14. Conclusions

This book applies a grand perspective: Cross-country and long-run. In this perspective, much that is otherwise important becomes small details. However, the perspective allows us to see a general Grand Transition 'underlying' pattern that often escapes notice. In this perspective, the various sectoral transitions – such as the Democratic and Religious transitions – are easy to understand.

Thus, the book has shown that the process of development has a lot of endogeneity in the long run. It started with the well-known observation that countries have two basic steady states, the traditional and the modern, where the standards of living differ by 50 times, so that income differs by 4 log points. In both steady states, all relations in the socioeconomic structure are (rather) stable, but very different. Thus, the Grand Transition involves massive structural change, which includes transitions of all institutions. While it is difficult to predict when these changes occur, they lead to much the same development in the end.

The pattern found asks if it makes sense to demand good governance in the form of *democracy* and *honesty* in poor countries. It would surely be welfare enhancing if it could be done, but the analysis suggests that it is unlikely to be maintainable. India has managed to keep one of the two, but most poor LDCs have neither democracy nor honesty. However, development is a process that causes both democracy and honesty. The analysis suggests that it is easier to put the horse in front of the cart than vice versa.[1]

14.1 An illustration

The book has shown that development shapes institutions. This message is illustrated on Figure 1 by three countries in different cultural areas, Northern and Southern (Latin) Europe and East Asia. They all had an old feudal/royalist system 250 years ago: (i) Denmark had a peaceful and gradual reform process leading to the abolition of feudalism and to democracy. (ii) France crushed royalism and feudalism by a large bloody revolution, and has had a great deal of system zigzag since then (see Figure 6.5c). (iii) Japan was a traditional isolationistic system on a distant island with late reforms (just before the data started). The reforms took time, and then followed

[1] It is like the people who look at the agricultural transition depicted on Figure 1.1a and conclude that the causality is from the fall in the share of agriculture to development. This conclusion has led to amazingly harmful policies.

a period of globalization and a rapid catch-up.

For the last 150 years, France and Denmark have had a very similar log-linear growth path. Japan started late, but caught up – following a rapid transition path. For the last 40 years, the three countries have developed virtually the same. Given the uncertainty of measurement of the *gdp* and the PPP conversion, there is no significant difference.

Figure 1. The economic development of Denmark, France and Japan

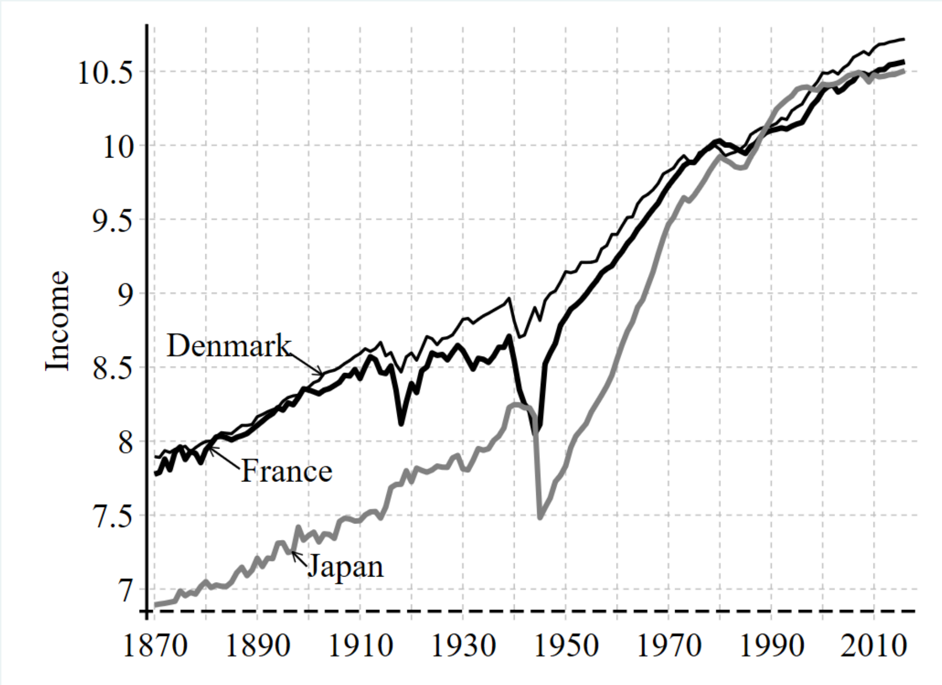

Table 1. The seven institutional variables in the three countries, 2016

	P, Polity	*CL*, Civil Liberties	*PR*, Political Rights	*B*, Ownership	*F*, Fraser Index	*T*, Corruption	*R*, Religiosity
Denmark	10	1	1	29.75 (a)	7.77	9.0	30.5 (a)
France	9	1	1	9.29 (a)	7.25	6.9	20.2 (a)
Japan	10	1	1	21.9	7.49	7.2	19.4

Note: (a) indicates that the last WVS wave had no data, so the last available are given.

Table 1 shows that the institutions have become rather similar as well. The measures are aggregate and rather crude, and many details are surely different, but it is clear that each country is much more similar to either of the other two countries than it is to itself 200 years ago. When you travel from one country to the next, the three countries seem very different indeed. However, once you start to think about the differences, you will probably agree that most are small – often very charming – cultural traits and conventions that are slowly vanishing.

14.2 Development itself as the explanation

Throughout the book, institutions (X) have been explained by income y, i.e. $X = \Pi^X(y)$, which is the transition in X in a long-run or a wide cross-country perspective. It has been stressed that this is a reduced form. The analysis suggests that many other socio-economic variables (incl. welfare goods) have transition paths – the ones examined certainly do. Thus, it is easy to replace income with a handful of other development indicators in the estimates. Development is a process with much *confluence*.

Think of the Human Development Index, where leading social scientists for the last 30 years have tried to find a better measure for development than income. It is part of the research agenda that the HD-Index should be different from income. In spite of large efforts, the researchers keep finding measures that have a correlation of at least 0.95 to income. When income goes up, people will purchase healthcare, education and social security, and try to acquire governments that provide these welfare goods. It is clear both that development requires education and that education can 'explain' development. We can explain, e.g., the Democratic Transition by the level of education, but this is almost the same as explaining it by income.[2]

When we find that causality is from development to the institutional variable, this means that many policies are endogenous in a larger perspective. The pressures of development end up defeating the policies pursued if these policies are inconsistent with development. The reader may think of New Zealand or Uruguay that for long followed policies of "stop the world I want to get off",[3] but in both cases the policy broke down under the pressures of development in the rest of the world.

A much larger example is the USSR (as already discussed), where a highly ideological regime tried very hard to make an alternative model. The efforts were truly heroic and very expensive for the population, with about 20 million killed, and a lousy level of consumption of anything but steel. Today, Russia has approximately the same gap to the West as it had a century ago. Finland broke out of Russia in 1918, when the Finnish province it had a standard of living of about 80% the Russian part of the USSR in Maddison's data. Today, Finland has the same standard of living as the rest of Northern Europe, and though the Finnish development has seen some crises, the social costs have been much smaller (relatively) than the Russian ones. It is

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[2] Several researchers have tried to find an independent contribution of education in models explaining the political system, but it is tricky given that income is a fine variable 'explaining' education; see Murtin and Wacziarg (2014).

[3] Both countries are fertile and have a fine climate. For long they pursued policies of de-globalization, with much protection leading to low growth, short working hours, early pension, etc. New Zealand carried out a large-scale structural adjustment in the mid-1980s – increasing the Fraser index by 2½ point. Uruguay has also re-globalized but slower.

likely that Russia could have had a similar development as Finland, and saved most of the enormous costs.

14.3 What happened to exogeneity?

The argument until now comes close to saying that everything is explained by everything else. Given that development has a large endogenous element, exogeneity becomes a rather blurry concept, like a handful of fine sand that slips through the fingers.

Perhaps the solution is the concept of a *triggering event*. Chapter 6 looked at the triggering event that led to changes in the political system – the analysis had the great advantage that political systems change rarely and in jumps, so it is fairly easy to identify the larger jumps. It is not so easy to identify the triggering events. My attempt revealed that the triggers for the larger jumps were very diverse, and most were exogenous or practically so. However, once they changed, most changes in the political system were towards the transition path. There was still a substantial random element in the changes, and they often overshot the path. Thus, we reached The Jumps Model, where the transition path worked as an attractor for system jumps caused by random shocks. It was argued that the transition path was due to the Grand Transition, notably the transitions in agriculture and religiosity that undermined two of the three pillars of the traditional power structure.

It is more difficult to find out when the economic system changes, as it takes more time, and measurement is more difficult. However, my assessment is that we are dealing with similar mechanisms, where the changes are started by rather random triggering events, and they often take countries in the direction of other countries at the same level of development.

The concept of triggering events means that exogeneity occurs as sparks that are widely distributed throughout the politico-economic system. This explains why causality is such an elusive concept. We have tried to get a handle on causality, using four types of tests, where the most formal one is the DP-test using pre-historical data for the development potential of countries as the instruments in Two-Stage Instrument-regressions. We have found that in most cases the instrumented income explains the cross-country pattern of institutions (almost) as well as income itself.

The pre-historical DP-data only covers half of the countries, and the explanatory power is less than half of the variation. However, I do find that income is a powerful variable explaining the various institutional variables, so it still is an important result that the main causal direction is from income in the long run, but there is of course still a great deal of space left for other explanations especially in the short run.

14.4 Is something new coming up?

Chapter 4.8 referred to Fukuyama's (1992) socio-economic bestseller "The End of the History". The idea was that modern society in the West and in a handful of East Asian countries has now reached such a high level of wealth and economic and political stability that it is difficult to imagine that future historians will have much to tell about the modern countries in our time.

My country is a typical case. Throughout history, Denmark has had many wars with Sweden and Germany. The last war with Sweden was The Great Northern War that ended in 1720. Since then, there have been tensions in connection with the Napoleonic War, but for the last 200 years, tensions have vanished. The last war with Germany was in 1864. This was just before the German unification, and it dealt with the complex Schleswig-Holstein Question. Since then, Denmark was occupied by Germany during World War II, but for the last 75 years, tensions have vanished. After the end of the Soviet empire, few Danes feel threatened by any foreign power. It is much the same for the majority of the modern countries.

Thus, one may ask: Is it really the end of history? Or are we moving towards something else? Many observers are arguing that we are seeing new fault-lines giving tensions both in the economic and political sphere. Two such lines are visible:

(i) The first is mass migration from the third world, notably Muslims, who find it difficult to accept modern secular society. This has created some backlash of populist parties that are anti-foreign and anti-elite. In most modern states, such parties have reached a level of about 20% of the votes. To accommodate and fence in the backlash, immigration to the West has been strongly curtailed, and after another couple of generations, most of the great-great grandchildren of original immigrants will probably be integrated. In addition, as more countries become wealthy, there will be fewer countries from which immigrants will leave, and more countries to which they will want to go.

(ii) The second is that the threatening climate changes have created a mass movement for 'systemic change'. It is not at present clear how large the changes need to be. At present, it appears likely that they may include a higher level of social control, but in the longer run most of the adjustment may be handled by the market and technological change.

Consequently, I see little reason to believe that the modern institutions will be unable to handle both of these fault-lines, even when it will take some time.

To write this book, I have looked through the politico-economic history of a great many countries. I have been left with a strong impression of the failure of all attempts to find a short cut to development. Some countries have managed to grow fast, but then they have followed rather orthodox policies based on export to the world market. That is, South Korea has been much less adventurous in its economic strategy than Argentina. Thus, Argentina started as a successful exporter, but since the Crisis of the 1930s, it has experimented with many kinds of policies, which are often referred to as Latin American Structuralism and Populism. Both concepts are slippery and have produced a whole set of unorthodox development experiments, of which none have been successful. It is difficult, from afar, to understand what Hugo Chaves (of Venezuela) - and his successor - was/is trying to accomplish.

This does not mean that countries do not benefit from a public sector that provides a good level of the three big welfare goods: education, healthcare and social protection. Most successful countries do have a balance between the private and the public sector, where the public sector has a size that can be financed from taxes. It is difficult to collect taxes in the LDCs, and narrow taxes can easily become harmful, so it is essential that taxes are broad, but this is all a large story that exceeds the themes of the book.

14.5 Inevitable changes and remaining differences

The Grand Transition is a change that has to occur for development to succeed. It starts with a difficult divergence from the traditional steady state, and ends with a convergence to the modern steady state. As far as I know, this occurs for all variables. The literature has demonstrated that it happens with variables for the economic structure and for the main demographic variables, as well as for variables measuring the level of education, urbanization etc.

The book has demonstrated that it is also the case for variables measuring institutions. The Democratic Transition is as strong as the Demographic Transition, and the Transition in the Economic System is almost as strong as the Agricultural Transition. To become wealthy and stable, a country has to go through a set of institutional transitions. For each socioeconomic variable, the transition represents the inevitable net change that has to happen.

We all like to think that countries can choose their system and that a range of choices is available. The Grand Transition view argues that the choice is fairly narrow. Most countries take a rather roundabout path to the goal, so they go through gross changes that are large relative to the net changes necessary. The *G*-ratio measures the ratio of gross to net changes. Chapter 13 has demonstrated that high *G*-ratios come with considerable costs.