

OECD countries, while lower income countries are converging to a lower income level".<sup>16</sup> The latter theory of polarization and stratification is referred to as the "twin peaks" theory.<sup>17</sup>

As development became a growth industry in the post-WWII period, various programs have been tried to re-engineer the characteristics of countries to put them on the path to prosperity. Berkeley economist Bradford DeLong characterized the reform waves as follows: "Since World War II there have been at least six such crusades [for development]: the "building socialism" crusade, the "financing gap" crusade, the "import substitution" crusade, the "aid for education" crusade, the "oil money recycling" crusade, and the "population boom" crusade. All of them failed to spark rapid economic development."<sup>18</sup> DeLong groups the current initiatives for development into the seventh or "neo-classical crusade" and proceeds to add that he, as a self-described subscriber to neo-classicism, expects it to fail as well.

One thing is clear, however: the story of convergence is not principally or even importantly about large volumes of capital flowing from rich countries to the poor. Where foreign direct investment brings a missing bit of the puzzle, its catalytic effect can be huge.<sup>19</sup> But this is a far more subtle story than factories in rich countries being shipped to poor countries and driving wages to equality. The latter effect is not entirely absent from

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<sup>16</sup> See Stanley Fischer, *Globalization and its Challenges*, Ely Lecture presented at the American Economic Association meetings in Washington, DC, January 3<sup>rd</sup>, 2003; pg 12.

<sup>17</sup> See Danny T. Quah, "Twin Peaks: Growth and Convergence in Models of distribution Dynamics", *The Economic Journal*, Volume 106, Issue 437 (July 1996): 1045-1055.

<sup>18</sup> See J. Bradford DeLong, "The Last Development Crusade", a review of William Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, op. cit., acquired at [http://econ161.berkeley.edu/TotW/Easterly\\_neoliberal.html](http://econ161.berkeley.edu/TotW/Easterly_neoliberal.html).

<sup>19</sup> William Easterly provides a compelling example in the story of the beginnings of the Bangladeshi garment industry, which was triggered by a Japanese investment. See William Easterly, op. cit., pg 147-150.