TECHNOLOGY GOVERNANCE

Working Papers in Technology Governance and Economic Dynamics no. 18

THE OTHER CANON FOUNDATION, NORWAY
TALLINN UNIVERSITY OF TECHNOLOGY, TALLINN

CONTACT: Rainer Kattel, kattel@staff.ttu.ee; Wolfgang Drechsler, drechsler@staff.ttu.ee; Erik S. Reinert, reinert@staff.ttu.ee

The Economics of Failed, Failing, and Fragile States: Productive Structure as the Missing Link

Erik S. Reinert, The Other Canon Foundation & Tallinn University of Technology, Yves Ekoué Amaïzo, UNIDO, Vienna and Rainer Kattel[1], Tallinn University of Technology

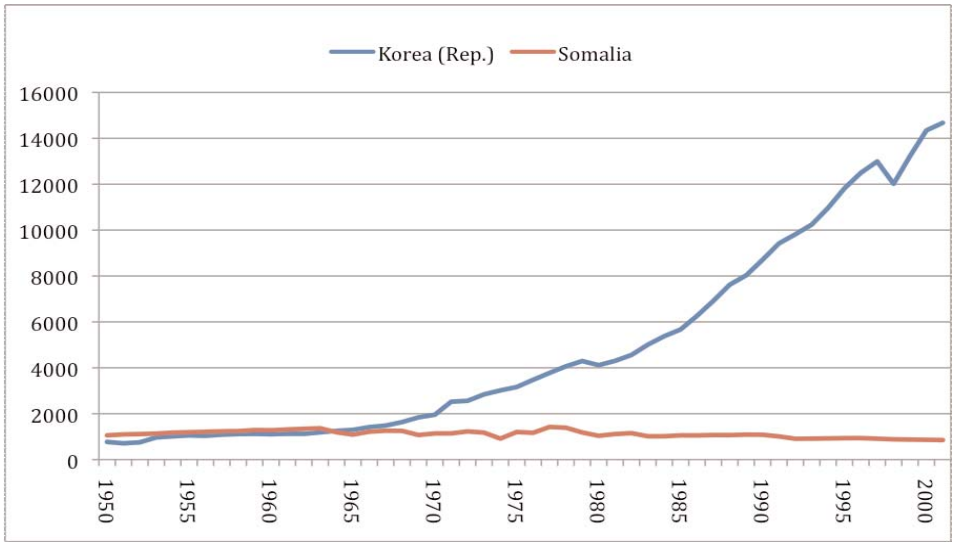
Jnauary 2009

[1] Contact authors: eriksreinert@gmail.com, yeamaizo@yahoo.com and kattel@staff.ttu.ee. The research for this paper was partially funded by the Estonian Science Foundation, grant no 6703.

1. Introduction: Lost Theoretical Insights from US Secretary of State George Marshall.

More than sixty years ago, on 5 June 1947, US Secretary of State George Marshall gave a speech at Harvard University announcing what was to be called the Marshall Plan. The Marshall Plan was probably the most successful development plan in human history, re-industrializing and industrializing countries from Norway and Sweden in the North to Greece and Turkey in the South-East. At about the same time, a similar process based on the same principles re-industrialized and industrialized East Asia, spreading from Japan in the North-East towards the South-West. In this way a *cordon sanitaire* of wealthy countries was created around the communist world, stemming the communist tide that was rising at the time of Marshall's speech. One country to benefit from the Marshall-type ideology was South Korea, a country that in 1950 was poorer (GDP per capita estimated at $ 770) than Somalia (GDP per capita estimated at $ 1057; Maddisson 2003), which today is an example of a failed state (see Figure 1 below).

Figure 1. Korea-Somalia, GDP per capita, 1950-2001, in 1990 international Geary-Khamis dollars.



Source: Original data extracted from Maddisson 2003.

Although sometimes it is misunderstood as a scheme for giving away huge sums of money rather than a re-industrialization scheme, the Marshall Plan is well known. What is less known is that the relatively short speech contained three key theoretical insights with strong relevance in today's situation.

The **first** insight is the link between **a certain type of productive structure** and what George Marshall calls "modern civilization", what in a more politically correct and neutral language today could be called "development and democracy" (italics added):

> There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. *This division of labor is the basis of modern civilization.* At the present time it is threatened with breakdown. The town and city industries are not producing adequate goods to exchange with the food-producing farmer.

During the formation of the European nation-states, it was common knowledge that democracies and 'civilization' were both products of certain economic structures associated with 'city activities' (Reinert 2009a). It was not lost on Enlightenment Europe that the first democracies – Venice and the Dutch Republic – were also the states where artisans and manufacturing were the dominant professions. Agricultural states meant feudalism and lack of political freedom. Already in 1613, Italian economist Antonio Serra identified the 'glue' that creates the common weal of cities and nations as being *a large division of labour in activities that are all subject to increasing returns* (i.e. falling costs as volume of production goes up, which excludes agriculture) (Serra 1613, Reinert & Reinert 2003). This phenomenon could be observed as city-states grew first into dynamic urban agglomerations, then into nation-states.

Marshall's **second** insight regards the vicious circles that are created in societies without manufacturing activities (italics added):

> The remedy lies in *breaking the vicious* circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole. The manufacturer and the farmer throughout wide areas must be able and willing to exchange their product for currencies, the continuing value of which is not open to question.

It is notable that Marshall used the term 'vicious circle', which became fashionable only later – in the 1950s and 60s – with development economists like Gunnar Myrdal.

Marshall's **third** insight is that **development assistance must provide a cure** rather than a mere palliative:

> Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative. Any government that is willing to assist in the task of recovery will find full cooperation.

In this paper we argue that the root causes of poverty lie in a certain type of economic structure which fails to produce the virtuous circles of economic growth that need increasing returns and sufficient diversity and diffusion of economic activities in order to become self-sustainable. Increasing returns produce barriers to entry into an economic activity, which again allow a degree of imperfect competition that produces capital accumulation. We argue that economic development requires dynamic imperfect competition under increasing returns, rather than the standard assumptions of perfect competition and diminishing returns.

During the decades following World War II, world development followed the strategic outline of the 1947 Marshall Plan, the principles of which also were at the core of the 1948 Havana Charter, signed by all the members of the United Nations at the time. These principles were abandoned in the 1980s however, and at the end of a sequence of unsuccessful 'Development Decades', the Millennium Development Goals were launched. These are – in the view of the authors – heavily biased towards palliative economics, treating the symptoms of poverty rather than addressing its root causes.

2. Ibn-Khaldun: Pre-Industrial Rent-Seeking as a Zero-Sum-Game.

Muslim historian and philosopher Ibn-Khaldun (1332-1406) described society's development from the nomadic tribes of the desert, organised in clans originating in blood relationships, to agriculturalists and ultimately into town dwellers. The town dwellers decay into luxury, as their wants increase, the city must resort to constantly increasing taxation. Resenting the claims of their clansmen to equality they rely for aid on foreign supporters, who become necessary because of the decline of clansmen as warriors. Thus the state grows decrepit and over time becomes the prey of a fresh group of nomads, who undergo the same experience. In Ibn-Khaldun's pre-industrial setting, history logically becomes a cyclical sequence of tribal wars – with foreign supporters – fighting over the static and non-productive rents that accrue to the nation's or region's capital.

Pre-increasing returns and pre-common-weal productive systems specialized in raw materials create a type of feudal political structure. But even where there is no real feudalism involved, like today in some African agriculture, the state seems to continue the extraction of economic surplus characteristic of colonialism, and giving very little back. Sharing economic growth becomes a fundamental issue in the identification of responses to poverty alleviation. Under such conditions pre-capitalist production structures and political structures are very durable, and probably for some good reasons. One advisor to Tanzanian president Julius Nyerere, the Swede Göran Hydén, talks about Africa's "uncaptured peasantry". Similarly NATO and the West today face an "uncaptured peasantry" in Afghanistan. Our suggestion is that Nyerere's African socialism may have failed for the very same reason NATO and the West are failing in Afghanistan and in the Middle East in general. The absence of an increasing returns sector creates zero-sum-game societies of static rent-seeking.[2] These nations are prime candidates for developing into failing, failed and fragile (FFF) states.

Indeed, as Gregory Clark argues in his *A Farewell to Alms* (2007), the world before the industrial revolution and that of today's failed states is characterized by what he calls a Malthusian trap: higher standards of living bring increasing population growth that without significant productivity increases lowers the standards of living back to subsistence level. In many ways today's poorest countries are worse off than ever before in history. As Clark argues, "the subsistence wage, at which population growth would cease, is many times lower in the modern world than in the preindustrial period. … Given the continued heavy dependence of many sub-Saharan African countries on farming, and a fixed supply of agricultural land, health care improvements are not an unmitigated blessing, but exact a cost in terms of lower material incomes." (2007, 45) There are essentially two options to escape the Malthusian trap: decreasing population or significant and continuous productivity increases (through diversification into increasing returns activities). We have argued that the genocide in Rwanda cannot be understood except in this perspective (Reinert 2007).

It is increasingly clear that there is a strong connection between economic growth and states failing or not failing. As Paul Collier argues, "civil war is much more likely to break out in low-income countries: halve the starting

---

[2] It is, however, important to note that increasing returns can today easily characterize knowledge-intensive services as well. In manufacturing industry today outsourced low-end activities are often subject to constant or negative returns to scale and have very limited scope for learning. What used to be a simple system where manufacturing activities are always 'good' has developed into something more complex, but the key characteristics of 'good' activities remain the same: increasing returns, imperfect competition and a large scope for learning and technical change (Reinert 2007).

income of the country and you double the risk of civil war" (2007, 19). However, in the same book Collier goes on to argue that "globally, we now know what produces productivity growth in manufacturing: it is competition" (160). This represents a startlingly simplistic view from someone who repeatedly has admired East Asian economies, those that have escaped the bottom billion of poorest people on earth in the last century. Clearly, productivity increases alone do not solve the problem of poverty, the fruits of productivity increases may easily disappear as lowered prices to foreign customers (Singer 1950, Reinert 2007). In order to remain in the producing country, productivity increases must take place inside the synergies of a finely woven web of diversified economic activities, all subject to increasing returns (a 'National Innovation System'). Lack of competition and growth does not explain state failure. It is rather, as we argue, the lack of the specific composition of the economic structure that characterizes all rich and middle-class nations. Failed, failing and fragile states exhibit decidedly different economic structures compared to developed countries.[3] The FFF states have common economic factors that distinguish them from e.g. Canada, Finland, Norway, Germany or Singapore (see Appendix 1 for detailed data and figures).

We have argued that economic retrogression – a development process in reverse – is a common phenomenon that requires much more attention that it actually gets (Reinert 2007). The former Soviet Republics in Central Asia, and Moldova and Mongolia offer examples of how ill-guided liberalization (premature exposure to global free trade) can reverse the long-term processes of building productive forces in few years. With the breakdown of the Soviet Union and following rapid liberalization of trade and economy in general, most Central Asian countries transformed within few years from relatively developed countries to fragile and poor states that by now exhibit often feudal patterns of political and socio-economic behaviour (See Figures 2 and 3 below).

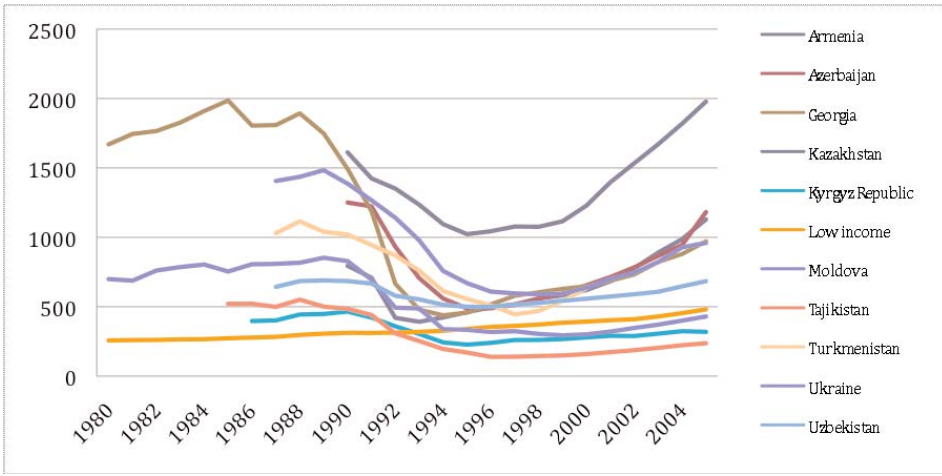
It is also exceedingly important to understand the qualitative difference between developed states and FFF-states when it comes to absorbing 'wealth shocks' from oil, mining, and other natural resources into the econ-

---

[3] Another important aspect in state failure and fragility is the fast pace of urbanization in many poor regions of the world (Davis 2006; UNHSP 2003). These are urban agglomerations where increasing returns are few and limited in scale and scope. The rise of such slums in poor countries indicates an interesting phenomenon: state failure and fragility are often preceded, or at least accompanied, by failure and fragility of cities. In fact, such failed cities are often surviving on resource-based activities from the country-side (large-scale agriculture, natural resources such as minerals, mining, etc) and petty commerce (often selling imported goods). State and city failures reverse the development logic (city does not support surrounding areas but vice versa) and thus create huge dependencies and vicious circles. In such human settlements many survive in illegal activities and lodgings that enforce the vicious circles.

omy. Developed countries normally manage to integrate these activities into their innovation systems, while the same type of activities in FFF states tend to create economic enclaves that are isolated from the rest of the economy.

Figure 2. GDP per capita in constant 2000 USD in Central Asian and selected former Soviet economies, 1980-2005.



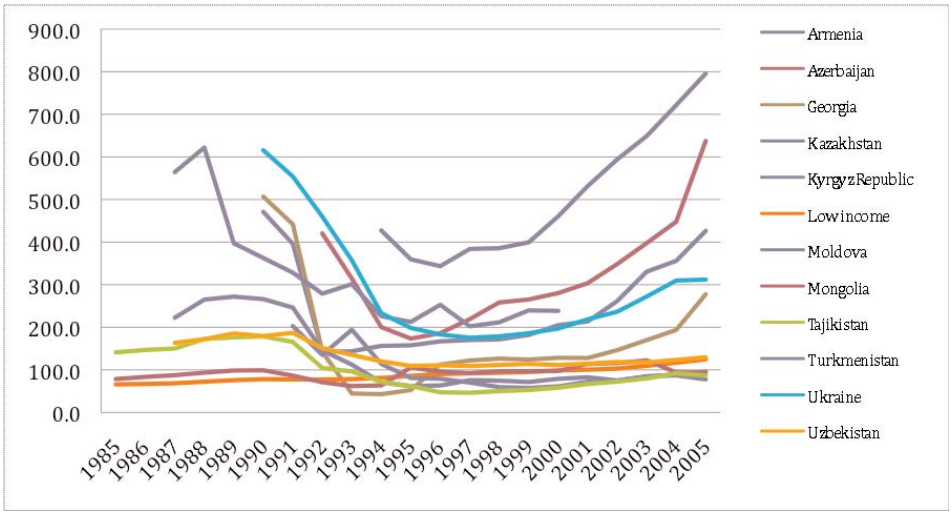
Source: World Bank WDI online database; calculations by the authors.

Also here we see the state collapse accompanied by heavy fall in GDP per capita and industry value added per capita. Before 1990 most of these countries had income levels well above what the World Bank calls low-income countries,[4] but GDP per capita in countries like Tajikistan, the Kyrgyz Republic and Moldova fell well below that of low-income countries and stayed there throughout the 1990s and early 2000s. It is thus not a coincidence that we find Georgia, the Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan and Uzbekistan among states listed in the *Foreign Policy* failed state index 2007.[5]

[4] According to World Bank WDI online database, low-income economies are those in which 2005 GNI per capita is $875 or less.

[5] The Failed States Index 2007 by The Fund for Peace and FOREIGN POLICY magazine, available at http://www.foreignpolicy.com/story/cms.php?story_id=3865&page=0&fpsrc=ealert071505fbbcbcbc4673476.

Figure 3. Industry value added per capita in constant 2000 USD in Central Asia and other selected former Soviet economies, 1985-2005.



Source: World Bank WDI online database; calculations by the authors.

Historically the forces that broke the Ibn-Khaldunian circle of rent-seeking tribal violence were the simultaneous development of a large division of labour and the growth of increasing returns industries. With these activities, the national capital became an asset to the countryside and vice versa: the nation-state was no longer a zero-sum game. Nations displaying these types of characteristics became the first democracies (Italian and Dutch city states):

Three main periods could be identified for increasing divergence between FFF states and industrialized countries:

- The divergence among regions was marginal during the first period, i.e. from 1000 to 1870, ending with the geographical segmentation of the colonial world among former colonial powers (see also Clark 2007, 303-370).
- During the second period, between 1870 and 1950, developing regions such as Africa, Latin America and Asia (excluding Japan) were unable to boost their GDP per capita on a sustainable basis. An important explanation for this is colonialism, which at its very core has been a technology policy prohibiting manufacturing in the colonies (Reinert 2007). Asymmetry among those regions is mainly due to the fact that developing regions which managed to become economically independent or directly integrated in the productive structure of the regional economic locomotive (such as Japan for Asia), could gradually re-appropriate their economic wealth using Friedrich List's the ry of "productive powers" (List 1856, 394). Whenever visionary leaders succeeded in promoting industrialization and public goods for their respective populations, the country or the region experienced a convergence with industrialized countries in terms

of GDP per capita, share of manufacturing value added (MVA) in GDP and growth of MVA per capita (see Appendixes 8, 9 and 10). Bad governance – a phenomenon accompanying de-industrialization or lack of industrialization – usually leads to a convergence among FFF states that represents a race to the bottom (see also Collier 2007, 53-63).

- Between 1950 and 2001, economies with the optimal productive structures in place benefit from the gradual acceleration of the globalization process. The globalization shock that started in the 1980s accelerated the divergence between poor FFF economies and rich industrialized countries: nations that had achieved a dynamic increasing returns economy above a certain threshold prospered (*forging ahead*), while those below that threshold were made poorer by globalization (*falling behind*). In parallel, middle-income economies, even though sometimes considered as fragile – are gradually experiencing a convergence with the world average (see Appendixes 5 and 6).

In sum, the gap between the poorest and the richest countries in the world has grown from a 4:1 ratio in 1800 to more than 50:1. (Clark 2007, 319-320)

3. The Need for a Holistic View of Economic and Political Structures.

Six main differences distinguish today's approach to economic development – as represented by the Washington Institutions – from previous theories of development process (Renaissance to Marshall Plan). Today's theories fail:

a) To approach economic development from a multidisciplinary stand point, as was done in the German tradition of *Staatswissenschaft*;

b) To study and tailor-make policy-recommendations to the specific *context* in which a nation finds itself (insisting that 'one size fits all');

c) To observe and classify qualitative differences between economic activities (e.g. increasing or diminishing returns, perfect or imperfect competition, etc.);

d) To investigate differences between the productive structures of nations;

e) To conceive of development as a dynamic synergetic phenomenon propelled by self-reinforcing mechanisms (e.g. Collier's static development 'traps' compared to the dynamic virtuous and vicious circles of classical development econoics);

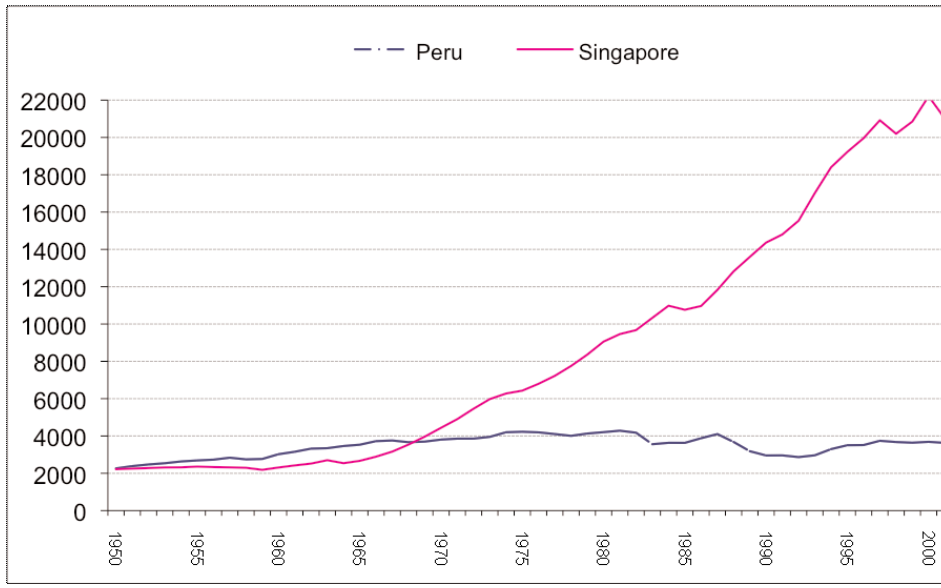
f) To understand the role of the state in economic growth from any standpoint other than 'market failure'.

These weaknesses are all reflected in the standard methodology of economics today (see also Clark 2007, 145-147). In particular the latter assumption leads to a highly simplistic juxtaposition of free market vs. government intervention. Such a dichotomy fails completely in its understanding of how real markets work: markets are often bundles of rules, institutions, regulations, enforcements (or lack thereof), and thus represent highly intricate webs of transaction costs and externalities that create context-

specific motivators for particular economic behavior. The failure to understand this, in turn, leads to an overly simplistic understanding of the role of state and particularly of public administration in development (see further below). This leads to policy solutions and advice ('get the institutions right') that are often completely alien to the country they are meant to help. (Fukuyama 2004; Doornboos 2002; also Rodrik 2007)

The important trend of divergence between FFF states and industrialized countries today appears as a major source of global concern, and this should not simply be reduced to security-related issues. In 1950, Singapore was poorer (GDP per capita estimated at $ 2219) than Peru (GDP per capita estimated at $ 2263, see Figure 4 below). A clear indication of a non-failed state is its ability to perform productive activities within a system rewarding institutions supporting growing value-added achieved through industrial diversification under increasing returns. Our contention is that any policy aiming at preventing nation-states from failing, should – in order to avoid treating mere symptoms rather than causes – include an analysis of how to make the productive structure of such states resemble the structure of developed ones. The overall approach of the Millennium Development Goals should be revised to include productive structure as the core variable (Reinert 2007, 239-270). Poor countries ought to emulate the productive structure of rich countries, not their economic policies.

Figure 4. Peru-Singapore, GDP per capita, 1950-2001, in 1990 international Geary-Khamis dollars.



Source: Original data extracted from Maddisson 2003.

Common economic characteristics of failing states are, among others, very few if any urban increasing returns industries, very little division of labour (i.e. monoculture), no urban middle class bringing political stability, no important artisan class that is economically independent, engaged in commodity competition (perfect competition) in their export activities, a comparative advantage in supplying cheap labour to the world markets, and a low demand for educated labour combined with a very low level of education. This complex of symptoms cannot be cured by attacking isolated symptoms: a focus on education will tend to increase the brain drain rather than improving the economic structure, as the local demand for jobs requiring education is so low. All symptoms must be attacked simultaneously through the only solution that has proved historically viable: that of changing the underlying economic structure.

The following are key characteristics in the dynamics of failed states:

- The central government does not control the whole territory and has lost authority over selected zones (including cross-border areas);
- Internal conflicts move to violent confrontations and get out of control. New leaders emerge with the objective of siphoning off wealth from natural resource extraction in a process much resembling the cycles described by Ibn-Khaldun. This circulation of elites is based on static rent-seeking rather than, as in Schumpeter's version of elite circulation, on a succession of families that create national industrial wealth in one generation and live on financial income in subsequent generations (e.g. the Ford family). Abuse of power and deficit of democracy on the one hand and a pre-industrial economic sector on the other are factors that mutually reinforce each other, locking nations into very strong vicious circles.
- Human rights, the control of media, lack of free speech, and the democratic deficit reach a critical point where the lack of productive powers leads to hunger, poverty, and inequality. This raises the concern of the international community, which, however, only moves in to attack the symptoms of the crisis, not its root causes (by sending food, troops, etc).
- The international community focuses almost exclusively on how governments are elected, rather than on what kind of economic policies they promote. This locks the FFF-states into economic structures in which the natural way to create personal wealth is either by siphoning off rents from raw material extraction or from the international aid-industry, rather than by engaging in the kind of productive activities that are necessary to create real national wealth. Rent-seeking in the international aid sector seems to crowd out productive rent-seeking in industrial activities. Corruption becomes an inevitable and integral part of such a system, whereupon the international community turns around and blames poverty on corruption – which they themselves have created – rather than on the sub-optimal productive structures that are the heritage of colonialism. Dambisa Moyo (2009) provides a good analysis of the evils of aid

dependence, but unfortunately her recommendations largely represent the same policies that created the problem in the first place.

- Inability to actively participate in regional integration processes through Africa's 'spaghetti bowl' of trade agreements that makes focused trade policies virtually impossible.

In nations with this type of economic and governance structures a particular type of regionalism tends to evolve, which in Latin America is referred to as *caudillismo* and in Somalia and Afghanistan as the rule of war lords. The economic structure that provides the 'glue' that keeps a functioning nation-state together is simply not there. Gustav Schmoller (1897/1967) provides a description of how European nation-states were consolidated, i.e.the very process that FFF states lack.

It can be observed that a productive system specialized in raw materials sometimes creates a type of feudal political structure. But even where there is no real feudalism involved, like in some African agriculture, the state seems to continue the extraction of economic surplus characteristic of colonialism and post-colonialism. These states based on static rent-seeking can only give very little back to the community at large: instead of being the hub of increasing returns and value creation the capital city becomes a parasite on the rest of the nation. Under such conditions pre-capitalist production structures are very durable, and probably for good reasons (see also Collier 2007: 34). Such neo-feudal structures easily produce FFF-states because of their inability to upgrade the production structure: the industrial policy tools of the Marshall Plan and the Havana Charter have in effect become outlawed and the artisan/industrial class is too weak to induce a change in this direction. Enlightenment economics of the 1700s clearly distinguished between 'parasitic' administrative capital cities, surrounded by inefficient agriculture, and 'synergy-creating' industrial capitals surrounded by efficient agriculture. Spain's Madrid was the classical example of the first kind of capital, and Lombardy's Milan of the second. As George Marshall stated: the synergy between city and countryside forms the core of economic development. And we must not forget that in order for this system to work, the countryside's city customers must be part of the same labour market as the farmers themselves. Farmers' customers in faraway countries cannot trigger these mechanisms.

The positive-sum-game between city and countryside referred to by George Marshall can only be created through a large division of labour and increasing returns. Only then the "common weal" that was the goal of Italian Renaissance city states can be observed. Only then the state ceases to be a parasite that takes away in taxes less than it brings back. This synergy-based understanding of successful states is found already in Florentine state theory, with Brunetto Latini, in the 13th century. In order to escape

pre-capitalist zero-sum games – negative-sum game from the point of view of the subsistence sector – the nation-state must operate under synergic increasing returns. The argument of increasing returns was, according to Schumpeter, also a key argument in 18th century national economic policy promoting industrialization.

We suggest going back to the literature at the time when early viable states with some kind of democracy were created. In Giovanni Botero (1588) and in the tradition of 'Ragion di Stato' (*Staatsraison* or *Reason of State*) created by him, there are clear links between economic structure and the viability of states. Botero's *Ragion di Stato* and *Sulle grandezze delle Cittá* ('On the Greatness of Cities'), are, after all, parts of the same work. This tradition was continued by 18th century social scientists, including Montesquieu. As one German author said at the time: "it is not so that a primitive people becomes civilized, and then founds industries, it is the other way around!" Friedrich List brings this 18th century argument into the 19th century, linking manufacturing and 'civilization' directly. Already in early German social science, Veit Ludwig von Seckendorff (1626-1692) found that Germany did not have the economic basis to create a society like the one observed and so admired in the Dutch Republic. Seckendorff's approach to making the state function better was intimately tied to changing the economic basis of the state itself, its mix of professions and industries and their geographical relocation within the realm. In the tradition started by Seckendorff, the *Fürsten* (Princes) were turned into modernizers by arguing that their *Recht* (right) to govern was accompanied by a *Pflicht* (duty) to modernize and, in effect, in the long term create the conditions where the *Fürsten* in the end would be obsolete and the conditions needed for a functioning democracy would have been created. A successful Principality carried with it the seeds of its own destruction and the birth of democracy.

The first wealthy states with some kind of republican rule were often islands, like Venice and the Dutch Republic. The absence of arable land both led to an absence of a feudal structure and contributed to the creation of a diversified economic structure including activities subject to increasing returns. This makes Florence, with power also by landowners, so interesting. There the *corporazioni* (guilds) and the burgers fought for power among themselves, but very early (12th-13th century) they had banned the families that owned the land around the city from participating in politics (these continued to trouble Florence for centuries through alliances with other cities).

There is, then, a long history of trying to move the vested interests of the ruling class from land into manufacturing. The rulers who had a manufacturing strategy also tended to have a policy against the landed nobility, starting with Henry VII in England in 1485. The goal of converting the 'use-

less' landed nobility into a useful one was an important reason for Johann Heinrich Gottlob von Justi's appointment in Vienna in 1752, and for the establishment of the *Theresianum* there. Sometimes, however, the urban non-feudal modernizers lost, as in the *War of the Comuneros* in Spain in 1520-21. This kind of strife between landed upper classes – with their economic interests vested in diminishing return activities – and the generally urban classes promoting artisans and manufacturing – has been very common over the last 500 years. The politics of economic development evolve around these crises. The US Civil War was one such conflict of interests when the manufacturing North defeated the raw-material producing South. In many ways the history of Latin America is the history of nations where the 'South' has won the civil wars, and where the military, at times, have sided with a weak industrial bourgeoisie and contributed to creating development.

4. Palliative Industrialization: from Primitivization to 'De-industrialization'

De-industrialization as an accident, or alternatively as a planned process of colonialism, should always be considered as an integral part of our understanding of FFF states. The international community's focus on palliative economics – on 'development aid' – rather than on wealth creation may push economically fragile states towards the failed states group. Particularly in Africa, top-down policies aimed at 'fixing' developing countries' problems, have produced poor results and many failures. (See e.g. Easterly 2001, Collier 2007, Moyo 2009). At the core of the problem of these Washington Institution policies is the failure to perceive the activity-specific nature of economic development: it does not take off in the absence of increasing returns and the synergies created around them. There is an urgent need to reverse the counterproductive policies that the Washington Consensus established in many weakly industrialized countries.

Based on a continuous policy of industrialization starting in the late 1940s China and India have stubbornly improved their industrial structure and productive capacities and capabilities (see Appendix 2 and 3), based on an economic policy diverging from the one advised by the so-called Washington Consensus. The present relative success of these nations cannot be understood without taking into account a more than 50-year history of industrial policy in both India and China. Without a re-definition that puts industrial policy at its core, the Millennium Development Goals will fail as being overly palliative rather than constructive. When the G 8 group of countries call for "an improvement of global investment climate as well as taking the social dimension of globalization into account", they must go one step further and re-introduce the building of productive structure in FFF states as a means both to create profitable investment opportunities AND

to improve the social conditions in these states. Only a changed economic structure will start a process leading them to become middle-income countries. After all, it is the fragile countries that are suffering the most from the globalization process (see e.g. Collier 2007, 79-96). Approaching the problem exclusively by attempting to alleviate the collateral effects of poverty implies failing to address the root of the problem. Attacking the symptoms of poverty and conflict rather than its causes prevents security- and peace-building processes and increases the cost of building trust in FFF states. This 'palliative economics' in effect producee a new type of colonialism which we have dubbed 'welfare colonialism' (Reinert 2006). While the World Bank models normally assume full employment, while employment is what Africa needs most of all. In order to create employment the vicious circle of 'no purchasing power' and 'no productive power' must be broken. Studying 500 years of the history of economic thought we argue that the only way to escape this type of vicious circle has been through heavy doses of industrial policy (Reinert 2009b).

Just like in 18th century Latin America, Africa achieved decolonization but not real independence. Keeping Africa deindustrialized also carries a huge price tag both in terms of human suffering and in monetary terms. According to the International Crisis Group, "civil war in a low-income country costs that country and its neighbours on average 42 Billion Euro in direct and indirect costs. That is for a single conflict. To put that in perspective, the worldwide aid budget in 2004 was 60 Billion Euro."

Since the 1870s and 1950s (see Appendix 4), most of the poor regions are facing difficulties in improving the economic conditions of its inhabitants. Many emerging economies were following a path which focused on getting out of the vicious circle through the mastering of their productive structure. Declining aid in real terms and window-dressing debt relief embedded in donor-driven solutions have been unable to radically change the situation on the ground to the better. Today Africa is being split up between different trading areas (the so-called "spaghetti bowl") much as it was split up and divided by the colonial powers in the 1880s. The lack of collective governance in Africa, and regular external interventions to promote external interests over people's interest in Africa, generate social pressures. This is often kept under control by powerful political regimes supported by military powers, which are using the democratic deficit as a new management tool of governance. Failing to discuss and negotiate new terms to improve the sustainable development process, the international community often adopted palliative measures. Some of them were agreed upon and structured around the United Nations Millennium Development Goals with no clear reference to wealth creation. Long-term vision and strategies using bottom-up approaches should contribute to reverse the dominant donor-driven

approaches which often contribute to facilitate poor country leadership with little interest for the well-being of the local population. Positive impacts on poverty reduction cannot be de-linked from wealth creation and synergic growth.

Recently the globalization process was slowly reduced to issues of direct interest to rich and powerful countries. After the cold war, countries such as China, Korea, India, Japan, Brazil, and Russia (see Appendix 3) have become major players in the development process. However, for poor countries globalization in practice means that they do not enter into any industrialization process but continue to take advantage of temporary measures such as the Everything-but-Arms (EBA) of the European Union or the Africa Growth Opportunity (AGOA)[6] of the United States of America, just to name some of them. However, preferential trade access to rich countries' markets only promotes labour-intensive manufactures, void of any learning potential, bereft of any scale effects, and with obsolete technology. This type of manufacturing industry subject to strong wage competition between countries only contributes to a race to the bottom. This is becoming an obsolete and unsustainable option that essentially leaves the poorest countries trapped in the Malthusian world.

5. From Divergence to Convergence: Building and Upgrading Productive Agglomeration

Divergence and convergence do exist even at the regional level. Benchmarking selected regions based on GDP per capita reveals that regions with a large number of poor and FFF countries are also regions which faced difficulty to generate wealth and sustain development (see Appendix 4, Benchmarking selected world regions).

Collapsed, weak or healthy, a nation-state is part of a building process towards wealth creation. From that perspective, FFF states should be considered as incomplete, unfinished and unsuccessful states in securing wealth for their population. How to give a new impetus to long-term over short-term perspectives while searching for development and progress? This main issue should not be overshadowed by military and security related actions. The latter should of course not be underestimated as a key issue in breaking the vicious circle of security in failed states.

---

[6] AGOA: The African Growth and Opportunity Act (AGOA) was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. The Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets, see http://www.agoa.gov/.

The missing link in the economics of FFF states is related to the lack of increasing returns based on "coo-petitive" (a mix of competition and cooperation) diffusion of means (technology, know-how, innovative culture, entrepreneurship and information sharing) in a predictable and conducive environment.

Cumulative approaches in economics or productive 'governance' often enforce the development of sustainable productive structures based usually on a participatory system. The more the participatory system is closed to democracy and shared economic growth with special focus on health, education and communication infrastructure building, more quickly the divergence between countries narrows down. However, more important than the difference in statistical figures, it is crucial to identify appropriate indicators capturing trends towards convergence or divergence in productive capacity building. In order to acknowledge a country's performance in relation with productive agglomeration, we suggest that performance in value addition in productive sectors be analyzed using at least the following five main indicators:

1. Trend of GDP (or gross national income - GNI) per capita over a long period;
2. Share of manufacturing value-added MVA + the knowledge-intensive service sector (or other measure of knowledge-intensity) in GDP over a period and in comparison with (a) the world and region average, (b) the best performer at the level of sub-regions and (c) countries with a similar convergence starting point. The share of MVA in GDP should be equalled or above world average on a sustainable basis to ensure an effective development of productive structures in a country (or a region). It is important to explain the divergence or convergence of performance in productive agglomeration over an agreed period;
3. Growth rate of MVA per capita which indicates the real commitment of a government to promote industrialization; this indicator helps not to be misguided by countries failing to promote productive structures because of unforeseen rent activities based on a few commodities or minerals;[7]
4. Benchmarking business environment indicators which should be better than the region (or sub-region) average. Most data are available with the World Bank (business environment databank);[8]
5. Selected competitiveness index[9] with special focus on the existence of a pool of human capital expertise structured around value chains (indicator of capability and capacity of absorption) productivity, innovation and technology content especially at local level. Special reference should be made to proxy-indicators

[7] See the example of Chad with an improved economic growth rate and a MVA per capita of 1.1% between 1999-2004. (UNIDO 2006 38).

[8] See www.doingbusiness.org.

[9] See further Porter et al 2007.

related to industrial complexity and the level of regional/global integration of processed goods and the impact on services of know-how and technology at local level (indicator of capability);

6. Real wage and social inequality dynamics.

Based on the six groups of indicators mentioned above, an integrated index which could be called 'Poverty reduction index' or preferably 'Wealth creation index' or "Knowledge creation index" will be required to establish a system of an 'early alert' on economic failing states. Such a watch mechanism, which should not be based on the security interests of the rich countries, should contribute to identify correlations between effective states' commitment to promote synergetic productive structures and the real chances to escape the vicious circles of the failing states process.
The wealth creation index (WCI) should contribute to benchmark the performance of FFF states and prevent countries from falling from the status of Fragile States to Failing and Failed States. WCI should then be used to benchmark the fragility of a country. Fragility is a dynamic concept which enables states to be classified as committed, partially committed and irresponsible in implementing effective governance. The WCI classification should avoid spreading the usual donors' "good or bad" approach often spread by donors' agencies.[10]

The convergence (or the lack of convergence) between economies could be attributed to a type of governance where the building of an "entrepreneurial organisation at the level of the country" becomes part of an effective vision, strategy and objectives of a country or a region. An entrepreneurial organization at the country level could be defined here as the awareness of countries' leaders to structure a country (or a region) as a collection of resources (including capital (money), people and productive assets) and to regularly identify new and additional combinations of those resources based on a network of relations, information with the objective to share economic growth at all levels. Here the key concept, however, is that of administrative capacity: to what degree a country's administration (in terms of structures, coordination, competencies and real achievement) can handle the problems faced by that particular country. It is important to note that administrative capacity is highly context specific.

---

[10] For example, DFID, the UK Department for International Development (DFID) classifies fragile states into four categories:

1. Good performers with capacity and political will to sustain a development partnership with the international community;
2. Weak but willing states with limited capacity;
3. Strong but unresponsive states that may be repressive and
4. Weak-weak states, where both political will and institutional capacity pose serious challenges to development. (DFID 2005)

The Washington Consensus and its underlying neo-liberal ideology have greatly influenced the way the development community understands administrative capacity. Perhaps the main idea behind the Washington Consensus understanding of administrative capacity is the assumption that government intervention more often than not has a negative impact on private sector transaction costs and market externalities and thus hampers market forces and free trade that could otherwise bring development. Thus, according to the Washington institutions, government intervention is, as we stated above, justified only in cases of market failure. Ronald Coase is often credited as the intellectual founding father of this approach, and despite his explicit warnings that he has been misunderstood (Coase 1988) the impact has been huge both in developing and developed countries. First, we see a growing trend to privatize government functions and encouragement to use more and more market-like mechanisms also in the public sector management (e.g. performance pay) even though there is almost no empirical evidence to suggest that such reforms have ever made the public sector or the government in general perform better (see in general Pollitt and Bouckaert 2004, and Katula and Perry 2003 on performance pay). Second, there is a growing emphasis on 'governing by networks', which generally means using increasingly more partnerships with the private and the third sectors to govern specific fields from policy design to implementation (e.g. setting up a development agency as a NGO, where government, private companies and other NGOs have more or less equal footing).[11] While such an approach to governing can indeed bring substantial gains (e.g. tapping into new human and/or financial resources; utilizing local initiative etc), there is strong evidence to suggest that unless there is a very high administrative capacity present, the impact of using networks is increasingly negative.[12] In detail, using networks often means that there tends to be a high degree of difference in goals between private and public sectors; in addition, networks as organizations often operate outside public law domain and thus under different standards of accountability and legality. Particularly the latter aspect often brings outright corruption and high-jacking of agenda by private interests.

At the same time, there is strong evidence to suggest that developing countries profit strongly from classical Weberian bureaucratic structures, particularly in terms of administrative capacity, as Weberian administration relies on strict legal principles (government actions are regulated by public law), there is a strong emphasis on merit, competence and achievement in public service (entrance and promotion based on merit, competences and

[11] A well-balanced overview of the topic is Goldsmith and Eggers 2006.

[12] See further Goldsmith and Eggers 2006; Collier 2007, 118-119 offers instructive discussions of using networks/agencies in FFF states.

achievement) and clear hierarchies that enhance accountability.[13] Weberian bureaucracy tends to focus on long term strategic goals and thus provide especially developing countries with direly needed stability in policy planning and design. Indeed, previous lack of strategic capacities in policy making is perhaps the strongest reason why many developing countries should be particularly careful in experimenting with most recent administrative reform fashions like 'governing by networks'. However, we see also in developed European countries a growing trend towards what has been termed a neo-weberian state, where notions of legality and accountability, competence and merit are re-entering both academic discourse and actual changes in public sector reforms. (Pollitt and Bouckaert 2004; Drechsler 2005)

6. Conclusion

The policies of the Washington Consensus precipitated a process of de-industrialization in many poor countries, from Mongolia via Africa to Latin America (Reinert 2004 & 2007). This process, strengthened by the many "conditionalities" imposed on these countries, weakened their productive agglomerations, making them more fragile. Contemporaneously with an effort to build peace and security building in FFF states, the process of dein-dustrialization produced exactly the opposite effect as the one desired: the creation of system of vicious circles of reducing wealth, employment, and the middle class. The centuries-old understand of the relationship between the 'urban sector' and 'democracy', so well explained by George Marshall announced the Marshall Plan was lost: The division of labour between the farmer and the city dweller (agriculture and manufacturing) 'is the basis of modern civilization' (Marshall 1947).

In post World War 2 Europe, the Marshall Plan followed the Morgenthau Plan, a plan to de-industrialize Germany. Reinert (2004) argues that the free trade shocks promoted by the Washington Institutions in practice created a Morgenthau Plan, a de-industrialization plan, for the world periphery, starting in the late 1970s. Now is the time to start a real Marshall Plan for the de-industrialized Third World, but recognising that probably the most important element of the Marshall Plan – without which the transfer of funds would have been much less efficient – was that the Plan was accompanied by tariff autonomy. Heavy industrial policy interventions, including prohibitive tariffs and import prohibitions, were key elements in the reconstruction of Europe after WW II. Africa, starting for a much weaker base than Europe did, will probably need an even stronger tonic of policies. Pan-African eco-

[13] See in particular Evans and Rauch 1999, Rauch and Evans 2000, also Wade 2003.

nomic integration must be an integrated element in any such long-term policy.

The virtual absence of a manufacturing sector seems to explain the lack of convergence between the FFF least industrialized countries and industrialized countries. Improving industrialization and knowledge creation needs an enabling governance system with a strong administrative capacity. Trade in diminishing return activities without knowledge production is not sustainable, and the economics of failed, failing and fragile states must be re-engineered with performing productive structure.

The identification of constraints to productive networking, innovation and the building of competencies and administrative capacity should be given more importance when looking for the creation of decent jobs in the global economy. Therefore most of the present concepts linking trade to development aid including trade preference mechanisms (the African Growth Opportunity Act (AGOA), the Economic Partnership Agreement (EPA),[14] the Everything But Arms (EBA), the Aid for Trade package from the World Trade Organization or any bilateral and multilateral aid lacking non-wealth generating considerations) should be redesigned and adjusted to enable an effective wealth and knowledge creation in developing countries through the upgrading and integration of productive economic structures to regional and global markets. Importantly, also the MDGs should be revisited to ensure that wealth creation becomes more explicit and supported by the promotion of effective productive structures in the least industrialized countries.

At the core of fragile, failing and failed states (FFFs) is a productive system where the glue that creates national unity in a positive-sum game is missing: an large increasing returns sector with a large division of labour (i.e. many different professions and manufacturing activities). The relation between economic structure and political stability and peace – or instability and armed strife – was well understood during the Enlightenment (Reinert 2007 & 2009a). As long as this key relationship is not recognised, long term peace building and poverty alleviation will fail. 500 years of historical record is crystal clear.

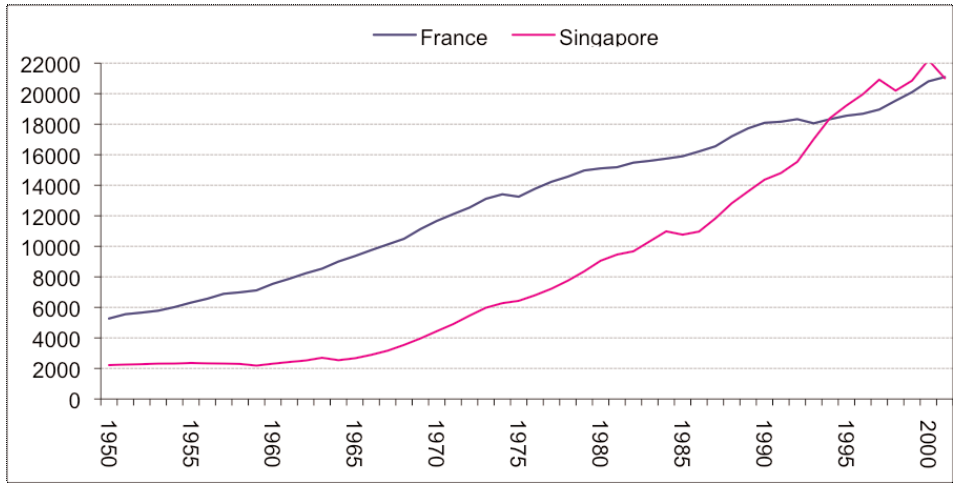
[14] EPA: Economic Partnership Agreement (EPA) is essentially a free trade area agreement, which, according to WTO rules on free trade areas, see http://www.epawatch.net/general/abc.php?menuID=62#175.

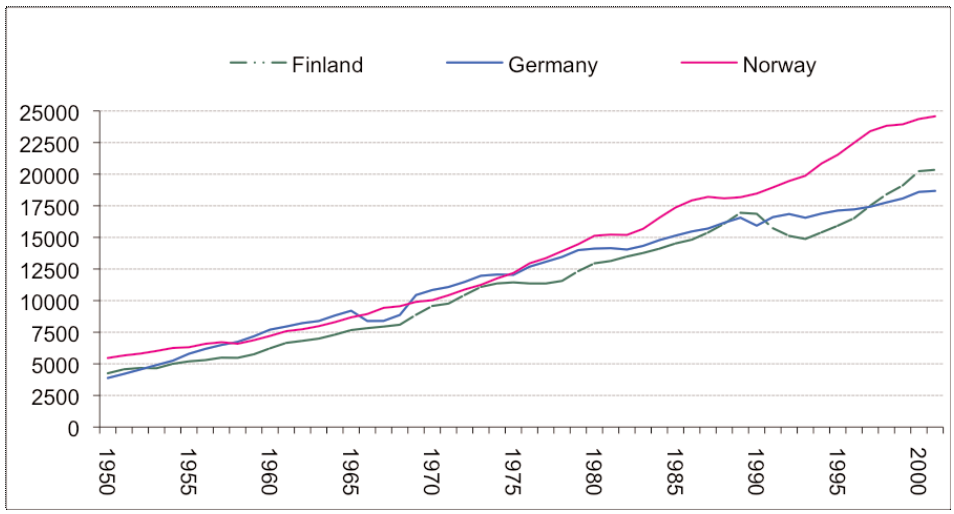
APPENDICES

Note: All per capita GDP between 1000 and 2001 are calculated with 1990 international Geary-Khamis dollars; data extracted from Maddison 2003; other data from UNIDO 2006, and given in US dollars in constant prices of 1995.

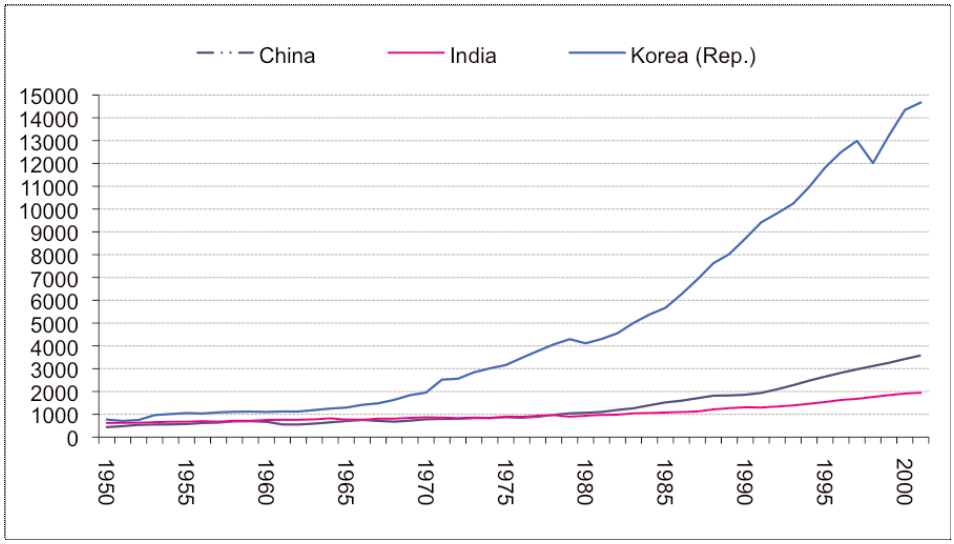
Appendix 1:	Selected countries, GDP per capita, 1950 - 2001
Appendix 2:	South Korea, China and India, GDP per capita, 1950-2001
Appendix 3:	GDP and MVA per capita for Chad, the Ivory Coast, Somalia and Sudan
Appendix 4:	GDP per capita (average) for selected world regions, 1000-2001
Appendix 5:	Benchmarking per capita GDP: selected failed, failing and fragile (FFF) states versus industrialized and emerging countries, 1950 - 2001
Appendix 6:	Benchmarking per capita GDP: failed, failing and fragile (FFF) states versus neighbouring countries, 1950 - 2001
Appendix 7:	Per capita GDP in selected countries: convergence and divergence in the same region, 1951-2000, average evolution per decade
Appendix 8:	Per capita GDP in selected countries: 1950-2001, average evolution per decade, convergence and divergence in the same region
Appendix 9:	Share of MVA in GDP for selected countries and regions, 1995-2004, in percentage
Appendix 10:	Average annual growth rate of MVA per capita for selected countries and regions, 1994-1999 and 1999-2004

Appendix 1: Selected countries, GDP per capita, 1950 – 2001

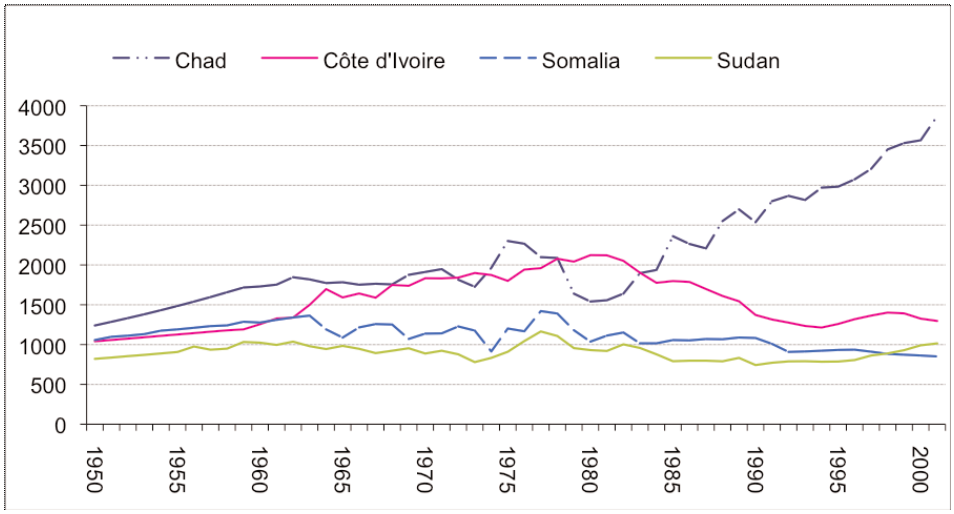


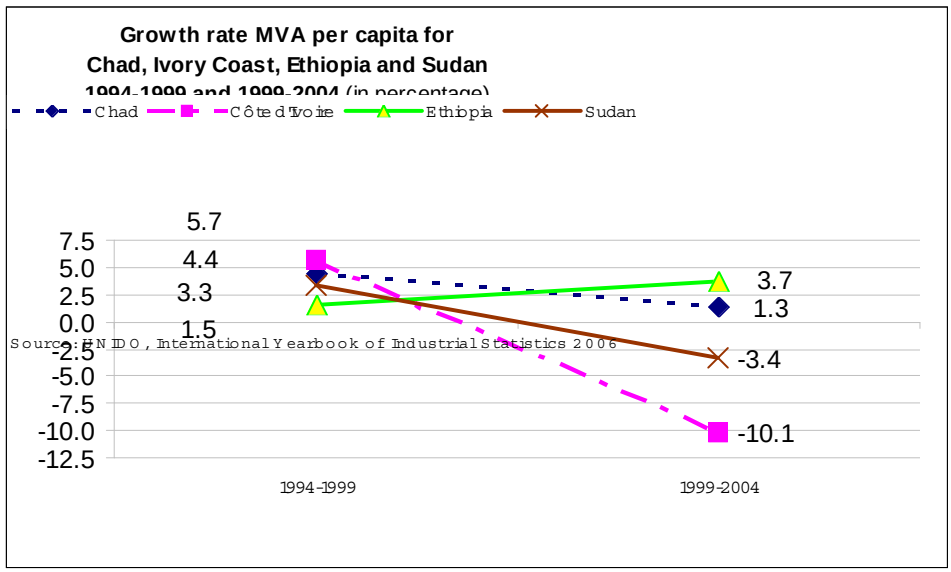


Appendix 2: South Korea, China and India, GDP per capita, 1950-2001

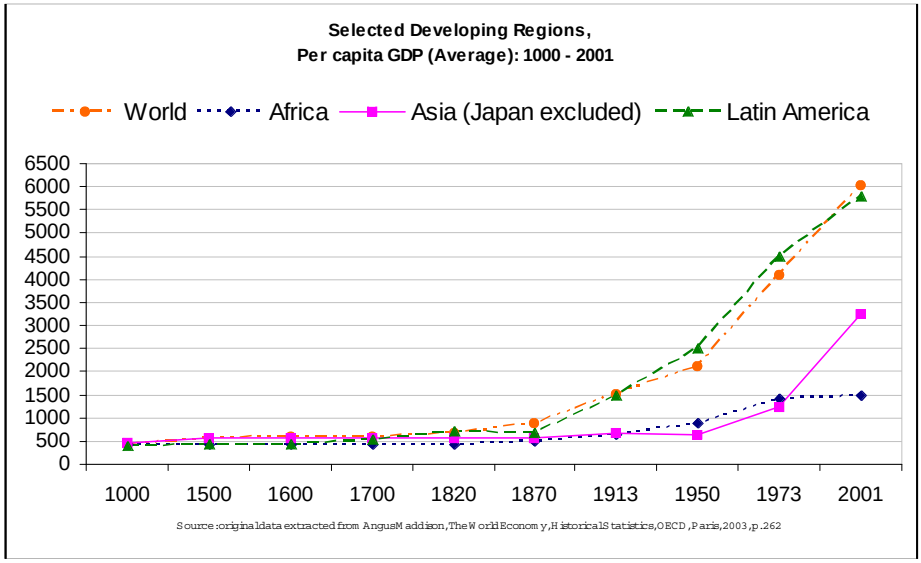


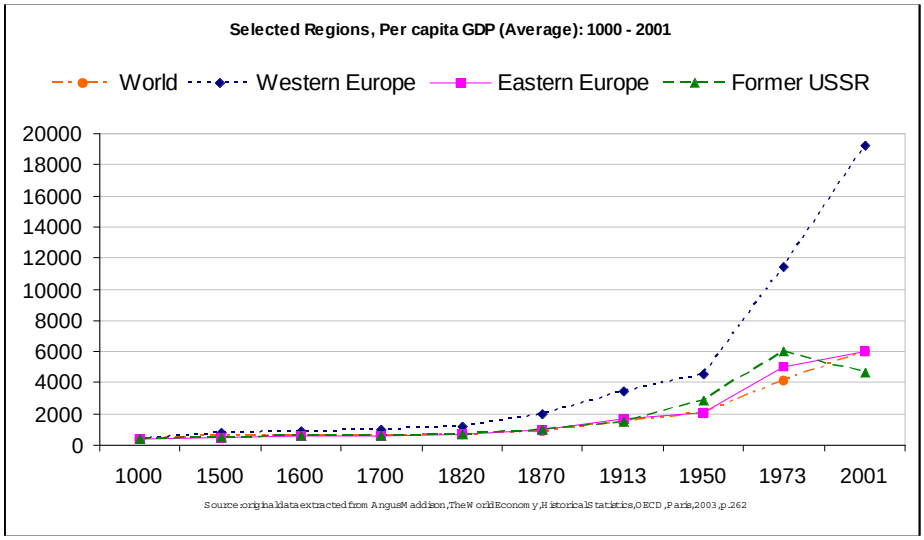
Appendix 3: GDP and MVA per capita for Chad, the Ivory Coast, Somalia and Sudan



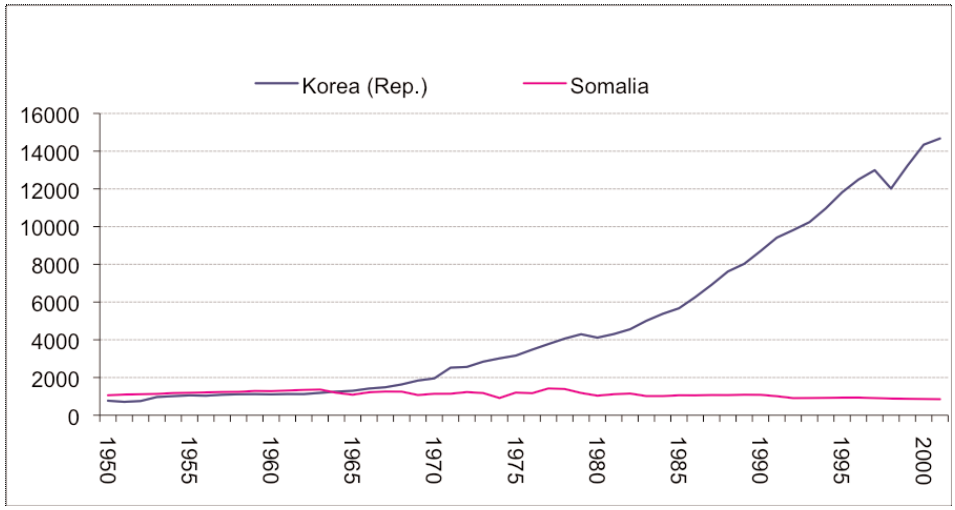


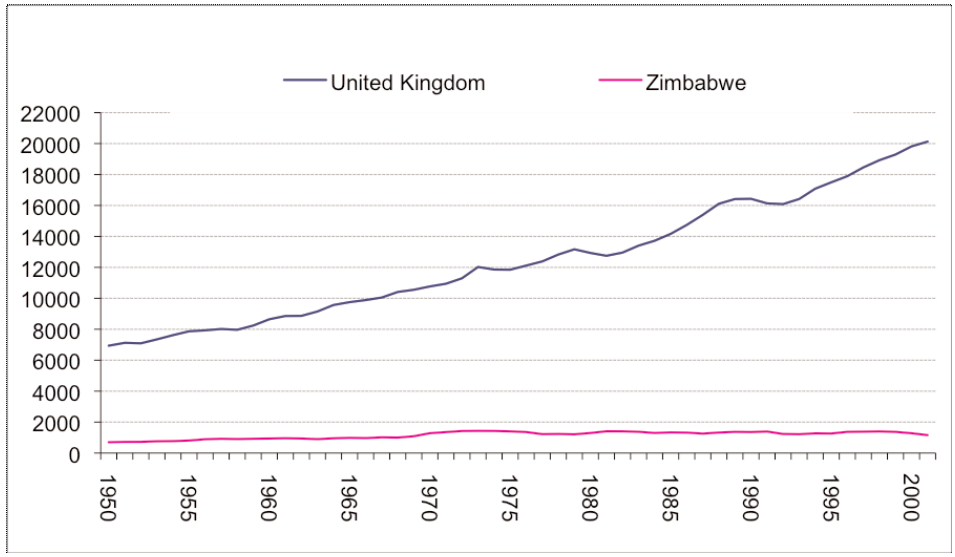
Appendix 4: GDP per capita (average) for selected world regions, 1000-2001



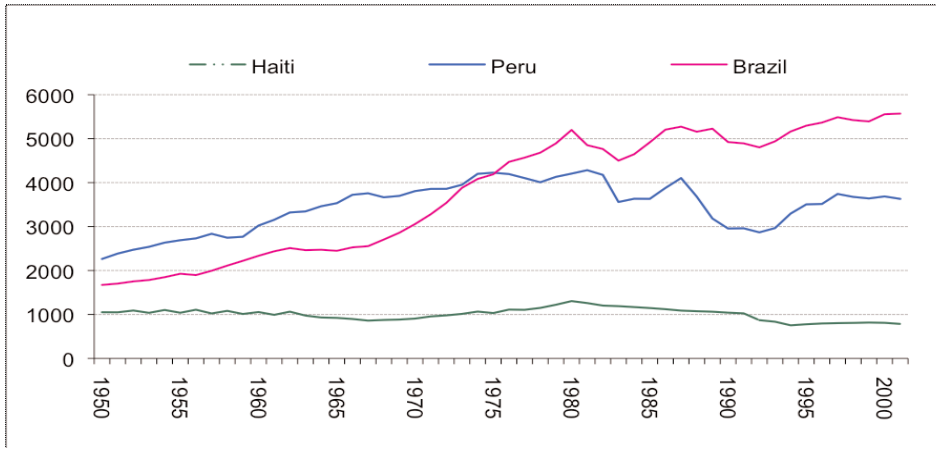


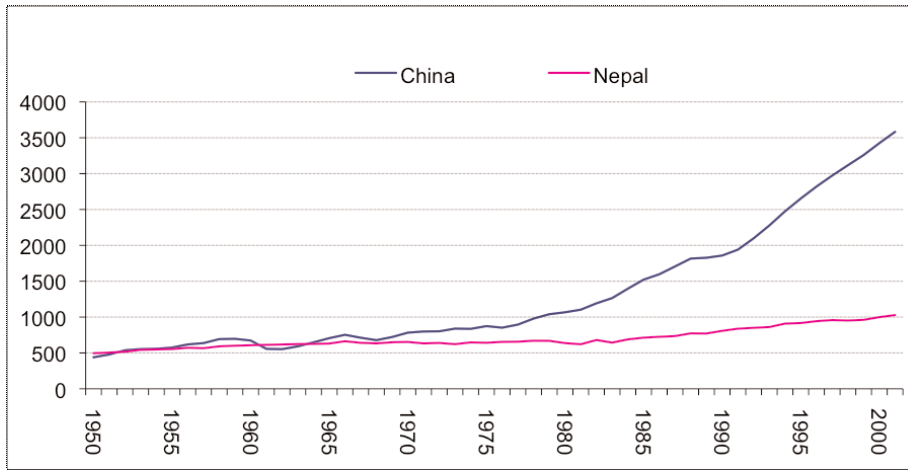
Appendix 5: Benchmarking per capita GDP: selected failed, failing and fragile (FFF) states versus industrialized and emerging countries, 1950 – 2001

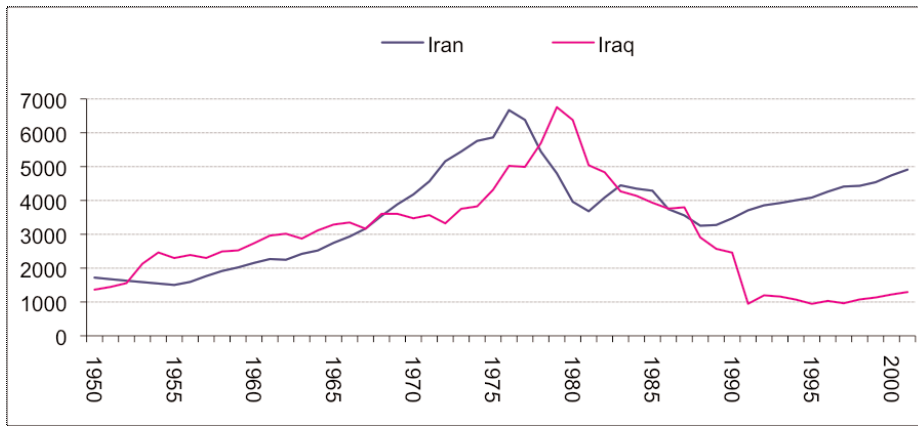




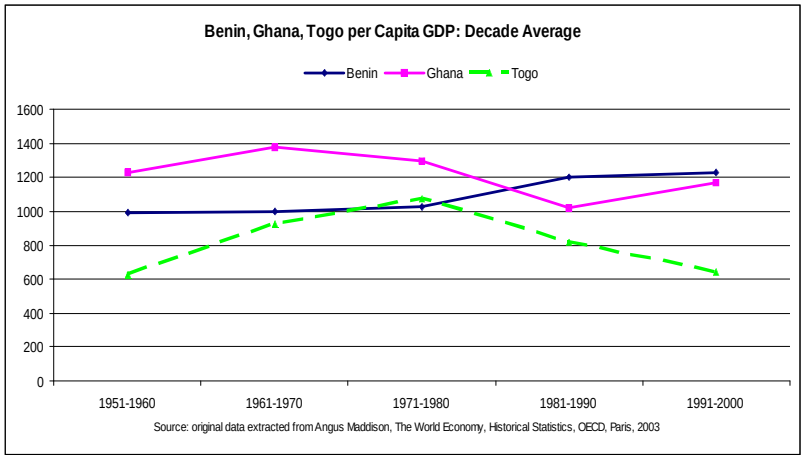
Appendix 6: Benchmarking per capita GDP: failed, failing and fragile (FFF) states versus neighbouring countries, 1950 – 2001

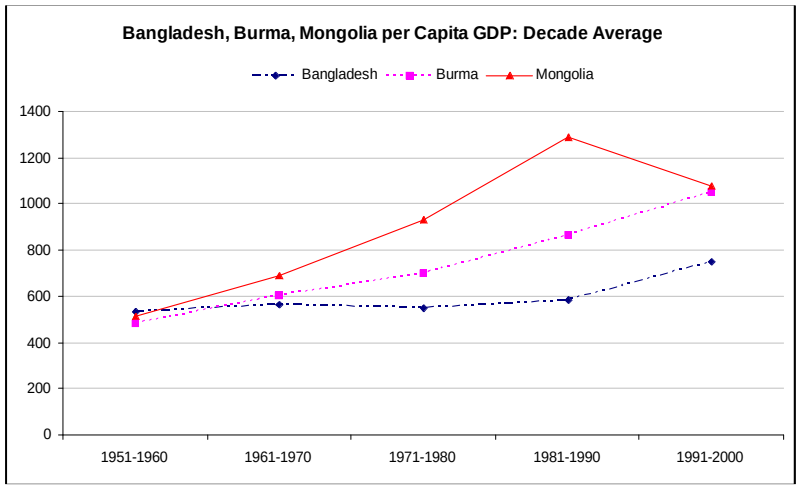


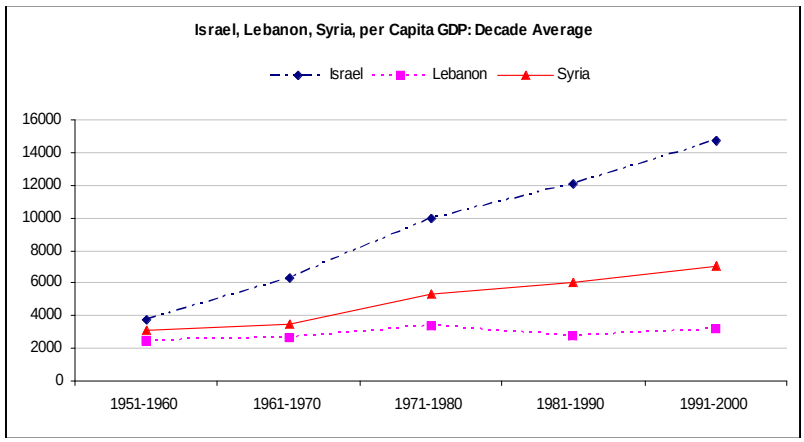




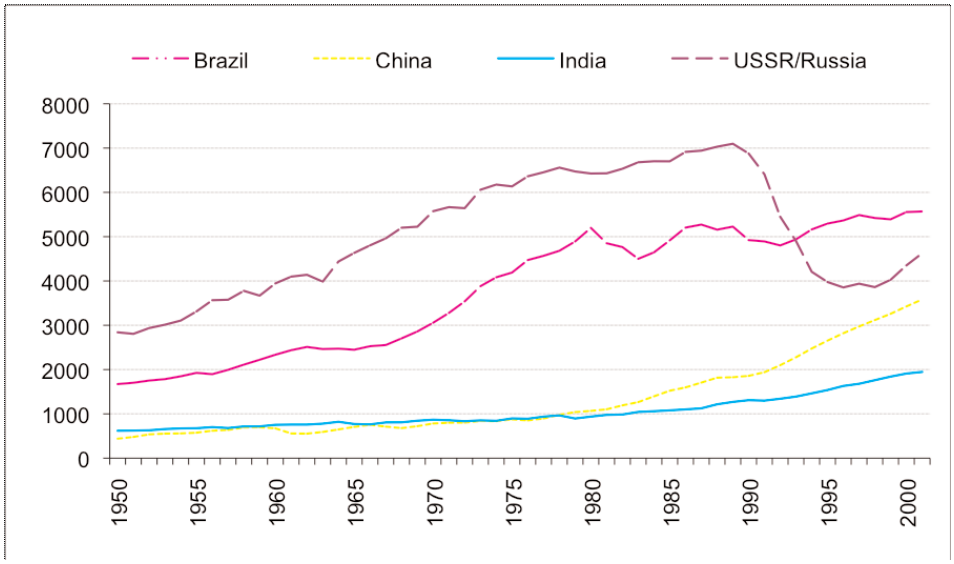
Appendix 7: Per capita GDP in selected countries: convergence and divergence in the same region, 1951-2000, average evolution per decade



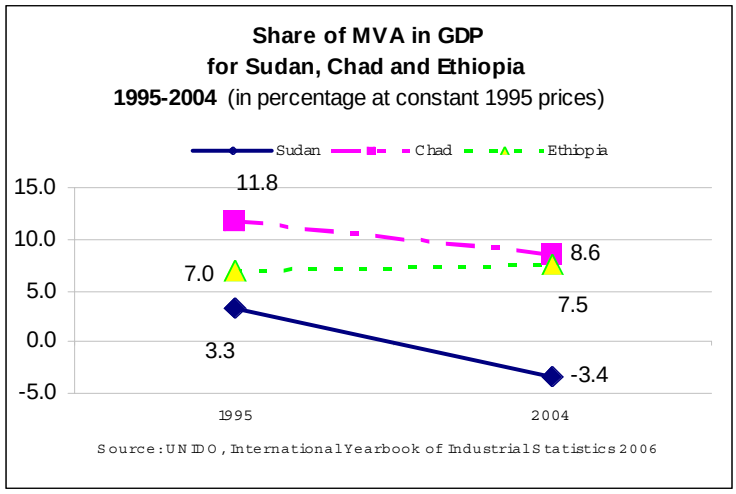


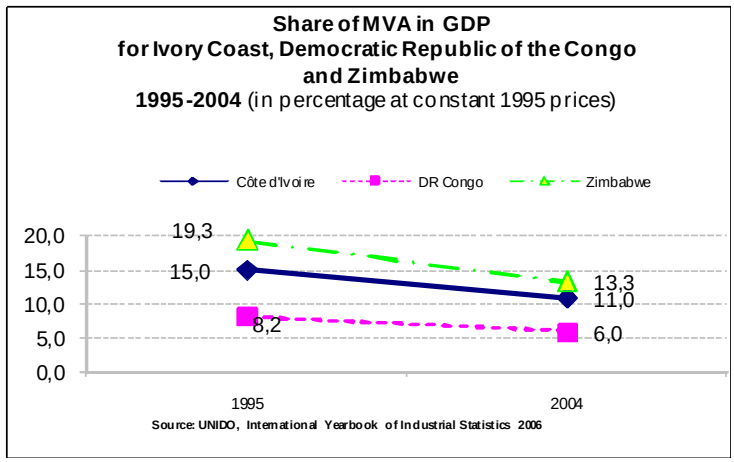


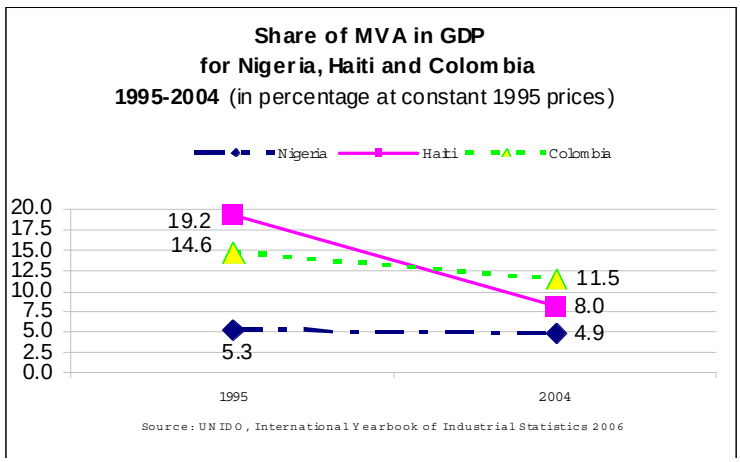
Appendix 8: Per capita GDP in selected countries: 1950-2001, average evolution per decade, convergence and divergence in the same region



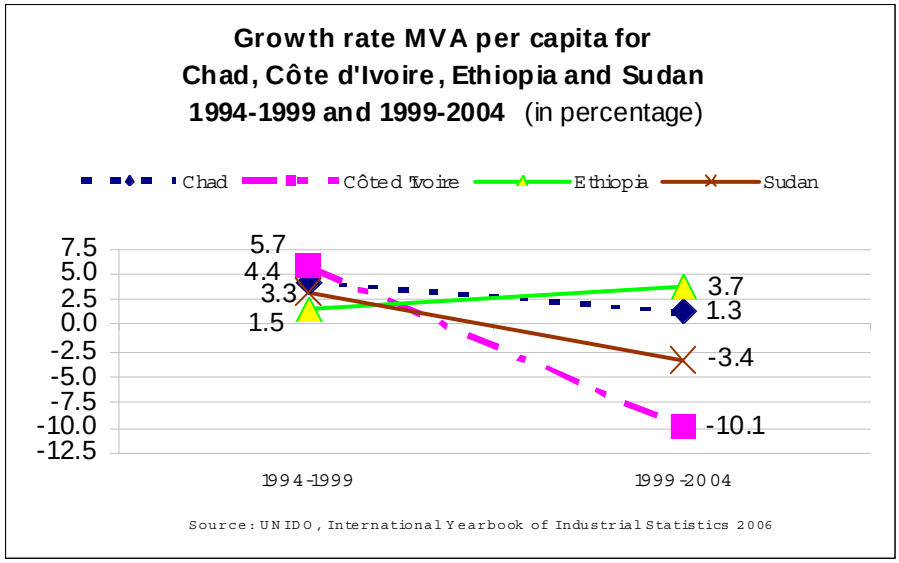
Appendix 9: Share of MVA in GDP for selected countries and regions, 1995-2004, in percentage

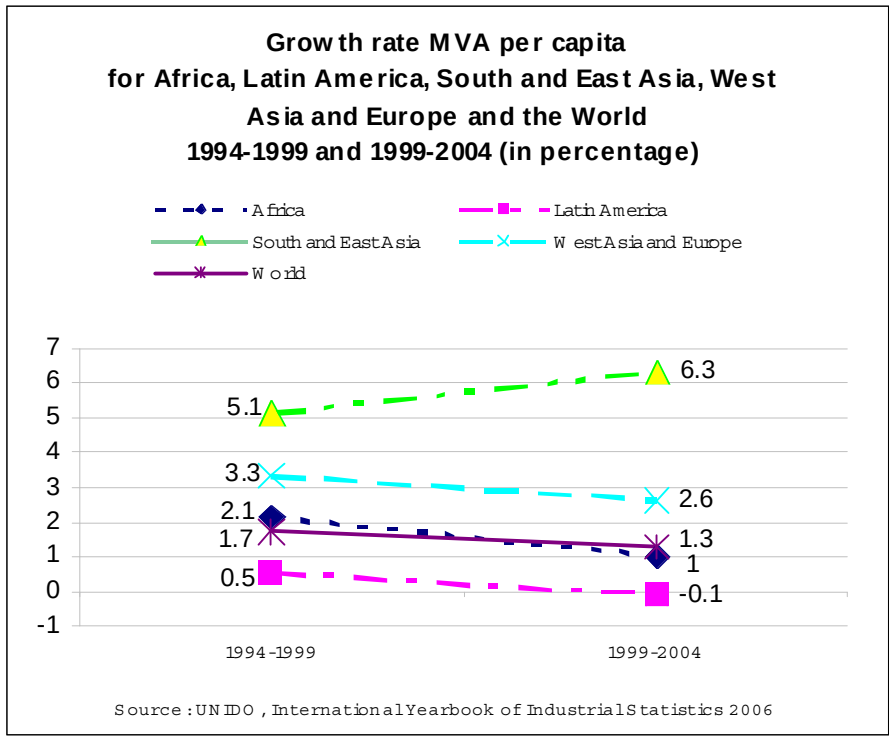






Appendix 10: Average annual growth rate of MVA per capita for selected countries and regions, 1994-1999 and 1999-2004





Bibliography

Badie, Bertrand et al. Qui a Peur du XXIe Siécle? Le Nouveau Système International. Editions La Découverte/Poche, Paris, 2006.

Botero, Giovanni. Sulle Grandezze delle Città. Rome, Vicenzo Pellagallo, 1588.

Chandler, David. "Holding Nations in Custody". Spiked Politics, 3 February 2005.

Chesterman, Simon, Michael Ignatieff, and Ramesh Thakur. Making States Work, From State Failure to State Building. International Peace Academy and United Nations University, New York, 2004.

Cimoli, Mario, Giovanni Dosi, Richard Nelson and Joseph Stiglitz. Institutions and Policies Shaping Industrial Development: An Introductory Note. Working Paper, Initiative for Policy Dialogue, Colombia University, 2006.

Clark, Gregory. A Farewell to Alms. A Brief Economic History of the World. Princeton, 2007.

Coase, Ronald. The Firm, the Market and the Law. 1988.

Collier, Paul. The Bottom Billion. Why the Poorest Countries Are Failing and What Can Be Done About It. Oxford, 2007.

Cooper, Robert. "The New Liberal Imperialism". The Guardian, 7 April 2002.

Creighton-Randall, Olayinka. The Challenges Faced to Align Donor Engagement with Partner Country Needs and the Role that Civil Society Can Play in Policy Development in the Absence of Strong State Structures. Unpublished presentation at the Senior Level Forum on Development Effectiveness in Fragile States, January 2005, London.

Davis, Mike. Planet of Slums. New York, 2006.

DFID. Why We Need toWork More Effectively in Fragile States. UK Department for International Development, London, 2005.

Drechsler, Wolfgang. "The Rise and Demise of the New Public Management". Post-Autistic Economics Review, 33, 2005, available at http://www.paecon.net/PAEReview/issue33/Drechsler33.htm.

Doornboos, Martin. "State Collapse and Fresh Starts". Development and Change, 33, 5, 2002, 797-815.

Easterly, William. Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics. MIT Press, 2001.

Evans, Gareth. Conflict Prevention: Ten Lessons We Have Learned. Keynote address by the President of the International Crisis Group to the University of Toronto, Peace and Conflict Society Conference before the Crisis Breaks: Conflict Prevention, Crisis Management and Preventive Diplomacy in the 21st Century, Toronto, 4 February 2007.

Evans, Peter B. and James E. Rauch. "Bureaucracy and Growth: A Cross-

National Analysis of the Effects of 'Weberian' State Structures on Economic Growth". American Sociological Review, 64, 5, 1999, pp. 748-765.

Fukuyama, Francis. State-Building. Governance and World Order in the Twenty-First Century. London, 2004.

Goldsmith, Stephen and William D. Eggers. Governing By Network: The New Shape of the Public Sector. Harvard, 2006.

Grono, Nick. Fragile States: Searching for Effective Approaches and the Right Mix of Instruments. Presentation of the Vice President of the International Crisis Group to the Danish Ministry of Foreign Affairs, Copenhagen, 29 January 2007; available at www.crisisgrop.org.

Katula, Michael and James L. Perry. "Comparative Performance Pay". In B. Guy Peters and Jon Pierre (eds). Handbook of Public Administration, London, pp. 53-61.

K.S. Jomo and M. Rock. "Economic Diversification and Primary Commodity Processing in the Second-Tier South East Asian Newly Industrializing Countries". UNCTAD Discussion paper No. 136, June 1998.

List, Frederich. The National System of Political Economy. Philadelphia, J.B. Lippincott and Co, 1856.

Maass, Gero and David Mepham. Promoting Effective States. A Progressive Policy Response to Failed and Failing States. Institute for Public Policy Research and Friederich-Ebert-Stiftung, London, 2004.

Maddison, Angus. The World Economy. Historical Statistics, OECD, Paris, 2003.

Moyo, Dambisa. Dead Aid, London, Allen Lane, 2009.

OECD/DAC. Principles for Good Donorship in Fragile States. Document No. DCD (2005)8/REV2, OECD, Paris, 2005.

Peake, Gordon et al. From Warlords to Peacelords: Local Leadership Capacity in Peace Processes". INCORE Report, University of Ulster, Londonderry, 2004.

Pollitt, Christopher and Geert Bouckaert. Public Management Reform. A Comparative Analysis. 2 ed., Oxford, 2004.

Porter, Michael E., Klaus Schwab and Xavier Sala-i-Martin. The Global Competitiveness Report 2007-2008. Palgrave Macmillan, 2007.

Rauch, James E. and Peter B. Evans. "Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries". Journal of Public Economics, 75, 2000, 49-71.

'Globalisation in the Periphery as a Morgenthau Plan: The Underdevelopment of Mongolia in the 1990's' in Reinert, Erik (ed.), Globalization, Economic Development and Inequality: An Alternative Perspective, Cheltenham, Edward Elgar, 2004, pp. 157-214. http://www.othercanon.org/papers/

Reinert, Erik S. "Development and Social Goals: Balancing Aid and

Development to Prevent 'Welfare Colonialism'". United Nations, DESA Working Paper No. 14, ST/ESA/2006/DWP/14, January 2006.
Reinert, Erik S. How Rich Countries Got Rich... and Why Poor Countries Stay Poor. Constable, London, 2007.
Reinert, Erik S. 'Emulating Success: Contemporary Views of the Dutch Economy before 1800', in Gelderblom, Oscar (editor), *The Political Economy of the Dutch Republic*, Aldershot, Ashgate, 2009(a), pp 19-40.
Reinert, Erik S. 'Emulation vs. Comparative Advantage: Competing Principles in the History of Economic Policy'. In Cimoli, Mario, Giovanni Dosi and Joseph Stiglitz (eds), *The Political Economy of Capabilities Accumulation: the Past and Future of Policies for Industrial Development Industrial Policies and Development*, Oxford University Press, forthcoming 2009 (b).
Reinert, Erik S and Sophus Reinert. 'An Early National Innovation System: the Case of Antonio Serra's 1613 *Breve Trattato*' (with Sophus Reinert) in *Institutions and Economic Development/Istituzioni e Sviluppo Economico*, Vol. 1, No. 3, 2003, pp. 87-119.
Rodrik, Dani. "Second Best Institutions". 2007, manuscript available at http://ksghome.harvard.edu/~drodrik/Second-best%20institutions%20paper.pdf.
Rotberg, Robert I. The Failure and Collapse of Nation-States. Breakdown, Prevention and Repair. Princeton University Press, Princeton, 2003.
Schmoller, Gustav (1897/1967). *The Mercantile System and its Historical Significance*, New York, Macmillan/Kelley.
Serra, Antonio. Breve trattato. Naples, Lazzaro Scoriggio, 1613.
Shafaeddin, Mehdi. "What did Frederich List Actually Say? Some Clarifications on the Infant Industry Argument". UNCTAD Discussion paper No. 149, July 2000.
Singer Hans. 'The Distribution of Gains between Investing and Borrowing Countries,' *American Economic Review*, 40, 1950.
The Fund for Peace. Failed States Index 2006, www.fundforpeace.org/programs/fsi/fsindex2006.php?column=6&.
UNCTAD. The Least Developed Countries Report 2006. Developing Productive Capacities, Geneva; www.unctad.org/en/docs/ldc2006_en.pdf.
UNHSP (United Nations Human Settlements Programme). The Challenge of Slums. Global Report on Human Settlements 2003, London, 2003.
UNIDO. International Yearbook of Industrial Statistics. Vienna, 2006..
UNIDO. Le Système Commercial Mondial: L'Afrique Face au Défi Industriel. 17th session of the Conference of African Ministry of Industry (CAMI), 19-21 June 2006, Cairo, Egypt; www.unido.org
United Nations. A More Secure World: Our Shared Responsibility. Report to the UN General Secretary. High-Level Panel, UN

Document no. A/59/565, United Nations, New York.
Wade, Robert. Governing the Market. 2nd ed., Princeton, 2003.
World Bank. "Fragile States. Good Practice in Country AssistanceStrategies". 19 December 2005, www.worldbank.org/ieg/licus06_map.html.
World Bank. Breaking the Conflict Trap. World Bank, Washington, 2003.
World Bank. World Development Indicators 2007.

Working Papers in Technology Governance and Economic Dynamics

The Other Canon Foundation, Norway, and the Technology Governance program at Tallinn University of Technology (TUT), Estonia, have launched a new working papers series, entitled "Working Papers in Technology Governance and Economic Dynamics". In the context denoted by the title series, it will publish original research papers, both practical and theoretical, both narrative and analytical, in the area denoted by such concepts as uneven economic growth, techno-economic paradigms, the history and theory of economic policy, innovation strategies, and the public management of innovation, but also generally in the wider fields of industrial policy, development, technology, institutions, finance, public policy, and economic and financial history and theory.

The idea is to offer a venue for quickly presenting interesting papers – scholarly articles, especially as preprints, lectures, essays in a form that may be developed further later on – in a high-quality, nicely formatted version, free of charge: all working papers are downloadable for free from http://hum.ttu.ee/tg as soon as they appear, and you may also order a free subscription by e-mail attachment directly from the same website.

The first nine working papers are already available from the website.
They are

1. Erik S. Reinert, *Evolutionary Economics, Classical Development Economics, and the History of Economic Policy: A Plea for Theorizing by Inclusion.*
2. Richard R. Nelson, *Economic Development from the Perspective of Evolutionary Economic Theory.*
3. Erik S. Reinert, *Development and Social Goals: Balancing Aid and Development to Prevent 'Welfare Colonialism'.*
4. Jan Kregel and Leonardo Burlamaqui, *Finance, Competition, Instability, and Development Microfoundations and Financial Scaffolding of the Economy.*
5. Erik S. Reinert, *European Integration, Innovations and Uneven Economic Growth: Challenges and Problems of EU 2005.*
6. Leonardo Burlamaqui, *How Should Competition Policies and Intellectual Property Issues Interact in a Globalised World? A Schumpeterian Perspective*
7. Paolo Crestanello and Giuseppe Tattara, *Connections and Competences in the Governance of the Value Chain. How Industrial Countries Keep their Competitive Power*

8. Sophus A. Reinert, *Darwin and the Body Politic: Schäffle, Veblen, and the Shift of Biological Metaphor in Economics*
9. Antonio Serra, *Breve Trattato / A Short Treatise (1613)* (available only in hardcopy and by request).
10. Joseph L. Love, *The Latin American Contribution to Center-Periphery Perspectives: History and Prospect*
11. Ronald Dore, *Shareholder capitalism comes to Japan*
12. Per Högselius, *Learning to Destroy. Case studies of creative destruction management in the new Europe*
13. Gabriel Yoguel, Analía Erbes, Verónica Robert, and José Borello, *Diffusion and appropriation of knowledge in different organizational structures*
14. Erik S. Reinert and Rainer Kattel, *European Eastern Enlargement as Europe's Attempted Economic Suicide?*
15. Carlota Perez, *Great Surges of development and alternative forms of globalization*
16. Erik S. Reinert, Iulie Aslaksen, Inger Marie G. Eira, Svein Mathiesen, Hugo Reinert & Ellen Inga Turi, *Adapting to Climate Change in Reindeer Herding: The Nation-State as Problem and Solution*
17. Lawrence King, Patrick Hamm, *The Governance Grenade: Mass Privatization, State Capacity and Economic Development in Postcommunist and Reforming Communist Societies*
18. Reinert, Erik S., Yves Ekoué Amaïzo and Rainer Kattel. *The Economics of Failed, Failing and Fragile States: Productive Structure as the Missing Link*

The working paper series is edited by Rainer Kattel (kattel@staff.ttu.ee), Wolfgang Drechsler (drechsler@staff.ttu.ee), and Erik S. Reinert (reinert@staff.ttu.ee), who all of them will be happy to receive submissions, suggestions or referrals.