BOOK REVIEW

UNEQUAL DEVELOPMENT AND CAPITALISM: CATCHING UP AND FALLING BEHIND IN THE GLOBAL ECONOMY

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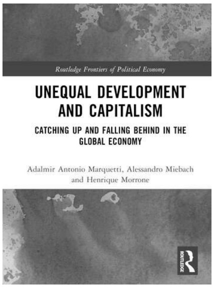

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Capitalism is a system of illusory promises. It often suggests that any society can achieve higher levels of *per capita* income and social well-being, yet its most defining feature remains the persistent and pervasive pattern of uneven and unequal development. While some countries manage to catch up with these lofty promises, others are left behind. In *Unequal Development and Capitalism: Catching Up and Falling Behind in the Global Economy*, Adalmir A. Marquetti, Alessandro Miebach, and Henrique Morrone provide an in-depth empirical analysis of these processes using high-quality data from developing regions from 1970 to 2019. This analysis is grounded in a Classical-Marxian model of economic growth and income distribution that explains the dynamics of catching up and falling behind, while offering an alternative theoretical foundation for understanding the economic forces shaping global disparities.

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Classical-Marxian models of economic growth and income distribution focus on catching up and falling behind instead of the conventional analysis of convergence versus divergence because those terms better reflect the dynamic nature of economic progress. While convergence refers to reducing income disparity between countries, catching up highlights how developing nations improve their standards of living relative to wealthier countries. This distinction emphasizes movement and comparison in economic performance, as the two processes can sometimes diverge, occurring independently (Acemoglu, 2009).

The empirical analyses in this book draw on data from the Extended Penn World Table (EPWT 7.0), a comprehensive dataset that offers a broad perspective on economic development across countries. By providing robust estimates of different components of functional income distribution, as the net profit rate, the EPWT has long played a pivotal role in advancing empirical research, significantly contributing to distinct branches of alternative theories of economic growth and income distribution (Foley, Michl, and Tavani, 2019; Oliveira and Prado, 2021). The EPWT enables the authors to meticulously compare the process of catching up and falling behind in developing countries across Asia, Latin America, Central and Eastern Europe, and Africa.

The political economy of the twenty-first century needs to win both minds and hearts. Understanding economic development and its inequalities requires a combination of raw data and econometric techniques with a compelling framework that can synthesize historical trends, institutional dynamics, and theoretical insights. Recognizing this necessity, *Unequal Development and Capitalism* begins by addressing the fundamental question of how to measure economic growth and functional income distribution. The authors introduce the growth-distribution schedule, a methodological tool that captures the interplay between labor productivity, capital accumulation, and the distribution of income between wages and profits.

The growth-distribution schedule allows the authors to define key economic processes such as technical progress, catching up, and falling behind. Technical progress is categorized into different types depending on whether it primarily increases labor productivity, capital productivity, or both. Harrod-neutral, Solow-neutral, Hicks-neutral, and Marx-biased technical change describe distinct trajectories of economic transformation. Within this framework, catching up occurs when a follower country's productivity grows faster than that of the leader, gradually closing the income gap. Conversely, falling behind describes a scenario where a country's productivity growth lags, increasing relative backwardness.

Yet measurement alone is insufficient to establish causal relationships. Economists think through models, and thus, *Unequal Development and Capitalism* proceeds to present a Classical-Marxian model of growth and income distribution that provides a theoretical foundation for the empirical relationships observed in Chapter 1. This model builds upon classical and Marxian traditions by emphasizing the role of functional income distribution —particularly the division between wages and profits— in shaping economic growth. The central causal mechanism in the model operates as follows: Changes in income distribution directly influence the profit rate, which in turn affects capital accumulation and overall economic growth. A higher profit rate tends to stimulate capital accumulation, fostering growth, while a declining profit rate constrains investment and slows economic expansion.

By embedding the statistical processes of catching up and falling behind within this Classical-Marxian framework, the authors offer a theoretically robust and historically grounded explanation of the patterns of catching up and falling behind. The model highlights how different institutional arrangements and economic policies condition a country's capacity to accumulate capital and sustain productivity growth. In this sense, the book does not merely document economic disparities; it systematically links them to the underlying logic of capitalism itself, demonstrating how the structural imperatives of profit accumulation shape global patterns of development and underdevelopment.

Chapter 3 shifts the focus from broad theoretical and empirical discussions to an in-depth analysis of the historical, economic, and institutional transformations of the global economic leader —the United States. Understanding the trajectory of the leader country is fundamental to analyzing the catching-up and falling-behind dynamics, as developing nations must navigate economic structures and institutions shaped by the leader's evolution.

The selection of the United States as the global economic leader is based on four key factors. First, during the period under analysis, the U.S. exhibited the highest levels of labor productivity, setting a benchmark for other nations. Second, the trajectories of labor and capital productivity in other advanced economies closely followed those of the U.S., reinforcing its position as the reference point for economic performance. Third, the dominance of U.S. financial institutions and the global role of the dollar positioned the country at the epicenter of international finance. Finally, policymakers and institutions such as the International Monetary Fund and the World Bank have historically promoted the U.S. institutional framework as the ideal model for economic development.

A key contribution of Chapter 3 is its historical analysis of how different phases of capitalism have reconfigured capital accumulation and the profit rate, an analysis that closely follows Duménil and Lévy (2011). *Unequal Development and Capitalism* traces the evolution of the U.S. economy from the postwar Golden Age, characterized by high growth and stable wage shares, to the neoliberal era, marked by financialization, declining labor bargaining power, and increased income inequality. The authors emphasize how neoliberal reforms—deregulation, privatization, and the weakening of labor institutions—shifted the balance between wages and profits, leading to an economic structure increasingly reliant on speculative capital rather than productive investment.

The chapter demonstrates how fluctuations in the profit rate have historically influenced investment patterns, shaping both domestic economic performance and international economic relations. The neoliberal period, despite initial recoveries in profitability, ultimately led to slower capital accumulation due to the prioritization of shareholder value and short-term financial gains over long-term productive investment. This dynamic has profound implications for global economic stability, as it alters the mechanisms through which developing countries integrate into the world economy.

Given these structural transformations, it is necessary to critically assess whether the criteria used to define the U.S. as the global leader remain valid in an evolving economic landscape. The growing influence of emerging economies, particularly China, challenges the traditional hierarchy of global capitalism. The assumption that a single hegemonic nation defines global economic structures can be critically examined. The growing influence of emerging economies, particularly China, challenges the traditional hierarchy of global capitalism. The reliance on the U.S. as the model economy neglects the diversity of development paths, as state-led industrialization strategies have, in some cases, outperformed the liberal market paradigm (Shaikh, 2016). This raises an important question:

Does the U.S. model of accumulation truly represent an optimal path, or is it simply the most dominant within a historically contingent global order?

Chapters 4, 5, 6, and 7 extend the analysis to follower economies, examining their trajectories of catching up and falling behind across different regions. The empirical approach balances quantitative assessments of labor productivity, capital accumulation, and profit rates with an in-depth discussion of historical and institutional transformations that have shaped these economies over time. The regions analyzed —Asia, Latin America, Central and Eastern Europe, and Africa— offer distinct lessons on the structural conditions necessary for sustained economic development.

The development trajectories of these regions are deeply embedded in the global transformations of capitalism. In Asia, the authors identify a pattern of sustained catching up, driven by state-led industrial policies, export-oriented growth strategies, and consistent investment in human capital and infrastructure. These dynamics were closely tied to the broader global transition from the post-war industrial capitalism of the 1950s-1970s to the financialized capitalism of the neoliberal era. Countries such as Japan, South Korea, and China leveraged high profit rates and capital accumulation during the manufacturing boom to sustain technological advancement and integration into global supply chains. However, financial liberalization and shifts in global demand now pose structural constraints to the sustainability of this growth model.

Latin America presents a contrasting trajectory, where periods of industrial expansion have been repeatedly undermined by economic crises and policy reversals, deeply rooted in the structuralist tradition of Latin American economic thought. The book contextualizes the region's experience within the framework of dependency theory, emphasizing the historical constraints imposed by a global economic system that relegated Latin America to a peripheral position, dependent on primary commodity exports and external financing. The book traces the region's experience through distinct phases of capitalist development, from the state-led industrialization efforts under import substitution industrialization (ISI) in the mid-20th century —where governments sought to develop domestic industries by protecting them from foreign competition— to the neoliberal restructuring of the 1980s and 1990s, which dismantled many of these protective mechanisms and led to deindustrialization, financial liberalization, and economic stagnation. A crucial finding is the structural decline in capital accumulation and profit rates following the neoliberal reforms, which reinforced Latin America's historical vulnerability to external shocks. The authors highlight how financial liberalization and austerity measures further weakened domestic industries, increased socioeconomic inequalities, and limited the capacity of the state to pursue long-term developmental strategies. The analysis underscores that neoliberalism did not merely represent a policy shift, but rather a deeper transformation in the region's economic structure, altering its position in the global hierarchy of production and trade.

Central and Eastern Europe offer a case of divergent experiences following the transition from planned economies to market capitalism. The chapter examines how countries that integrated into the European Union benefited from foreign investment and improved labor productivity, while others faced economic stagnation due to weak institutions and premature liberalization. This transformation mirrored the broader global shift from Keynesian economic structures to the neoliberal order, where state intervention was dismantled in favor of free market policies. The findings suggest that catching up in this region has been highly contingent on external institutional frameworks and trade integration, rather than endogenous economic dynamics. The experience of these economies demonstrates the limits of rapid liberalization and the uneven benefits of global economic integration.

Finally, the case of Africa highlights the persistent structural constraints that have hindered catching up. The continent's late integration into the global economy, coupled with the long-term consequences of colonial extraction, has limited the scope for sustained industrialization. The authors emphasize the role of structural adjustment programs in the 1980s and 1990s in exacerbating economic vulnerabilities, leading to a cycle of dependency on primary exports and external financial aid. More recently, the increasing role of China as a trading partner and investor has reshaped economic opportunities, yet the lack of diversified industrial bases remains a fundamental challenge to long-term catching up. Africa's position in the global economy remains shaped by its historical legacy and the structural conditions imposed by the current phase of global capitalism.

The final chapter synthesizes the lessons from the preceding analysis, reinforcing that historical and institutional contexts fundamentally shape economic development. The authors demonstrate that catching up and falling behind is not an inevitable process driven solely by technological progress or policy shifts but is deeply embedded in structural conditions that govern capital accumulation, profit rates, and institutional adaptability.

While Asia's trajectory illustrates the benefits of sustained state intervention and strategic industrial policies, Latin America and Africa demonstrate the consequences of economic liberalization without a strong industrial foundation. The experience of Central and Eastern Europe further highlights the mixed outcomes of market transitions, where external institutional support played a crucial role in economic restructuring. The book emphasizes that different regions' trajectories of catching up or falling behind are contingent on the interplay between global economic transformations and domestic policy responses. While state-led development models in Asia have enabled sustained industrialization and structural transformation, Latin America and Africa illustrate the vulnerabilities of economies overly exposed to global market fluctuations without strong institutional frameworks.

Similarly, the mixed experiences of Central and Eastern Europe highlight the complexities of transitioning from planned economies to market capitalism, demonstrating that premature liberalization can result in stagnation rather than sustained catching up. Thus, the book underscores that economic development requires more than just policy prescriptions —it demands a strategic and historically informed restructuring of institutions to sustain long-term capital accumulation and equitable growth.

The findings suggest that state-led development strategies, as seen in Asia, have yielded more sustainable catching up compared to the market-driven reforms promoted in Latin America and Eastern Europe. The uneven trajectories of these regions emphasize that the success of economic policies depends on how they interact with pre-existing institutional frameworks and global economic structures. The book warns against assuming that market liberalization alone can generate lasting development, instead advocating for a nuanced understanding of how historical legacies, financial integration, and institutional capacities condition economic trajectories.

By contextualizing the experiences of diverse economies within broader capitalist transformations, this book provides a comprehensive perspective on the challenges of reducing global inequalities. However, in my view, there is a crucial dimension absent from this analysis: The economics of biodiversity and climate change. Economic systems, including capitalism, are embedded in nature. The current catching up model implicitly assumes that an average African citizen could one day achieve the *per capita* consumption and well-being levels of an average American. Yet, the planet lacks the resources to sustain such an outcome. Thus, can the type of capitalism described in the book face and overcome the threats of climate change and biodiversity overexploitation? I believe the answer is no. And it is fair to say that traditional capitalism will remain a system of illusory promises.

The discussion of catching up and falling behind should evolve to acknowledge that economic growth is intrinsically linked to ecological limits, shaping and being shaped by nature in ways that demand deeper integration into economic theory. In this sense, we finish reading the book looking forward to such an additional analysis.

Motivated by all these considerations, *Unequal Development and Capitalism* contributes to the literature on economic growth and income distribution by offering a unique combination of theoretical modeling, empirical analysis, and discussion of institutional changes and historical transformations. This contribution aligns with other important works in the field, such as those of Foley, Michl, and Tavani (2019), further enriching the political economy debate on the structural determinants of economic development. By integrating the profit rate framework into the study of developing economies, the book broadens the scope of economic analysis, providing a more pluralistic perspective on inequality among nations. This perspective is of clear interest to researchers, students, and policymakers seeking to understand the deeper mechanisms of economic development.

Drawing on Gérard Duménil's evocative analogy in the beginning of *Unequal Development and Capitalism*, if one were to stand atop the pyramid of economic thought, looking back at two centuries of the political economy of the profit rate, this book would emerge as another important guide to understanding the current global patterns of income inequality and uneven development. ◄

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