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Convergence: myths and realities

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Abstract: Although economists have become increasingly agnostic about convergence, neo-liberal policies tend to presume it. Such policies assume that economic liberalization, open markets and minimalist states will encourage the globalization of capital, thereby spreading economic growth from the First World to the Third World. In this, they resemble orthodox Marxist theories of the internationalization of capital. However, divergence rather than convergence continues to prevail in the global economy, and neo-liberal policies may be intensifying these trends. It appears the flaw common to both neo-liberal and Marxist thinking on convergence is a supply-sided approach that neglects the important role demand plays in attracting investment.

Key words: convergence; foreign investment; globalization; income distribution; Marxism; neo-liberalism.

In *The condition of postmodernity*, David Harvey posits that one method by which accumulation crises can be resolved is with the widening of the space of accumulation, which takes the form of capital export. This standard Marxist argument has a history dating back to Marx's writing on India, with various elaborations along the way added by Lenin and Rosa Luxemburg, among others. Fundamentally, these theorists see capital export as integral to the development of capitalism, as capital confronts crises it cannot resolve save by exporting itself. What is perhaps curious, though, is that much the same argument is made by neo-liberal economic theory. Of course, neo-liberals seldom, if ever, ponder crises of accumulation, let alone write about them, but the basic thrust of their thinking is that declining marginal returns brought on by rising labour costs constantly drive enterprises to raise profit rates by moving capital offshore. In effect, a crisis of accumulation – declining profits – leads to capital export. Incidentally, this similarity between orthodox Marxism and neo-liberalism drove many radical thinkers to dismiss the former as little more than a shadow of the latter, provoking a heated debate on the left in the 1970s and 1980s (in particular, Bill Warren's 1980 book *Imperialism: pioneer of capitalism* outraged a good many of his colleagues on the left). In any event, both orthodox Marxists and neo-liberal economists tend to see the globalization of capitalism as an inevitable

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outcome of its development. In economic theory, this has given rise to something called 'convergence theory'. As its name implies, convergence theory suggests that, left to its own devices, capital will inevitably globalize and thereby spread around the world. As a result, the income gap between rich and poor countries will diminish over time until, eventually, all the planet will operate at a relatively similar income level.

Yet the evidence suggests the contrary. The ratio of income distribution between rich and poor countries has not converged but widened throughout the history of capitalism. At the start of the nineteenth century, for example, the ratio of real income per head between the world's richest and poorest countries stood at 3:1. By the year 2000, it had reached 60:1 (*Financial Times* (London), 2000; see also Sarkar, 1997; Astorga and Fitzgerald, 1997; Seligson and Passé-Smith, 1998; Hofman, 2000: 147). Admittedly, one is dealing with estimates here, but a look at more recent information from the Penn World Table confirms the point (Summers and Heston, 1991). These tables measure GDP per capita using a number of different measures, one of which is current international prices. There are shortcomings in trying to measure income and gross output in this way, among them the fact that less developed economies have large informal sectors that escape precise measurement. Nevertheless, for identifying trends, the measure is useful since marketed output tends to rise with GDP, such that some convergence – at least in ratios, a standard measure – could be expected if a poor country's growth rates at least held level with those of its rich counterparts. In 1960, the ratio of the average per capita GDP of the top 20% of the countries surveyed to that of the bottom 20% was about 12:1; by 1990, it had widened to 18:1. This measurement tracks the performance of the poorest and richest countries, using 1960 as a starting point. A more common approach is to compare the ratio of the poorest countries in 1960 with the poorest countries in 1990, the two lists not corresponding perfectly since some countries will have risen out of the list of poorest performers while others will have fallen out of the list of top performers. When this approach is used, the gap in 1990 widens to 21:1. Equally, when weighting is done for population, the world's poor people seem even worse off: with most of the world's people living in poor countries, per-country averages tip the balance towards the richer countries so, once this bias is removed, the gap worsens. Furthermore, ratios that are constant indicate an absolute worsening in dispersion, as the income gap between rich and poor widens in dollar figures. When income figures are computed using purchasing power parity (PPP) as a measure, the data become somewhat more ambiguous, with stability rather than divergence emerging. But this fact must be set in its context: as the spread between PPP and income measured at the exchange rate tends to narrow as a country's income rises, what seems to emerge from the finding is a persistent low-level of development in the poorer countries, given that when income is measured using the exchange rate, divergence results (see Summers and Heston, 1991: 359). In any event, there is little evidence of convergence. Meanwhile, the aggregate figures accord with the impressions many researchers in the Third World form in their case studies. Given that, at the end of the twentieth century, the average African household consumed 20% less than it had 25 years previously (United Nations Development Programme (UNDP), 1998), while consumption in First World countries raced ahead, the reality of divergence has been everywhere in evidence.

Faced with this fact, most economists have become rather agnostic about conver-

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gence. Rejecting earlier neo-classical models of absolute convergence, they maintain that poor countries will grow faster than rich ones only if certain conditions are first put in place, a very important one of which appears to be a high rate of human capital formation (see, e.g., Mankiw *et al.*, 1992; Barro and Sala-i-Martin, 1995). Some theorists, belonging to the so-called endogenous growth school, are even less sanguine than these 'conditional convergence' theorists. Eschewing the neo-classical assumption of declining rates of return to capital, they maintain that new technologies enable rich countries to maintain their growth rates over poor ones, such that convergence need never occur.

However, in the realms of policy and politics, which arguably matter most to students of development since they shape the lives of the planet's citizens to a greater degree than do academic debates, such views are seldom expressed. Neo-liberalism – the fusion of neo-classical economics with neo-classical liberal political thought that has been popularized by reformist political elites – makes much of this idea of convergence. In both First and Third Worlds, political, business and intellectual elites often celebrate the virtues of open economies for the investment they will attract. In fact, neo-classical economics does not restrict the advantages of liberalization to its impact on capital flows, arguing that efficiency gains in developing economies are one of the key benefits of liberalization. Nonetheless, in popular debates, the belief that liberalization will help to globalize capitalism, bringing its fruits to all and sundry, receives prominent attention. Moreover, it is almost axiomatic in neo-liberal thought that the sweep of its policies across the globe in recent years has initiated a process that is lifting the Third World from its poverty. During the 1990s, for instance, the Clinton administration played this up in its aggressive pursuit of liberal trade policies.

Neo-liberal theories of convergence make use of a hypothesis that bears a strong resemblance to the Kuznets curve, which posits that within societies, capitalism initially widens income distribution but then eventually narrows it back within a relatively equal range. The idea is that core regions initially 'take off' into the industrial age, leaving others behind. The latter consequently grow relatively poorer. However, as wages rise in the heartland, capital begins shifting to low-wage zones. Moreover, poor countries do better than just move into similar growth phases, which given their later start would leave them permanently behind. Rather, they can leapfrog to the technological frontier, benefiting from the innovations and advances already made in the industrial economies, and thus achieve much higher growth rates than rich countries, ensuring they catch up to them in time. This type of argument mirrors earlier theories of regional development and dualism, which foresaw growth in core regions initially widening regional disparities but eventually spilling over into the periphery (see, e.g., Williamson, 1965). It is suggested, therefore, that whilst the gap between rich and poor countries has widened over most of the last two centuries, the process of convergence has now started, as evidenced by what appear to be the first signs of income-narrowing in recent years (see, e.g., Lucas, 2000). Between 1992 and 1998, for instance, using World Bank data (the most recent available, if not the best), the ratio of high-income to low-income countries in per capita GDP narrowed from around 57:1 to 49:1 (World Bank, 1994, 2000).

The empirical case for the Kuznets hypothesis is, to say the least, contentious. Within societies, while there is some evidence in support of the Kuznets curve, it

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cannot be called conclusive (see Tanzi and Chu, 1998: chapter 5; and Bowman, 1997). Among societies, as mentioned above, support for claims of divergence-cum-convergence is weaker still. Significantly, when evidence of convergence does emerge, whether between societies or within them, it appears to correspond to periods of strong state guidance, rather the opposite of what neo-liberalism, with its premises of liberalized markets and minimal states, usually assumes. Within societies, some case studies show that periods of state-guided economic development tend to correspond to income convergence more strongly than do periods of liberalization (see, e.g., Harrison and Hanson, 1999; Beyer *et al.*, 1999). Evidence from Latin America also shows that what income convergence there was between this continent and the First World took place during the 1940–1980 period when state guidance was most extensive, whereas distribution worsened after liberalization took hold around 1980 (Astorga and Fitzgerald, 1997; Hofman, 2000). Data from the Penn World Table also seem to confirm that after narrowing from 1960 to 1980, the income gap between rich and poor countries resumed widening after 1980 (see Summers and Heston, 1991: 359), when the period of liberalization can be said to have begun in earnest in the wake of the debt crisis (Rapley, 1996: chapter 3). Needless to say, conclusions must be tempered by the fact that such assessments are fraught with problems of conceptualization, not to mention the problem of the counterfactual, namely, the possibility that tendencies towards divergence preceded liberalization and would have been worse without it (see Baer and Maloney, 1997). All the same, such findings are consistent with research from several countries, which shows that growth, particularly in agriculture, tends to rise and thus poverty to sink as the level of public investment goes up (Selvaraj, 1993; Fan and Pardey, 1997; Fernandez-Cornejo and Shumway, 1997; Rosegrant *et al.*, 1998; Kelly, 1999; Fan *et al.*,1999). We shall return to this point later. As for the counterfactual, namely the argument that fiscal adjustments would have had to take place with or without liberalization, this takes as given the distribution of international resources that backed Third World governments into this position in the first place. It presumes that the only response to fiscal crises was fiscal austerity, rather than, say, financial assistance from First World countries. The global financial arrangements of the neo-liberal age precluded the possibilities of the latter taking place, and so prejudiced the shape of the 'counterfactual.'

More importantly, though, the argument that convergence between the rich and poor world is finally starting to take place remains highly speculative. It appears that whatever convergence has occurred in recent years has been due to growth in China and, to a lesser degree, India. Referring back to the World Bank figures, which pointed to a narrowing of the gap between high-income and low-income countries from 1992 to 1998, when India and China are removed from the picture the ratio actually rises, from 60:1 in 1992 to 67:1 in 1998. The weight of these countries in recent global convergence may reveal more than convergence theorists would like to admit. In both of them, liberalization followed upon lengthy periods of extensive state-guidance, which built up incomes and capital stock sufficiently to make these countries attractive to foreign capital. However, the last two decades of state retreat have seen income distribution between rich and poor countries worsen, with only a few east and southeast Asian countries able to grow fast enough to converge towards the per capita income levels of the First World (Cornia, 1999). It may be that

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the growing divergence between rich and poor countries can be explained by the spread between the output per worker and the output per capita. As demographic transition is attained and population growth comes into line with labour force growth, this divergence may slow. But even if this is so, at most it makes a case not for imminent convergence, but simply for a slowdown in divergence (Sheehey, 1996). Given that after two centuries of divergence, the most that neo-liberal proponents of convergence can come up with is a possible recent trend that may, just may, point to some green shoots of convergence, it seems best to err on the side of caution: the convergence hypothesis is, at best, unproved, pending another few decades worth of evidence, at worst, false.

Therefore, given that we can start by saying that convergence has not occurred, the question to ask is, what is the flaw in the theory? The answer would seem to point to the weakness common to both neo-liberalism and orthodox Marxism, namely, an approach that is too supply-sided. In essence, neo-liberal theories of convergence presume that supply factors – rising labour costs and declining marginal returns – push capital from rich countries to poor ones. Yet the aggregate data on international capital flows suggest that demand factors – market size and high returns – pull capital from rich countries to poor ones. In the days when Third World countries used protectionist trade regimes to try to develop their economies, most foreign direct investment was geared either towards securing First-World firms market access, or improving access to sources of raw materials. With liberalization and the dismantling of trade barriers, investment for the purposes of market access has continued, but has been supplemented by the influx of capital dedicated to purchasing the assets of privatized companies (Organization for Economic Cooperation and Development (OECD), 2000). Case studies confirm this general rule. In Argentina, most of the foreign direct investment (FDI) of the 1980s and 1990s was drawn by the privatization of state assets, secondarily by the search for market access, with evidence of FDI as a part of globalization strategies being limited (Chudnovsky *et al.*, 1997). Looking at the other side of the coin, one recent study of Danish FDI found that the main factor driving the decision to move offshore was market access, not the search for lower production costs (see Wallace, 1996: 75).

It is true that recent years have seen some rationalization by First World firms that has led them to export, or globalize, at least part of their operations. One has to be wary of generalizing the experiences of a few firms, though. One branch of neo-liberal thought, the so-called new economy school that enjoyed considerable influence over both the Clinton administration and the US Federal Reserve Board during the 1990s boom, has stressed the diminished importance of space in the emerging global economy, with the 'lightening' of production diminishing the importance of market proximity to any business unit. To date, though, the subsectors that are susceptible to full globalization are relatively few (see Waters, 1995: chapter 4). By and large, only some types of durable goods production are easily globalized, whereas nondurable goods – possibly because of their greater susceptibility to demand factors that requires their production to remain close to their market – seem less easily globalized. As for services – and it helps to bear in mind that the economies of the First World are now primarily service-based economies – much of this sector, by definition, cannot be globalized: it is simply not possible, for instance, to relocate a Chicago hotel to Madagascar in order to get cheaper bellhops. It is thus

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not surprising that the productivity increases seen in the US economy in recent years were concentrated in durable goods manufacturing, with nondurable goods putting in a less impressive performance and the service sector evincing little, if any, improvement (Gordon, 1999). The labour discipline wielded by a management able to threaten unemployment with a globalization of production arguably drove the durable goods manufacturing subsector's productivity gains during the 1990s (Rapley, 2001). Moreover, sometimes when firms globalize their operations some of the expected cost savings fail to materialize, as firm managers run into the long-standing problem that expected cost savings are offset by lower productivity. Related to this is the fact that the rising knowledge-intensiveness of manufacturing in the First World will make it harder for poor countries to attract investment. Liberalization has put them in a bind, though. To raise labour productivity and thus attract investment they will need heavy investments in human capital formation, but structural adjustment and fiscal austerity have reduced the resources available for this purpose (for a case study see Handa and King, 1997). The current neo-liberal context of the global economy, thus, puts poor countries in a bind: they need capital to invest in human capital formation, but cannot attract it because they lack human capital.

Even when successful globalization does take place, it does not occur in a steady and broad-based export. Rather, it tends to go from a small group of rich countries to a small group of neighbouring countries, with the effect being a widening of the 'rich club' by a few members rather than a raising of the Third World as a whole. In fact, in the short term, the gap between rich and poor Third World countries widens (Puga and Venables, 1998). Of course, it can be – and sometimes is – argued that given time, the rich club will widen to the point that all the world's countries will be fully paid members. Possibly, but this assumption has to be treated with a healthy dose of scepticism, for two reasons. First, is the simple fact that the rate of globalization has been such that the export of capital has been, in global terms, a fraction of what would be necessary to effect planetary convergence within, say, a century. Secondly, even if we were willing to wait this long for convergence to occur, it would be at a level of global output many times greater than what the planet currently supports, at rates that are likely to be unsustainable. A simple exercise can illustrate this. The neo-liberal vision of global convergence that, for example, governed the policy of the US government in the 1990s was that continued growth in the First World would spill over into the Third World. So let us assume that growth in the industrial countries continues at the rate of about 3% per year; that the planet's population will stabilize at 10 billion in 2050, with most of the increase coming in poor countries; and that convergence occurs by the end of this century. To satisfy those conditions, the global economy will have to grow roughly 140 times over during the period in question. With many scholars arguing that greenhouse gas emissions already make the current level of global output unsustainable, this scenario becomes dubious. In other words, this type of long-term convergence may be a theoretical but not practical possibility.

As things presently stand, the proportion of foreign direct investment that is due to industrial restructuring – and thus motivated by the sort of push factors identified above – accounts for but a small portion of total FDI in the Third World. More to the point, as a proportion of total investment carried out by rich countries, it is almost

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infinitesimal. In 1999, for instance, total American foreign direct investment was US$152 billion. After subtracting the amount that went for mergers and acquisitions in other developed economies, we are left with well under half the total. Of this amount, which went to the Third World, most went to buy privatized firms or secure market access. That leaves no more than perhaps US$10 billion that was used for investment driven by global restructuring plans (OECD, 2000). When set against total US investment that year, which surpassed US$1.2 trillion (US Department of Commerce, 2000), we get a proportion of under 1%. The fact is thus inescapable: the vast bulk of capital generated in the rich countries is re-invested in the rich countries, and only a trickle makes it to the Third World. And while some theorists detected a developing trend in the 1990s, as the flow of investment into so-called emerging economies rose rapidly, this peaked at the time of the Asian crisis, and has since declined. Since 1997, investment in the publicly held debt of Third World countries has gone into reverse (Bank for International Settlements (BIS), 2001), portfolio investment has failed to return to pre-crisis levels, and only FDI, which as has been made clear was relatively modest to begin with, continues at a steady rate (*Financial Times*, 2000).

In sum, capital has not flowed, and is not flowing, from the First World to the Third World in any significant way. Nor is it likely to do so. Indeed, it is unreasonable to suppose that it should. The dogmatic theory of convergence put forth by some neo-liberal popularizers tends to treat globalized capital markets as a newly amorphous whole. In this vision, trillions of dollars in capital rocket around the globe several times over each day, as electronic transfers reduce vast sums of money to electronic impulses through phone lines and cables. Thus, with the right set of reforms – which invariably involve as little state intervention as possible – Third World countries will dismantle the barriers that keep these flows out, thereby opening the floodgates to a vast influx of investment. But it is seldom, if ever, so. Bond markets and portfolio investment may be increasingly globalized, but this new reality offers as many drawbacks as gains. The ease with which money can flow out is directly proportional to the ease with which it can come in, as the East Asian crisis revealed. Such capital flows tend to be procyclical (Stiglitz, 2000) and thus destabilizing, leading first to rapid currency appreciation and bubble markets, which in turn undermine growth and lead to an equivalent devaluation and crash, with recession being the outcome. As a rule, the severity of the 1997–1998 crisis in any given country stood in direct proportion to the total stock of capital that was held by foreigners in such easily liquidated securities.

Foreign direct investment, on the other hand, tends to be less affected by the business cycle of the recipient country, and is also more stable, as investors are less likely to pull back out. However, FDI, unlike portfolio investment, does not fit the popular image of the hyperglobalized economy. When it comes to FDI, financial and physical capital tends to follow human capital. By and large, it is reasonable to say that investors tend to go to areas they already know, either personally or via networks of personal contacts. Research reveals that both trade and foreign investment are strongly influenced by proximity and a common linguistic or colonial tie, suggesting the importance of networks in globalization (see Rauch, 1996a,b; Wei, 1997: 12). Only a handful of Third World countries have been able to engineer rapid economic growth via a strategy of attracting investment from capital-exporting zones eager for

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low-cost labour. Among them are Indonesia, Malaysia, Singapore, Hong Kong and Mauritius. A question mark currently hangs over Indonesia, so that country should probably be removed from the list, but the economic growth in the other countries appears to be sustainable. In these four cases, a crucial factor in their success appears to have been their implication in Chinese business networks (see, e.g., Huff, 1994; Moody and Wang, 1997). It has been estimated that over 60% of the foreign investment in China comes from offshore Chinese in Hong Kong (Kuo, 1997: 162). Equally, in the case of Mauritius, the World Bank has emphasized what it calls the 'reassuring presence of a local Chinese community' (World Bank, 1992).

Put simply, wealth attracts wealth. Capital thus follows capital. The fact that the vast bulk of international capital flows move among a small number of rich countries makes this plain. Four-fifths of the world's international investment flows circulate among First World countries, and most of this, in turn, is for mergers and acquisitions (OECD, 2000; see also Tussie and Glover, 1993). The upshot of this is that to attract investment, developing countries must create demand conditions that will lure investment to less industrialized zones. This is not a new idea in economic thought. A focus on the demand side is, of course, a distinguishing feature of Keynesian economic theory, and Keynesians have long argued that public investment, rather than crowding out private investment as neo-classical economics has traditionally assumed, can, if done properly, crowd it in (as the economic literature rather cumbrously puts it). Structuralism also took as axiomatic that public investment was necessary before foreign investors would want to come to a country. As noted earlier, there is evidence to support the hypothesis that public investment raises growth and incomes, which in turn attract foreign investment in search of new markets.

To this we can add the arguments originally made by radical scholars – which, interestingly, have in recent years found support among some neo-classical economists, who at one time celebrated income inequality for raising investment and accelerating innovation – that highly unequal income and wealth distribution patterns tend to inhibit growth in poor countries. The reasons put forth vary, but there now appear to be sound reasons to believe that by constricting the domestic market, inhibiting human capital formation and fostering political instability and capital market imperfections, income and/or wealth inequality retards economic growth (for various perspectives, from radical to neo-classical, see Beckford, 1972; Mandle, 1973; Muller and Seligson, 1987; Murphy *et al.*, 1989; Galor and Zeira, 1993; Persson and Tabellini, 1994, cf. Paige, 1975; Deininger and Squire, 1998; Tanzi and Chu, 1998; Barro, 1999). This lesson was developed in national case studies, particularly those of relatively slow-growing Latin American and Caribbean countries, which could be easily contrasted with the better growth records of more egalitarian East Asian countries. Yet, if we assume that globalization increasingly makes it possible to speak of the global economy as, more and more, an entity, there seems no reason why the lessons cannot be applied to the global economy. The lesson of these national case studies, incidentally, was that asset redistribution had to precede effective growth and development (see, e.g., Oshima, 1998). This being the case, the implications for the contemporary global economy seem clear: left to its own devices, capital will not just spread to the Third World on its own. It will need to be shipped there, which in turn may create a virtuous cycle that keeps attracting it there.

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It is perhaps an interesting aside that a key opponent to this type of thinking was the Clinton administration. From time to time during his term in office, US President Bill Clinton gave speeches in which he called for the rich to share with the poor. However, leftist critics bemoaned the fact that the policies of his administration tolerated and even encouraged a widening gap between them, both domestically and internationally. But this may not have been accidental, reflecting instead the neo-liberal mindset of his government. While the close ties of Federal Reserve Chairman Alan Greenspan – not a member of the administration, but nominated and endorsed by it – to the arch-libertarian Ayn Rand is a matter of record, perhaps less well known was the intellectual pedigree of some of Mr Clinton's economic team. For example, in his earlier life as an academic, President Clinton's last Treasury Secretary, Lawrence Summers, essentially argued for the virtues of income inequality, using the standard neo-classical argument that it raised investment. Kotlikoff and Summers (1981) challenged the life-cycle hypothesis, namely that investment in the USA was driven by household saving for retirement. Instead, they argued, the vast bulk of the nation's wealth was accounted for by intergenerational transfers among the very rich, and it was said that measures that cut into these transfers – redistributive policies – would reduce the total stock of wealth. Given that inclination, it is thus not so surprising or paradoxical that the Clinton administration did not stridently oppose cuts in foreign aid, nor lend very vigorous support to calls for debt relief; it pushed Third World governments to adopt liberalization policies that worsened income distribution (on the way in which trade liberalization has worsened income distribution, see Harrison and Hanson, 1999); it demanded 'fiscal responsibility' (whatever its merits in principle, in practice this translated into budget cuts) in return for concessions to Third World governments; and it arguably used the Asian crisis as an opportunity to pry open markets previously closed to itself, with little to show the poor of the countries in question for it. The end product has been a more unequal world in which the poor countries face even more of an uphill task in emerging from their poverty.

Not all neo-classical theorists still stand by this strict neo-liberal approach, though. In recent years, some neo-classical economists have been accepting the conclusion that wealth inequality, at least, is bad for growth, and have called for carefully targeted investments in infrastructure or human capital that would draw foreign investors into Third World societies. Conditional convergence theorists also acknowledge the essential role that governments must play in human capital formation. They may defend this shift back away from the virtues of a free market and minimal state that were once celebrated by the most enthusiastic of neo-classical advocates, such as Friedrich Hayek or Deepak Lal, by saying that these investments are still designed to address supply-side factors, such as marginal rates of return (see, e.g., Narula and Dunning, 2000). Nevertheless, the shift seems to indicate a growing awareness that the demand side of the economic equation has received inadequate attention in recent years. Moreover, it appears to vindicate at least some twentieth-century experiments in state-directed industrial development. Not only did these policies create the infrastructure and technological capacity that attracted foreign investment (see Rapley, 1996: chapter 4), but even loss-making public firms could, in the end, have justified their existence by the fact that they attracted foreign capital when it came time for them to be privatized.

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All the same, at the dawn of a new century, this new shift raises practical and theoretical problems. Practically, if capital will be attracted to Third World societies by investment that will raise marginal returns, create assets and augment demand, the question remains, where will the capital come from? In the age of globalized capital markets, it will be difficult for any one country to go it alone in trying to forcibly raise its savings rate by limiting capital outflows administratively. Moreover, the possibility of a return to the protectionist trade regimes and *dirigiste* policies of the past seems scant. In a world in which protectionist practices are broadly accepted, countries do not suffer so much from beggar-thy-neighbour policies; but in today's liberalized world, individual countries that try to erect protectionist barriers are likely to lose capital – both foreign and domestic – to neighbouring countries with lower tax rates and freer capital markets. To engineer sustainable development for the four-fifths of the planet's population that continue to live in poverty, it will be necessary to mobilize massive amounts of investment in the Third World. Yet the unregulated market is clearly not doing it; public investment by Third World governments, faced as they are with a heavy debt burden and the pressures to further pare back their spending, cannot manage it; whilst First World governments, even during good economic times, have been reducing their already modest aid to the Third World. Yet without a new 'push' to investment, there is little reason to believe that most of the world will be seeing very rapid rates of capital formation any time soon. What is needed is a substantial transfer of resources from the First World to the Third World that will make it possible for governments to rapidly raise their investment levels. Debt forgiveness presents one readily available option for doing this, but it is not the only one. This discussion raises an interesting possibility, though. The conditions necessary for rapid growth identified by conditional convergence theorists – heavy investments in education, low fertility, high savings rates, political stability, a minimum of corruption – are highly correlated with GDP. In other words, these conditions may not so much precede as follow growth. Getting growth going with what the old structuralist school called a big push may yet be the key to convergence.

Theoretically, the shortcomings of an excessive focus on the supply side of economic activity may represent a swing of the pendulum too far. If Keynesian economists had, by the time neo-liberals came to power in the West, become unduly attached to the effectiveness of demand management, so too might neo-liberalism have placed too much faith in the effectiveness of supply management alone. Given their tremendous faith in the creative potential and ingenuity of the entrepreneur, it is perhaps not surprising that neo-classical economists would have overlooked the important role played by the worker and consumer in the process of economic development. More surprising, though, is that orthodox Marxists should have been guilty of this same supply-side focus. It may be that this can be attributed to an unwillingness to see demand as an inextricable part of the nexus underpinning capitalist growth. By and large, the dualism that emerged from Marxism, and perhaps even more forcefully from Leninism, located the oppressive side of any mode of production, and in particular capitalism, in the owning class. Ending oppression thus rested on tackling the supply side, by changing ownership. The idea that it might be ended by tackling the demand side was seldom if ever seriously entertained. For example, the thought that a change in consumption behaviour might alter the character of

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capitalism – for instance, a retreat from commercial into household production undermines the dominance of a capitalist class by reducing demand for marketed commodities – was easily dismissed by theorists who, in effect, wanted to have their cake and eat it too; that is to say, overthrow capitalism or oppression without actually having to change the lifestyle it made possible. Thus, First World liberals often excoriate multinational corporations for the damage they do, say, to Third World countries, but they are less than frank in stating that the reason multinational corporations can go there in the first place is to satisfy the huge demand emanating from their own societies. It is a moral absence, or black hole, in leftist thought: the idea that you can be a moral person at no personal cost (for a detailed essay that concludes that a moral act, by definition, imposes a cost on the actor, see Todorov, 1996). But if the distribution of planetary wealth is truly to become more just, it is likely, particularly in light of the arguments made in this paper, that there will have to be a cost – short-term, if not permanent – imposed on the peoples of the First World. They cannot have their cake and eat it too.

Postscript: could there be another Dark Ages?

This provocative question is intended not to suggest a realistic possibility but to provide a tonic to some of the most optimistic and even utopian perspectives that have emerged from neo-liberal pens in recent years. Some of the neo-liberal euphoria that came out of the USA in the 1990s presumed that neo-liberal reforms would usher in a new age of endless prosperity. This 'new economy' school of thought argued that if humanity did not commit the mistake of returning to some of the institutional forms with which it experimented in the past – socialism being the worst culprit – technological improvements and constant factor substitution would permit the planet's output to increase many times over with no environmental limits to growth. Even in the worst-case scenario, such as a nuclear holocaust, the bounce-back would be rapid, since the accumulation of knowledge in a myriad of easily accessible nodes, thanks to the progress of the information revolution, would enable survivors to quickly restore the *status quo ante* (see, e.g., Simon, 1995).

Following what may have been the biggest economic boom in history, the idea that there could ever be another Dark Ages does indeed seem ludicrous, and there are in fact no reasons to expect this to be a practical possibility. Nevertheless, that does not render it a theoretical impossibility. The distinction is important. If by Dark Ages one means an era of barbarism largely removed from history, then the answer is obvious. However, that definition is a caricature and prejudices any consideration of the question. The Dark Ages were, above all, a period of prolonged economic stagnation and political instability that followed the collapse of an empire that had attained heights of economic and cultural output, and political strength and cohesion. Yet while the cause of the Roman Empire's collapse has animated one of the great scholarly debates in history, it did not result simply from a huge military conflagration that decimated the intellectual capital of the empire. On the contrary, the decline was slow, and the infrastructure and intellectual capital survived. Had it not done so, after all, the Renaissance would never have occurred. To this day, Roman roads, aqueducts and buildings still stand. In other words, it is not that the

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supply of intellectuals, architects, engineers and tools was decimated. Rather, it was that demand patterns changed. Roman buildings and roads became sources of construction material rather than artefacts worth preserving, simply because the changed political landscape rendered the knowledge they embodied irrelevant or, put differently, of no market value. A glance at present-day Congo shows how worthless a technology becomes when it is imported into an environment in which demand conditions alter its use: telephone poles, to which lines local residents have no access, are used to build houses and the phone wires to tether livestock.

The technologies of empire were only valuable within the context of a political and economic regime that made them fungible. This is the theme of many a novel or science fiction film, that talents which are immensely valued in an advanced, urban, industrial setting are rendered useless when the character is transported to a different environment, be it a desert island or some futuristic space station.

In the same way, to argue that the new age of endless growth cannot be reversed simply because the knowledge cannot be eliminated is to employ a nonsequitur. If there is no demand for a particular stock of knowledge, the size of that stock is irrelevant. And in today's global political economy, there is a huge supply of knowledge and technology that is not reaching the Third World for the simple reason that the demand there is insufficient to attract it. The question some adventurous theorists sometimes ponder is, could this growing imbalance between rich and poor ultimately create a planet so unstable that the existence of the empire could itself one day be threatened? Could the empire's prosperity compel it to suck in resources – including human resources – from disaffected and marginalized regions that harbour populations hostile to the empire, who might then challenge it from within just as the mercenaries of the Roman empire gnawed away at its military capacity?

Answering this question is not the important point. Rather, the key thing to remember is that the presumption that supply alone governs prosperity is misguided. Demand is every bit as important. In a politically unstable world, such as that of the present day, an imbalance between demand and supply is conspiring to prevent the fruits of 'progress' from reaching most of the planet's citizens. This reality, in turn, may threaten the stability of the political economy, particularly when it has become sufficiently globalized for want and plenty to coexist cheek-by-jowl, the very conditions that give rise to envy and anger. Believing that the empire's internal dynamic will alone prompt it to push outwards and colonize the globe, bringing all the fruits of progress, is a hubris to which humans have succumbed for perhaps millennia. It has yet to be proved right.

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