

Forum Series on the Role of Institutions in Promoting Economic Growth

Comments by Stephen Hadley on Clifford Zinnes and J. Robert Subrick's "*When is further reform growth-enhancing?*"

Forum 5: NIE-Based Toolkits for USAID Applications

Session 3

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In the paper, "When is further reform growth-enhancing?" Clifford Zinnes and J. Robert Subrick provide a framework for assessing whether a country has established an adequate institutional base such that further reforms will be growth enhancing. I agree with the basic premise of the paper that the impact on growth from privatization, trade promotion, or other similar policy reforms is stronger when a reform is coupled with institutional strengthening. I also agree with the conclusion that additional liberalization without institutional strengthening may not by itself enhance growth, at least in the short-run. However, I suggest that some caution is needed in accepting some conclusions drawn from the statistical tests referred to in the paper.

First, the thesis that a country may not benefit from further privatization unless "legal and regulatory institutions supporting ownership are in place and functioning" needs to be accepted with caution. The authors do not make clear what time period they are referring to. While short-term gains may not initially be achieved, what about the long-term? An alternative view is that institutional change only occurs when there is a demand for it. Privatization of state-owned-enterprises may provide the base for demands for institutional reforms. What would happen if firms were not privatized? Would that not continue the status quo of stagnation? Where would the demand for reforms originate?

Secondly, the thesis that trade liberalization without institutional deepening may not enhance growth also needs to be accepted with caution. The time period for assessing performance may have been too short in the research referred to. Trade liberalization can lead to resource reallocation and technological innovations that contain the seeds leading to a demand for institutional reforms. Also, in general, trade liberalization does not occur in a vacuum but is usually part of a broader reform program. For example, joining the WTO as part of a program for promoting trade includes the acceptance of standardized rules and procedures established by the WTO. Hence a trade promotion program includes institutional reforms and the program should be thought of as a package rather than as separate reforms. Perhaps an alternative question should be examined. Does privatization without trade liberalization enhance growth?



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I believe it is clear that we need institutional strengthening and in the long-run reforms enacted with institutional strengthening will contribute more to economic growth than without them. I would phrase the issues differently. Institutional strengthening, trade promotion, and privatization should be thought of as a package, but not one that needs to be instigated all at once. For me, the questions should be where do we start, how do we do it, and in what order?



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