PH458

Case Study: Economics

Dr. Ioannis Votsis
LAK3.01 (Lakatos Building)
Office hours: Tuesdays 15:00-16:00
i.votsis@lse.ac.uk
www.votsis.org
Introduction
Economic policy has been at the forefront of seeking advice from scientific experts.

That’s unsurprising as such policy affects all aspects of our lives – e.g. accommodation, health, travel and education.

Without healthy economies, the kinds of lives that most of us live would simply not be possible in the long run.

But healthy economies are ones that crucially depend on economic growth.

The latter reflects an increase in things like the availability of jobs, goods and services.
• Economic growth is also a major feature in the arena of international development.

• In this last lecture, we take a look at policies in this arena, paying particular attention on economic policies of growth.

• We consider how such policies have been shaped over the years in relation to the presence of theories and evidence.

• Moreover, we consider what can be done to improve the efficacy of policies.
Policy Trends in International Development
• In a provocative article, Lindauer and Pritchett (2002) present us with a series of thought experiments.

• Suppose you were a policy designer on three separate occasions in history: 1962, 1982 and 2002.

• Moreover, suppose you were asked by the US president to design policy that spurs economic growth (in Latin America).

• What would have been the big relevant facts facing you at the time? What kinds of ideas would they have supported?
The big facts and ideas suggested optimism but, on the whole, resulted in disappointment.

So much so that at the junction of these two periods (1962-1982 and 1982-2002) there was a reversal of big ideas.

**Example:**
In 1962 central planning was thought to offer the best hope to developing countries.

By 1982 it was clear to many economic policy designers that central planning failed or had serious shortcomings.

For instance, India had failed to live up to expectations.
### Table 2. The Reversal of Big Ideas: 1962 versus 1982

<table>
<thead>
<tr>
<th>Area</th>
<th>Ideas prominent in 1962</th>
<th>Ideas prominent in 1982</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>Plays a central role; acts as the driving force behind development</td>
<td>Plays a central role, but acts as the main obstacle to development.</td>
</tr>
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<td>Accumulation</td>
<td>Is central to development process; coordination and scale problems require government involvement</td>
<td>Is central to development process; private sector investment is the key.</td>
</tr>
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<td>Has no particular advantage beyond the import of capital goods and the purchase of necessary inputs</td>
<td>Exports bring dynamic advantages; import competition is necessary for disciplining domestic producers</td>
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<tr>
<td>Foreign capital</td>
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<td>Provide project-based lending of investable foreign exchange and resources to governments</td>
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<sup>a</sup> Primarily the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank (IDB).
Once more optimism turns to pessimism

- Fast forward to 2002 – the date when the article was written – and the results are no less disappointing.

**Examples:**
In 1982 there was hope that growth in developing countries would pick up on the back of some signs of improvement.

But by 2002 it was clear that there was an enormous growth slowdown.

“The median growth rate in low- and middle-income economies fell from 2.5 percent in 1960–79 to 0.0 percent (zero!) in 1980–98” (p. 10).
## Big ideas: Policy design in 2002

### TABLE 3. Are There Any Big Ideas Left?

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The end of big ideas?

• One possible reply is that some of these big ideas were the right ones but they were not properly executed.

• Lindauer and Pritchett reject this view:

  “The notion that the latest big ideas are right but that they just were not implemented rings increasingly hollow” (13).

• Indeed, they go on to say that:

  “it seems harder than ever to identify the keys to growth. For every example, there is a counter-example. The current nostrum of one size doesn’t fit all is not itself a big idea, but a way of expressing the absence of any big ideas” (p. 13).11
In their view, recent empirical research on growth has been less than successful in providing reliable guidance.

To be precise, they argue that advice stemming from regression studies is largely irrelevant to policy.

Such studies have produced partial correlations between growth and other variables, e.g. outward orientation.

The problem is that such findings are not empirically stable over time and across countries.

NB: Having said this, they find some glimmer of hope in areas like episodic analysis.
• Education has been thought of as a cure-all and in particular as highly correlated with economic growth.

• Yet the precise nature of its impact is far from clear.

“Recent cross-country studies [e.g. Benhabib and Spiegel (1994)] have found that economic growth appears to be unrelated to increases in educational attainment. This is something of a puzzle...” (Temple 1999: p. 131).

**NB:** Temple actually thinks that the reason for such results is influential outliers in the studies.
In a Humean-like turn, Lindaeur and Pritchett assert:

“The economics profession, however, does not seem to have fully appreciated the limits... on the usefulness of growth regressions for policy guidance. Should an economy have low tariffs for the future? Well, that depends on whether the future coefficient will be like the recent past or like some other historical episode—and the future need not be like the recent past” (p. 21) [emphasis added].

In short, even if the findings were stable for some period, it would still not be easy to derive useful policy from them.
• Instead of seeking the predictive accuracy heights of physics, they want something more akin to medical diagnosis.

• That is, they aim for less reliance on big ideas and growth relations and more reliance on:

  “a diagnostic tree that allows the practitioner to move through symptoms until reaching a treatable condition” (26).

• Such a tree would have as branches categories like: level of income, status of growth and government strength.

• Conjectures would then be put forth on policies and these would have to be empirically tested.
Reaction: Rodrik (1)

• In his commentary, Rodrik (2002) agrees that no more big ideas are needed. Instead we should focus on:

  “how to turn sound economic thinking into useful, context-contingent policy recommendations” (p. 31).

• He urges caution, however, when making claims about the value of economics or its applicability in different contexts.

• We need to pay heed to the distinction between universal economic principles and institutional implementation.

• The former are sound ideas that are ‘institution-free’. That is, they are compatible with many institutional arrangements.
Rodrik criticises the World Bank and the IMF for practicing economics that diverges from sound theory and evidence.

He identifies some major problems, which include:

- Poor empirical analyses (e.g. it’s clear that there can be growth even in cases of trade barriers)

- Lack of institutional imagination (e.g. Western economists were puzzled by China’s successful village enterprises).

His conclusion is that we should take “economists as policy advisers less seriously” (p. 31).
The Use and Distribution of Evidence in Development Agencies
• Suppose the research could be improved such that it would be relevant to policy.

• There are still additional obstacles in the attempt to translate such research into policy design and action.

• Jones (2012) explores these obstacles in a background report for ODI and offers some policy recommendations.

  **NB**: Such reports provide snapshots of issues in an area.

• The advice is driven by research conducted at ODI that consists of interviews, document reviews and surveys.
Distributing and using evidence

- The said obstacles arise in the context of the distribution and use of evidence in development agencies.

- Among other things, the ODI report looks at the evaluation processes that development agencies have in place.

- Despite the presence of such processes, policy efficacy will not improve unless these findings are actually integrated.

- The problem is that development agencies may either shun the evidence or lack the capacity to fully absorb it.

- Since evaluation processes can be expensive and add to bureaucracy, it’s important to get things right.
The research attempts to probe when and why learning occurs and why the systems in place are insufficient.
Advice: Devolved evaluation practices

• Lessons from the evaluations are more likely to be integrated when they are performed at the local level.

  “By far the most influential pieces of... evaluation seem to be ‘decentralised evaluation’: studies and assessments commissioned by individuals and teams according to need, rather than by central evaluation...” (p. 2).

• There seems to be a strong connection to ownership.

  “Assigning responsibility to members for facilitating evaluations in different sectors, and in different regions, and to capitalise on their position by facilitating linkages and coordination between different work programmes” (p. 5).
Advice: Taxonomies that make sense

• The implementation of knowledge taxonomies must build on existing practices instead of constructing them anew.

• What is a knowledge taxonomy?

  “a formal set of names and descriptions used to organise information and documents consistently” (p. 3)

• Building on existing practices helps maintain ownership.

• That in turn is taken to facilitate learning as staff tend to integrate lessons more readily when they are involved.
Advice: Enabling interpersonal learning

• The right kinds of institutional structure must be put in place to facilitate existing channels of communication.

• To be precise, interpersonal links should be fostered, especially across different divisions.

**Examples**: ADB and SIDA have peer review networks.

“Providing online spaces for interaction, mechanisms for discussion and dissemination, and the sharing of resources... as is the allocation of resources for retreats, workshops, etc.” (p. 4).

• At the same time, there should not be an attempt to centrally micromanage such networks.
Advice: Giving knowledge and learning its due

• Having experienced and knowledgeable staff in the right positions (especially locally) is of paramount importance.

Examples: DFID and ADB recruiting more front-line staff.

• Specific actions:
  * More resources to training; more career incentives, e.g. ‘pay for knowledge’ reward schemes.
  * Workshops useful primarily as networking space. Skill development can take the form of ‘peer-to-peer’ learning.
  * Study visits (especially across country offices); exit interviews and mentoring to pass knowledge; accreditation.
Further problems and recommendations

• *Problem*: Huge incentive to use money before deadlines leads to bad policies.

  **Recommendation**: Shift incentives from design to monitoring + carry over budgets to ensuing financial cycles.

• *Problem*: Provision for increased responsiveness to new circumstances on the ground.

  **Recommendation**: Devolve some powers (e.g. DFID), recruit skilled front-liners and increase length of postings.
In Summary
Taking stock

• There are serious problems translating empirical results and theory in economics into international development policy.

• The graveyard of the history of big ideas can attest to that.

• Having said that, there is still some hope perhaps in the guise of diagnostic trees as Lindauer and Pritchett suggest.

• There are also serious problems in distributing empirical results and theory to development agencies.

• These problems seem to be much more tractable and concern the internal dynamics of such agencies.
• To what extent are these problems generalisable? That is, to what extent do they affect other areas of policy making.

• Moreover, to what extent are these lessons (if any) more widely applicable?

• If there are indeed similarities, then we should perhaps aim for more cross-fertilisation between these areas of policy.
The End