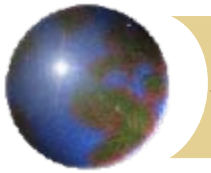


Growth in the 1990s: Lessons from a Decade of Reforms

**PSD Seminar on Investment Climate
Reform**

Washington, June 2006



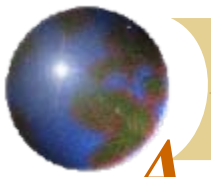
*It is ideas, not vested interests,
which are dangerous for good or evil.*

John Maynard Keynes (1883-1946)



Presentation Outline

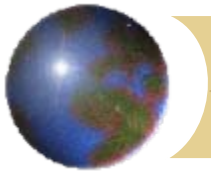
1. Motivation
2. Approach
3. Main Lessons



Motivation

A Decade Propitious for Economic Growth in Developing Countries

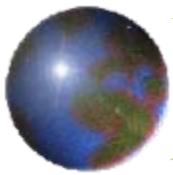
- End of communism
- End of central planning in India, continuations of reforms in China
- End of inflation in Latin America
- Macro stabilization, trade openness, privatization, financial sector reform, X-rate liberalization
- Favorable external environment



Motivation

Growth in the 1990s Challenged Expectations: Uneven Responses to Reform

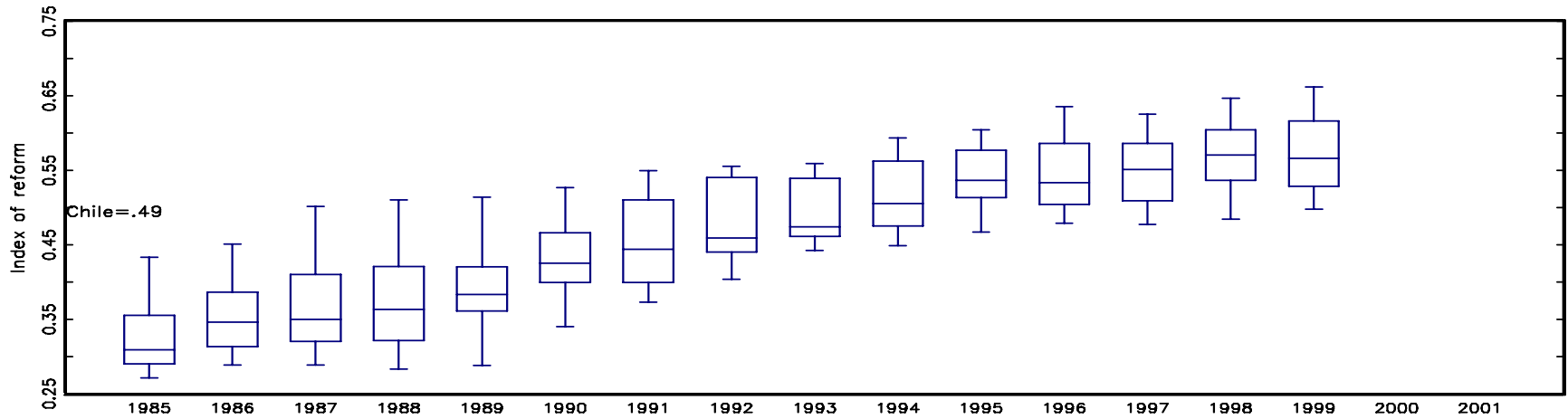
- No set formula of success: China, India, Vietnam, Chile, Indonesia, Botswana, Tunisia, Egypt
- Growth below expectations in AFR & LAC, despite reform (Bolivia, Malawi, El Salvador, Brazil, Argentina)
- Length and depth of ECA recession, and uneven recovery (Poland v. Ukraine)
- Multiple financial crises: Mexico 1994, EAP 1997, Russia & Brazil 1998, Turkey 2001, Argentina 2002



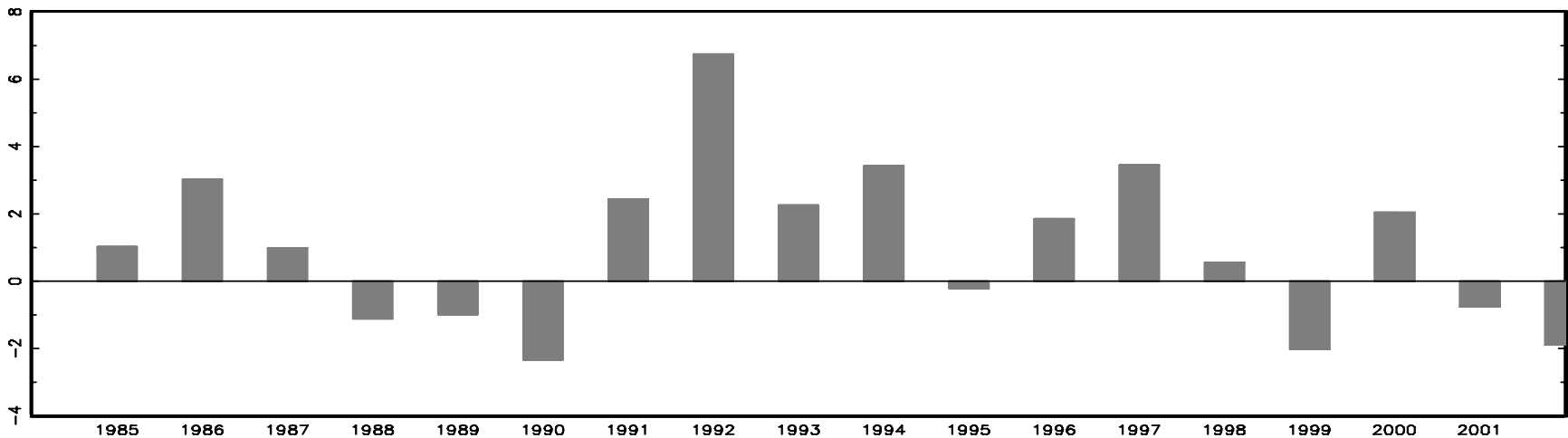
Motivation

LAC: Steady Reform, Erratic Growth

Distribution of reform index for 16 LAC countries
(Box plots showing mean, 10th, 25th, 75th and 90th percentiles)



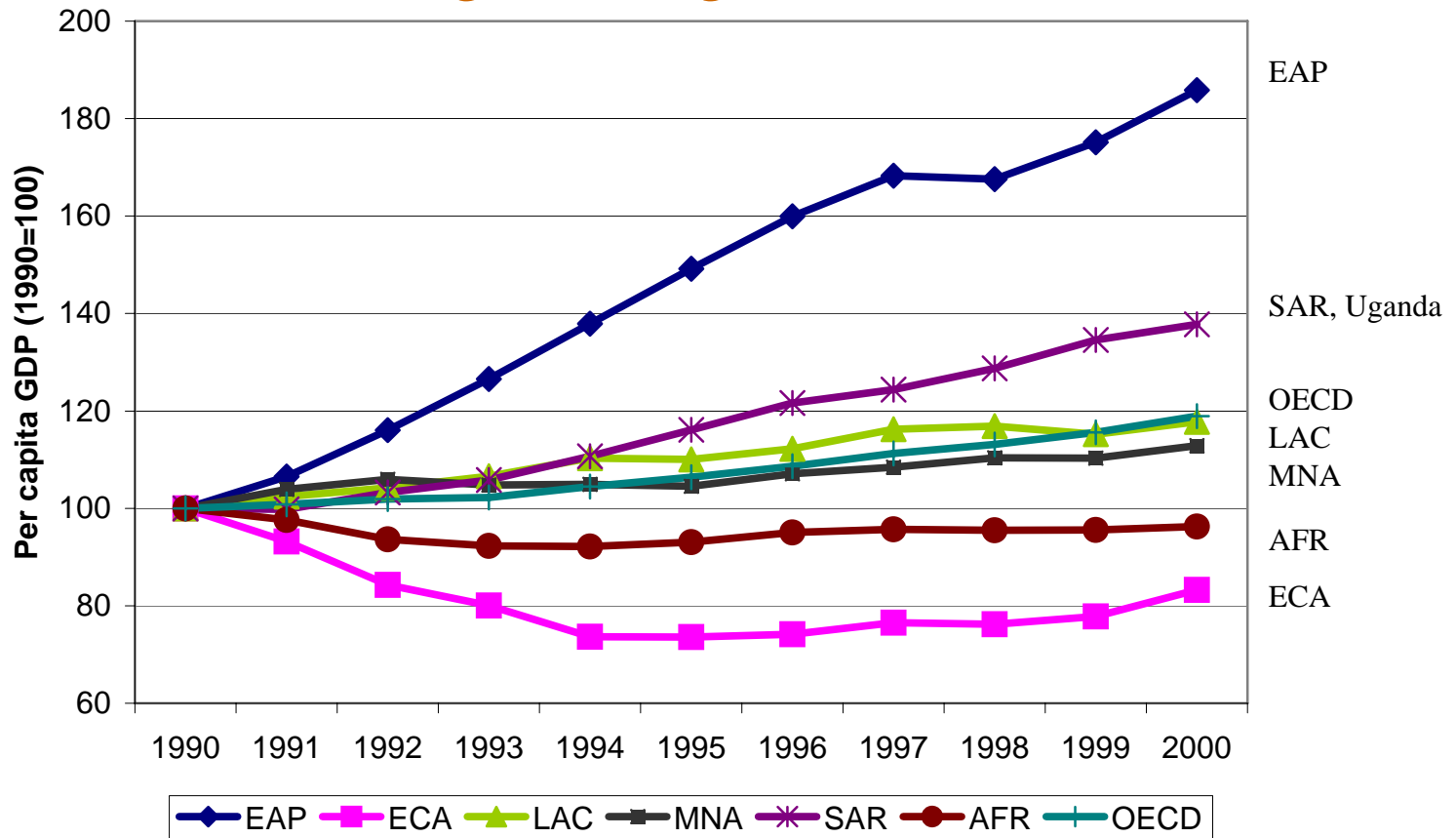
LAC regional growth in GDP per capita

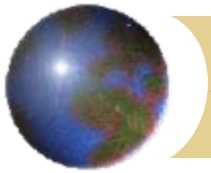




Motivation

Growth in the 1990s: A Mixed Record (divergence “big time”)





Approach

Analysis Informed by Experience

Three perspectives, three publications:

- *Analytical*, (a report)
- *Policy* (lectures by “practitioners”)
- *Operational* (former country directors)



Lessons from the 1990s

- Macroeconomic Stability: The More The better?
- Trade Liberalization: Why So Much Controversy?
- Privatization and Deregulation: A Push Too Far?
- Financial Liberalization: What Went Right, What Went Wrong?
- Public Sector: The Gran Challenge?
- Political Systems: Does Democracy Help?



Lessons from the 1990s

Lessons from Development Practitioners

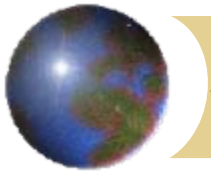
- An impressive list of speakers enabling practical perspective to complement analytical findings
- Themes from Practitioners' lectures:
 - **Rigor, no formula, country ownership and specificity:** Gaidar, Ahluwalia, Botchwey, Dervis, Blejer, Rima Khalaf
 - **Complexity and Learning by doing:** Ahluwalia
 - **Sharing the benefits of growth:** Foxley, Cardoso, Aninat
 - **Focus on the binding constraint:** Foxley



Lessons from the 1990s

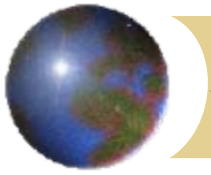
Lessons from Former CDs

- **Unrealistic expectations** about what reforms could achieve (macro, finance, trade, finance, privatization)
- **Common principles, heterogeneous implementation:** no two successes are alike; policies and institutions perform functions, but function does not determine form.
- **Country specificity.** Successful growth strategies are country specific, *no formulae*. Successful growth experiences result from *strategy*, not universal policy packages. Need for selectivity: address *binding* constraints, in the right sequence, as they emerge
- **Need to change the mindset:** expertise tempered by humility, strengthened by inquisitiveness



Five Lessons About Growth: Reforms...

1. ...focused on efficient use of resources, not on expansion of productive capacity
2. ... underestimated the value of growth oriented macro economic management
3. ... mistook sound principles for rigid rules
4. ... sought to roll back government role and discretion beyond pragmatically feasible.
5. ... sought to address any and all constraints, rather than *binding* constraints



Thank you