



ECONOMIC DEVELOPMENT

WHAT EVERYONE NEEDS TO KNOW®

SECOND EDITION

MARCELO M. GIUGALE

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OXFORD
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Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America.

© Oxford University Press 2014, 2017

First Edition published in 2014
Second Edition published in 2017

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CIP data is on file at the Library of Congress
ISBN 978-0-19-068842-4 (pbk.); 978-0-19-068841-7 (hbk.)

1 3 5 7 9 8 6 4 2

Paperback printed by WebCom, Inc., Canada
Hardback printed by Bridgeport National Bindery, Inc., United States of America

In Memory of Alicia Tamburelli . . . Gracias por todo, Vieja!

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PREFACE: WHOM IS THIS BOOK FOR?

Imagine that you want to get a feel for modern surgery. You may be an undergraduate student pondering medical school. Or a journalist researching a story about the new, cool things medicine can do. Or a politician trying to sound credible on healthcare reform. You may be one of those patients who wants to understand what the doctors are about to do to her. You could also be an experienced family physician who needs a quick refresher on the latest surgical techniques—which you may rarely practice. What is the best and fastest way to go about it? Simple: you get a friendly surgeon to lend you scrubs, take you inside the operating room, and let you witness a few actual operations. No lectures, no theories, no jargon—just a direct glance at the real thing. Well, that is in essence what this book does for those who are interested in economic development.

A series of short questions and answers, written in kitchen-table language, explain the issues that policymakers face, tell what the most promising instruments are in helping societies prosper, and show the limits of what we know. In fact, the idea is to get you to the frontier of the development profession, the point at which knowledge stops and ignorance starts, and to share with you what we don't know and make you think for yourself.

That frontier of knowledge changes all the time. Which is why this is the second edition of this book. The first was published in early 2014, and already much has been newly learned from practice. So I added twenty new questions and updated many of the answers to the questions we had before.

Like its predecessor, this second edition will have no master conceptual framework. There will be no formulae, tables, or charts either. Rather, we will *talk*, first about governments—after all, they are the ones who make decisions on policy—and about how they so frequently fail at what they do. We will then turn to the kind of economic policies without which no country can make it. Here is where technical orthodoxy will be translated into common sense—think about “macroeconomic consistency,” “balanced budgets,” and “monetary stability” as making ends meet for a country as a whole. From there, we will look at the excitement and the frustration that new tools and new realities are bringing to poverty reduction, social inclusion, education, health, technology, infrastructure, foreign aid—you name it. In the end, we will see all these tools in action in the region that represents development—and the need for it—better than any other: Africa. If, after all that, you are thirsty for more information, you will find a bibliography of suggested further readings. Some of them are classic, must-read books. Some are journal articles that changed the way economists think. And many are available online for free.

Three disclaimers before we go into the operating room. First, earlier versions of these essays have been published as blogs, opinion editorials, or both, in print or online. And I have tested the ideas in this book during dozens of lectures and speeches at universities in Africa, Asia, Europe, Latin America, and the United States. This allowed people to comment and allowed me to learn from those comments.

Second, I have spent the past twenty-seven years working for the World Bank, on four continents and in many capacities. There is no better institutional balcony from which to witness development—its actors, sectors, thinkers, places, lessons, and challenges. Still, the views conveyed here are my own, and they do not necessarily represent those of the World Bank or of the countries that own it. Third, I belong to no political party, commercial enterprise, interest group, or intellectual movement. So I am free to speak my mind.

Marcelo Giugale
Winter of 2017
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ACKNOWLEDGMENTS

There are many colleagues in and around the profession whom I would like to thank for teaching me so much and for helping me make *Economic Development: What Everyone Needs to Know*[®] a reality. Omar Arias, Nancy Benjamin, Paul Brenton, Otaviano Canuto, Daniel Cotlear, Andrew Dabalen, David de Ferranti, Shantayanan Devarajan, Nora Dihel, Makhtar Diop, Bernard Funck, Ejaz Ghani, Swati Ghosh, Markus Goldstein, Faya Hayati, Fernando Im, Kai Kaiser, Olivier Lafourcade, Jan Loeprick, Gladys Lopez-Acevedo, Nga Thi Viet Nguyen, Margaret Miller, John Panzer, Remy Prud'homme, Anand Rajaram, Fernando Rojas, David Rosenblatt, Jaime Saavedra, Apurva Sanghi, Christopher Sheldon, Antoine Simonpietri, Mark Thomas, Volker Treichel, Jose Molinas Vega, Eduardo Velez, Jan Walliser, and Steve Webb either educated me in their respective fields or graciously invited me to comment on subjects they know much better than I.

Alex Fleming, Ellen Harvey, Michael Jelenic, and Susan Petersen encouraged me to see and tell the human story behind each technical issue, no matter how complex. Cristina Palarca and Patricia Mendez have over the years kept me organized in my day job, so I could spend nights, weekends, and airplane hours writing. And Angela

Chnapko, my publisher, saw the beauty—and took the risk—of bringing the trenches of the war on poverty to the hands and iPads of those who are not poor.

More personally, I am one lucky writer, blessed by the love and support of an incredible family. My kids—Carla, Lauren, and Juan—cheered me along and patiently put up with my passion for explaining things. And Pichu, my beloved wife of thirty-one years and my best friend, taught me that all problems in society really boil down to one solution: a good education. As a Special Ed teacher for some of the most special children there are, she should know.

To all, thank you.
Marcelo Giugale
Winter of 2017
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ECONOMIC DEVELOPMENT

WHAT EVERYONE NEEDS TO KNOW®

OVERVIEW

WHAT IS ECONOMIC DEVELOPMENT AND WHAT DOES THIS BOOK SAY ABOUT IT?

At its most basic level, economic development is the process through which a community creates material wealth and uses it to improve the well-being of its members. This calls for many interrelated ingredients: healthy and educated workers, more machines and better infrastructure, advanced knowledge and pathbreaking ideas, savers and financiers, peace and the rule of law, and social inclusion and individual rights. The process can be helped or hindered by governments' policies and programs, so when it happens, it is usually associated with enlightened leaders. Note that economic development is more than a growing economy; you can have much of the latter but none of the former—for example, when the wealth that is created only benefits a small elite. That's why those who believe in economic development—this writer among them—also believe that poverty need not exist or persist.¹

Technically, you are poor if you live on \$3.10 a day or less. And if you live on less than \$1.90—as almost 800 hundred million people do—you are “extremely poor.” Those are the universal definitions of poverty, which economists

use to make comparisons across countries.² Now, things can get more complicated. Each country also has its own official poverty line—the level of yearly income or consumption below which you are considered poor by your government. In 2015, the United States set that line at \$11,770, implying that about 15 percent of Americans were poor. The broadly comparable figures for Nigeria were around \$460 and 60 percent. In other words, being poor in Lagos is very different from being poor in Washington, DC. To add even more texture, many rightly argue that money is not all that counts in life. So additional dimensions are frequently added to the definition of poverty—how stable your income is, how included you feel in your society, how much opportunity your children have, how safe your neighborhood is, and how clean the air you breathe is.

When you finish reading this book, I hope you are convinced that economic development—and the reduction in poverty that goes with it—has never been more feasible for more countries. Mind you, there are huge risks behind that optimism. Big economies could fall into fiscal, financial, or confidence crises, and the effects could spill over to the rest of the world. Populist politicians may turn public opinion against globalization—the idea that, in the long run, we benefit from the free movement of goods, people, knowledge, and money. Natural disasters are more frequent and more catastrophic. And some places seem stuck in war. But the positive feeling of possibility, which permeates across issues, markets, sectors, policies, and nations, is real. It is inspired by a series of deep, simultaneous transformations that, slowly but surely, are changing the way we work, consume, save, and invest. Think of many tectonic plates shifting at the same time. What are those transformations?

First, the old relationship between “the state and the people” is becoming one between “the state and the person.” Each of us will begin to have direct, individualized

contact with our government. More and more of the things that the typical government gives to or does for its citizens—from public schooling to subsidized energy—will be turned into cash, delivered to you via cell phone or debit card. Even the national ownership of natural resources will gradually be redefined—just for being a citizen, you may one day get direct dividends from the companies that exploit your country’s oil, gas, and minerals. The personalized relationship will not be just about money. It will also be about information. From your spending habits to your complaints about public services that don’t work, your feedback will go directly to those who make decisions that affect you. Sound futuristic? Well, keep the idea in mind as you read through the chapters, and you’ll see that it is already happening.

Second, the combination of more democracy and better data will make for smarter decisions, both by governments and by people. From finding the true impact—and the real beneficiaries—of public expenditures to controlling teacher absenteeism, and from fighting gender discrimination to facilitating cross-border trade, knowledge put in the hands of voters will translate into political pressure and, ultimately, reform. Information will not always and automatically lead to activism, though—not everyone has the time or the means for it. But aberrations that have survived for decades—like using taxpayers’ money to pay for the gasoline consumed by the rich—will begin to crumble. Easy-to-understand “standards” will help us measure the performance of those who govern us. If the average second-grader cannot read at least sixty words per minute, there is something wrong with public education—*that’s* a standard. And when public services like schools, hospitals, and the police fail, users no longer have to wait until the next election to punish the politician in office—they can shame him in an instant with a text, a tweet, or a post. All

you need for this to happen is freedom of expression and the Internet. In fact, communication technology is speeding government accountability into real time.

Third, there will be no reason to leave anyone behind or disadvantaged. In a break from history, and thanks to better and cheaper identification technology, governments will know the poor by name, individually. Social assistance programs will be better tailored to their beneficiaries. This will reduce waste and increase impact. Blanket subsidies that benefit both rich and poor—say, selling electricity below cost for all houses—will disappear, saving money that can be then spent only on those in real need. Living on two dollars a day may indeed cease to be a relevant way to measure poverty, and other aspects of a good life may gain attention, like the risks you and your family face. And we will move away from the never-ending debate about equality of outcomes among adults—whether they should all earn and own the same—toward a consensus around equality of opportunity among children. Who can be against that?

Fourth, not only will citizens have better tools to change how governments behave, but the reverse will also be true. As hard evidence piles up on the role that culture plays in core development problems—from corruption and gender inequity to pollution and informality—new emphasis will be put on using public policy to change our values—those that make us think and act in a certain way. More countries will start to gather data on people's noncognitive skills—personality traits like conscientiousness, agreeableness, and extroversion—and to understand how those skills interact with cognitive ones—like IQ, test scores, or years of schooling. This could bring a major breakthrough in raising labor productivity: after all, employers pay more for workers who are both trained *and* trainable. One day, public education will balance teaching facts with teaching behaviors, knowledge with attitude.

Fifth, the main tenets of economic management are clear and broadly accepted. The global financial crisis of 2008–2009 and its long aftermath may have shaken some technical paradigms, especially about the wisdom of leaving bankers unchecked. A new wave of nationalism may have given us Brexit and bad-mouthed globalization. But sensible practitioners have not renounced the old religion of open economies, balanced budgets, independent central banks, low debt, good public institutions, smart regulation, lots of competition, and fair treatment of investors—big and small, local and foreign. Just remember this: economic growth is necessary but not sufficient for poverty to fall, and inflation is sufficient but not necessary for poverty to rise. People have understood that asymmetry: it has become more difficult for presidential candidates to win elections on a platform—or a brand—of fiscal mismanagement, rising prices, a stagnant economy, or frightened investors.

Sixth, the countries that will succeed—and many will—are those that will be able to balance economic discipline with social solidarity. Why should balancing efficiency with equity—markets with people, if you will—be the formula for success? Because it seems to align the entire society behind a broad, national vision—open for business *and* happy to pay so nobody, especially children, lacks the basics. This isolates economic development from wild political swings. Whether the Right or the Left comes to power becomes almost irrelevant. All that matters to voters is who is better at delivering the common vision.

Seventh, barring major surprises, Africa *will* finally make it. Yes, the continent looked promising many times before—and failed to take off. Much of its current shine is due to extractive industries like oil, gas, and minerals, whose international prices can—and do—swing widely. Not to mention the violent conflict that seems perennial in

some of its countries. But Africa's emergence runs deeper. For one, the technologies for exploration and exploitation of its riches are getting cheaper, faster, and cleaner—many think that only one-tenth of its natural resources have been discovered. This time, the bonanza may be more about quantities than about prices. The spread of democracy is raising the quality of public policy among African governments—slowly, to be sure. The region's giant agricultural potential remains mostly untapped. And, in many areas, demography is beginning to show the benefits of slower population growth—fewer dependents per worker.

But, while all that is very exciting, nothing could transform and enrich Africa more than its self-integration. It remains a fragmented place, where people, goods, and capital can barely move from country to country, even between countries that have signed free trade agreements. Bureaucracy, overregulation, and monopolies make it almost impossible for African workers, traders, and financiers—except for the large and connected ones—to go where there is more demand for them. Those same barriers kill the possibility of forming the type of production chains that made East Asia so successful—where final products are assembled with components from many countries—so successful. They also kill the possibility that Africa can feed itself: it easily would, if food could circulate freely within the region. African nations usually say that their past was frustrated by how they were treated by outsiders—they are probably right on that. But how ironic is it that their future now depends on how they treat one another.

A final word before we jump into the chapters. From this overview, you may already get a sense that much can be done to bring people out of poverty. But you may also feel that in economic development there are few, if any, certainties. What works in one country may not work in another. You can spot broad trends but will always find