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The models and frameworks used to study developing economies are increasingly relevant to the problems rich countries face

At the core of development economics lies the idea of ‘productive dualism’. The economists who founded the field of development economics, such as the Nobel laureate Caribbean economist W. Arthur Lewis, noted that poor countries’ economies are split between a narrow ‘modern’ sector that uses advanced technologies and a larger ‘traditional’ sector characterized by very low productivity. Dualism was long held as the defining feature of developing countries, in contrast to developed countries, where frontier technologies and high productivity were assumed to prevail. This marked development economics as a distinct branch of the discipline, separate from conventional neoclassical economics.

Development policy, in turn, traditionally focused on overcoming the disparities in incomes, education, health and life chances more broadly. Its task was to overcome productive dualism through institutional arrangements that would alter how markets work and expand access to opportunities.

While this distinction may have made some sense in the 1950s and 1960s, it no longer appears to be very relevant. For one thing, the methods used to study developed and developing countries have essentially merged: development economics today is essentially the application of standard frameworks of public finance, labour economics, industrial economics or macroeconomics to low-income settings. But perhaps more importantly, productive dualism has become a critical and visible feature of advanced economies too, requiring remedies straight out of the development policy toolbox.

In his 2017 book *The Vanishing Middle Class*, the MIT economic historian Peter Temin pointed out that the Lewis model of a dual economy had become increasingly relevant to conditions in the US. A combination of forces—de-industrialization, globalization, new technologies that favoured professionals and capitalists, and declining protections for labour—have indeed produced a widening gap between the winners and those who are left behind. Convergence between poor and rich parts of the economy was arrested, educational attainment increasingly polarized labour markets, and regional disparities widened.

In Europe, the increase in inequality was not as marked, owing to a stronger welfare state, but the same forces operated there, too. The gaps between leaders and laggards among firms and regions grew, and the middle class shrank.

As a result, policymakers in advanced economies are now grappling with the same questions that have long preoccupied developing economies: How to attract investment, create jobs, increase skills, spur entrepreneurship, and enhance access to credit and technology—in short, how to close the gap with the more advanced parts of the economy.

The starting points may be different, but the problems of a region where good jobs have disappeared look distressingly familiar to a development economist: Scarce productive employment, mushrooming social problems such as crime and substance abuse, and low trust in the government among various social groups and the business community. The obstacles that racial or ethnic minorities, recent immigrants, or low-educated workers must surmount in such settings are the bread-and-butter of development economics.

To be sure, left-behind localities in advanced economies may have access to vastly greater financial resources. In the US, state and local governments spend tens of thousands of dollars, not very effectively, on tax incentives and other subsidies to attract large firms. But their officials typically operate under structural and bureaucratic constraints that would be familiar to their counterparts in poor nations. As one experienced US practitioner recently put it at a meeting held at Harvard University, “We are at the centre of everything, but control nothing."

They also face similar limits on the available remedies. Industrialization has been the traditional vehicle for overcoming dualism; as workers are absorbed into more productive manufacturing activities, wages rise and the economy’s overall productivity increases. But, in both developing and advanced economies, manufacturing has lost its ability to create many jobs, owing to automation and other labour-saving innovations. Factory employment has shrunk (as a share of total employment) even in countries that have maintained strong industrial sectors, such as South Korea or Germany.

In high- and low-income countries alike, then, economic development will have to rely in the future much more on services and on small and medium-size enterprises. Both types of economies will need a new breed of coordinated policies aimed at the supply and demand sides of labour markets, combining skill training programs with support for firms. Good jobs require good firms, and vice-versa.

National policy frameworks will need to support these local productivist experiments with resources and enabling macroeconomic policies. In particular, that means reconsidering national innovation policies that blithely encourage technological changes that are biased in favour of capital and highly educated professionals. Taking a fresh look at the direction of innovation, and incentivizing technologies that augment rather than replace prevailing workforce skills, would help greatly in addressing the labour-market challenges that rich and poor countries face.

When economists talk about global convergence, what they usually have in mind is that developing economies grow more rapidly than advanced economies, and the incomes of the world’s poor rise to levels in richer economies. The irony nowadays is that we are experiencing downward rather than upward convergence. Developed countries’ problems increasingly resemble the problems found in poor countries. The models and frameworks used to study developing economies are increasingly relevant to the problems confronting rich countries.

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