The question of why some countries develop while others lag has increasingly led economists and political scientists onto each other's territory. In 1994, John P. Powelson, Emeritus Professor of Economics at the University of Colorado, provided answers to this question in his book Centuries of Economic Endeavor (University of Michigan Press, 1994). Powelson's book has withstood the test of time and many of his points have been borne out by recent global events.

The organizing concept of the book is that durable economic development is a result of a diffusion of power among different groups in a society. Power diffusion occurs over long periods of time when groups negotiate with each other; by shifting their alliances among groups having more power, groups with less power tend to become more powerful. Over time this process creates the institutions that form the basis of market economies. The diffusion, or balance, of power ultimately produces a variety of institutions in the political realm characteristic of open liberal democratic systems. However, where rulers attempt to dictate the development of market institutions, power tends to be concentrated. The absence of decision-making negotiation among the most seriously affected groups ultimately undermines liberal institutional arrangements.

The problems of development, or lack thereof, are as much political as they are economic, or as Powelson puts it "The problems are institutional. Unfortunately, economists have failed to reach out beyond their own boundaries, and to recognize that economic development is not principally an economic phenomenon, but rather a factor of having good and functional political institutions that are accountable to divergent societal interests." Thus simply altering economic policy without addressing the problem of undemocratic institutional structures will not result in long-term prosperity.

Power diffusion and democracy is not the same thing, however. "Power diffusion in an economic sense allows individuals to have free choice over their economic occupations and transactions," said Powelson recently. Thus, power diffusion predates democratic governance and not only makes it possible, but creates it. Likewise, having the institutions of a democracy does not mean that power is diffuse. "President Chavez of Venezuela is a dictator despite the fact that he was elected," Powelson added.

One concern is reversal of power diffusion in the developed world. According to Powelson this trend is not new and began with the countries that had advanced most in power diffusion. "Governments, with popular support, began to see problems in the economy and they thought the government had acquired enough power to correct them, an incorrect supposition. As power is increasingly centralized, the result is less responsive policy that becomes increasingly controlled by oligarchs."
Historically, economic development has been greatest where the private sector has made the rules, rather than the nobility, autocratic rulers, or religious leaders. These rules stem predominantly from the economic transactions of individuals making agreements with each other. These agreements are respected and repeated over and over, and after many years they become "rules" that may then be adopted into law. These rules themselves will change over time because when a new mode of behavior is required for a specific circumstance, and is seen to work, it will be repeated until the new rule becomes institutionalized. This "free market in institutions" occurs when no government or other powerful group steps in to stop the process.

In his book, Powelson cites Japan as a model; however, recent events seem to indicate that the process has failed, as that country has become mired in a cycle of low growth and recession. This economic decline is the result of a political structure that appears unable to sustain essential reforms. This reality has altered Powelson's view of Japan and he now cites the heavy centralization of power as the cause. "The political concentration of power, and the government's ability to create new funds to sustain losing banks and losing businesses, has caused the present crisis," he said.

The benefits of power diffusion are also directly relevant to the debate that rages within the development community over the structure of assistance programs. On one hand are those who view development as best used to strengthen the state's ability to undertake industrial policy, and on the other are those who feel that industrial policy and bureaucracy inhibit development, civil liberties, and democracy. This argument can be seen in Russia between those who would like to follow an East Asian industrial policy approach and those who feel that a more laissez-faire, market-oriented approach is the better choice. While the choice should be clear in the Russian case, in view of the dangers inherent in strengthening the government, it is more difficult to adopt in a country like India where the Korean model can be very appealing.

While meaningful negotiations and the commitment they involve are intensely local, what can international development agencies do to help? According to Powelson, if they can be of any use at all, they should seek to accelerate power diffusion: "International development efforts should be aimed at helping peasants and small businesses finance themselves, so they may gain power relative to the elitist governments and not support governments like those of President Chavez in Venezuela which seek to centralize power." This shift can be difficult because many agencies must work through governments, or at least have government permission to operate. Non-government organizations, in contrast, can work directly with the poor, through agricultural consultation, mini-credit, and advice to small, private businesses. However, there is no precedent for durable power diffusion through development assistance.

Ultimately, increased trade and globalization will lead to greater power diffusion and increase the bargaining position within society of many smaller businesses and banks in the less developed countries, allowing them to challenge their dictatorial governments. New technology will also accelerate the process of power diffusion. For example, the proliferation of cell phones in the developing world allows individuals to bypass their
governments and freely share information. However, according to Powelson, "Until the regimes in these countries lose power, there will be no rapid institutional changes."

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