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THE ROLE OF GOVERNMENT IN DEVELOPMENT

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THE ROLE OF GOVERNMENT IN ECONOMIC DEVELOPMENT

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The field of economic development has gone through a number of phases. First, analysis and policy prescription was based on the view that markets in developing countries were highly imperfect, and that "structural rigidities" resulted in little, if any, economic response to price changes.[2] Combining that perception of developing countries' economies with the insight that physical capital was the scarce factor of production led economists to develop "planning models" and models of investment criteria with which governments could, it was assumed, replace markets and provide for economic development.

For more than two decades, development economists' views of the role of government changed little[3]. However, progress was made as economists dmonstrated that incentives did matter[4] and showed that factors other than physical capital and unskilled labor were important in the production process.

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Duke University. I am indebted to Nak Il Choi for valuable research assistance.

2. See, for example, Rosenstein-Rodan, 1984.

3. There were, to be sure, dissenters along the way. See, for example, my 1961 critique of Indian policy, and Bhagwati and Desai's analysis. Bauer(1981) was an early and consistent dissenter.

4. The most important was Schultz (1961).

By the early 1980s, possibly the most important single stylized fact about the experience of the developing countries was that, despite the fact that most had achieved savings and investment rates much higher than had earlier been considered feasible, their rates of real economic growth had not, on average, risen and had in many cases, fallen.[5] In addition, different countries had achieved widely varying growth performances, and the differences did not appear to be accounted for by differences in investment rates or other readily observable characteristics. South Korea, Taiwan, Singapore and Hong Kong had experienced an economic transformation of major proportions and, by the mid-1980s had per capita incomes higher than those of most Western European countries in 1955. By contrast, many African countries had experienced declining per capita incomes in the 1960s and, by 1980, some had per capita incomes below those prevailing at the time when they attained independence.[6]

This then led to a new view: governmental policies in developing countries had been "wrong", and this had led to poor growth performance. There were some who still believed that the government had a central role to play in the development process. They accused those pinpointing government policies as the villain of slow growth of believing that all governments had to do was "get the prices right". Meanwhile, Lucas (1986) and Romer (1986), in seminal papers, argued that increasing returns resulting from education were

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5. For documentation, see World Bank (1983).

6. A little noted, but important, additional stylized fact was that Argentina had arguably the highest standard of living in the world in 1900; there were enough other cases of economic retrogression to challenge the assumption that growth, once started, was self-perpetuating.

responsible for the apparently cumulative and stable nature of growth rates. This, in turn, led Barro to estimate production functions for countries with public and private investment levels as separate arguments.

Clearly, issues arise as to: 1) what policies do governments adopt that negatively impact on economic growth and economic welfare, and how detrimental are those policies?; 2) what is the positive role of government in the development process?; 3) to what extent is the observed serial correlation in growth rates attributable to appropriate economic policies and to what extent is it the result of cumulative processes or factor accumulation?

In this paper, I attempt an overview of the evidence pertaining to the first question. An effort is made to discuss the sorts of policies that generally ar believed to have detrimental results, and, where evidence is readily at hand, to hazard crude estimates of the possible importance of these policies. Such an effort borders is necessarily somewhat taxonomic in nature, but is nonetheless worthwhile as one initial step toward increased understanding of the three questions outlined above.

Section I sets up a simple model which presents growth as a function of attainable (efficient) output levels and of those factors (government policies and market imperfections) which drive a wedge between attainable and actual output. Section II then focuses on the government policies that have clearly impeded the rate of growth of output, and provides some piecemeal empirical evidence in support of the view that particular government policies have been detrimental. Section III dwells briefly on the positive role of government and points to areas where additional research is needed.

I. Determinants of the Real Rate of Growth.

For present purposes, it is convenient to aggregate all output into a single, homogeneous, commodity. One might regard it as the value of production of all commodities at base period international prices of tradables and base period exchange rate for home goods. To the extent that policies result in the misallocation of resources between activities, that is readily interpretable as a part of the waste that detracts from potential output.

A simple framework within which the role of policies can be addressed is to consider actual output of an economy, Y, at any point in time, to be the result of potential output, P, less inefficiencies, W:

$$Y = P - W. \qquad (1)$$

Potential output is that which would obtain under an efficient allocation of resources. It can be regarded as a function of resource availabilities:

$$P = f(K, G, H, L, V) \qquad (2)$$

where K represents capital stock in the private sector, G represents that in the public sector, H represents the stock of human capital, L the available labor force, and V is a vector of other factors (land quality? mineral resources?) affecting potential output.[7]

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7. It may be argued that there should be a technical change parameter in the production function. For present purposes, that complication is ignored. For empirical work, separate identification of technical change and inefficiency could present. At any event, the focus of the present paper is on the distinction between W and P in affecting observed real output.

By construction, it is assumed that the output level, P, is that attainable under an efficient allocation of resources. Clearly, the rate of growth of potential output will be determined by the rate of factor accumulation. The rate of growth of actual output is the combined result of factor accumulation and changes in the level of inefficiency.[8]

II. Sources of Inefficiency. An aggregate production function is hardly new and deserves little comment. What is different in this formulation is the notion that actual output is potential output less waste, or inefficiency. Waste can come about through misallocation of resources and through inefficient operation of existing facilities.

In tracing the various sources of inefficiency, it will be useful to discuss a "typical", poorly-performing, developing country. In fact, some developing countries' policies are much more conducive to economic efficiency and growth than are others. In addition, different countries have different intervention policies, different mixes of public and private sector interventions, and change their intervention mixes over time. Korea, for example, was subject to many of the policy distortions discussed below in the 1950s. Thereafter, some of those distortions were removed entirely and others were significantly reduced in magnitude. Many developing countries, however, have not had such far-reaching policy reforms, and maintain policy frameworks that are strongly inconsistent with efficient resource allocation. There are numerous policy similarities among them, despite differences, and the catalog below is designed to identify the major policies followed.[9]

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8. There probably should also be a major interaction term: in countries where government controls result in low real returns to savers and investors, the rates of saving and investment may fall below the rates that would obtain under increased incentives. That complication is ignored here.

9. In this paper, I take policies as given, and evaluate their impact on attainable output, without regard to the motivation for those policies.

There are clearly inefficiencies resulting from both public and private sector activities. Within the private sector, attention has often focussed on strong labor unions and monopolistic producers within some sectors of the economy. There is no doubt that strong labor unions exist and drive wages for their members to levels that induce inefficient resource allocations. Likewise, private monopolistic or oligopolistic firms can be inefficient both because of their restricted production levels and because they are high-cost producers in the absence of competition. Efforts to estimate the magnitude of these losses would be valuable, but are not undertaken here. It should be noted, however, that many monopolistic and oligopolistic producers are able to use their monopoly power only because of government regulations controlling entry or production levels. In those cases, inefficiencies and waste resulting from monopoly must be considered a consequence of government policies.

In some developing countries, government controls over, and direct participation in, economic activity have assumed proportions well beyond that within the experience of most economists in developed countries. In this section, I briefly survey some of the sources of waste, and what is known about them.

Broadly, there are three major sources of waste originating from public sector activity: those resulting from inefficiencies within the public sector; those resulting from public controls over the private sector; and those resulting from efforts to profit from controls through rent-seeking.

Attempting to assess why growth-inhibiting policies are adopted is important, but lies far beyond the scope of this paper. For one analysis of this issue, see Bates (1981).

Public Sector Activities. Here, there are four broad sources of waste: 1) inefficient operation of parastatal enterprises in manufacturing and related activities; inefficient government investment programs; inefficient maintenance expenditures; and misallocation of resources within the government sector among these activities.[10]

Evidence demonstrating inefficient operation of parastatal enterprises is considerable, but generally related to individual activities: few economy-wide estimates are available. Nonetheless, those data that are available paint a picture of gross inefficiencies: both labor and capital per unit of output appear to be higher in the public than in the private sector, no matter what adjustments are made.[11] Often, pressures are for public sector enterprises to expand employment, and there are few incentives for cost minimization. A great deal of research is needed to estimate the overall waste associated with public sector enterprises, but a reasonable guesstimate might be that in many

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10. There are also, no doubt, inefficiencies resulting from the methods in which entitlement programs are administered and the structure of taxation. Those factors are ignored here in part because of conceptual difficulties and in part because empirical estimates of the relative importance of those factors do not appear to have been made. Casual empiricism would suggest that those sources of inefficiency would be relatively smaller in their effects contrasted with most of those reviewed here.

11. See Krueger and Tuncer(1982) for data for Turkey. On average, manufacturing enterprises in the public sector, adjusted for type of product, used about three times more capital and three and a half times more labor than private sector firms in the same industries. For India, public capital formation represented more than 40 percent of the total for every year from 1976-76 to 1982-83. Public sector employment during those years was about 60 percent of total employment. However, public sector output never reached 25 percent of GDP. Data are from Government of India, India: A Statistical Outline, 1984 and 1987. In Tanzania, it is estimated that in the mid-1970s, manufacturing value added per employee in private enterprises was about 10 percent above that in public enterprises; value added per unit of capital in private manufacturing was 2.44 times that in public manufacturing enterprises. Kim 1981, P. 475.

countries, these enterprises are allocated about one quarter of total investment, on which they earn a negative real rate of return of about 10 percent.[12]

Inefficient governmental investment programs also result in waste. One of the research challenges for economists is to define the appropriate role of crucial public sector investments often loosely termed "infrastructure" - in transport, communications, education, and other crucial activities. It will further be desirable to find ways of estimating the real rates of return of those investments when carried out in an efficient manner. Indeed, in terms of policy failures, it may be argued that failure of governments to invest sufficiently in those infrastructure facilities has been at least as costly to growth, in the sense of choking off private sector activities that would otherwise have experienced cost reductions or expanded size, as have been "white elephants" and other low-return projects over the past several decades. The absences of a well-functioning telephone system, reasonable port operation, regular power supply, postal service obviously raises costs significantly for all private sector activities.

Here, focus is on wasteful expenditures. Four-lane divided highways carrying little or no traffic, new capital cities in remote locations, and other projects where economic returns are obviously low are encountered with great frequency. Interestingly, the entire world reacted with shock when it was revealed that the Philippines had invested over $2 billion in a nuclear power plant that never began operation. Yet, it is likely that that investment

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12. Losses of public sector enterprises are financed by the public sector through increased taxes in some cases, but more often through public sector deficits. As such, the national savings (and therefore investment) rates are usually lower than they would be. This dynamic effect also serves to lower the growth rate. See Short (1983), P. 46

was far less wasteful than others that continue in operation in the Philippines and elsewhere, failing to cover even variable cost! Since total public sector investment in many developing countries often absorbs more than half of total savings, low, and even negative, rates of return on these investments clearly represent a significant source of waste.

For a country with an average ratio of investment to GNP of 25 percent, with a third of all investment going into the public (non-parastatal) sector, a 1 percent realized real rate of return, contrasted with a 10 per cent attainable rate of return, would constitute a reduction in the growth rate of about 3/4 of 1 percent annually.

Inappropriate maintenance is also a source of major waste, often resulting in the premature shutdown of facilities, as well as raising costs because of such phenomena as bumpy roadbeds and interruptions of power supplies. In some instances, large investments have had low realized real rates of return because complementary small investments and maintenance have not been forthcoming. Perhaps the prime example has been with irrigation facilities, where failure to dig and maintain the small feeder channels from major irrigation projects to individual fields has prevented anything like the use of major capital investments.[13] To my knowledge, there are no estimates available of the economic costs of inadequate maintenance.

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13. There are also many documented instances of inefficiency of delivery of government-supplied services. When governments have attempted to provide inputs to farmers and market their outputs, for example, major inefficiencies have resulted from delivery of fertilizer, pesticides, and other inputs at dates far after they should have been appied for optimal effectiveness. Similarly, some governments have been unable to purchase crops from farmers at harvest time, with consequent crop deterioration and even total loss. See, for example, the account of the Sri Lankan government's difficulties with its agricultural programs in Fernando (1987), and Jansen's (1988) account of Zambia's difficulties.

Finally, there is resource misallocation within the public sector. Some sorts of resource misallocation - building roads where there is and will be no traffic, etc., - have already been mentioned and their economic costs can be, at least in principle, estimated through the low rate of return realized on investments. Others, however, are of a different sort. One important category is investment in education. In some countries, real returns to various levels of educational attainment seem to follow reasonably well that forecast by human capital theory. In others, however, there appears to be significant overinvestment in some levels of education (often universities) and underinvestment in others (primary education).For Africa as a whole, Psacharopoulos estimates that the average social return on primary education is 26 percent, while that on university education is 13 percent.[14] The same sorts of misallocations are reported for health expenditures and many other activities, although their economic costs are not as well documented.

Controls over Private Sector Activities.

If, in some countries, the government sector is pervaded with inefficiencies, controls over the private sector are arguably an even larger source of waste. To a degree, there have been more estimates of the economic costs of these controls, although most such estimates have been focussed on a subset of controls, and there are, to my knowledge, no efforts to estimate the entire waste resulting from controls in any particular country.

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14. Psacharopoulos (1988)P. 101. Psacharopoulos' estimates are by no means extremes, and far greater differences are observed. In the Turkish case, for example, the real rate of return to university education appeared to be only 3 percent, compared to about 27 percent for primary education.
See Krueger 1971.

A consistent analytical classification of these controls is perhaps even more difficult than that for the government sector. For present purposes, I shall briefly consider controls grouped into the following categories: trade and payments regime; financial sector; industrial investment and price regulation; agricultural sector; and labor market. An omitted item is inflation: its main effects on private-sector activity appear to come about because of fixed nominal exchange rates, control over nominal interest rates, and price controls. Whether increased uncertainty due to relative price fluctuations resulting from higher rates of inflation is another major source of resource misallocation is an open question, but one that is not tackled here.

Trade and Payments Regime. The spectre of constant nominal exchange rates in the face of high rates of domestic inflation is frequently encountered. Usually, the authorities then impose highly restrictive quantitative limits on imports, and simultaneously adopt rigid exchange control procedures, in an effort to stem the excess demand for foreign exchange. Simultaneously, there are often high tariffs on imports, which combine with quantitative restrictions to drive large wedges between domestic and foreign prices.

Of course, the incentive to produce import-competing goods domestically is also a disincentive to produce exportables, with further constraints on foreign exchange earnings and availability. An indication of how large these effects can be is provided by the changing shares of exports in GNP that have resulted when countries have changed policies: Korea's exports were equal to only three percent of GNP in 1960; by the mid-1970s, they were over 40 percent of GNP. In Turkey, where a changing incentive structure was not put in place until the early 1980s, exports rose from 4 per cent of GNP in 1980 to 16 percent of GNP by 1988.[15]

Calculated rates of effective protection for import-competing industries in developing countries have been found to exceed 1,000 percent.[16] Efficiency losses of highly restrictive trade regimes have been estimated at as much as 5 percent of GNP, even without allowing for rent-seeking behavior. In countries such as Ghana, where devaluation was by 900 percent when it finally came and where export earnings fell for more than a decade, the losses were probably much larger. In some countries, smuggling and other means of avoiding the regulations may have reduced the economic costs of controls somewhat, but in others, distance and stricter enforcement undoubtedly made them higher.

There is considerable indirect evidence that exchange and trade regime inefficiencies are probably the largest source of resource misallocation within many developing countries. Balassa (1985) cites incremental capital-output ratios of 1.8, 2.1, and 2.4 for Singapore, Korea and Taiwan - all countries whose incentives were not biassed against exports - contrasted with 5.5 for Chile, 5.7 for India, and 9.1 for Uruguay. The latter were all heavily protective of their import-competing activities at the time for which the estimates were made.[17] Certainly, any econometric estimate of growth rates as functions of factor accumulation and policy variables picks up export growth as the most significant explanatory factor. That growth, in turn, is clearly related to the incentives arising from the trade and payments regime.

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15. For Korea, see Mason et. al. (1980); Turkish data are from Republic of Turkey, State Institute of Statistics, Statistical Yearbook, 1988.

16. Indeed, there are instances of protection for industries where the international cost of inputs exceeded the international value of outputs due to inefficiencies in production or location.

17. Balassa, P. 215.

Financial Sector. Just as rapid inflation rates have persisted at fixed, or infrequently adjusted, nominal exchange rates, controls over capital markets in developing countries have often resulted in strongly negative real rates of interest, and allocation of credit among claimants on bases other than economic efficiency. McKinnon (1973) has been perhaps the foremost analyst of "financial repression", and believes that it is the largest single source of economic inefficiency in developing countries.

Real annual interest rates as low as minus 30 and 40 percent have been encountered in a number of countries, with Brazil perhaps using this instrument more frequently than most other countries.[18] In these circumstances, the authorities can "guide credit" to those activities they favor, with consequences both for the commodity composition of output and for the relative intensities with which factors are employed. In developing countries where exchange rates, credit markets, and labor markets are highly regulated, one of the most frequently observed phenomena is a large differential between the highly labor-using activities of the "informal sector" of the economy and the highly capital-intensive, "modern" sector. Typically, it is the latter which has received subsidized credit, is producing import competing goods, and is subject to wage regulation, to be discussed below.

That real interest rates can be strongly negative has been amply demonstrated. By its nature, however, it is difficult to obtain estimates as to how large credit subsidies are. That they can in fact be sizeable, however, is evidenced by a recent estimate for Brazil: credit subsidies to agriculture in 1980-83 were estimated to constitute 26 percent of agricultural GNP.[19]

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18. Balassa, 1985, P.29.

19. Brandao and Carvalho, P. 48.

Industrial Investment and Price Regulation. In addition to regulating imports,[20] and credit, there are a large number of countries which require administrative clearance for investment. Likewise, price controls over many outputs is a fact of life in many developing countries.

Investment licensing and its consequences have been extensively analyzed for India.[21]

In that system, firms had to apply for the right to make investments; when their applications were approved, they were granted "capacity" licenses, and it was illegal to produce more than the indicated amount. That economic waste resulted cannot be questioned, although estimates of the magnitude of those wastes are not available. It is interesting to note that import licenses were issued in many instances in proportion to licensed capacity; therefore, even when firms were constrained in their production levels by the quantity of imports they were allocated, there remained an incentive to invest more, in the hope of increasing one's share of the imports of needed intermediate goods and raw materials.

Price controls are virtually ubiquitous. They have been imposed across-the-board in futile efforts to control inflation; they have been imposed on "essential" or "key" activities; they have been imposed on "monopolists" and other large industries; and they have been imposed simply as part of overall regulation of private economic activity. Especially in periods of rapid inflation, these controls may have resulted in sizeable wedges

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20. Many import-competing industries in developing countries import parts and components without which, in the short run, production is infeasible. When imports of these parts and components are rationed by licensing, output of the individual firms is effectively determined by the import licensing regime.

21. Bhagwati and Srinivasan, 1975.

between controlled prices and those which would have cleared the market. Estimates of those differentials and their consequences are, however, inherently difficult to obtain.

Agricultural Sector. In most developing countries, the fraction of employment and income originating in agriculture is considerably larger than it is in developed countries. And, whereas governments in developing countries induce resource misallocation through interventions which maintain price supports for farmers, in developing countries interventions are pervasive in suppressing producer prices for agricultural commodities, with consequent negative effects on real agricultural output.[22]

Of course, a fixed nominal exchange rate in the face of domestic inflation adversely affects export crops, even without other interventions within the agricultural sector. Similarly, protection of import-competing industrial activities through tariffs and quantitative restrictions lowers the relative price of agricultural outputs.

However, intervention goes far beyond that. In many countries, state-owned "marketing boards" have assumed monopoly power in marketing many commodities, especially major exports and staple foodgrains. In part because their operations are frequently high-cost, and in part because governments are attempting to find revenue sources, a consequence can be very low prices to producers of major crops. In the case of exportables, these low prices exacerbate the effects of the overvalued real exchange rate; in the case of foodgrains, the authorities are anxious to maintain low prices for urban consumers.

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22. Interestingly, an exception is agricultural products which are import-competing. Generally, these do not appear to be discriminated against. See Krueger, Schiff and Valdes for estimates.

These pricing policies can have disastrous effects: in Ghana, the real producer price of cocoa beans fell by more than 80 percent over a 30-year period. At first, it fell below the price at which replanting of trees paid, and finally below the price at which producers found it worthwhile to pick the cocoa beans![23] Needless to say, Ghana's share of the world cocoa market fell abruptly, and foreign exchange earnings plummeted. Experience with Sudanese cotton was very similiar.

In many instances, and especially in Africa, the authorities have decided to encourage production of foodcrops (usually import-substitutes) at the expense of export crops. Despite this, it is estimated that per capita output of foodcrops fell in most African countries - again suggestive testimony as to the sizeable impact of intervention on output.

However, disincentives to agricultural production do not stop with producer pricing policies, overvalued exchange rate, and high prices of urban commodities which farmers buy. In many countries, public efforts to administer the distribution of inputs has greatly added to inefficiencies. In some instances, administrative difficulties have thwarted efforts to distribute fertilizers and other inputs in a timely fashion, or to arrange transport facilities at harvest time to provide appropriate storage.[24]

Labor Market Interventions. Labor market regulation normally extends to large-scale, visible, activities. It thus has more effects on urban labor markets than on rural labor markets, driving a wedge between urban and rural wages, with consequent effects on migration and employment.[25] Because exports

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23. Strykker, 1988. Real price data are from P. 38.

24. See Fernando (1987) for an account of these difficulties in Sri Lanka.

25. See Harris and Todaro for an analysis.

must usually be undertaken in volume, potential export activities are subject to these regulations, as are import-competing firms. The latter, however, normally have monopoly power in the domestic market, and can pass on much of their higher labor costs to consumers.[26]

Labor market regulation takes a variety of forms: establishing a minimum wage well above that prevailing in the "informal market"; legislation providing that workers may not be discharged without very large compensation; legislation requiring provision of workers' housing, medical services, and training, at levels raising wage costs significantly; requirements for social insurance and other taxes on wages; and so on. These not only raise the immediate cost of hiring labor, but also reduce firms' flexibility. In many instances, the result is visible unemployment, a large informal sector, and very high wages for the privileged few within the import-competing industrial sector. The effects on employment of relaxing some of the restrictions on laying off workers have been sizeable.[27] However, there have been very few efforts to estimate the costs of these regulations.[28]

Rent-Seeking. In addition to the direct costs of inefficiencies in parastatal enterprises, public sector investment programs, relative prices that do not reflect the trade-offs between alternatives, and other policies enumerated above, extensive governmental controls have major economic costs because they shift the focus of enterpreneurial effort away from production-oriented efforts toward the government itself. When controls become

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26. See Schultz (1983) for an analysis.

27. See Corbo and de Melo for one such instance.

28. See Krueger, 1988, for one such effort and a survey of the literature.

pervasive, as they are in many societies, the shifting of talent away from production and toward the efforts to obtain valuable rights from the government can have very large costs.

A study by Grais, de Melo, and Urata (1986) suggested that gains accruing because of a reduction of rent-seeking would far outweigh the gains from improved resource allocation when quantitative restrictions on trade were removed. From removal of quantitative restrictions on intermediate goods alone, they estimated that real GNP might have risen by more than 5 per cent in 1978. Given other sources of inefficiency, such as the low productivity rates in parastatal enterprises mentioned above, and the rents associated with many of them, the overall losses due to rent-seeking may be large. Much of it, however, is microeconomic, and difficult to estimate quantitatively in any meaningful macroeconomic way.[29]

III. A Research Agenda

The above enumeration provides sufficient anecdotal evidence to warrant further analysis of the impacts of detrimental governmental economic policies on economic performance. It is supplemented by further evidence, not surveyed here, on differences in growth performance when major policy reforms have been successfully implemented. The experience of Korea and Taiwan, where there were few obvious advantages over other developing countries, and where growth rates

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29. An example may illustrate the difficulties. In Turkey,the purchase and sale of tobacco and tobacco products is a state monopoly. State inspectors visit individual farms, and determine the quality of the tobacco. Farmers are then paid in accordance with the quality estimate. An interesting statistic is that the mean score on Turkish college entrance examinations (which are uniform across fields) for those accepted to study to become tobacco inspectors is consistently higher than that for any other field (Olgun, 1988).

have averaged above 10 percent for several decades, have also convinced many observers of the importance of approprite economic policies if reasonably rapid economic development is to be attained.

Nonetheless, a variety of questions remain. First, a mere listing of governmental policies detrimental to growth is inadequate. It would be highly desirable to be able to provide further, systematic, quantification of policies, both across countries, and over time. Yet, with rare exceptions, such quantifications have seldom been attempted and when they have been undertaken, they have been for a particular period and are not readily amenable to updating or extensions to other countries.

Second and equally important, observation of the successful developers suggests that governments in those countries have been active in providing infrastructure - communications, transport, power, education, agricultural research and extension - in support of efficient economic growth. In almost all of the countries in which intervention, controls, and parastatal activities have been far-reaching, these infrastructure functions have been sadly neglected. A better understanding of the positive role of government and its importance might well contribute to inducing policy makers in developing countries to alter their focus.

Although there are obviously a number of political factors that were instrumental in leading to governmental policies of the types described above, there is also little doubt that the intellectual support received for those policies by the content of development economics in the 1950s was a significant legitimizing factor. Finding ways to model and articulate the positive role of government as effectively as earlier economists were able to develop plannign models would contribute significantly to improving economic policies and performance in developing countries.

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Go through private sector controls and their costs. Finally interactions, which would include rent-seeking, univ. grads going to public sector first for experience and then to private sector., etc..

Theme should be that the entire complex could arguably be large, although little is known.