Dani Rodrik, *One Economics, Many Recipes*, Princeton University Press, 2007

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One Economics, Many Recipes is a collection of nine essays by Dani Rodrik that has something to annoy almost everyone.

He seeks the answer to one of the oldest and most important problems in economics: how to make poor countries rich? Like most old and important problems in economics (Does the distribution of incomes reflect productivity? Do high wages cause unemployment?), it has proven divisive, unanswerable, yet endlessly fascinating.

The first three essays lay out Rodrik's interpretation of the post-World War 2 growth experience, and the 'growth diagnostics' framework that he proposes in response. Many countries have experienced episodes of accelerated growth at some time. Most of these accelerations have come after fairly minor, yet diverse, policy changes, while comprehensive reforms have had generally disappointing results. Principles like security of property, sound money, incentives for innovation, and links with the world economy are important everywhere, but they may be achieved in many different ways. For example, the Chinese expedient of forcing entrepreneurs into partnership with local government in township and village enterprises was an unconventional way of preventing expropriation, but probably more effective than trying to introduce full private-property rights backed by an independent judiciary overnight.

Rodrik argues that development is fundamentally about the introduction of new products and new methods of production. This may fail to happen because the returns to such innovation are too low, or because the cost of finance is too high. Following one path down his decision tree, the returns to innovation may be low because of poor infrastructure, lack of human capital, or unfavourable geography. Or, the returns may be high but not appropriable by the innovator, due to government or market failure. All of this may seem perfectly obvious; and perfectly useless. Yet Rodrik argues that each of these potential problems will produce a different set of symptoms if it is really the binding constraint on the economy. A shortage of finance will reveal itself with high interest rates or current account deficits, a shortage of human capital with a high skill premium, and so on. Hopefully, diagnosis will then allow treatment with well-targeted

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reforms. This requires extensive local knowledge, but if it is done right, small changes can have big payoffs.

The rest of the book suggests how such reforms might be designed and implemented. Rodrik pays by far the most attention to the 'market failure' branch of the tree, either because he thinks it is the most important, or has received too little attention elsewhere. It is generally accepted that if innovation is under-rewarded by the market, it is necessary to offer some extra inducement. This is the reasoning behind intellectual property and government-funded R&D. These are not always appropriate instruments for developing countries, however, since their problem is not so much expanding the frontier of new knowledge, but getting to that frontier by importing ideas and technology from elsewhere. This process is vulnerable to many kinds of market failure, so that it is hard for new industries to be established without some kind of government support. Industrial policy is not about 'picking winners' or comprehensive planning, but encouraging experiments with new types of economic activity. Many will fail, but even a few successes can amply repay the costs of failure. Developing countries still have plenty of room for this type of policy, although relaxing international rules on export subsidies would be helpful. The exact form of the intervention is not as important as the process: it is necessary to have a close enough relationship between government and business to identify promising opportunities and encourage entrepreneurs to take them up, but at the same time preserve enough independence to withdraw support from the failures so they do not become a permanent drain.

This is a self-confessedly modest program. Yet it contradicts everyone currently making a noise on the subject: assorted protesters such as Joseph Stiglitz and Ha-Joon Chang (because it does not demonise the IMF, World Bank, and WTO); heterodox economists such as Erik Reinert (because it asserts the value of neoclassical theory); neoclassical economists at the IMF, World Bank and WTO (because it advocates industrial policy and deprecates both the old Washington Consensus and the new 'augmented' version); Jeffery Sachs and Bono (because it denies the importance of poverty traps and barely mentions foreign aid); and William Easterly and Greg Clark (because it offers, if not a one-size-fits-all solution, at least some concrete advice on how to engineer growth).

It is no small achievement to disagree with so many luminaries and still receive back-cover endorsements from three Nobel laureates. He is very convincing arguing against the 'laundry lists' of comprehensive reforms that have been advocated by international institutions, whether the first generation of privatisation and liberalisation, or the more ambitious second generation focused on institution building. Trying to bring everything at once up to world's best practice is beyond the capability of even the best governments. But without detailed local knowledge, anything short of this can easily miss the most important problems in an economy, if it does not make things worse. The case against a generalised poverty trap is equally strong: spurts of growth lasting several years are relatively common, while sustained growth over decades is rare.

This very fact, however, points to a weakness, or gap, in the book. If lighting the fire is relatively easy compared to keeping it going, why spend so much time focusing on ignition techniques? For the long run, Rodrik's only specific advice is to actively diversify the industrial base, and build institutions of conflict management, which he links with democracy. There is a more general recommendation to use the time bought by growth accelerations to gradually implement more ambitious institutional reforms, but this is rather vague. Is this just the standard 'laundry list' implemented more slowly? Then what becomes of the 'many recipes'? Or is the long run, from a policy point of view, just a series of short runs — life is one binding constraint after another? In this case, growth diagnostics offers no way to identify and fix constraints *before* they start to bind, which is what he seems to be recommending. How can you avoid Argentina's long decline, or Japan's stagnation, or the East Asian financial meltdown, except with hindsight? It is surely too much to expect answers to all of these questions — indeed, they only become relevant with short-run success — but they could have been faced more squarely.

Short-run success is, of course, not to be disparaged. It would be nice to have a reliable method of making poor countries rich, but failing that (which we have been), significantly raising the number of growth accelerations would be a great start. With this more limited goal in mind, Rodrik's advice seems sensible, although I am sceptical of his emphasis on 'cost discovery' as a justification for industry policy. He argues that those entrepreneurs who introduced garment manufacturing to Bangladesh and soccer balls to Pakistan were revealing new information about what was profitable in those countries, which could then be copied by others. This treats manufacturing as some exotic crop that will only grow under particular conditions of soil and climate, as if it was not equally likely that Pakistan would have ended up making shirts and Bangladesh balls. Rodrik's own summary of the evidence concludes that 'managerial and labour turnover' is the key mechanism by which innovations spread, which points to a 'learning by doing' or 'human capital' interpretation. He mentions these only briefly, which is strange, as he has argued elsewhere that the widely accepted economic case for government involvement in education is similar to the case for industry policy. I would go further and say that they are practically identical.

This is, however, splitting hairs. Specifying the exact market failure is far less important than recognising that a particular activity (in this case, innovation) is likely to be undersupplied by profit-seeking enterprise. First-best intervention is usually impractical, if not impossible, so there is no one-to-one mapping from diagnosis to policy. It is a great strength of the book that it does not offer such precise, pre-packaged answers, even in a country-specific form but, rather, hints as to the right questions to ask as part of an open-ended policy-making process.

Supposing that growth diagnostics is widely adopted (the World Bank has already shown interest), will it prove more successful than previous development fads? While it requires a great deal of intelligence, knowledge and judgment (or failing that, luck), expecting to get rich without these is surely a pipe dream. At least its inherent conservatism, with the emphasis on detailed local knowledge and targeted intervention, should minimise the potential for damage.