

World Knowledge Forum 2012

Debate: Why Nations Fail? Wednesday, October 10, 2012

On the second day of the 13th World Knowledge Forum in Seoul, two prominent economists – one from Harvard University and the other from the Massachusetts Institute of Technology – examined the future prospects for the Chinese economy in a debate entitled "Why Nations Fail."

Daron Acemoglu, the Charles P. Kindleberger Professor of Applied Economics at MIT, predicted that "the elite [in China] will become a barrier to economic growth because they are not very well calibrated for innovation, technological change, and creative destruction."

Dani Rodrik, the Rafiq Hariri Professor of Economics at the John F. Kennedy School of Government, generally concurred with that view. However, he also emphasized the need for sequential changes in light of both political constraints and the costs imposed on particular segments of Chinese society.

"The Chinese reform pattern was explicitly shaped by a desire to abide by political constraints. As you try to provide incentives, you don't want to impose a high cost on a wide segment of society," said Dr. Rodrik. "Successful cases are those where government is able to sequentially and pragmatically remove obstacles to new industries. Such countries are those that are able to do the kind of diagnostic analyses that remove those constraints."

Dr. Acemoglu, coauthor of *Why Nations Fail*, a book shaping up to be one of the most important titles in the field of economics in 2012, focused heavily on the need for a more inclusive form of economic and political governance, highlighting the need for a "more level playing field" as China deals with the difficult challenges ahead.

"If you want to understand the proximate cause of Chinese economic growth, it is that the transformation of Chinese economic institutions moved from barely exclusive to more inclusive, more incentive based," added Dr. Acemoglu.

While both economists agree that what China has accomplished in the span of a few short decades has been extraordinary, they differed with respect to their opinions on China's ingenuity.

Dr. Rodrik believes that China's growth was spurred by the government's efforts to diagnose and eliminate weak-performing areas of the Chinese market through successful government intervention.

By contrast, Dr. Acemoglu highlighted the government's ability to engage in interventions in certain economic sectors while maintaining their core political ideals. In other words, the Chinese government exercised less regulation in certain areas, areas less potentially damaging to the maintenance of tight political control, thereby allowing those areas to flourish and bring up the rest of the country.

The two professors also offered their views on the future prospects for the South Korean economy. Dr. Acemoglu noted that "Korea has a vibrant democracy that has developed from the bottom up, at some level, but it is still in the process of transitioning to a fully inclusive society in many respects."

After noting that the process is still far from being complete, he stated that the government is not likely to achieve such a transition on its own. "The important thing is that the government can be the facilitator; the government shouldn't be the road block against more progress," said Dr. Acemoglu.

The two professors agreed that South Korea has reached a level of development of its economy and institutions that is quite exemplary. However, Dr. Acemoglu raised concerns that the road ahead may not be as smooth. "I think one specific set of concerns here is South Korea getting stuck in sort of a high-level equilibrium trap. . . . how do you make sure that it gets to the next stage?"

Dr. Rodrik generally concurred, adding that "the advantage of Korea's close-knit government-corporate relationship is that it has produced, on an on-going basis, incentives for production and success."