

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523
BIBLIOGRAPHIC INPUT SHEET

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Batch 69

1. SUBJECT CLASSIFICATION	A. PRIMARY Serials	Y-DK00-0000-0000
	B. SECONDARY Development and economics--Trade and commerce	

2. TITLE AND SUBTITLE
Exchange control, liberalization and economic development; progress report, June-Dec. 1970

3. AUTHOR(S)
(101) National Bureau of Economic Research, Inc., New York

4. DOCUMENT DATE 1971	5. NUMBER OF PAGES 5p.	6. ARC NUMBER ARC
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7. REFERENCE ORGANIZATION NAME AND ADDRESS
NBER

8. SUPPLEMENTARY NOTES (Sponsoring Organization, Publishers, Availability)
(Research summary)

9. ABSTRACT
~~(ECONOMICS RES.)~~

10. CONTROL NUMBER PN-AAE-598	11. PRICE OF DOCUMENT
12. DESCRIPTORS International trade	13. PROJECT NUMBER
	14. CONTRACT NUMBER CSD-2783 Res.
	15. TYPE OF DOCUMENT

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

USA-2783 BU
NBER
PN-TAE-598

EXCHANGE CONTROL, LIBERALIZATION AND ECONOMIC DEVELOPMENT

Semi-annual Progress Report to Agency for International Development
for Period Ended December 31, 1970, on Work Performed under Contract
No. AID/csd-2783

After notification in late April that the project would be funded by AID, efforts were directed toward arranging for authors of the individual country studies and toward convening an initial working party of participants. It was decided that there would be twelve country studies, which would also serve as a basis for a general synthesis to be prepared by the co-directors, Jagdish N. Bhagwati and Anne O. Krueger. The countries to be studied and the authors who are undertaking the studies are:

<u>Country</u>	<u>Author</u>
Brazil	Albert Fishlow
Ceylon	Manmohan Singh
Chile	Jere Behrman
Colombia	Carlos F. Diaz-Alejandro
Egypt	Bent Hansen
Ghana	J. Clark Leith
India	Jagdish N. Bhagwati T. N. Srinivasan
Israel	Michael Michaely
Pakistan	Nurul Islam
Philippines	Robert E. Baldwin
South Korea	Charles Frank
Turkey	Anne O. Krueger

With the exception of Frank, Islam, and Singh, informal arrangements were made with all of those named above in time for them to

take part in the first working party, which was held at the National Bureau offices in New York on May 28-30. In addition to the country authors, the following persons attended the meeting:

Hollis B. Chenery - Harvard University
V. K. Chetty - National Bureau of Economic Research
Paul G. Clark - Williams College

Richard N. Cooper - Yale University
Ronald Findlay - Columbia University
Arnold C. Harberger - University of Chicago

Albert O. Hirschman - Harvard University
Irving B. Kravis - University of Pennsylvania
Hal B. Lary - National Bureau of Economic Research

Gustav Ranis - Yale University
Michael Roemer - Agency for International Development
Daniel M. Schydlofsky - Harvard University

An "Analytic Framework" along with several other pertinent papers was circulated to each participant well in advance of the working party. There was general enthusiasm for the Framework as a vehicle for organizing and coordinating the country studies. The three sessions of the working party were devoted to (1) the anatomy of controls and the logic of exchange control regimes, (2) devaluation and liberalization, and (3) growth effects of quantitative restrictions. The interdependence of these three aspects of the study was, however, repeatedly stressed during the discussions.

It was generally agreed that the Framework would serve as a basis for the second of these topics, though somewhat different tools of analysis would be required for short-run responses. With regard to the effects of different exchange regimes upon growth,

it was felt that a list of specific hypotheses was required. Bhagwati and Krueger developed such a list, which was circulated to authors in July as part of a fuller report on the results reached at the working party. A copy of this report (on Minimum Common Ground to be Covered by Country Authors) is attached herewith. With regard to the anatomy of exchange control regimes, it was agreed that the research envisaged should provide a major contribution to knowledge. A consensus also emerged, however, that there should be an agreed-upon approach to the measurement of implicit exchange rates to insure comparability among the studies. During the summer Bhagwati and Krueger prepared a document on this subject, which was then revised in the light of authors' comments and circulated under date of November 25. A copy of this report is attached.

Since the first working party, the country authors have started work on their individual studies. It was recognized at the outset that the timing of effort on the different studies would vary, depending upon other commitments of the individual authors. Hansen's assistant, Nashashibi, spent several weeks in Egypt during the summer gathering data, and Hansen's study of that country is well advanced. Bhagwati spent part of the summer in India collaborating with Srinivasan in getting the India study under way. They were able to arrange for research assistants, working under Srinivasan's supervision, to gather data and start the analysis. That effort has continued through the fall.

Michaely and Islam have also devoted part of their time this summer and autumn to sorting out the contents of their studies. Manmohan Singh went to Ceylon in November to organize the data collection necessary for that study.

Krueger began work on Turkey, although the task is complicated by the Turkish devaluation of August 1970. A preliminary paper has been prepared, but it was decided to postpone the major effort until next spring, when preliminary post-devaluation data become available.

Leith, who is a visiting professor in Ghana, is well advanced in his work on that country. He has completed his estimates of the effective rate of protection, and has made preliminary calculations of the amount of net devaluation.

Diaz, Fishlow, Behrman, Frank, and Baldwin all began gathering data for their studies during the summer and autumn. These authors, however, plan to concentrate their major effort on the study during the second semester of the present academic year.

Considerable time and effort have been devoted to administrative matters by the Bureau staff, primarily Lary, and by Bhagwati and Krueger. It is anticipated that the effort devoted to this aspect of the task will diminish after this initial phase, and that greater effort can be devoted to circulating and studying preliminary results as they appear. The second working party is being planned for the end of May. The organizational work has begun, and we expect to announce a definite time and place shortly.

So far, the project has proceeded on schedule, and we are well satisfied with the progress made. By the time of the second working party, six or seven of the country studies should be sufficiently advanced so that preliminary papers can be circulated for discussion at the meeting. The other authors are all expected to be far enough along in their research to permit them to discuss their research strategies and the problems that they are encountering.

Hal B. Lary
Vice President - Research
January 7, 1971