

# From the Fukuyama's "End of History" to hell in a handbasket, how did we get here?

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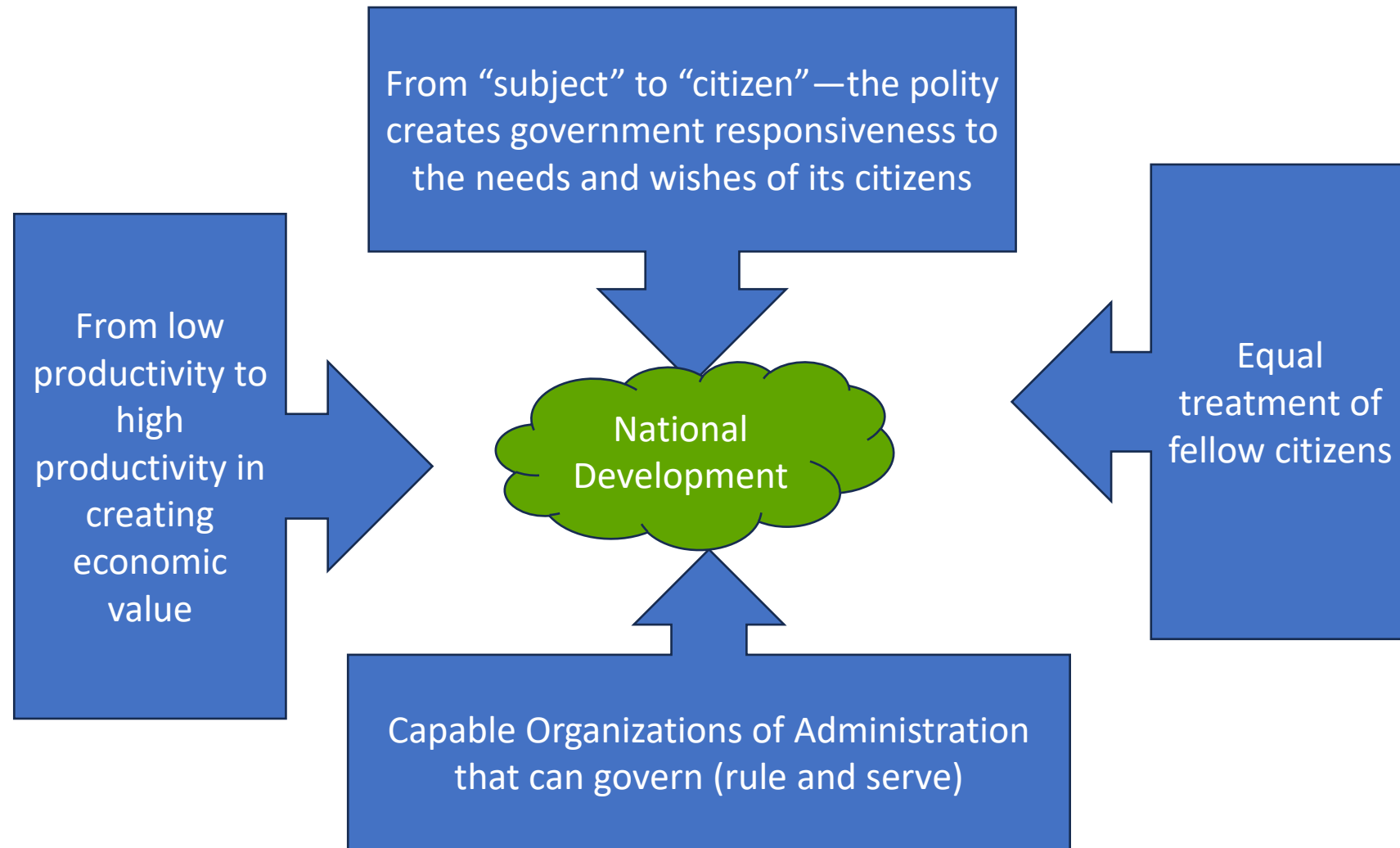
Emerging Markets Conference, XKDR Forum

# Outline of the presentation

- The fourfold transformation of National Development really is good for achieving normative goals on human wellbeing
- With the fall of the Soviet Union Francis Fukuyama said that Hegelian History (the capital H kind) was over, the final resting state of the Weltgeist was the “Western” model of (rules regulated) capitalism, bureaucracy.
- But the experience since 1990 says lots of “hell in a handbasket” —the dynamics of history don’t seem headed to the “End” (either in a normative or temporal sense) of history any time soon
- Framing what is going to happen
- One narrative of “how we got here”

The four-lane highway to high human  
wellbeing: National Development Delivers

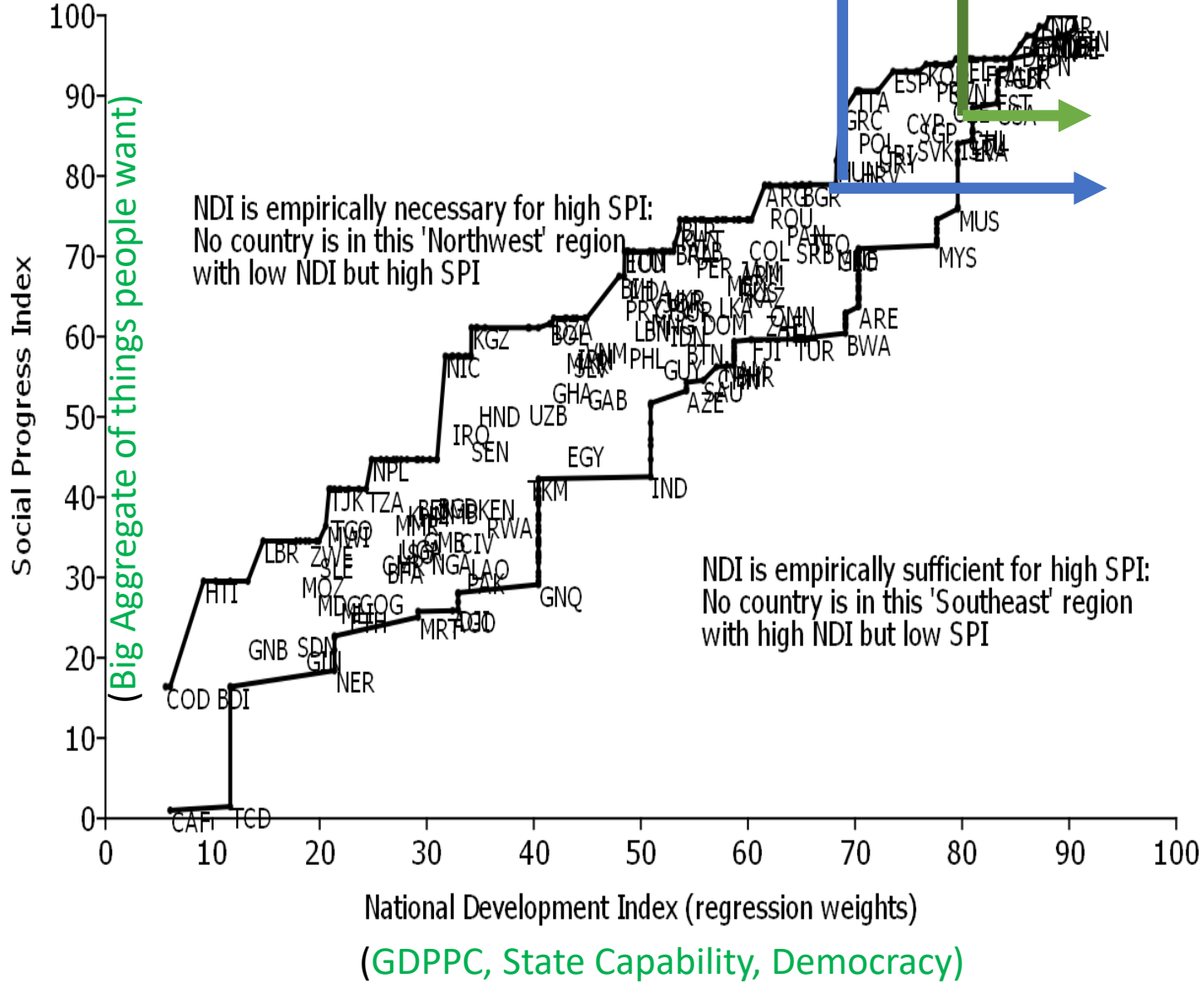
National Development is a four-fold transformation of countries that enables *people* in those places to effectively cooperate (across time and place) to accomplish *purposes*



# The ‘four lane highway to prosperity’ for developing countries

- **Economy:** Create what it takes (laws, policies, regulations, modes of contracting, “institutions”) that allow people to cooperate in sophisticated and predictable ways (e.g. form organizations/firms, make long term contracts) and engage in complex high value added production ( a la Hausmann) and that enables a vibrant and innovative economy.
- **Polity:** Create mechanisms of determining (i) who controls the power of the state and (ii) *limitations* on that power in ways that (a) roughly aggregate preferences and pursue public value and (b) protect the ability of individuals to flourish on their own terms and values (freedom, (negative) human rights)
- **State Capability for Policy Implementation:** The creation of organizations of the state that can (i) impose obligations (e.g. collect taxes, prevent criminality, regulate) and (ii) provide services that are both effective (means to end rational) and (a) implement laws and policies and programs of the government with (adequate) fidelity and (b) the organizations themselves are constrained in their exercise of power.
- **Social Coherence:** The emergence of (i) sufficient “imagined community” (Benedict Anderson) to sustain cooperative national (federal) governance and (ii) a civic society that treats all as equal before the law and treated as equal by the state and its organizations.

Panel B: National Development empirically necessary and sufficient for SPI



“National Development” (here measured as GDPPC, SCPI, Democracy) really is a necessary and sufficient condition for high levels of Social Progress (any omnibus measure of the human wellbeing, subjective or objective)

The “End of History” (with capital E, so “End” is normative and H, so “History” has is teleological)

# The End of History? \_\_\_\_\_

\_\_\_\_\_  
Francis Fukuyama

**I**N WATCHING the flow of events over the past decade or so, it is hard to avoid the feeling that something very fundamental has happened in world history. The past year has seen a flood of articles commemorating the end of the Cold War, and the fact that “peace” seems to be breaking out in many regions of the world. Most of these analyses lack any larger conceptual framework for distinguishing between what is essential and what is contingent or accidental in world history, and are predictably superficial. If Mr. Gorbachev were ousted from the Kremlin or a new Ayatollah proclaimed the millennium from a desolate Middle Eastern capital, these same commentators would scramble to announce the rebirth of a new era of conflict.

And yet, all of these people sense dimly that there is some larger process at work, a

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Francis Fukuyama is deputy director of the State Department's policy planning staff and former analyst at the RAND Corporation. This article is based on a lecture presented at the University of Chicago's John M. Olin Center for Inquiry Into the Theory and Practice of Democracy. The author would like to pay special thanks to the Olin Center and to Nathan Tarcov and Allan Bloom for their support in this and many earlier endeavors. The opinions expressed in this article do not reflect those of the RAND Corporation or of any agency of the U.S. government.

process that gives coherence and order to the daily headlines. The twentieth century saw the developed world descend into a paroxysm of ideological violence, as liberalism contended first with the remnants of absolutism, then bolshevism and fascism, and finally an updated Marxism that threatened to lead to the ultimate apocalypse of nuclear war. But the century that began full of self-confidence in the ultimate triumph of Western liberal democracy seems at its close to be returning full circle to where it started: not to an “end of ideology” or a convergence between capitalism and socialism, as earlier predicted, but to an unabashed victory of economic and political liberalism.

The triumph of the West, of the Western *idea*, is evident first of all in the total exhaustion of viable systematic alternatives to Western liberalism. In the past decade, there have been unmistakable changes in the intellectual climate of the world's two largest communist countries, and the beginnings of significant reform movements in both. But this phenomenon extends beyond high politics and it can be seen also in the ineluctable spread of consumerist Western culture in such diverse contexts as the peasants' markets and color television sets now omnipresent throughout China, the cooperative restaurants and clothing stores opened in the past year in Moscow, the Beethoven piped into Japanese department stores, and the rock music enjoyed alike in Prague, Rangoon, and Tehran.

In 1989 Francis Fukuyama wrote an article arguing that through the 20<sup>th</sup> century the *idea* of Western liberalism was contesting against alternative systems: absolutism (kings and all that), fascism (both European and other), and Bolshevism (and other Marxist/Leninist variants). That contest, he argued was over.

*“The triumph of the West, of the Western idea, is evident first of all in the total exhaustion of viable systematic alternatives to Western liberalism”*

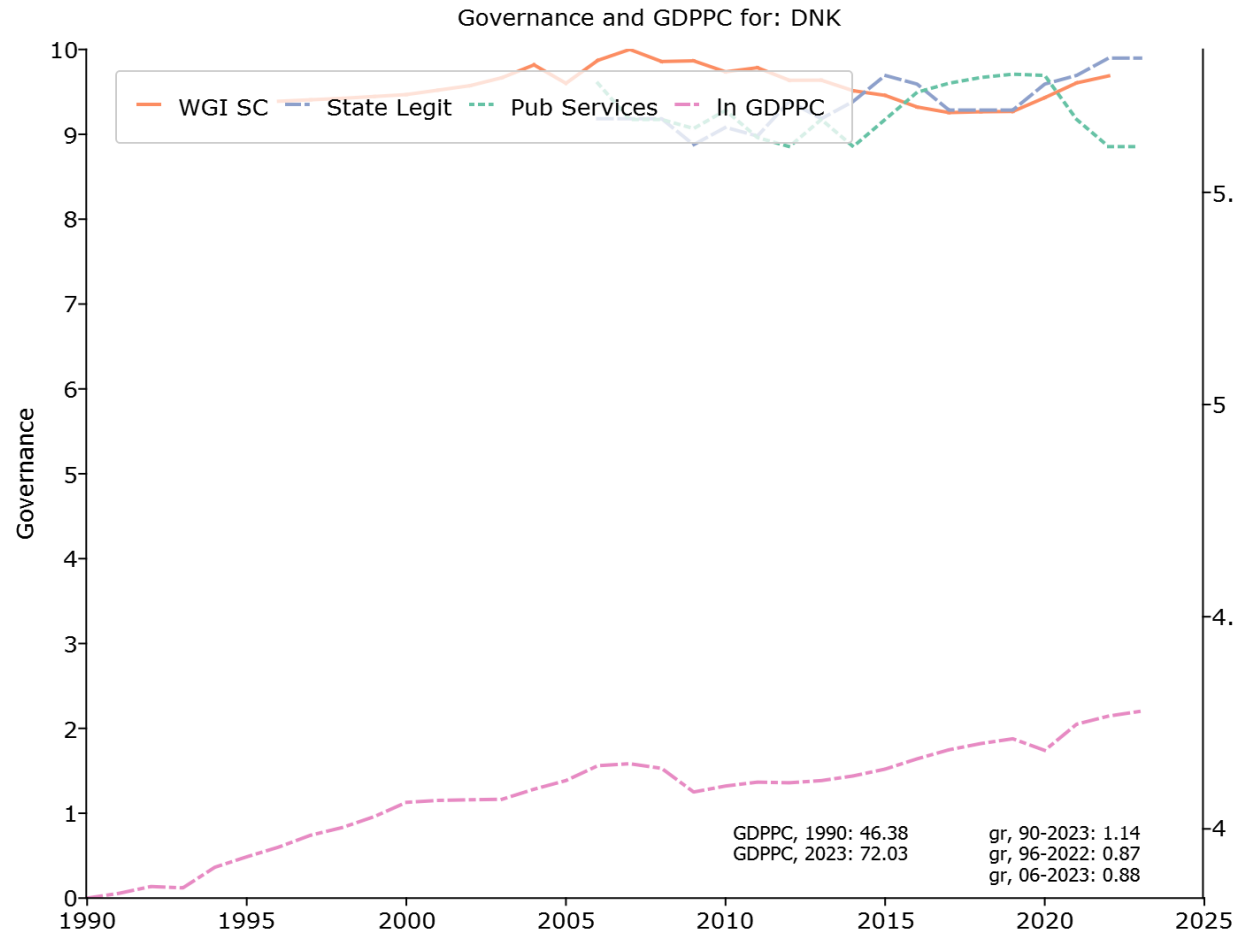
And the “end of history” was an allusion to the Hegelian idea (adopted by “scientific Marxism”) that there is a “World Spirit” that has goals and that history is progress towards those goals. The question of whether Western liberalism was a “stage” or the “end” of history was decided by the collapse of the main alternatives.



# What would “End of History” dynamics look like?

- Steady, converging (perhaps rapid) economic growth
- A transformation from “deals” economies to “rules” economies with investor expectations grounded in neutral enforcement of “rules” but bureaucracies (roughly World Governance Indicators Rule of Law, Government Effectiveness, Control of Corruption)
- An increase in “liberal democracy” which is not just “elections” but “rule of law” and respect for (negative) human rights (at a minimum)

“Getting to Denmark” (as a metaphor)—appears to be an “absorbing state/condition of “good institutions” that support prosperity: high capability (WGI SC), high state legitimacy, high public services, and steady (modest) growth at a high level of GDP per capita



World Governance Indicators State Capability is average of Rule of Law, Control of Corruption, Government Effectiveness, and Regulatory Quality (re-normed to 0 to 10 scale)

The “Failed State Index has many components of which two are:

State Legitimacy (0 to 10 scale):

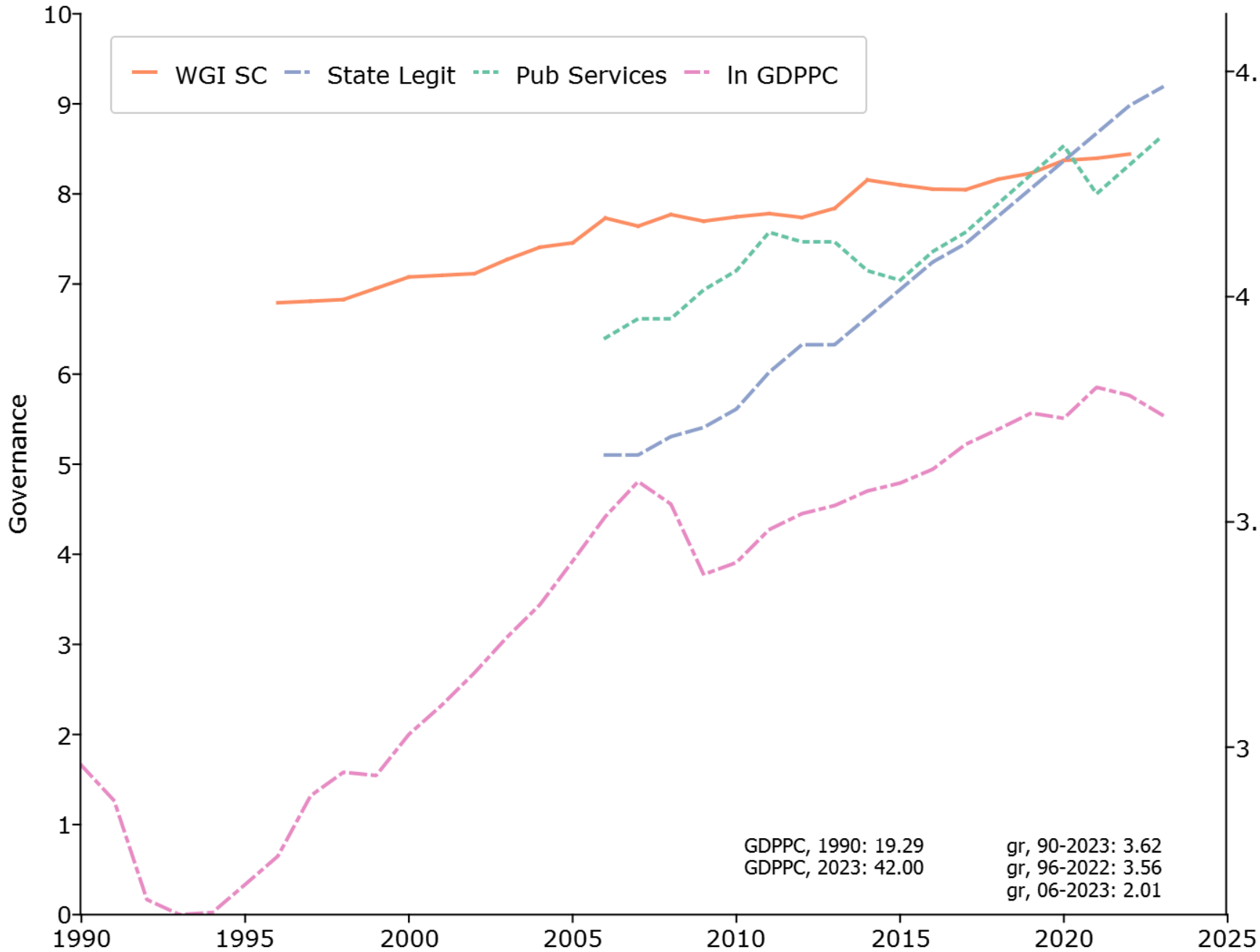
Public Services (0 to 10 Scale)

GDP per capita is in PPP units (in (natural) log units and the range is the same for all countries so slopes as growth rates are comparable, levels are given in text)

# Two political indicators from the Fragile State Index from the Fund for Peace

- The **State Legitimacy** Indicator considers the representativeness and openness of government and its relationship with its citizenry. The Indicator looks at the population's level of confidence in state institutions and processes, and assesses the effects where that confidence is absent, manifested through mass public demonstrations, sustained civil disobedience, or the rise of armed insurgencies. Though the State Legitimacy indicator does not necessarily make a judgment on democratic governance, it does consider the integrity of elections where they take place (such as flawed or boycotted elections), the nature of political transitions, and where there is an absence of democratic elections, the degree to which the government is representative of the population of which it governs. The Indicator takes into account openness of government, specifically the openness of ruling elites to transparency, accountability and political representation, or conversely the levels of corruption, profiteering, and marginalizing, persecuting, or otherwise excluding opposition groups. The Indicator also considers the ability of a state to exercise basic functions that infer a population's confidence in its government and institutions, such as through the ability to collect taxes.
- The **Public Services** Indicator refers to the presence of basic state functions that serve the people. On the one hand, this may include the provision of essential services, such as health, education, water and sanitation, transport infrastructure, electricity and power, and internet and connectivity. On the other hand, it may include the state's ability to protect its citizens, such as from terrorism and violence, through perceived effective policing. Further, even where basic state functions and services are provided, the Indicator further considers to whom – whether the state narrowly serves the ruling elites, such as security agencies, presidential staff, the central bank, or the diplomatic service, while failing to provide comparable levels of service to the general populace – such as rural versus urban populations. The Indicator also considers the level and maintenance of general infrastructure to the extent that its absence would negatively affect the country's actual or potential development.

Governance and GDPPC for: EST



Estonia (EST) is the hopeful vision of the End of History: From 1990 to 2023 GDPCP more than doubled, to \$42,000

WGI SC reached over 8

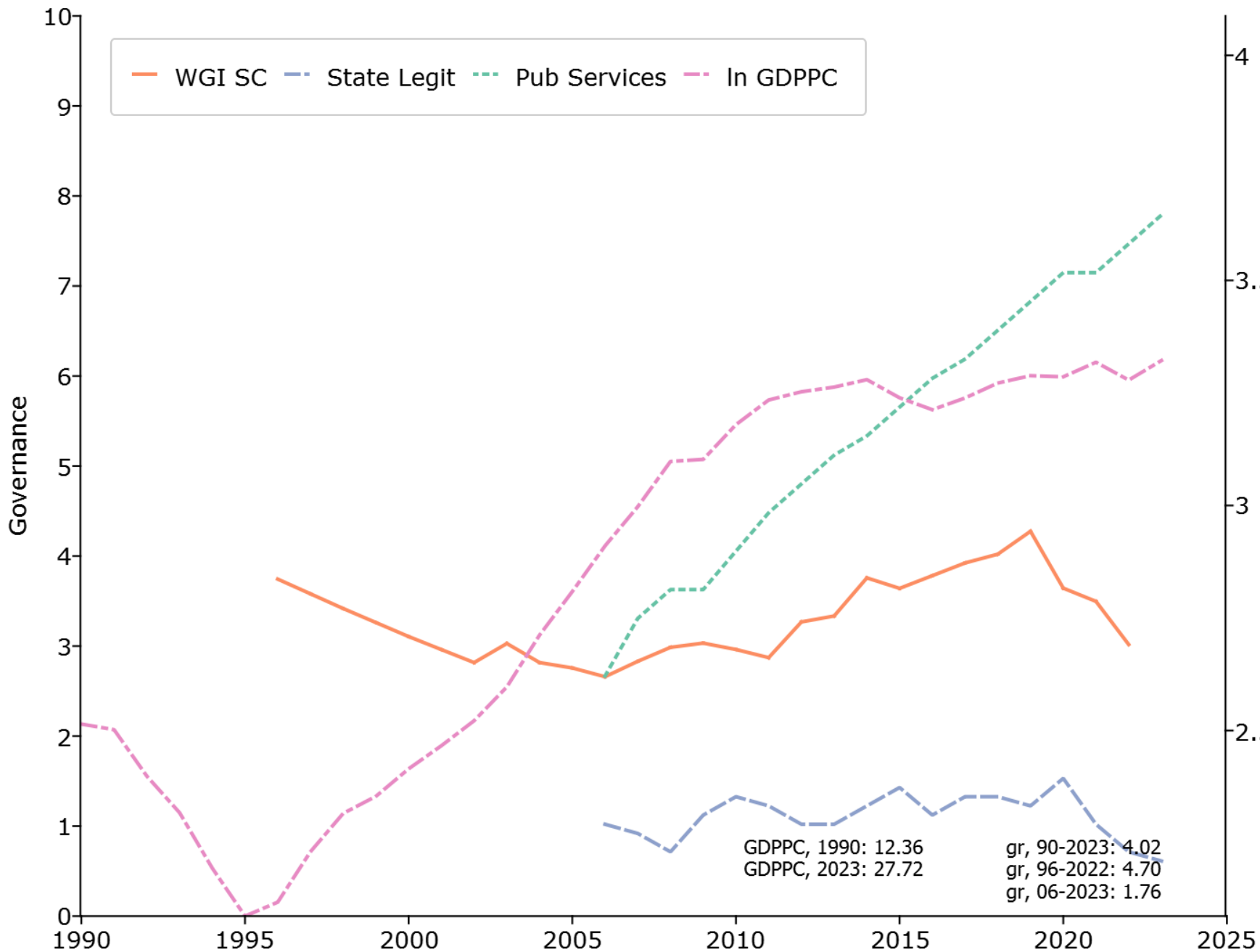
State Legitimacy increased from 5 to 9

Public Services went from 6 to over 8

The “four-fold” national development transformation firing on all cylinders

“Hell in a handbasket” is a perhaps overly strong characterization that many regions have seen either continued stagnation on all fronts (e.g. failed state) but lots of regions have had rapid or rapid-ish growth but reversals in State Capability and State Legitimacy

Governance and GDPPC for: BLR



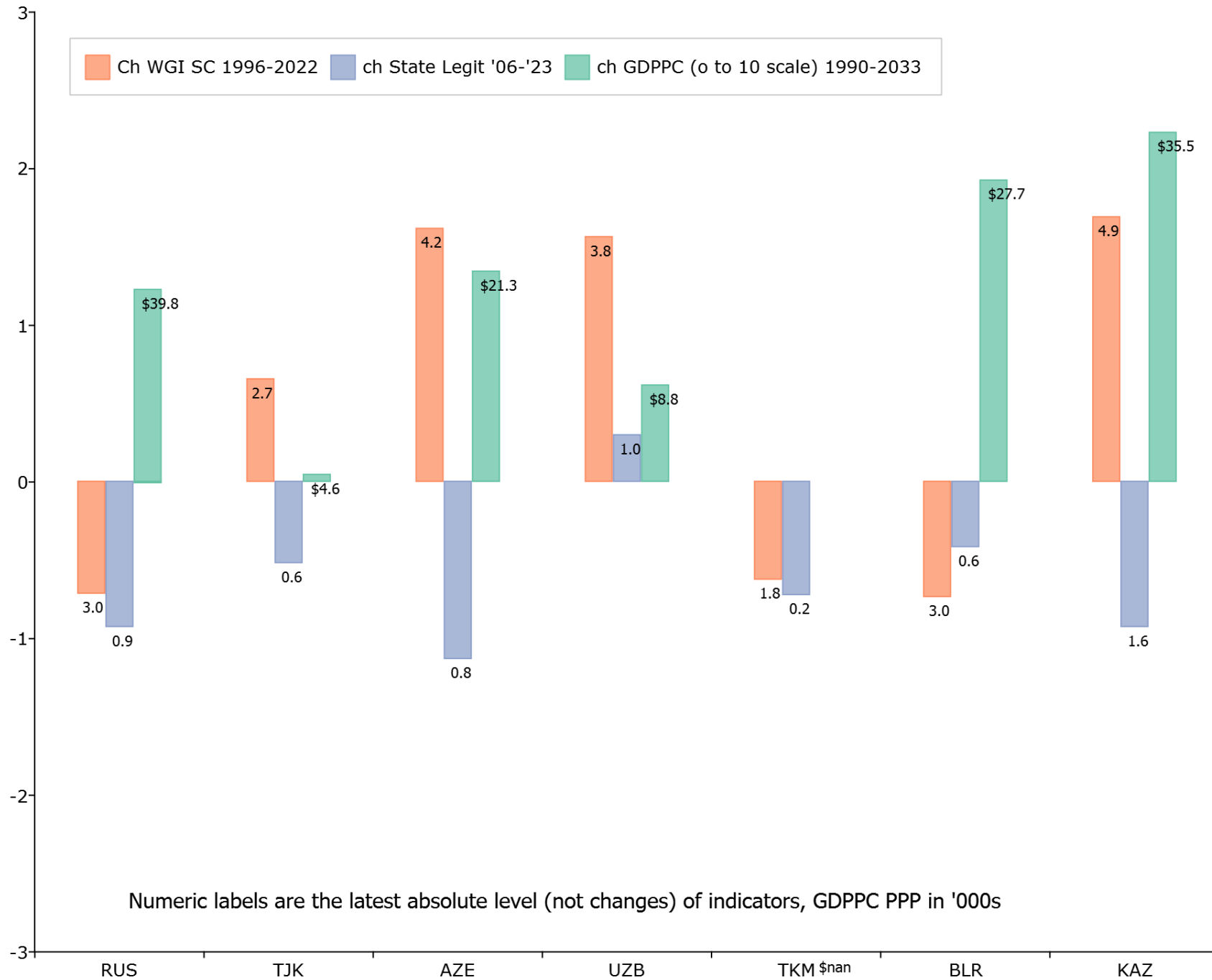
Belorussia's graph: a fall in GDPPC, followed by growth to "middle income" levels (P\$27.8)—but then tapering off

But State Capability is lower in 2032 than in 1996

State legitimacy has always been low, and falling sharply recently

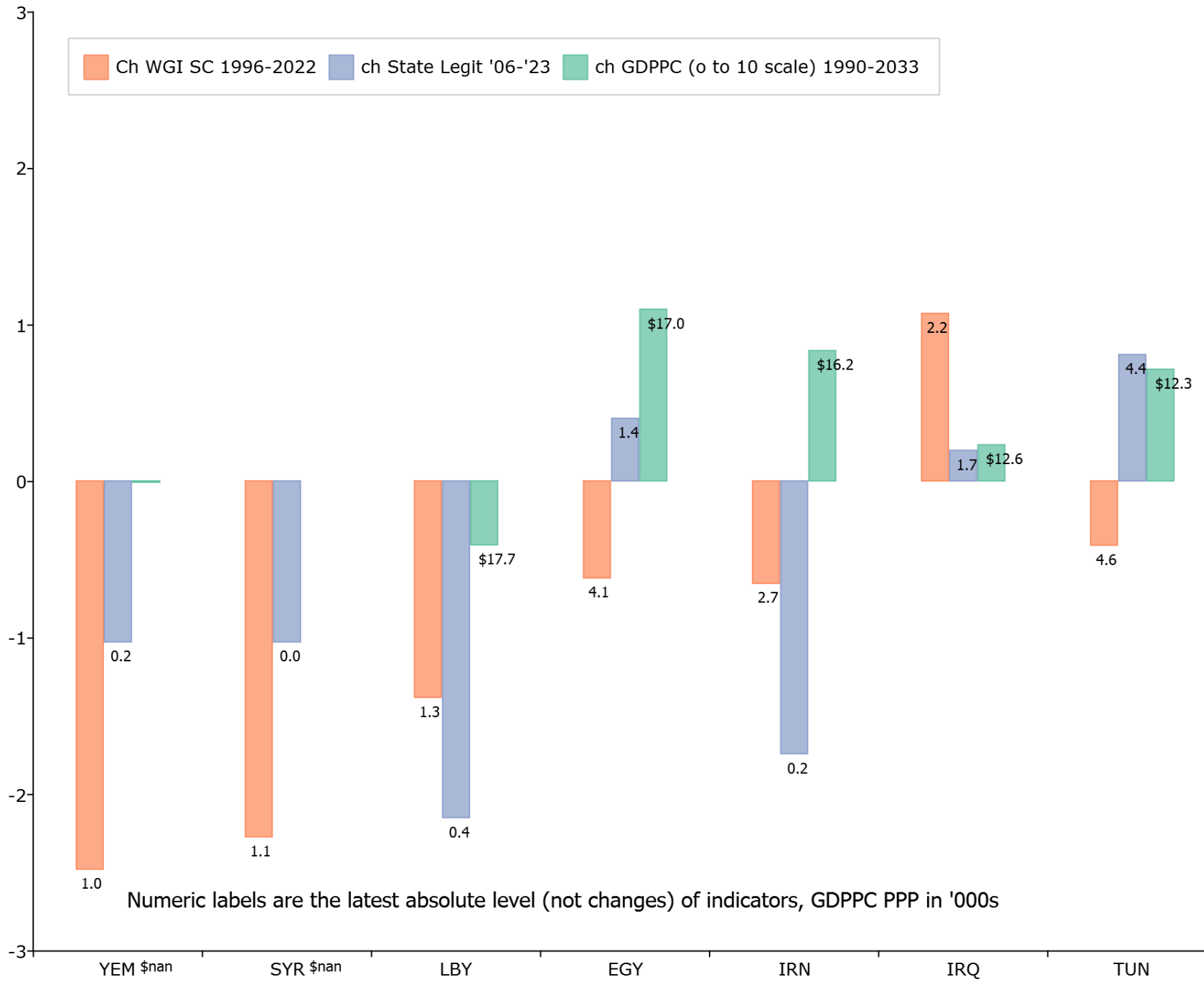
GDPPC, 1990: 12.36  
GDPPC, 2023: 27.72

gr, 90-2023: 4.02  
gr, 96-2022: 4.70  
gr, 06-2023: 1.76



Numeric labels are the latest absolute level (not changes) of indicators, GDPPC PPP in '000s

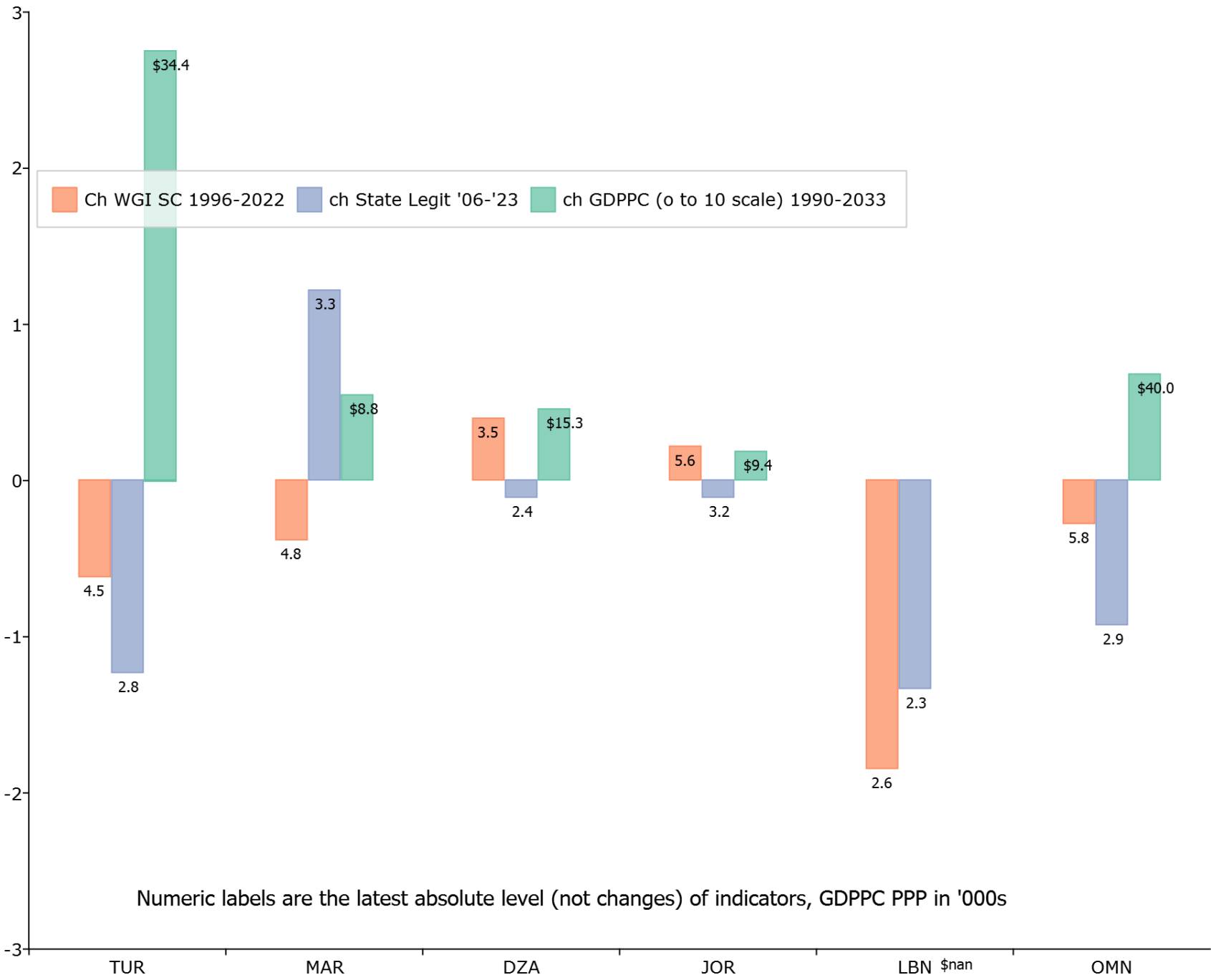
Some FSU countries, with uniformly low (and often falling) levels of state legitimacy, mixed changes in and low levels of State Capability, mostly adequate growth (but resource based). some still very poor (Tajikistan, Uzbekistan)



The “Arab Spring” was hoped to be a positive shock to the region’s mostly autocratic regimes: a shock it was, “positive” not so much.

Numeric labels are the latest absolute level (not changes) of indicators, GDPPC PPP in '000s

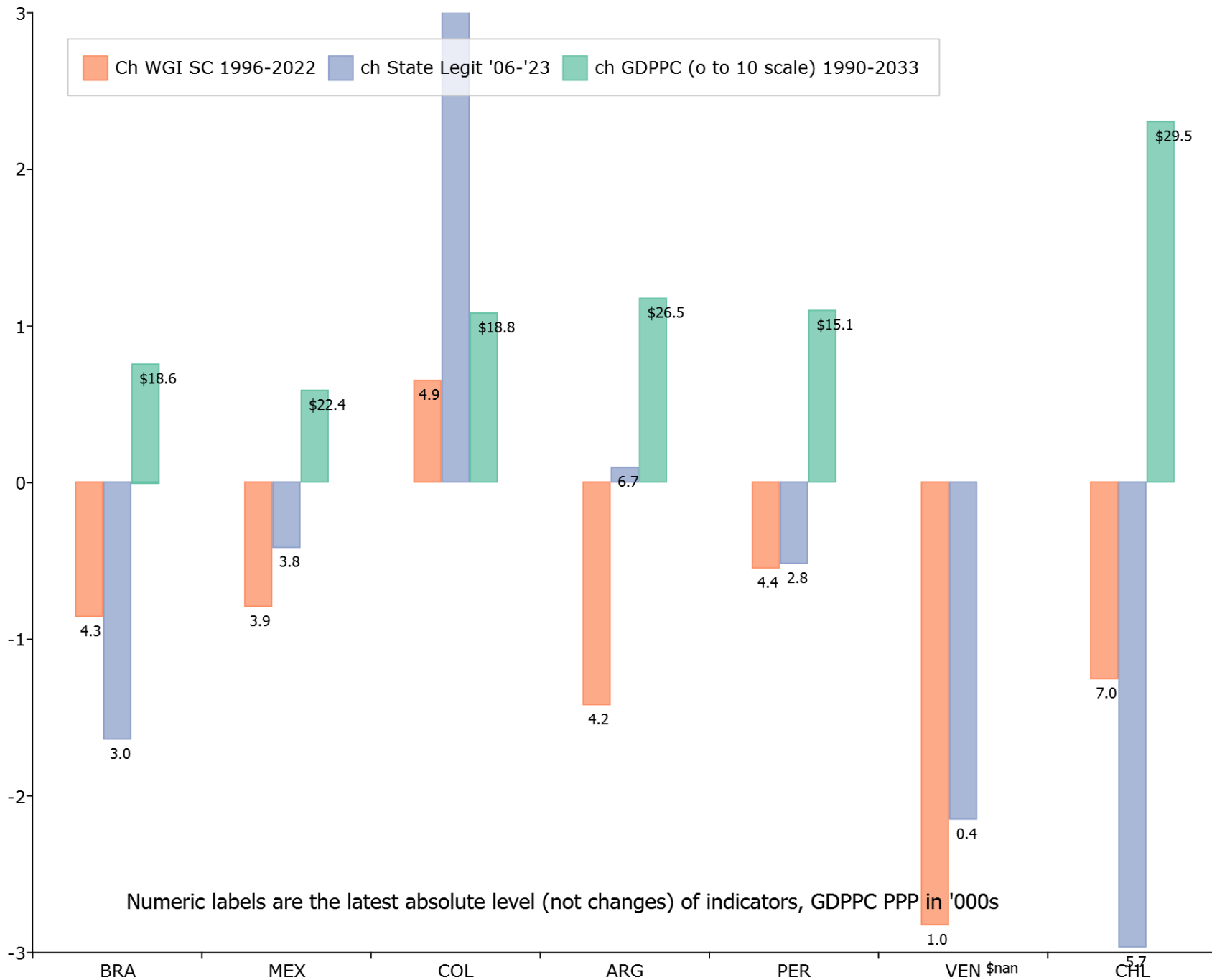




Numeric labels are the latest absolute level (not changes) of indicators, GDPPC PPP in '000s

EU, deteriorated substantially on both State Capability and State Legitimacy, with rapid economic growth.

Other non-frontline Arab Spring states (outside the rich Gulf) muddle through (Morocco got better on State Legitimacy) or didn't (Lebanon)



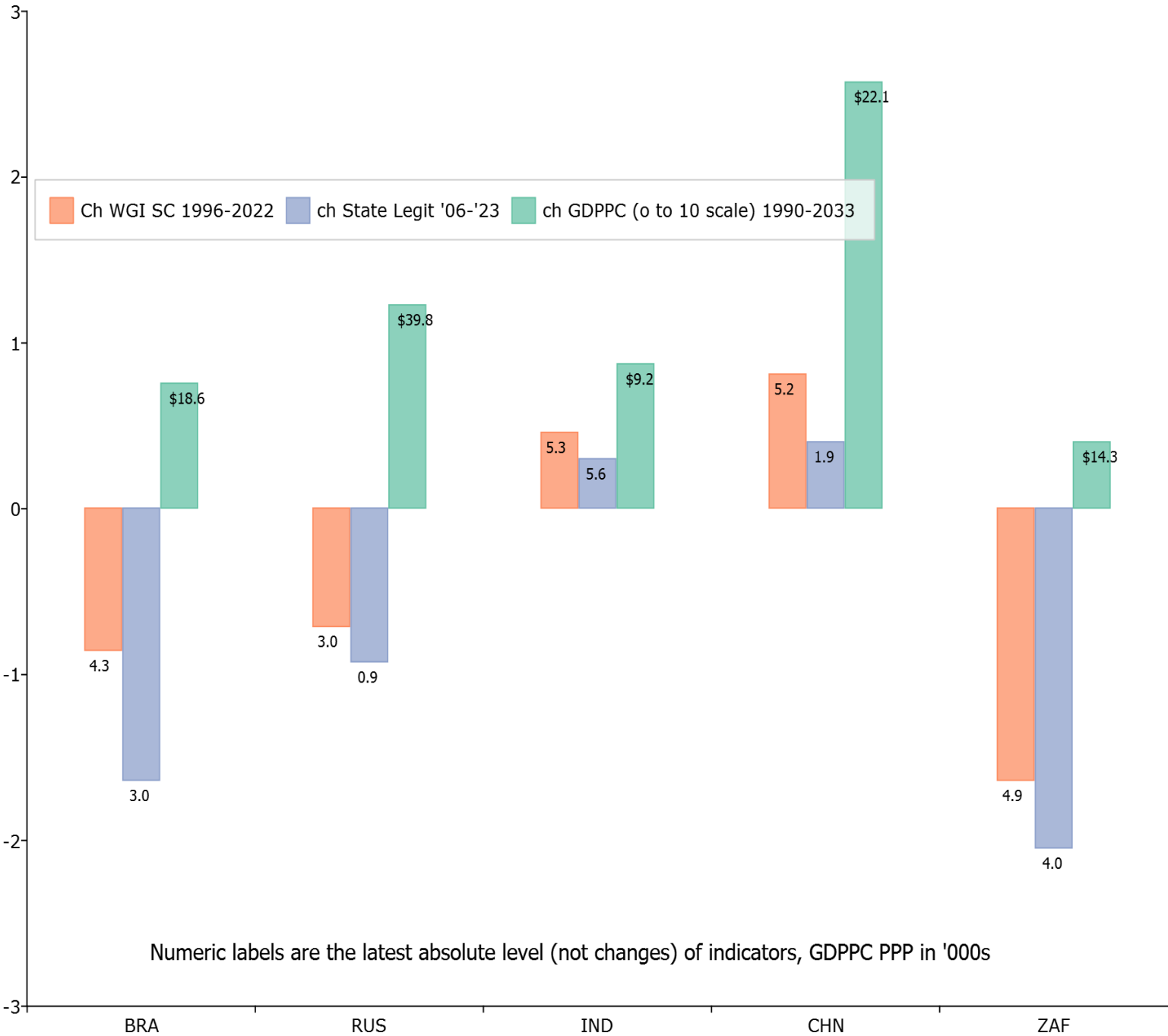
These are the seven largest countries in Latin America by population.

Only Colombia had progress in both State Capability and State Legitimacy.

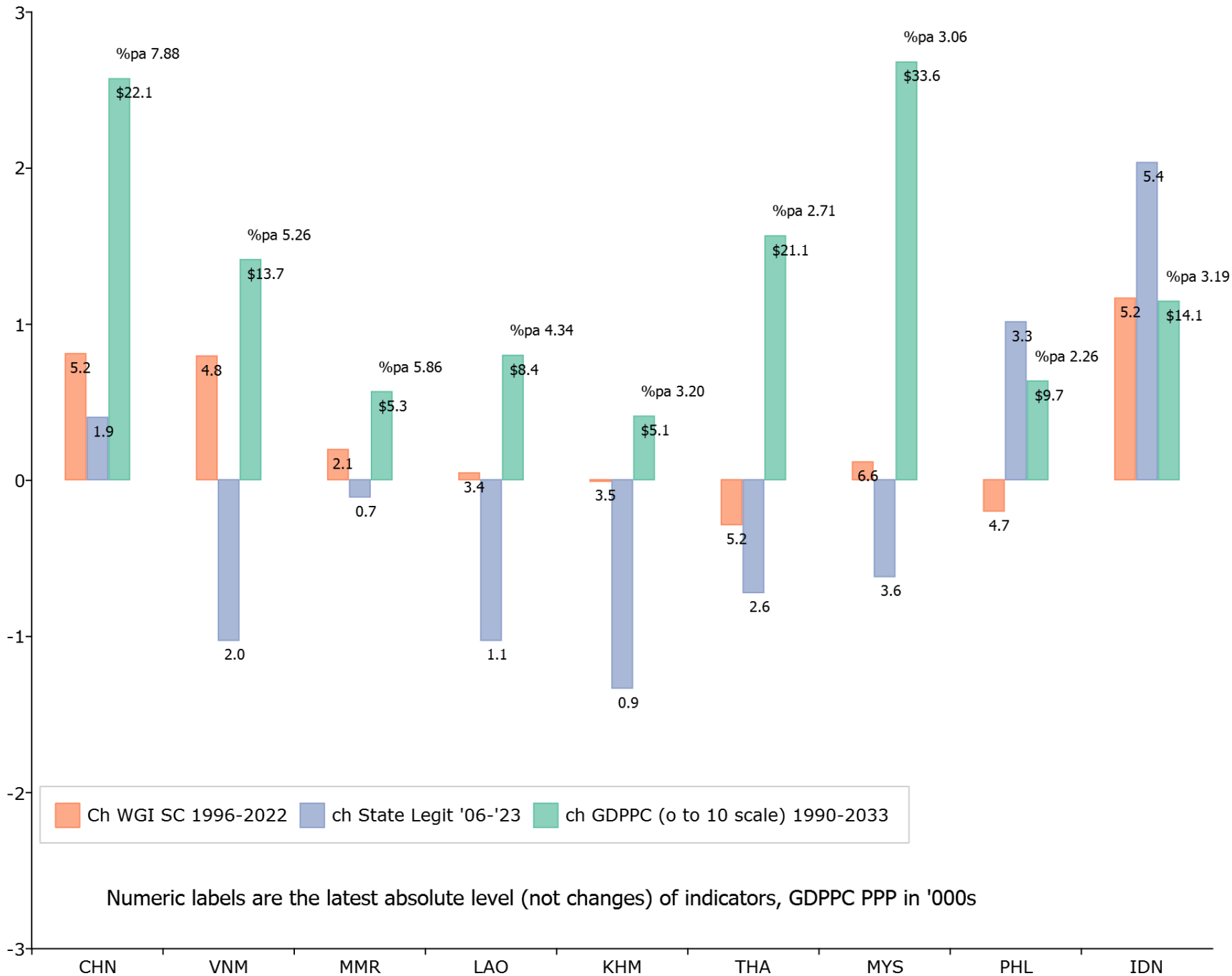
The two biggest countries (Mexico and Brazil) are at precarious levels (3 and 3.8) and falling.

Venezuela, formerly richer than Spain, became a failed state.

Chile, at OECD levels of governance had big reversals (though still to high levels)



The “BRICS” (always a marketing invention not a reality or region) are certainly an “alternative” to the “Western” End of History model, with either falling (Brazil, Russia, South Africa) or low (China is 1.9 in 2023) State Legitimacy and falling (Brazil, Russia, South Africa) or moderately rising (less than one point in 26 years for India, China) State Capability (and growth has been consistently rapid only in China and India)

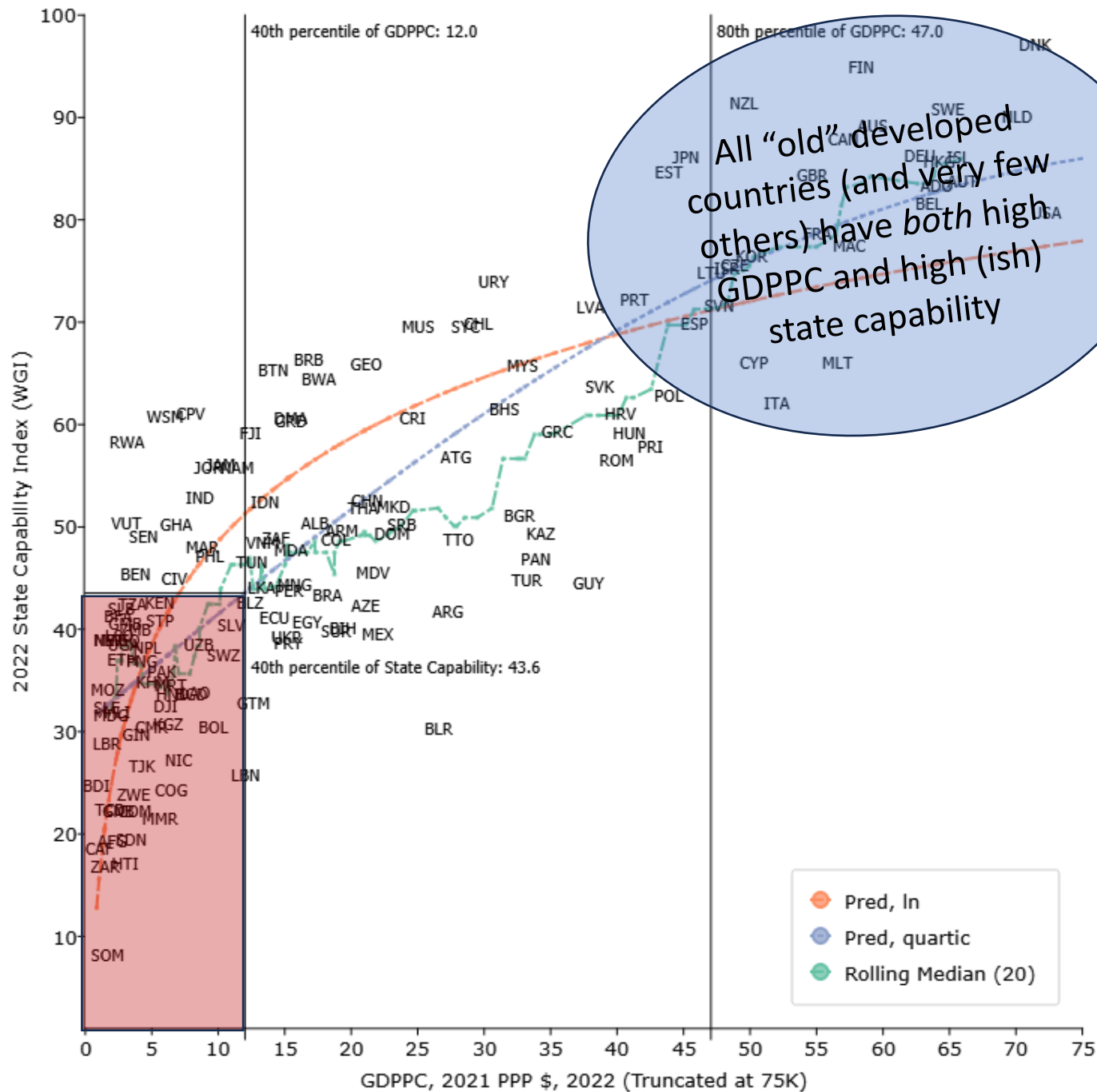


SouthEast Asia (including China) has a number of countries with very rapid growth (>3 %pa) but also with deteriorating State Legitimacy (to very low levels) and mixed progress on State Capability

Only Indonesia has rapid growth (over 3) and rapid progress (to high levels) of State Legitimacy and Capability

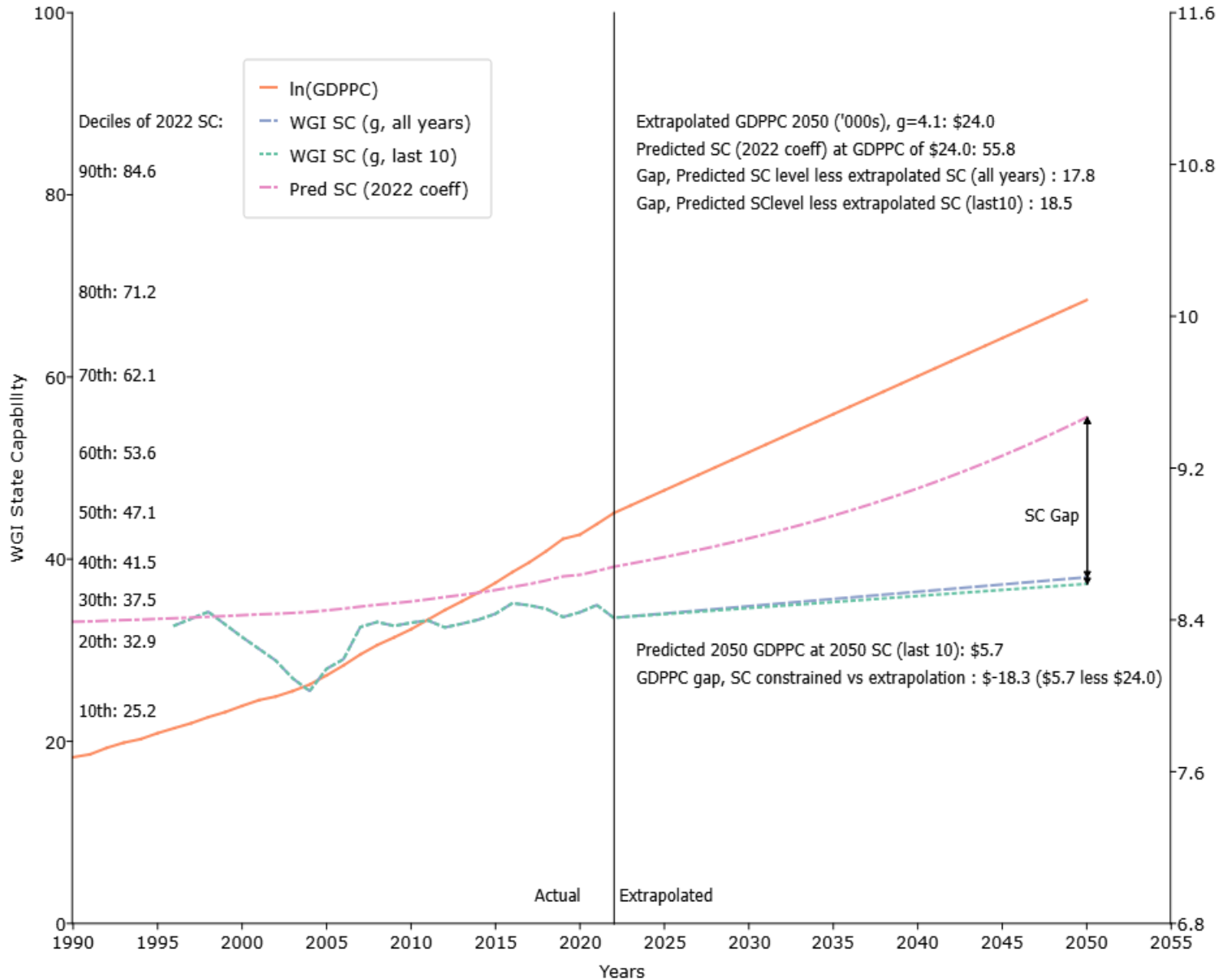
Numeric labels are the latest absolute level (not changes) of indicators, GDPPC PPP in '000s

What is likely to happen? How will the tensions between the aspects of “national development” get resolved? (Illustrated with State Capability)



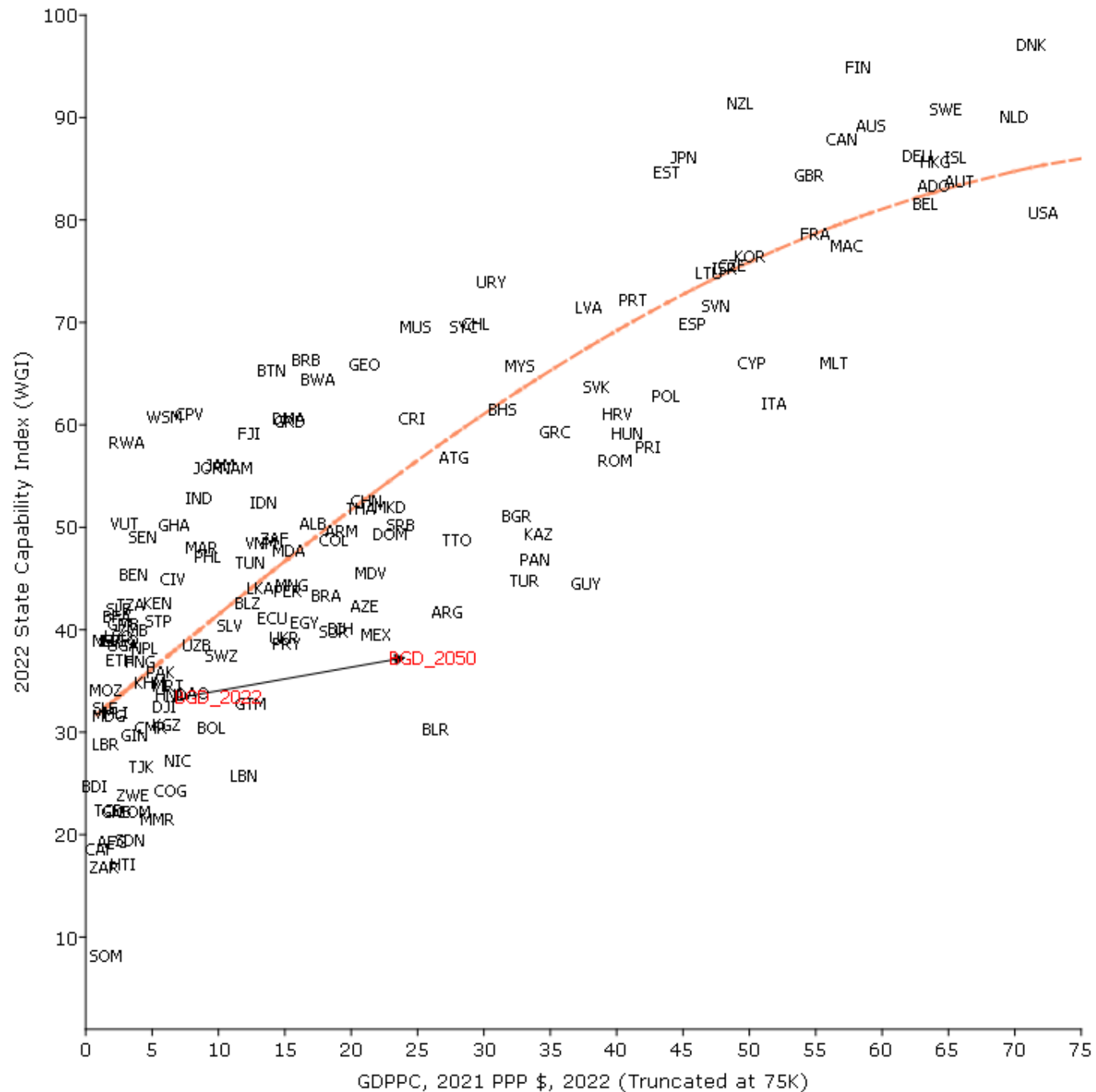
There is a strong cross-national relationship (in 2022) between GDPPC (measured in PPP units) and State Capability for Policy Implementation (measured as the average of four indicators from the World Governance Indicators: Control of Corruption, Rule of Law, Regulatory Quality, and Government Effectiveness).

Extrapolated Evolution of GDPPC (ln) and WGI State Capability: BGD



How the hypothetical simulations of outcomes to 2050 work (illustrated with Bangladesh):

- 1) Extrapolate Bangladesh’s current growth rate since 1990 (4.1 ppa) out to 2050. On that assumption GDPPC reaches \$24K.
- 2) Calculate the State Capability predicted from the cross-section relationship of countries with BGD GDPPC to 2050 (pink dotted line). That would imply large improvements in SC.
- 3) Extrapolate the level of State Capability using the growth rate of all years or the last N (10) years to 2050.
- 4) This gives a “**state capability gap**” which is the difference between what SC would be “expected” to be at 2050 GDPPC if growth persists. This SC gap is 18.5 units (on the 1 to 100 scale). extrapolated is about the 30<sup>th</sup> percentile the GDPPC ‘expected’ is the 60<sup>th</sup> percentile.
- 5) Calculate the 2022 level of GDPPC of countries with the 2050 “last 10 year growth” extrapolated State Capability, which is \$5.7K.
- 6) This gives an “output gap” which is the difference between the extrapolated GDPPC and what it would be if it were the expected level for its extrapolated State Capability, which is \$18.3K (24K-5.7K)
- 7) In other words you cannot add up a: (i) high GDPPC growth rate that persists, (ii) a low SC growth rate that persists, and (iii) the steady state GDPPC-SC relationship.



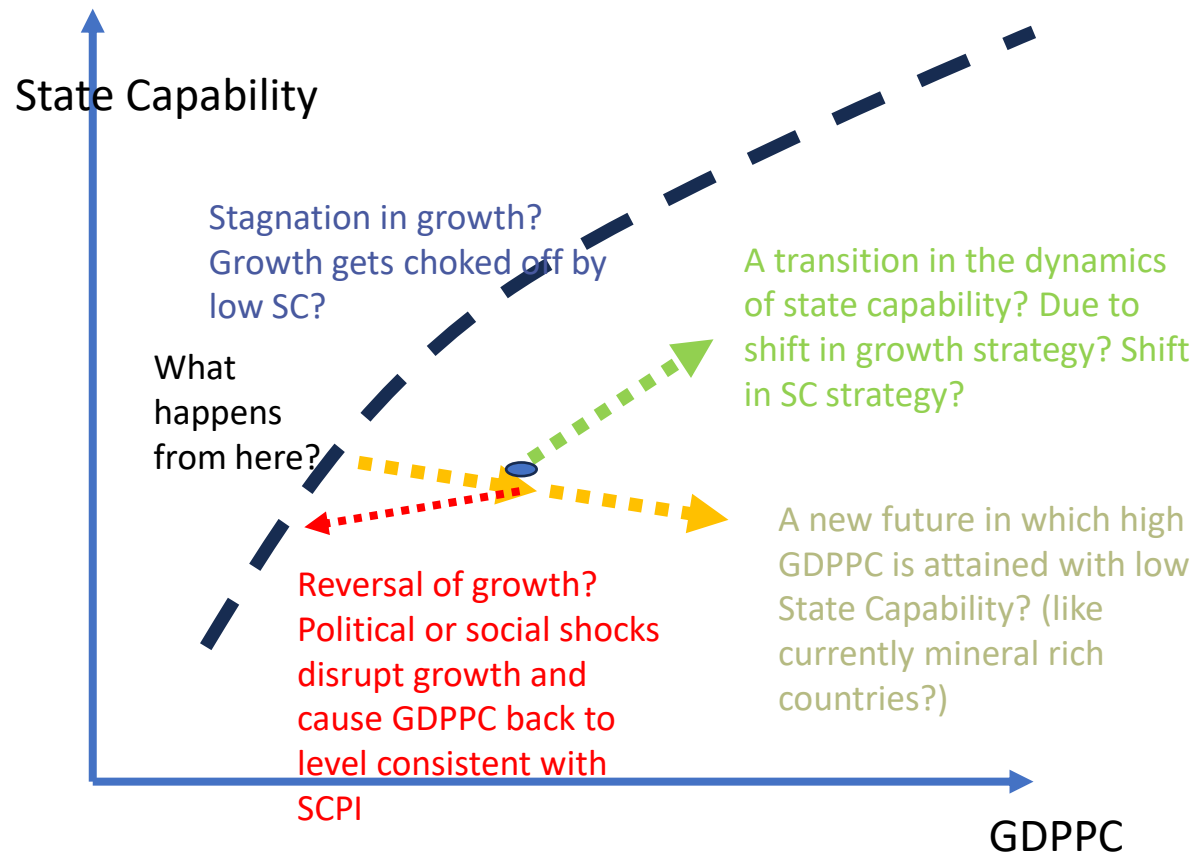
This shows the difference in the extrapolations of growth of GDPPC and growth of state capability.

This implies a future “drift” away from the existing relationship of GDPPC and SCPI

In the mechanical extrapolations BGD would have very very high GDPPC for its level of SCPI (and low SCPI for its GDPPC)

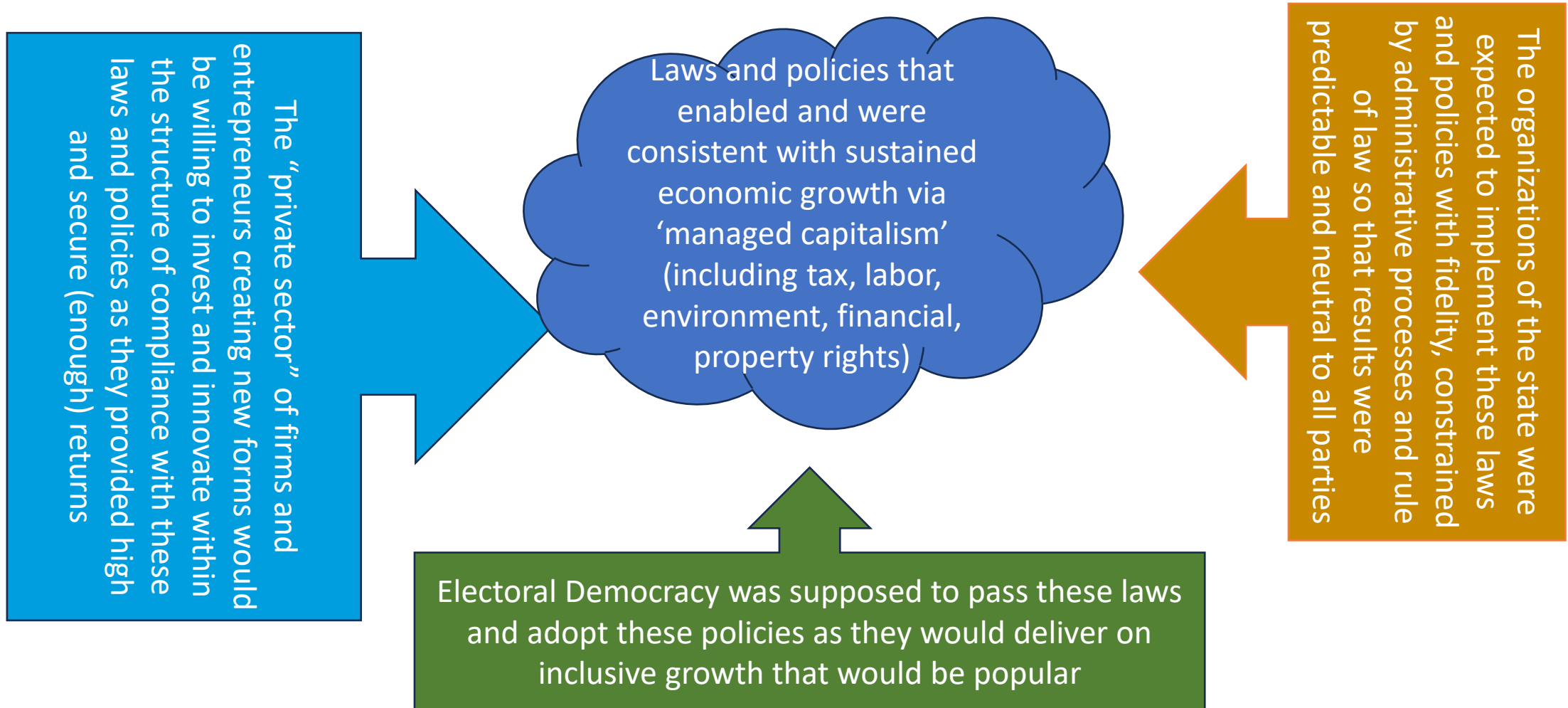


What is the future of currently high growing, low state capability countries, like Bangladesh? Will the lack of positive progress on state capability (or, more broadly towards “good institutions”) cause episodes of rapid growth to end? And, what happens when it does?

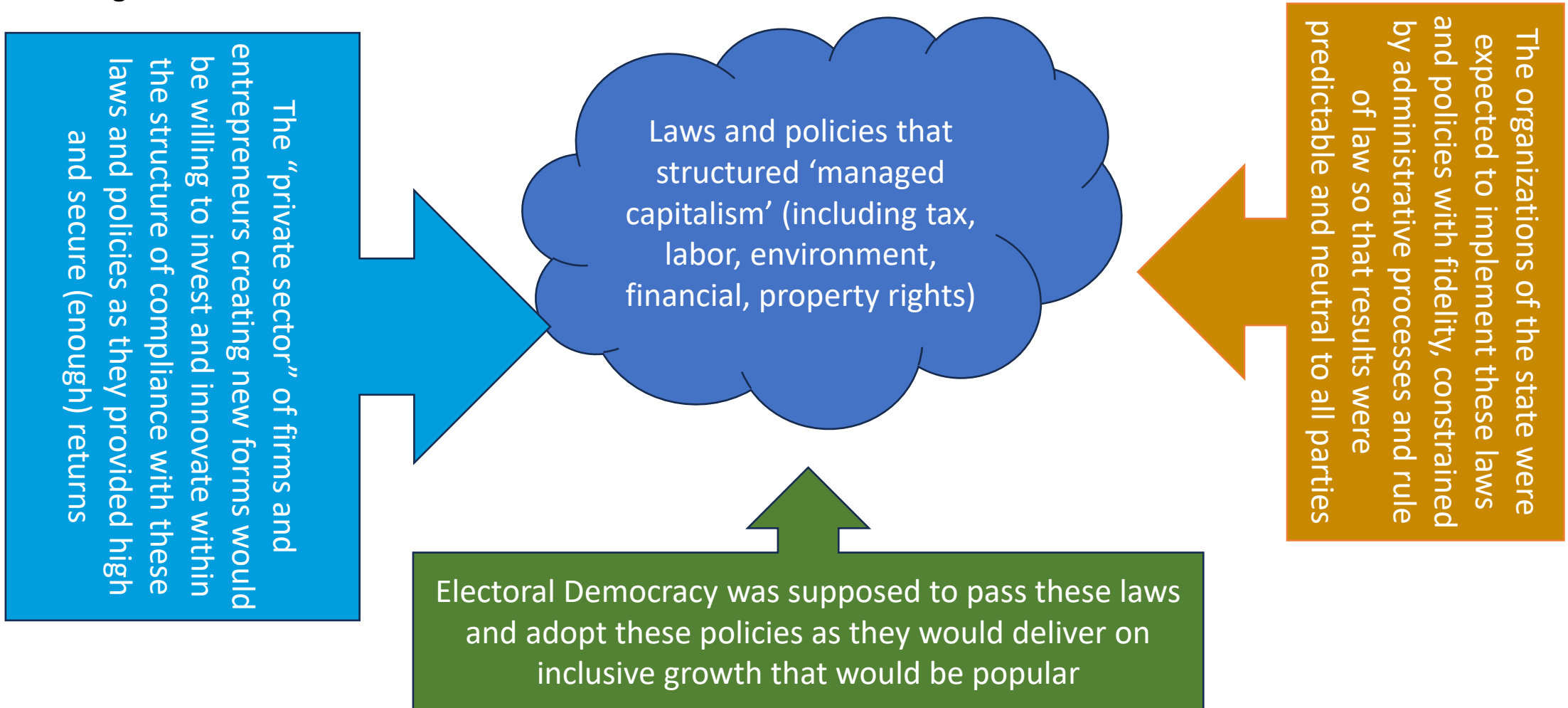


A narrative of “hell in a handbasket” via the  
“economics of fear” created by the isomorphism  
of “beautiful laws”

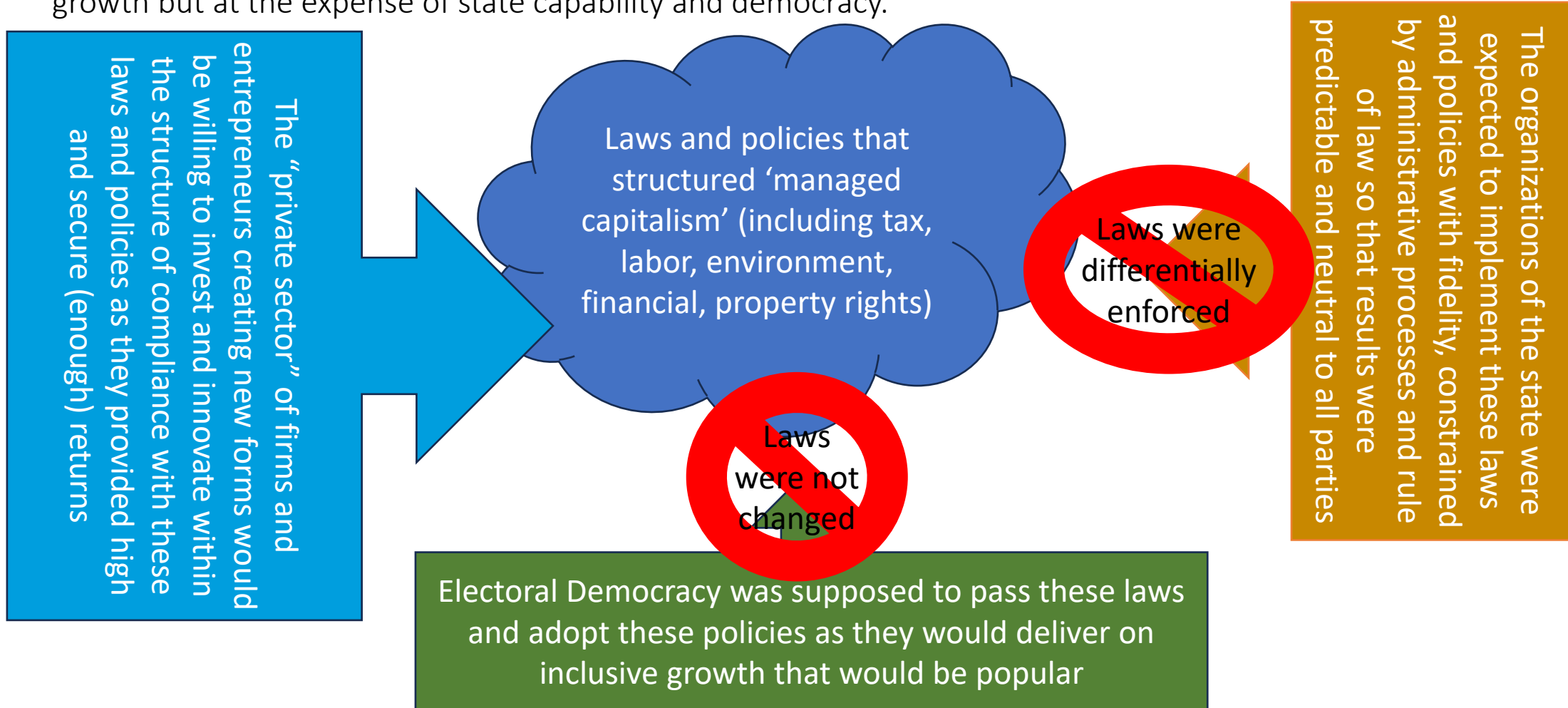
How the “end of history” (convergence of countries to national development via “Getting to Denmark” as there was no Hegelian/Marxist alternative “end” to history post transition) was supposed to work



This is the “Doing Business” vision: if countries had laws/policies that were inimical to economic growth **and** these laws/policies were enforced **then** growth would be slow with and because of these laws/policies and governments would come under pressure (from existing firms, entrepreneurs (new firms), and citizens (who want higher wages/incomes from growth) to engage in “policy reform” and adopt new laws. Therefore tracking the “investment climate” and ranking countries by those metrics would help create advocacy with governments for a great “ease of doing business”



However, there was a completely different path: the path of “differential non-compliance” that created massive gaps between the *de jure* (on the books) laws and policies and the *de facto* policies within which private sector actors operated. In this model (a) laws and policies that were inimical to economic growth were *not* “reformed” but (b) the state organizations responsible to enforcement did not enforce those laws on all actors following neutral “rule of law” and (c) the “political settlement” was actively complicit in this “differential non-compliance” in collusion with the “private sector” (which in some cases was politicians in another guise). “Deals” approaches could produce rapid growth but at the expense of state capability and democracy.



# The twisted road to “hell in a handbasket”

Beautiful laws are passed—  
“best practice”

These laws are not matched by organizational capability to enforce

This creates regulatory uncertainty for firms and potentially stymies innovation and growth

Countries create economic growth in spite of “weak institutions” not by creating “rule of law” but “closed ordered deals” in which *preferred* investors (either people, groups, or sectors) have investment confidence based on “deals” that are secured in politics and power (not the law or rules)

The “closed ordered deals” that are successful in creating economic growth *necessarily further* undermine “strong institutions” and “rule of law” as they thrive on differential treatment and non-transparency

The “closed ordered deals” although they generate growth, do so in a way that undermines the legitimacy of all “institutions” complicit in it: political parties, the bureaucracy, (crony) capitalism, democracy itself

Feedback loop of “closed ordered deals” growth accelerations with “beautiful laws”: undermine strong autonomous organizations of enforcement and lose control of “the facts”

The “Doing Business” indicators measured the “investment climate” as the *de jure* regulations (what you would have to do *if* you followed the law) but that is not how business is done *de facto*

Figure 11a: DB versus ES 10th percentiles:  
Construction Permit

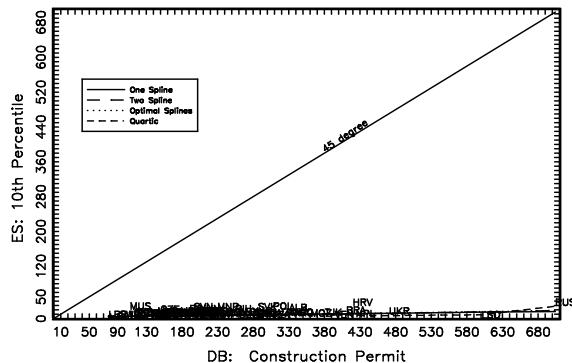
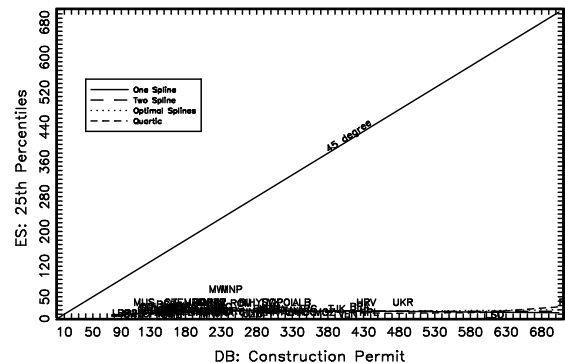


Figure 11b: DB versus ES (25th Percentile)  
(Construction Permit)



Por mis amigos, todo

Figure 11c: DB versus ES 75th Percentiles  
(Construction Permit)

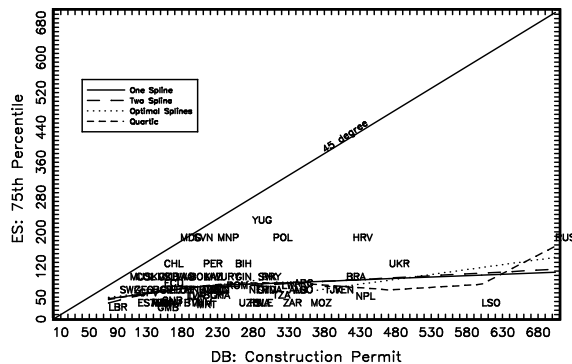
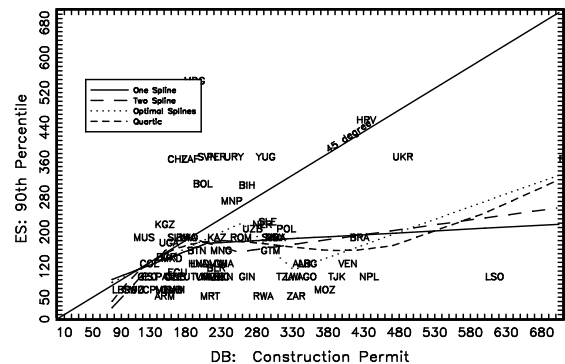


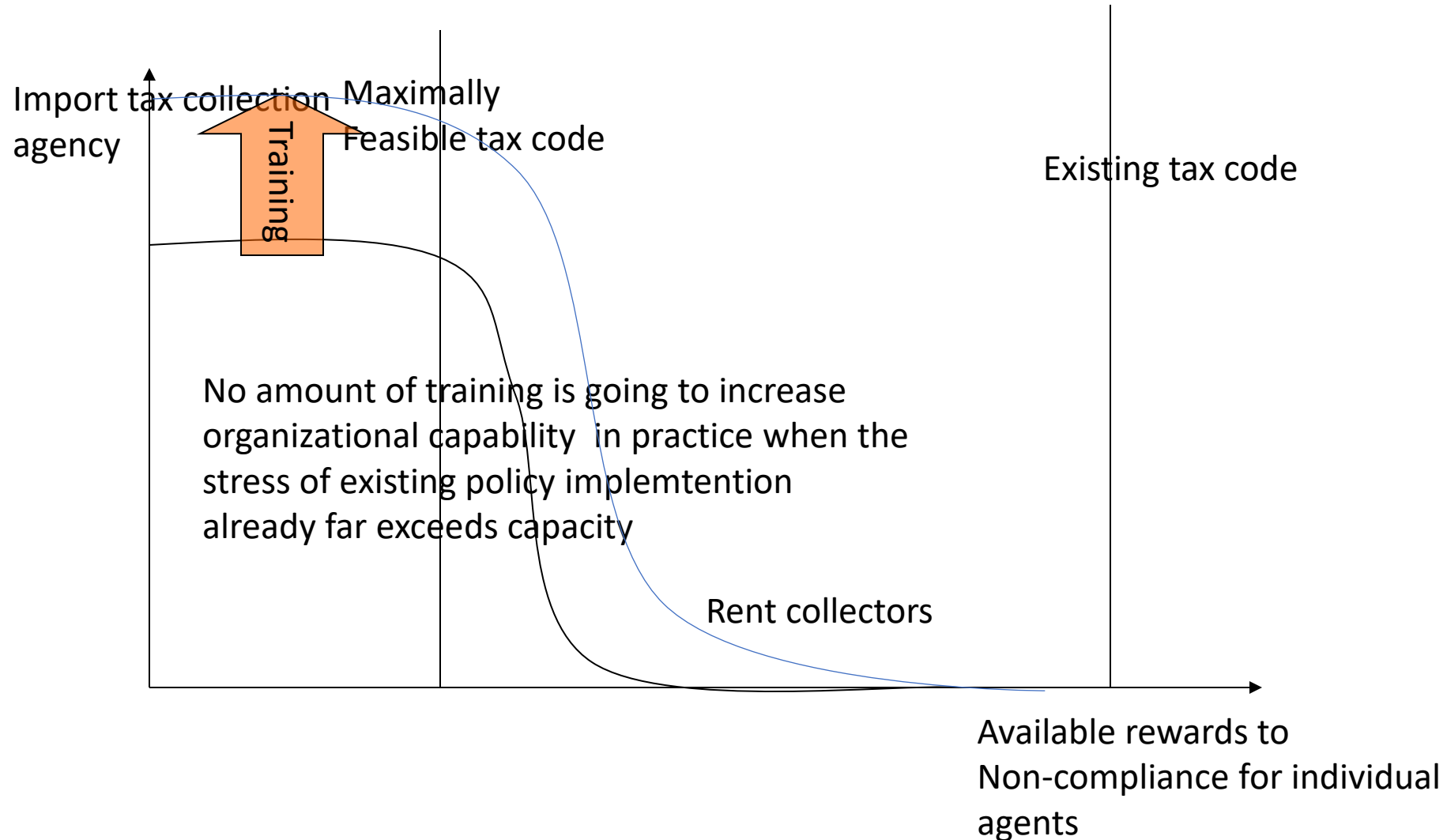
Figure 11d: DB versus ES (90th percentile):  
Construction Permit



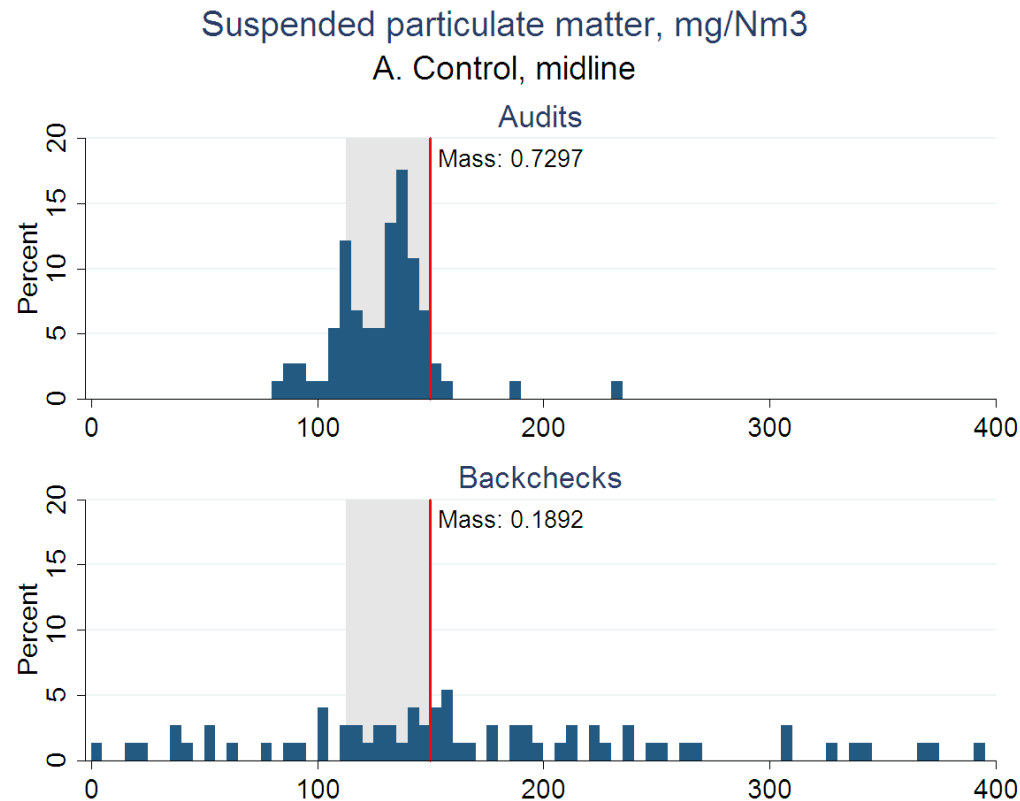
Por mis enemigos, la ley



# How do you destroy organizational capability? Premature load bearing



“Policies” are mappings from “facts” to “actions” but with low capability one loses control of “the facts” as a precursor to enabling completely discretionary action



Source: et al, Pande, et al 2014

Second feedback loop: once “rule of law” is broadly undermined (organizationally and normatively) then “democracy” is nearly impossible to sustain as the stakes are too high

Third feedback Loop from “closed ordered deals” and “beautiful laws”: Once “rule of law” is sufficiently undermined, the “economics of fear” kicks in as governments realize that arbitrary enforcement power is both a shield (to preferred investors) but can also be a weapon (prevent any “opponents” of the regime from being a success). With complex laws and weak organizations compliance is neither an option nor a defense.

# The joint, interacting dynamics of growth, democracy and state capability

- In 1990 I thought the problem was that it would be very hard to find a way to have economic growth given the many limitations of governance and the proclivity to over-regulate economic activity as “pro-market” reforms would be hard to achieve.
- But, after the round of “macro-prudential” (e.g. fixing macro crises of exchange rates, BoP, debt) and “external orientation” (e.g. shifting to stances open to export promotion and foreign investment)
- ...the rest of the regulatory reform agenda, the “second generation” of “regulatory” reform (e.g. labor, land, finance, environment, etc.) never really happened, so only the “preferred” investors (by activity/sector, by ethnicity, by politics) were part of the “closed ordered deal”
- ...this created a dual economy of those “inside” the “closed ordered deals” and a sizeable section (majority by people) outside, who faced a struggle of “disordered deals” of both uncertainty (inability to reliable contract over time and space) and predation...

# The denouement comes hard...

- While rapid economic growth can sustain the “elite settlement” of rapid economic growth (and jobs and poverty reduction) by a “preferred investor” driven “closed ordered deals” approach for an extended period (decades or more), ultimately this path delegitimizes not just the “state” but *everything* that has cooperated with this structure of economy, politics, and society: political parties, formal sector finance/banks, “capitalism” (in its applied “crony” sense), economics as a discipline...
- ...and a creating a new, stable, “elite bargain” or “political settlement” proves very, very, difficult as “rule of law” does depend on organizations and “institutions” of implementation and these are “stock” not “jump” variables...
- So “history” doesn’t “end” but recycles into previously “dead” forms

# The Bangladesh “growth miracle” was never “development” miracle

**(typical headline)**

**Bangladesh economy: A case of 'development miracle'**

**Bangladesh has become the fastest-growing brand nation in the world, making it an example of unprecedented economic development and an inspiring model of poverty eradication in recent years**

The Bangladesh “Growth Miracle” was accompanied by:

- Fragile States Index 2023 listed it as “High Warning”, between Equatorial Guinea and Iran (!?)
- Rule of Law index ranked Bangladesh 127th out of 140 countries,
- World Press Freedom ranks Bangladesh 163/180,
- Corruption Perceptions Index was 149/180 (in 2005, it was at the bottom, so “deals” moved it up, but not far)

How has the world fare since 1990? On growth alone pretty well, but “state capability” or “democracy” or “governance”?

- Rodrik’s “distance from Berlin” and the socialist transition depth/duration of economic recession, generalized to “development”
- Why is no one talking about the Arab Spring? Lots of failures (Libya, Yemen, Syria), Egypt complete reversal, Tunisia (meh)
- The attempt to help “failed states” or new states or fragile states, where has that gone well?: Afghanistan, South Sudan, DR Congo
- Things I won’t put on a slide



# Democracy and economic growth

- The path to democracy runs through rule of law
- Rule of law requires strongly normed institutions capable of resisting temptations for motivated preferential enforcement
- Rule of law enforced by strong institutions requires laws and policies for which (a) compliance is possible, (b) compliance is normative (for citizens and organizations), (c) compliance is a reliable defense.
- Therefore “democracy” and “inclusion” are the same agenda. Countries need to create laws, rules, policies that support cooperation of actors to create economic value that apply to everyone.