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## The Lamentable Return of the Big Push in Economic Development

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# **The Lamentable Return of the Big Push in Economic Development**

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NYU

Seminar at Kiel July 2005

# Since the 1950s...

- We have gotten air conditioning, DVDs, CDs, personal computers, the Internet, life-saving drugs, and sex in movies...
- ...but apparently we haven't made any progress in development economics – we are talking about the same theories today as we were in the 1950s.

# The 1950s

- Walt Rostow argued that countries could emerge out of stagnation thanks to an aid-financed increase in investment, after which they would “take off” into self-sustained growth
- Paul Rosenstein-Rodan calls for Big Push: large-scale externally-financed investment program, necessary because of external economies and complementarities between different investments

# 2005: The Big Push makes a comeback in policy circles

- UN Millennium Project recommends in January 2005 “a big push of basic investments between now and 2015”
- “A combination of investments ... can enable African economies to break out of the poverty trap. These interventions need to be applied ... jointly since they strongly reinforce one another.” (Sachs, *The End of Poverty*, 2005, p. 208)
- “The actions proposed by the Commission constitute a coherent package for Africa. The problems they address are interlocking. They are vicious circles which reinforce one another. They must be tackled together. To do that Africa requires a comprehensive ‘big push’ on many fronts at once.” (Tony Blair Commission for Africa, 2005)
- July 2005 G-8 Summit now going on considers increase in aid to Africa to finance Big Push

# Endorsement of Plan to end world poverty by leading economists

- U2 lead singer Bono: “The plan ...of cutting world poverty by half... is a handbook on how we can finish the job...It’s up to us.”
- This vision was so inspiring to Sharon Stone at World Economic Forum in Davos in 2005 that she jumped up and raised \$1 million in 10 minutes for the Plan



# Is Big Push necessary because there are Poverty traps for poor countries?

- Poorest countries are too poor to be able to save enough to grow.
- Some kind of increasing returns to scale, such as lumpy fixed costs or strong complementarities between investments, creates poverty trap.

# Growth 1950-2001 of poorest countries

- Analyze panel of poorest 20 percent in 1950 over subsequent period 1950-2001
- Statistical tests of panel stationarity of poorest fifth of countries strongly reject stationarity



# Relationship to aid

- Maybe aid allowed poor countries to escape poverty trap.
- Divide sample into “low aid” and “high aid”
- However, results on nonstationarity in the previous table are identical in both samples.

Poor countries do grow more slowly in some periods

- Is that due to a technological poverty trap, or bad institutions and governments?

# Divergence Big Time

- Divergence over the long run (e.g. 1820-2001) as pointed out by Pritchett (1997)
- Even though rich nations in 1820 grew faster over the next two centuries than poor ones, we can reject that predicted growth of poorest countries is zero, failing one of the criteria for poverty traps
- Still it is of interest to see if divergence big trap is partial support for spirit of poverty trap: why is there lower growth of poor countries (as there was in 1985-2001)?

# Poverty trap vs. Bad Government

- Jeffrey Sachs says “the claim that Africa’s corruption is the basic source of the problem {the poverty trap} does not withstand practical experience or serious scrutiny”
- Likewise the Millennium Project says “Many reasonably well governed countries are too poor to make the investments to climb the first steps of the ladder.”

# Poverty trap versus bad government

- is Divergence changed by conditioning on average institutions?
- My measure of institutions: Polity IV democracy measure either (1) averaged over available years, or (2) restricted to countries independent at least 75 years, or (3) coding colonialism as zero democracy

IV Regressions for Per Capita Growth 1820-2001  
(t-stats in parentheses)

Regressions	1	2	3
Log initial income	<b>0.00269</b> <i>1.64</i>	<b>0.00184</b> <i>1.03</i>	<b>-0.00069</b> <i>-0.35</i>
Polity IV Democracy Average over whole period	<b>0.00067</b> <i>2.57</i>	<b>0.00065</b> <i>3.44</i>	
Polity IV Democracy Average Corrected for Colonies			<b>0.00109</b> <i>3.74</i>
Constant	<b>-0.00791</b> <i>-0.77</i>	<b>-0.00142</b> <i>-0.12</i>	<b>0.01374</b> <i>1.13</i>
Observations	45	30	45

# Divergence in recent data, 1960-2002

- Early growth literature did not find divergence, but poor performance of low and middle income countries over 1985-2002 means we now have divergence in the data for the whole period 1960-2002 relative to initial income in 1960.
- Do we still get divergence conditioning on institutions like “democracy” or “economic freedom”?

## IV regressions for growth per capita 1960-2002

	<b>0.0043</b>	<b>-0.0124</b>	<b>-0.0177</b>	<b>-0.0145</b>
Initial income	<i>3.12</i>	<i>-2.13</i>	<i>-2.17</i>	<i>-2.21</i>
Average Polity IV Democracy, 1960-2002		<b>0.0048</b>		
		<i>2.80</i>		
Average Freedom House Political Liberties, 1972- 2002			<b>0.0126</b>	
			<i>2.52</i>	
Average Economic Freedom, 1970- 2002				<b>0.0225</b>
				<i>2.63</i>
Constant	<b>-0.0148</b>	<b>0.0855</b>	<b>0.1918</b>	<b>0.0007</b>
	<i>-1.40</i>	<i>2.42</i>	<i>2.48</i>	<i>0.05</i>
Observations	116	91	93	85



# The Big Push implies “takeoffs”

- Define takeoff as a shift in adjacent periods from “zero per capita growth” to “sustained normal positive per capita growth”
- Big Push enables a Takeoff, i.e. when there is a break such that all prior periods are “zero growth” and all subsequent periods are “normal growth.”
- I first try some heuristic definitions looking for takeoff episodes, then I will apply more formal statistical analysis

# Episode analysis

- I will arbitrarily define periods, “zero”, and “normal” and then do some robustness checks
- I arbitrarily define zero per capita growth as growth between -0.5 and 0.5 percent per annum, and “normal” growth as any sustained growth above 1.5 percent.

# Rich country takeoffs

- Periods are determined by available dates in Maddison: 1600-1700, 1700-1820, 1820-1870, 1870-1913, 1913-1960, 1960-2001
- Out of 20 developed countries with data, only 1 satisfies definition of “take-off”:  
Japan

# Maddison has historical data for 44 developing countries at least as early as 1913

- Only 5 takeoffs: Hong Kong, India, Singapore, South Korea, Thailand
- Others had gradual acceleration of growth, erratic growth, and/or especially failed to sustain “normal” growth
- Robustness check: define zero growth as between -1 and 1 and normal growth as above 2 percent per capita: this adds China, Indonesia, Taiwan, and Vietnam, but drops Hong Kong, India, and Singapore, whose growth had intermediate phase of 1.5 percent.

# More formal testing

- Bai and Perron test for structural breaks, determines # of breaks and date of breaks
- Choose parameters so that max of 2 breaks in postwar data, 3 breaks for longer time series.
- Data from Maddison on 141 countries for at least 1950-2001, longer for many countries as early as 1870.
- Finds only 4 takeoffs.

## Takeoffs in mechanical procedure and aid, 1960-75

Country Name	Foreign aid as a percent of Gross National Income, 1960-75 except where noted
China	#N/A
Hong Kong	0.11
India	1.82
Indonesia	3.93
Korea, Rep. (incl 50s)	8.39
Singapore	0.46
Taiwan (incl 50s)	3.75
Thailand	0.90
<i>Median for whole sample</i>	2.78

# Relationship to aid

- Aid above median for 3 out of 8 takeoffs in episode analysis: Indonesia, South Korea, Taiwan. Korea seems like strongest case of aid-financed takeoff.
- However, there were other countries with high aid that did not take off.
- Aid/GDP 1960-75 is not a significant predictor of probability of having a takeoff 1950-75 (earlier data not available, except for Korea and Taiwan)

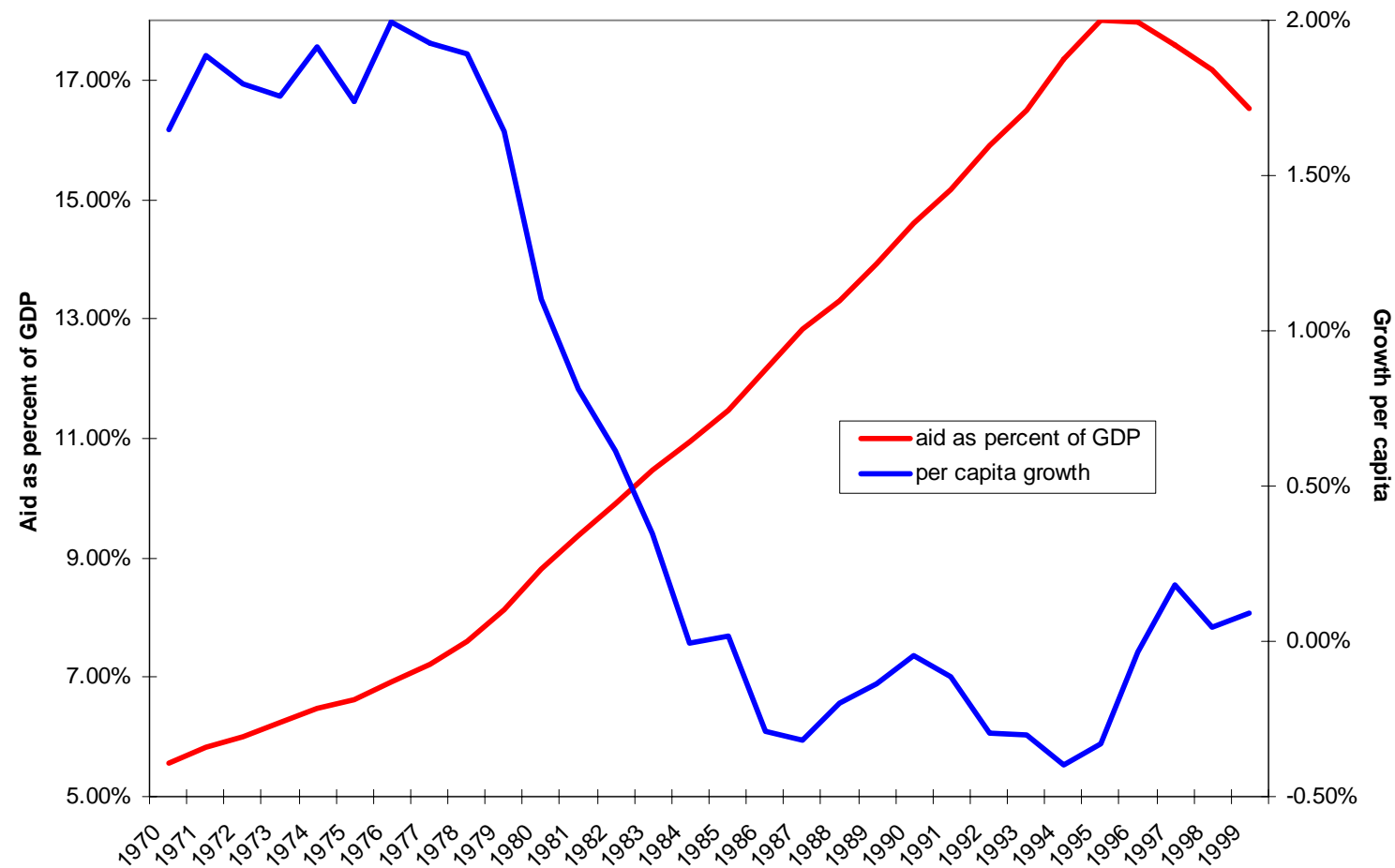
# Does aid raise growth? The endless cycle of studies

- (1) Boone 1996 found that aid did not finance investment or raise growth
- (2) Burnside and Dollar 2000 find that “aid raises growth in a good policy environment”
- (3) Easterly, Roodman, and Levine 2003 find that applying “new data test”, B&D finding no longer holds
- (4) Clemens, Radelet, and Bhavani 2004 find that “short-impact aid” raises growth regardless of policy environment
- (5) Rajan and Subramanian 2005 at IMF find no evidence that “short impact aid” or any other kind of aid raises growth, regardless of policy environment
- Aid agencies frequently mention (2) and (4), do not mention (1), (3), or (5)



# Aid and growth over time in Africa

Figure 2: Aid and growth in Africa (10-year moving averages)



# So what's wrong with the Big Push?

- Big Push gives power to Planners rather than Searchers in economic development
- Planning doesn't work well because global blueprints do not get feedback from local conditions and needs to know what, where, and when something is needed.
- Planners embrace collective responsibility for big global goals, which means no one of them is responsible for any one task to execute successfully
- Trying to achieve many goals lessens accountability for achieving any one goal.

# Big Push gives power to Planners

- “Each low income country should have the benefit of a united and effective United Nations country team, which coordinates in one place the work of the UN specialized agencies, the IMF, and the World Bank. In each country, the UN country team should be led by a single United Nations resident coordinator, who reports to the United Nations Development Program, who in turn reports to the UN secretary-general.” (Sachs 2005, p. 285)

# The Big Push causes us to focus on total amount of aid, a completely unproductive focus

- The producers of the movie *Catwoman*, voted the worst movie of 2004, would not brag that they spent \$100 million on making the movie.



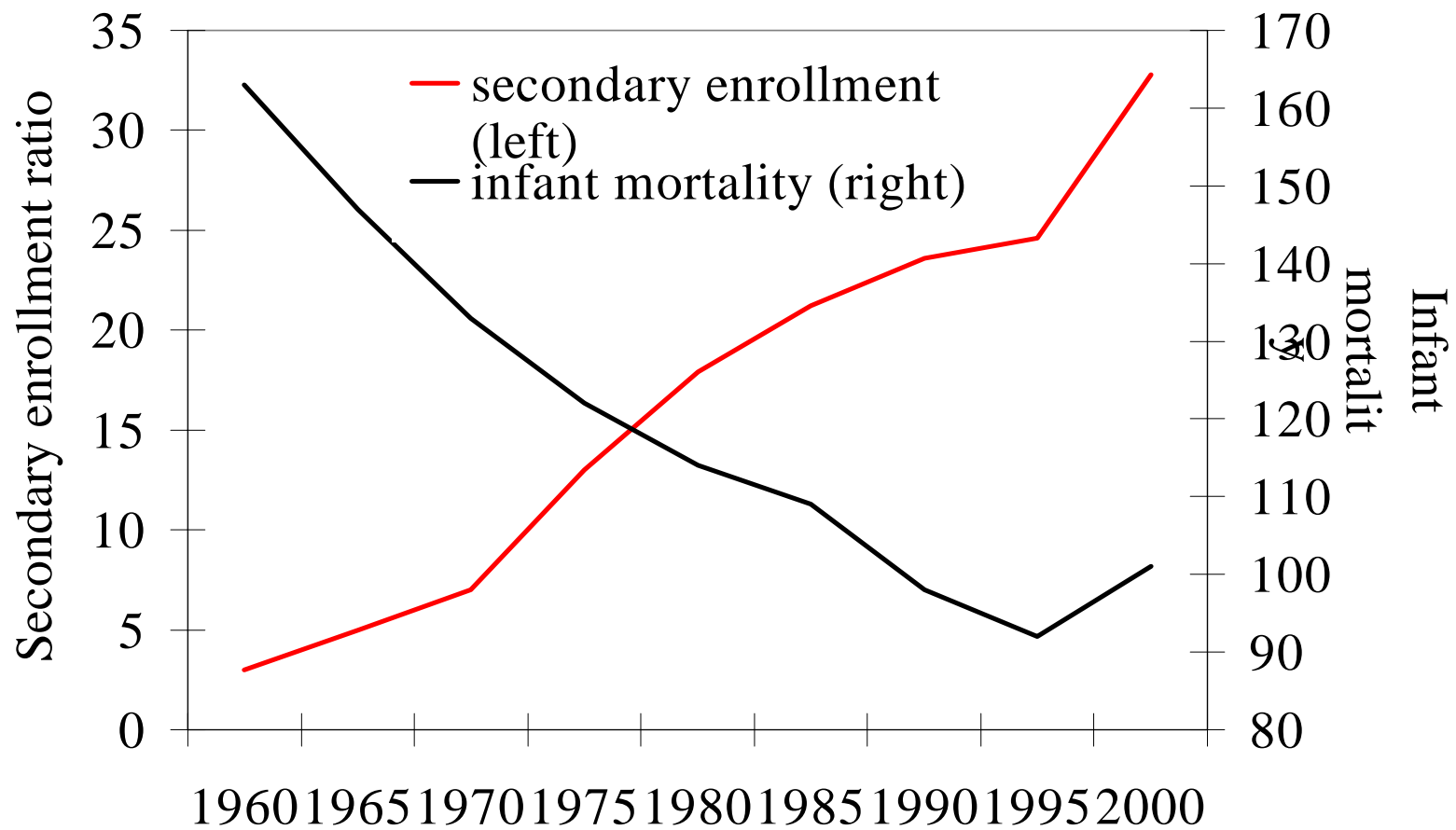
# Big Push focuses on Millennium Development Goals for 2105

- Everyone is responsible for these goals, which means nobody is individually responsible.
- Nobody was held responsible for the failure of a previous 1990 UN goal to achieve universal primary enrollment by 2000.

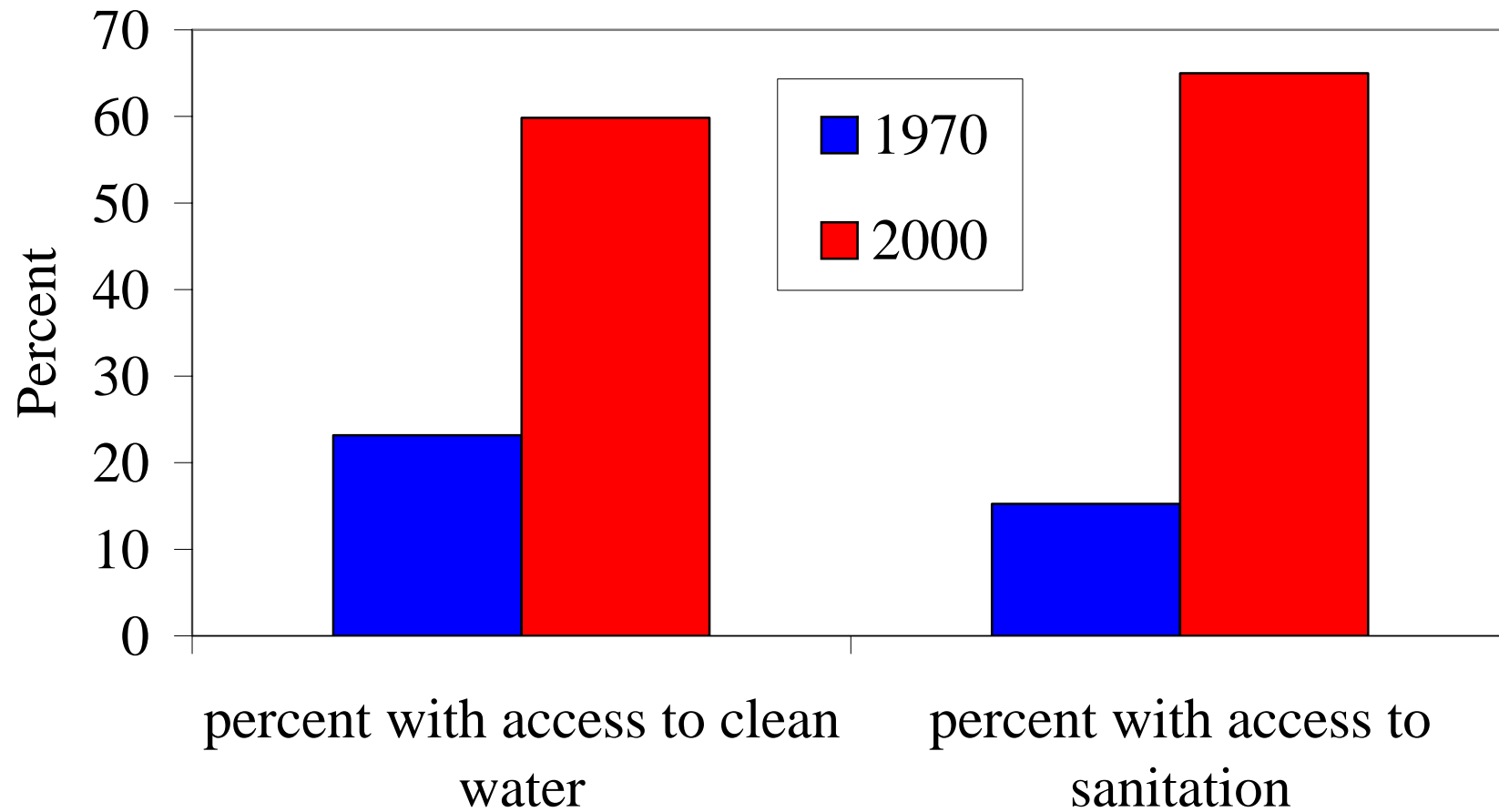
# Searchers have more success at making specific things work in aid

- Casual observation suggests some aid success stories in specific things like vaccination, wiping out specific diseases, access to clean water, expanding education through incentive programs to keep kids in school, giving macroeconomic advice.
- Scientific evaluation can find out what aid agencies do now that is working, so they can do more of it...
- ...using the resources freed up by getting rid of Big Pushes.
- Proper accountability would involve much more specialization among aid agencies.
- It will then be much easier to use evaluation to get aid agencies to be accountable and motivated to achieve specific benefits for poor people, than have them jointly accountable for Big Pushes.

## Good Education and Health Outcomes in Africa



## More good news: clean water and sanitation in sub-Saharan Africa





How to take power away from Big Push planners and give it to Searchers: make aid bureaucracies more accountable to the poor

- Aid agencies badly need more independent scrutiny
- Have outside watchdogs do truly independent and scientific evaluation of a random sample of all aid agency projects and programs
- Think of mechanisms to give poor more choice and feedback on aid they receive.
- Aid agencies would then feel pressure to rely on Searchers to find things that work, rather than indulging the fantasy of the Big Push.

# Conclusion

- Development experience contradicts traditional narrative of a poverty trap followed by aid-induced Big Push, followed by Takeoff.
- Evidence does not support poverty traps at low income
- Evidence suggests takeoffs are an atypical development experience, and they are not related to aid nor does aid cause growth.
- Big Push is a retro exercise in Planning that has failed again and again. Time to give power to Searchers who quietly achieve specific results.

# Development researchers

- Expose the bad economics of Planners...
- Advocate more power for Searchers...
- You yourself be a Searcher for practical things that work to alleviate suffering for poor people.

# Going forward

Let economists and common people both keep searching,  
so that development of the people, by the people, and  
for the people does not perish from the earth.

