



The Role of Institutions and Policy Design in Promoting Economic Growth and Development

Theories, Policy Design and Impact

Prof Mthuli Ncube, University of Oxford, Blavatnik School, 11 July 2016



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Inclusive Economic Institutions

- ★ Source: D. Acemoglu and J. Robinson (2013), “Why Nations Fail”
- ★ Tunisia: Source of Arab Spring ‘Jasmine Revolution’. Elite overthrown by popular uprising links to excluded youths. Opportunities take over, but eventually replaced by a more inclusive political order on the back of constitutional reforms
- ★ The story of my landlord in Tunis!
- ★ Link between Inclusive Economic and Political Institutions, and prosperity
- ★ Inclusive economic institutions enforce property rights, create a level playing field, encourage investment in new technologies and skills, thus providing incentives for economic growth
- ★ Institutions more important than geography and culture in determining prosperity



World Governance Indicators(Institutional Factors)

- ✦ Voice and Accountability
- ✦ Political Stability and Absence of Violence
- ✦ Government Effectiveness
- ✦ Regulatory Quality
- ✦ Rule of Law
- ✦ Control of Corruption



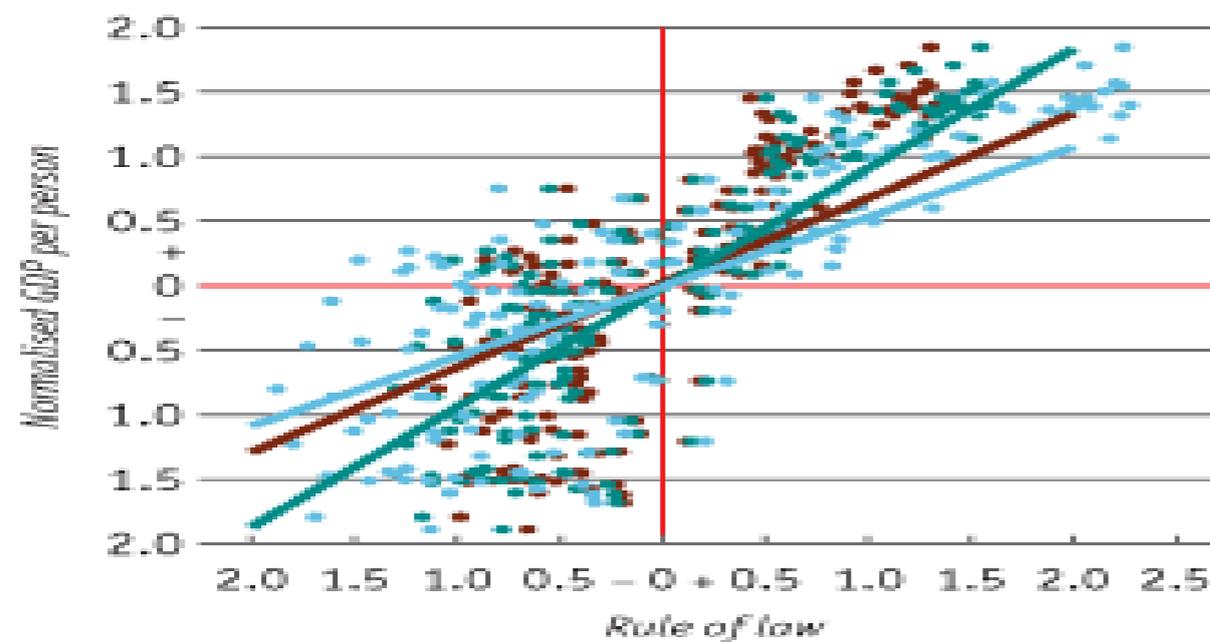
Institutions and Economic Growth

Clearly linked, m'lud

Rule of law and GDP per person, 2004

Estimates by:

- D. Kaufmann and A. Kraay
- D. Rodrik, A. Subramanian and F. Trebbi
- F. Alcalá and A. Ciccone



Source: World Bank Institute



Business Environment Institutional

Factors (Doing Business, World Bank)

- Procedures, time, cost and paid-in minimum capital to start a business
- Procedures, time and cost to complete all formalities to build a warehouse
- Procedures, time and cost to get connected to the electrical grid
 - Procedures, time and cost to transfer a property
 - Movable collateral laws and credit information systems
 - Minority shareholders' rights in related-party transactions and in corporate governance
 - Payments, time and total tax rate for a firm to comply with all tax regulations
 - Time and cost to resolve a commercial dispute
 - Time, cost, outcome and recovery rate for a commercial insolvency and strength of the legal framework for insolvency
 - Quality of building regulation and its implementation
 - Reliability of electricity supply, transparency of tariffs and price of electricity
 - Quality of the land administration system
 - Quality of judicial processes
- Time and cost to export the product of comparative advantage and import auto parts



Inclusive Economic Institutions

- ✦ Supported by inclusive political institutions that distribute power widely in a pluralistic manner
- ✦ Achieve political centralization so as to establish and enforce law and order, the foundations of secure property rights, and inclusive market economy



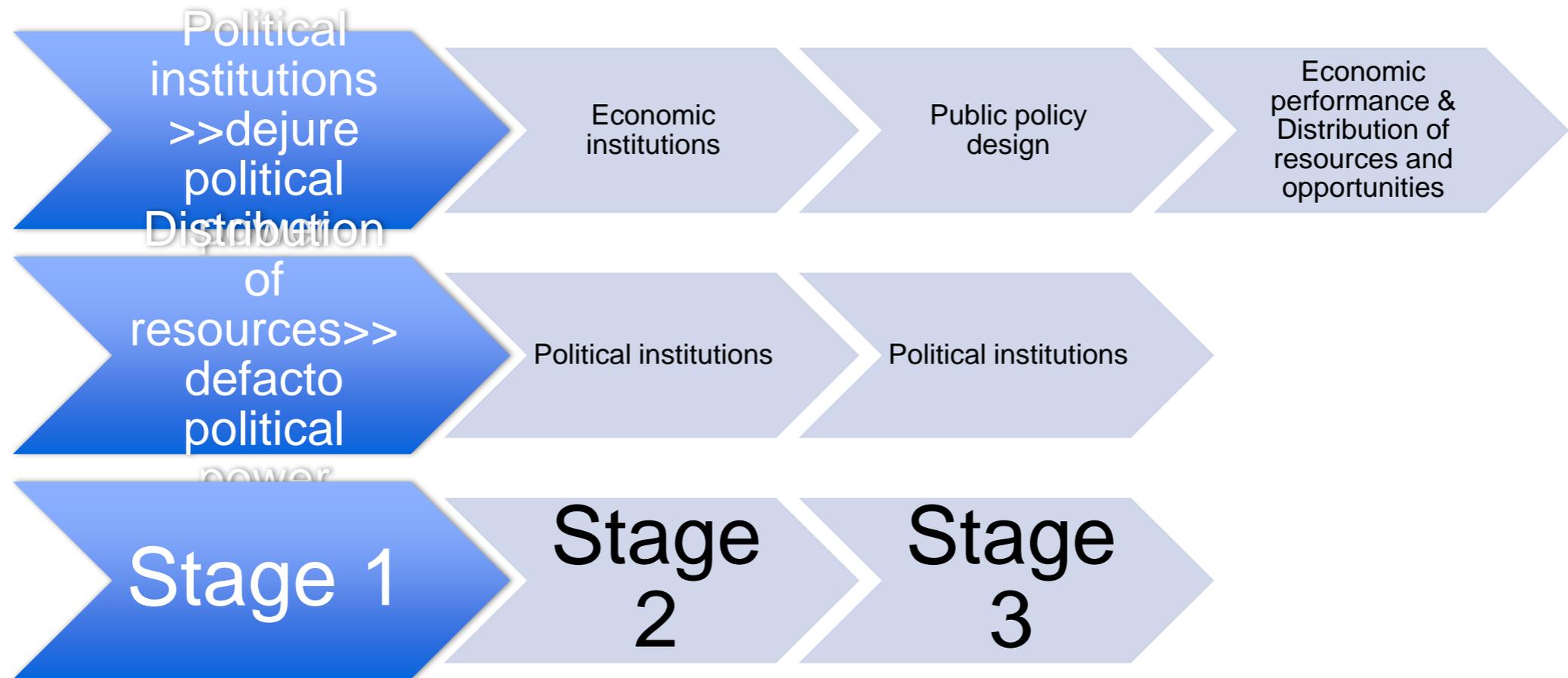
Extractive Institutions

- ✦ Extractive institutions are structured in order to extract resources from the many by the few and elite
- ✦ Does not protect property rights, nor provide incentives for economic growth
- ✦ Synergistically linked to extractive political institutions, concentrating power in hands of few, who have an incentive to develop extractive economic institutions for their benefit and retain power by all means necessary
- ✦ Extractive institutions can also achieve economic growth but is not sustainable



Extractive Institutions

- ✦ Extractive institutions can not produce sustained growth: Why?
- ✦ 1. Sustaining growth requires innovation and some creative destruction which threatens the elite and their power, and they block it;
- ✦ 2. Extractive institutions create political instability as various groups vie for political power which confers economic power
- ✦ Vicious circle is created between extractive economic and political institutions. Once created, they tend to persist!
- ✦ Extractive institutions have a historical context! Eg Peru (Inca Empire) vs US (sparsely populated)



Framework

From political institutions to economic institutions



Critical Junctures from Extractive to Inclusive Institutions

- ✦ Black Death which killed half of Europe in 14th century
- ✦ Opening of Atlantic trade routes democratised profit receipts in England(Monarchy not in full control), but less so in France, Spain, Portugal
- ✦ Cecil John Rhodes effect in Southern Africa in 19th century(private company for profit but with links to Monarchy)
- ✦ Industrial Revolution
- ✦ Y2K Challenge: India and Bangalore
- ✦ Demise of Apartheid in South Africa: 1994
- ✦ Arab Spring!
- ✦ BREXIT(?)



Centralization is Critical

- ✦ Nations with no political centralization, like Somalia are unlikely to achieve economic growth, nor develop inclusive institutions
- ✦ Centralization can ensure some degree of growth even under extractive institutions and examples are: Burundi, Ethiopia, Rwanda, Tanzania, Brazil, Chile, Mexico, China
- ✦ Those that are unlikely to show strong growth are Cuba, North Korea, Zimbabwe, Myanmar(?), Egypt(?)



Can Prosperity be Engineered?

- ✦ Type 1: IMF and Washington Consensus policies on macroeconomic management and privatization failed to deliver immediate growth in Africa. Weak markets and weak institutions!
- ✦ Type 2: Trying to fix small market failures(eg health care delivery, teacher absenteeism), by NGOs, while in fact the real problem is weak institutions
- ✦ Brazil a good example from Bolsa familiar(social protection programs) and South Africa social grants offering protection
- ✦ Type 3: Failure of Foreign AID in reducing poverty. Poverty caused by extractive institutions



Policy Design

- ✦ Public policy is what enables agents to convert an opportunity into realised economic gain
- ✦ Inclusive policies, which positively impact growth and development, are products of inclusive institutional environment
- ✦ Inclusive institutions, with built-in checks and balances, and appropriate levels of consultation, produce inclusive policy design.
- ✦ Inclusive policies produce an environment of equitable access of socioeconomic opportunities for all in society...a level playing field
- ✦ Public Policy is a goal-oriented course of action the the government follows in dealing with a problem or issue in the country. Public policies are based on law. Individuals and groups that do not comply are penalized.



Policy Design Process

- ✦ Recognition of the problems: what problems has been identified that needs to be fixed
- ✦ Agenda setting: a set of problems government wants to solve, and must be prioritized
- ✦ Formulating the policy
- ✦ Adopting the policy
- ✦ Evaluating the policy
- ✦ Monitoring performance

Recognition of the Problems

Agenda Setting and Prioritization

Formulating the Policy

Adopting the Policy

Evaluating the Policy & Performance
Monitoring

Policy Design Process

From problem recognition to policy adoption and
monitoring



Performance and Service Delivery

- ✦ Why is public service delivery so poor?
- ✦ Political economy of service delivery and exclusive institutions
- ✦ Reforming Public Service delivery
- ✦ Service Delivery indicators-tracking



Why Service Delivery is so poor

- ✦ Decentralization
- ✦ Resource Constraints
- ✦ Poor Monitoring
- ✦ Incentive mis-alignment
- ✦ Exclusive Institutions



Decentralization

- ✦ Decentralization designed to bolster political inclusion
- ✦ South Africa is decentralized into provinces and municipalities
- ✦ Kenya (post-2011) may face challenges with its decentralized constitutional arrangement into Counties



Resource Constraints

- ✦ Lack of adequate resources can hamper service delivery
- ✦ See Barnerji, et al(2000)- Increasing number of teachers in India increases participation of girls(RCT)
- ✦ Case and Deaton (1999)-In South Africa, increasing the teacher-student ratio improved academic achievement especially in under-privileged students
- ✦ Duflo(2001)-School construction policy in Indonesia increased quantity of education
- ✦ Glewwe, Kremer and Moulin(2002), Glewwe and Kremer(2006)-Increasing textbook supply in Kenya improved education outcomes...but for the better students



Monitoring and Impact assessment

- ✦ Monitoring and Evaluation department
- ✦ Service Delivery Indicators
- ✦ Impact assessment

THANK YOU



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