

IRIS PROJECT

QUARTERLY REPORT ON THE PERIOD
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IRIS

Quarterly Report

(April - June, 1993)

July 31, 1993

This report describes the activities of IRIS in the fourth quarter of Fiscal Year 1993 (April - June, 1993) as well as the activities that IRIS has programmed for the next quarter, July - September. The report concludes with a summary of how these activities represent progress towards the program goals for its third year, which are described in the IRIS FY 1993 Annual Plan.

IRIS Activities in the Fourth Quarter (for a review of activities in Chad, Mongolia, Nepal and Poland, see attached quarterly reports)

1. Work in Particular Countries

a) *India*

On April 16-18, 1993 IRIS co-sponsored a conference on "Economic Liberalization in South Asia" at the University of California at Berkeley. Some 30 economists from India, Bangladesh, England and the United States gathered to discuss economic reforms in India, Pakistan and Bangladesh. Dr. Mancur Olson gave a talk about reform prospects and political constraints in South Asia, and Dr. Satu Kähkönen made a presentation about the proposed IRIS/India project. A copy of the conference program is attached.

On April 22 IRIS co-sponsored with the UMCP Office of International Affairs a mini-conference on "Economic Reform in India, Bangladesh and Nepal" at the University of Maryland at College Park. More than 60 academics, policy-makers, business, and professional people from the Washington-Baltimore area attended the conference. Several IRIS staff made presentations. Dr. Satu Kähkönen talked about economic reforms in India while Dr. Philip Keefer informed the audience about reforms in Nepal. Dr. Christopher Clague was the discussant. Other speakers in the conference

were Professor Anisur Rahman from Jahangirnagar University, Bangladesh, who talked about economic problems in Bangladesh. Ms. Denise Valois and Mr. Timothy Hauser, both from the U.S. State Department, spoke during the luncheon about U.S. activities and interests in South Asia. The Ambassador of Bangladesh, Mr. H.E. Abul Ahsan, was the guest of honor at the conference and the luncheon. The program of the mini-conference is attached.

On May 5 IRIS organized a Worldnet tele-video conference among Washington, New Delhi, and Bombay on the topic of incentives and economic reforms in India. The goal of the Worldnet session was both to involve leading Indian researchers in discussions of issues that are at the heart of the research agenda that underlies the proposed IRIS India project, and to communicate the importance of institutional incentives and the role of special interest groups in India. The tele-video conference was exceptionally well-received in India. The audience attending the session was larger and participated to a greater extent than is typical for Worldnet audience. The *Economic Times* in India carried an article on the event. A copy of that article is enclosed.

Expected Impact:

Economic liberalization is still a fragile process on the subcontinent. Sharing and comparing the different liberalization experiences and obstacles among the different countries of the region is an important vehicle for choosing better, more rapid paths to economic and political modernization. This is especially true because of the tremendous economic and political importance that India holds for all of the other countries in the area, and the likely effects that this importance creates for its liberalization choices on those of its neighbors.

b) *Madagascar*

IRIS continued its collaboration with the Mission in Antananarivo in designing activities to improve the legal environment for business investment in Madagascar. It assisted the Mission in developing scopes of work, and began contracting efforts. These discussions with IRIS experts at the Hoover Institute, Boston University Law School and Louisiana State University Law School.

Expected Impact:

When contracting is completed, IRIS will be able to move rapidly on the preparation of a roundtable in Madagascar to discuss investment environment issues. Our experience elsewhere (Chad and Nepal, particularly) suggests that the roundtable will serve to draw the attention of policy makers and others to the legal, regulatory and political problems of the country, and to obtain some commitment from them regarding specific reforms. The need for reforms in these areas was amply documented by IRIS in its earlier report (see IRIS Country Report No. 11, cited below), which noted conditions ranging from excessive and excessively arbitrary

regulation of business to an inadequate judicial system to a chaotic macroeconomic situation brought on in large part by the unrestrained use of government resources for the private purposes of some officials.

2. Dissemination of information to build awareness of the role of institutions in economic development:

- a. On May 3 IRIS organized another event in the WAFER series, which took place in the main auditorium of the Brookings Institution. The event was a panel discussion on "Japan's Role in the World: A Foreign Policy Beyond Trade." It featured two members of the Japanese parliament (Diet), Iwao Matsuda and Takeshi Maeda, both participants in Reform Forum 21. At the time, Reform Forum 21 was a reform faction inside the Liberal Democratic Party. It has since constituted itself as a separate party, and made substantial gains in the last election. Jonathan Rauch, contributing editor of the *National Journal*, and Professor I.M. Destler of the University of Maryland School of Public Affairs, served as panel discussants and Philip Keefer, of IRIS, moderated. The event was broadcast on C-Span, and proved to be a valuable introduction to Americans of the foreign policy and foreign aid thinking of Japan's political reform movement.
- b. Dr. Mancur Olson talked on April 2-4 at the University of California Multicampus Group in Economic History (Pasadena, CA) on his paper titled "Beyond the Measuring Rod of Money". On April 22-24 he attended a conference on "Overcoming the Transformation Crisis" at the Kiel Institute of World Economics in Germany. The topic of his talk at the conference was "Why is Economic Performance Even Worse When Communism is Abandoned?" On May 20-21 Dr. Olson attended a conference on the Political Economy of Regulation. On June 4-5 Dr. Olson gave two talks at the Centre for Economic Policy Research in Berlin. His topics were "From Communism to Market Democracy" and "Further Thoughts on the Rise and Decline of Nations". On June 8 Dr. Olson talked at the Moscow Higher School of Economics and on June 10-11 he was at a conference sponsored by Centre for Economic Policy Reform (Institut för Framtidstudier) in Lund, Sweden. Finally he spoke about "The Evolution of Totalitarian and Competitive Political Systems" at the Western Economic Association meetings in Lake Tahoe, Nevada, June 20 - 24.
- c. Three IRIS books are in progress or have been published: Dennis Mueller, *Constitutional Democracy*, draft book, February 1993.

Karla Hoff, Avishay Braverman and Joseph E. Stiglitz (eds.), *The Economics of Rural Organization*, Published for the World Bank by Oxford University Press, 1993.

Lynn Nelson and Irina Kuzes, *Property to the People: The Struggle for Radical Economic Reform in Russia*, draft book, May, 1993.

Fourteen papers were added to IRIS Working Paper Series:

Daniel M. Schydrowsky, "Foreign Exchange Regimes for Dutch Disease Prone LDCs," IRIS Working Paper No. 46, February, 1993.

Wallace E. Oates and Robert M. Schwab, "The Impact of Urban Land Taxation: The Pittsburgh Experience," IRIS Working Paper No. 47, October, 1992.

Vyacheslav A. Nikonov and Peter C. Ordeshook, "Russia's Transition to Democracy: Essays 1-10," IRIS Working Paper No. 48, December, 1992.

Vyacheslav A. Nikonov and Peter C. Ordeshook, "Russia's Transition to Democracy: Essays 11-18," IRIS Working Paper No. 49, December, 1992.

Peter C. Ordeshook and Olga V. Shvetsova, "Ethnic Heterogeneity, District Magnitude, and the Number of Parties," IRIS Working Paper No. 50, January, 1993.

Peter C. Ordeshook and Thomas Schwartz, "A Constitution for the Russian Federation," IRIS Working Paper No. 51, June, 1993.

Mancur Olson, "Dictatorship, Democracy, and Development," IRIS Working Paper No. 52, March, 1993.

Wallace E. Oates, "Fiscal Decentralization and Economic Development," IRIS Working Paper No. 53, April, 1993.

Barry R. Weingast, "The Political Foundations of Democracy and the Rule of Law," IRIS Working Paper No. 54, April, 1993.

Christopher Clague, "The Transformation of Socialist Economies: Alternative Approaches and Early Lessons of Experience," IRIS Working Paper No. 55, June, 1993.

Peter C. Ordeshook and Thomas Schwartz, "Constitutional Reform: What direction Now?" IRIS Working Paper No. 56, June, 1993.

Christopher Clague and David Greenaway, "Incidence Theory, Specific Factors and the Augmented Heckscher-Ohlin Model," IRIS Working Paper No. 57, June 1993.

Karla Hoff and Joseph Stiglitz, "A Theory of Imperfect Competition in Rural Credit Markets in Developing Countries: Towards a Theory of Segmented Credit Markets," IRIS Working Paper No. 58, June, 1993.

Steven Knack, "Institutions and the Convergence Hypothesis: The Cross-National Evidence," IRIS Working Paper No. 59, June 1993.

Philip Keefer and Steven Knack, "Why don't Poor Countries Catch Up? A Cross-Country Examination of an Institutional Explanation."

Nine Reprints were added:

Mancur Olson, "Rational Ignorance, Professional Research, and Politicians' Dilemmas," William H. Robinson and Clay H. Wellborn, eds. *Knowledge, Power, and the Congress*, 1991. IRIS Reprint No. 18.

Mancur Olson, "The Interest-Free Solution," *The Washington Post*, December 13, 1992. IRIS Reprint No. 19.

Mancur Olson, "Foreword," in Todd Sandler's, *Collective Action: Theory and Applications*, 1992. IRIS Reprint No. 20.

Mancur Olson, Ralph C. d'Arge, Richard B. Norgaard, and Richard Somerville, "Economic Growth, Sustainability, and the Environment," *Contemporary Policy Issues*, vol. 9, 1991. IRIS Reprint No. 21.

Mancur Olson, "Agricultural Exploitation and Subsidization," *Choices*, Fourth Quarter, 1990. IRIS Reprint No. 22.

Mancur Olson, "Autocracy, Democracy, and Prosperity," *Strategy and Choice*, 1991. IRIS Reprint No. 23.

Roger Betancourt, "Review of Politics and Policy Making in Developing Countries: Perspectives on the New Political Economy", *Journal of Comparative Economics*, vol. 17, 1993. IRIS Reprint No. 24.

Mancur Olson, "Do Lawyers Impair Economic Growth?" *Journal of the American Bar Foundation*, vol. 17, no. 4, 1992. IRIS Reprint No. 25.

Philip Keefer, "Lawyers and Economic Growth - A Red Herring?" *Journal of the American Bar Foundation*, vol.17, no. 4, 1992. IRIS Reprint No. 26.

Four IRIS Country Reports were added:

Benjamin H. Hardy, "A System and Implementation Schedule for Simplifying Business Registrations in Chad," IRIS Country Report No. 9, September, 1992.

Roger Jantio and Russell Nicely, "The Chadian Private Sector," IRIS Country Report No. 10, November, 1992. French and English versions and appendices available upon request.

Hilton Root, "Environment for Investment in Madagascar: Institutional Reform for a Market Economy," IRIS Country Report No. 11, February, 1993.

Louis Aucoin, "Current Status of the Legal System and the Rule of Law in Chad and its Effect on the Private Sector," IRIS Country Report No. 12, October, 1992. French and English versions and appendices available upon request.

Expected Impact:

The WAFER series, the talks by IRIS staff and the dissemination of working papers and reprints on issues related to institutions and/or development create opportunities to present to a variety of audiences the importance of institutional concerns in many different contexts. The papers and books by such noted scholars as Dennis Mueller, Peter Ordeshook and Barry Weingast bring careful, economic thinking to crucial issues of the transition to constitutional democracy and economic growth. Their work would not normally be seen by those in the development field, and often would not have been undertaken at all without IRIS support.

Future Dissemination Activities:

There will be another round of Scholars grants made in September. Applications are due by September 1. A WAFER event with some Indian economists may possibly occur in August or September.

3. IRIS Research

Substantial research accomplishments are demonstrated by the list of working papers and reprints above. In addition, the IRIS Index project continues to make progress in finding and investigating systematic relationships among democracy, autocracy, leadership tenure, the protection of property rights and economic growth.

Expected Impact

Research into the determinants of growth is growing by leaps and bounds, both in quantity and prestige. Conclusions from this literature, such as the importance of equipment investment for economic growth, have captured the attention of high-ranking policy makers. The role of political and legal institutions in the growth process remains in the background, however. Among the contributions of the IRIS Index Project is the introduction of institutional variables systematically into this literature.

Progress towards Achievement of Third Year Objectives Established in IRIS FY 1993/94 Annual Plan

1. **The Democracy Initiative: Participation as an Economic Development Strategy:** The methodology IRIS has employed in project implementation, most recently through the Company Law Workshop in Nepal, has been to solicit input from all interested parties in the preparation and advocacy of reforms. IRIS attempts to establish by example the efficacy and benefits of transparent decision making that allows for ample feedback from all affected segments of society. The pending roundtable in Madagascar will be another example of such activity. Moreover, in Chad and Madagascar, IRIS is exploring reform

options that directly touch upon democracy issues, including the independence of the judiciary.

2. Implementation of field projects: IRIS engaged Karen Russell as the Chad Long Term Advisor. She is expected to be in Chad in August. James Anderson, an economist who has been with the IRIS/Mongolia project for nearly a year, has gone to Mongolia as the new IRIS representative in Mongolia, replacing Georges Korsun, who continues with the program in College Park as the Project Director. IRIS has put considerable effort into contracting with USAID and forming a team to further its work in Madagascar. In Nepal, IRIS continues to work on many fronts. Three IRIS experts, on contract law, the stock market and offshore banking, were in Nepal in June. IRIS is turning increasing attention to issues of implementation, now that the Company Law is nearing passage.
3. Development of additional field projects: As indicated above, substantial efforts continue to be made by IRIS to develop a program to build up the capacity of Indian researchers to conduct research on policy and institutional reform. IRIS continues to work on developing a buy-in in Madagascar. Discussions have been underway in Mongolia, Poland and Nepal for extensions of existing buy-ins to continue the activities that IRIS has begun in those countries. Collaboration is ongoing with Robert Klitgaard to develop a large-scale investigation of the potential of spontaneous institutions for generating economic growth.

Finally, IRIS is investing substantial time investigating possibilities for involvement in the NIS, particularly in the areas of improving economic literacy and reinforcing the rule of law in the NIS.

4. The development policy community continues to be a target of IRIS efforts to increase awareness and understanding of the importance of institutional issues for economic development.

Major Activities Anticipated for the Period July - September, 1993

Georges Korsun and James Anderson go to Mongolia to commence activities on the second IRIS buy-in in Mongolia.

Karen Russell is expected to arrive in Chad as IRIS long-term advisor in August.

IRIS continues work with AID Contracts to allow a team to be in Madagascar before the end of September.

IRIS will be responding to at least one and perhaps more major RFPs that have been issued for the NIS.

IRIS moves onto the University of Maryland, College Park campus.

IRIS is expected to begin its formal transition to the URCI administrative structure.

Attachments: Quarterly Reports for Chad, Nepal, Mongolia and Poland