Summers questions development policy research

What should development policy researchers and policymakers be thinking about today, and what should they be thinking about over the next few decades? Lawrence H. Summers shares his thoughts.

Summers, then deputy secretary of the U.S. Department of the Treasury and former chief economist of the World Bank, reviewed some of the pressing questions for development policy with participants of the eleventh Annual Bank Conference on Development Economics, held April 28–30 in Washington, D.C. The following article draws from his remarks.

Six questions for researchers and policymakers
When I try to reflect on what the world doesn’t understand as well as it would like to, I am left with the feeling that we have a lot more thinking and institutional development to do. So, I would like to share six questions with you. I’ll reflect a little bit on the answers, but much of my motivation is to stimulate thought.

1. How do we reconcile global integration with other crucial objectives?
As we look at the global economy and at national policy toward international economic issues, three imperatives seem clear.

We are for integration because of the benefits of freer trade, because of the benefits of fair investment, because of what integration means for links between states and reductions in the risks of conflict.

We are, in addition, for national sovereignty, the idea that we as Americans choose our taxes, choose our redistributive policies, choose our environmental standards—and similarly for the people of other nations. So the second imperative is sovereignty.

And a third imperative for most of us is the pursuit of public purposes that markets, left to their own devices, may not produce—the right opportunities for the poor, the right environmental policies, the kind of outcomes we want.

As we think about the development of our global economic institutions, it is these three things that need to be reconciled. For many people this is easy. For Milton Friedman, public purpose is a minimal objective. If we have integration and if we have sovereignty, then—because of the tremendous mobility of capital and businesses—it will prove difficult to impose redistributive tax rates and difficult to regulate in an effective way. And he sees that as an advantage rather than a disadvantage.

For Pat Buchanan and other isolationists, this is not a difficult problem. It is imperative to maintain national sovereignty. Public purpose in the form of appropriate regulation and taxation is essential. So, integration has to be sacrificed.

For global visionaries, this is not a hard problem. They suggest that just as federal regulation in the United States
entered a whole set of areas that had traditionally been reserved to the states as interstate commerce increased, so too we need more regulation of questions about the flow of capital, questions about the level of taxes, questions about standards set at the international level. They rarely, as global visionaries, have to run for office in any of our countries.

And so if one adopts any two of these goals, solving the problem is quite easy. But it seems to me that for those who are thoughtful, the challenge really is to reconcile all three, and they can never be perfectly reconciled. Our challenge is to find the right ways to reconcile them. But if we try in our policy approaches, as we sometimes do, to elevate any one or even any two, we will go very much astray. And as we think about the development of the global trading system in particular, this is a special imperative.

2. What posture should countries take on global capital flows?

It is tempting to see the global capital market as imposing large costs on nations as capital moves in and out too quickly. Certainly, events give cause for concern in that direction.

I have been struck, though, as we have looked at the various crises, that in almost every case where those problems appear most central, policy created a substantial bias in favor of short-term capital flows, whether through the issuance of short-maturity debt with Mexican tesobonos, through tax breaks for short-term offshore bank deposits in Thailand, through the tailoring of financial instruments to be perfectly attuned to hedge fund preferences as with the Russian GKO treasury bills, through discriminatory capital controls that favor short-term capital and oppose long-term capital in the Republic of Korea.

There is also a kind of bias in favor of short-term capital created by the government provision of exchange rate guarantees whose duration can never be absolutely certain and which therefore encourage the inflow of short-term capital. And so it seems appropriate to frame the question of how we can encourage policy regimes that will not discourage short-term capital but will discourage the inappropriate encouragement of short-term capital that has led to such large problems.

There's a rich and varied debate, and the right answer will differ from situation to situation, as with Chilean-style controls. But in most of the cases that we look at countries are actually on the other side of it, creating a bias for short-term capital to save costs. How can they be encouraged to make better choices that recognize that short-term capital is also liquidity? It is sometimes the only kind you can get.

I don't think we have all the answers, and I think we will find that the question of exchange rate regimes will be particularly important in this regard—with an increasing conviction that the optimum may lie toward more flexible regimes or more heavily institutionalized pegged arrangements.

3. How can financial crises be resolved?

It has become clear that without policy change and without strong policies, crises are unlikely to be resolved in any country. Crises typically follow a period of very substantial capital outflow. And the provision of liquidity, without changing the conditions that led to the capital outflow, is likely to lead to the outflow of the liquidity, leaving only debt behind.

At the same time, it is very clear in each of the major episodes we have all studied that there came a moment when the investors' calculus shifted from the long-run fundamentals of the country—was policy sound—to a comparison of the quantity of reserves available with the quantity of short-term debt coming due in the next few months. At that moment the situation worsened very dramatically and no longer became amenable to a simple fix through the restoration of policy to restore confidence.

We obviously want to find ways—and it goes back to short-term capital flows—of making it as unlikely as possible that countries will find themselves in such situations. But when they do, there are very difficult questions involving finding the right provision of public sector liquidity and private sector involvement.

Bagehot's use of the term "lender of last resort" suggested an early appreciation of the concept of dynamic consistency,
and we do not as yet have a clear doctrine. Indeed, one of the doctrines in this area held by some is that it is a bad idea to have a clear doctrine—calculated ambiguity and all that—for the respective roles of the private and public sectors.

What is clear and now agreed is that this is an area where the answer cannot be extreme. Appropriately conditioned finance has and no doubt will have a constructive role to play in crisis resolution. A stable and healthy financial system cannot be based on the principle that in any and all situations those who extend credit will be repaid—certainly not when those who extend credit have been compensated with very substantial risk premia. And so a critical task before the international community will be to come to greater understandings. We believe that this is most appropriately done case by case because crises differ in how they will be resolved.

4. How do we best put into practice our shared sentiment that appropriate attention to the vulnerable is morally right, politically necessary, and internationally prudent in time of crisis?

It is easy to enunciate that as a convincing proposition. But it seems the questions that need to be reflected on in putting into practice that sentiment—which I haven’t seen reflected on as fully as they might be—include the following.

First, is this a call for more and larger deficits to support more social spending systematically in time of crisis? Or is it a call for different budget priorities? If it is a call for different budget priorities, what spending that is currently maintained is thought to be unwisely maintained in crisis and should be systematically reduced?

Second, how does one square the critique that it is important to focus conditionality as much as possible to avoid resentment from host-country governments with the critique that it is necessary to have a far-reaching investigation of spending priorities?

Third, how does one confront the issue of fungibility in providing support? Is the appropriate approach to support laudable social objectives and leave the rest to take care of itself? Or is the right approach to condition that support on some broadly appropriate reformulation of public expenditure priorities?

Fourth, how does one square the imperatives of crisis resolution with long-standing social imperatives? Although I am no expert on the question, it is my impression that the poorest and most vulnerable in any society are usually also the most voiceless—and not the most likely to upset political and social stability in time of crisis.

To what extent is a crisis, therefore, a time when assistance should be focused on them because they are most vulnerable? And to what extent is a crisis a time when the focus of policy should be on those whose lives have been most disrupted by the crisis, even if they are not objectively the poorest?

This list of questions could be continued, but it seems to me that it is high time for the international community to move beyond what surely are appropriate sentiments, and in many cases significant actions, to think through a little more carefully what our doctrines and approaches should be in this area.

5. How can we in the international community substitute or best produce the social capital that is ultimately important for continuing a successful economy?

It is easy to enunciate that as a convincing proposition. But as I reflect on them, I am convinced that there is a common element of a lack of social connection—a lack of links between people because governments have preempted not just all the political and economic space, but also much of the social space. These are low-trust societies—societies in which the basis for the most rudimentary enforcement of law is often lacking.

It is much easier, it seems to me, to frame the problem than to solve it. Without secure property rights, there will not be commerce. Contract enforcement is crucial to business—to business connections. It is much easier to frame the problem than to know what the international community can do about it—to produce tangible results very quickly. It is perhaps inevitable that support efforts
focus on problems that can be solved—whether those problems are macroeconomic stabilization or the eradication of particular diseases. But that doesn’t mean that the lack of effective institutions is not at the center of the problem.

Whether the right approach is to work to develop stronger institutions or to work around the lack of effective institutions, it seems to me that we don’t know the answer. But here, too, if we’re going to make our efforts as effective as we can, it is appropriate to reflect on this rather carefully.

6. How will our thinking differ 30 years from now?
I am no expert on the history of economic thought, but I have been struck that discredited doctrines are less stupid than ideas that fit one time and not a subsequent time. I am told by those who are knowledgeable about Malthus’s theory that it was actually a rather accurate description of the dynamics of population and food supply in the several hundred years that preceded his enunciating it. It was not the obvious fallacy that it is held to be in today’s elementary economics textbooks.

It is not difficult to understand, studying the history of the 1930s, why the economists of the 1940s and 1950s developed a set of doctrines that were heavily centered on the achievement of more aggregate demand as the central objective of economic policy.

It is not difficult to understand—looking at the manifest failure of the American and British economies during the 1930s and their tremendous success in the Second World War, and looking at the success of the Latin American economies during the 1940s when they were cut off from international trade—why a rather dirigiste economic doctrine came to be established after the Second World War. And it is not hard to understand, looking at the experiences of the last 25 years, why the right doctrine for this time emphasizes markets, emphasizes openness, emphasizes the benefits of competition. But history should remind us—just as the World Bank’s celebrated 1979 report on the Romanian economic miracle should remind us: is there some profoundly different change in process that leads one to think that nothing is being produced today that will look as foolish 20 years from now as the Romanian economic miracle report of 1979? I doubt it.

As we think this through, we have no alternative as policymakers but to operate within our best guesses and our most accurate judgments about how the world works today. But particularly for those of you who focus on research, it seems to me appropriate to reflect on the fact that there will probably be some quite substantial changes in doctrine over the next 30 years. There certainly have been over most 30-year periods in the past.

That is why it is important to anticipate what those changes will be. If one thinks about most past changes in doctrine—whether it’s away from the hard-core Keynesian policies, whether it’s away from the more dirigiste orientation—if they had come somewhat sooner rather than somewhat later, most of us would judge that the world would be a better place. So we need to apply that same kind of rigorous scrutiny to what we hold as conventional wisdom today.

Lawrence Summers was appointed secretary of the U.S. Department of the Treasury in July 1999.

Other participants in the eleventh Annual Bank Conference on Development Economics delivered papers on topics ranging from economic architecture to the economics of transition to social exclusion and crime and violence. Copies of their papers can be downloaded from www.worldbank.org/abcde.
New Research

The research projects described here are directed by World Bank staff and funded by the Bank’s central Research Support Budget (RSB). Research proposals being prepared with RSB funding are listed on page 9. For information about the research projects described here, contact the researchers at the Bank’s main address (see back page).

Does Microcredit Empower Women?
Shahidur Khandker
Poverty Reduction and Economic Management Network, Gender and Development
Ref. no. 683-30
Microcredit programs often target women, in part because they are less likely than men to have control over resources. But does microcredit alone empower women? This study will address that question by looking at the experience of women in Bangladesh who have participated in microcredit programs of the Grameen Bank, the Bangladesh Rural Advancement Committee, and the Rural Development (RD-12) Project.

Definitions of economic, social, and political empowerment will be developed with the participation of local people. Researchers will then survey women in about 1,800 households that participated in earlier surveys on use of microcredit. The analysis of the results will control for the unobserved empowerment of women before participation in microcredit programs and for the placement of the programs.

RSB support: $40,000
Staff weeks: 26

Aid and Reform in Africa
Torgny Holmgren, David Dollar, and Shantayanan Devarajan
Development Research Group
Ref. no. 683-31
Cross-country evidence shows that foreign aid has a strong positive effect on a country’s economic performance if the country has undertaken certain policy and structural reforms—but that countries with good policies receive less aid than those with mediocre or poor policies.

This research project will use case studies of 10 Sub-Saharan African countries—with varying degrees of reform—to improve the understanding of the link between aid and reform. It will focus on what led up to reform, how aid influenced reform decisions, and whether aid has helped sustain the reforms.

The study will look at reform in four areas: macroeconomic management, structural policies, public sector management, and public expenditures.

RSB support: $40,000
Staff weeks: 70

The Economics of Malaria
Emmanuel Jimenez
Development Research Group
Ref. no. 683-32
This study proposes to contribute to the long-standing fight against malaria in Sub-Saharan Africa by examining the economics of malaria and malaria control. It will analyze the economic cost of malaria by assessing the willingness to pay to avert an episode or, its converse, the willingness to accept an episode of the disease. It will look at who malaria affects within a population, how malaria affects productivity and income, and what households are doing to cope. And it will investigate the effectiveness of different types of interventions delivered through different modes—public and private—focusing on how households and individuals respond to the interventions. The analysis will be set within a theoretical framework of the public economics of malaria control.

RSB support: $40,000
Staff weeks: 16

Thematic Research for the WTO 2000 Negotiations
Will Martin and Bernard Hoekman
Development Research Group
Ref. no. 683-29
This study is part of a World Bank effort to help developing countries assess their interests and form their positions for the World Trade Organization (WTO) negotiations set to begin in 2000. Designed to fill gaps in current research, the study will focus on three areas: services trade, goods trade, and intellectual property rights.

The study will assess progress in developing the data needed to analyze proposals for liberalizing services, the effects of liberalization, and the likely implications of outsourcing and fragmentation of production for developing countries. It will look at patterns of protection in goods trade and examine progress in phasing out textile export quotas. It will examine the economic issues in the debate on international rules to limit or ban parallel imports.

RSB support: $40,000

Gender, the Law, and Development
Elizabeth King and Andrew Mason
Development Research Group; and
Poverty Reduction and Economic Management Network, Gender Division
Ref. no. 683-34
As part of a larger study on gender issues in development, this research project will look at how two areas of the law treat men and women: family law (relating to divorce, child custody, separation rights, domestic violence, and the like) and labor law (protection laws, minimum wage laws). The project will review the legal framework in these areas in different developing countries, the mechanisms for enforcing the laws, and the effect the laws have had on the welfare of men and women.
RSB support: $39,500
Staff weeks: 4

Guidelines for Pricing Irrigation Water Based on Efficiency, Implementation, and Equity Considerations
Ariel Dinar
Rural Development Department
Ref. no. 683-35
Water scarcity is a growing global concern. World Bank–supported irrigation projects reflect this concern in their emphasis on regulating demand for water, primarily through appropriate pricing. But what exactly are “appropriate” water prices, and how should they be applied?

The answers to these questions are not straightforward, in part because water pricing methods are sensitive to the physical, social, institutional, and political setting. This study aims to develop guidelines on how to price irrigation water under different conditions, with efficiency, implementation costs, and equity the primary criteria for evaluating pricing methods. The study will base the guidelines on an analysis of existing methods for pricing irrigation water in a range of countries.
RSB support: $147,000
Staff weeks: 12

The Cost-Effectiveness of Alternative Transport Policies
Zmarak Shalizi
Development Research Group
Ref. no. 683-39
Recent research suggests that policymakers choosing among transport tax policies (congestion tolls, emissions charges) for reducing congestion, air pollution, and other transport-related externalities should take into account possible interactions with existing distortionary taxes. By driving up product prices, pollution taxes may reduce the real household wage and the labor supply—and thus exacerbate the deadweight loss from factor taxes. But a tax that reduces congestion can also reduce the overall costs of the tax system—by increasing the average household wage, raising labor force participation, and reducing the deadweight loss from income taxes.

This study will revisit the arguments for transport charges in the context of the recent work on distortionary taxes. The research will focus on the general equilibrium welfare effects of transport policies, particularly the spillover effects in other markets affected by distortionary taxes.
RSB support: $39,000

The Impact of Political Institutions on Economic Growth: A Data Collection and Web Archive Initiative
Philip Keefer
Development Research Group
Ref. no. 683-40
The past decade has seen rapidly expanding interest in the role of institutions in economic growth and stability. But empirical research on this topic has been constrained by limited...
availability of political and institutional data across countries and over time. This project is aimed at reducing the obstacles by setting up a centralized archive of cross-national data on a Website based at Harvard University's Political Economy Center.

The project will bring together dispersed data sets, convert them to a common format, archive them on the Website, and create a data gateway that will allow users to assemble panel data sets of variables. The archive will include data on social fragmentation and cohesion, political and judicial institutions, and standard economic variables.

**RSB support:** $33,166

**Information, Incentives, and Antipoverty Interventions: Devilish Details on the Road to Poverty Reduction**

**Ravi Kanbur**

*Poverty Reduction and Economic Management Network, Poverty Division*

Ref no. 683-41

To help in understanding why some antipoverty interventions succeed while others fail, this study will develop and apply a model of the role of information and incentives in programs to reduce poverty. The analysis will focus on institutional factors—the effects of beneficiary participation on information flows, the information intensity of interventions, and principal-agent problems associated with incomplete contracts and inappropriate incentives.

The study will draw on a data set on the design, organizational structure, outcomes, and participants of about 100 public works programs that have been implemented in the Western Cape province of South Africa.

**RSB support:** $20,000

**Economic Instruments for Conservation**

Kenneth Chomitz and Maureen Crapper

*Development Research Group*

Ref no. 683-42

How can countries expand conservation beyond formally protected areas—often too small to ensure the viability of ecosystems? One strategy has been zoning—to direct development to areas of high agricultural potential and restrict land use in ecologically significant areas. But enforcement, typically based on a command-and-control approach, has been ineffective where zoning imposes high costs on private actors and political support is lacking.

This study will assess economic instruments aimed at reconciling landholders' incentives with forest conservation—tradable development rights, purchase of land or easements, and purchase of carbon sequestration services—and different mechanisms for financing their use. It will quantify the effects of these instruments on ecosystem viability, opportunity costs of land uses, and government expenditure in the Atlantic forest of Brazil.

**RSB support:** $77,000

**Microfoundations of International Technology Diffusion**

Bernard Hoekman and Aart Kraay

*Development Research Group*

Ref no. 683-43

Developing country policymakers often try to spur adoption of foreign technologies through policies aimed at encouraging domestic firms to form joint ventures with foreign partners, import capital goods, license technologies, and export to developed markets. What policy is best depends on which of these activities are causally associated with improvements in firms' performance, how large the effects are, and whether the effects are internal or external to firms.

This study will analyze large panel data sets on firms in several developing countries to shed light on these issues. It will document the cross-country and sectoral patterns in the activities associated with technology transfer and, where possible, relate these patterns to policies.

**RSB support:** $160,000

**Staff weeks:** 97

**Road Freight Transport, Competition, and Innovation**

Mark Dutz

*Development Research Group*

Ref no. 683-44

This study will investigate the effects of competition and innovation in an essential business service—road freight transport—on downstream business users. Although the focus is on regulatory reform and increased competition, the study will look beyond the direct effects on service prices and quantities. Instead, it will investigate how the removal of infrastructure bottlenecks following reform affects the growth and restructuring of firms, and the entry of new firms, in industries that use road freight transport intensively.

The study will focus on Hungary and Poland—among the first transition economies in Eastern Europe to adopt procompetition reforms—and Turkey, which has never regulated...
prices and entry in domestic road freight. The research will use a case study approach, surveying trucking firms, freight forwarders, and multimodal service providers, as well as businesses that use the services such firms provide.

**RSB support:** $40,000

**Staff weeks:** 15

### Telecommunications, Competition, and Innovation

**Mark Dutz**

*Development Research Group*

*Ref. no. 683-45*

This study, like the one described above, will investigate how innovations arising from regulatory reform and competition in an essential business service affect downstream business users. It will focus on telecommunications, where innovations can transform the way downstream users do business and competition can dramatically reduce costs.

The study will focus on Estonia, Hungary, and Poland, which have all introduced big shifts in their regulatory regime in the past decade. It will trace the chronology of reforms and try to link innovations in telecommunications with regulatory changes. It will identify the mechanisms through which such innovations could affect users’ operations and measure the gains in their operating margins. The study will survey users in sectors in which telecommunications innovations can have a critical impact: finance, manufacturing, and information technology, publishing, and broadcasting.

**RSB support:** $40,000

**Staff weeks:** 15

### The Dynamics of the Urban Poor and Implications for Public Policy

**Tim Campbell**

*Transportation, Water, and Urban Development Department, Global Urban Unit*

*Ref. no. 683-46*

This study aims to gauge the impact of policy in Brazil on persistent intergenerational poverty in Rio de Janeiro. The study will take advantage of data gathered 30 years ago on 750 residents and community leaders in three squatter settlements of Rio de Janeiro. By repeating interviews with a subsample of the original informants (in some cases, their descendants), the study will generate data with which to evaluate the effects of public policies relating to land, shelter, and the poor over several decades. The study will also explore the outcomes of household survival strategies and the effects of community and nongovernmental organizations as mediators of policy.

**RSB support:** $40,000

**Staff weeks:** 15

### Inequalities in Child Health: Comparing the LSMS and DHS

**Helen Saxenian**

*Human Development Network, Health, Nutrition, and Population Team*

*Ref. no. 683-47*

Indicators of child health almost always are national averages. Thus they reveal little about inequalities across income groups, hampering analysis of the distributional effects of health policies. This study aims to help overcome this problem by testing techniques for measuring child health inequalities.

The study will investigate child health inequalities in six countries using data from two widely used household surveys: the Living Standards Measurement Survey (LSMS) and the Demographic and Health Survey (DHS). Both surveys generate information on child health, but while the LSMS provides data on aggregate household consumption, the DHS lacks income and consumption data. Through rigorous comparison of the results, the study will determine whether analysis of child health inequalities can rely on both sources and compare results from them.

**RSB support:** $40,000

**Staff weeks:** 30

### Markets for Agricultural Inputs and Outputs in Sub-Saharan Africa

**Gershon Feder**

*Development Research Group*

*Ref. no. 683-48*

Despite the strong emphasis on markets today, little is known about the institutions that support market exchange and about how market structures evolve. This study aims to throw new light on these issues by looking at agricultural markets in Sub-Saharan Africa. It will address a simple question: Do markets for agricultural outputs and inputs minimize transactions costs and foster competition?

Through surveys in Benin and Malawi, the study will contrast the market organization of food and cash crops—cotton in Benin, tobacco in Malawi—and examine the institutional arrangements that make trade in agricultural inputs possible. The focus will be on issues of contract enforcement—relational contracting seems to be the norm in Africa—and credit constraints.

**RSB support:** $40,000

**Staff weeks:** 30
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Nontraditional Agricultural Exports in Ecuador: Impacts on Smallholder Agriculture and Household Resource Allocation
Constance Newman, Peter Lanjouw, and Gershon Feder
Development Research Group
Ref. no. 683-50
Economic reform in Latin America has led to a boom in nontraditional agricultural exports and in off-farm employment, especially among women. How have these changes affected rural communities and households?

This research will address that question using the cut flower industry in rural Ecuador as a case study. It will look at the effects of earnings from employment in the industry on the production decisions and earnings of small farmers, on women’s influence in household decisions, and on poverty and inequality. The study will use a quasi-experimental survey to mitigate the problems of endogeneity that are characteristic of intrahousehold analyses.

RSB support: $35,500
Staff weeks: 1.6

Competitive Cities: Urban Primacy and Growth
Zmarak Shalizi
Development Research Group
Ref. no. 683-51
Many urban analysts and social scientists have hypothesized that excessive urban primacy—concentration of national or regional resources in an excessively large metropolitan area—hinders national economic growth. This study will test that hypothesis. Using a panel data set covering about 100 countries since 1960, it will investigate whether there is any relationship—positive or negative—between urban primacy and economic growth. The study will also investigate the determinants of urban primacy.

If it is found that excessive primacy does hinder growth, the analysis of the determinants of primacy should reveal the forces that encourage excessive primacy and help in developing indicators that will signal when excessive primacy is beginning to hurt growth.

RSB support: $40,000
Staff weeks: 13

Preparation for the WTO 2000 Negotiations
Bernard Hoekman and Will Martin
Development Research Group
Ref. no. 683-54
This project is aimed at strengthening the capacity of developing countries to formulate and pursue negotiating objectives in multilateral trade negotiations in the World Trade Organization (WTO), through an integrated program of research and dissemination.

Developing country scholars, in collaboration with international specialists, will prepare 25 papers detailing current policies of developing country governments, identifying policy options in the context of the WTO negotiations, and analyzing the costs and benefits of these options.

The research results will be incorporated into a set of thematic papers and reflected in recommendations on developing country interests in the negotiations. After the negotiations begin, the project’s focus will shift to assisting policymakers through workshops and other activities. A key part of this will be a handbook for trade negotiators that will include software for evaluating market access conditions and negotiating options.

RSB support: $300,000
Staff weeks: 210

Efficiency and Distribution Effects of China’s Social Security Reform
Yan Wang
World Bank Institute, Economic Policy and Poverty Reduction Division
Ref. no. 683-52
One of the biggest challenges China faces in moving to a market-based economy is transforming its social security system from a fragmented, urban-based, largely pay-as-you-go system to one that is unified, multipillar, and partially funded.

A critical decision is how the public pillar should be financed, because the choice can have important implications for the economy and for household welfare.

This study will consider three primary sources of financing for the public pillar: general tax revenues, a payroll tax, and a social security tax paid by workers. Using a computable general equilibrium model encompassing 22 sectors, 12 income groups, and 5 factors, the study will examine the effects of the three financing sources on GDP, inequality, aggregate demand, consumption, and investment.

RSB support: $40,000
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RESEARCH PROPOSAL UNDER PREPARATION

Pollution from Chemical Use in Agriculture: Background Study, Methodological Preparation, and Initial Data Collection
Susmita Dasgupta
Development Research Group
Ref. no. 683-37
RSB support: $26,500
Publications and Data

For information on how to order the World Bank publications reviewed in this issue, see page 16.

Books

Annual World Bank Conference on Development Economics 1998
Boris Pleskovic and Joseph E. Stiglitz, editors
The tenth Annual World Bank Conference on Development Economics (ABCD) dealt with four difficult topics in development: the role of geography in countries’ success (with Paul Krugman, John Luke Gallup, and Jeffrey Sachs), the role and design of regulation and competition policy (Paul Joskow and Jean-Jacques Laffont), the causes of financial crises and ways to prevent them (Bruce Greenwald, Aslı Demirgüç-Kunt, and Enrica Detragiache), and how ethnic conflict affects democracy and growth (Paul Collier and Donald L. Horowitz). This volume presents the participants’ papers on these topics. It also includes insights from Stanley Fischer, Joseph E. Stiglitz, Nobel prize winner James Tobin, and World Bank President James D. Wolfensohn.

Can the Poor Influence Policy?
Participatory Poverty Assessments in the Developing World
Caroline M. Röbb
Directions in Development Series
Poverty analysts have recently begun using a new tool—the participatory poverty assessment (PPA). PPAs use participatory research methods to understand poverty from the perspective of the poor. They have consistently shown that poor people emphasize different dimensions of poverty than those typically used in policy analysis—such as vulnerability, powerlessness, lack of dignity, physical and social isolation, and lack of security and self-respect.

PPAs are responding to the challenge of inclusion by directly presenting to policymakers the views of the poor as part of a national dialogue to influence policy. This book summarizes the World Bank’s experience in using PPAs and discusses the lessons emerging from that experience.

Cross-Country Evidence on Public Sector Retrenchment
John Haltiwanger and Manisha Singh
Using information on 41 retrenchment programs in 37 developing and transition economies, this article analyzes the relationships between the factors leading to retrenchment, the scope and nature of retrenchment, and the methods used for the retrenchment. Although quantitative information is limited, the article also attempts to evaluate the outcome of the programs in several areas.

The Efficient Mechanism for Downsizing the Public Sector
Doh-Shin Jeon and Jean-Jacques Laffont
This article analyzes the efficient mechanism for public sector downsizing, focusing on adverse selection in productive efficiency. Each worker is assumed to have two type-dependent reservation utilities: the status quo utility before downsizing and the utility the worker expects to obtain by entering the private sector. The efficient mechanism consists of a menu of probability (of remaining in the public sector) and transfer pairs that induces self-selection.

Earnings and Welfare after Downsizing: Central Bank Employees in Ecuador
Martin Rama and Donna MacIsaac
This article measures the earnings and welfare losses of displaced employees of the Central Bank of Ecuador. It links these losses to individual characteristics such as education and public sector salary. And it derives the implications of the findings for the design of assistance programs for displaced workers and the tailoring of compensation packages to their characteristics.
Matching Severance Payments with Worker Losses in the Egyptian Public Sector
Raggi Assaad
This article estimates the losses that public sector workers would incur if displaced from their jobs and simulates several voluntary severance schemes to determine how well the schemes match compensation payments to these expected losses. It shows that matching payments to expected losses can avoid significant overpayment and provides a method for estimating these losses from standard labor force surveys.

The Algerian Retrenchment System: A Financial and Economic Evaluation
Elizabeth Ruppert
The Algerian government has adopted a new retrenchment system to ease public sector labor shedding in an environment of already high unemployment. This article assesses the financial viability of the system and the inherent welfare costs and benefits associated with layoffs. It looks at the implications for the Unemployment Insurance Fund and for productivity.

Labor Earnings in One-Company Towns: Theory and Evidence from Kazakhstan
Martin Rama and Kinnon Scott
This article looks at how downsizing state enterprises affects one-company towns, a frequent legacy of state-led development strategies. It develops a simple model combining monopsony power in the labor market with a Keynesian closure of the product market and uses it to interpret the findings of previous studies. The article evaluates the impact of the company's employment level on the town’s labor earnings in Kazakhstan.

Discussion, Technical, and Related Papers

Institutional Frameworks in Successful Water Markets: Brazil, Spain, and Colorado, USA
Manuel Mariño and Karin E. Kemper, editors
Technical Paper 427
This paper explores institutional frameworks in three case studies of long-standing and successful water markets. These cases demonstrate the common features and essential elements of water markets and show how to design markets that take into account the local institutional, social, and political conditions.

Latin American Insolvency Systems: A Comparative Assessment
Malcolm Rowat and José Astigarraga
Technical Paper 433
Drawing on case studies of Argentina, Brazil, Mexico, and Venezuela, this paper reviews the key legal and institutional issues in bankruptcy reform in Latin America. It notes that effective bankruptcy policy balances several requirements for a stable, successful economy. For example, in some cases allowing a company to restructure and to use the scarce resources it still holds might be in the greatest interests of all concerned. But inefficient firms may need to fail in order to free space in the market for better-managed companies. Also critical are enforcing loan contracts and providing an equitable system of debt collection.

Policy Research Working Papers

Working Papers disseminate the findings of work in progress and encourage the exchange of ideas among Bank staff and all others interested in development issues.

Working Papers can be downloaded from the Website www.worldbank.org/html/dec/Publications/Workpapers/home.html or requested from the contact person indicated at the Bank’s main address.

Water Challenge and Institutional Response (A Cross-Country Perspective)
R. Maria Saleth and Ariel Dinar
WPS 2045 • Contact Fulvia Toppin, room S3-052, fax 202-522-3066.

Restructuring of Insider-Dominated Firms
Simeon Djankov
WPS 2046 • Contact Rose Vo, room MC9-624, fax 202-522-2031.

Ownership Structure and Enterprise Restructuring in Six Newly Independent States
Simeon Djankov
WPS 2047 • Contact Rose Vo, room MC9-624, fax 202-522-2031.

Corruption in Economic Development: Beneficial Grease, Minor Annoyance, or Major Obstacle?
Shang-Jin Wei
WPS 2048 • Contact Hedy Sladovich, room MC2-609, fax 202-522-1154.

Household Labor Supply, Unemployment, and Minimum Wage Legislation
Kaushik Basu, Garance Genicot, and Joseph E. Stiglitz
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Stijn Claessens, Simeon Djankov, and Larry H. P. Lang
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Access to Land in Rural India
Robin Mearns
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Agricultural productivity, access to rural credit, and thus investment, efficiency, equity, and poverty—all are strongly influenced by a country’s policies on land use, tenure, and titling. To support efforts to improve land policy and its implementation, the World Bank has created a Website to provide tools and information and encourage collaboration among policymakers, researchers, and practitioners.

The Land Policy Network, at www.worldbank.org/landpolicy, provides information about land policy in developing countries and a bibliography of papers on the topic, many of which can be downloaded. As the Website develops, it will disseminate materials from conferences and workshops and provide practical tools, including data sets and training curricula. Early on most of this material will come from the World Bank, but as the network develops, much will come from other participants. The network will support the collaborative development of databases containing, for example, sample land title laws.

Among the tools already on the site is a set of questionnaires used to collect information on land use in China. The household questionnaire (administered in 1988 and 1993) includes questions on household characteristics, farm inputs and assets, and crop output, consumption, and marketing. Two village questionnaires (one administered in 1993 and a supplementary one used in 1997) cover such areas as basic economic and demographic statistics, and land distribution, tenure, and management. The site explains how to obtain the data collected with these surveys.
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