

Doing Development

Dani Rodrik

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Who should be running the World Bank?



Jim Young Kim



Ngozi Okonjo-Iweala

How do we “do” development: two sharply different visions

- One project at a time
 - Micro, social policy
 - Emphasis on education, health, microcredit, service delivery to the poor
 - Case in point: Progres-Opportunidades
 - Ideal job: head of NGO
 - Heroes: Mohammad Yunus, Ela Bhatt
- Economy-wide policy reforms
 - Macro, economic growth
 - Emphasis on trade, fiscal, financial, industrial, regulatory, governance policies
 - Case in point: China since 1978
 - Ideal job: finance minister
 - Heroes: Manmohan Singh, Fernando Henrique Cardoso

On the face of it, the latter approach seems to be clear winner

\$1.25 a day

Region	% of population below \$1.25 a day in 2005 PPP									
	1981	1984	1987	1990	1993	1996	1999	2002	2005	2008
East Asia and Pacific	77.2	65.0	54.1	56.2	50.7	35.9	35.6	27.6	17.1	14.3
China	84.0	69.4	54.0	60.2	53.7	36.4	35.6	28.4	16.3	13.1
Eastern Europe and Central Asia	1.9	1.6	1.5	1.9	2.9	3.9	3.8	2.3	1.3	0.5
Latin America and the Caribbean	11.9	13.6	12.0	12.2	11.4	11.1	11.9	11.9	8.7	6.5
Middle East and North Africa	9.6	8.0	7.1	5.8	4.8	4.8	5.0	4.2	3.5	2.7
South Asia	61.1	57.4	55.3	53.8	51.7	48.6	45.1	44.3	39.4	36.0
Sub-Saharan Africa	51.5	55.2	54.4	56.5	59.4	58.1	58.0	55.7	52.3	47.5
Total	52.2	47.1	42.3	43.1	40.9	34.8	34.1	30.8	25.1	22.4
Total excl. China	40.5	39.1	38.1	37.2	36.6	34.3	33.6	31.5	27.8	25.2

Region	Number of people (in millions) below \$1.25 a day in 2005 PPP									
	1981	1984	1987	1990	1993	1996	1999	2002	2005	2008
East Asia and Pacific	1096.5	970.0	847.6	926.4	870.8	639.7	655.6	523.1	332.1	284.4
China	835.1	719.9	585.7	683.2	632.7	442.8	446.3	363.1	211.9	173.0
Eastern Europe and Central Asia	8.2	6.9	6.8	8.9	13.7	18.2	17.8	10.6	6.3	2.2
Latin America and the Caribbean	43.3	52.9	49.3	53.4	52.5	53.6	60.1	62.7	47.6	36.8
Middle East and North Africa	16.5	15.1	14.6	13.0	11.5	12.3	13.6	12.0	10.5	8.6
South Asia	568.4	573.8	593.0	617.3	631.9	630.8	619.5	640.5	598.3	570.9
Sub-Saharan Africa	204.9	239.1	256.8	289.7	330.0	349.4	376.8	390.4	394.9	386.0
Total	1937.8	1857.7	1768.2	1908.6	1910.3	1704.0	1743.4	1639.3	1389.6	1289.0
Total excl. China	1102.8	1137.8	1182.5	1225.5	1277.6	1261.2	1297.0	1276.2	1177.7	1116.0

Note: Regions with survey coverage less than 50% of the population are highlighted.

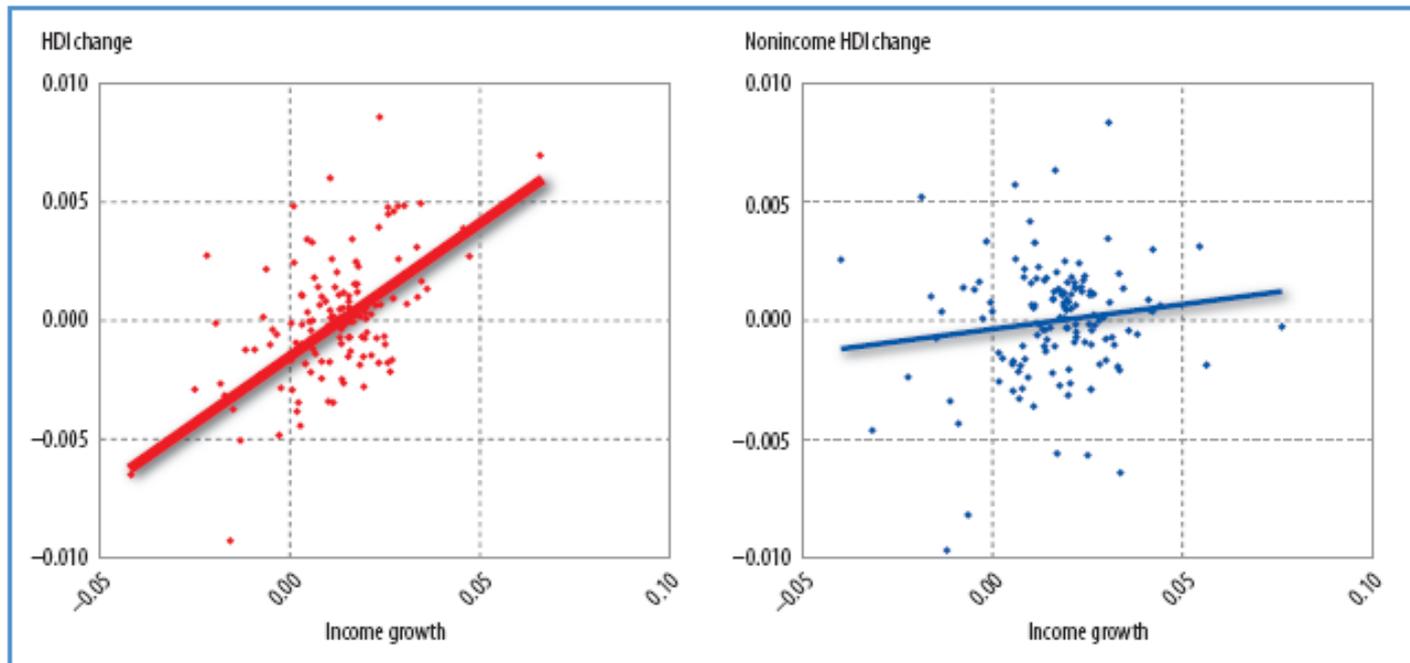
Not so fast:

- The policies that produced the Chinese miracle are
 - Not entirely clear
 - was it liberalization, or the limits thereof?
 - not readily transferable to other settings
- The literature on growth policies vacillates between
 - specific recommendations that find limited support in cross-country data
 - “set low and uniform tariffs,” “remove interest-rate ceilings on banks,” “improve your doing business rank” ...
 - broad recommendations that lack operational content
 - “integrate into world economy,” “achieve macroeconomic stability,” “improve contract enforcement” ...

And growth has not always produced increase in human development

FIGURE 3.1 Weak relationship between economic growth and changes in health and education

Relationship between economic growth and the HDI and its nonincome components, 1970–2010



Note: Based on the analysis of deviation from fit (see box 2.1 in chapter 2 and *Technical note 1*). Income is per capita GDP. Thicker regression line indicates relationship is statistically significant.

Source: HDRO calculations using data from the HDRO database.

These are partial correlations, controlling for level of GDP per capita. Source: HDR 2010.

Where micro/social policy approach can fall short

- Treating symptoms of poverty is not the same as treating causes
 - “humanitarian assistance” versus “development policy”
- Poverty may be best addressed not by helping the poor be better at what they are already doing, but getting them to do something altogether different
 - Productive diversification, urbanization, industrialization
- Underlying causes of poverty may lie at some distance from the poor
 - poor infrastructure, bad regulation, overvalued currency...
- Limits to learning from individual projects
 - scaling up
 - external validity

Where does this leave us?

- There is actually real progress, and a certain convergence
 - not on what works, but about how one *thinks about* and *does* development policy
- Abstracting from differences in
 - level of analysis (micro versus macro), and
 - empirical methods (RCTs versus cross-country regressions)
- Recent work in the two styles of work do share common predilections on policy
 - Both favor diagnostic, pragmatic, experimental, and context-specific strategies

The conventional approach to development: presumptive strategies

- A big idea: development is held back by
 - too little government
 - too much government
 - too little credit
 - absence of property rights
 - ...
- A big fix
 - ISI/Washington Consensus/Big Push
 - public health/microcredit/property rights
- A bias towards universal recipes, “best-practices,” and rules of thumb

The new approach: diagnostic strategies

- Contextual policy analysis
 - We do not know ex ante what works and what doesn't
 - Need to look for binding constraints
 - Which tend to be context-specific
 - Experimentation central part of discovery
 - Monitoring and evaluation equally central
- Focus on selective, narrowly targeted reforms
- Based on the idea that there exists lots of slack
 - Well targeted reforms can produce a big bang
- Suspicious of “best-practice,” universal remedies
 - Looking for policy innovations that unlock local second-best/political complications

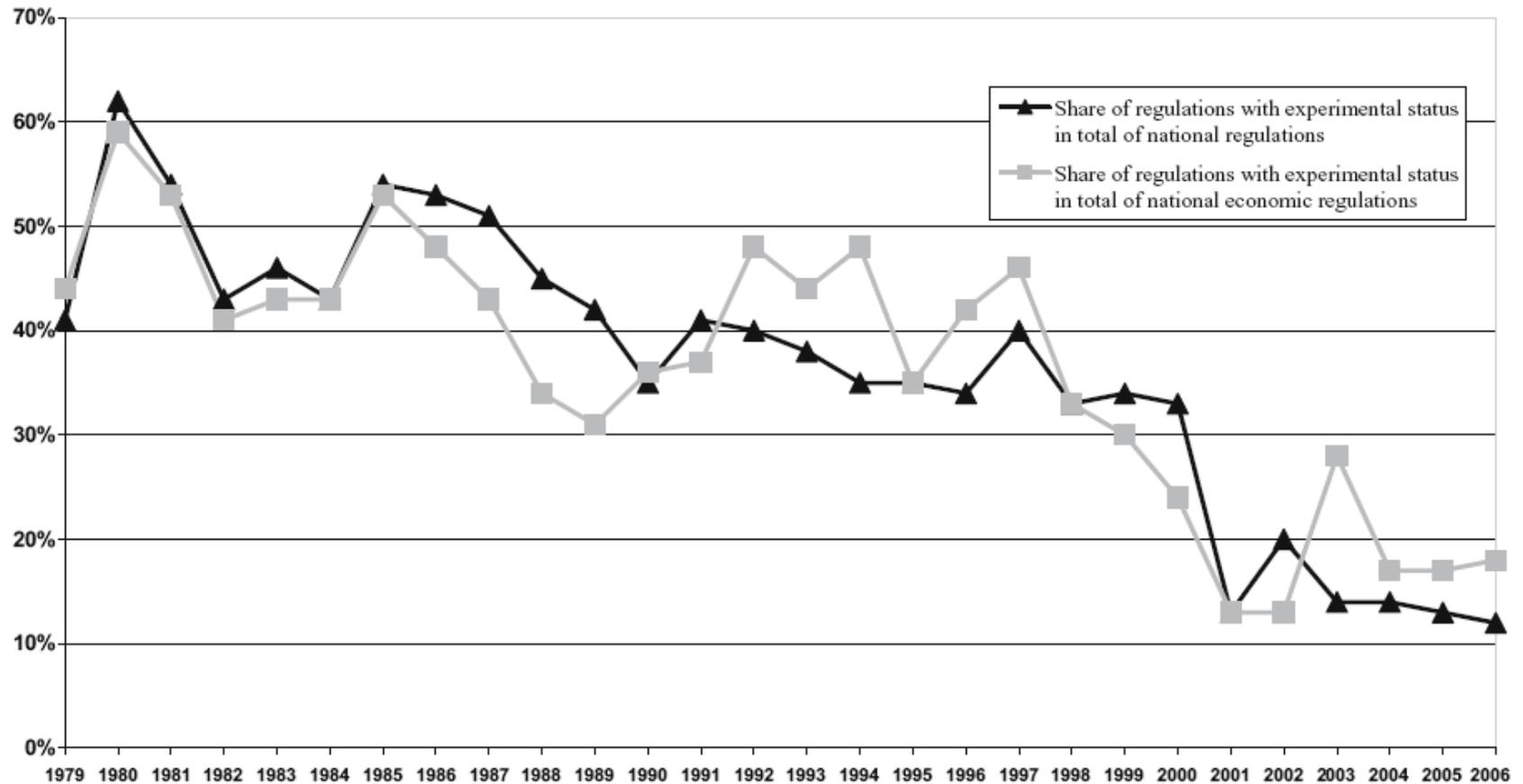
The role of randomized controlled experiments (RCTs)

- One can learn even when identification is weak
 - China learned from its policy experiments, without RCTs
- Evidence from RCTs is “hard” only in the specific context of the intervention in question
 - “It worked there, will it work here?” (Carthwright & Hardie)
 - Policy makers care about application to their own, possibly different setting; journal editors care about general or generalizable results
 - A randomized evaluation under specific background conditions and specific program elements does not constitute usable hard evidence for policy makers elsewhere or the journal editor
 - In either case, extrapolation is required
 - External validity is not assured; it has to be argued
 - Rendering the randomized evaluation results “usable” converts “hard” evidence into “soft” evidence
- Therefore, claims about supremacy of RCTs exaggerate differences between micro and macro
 - the empirical inference challenges of micro specialists not hugely different from those of macro types

The Litmus test

- Do you believe there is an unconditional and unambiguous mapping from specific *policies* to economic outcomes?
 - If yes, you are in the presumptive camp
 - If no, you must rely on the diagnostic strategy

China: the greatest success of the experimental approach



Source: Heilmann (2008)

Final remarks

- We face a significant opportunity in development
 - a re-unification of the field, long divided between macro- and micro-development economists,
 - and a progression from presumptive approaches with ready-made universal recipes to diagnostic, contextual approaches based on experimentation and policy innovation.
- But:
 - macro-development economists will have to recognize more explicitly the distinct advantages of the experimental approach and a greater number among them will have to adopt the policy mindset of the randomized evaluation enthusiasts
 - and micro-development economists will have to recognize more openly that one can learn from diverse types of evidence, and that while randomized evaluations are a tremendously useful addition to the empirical toolkit, the utility of the evidence they yield is often restricted by the narrow and limited scope of their application.
- In the end, both camps have to show greater humility: macro-development economists about what they already know, and micro-development economists about what they can learn.