from democracies like Norway to dictatorships like China), and to reduce national security threats thanks to a more developed industry (e.g., South Korea, Israel).

That most developed countries today used industrial policy tools such as tariffs and subsidies is beyond dispute, even if it is overlooked by many.⁹ The difficult questions to answer are (i) the extent to which these tools fostered or hindered growth in general and (ii) why these efforts fostered growth in some cases and hindered it in others. We emphasize that state-led efforts to develop “infant industries” and gain comparative advantage in high value-added industries seem to have often succeeded in high capacity states but not in low capacity states. Some have argued that this may account for the failures of most Latin American and African governments at actively engineering development (Kohli, 2004).

Future research should try to understand the *processes* through which different types of countries have attempted to find locally-effective means to grow. This agenda could include a

⁹ Chang (2007, p. xxiv) notes that “not all countries have succeeded through protection and subsidies, but few have done so without them”.

large body of comparative case-studies and analytic narratives considering instances of policy and institutional experimentation and change. The ultimate goal is to understand how domestic politics and foreign pressures condition the collective design, iteration and adaptation of policies and institutions as societies meander in their pursuit of economic prosperity.

A promising and related agenda for future research would consider the *policy mix* pursued in “positive-deviance” countries that overcame persistence and converged to higher living standards. Leveraging microeconomic empirical tools to assess within-country causal effects would help to adequately identify the merits of different policy interventions (Mitrinen, 2021; Lane, 2022; Liu, 2022) and avoid extrapolating biased lessons. For HPE scholars in particular, a similarly rigorous agenda would estimate the effects of developmental policies of Western countries in their pre-industrial phase to understand whether it induced their economic take-off.

The body of causally-identified “micro” contributions, historical and contemporary, must continue to grow to support or challenge existing narratives that incorporate the state (e.g., Gerschenkron, 1962; Wade 2004). HPE scholars should evaluate how different policies and institutional arrangements interact with largely structural societal characteristics in delivering economic growth. As we continue to learn from an expanding set of empirical findings, the need to revise “standard” theories of development into updated unified frameworks will become increasingly obvious. If “one size fits all” policies cannot induce long-run growth everywhere, the more promising task is to understand “what size fits where.”

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