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IRIS
Quarterly Report
(July - September, 1993)

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Date of Report: 1 December 1993
Project No. 01-5-29711
BOA No. ANE-0015-B-00-1019-00
USAID Project Office: PRE/SMIE
Project Officer: Michael Farbman

This report describes the activities of IRIS in the first quarter of the IRIS Fiscal Year 1994 (July - September, 1993) as well as the activities that IRIS has programmed for the next quarter, October - December. The report concludes with a summary of how these activities represent progress towards the program goals for its fourth year, which are described in the IRIS FY 1994 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*

A USAID-sponsored collaborative project between IRIS and Indian researchers was announced. In September, Dr. Mrinal Datta Chaudhuri visited the Washington area, where he gave talks at the Carnegie Endowment for International Peace and at the University of Maryland. A series of grants will be made to Indian researchers examining the problems of economic liberalization, and a conference in New Delhi is scheduled for the Spring of 1994.

Expected Impact:

As India maintains its measured progress toward economic liberalization, it is important that support be provided to those leading the way. Also, given the country's position of leadership among LDCs and its established democratic form of government, the success of its movement toward a more open economy will encourage other countries attempting to reduce the role of the central government in economic activity and to open domestic markets to competition from abroad.

b) *Madagascar*

In a follow-up to a previous IRIS effort on the environment for investment in Madagascar, a second team of IRIS staff and consultants visited the country in August and September, 1993. The team consisted of Mr. Charles Cadwell and Mr. Georges Korsun of IRIS, and Professors Louis Massicotte, Alexandre Cordahi, and Hilton Root. The primary objective of this mission was to update and expand on the findings of the first report, concentrating particularly on the establishment of an independent judiciary, a review of legal and institutional impediments to the development of the financial sector, and the creation of a mechanism for fostering dialogue between various constituencies on beneficial institutional reforms in the investment sector. In addition, Professor Louis AuCoin also prepared a core-funded paper on alternative dispute resolution mechanisms that might be available to the Malagasy Republic.

Expected Impact:

This effort, undertaken by IRIS and its consultants, is calculated to assist both in the process of implementing reforms and in the contents of the reforms themselves. The focus is on creating institutional arrangements conducive to the generation of additional domestic and foreign investment and subsequent improved economic performance. At the time of the mission, however, a new government had just been created; it is difficult to assess at this time the new government's commitment to market-oriented economic reforms.

c) *Russia*

In August, IRIS initiated a Commercial Law project through which IRIS will assist and train Russian law-makers, judges, and legal practitioners as they develop the components of a commercial law regime essential for Russia's transition to a market economy. The project embodies all the characteristics of the IRIS approach to regulatory reform. IRIS start-up has been extremely quick, high-quality foreign experts have been recruited, and strong working relationships with private and public sector officials have been built. Within two weeks of the project start date, IRIS had enlisted the assistance of two of the top commercial law experts in the United States, recruited a Russian-speaking lawyer as the IRIS representative in Moscow for the project, and held discussions with AID officials in Washington and Moscow so as to integrate their priorities into project implementation.

This quarter, IRIS also initiated a collaborative project with the Moscow Institute for the Economy in Transition (IET), founded by Deputy Prime Minister Yegor Gaidar. This project provides (1) support for Russian experts studying the economic policy issues and legal problems of the transition to a market democracy, (2) seminars and conferences for Russian policy-makers on the application of economics and the law to the immediate practical problems facing Russia, and (3) limited assistance to Russian scholars and graduate students in economics. The IET has close links with all sections of the Russian government, to which it provides policy advice on topics ranging from foreign trade and privatization to the political problems of the transformation to a market economy.

Expected Impact:

IRIS involvement in these projects, with its focus on providing immediate practical support to Russian policy-makers, is designed to facilitate the transition by promoting an appreciation among politicians, academics, and the broader public of the bases of a market economy and liberal democracy and of their interrelationship.

Future Activities:

IRIS will place Lane Blumenfeld as its long-term advisor in Moscow to direct its Commercial Law Project. IRIS will also attempt to expand its role in the Newly Independent States by responding to a USAID request for proposal regarding the implementation of a program to support a market environment.

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

a. Professor Mrinal Datta Chaudhuri from the Delhi School of Economics visited IRIS September 8-18. While in town, he gave two seminars on the Indian economy. One, co-sponsored by the Washington Area Forum on Economic Reform (WAFER), was on the topic of "Economic Reform in India: Achievements and Prospects" and held at the Carnegie Endowment for International Peace. Professor Arvind Panagariya was a discussant at this event. Datta Chaudhuri later spoke at the University of Maryland on "Certain Crucial Failures in India's Industrialization Strategy." This talk was co-sponsored by the University's Office of International Affairs.

b. Professor Mancur Olson served on a panel examining "Macro Policy and Employment," which was sponsored by the Center for Entrepreneurship and Free Enterprise and the Independent Institute. On August 10, Professor Olson spoke at the annual meeting of the Academy of Management, from which he received an award for the "substantial and enduring contribution to the thinking of scholars" of his book The Logic of Collective Action. Finally, he spoke on the "Diseconomies of Scale and Decentralization" at the World Bank on September 30th.

c. Sixteen papers were added to IRIS Working Paper Series:

Barry W. Ickes and Randi Ryterman, "Roadblock to Economic Reform: Inter-Enterprise Debt and the Transition to Markets," IRIS Working Paper No. 61, July, 1993.

Bob Klitgaard, "Conference on Cultural Assessment," IRIS Working Paper No. 62, December, 1992.

Paul H. Rubin, "Growing a Legal System, With Special Reference to the Post-Communist Economies," IRIS Working Paper No. 63, June, 1993.

Christopher Clague, "Economic and Political Determinants of Agricultural and Food Prices: A Cross-National Study," IRIS Working Paper No. 64, August, 1993.

Anand Swamy, "A Simple Test of the Nutrition-Based Efficiency Wage Model," IRIS Working Paper No. 65, August, 1993.

Karla Hoff and Joseph E. Stiglitz, "Moneylenders and Bankers: Fragmented Credit Markets with Monopolistic Competition," IRIS Working Paper No. 66, September, 1993.

Andras Nagy, "Import Liberalization in Hungary," IRIS Working Paper No. 67, July, 1993.

Dani Rodrik, "Taking Trade Policy Seriously: Export Subsidization as a Case Study in State Capabilities," IRIS Working Paper No. 68, October, 1993.

Hal R. Varian, "Coase, Competition, and Compensation," IRIS Working Paper No. 69, May, 1993.

Hal R. Varian, "Markets for Public Goods?" IRIS Working Paper No. 70, September, 1993.

Hal R. Varian, "A Solution to the Problem of Externalities When Agents Are Well-Informed," IRIS Working Paper No. 71, July, 1993.

Enrico C. Perotti, "Collusive Trade Arrears in the Stabilization of Transition Economies," IRIS Working Paper No. 72, August, 1993.

Nirvikar Singh, "The Economic Role of Government: Reform as a Mechanism Design Problem," IRIS Working Paper No. 73, August, 1993.

Nirvikar Singh, "The Economic Role of Government: Managing Rent-Seeking," IRIS Working Paper No. 74, August, 1993.

Inderjit Kohli and Nirvikar Singh, "Rent Seeking and Rent Setting With Asymmetric Effectiveness of Lobbying," IRIS Working Paper No. 75, August, 1993.

Nirvikar Singh, "The Economic Role of Government: Property Rights, Externalities and Mechanism Designs," IRIS Working Paper No. 76, August, 1993.

Seven reprints were added:

Wallace E. Oates, "Fiscal Decentralization and Economic Development," *National Tax Journal*, vol.xlvi, no. 2, July 1993. IRIS Reprint No. 27.

Christopher Clague, "Rule Obedience, Organizational Loyalty and Economic Development," *Journal of Institutional and Theoretical Economics*, June 1993. IRIS Reprint No. 28.

Joel M. Guttman, "The Credibility Game: Reputation and Rational Cooperation in a Changing Population," *Journal of Comparative Economics*, August 1992. IRIS Reprint No. 29.

Roger R. Betancourt and David Gautschi, "Two Essential Characteristics of Retail Markets and Their Economic Consequences," *Journal of Economic Behavior and Organization*, vol. 21 pp. 277-294, September, 1993. IRIS Reprint 30.

Roger R. Betancourt and David Gautschi, "The Outputs of Retail Activities: French Evidence," *The Review of Economics and Statistics*, May 1993. IRIS Reprint No. 31.

Mancur Olson, "Dictatorship, Democracy, and Development," *American Political Science Review*, September 1993. IRIS Reprint No. 32.

Christopher Clague, "Why Are Prices So Low in America?", *The World Economy*, September 1993. IRIS Reprint No. 33.

One IRIS Country Report was added:

Development Research and Training Centre, Kathmandu, Nepal, "Parallel Market for Foreign Currencies in Nepal," IRIS Country Report No. 13, September, 1993.

IRIS Scholars

Barry Ames - Department of Political Science, Washington University, St. Louis. "The Crisis of Governance in Brazil"

Jonathan H. Conning - Yale University and Department of Industrial Engineering, Universidad de Chile. "Contract Farming in Chilean Agriculture: Interlinked Contracts, Credit, and Collateral."

Avner Grief - Department of Economics, Stanford University. "Institutions and Economic Development."

Stephen Haber - Department of History, Stanford University. "Regulatory Regimes, Capital Markets, and Industrial Development."

Kenneth J. Koford and Jeffrey B. Miller - Department of Economics, University of Delaware. "Contracts in Bulgaria: How Firms Cope When Property Rights Are Incomplete."

Jack Nagel - Department of Political Science, University of Pennsylvania. "Market Liberalization in New Zealand: The Interaction of Economic Reform and Political Institutions in a Pluralitarian Democracy."

Peter C. Ordeshook - Social Sciences, California Institute of Technology. "Dimensions of Constitutional Design."

Enrico C. Perotti - School of Management, Boston University. "Inter-Enterprise Arrears in Bulgaria."

Donald J. Robbins - Harvard Institute for International Development. "Unemployment and Relative Wage Structure in Chile, 1976-91: The Effects of Liberalization."

Aseem Shrivastava - Department of Economics, University of Massachusetts, Amherst. "Institutions, Incentives, and Environmental Degradation: A Case Study of a Himalayan Region, c. 1860-1930."

IRIS Fellows

Roger Betancourt - Department of Economics. "Economic Functions of Institutions and the Economic Analysis of Property Rights."

Karla Hoff - Department of Economics. "Moneylenders and Bankers II: Fragmented Credit Markets with Monopolistic Competition."

Marek Kaminski - Department of Government and Politics. "Electoral Coalition Formation in Hyperparty Systems."

Expected Impact:

IRIS working papers, reprints, and seminars continue to provide avenues for the dissemination of an expanding knowledge base concerning the role of legal and political institutions in economic development. IRIS publications and speakers strive to provide an interdisciplinary perspective on practical issues related to development and democratization.

Future Dissemination Activities:

There will be another round of Scholars grants made in February, 1994. Applications are due by February 1st. A WAFER event is scheduled on January 25th with Serguei Glaziev, a former Minister of Foreign Economic Relations and head of the economic committee of the Russian Parliament.

3. IRIS Research

The list of working papers and reprints above demonstrate IRIS's continued research accomplishments. The IRIS Index project continues to identify political, legal, and institutional determinants of economic growth that can be used to develop practical policies for promoting economic development and political participation.

Expected Impact

IRIS's unique expertise in the area of the institutional determinants of economic growth increasingly make its publication series and public events a central forum for the promotion of ideas related to the promotion of economic growth and democracy.

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

1. IRIS has initiated two substantial projects in Russia, through which IRIS will (1) assist and train Russian law-makers, judges, and legal practitioners as they develop the components of a commercial law regime essential for the economic transition, and (2) work with the Institute for the Economy in Transition (founded by Deputy Prime Minister Yegor Gaidar) to provide support for Russians studying the economic policy issues and legal problems of the transition to a market democracy and to conduct seminars and conferences for Russian policy-makers on the application of economics and the law to the immediate practical problems facing Russia.

2. IRIS research on the central role of institutions and individual rights in economic development continued and has found broad audiences through the appearance of such pieces as Mancur Olson's "Dictatorship, Democracy, and Development" in the September American Political Science Review, and Christopher Clague's "Rule Obedience, Organizational Loyalty and Economic Development," in the June Journal of Institutional and Theoretical Economics.

3. On July 1, the IRIS Cooperative Agreement and Basic Ordering Agreement with USAID were novated to the University Research Center, International (URCI). Under the new administrative structure, USAID has a direct relationship with URCI, which in turn contracts for staff with the University of Maryland and for other goods and services directly with individual vendors. IRIS has established independent accounting and financial control capability. The novation provides IRIS with greater flexibility than was possible under the previous structure, and IRIS will be able to respond even more quickly to new opportunities and to provide more effective and timely support to its field programs.

4. In July, IRIS moved into Morrill Hall on the Maryland campus. This move facilitates interactions between IRIS staff and members of the university community involved in reform efforts, including the Maryland Collective Choice Center and the faculty and students of the Departments of Economics, Government & Politics, and Sociology. The move onto the campus also provides IRIS with direct access to the university's extensive computing resources, facilitating research and electronic communication with IRIS field offices.

5. IRIS earned extensions of its field programs in Poland, Madagascar, and Nepal. A long-term advisor, Karen Russell, was placed in Chad.

6. IRIS assisted in a mid-term evaluation of IRIS conducted by Brimmer and Associates. IRIS personnel in College Park and in the Poland field project organized materials and a series of meetings. IRIS has used this opportunity to identify its accomplishments to date and to identify issues that pose the greatest challenge in the future.

Major Activities Anticipated for the Period October - December, 1993

In December, Lane Bluemfeld will be placed as IRIS's long-term advisor in Russia.

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