

DEV-309: Development Policy Strategy - Fall 2018 -

Syllabus

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TF:	José Morales-Arilla OH at L-330 Harzog Room	jrm488@g.harvard.edu	Office Hours: Wed, 4:30pm-6:30pm
Assistant:	Alexandra Villegas	alexandra_villegas@hks.harvard.edu	

Class Time: M & W, 11:45AM-1PM in Belfer 400 Land Hall (HKS)

Section: Friday, 10:15AM-11:30AM in R-304 (HKS)

Description

This is a capstone course that integrates a variety of analytical tools to assess the development challenges faced by countries and regions. The challenge for the macroeconomic policymaker is to find a coherent diagnostic narrative that can make sense simultaneously of observations about growth, macro balances and social outcomes. As opposed to the typical academic setting in which theories are presented – normally one at a time - and some implications are derived, policymakers are presented with data and it is up to them to try to interpret facts using alternative theories and methods. This course tries to bridge the gap between the deductive method that characterizes much of academia and the inductive approach, which is typical of the policy world.

The course will develop the tools to diagnose growth constraints, structural transformation possibilities, macroeconomic imbalances, fiscal policy, labor market performance, the sources of inequality and volatility, and relate them to policy issues. We will assess fiscal problems, looking not only at how the fiscal situation affects the macro but also the underlying determinants of the fiscal stance, including debt dynamics, political economy and the budget processes. We will look into the causes and sources of macroeconomic volatility, identifying the more structural causes of a country/region's instability. At every stage, the associated policy issues will be discussed and related to the challenges and trade-offs of institutional design. The course will be applied in the sense that it starts from observations and explores how different theories make sense of the facts. Students will be required to make assessments of these aspects in specific countries or regions through the course.

The course is divided into five sections. The first section discusses the various determinants of growth and introduces the growth diagnostic framework. The second section discusses reasons for the differences in productivity across countries, introducing a particular take on technology and the role of productive knowledge and the difficulties for its diffusion. The third section evaluates in detail structural factors that influence growth; demographics, geography, inequality, structural transformation and institutions. The fourth section deals with the macro stance of the country. At the end of the course we will discuss the syndromes that may explain the constraints faced by countries, possible interventions and how we, as policymakers, may tackle these tests. The concluding section

covers state-of-the-art Growth Diagnostics at national and local levels, discussing how to bring all pieces of analysis together into cogent narratives of a country's most binding constraints on growth.

Audience and Prerequisites

This course is designed for second year MPA/ID students, as it builds on previous core courses, especially DEV-101i, API-210i, API-119i and API-120i. Non-MPAID students will require permission from the instructors: They need to submit a one-page document detailing how their previous coursework and professional experience accounts for the necessary prerequisites in growth theory, open economy macroeconomics and econometrics (please send it to both the instructors and the TF). The course is aimed at people who will be involved in economic policymaking and analysis in developing countries or in international financial institutions and aid agencies, but Ph.D. students (in economics, public policy, and PEG) with interests in development policy may find it useful.

Grading

The final grade will be based on:

- 2 Individual problem sets (10% each)
- 3 Group problem sets (10% each)
- Final group submission (40%) Deadline: 12/14/2018
 - Presentations on 12/7th and 8th
- Class Participation (10%)

Please note the following:

There are 5 problem sets during the semester, meant to facilitate students' transition from analytical tools to coherent policy relevant inferences for the final group diagnostic. Individual problem sets are usually devoted to performing specific tests and analyses. The output of these problem sets will be analytical inputs for the group problem sets, and will allow to develop analytical tools and use STATA - Students are also welcome to use another statistics software. The group problem sets focus on interpretation and decision making. Honesty is an integral part of the academic process: while you are welcome to collaborate within/across groups, all submitted output needs to be your original work.

Reading Material

The course does not have a main textbook. It is based mostly on a collection of papers available online and put on reserve.

How is this course different from your first year?

- It is more applied, and is based on analysis that can be carried out in practice
- It will develop methods to diagnose and prioritise
- It will allow students to apply the theory learned in the first year
- It will give students a framework to assess market and government failures in practice
- Sections are additional lectures given by the teaching assistant, not reviews of the lectures.

How is this course different from previous years?

This year we have done a significant revamping of the course: we have updated the basic growth diagnostics framework and hypothesis testing tools, integrating balance of payment and technological issues into the core of the diagnostic; and we have also updated many of the different sections of the course with recent research.

SCHEDULE

Lecture	Day	Description	Problem sets	
			Individual	Group
1	F 09-07	Introduction	PS1 Posted	
2	M 09-10	Why Growth Diagnostics?		
3	W 09-12	Principles of Differential Diagnosis		Groups Formed ¹
4	M 09-17	Economic Complexity	PS1 Due	PS2 Posted
5	W 09-19	The Product Space		
6	M 09-24	Technological Diffusion		
7	W 09-26	High Bandwidth Policy Making		
8	M 10-01	Human Capital		PS2 Due/PS3 Posted
9	W 10-03	Labor Markets		
	M 10-08	HOLIDAY (Columbus Day)		
10	W 10-10	Inequality and Inclusion		
11	M 10-15	Public Goods and Infrastructure		
12	W 10-17	State Capacity, Legitimacy & the “Sense of Us”		PS3 Due
13	M 10-22	National Accounts	PS4 Posted	
14	W 10-24	Financial Market Failures		
15	M 10-29	Diagnosing Financial Market Problems		PS5 Posted
16	W 10-31	Balance of Payments (BoP) Constraints		
17	M 11-05	Diagnosing BoP Constraints in Practice		
18	W 11-07	Volatility		
	M 11-12	HOLIDAY (Veterans Day)	PS4 Due	
19	W 11-14	Fiscal Policy (Fiscal Pro-cyclicality)		
20	M 11-19	Fiscal Policy (Budget Institutions)		
	W 11-21	HOLIDAY (Thanksgivings Weekend)		PS5 Due
21	M 11-26	Example of Growth Diagnostic (#1)		
22	W 11-28	Example of Growth Diagnostic (#2)		
23	M 12-03	Bringing All the Pieces Together		
24	W 12-05	A Policymaker’s Worldview		
25	F 12-07/08	Student Presentations		

¹ Please submit your group members and the location selected for analysis to the TF before section on Friday 09/14. Groups can only be of either 3 or 4 members. In choosing your location, be mindful of data availability issues – especially for region or city diagnostics (do check existing subnational studies to assess the kind of data you may need to acquire).

LECTURES AND READINGS

(* marks signal a mandatory reading; all other readings are recommended)

Lecture # 01 Introduction

- *Galor, Oded, and David N. Weil. "From Malthusian Stagnation to Modern Growth." *American Economic Review* 89, no. 2 (1999): 150-54. doi:10.1257/aer.89.2.150.
- *Galor, Oded, and David N. Weil. "Population, Technology, and Growth: From Malthusian Stagnation to the Demographic Transition and Beyond." *American Economic Review* 90, no. 4 (2000): 806-28. doi:10.1257/aer.90.4.806.
- Galor, Oded, and David Weil. "The Gender Gap, Fertility, and Growth." 1993. doi:10.3386/w4550.

Lecture # 02 Why Growth Diagnostics?

- *Hausmann, Ricardo, Dani Rodrik, and Andrés Velasco. "Growth Diagnostics *." *The Washington Consensus Reconsidered, 2008*, 324-55. doi:10.1093/acprof:oso/9780199534081.003.0015.
- *Rodrik, Dani, Why We Learn Nothing from Regressing Economic Growth on Policies (May 30, 2012). *Seoul Journal of Economics* Vol. 25, No. 2, pp. 137-151, 2012.

Lecture # 03 Principles of Differential Diagnosis

- *Hausmann Ricardo, Klinger Bailey, Wagner Rodrigo 2008 "Doing Growth Diagnostics in Practice: A 'Mindbook'" CID Working Papers Series No. 177
- *Dixit, A. "Evaluating Recipes for Development Success." *The World Bank Research Observer* 22, no. 2 (2007): 131-57. doi:10.1093/wbro/lkm005.

Lecture # 04 Economic Complexity

- *Hausmann, Ricardo, César A. Hidalgo, Sebastián Bustos, Michele Coscia, Alexander Simoes, and Muhammed A. Yıldırım. *The Atlas of Economic Complexity: Mapping Paths to Prosperity*. MIT Press, 2013. <http://www.jstor.org/stable/j.ctt9qf8jp>. (Sections 1 and 2)
- *Polanyi, M. (1967). *The tacit dimension* (Anchor Books ed., Doubleday Anchor book, A540). Garden City, N.Y.: Anchor Books. (Ch. 1)
- Measuring economic complexity: Hidalgo, C. A., & Hausmann, R. (2009). The building blocks of economic complexity. *Proceedings of the National Academy of Sciences*, 106(26), 10570-10575.
- Hausmann, Ricardo "[The Tacit Knowledge Economy](#)" Project Syndicate, October 2013.

Lecture # 05 The Product Space

- * Hausmann, Ricardo, César A. Hidalgo, Sebastián Bustos, Michele Coscia, Alexander Simoes, and Muhammed A. Yıldırım. *The Atlas of Economic Complexity: Mapping Paths to Prosperity*. MIT Press, 2013. <http://www.jstor.org/stable/j.ctt9qf8jp>. (Sections 3, 4, 5)
- *Hidalgo, Klinger, Barabasi and Hausmann "The Product Space Conditions the Development of Nations", *Science* 317(5837) 482-487.

Lecture # 06 Technological Diffusion

- * Hausmann, Ricardo, and Frank Neffke. "The Workforce of Pioneer Plants." *SSRN Electronic Journal*, 2016. doi:10.2139/ssrn.2782643.

- *Bahar, Dany, and Hillel Rapoport. "Migration, Knowledge Diffusion and the Comparative Advantage of Nations." *The Economic Journal* 128, no. 612 (2018). doi:10.1111/ecoj.12450.
- Hausmann, Ricardo, and Dani Rodrik. "Economic Development as Self-Discovery." 2002. doi:10.3386/w8952.
- Bahar, Dany, Ricardo Hausmann, and Cesar Hidalgo. "International Knowledge Diffusion and the Comparative Advantage of Nations." *SSRN Electronic Journal*, 2012. doi:10.2139/ssrn.2087607.
- Hausmann, Ricardo "[Trumps Foreign Admirers](#)", August 2016.
- Hausmann, Ricardo "[The Diaspora Goldmine](#)", August 2015.

Lecture # 07 High Bandwidth Policy Making

- * Hausmann, Ricardo. "The Other Hand: High Bandwidth Development Policy." *SSRN Electronic Journal*, 2008. doi:10.2139/ssrn.1314799.
- *Crespi, Gustavo, Eduardo Fernández-Arias, and Ernesto Stein. "Two to Tango: Public-Private Collaboration." *Rethinking Productive Development*, 2014, 359-89. doi:10.1057/9781137393999_11.
- Crespi, Gustavo, Eduardo Fernández-Arias, and Ernesto Stein. "The Hard Part: Building Public Sector Capabilities." *Rethinking Productive Development*, 2014, 321-58. doi:10.1057/9781137393999_10.
- Hausmann, Ricardo "[The Public-Public Coordination Problem](#)" November 2016.
- Hausmann, Ricardo "[Why are rich countries democratic?](#)" March 2014.

Lecture # 08 Human Capital

- *Hausmann, Ricardo; Carlo Pietrobelli and Miguel Angel Santos. "Place-specific Determinants of Income Gaps: New Sub-National Evidence from Chiapas, Mexico". *CID Working Papers Series No. 343*
- *Heckman, James, Lance Lochner, and Petra Todd. "Fifty Years of Mincer Earnings Regressions." 2003. doi:10.3386/w9732.
- Hausmann, Ricardo. "[The Education Myth](#)" Project Syndicate. May 31, 2015. Accessed August 06, 2018. <https://www.project-syndicate.org/commentary/education-economic-growth-by-ricardo-hausmann-2015-05>.

Lecture # 09 Labor Markets

- *Hausmann, Ricardo, and Ljubica Nedelkoska. "Welcome Home in a Crisis: Effects of Return Migration on the Non-Migrantss Wages and Employment." *SSRN Electronic Journal*, 2017. doi:10.2139/ssrn.2939702.
- *Levy Algazi, Santiago. (2018). *Under-Rewarded Efforts: The Elusive Quest for Prosperity in Mexico*. (Ch. 1)
- Heckman, James, and Carmen Pages. "The Cost of Job Security Regulation: Evidence from Latin American Labor Markets." 2000. doi:10.3386/w7773.

Lecture # 10 Inequality and Inclusion

- *"What Should We Do About Inequality?" Growth Lab. <https://growthlab.cid.harvard.edu/news/what-should-we-do-about-inequality>.

- *Cowell, Frank. "Measuring Inequality." 2011. (Ch. 1 – 2) doi:10.1093/acprof:osobl/9780199594030.001.0001.
- *Lustig, Nora, Luis F. Lopez-Calva, Eduardo Ortiz-Juarez, and Célestin Monga. "Deconstructing the Decline in Inequality in Latin America." *Inequality and Growth: Patterns and Policy*, 2016, 212-47. doi:10.1057/9781137554598_7.
- Hausmann, Ricardo. "The Economics of Inclusion by Ricardo Hausmann." Project Syndicate. November 07, 2014. <https://www.project-syndicate.org/commentary/inclusiveness-key-strategy-for-growth-by-ricardo-hausmann-2014-11>.
- Hausmann, Ricardo. "Redistribution or Inclusion? by Ricardo Hausmann." Project Syndicate. January 30, 2015. <https://www.project-syndicate.org/commentary/income-inequality-opportunity-costs-by-ricardo-hausmann-2015-01>.
- Hausmann, Ricardo. "The Logic of the Informal Economy by Ricardo Hausmann." Project Syndicate. June 19, 2013. <https://www.project-syndicate.org/commentary/the-logic-of-the-informal-economy-by-ricardo-hausmann>.

Lecture # 11 Public Goods and Infrastructure

- *Aterido, Reyes, Mary Hallward-Driemeier, and Carmen Pages. "Big Constraints To Small Firms Growth? Business Environment And Employment Growth Across Firms." *Policy Research Working Papers*, 2009. doi:10.1596/1813-9450-5032.
- *Fosu, A. "Institutions, Governance and Economic Development in Africa: An Overview." *Journal of African Economies* 15, no. Supplement 1 (2006): 1-9. doi:10.1093/jae/ejk004.
- Dixit, Avinash. "Governance Reforms and Growth: Some Ideas from Economic Theory" *Frontiers of Economics in China* 10(4), December 2015, pp. 567-584.
- Estache, Antonio and Grégoire Garsous. "The impact of infrastructure on growth in developing countries". IFC Economics Notes No. 1. April, 2012.

Lecture # 12 Problems providing public goods: State Capacity, Legitimacy and the "Sense of Us"

- *Anderson, Benedict R. OG. *Imagined Communities: Reflections on the Origin and Spread of Nationalism*. London: Verso, 2016. (Ch. 1-3)
- *Miguel, Edward. "Tribe or Nation?: Nation Building and Public Goods in Kenya versus Tanzania." *World Politics* 56, no. 3 (2004): 327-62. doi:10.1353/wp.2004.0018.
- Sierra, Raul Sanchez De La. "On the Origin of States: Stationary Bandits and Taxation in Eastern Congo." *SSRN Electronic Journal*, 2013. doi:10.2139/ssrn.2358701.
- Van Den Berg, Axel. "From Primates to Parliaments." *Contemporary Sociology* 42, no. 2 (2013): 207-09. <http://www.jstor.org.ezp-prod1.hul.harvard.edu/stable/23524849>.
- Sachs, Jeffrey D. "Government, Geography, and Growth: The True Drivers of Economic Development." *Foreign Affairs* 91, no. 5 (2012): 142-50. <http://www.jstor.org.ezp-prod1.hul.harvard.edu/stable/41720868>.

Lecture # 13 National Accounts

- *Meade, J. E., and Richard Stone. "The Construction of Tables of National Income, Expenditure, Savings and Investment." *The Economic Journal* 51, no. 202/203 (1941): 216-33. doi:10.2307/2226254.
- *Dornbusch, Rudi (2001) "A Primer on Emerging Market Crises", NBER Working Paper No. w8326

- *Hausmann and Velasco (2003) "Hard Money's soft underbelly: Understanding the Argentine Crisis" – Relacion del deficit de bop con capital inflows. Hicieron una reforma que no era binding (seguridad social) que afecto lo que si era binding (fiscal accounts).
- Hausmann, Ricardo, and Federico Sturzenegger. "The missing dark matter in the wealth of nations and its implications for global imbalances." *Economic policy* 22.51 (2007): 470-518.
- "Random Tidbits On National Accounts And Keynesian Models Of Income And Expenditure." *The Case For Concerted Action*. November 25, 2017.
<https://www.concertedaction.com/2012/12/13/random-tidbits-on-national-accounts-and-keynesian-models-of-income-and-expenditure/>.

Lecture # 14 Financial Market Failures

- *Mishkin, Frederic (2000) "Prudential Supervision: why is it important and what are the issues?" NBER WP 7926
- *Rajan, Raghuram G., and Luigi Zingales. "Financial Dependence and Growth." *The American Economic Review* 88, no. 3 (1998): 559-86. <http://www.jstor.org.ezp-prod1.hul.harvard.edu/stable/116849>.
- Levine, Ross, Thorsten Beck, and Norman Loayza. "Finance and the Sources of Growth." *Policy Research Working Papers*, 1999. doi:10.1596/1813-9450-2057.

Lecture # 15 Diagnosing Financial Market Problems

- *Calomiris, Charles (2010) "[Banking crises yesterday and today](#)", *Financial History Review* 17.1 pp.3-12.
- *Gavin, Michael, and Ricardo Hausmann. "The Roots of Banking Crises: The Macroeconomic Context." *SSRN Electronic Journal*, 1996. doi:10.2139/ssrn.1815948.

Lecture # 16 Balance of Payments (BoP) Constraints

- *Dornbusch, Rudiger, (1980) *Open Economy Macroeconomics*, Chapter 6.
- *Rigobon, Roberto (2004) *Notes on the BBNN model*.

Lecture # 17 Diagnosing BoP Constraints in Practice

- *Eichengreen, Barry, Andrew Rose, and Charles Wyplosz. "Contagious Currency Crises: First Tests." *The Scandinavian Journal of Economics* 98, no. 4 (1996): 463-84. doi:10.2307/3440879.
- *Jesus Felipe, J. S. L. McCombie & Kaukab Naqvi (2010) *Is Pakistan's Growth Rate Balance-of-Payments Constrained? Policies and Implications for Development and Growth*, *Oxford Development Studies*,38:4, 477-496, DOI: 10.1080/13600818.2010.525351
- Kaminsky, Graciela, Saul Lizondo, and Carmen M. Reinhart. "Leading Indicators of Currency Crises." *Staff Papers (International Monetary Fund)* 45, no. 1 (1998): 1-48. doi:10.2307/3867328.

Lecture # 18 Volatility

- *Caballero, Ricardo J. *Macroeconomic Volatility in Latin America: A View and Three Case Studies*, NBER Working Paper No. W7782
- *Hausmann, Ricardo and Roberto Rigobon (2002) "An alternative interpretation of the resource curse: theory and policy implications"

- Hausmann, R., Gavin, M. 1996. "Securing Stability and Growth in a Shock Prone Region: The Policy Challenge for Latin America Inter-American Development Bank WP-315, Jan. 1996." WP-315.
- Aghion, Angeletos, Banerjee, and Manova "Volatility and Growth: Credit Constraints and Productivity-Enhancing Investments", NBER WP#11349
- Hausmann, Ricardo (1999) "Managing terms of trade volatility", World Bank PREM Note No. 18

Lecture # 19 Fiscal Policy (Pro-cyclicality)

- *Barro, Robert (1979) "On the determination of public debt", Journal of Political Economy, pp.941-971.
- *Hausmann, Ricardo, Barry Eichengreen and Ugo Panizza. "Original Sin: The Pain, The Mistery, and the Road to Redemption". November 2002. Paper prepared for the conference "Currency and Maturity Matchmaking: Redeeming Debt from Original Sin". Inter American Development Bank, Washington D.C. November 21-22, 2002.
- Hausmann, R., Talvi, E., Gavin, M., Perotti, R. 1996. "Managing Fiscal Policy in Latin America and the Caribbean: Volatility, Procyclicality, and Limited Creditworthiness." IDB WP-326.
- Velasco, Andrés and Camila Rodriguez (2003) "El Salvador: Fiscal Performance, Prospects and Policy Options".
- Talvi, E., Vegh, C.A. 2000. "Tax Base Variability and Procyclical Fiscal Policy." NBER Working Paper No. W7499. January
- Eichengreen, Hausmann and Panizza "Currency mismatches, debt intolerance and original sin", NBER WP # 10036

Lecture # 20 Fiscal Policy (Budget Institutions)

- *Alesina, A., Perotti, R. 1996. " Budget Deficits and Budget Institutions." NBER W5556, May.
- *Hausmann, Ricardo, Alesina Alberto, Stein Ernesto and Hommes Rudolf. "Budget institutions and fiscal performance in Latin America." Journal of Development Economics (59)2, 1999: 253-273.
- Hausmann, 1998. Fiscal Institutions for decentralising democracies: which way to go? In Fukasaku and Hausmann (Eds) Democracy, Decentralization and deficits in Latin America. OECD
- Inter-American Development Bank 1997. Latin America After a Decade of Reforms, Economic and Social Progress in Latin America, Part Three.
- Hallemborg, M and von Hagen J. "Electoral Institutions and the Budget Process" in Democracy, Decentralization and Deficits, edited by Fukusaku K. and Hausmann, R. OECD Development Center.

Lecture # 21 Example of Growth Diagnostic (#1)

- *1/2018. Sri Lanka Growth Diagnostic. Center for International Development at Harvard University.

Lecture # 22 Example of Growth Diagnostic (#2)

- *Baja California's Growth Diagnostic (will become available later in the semester)

- *Hermosillo's Growth Diagnostic (will become available later in the semester)

Lecture # 23 Bringing All the Pieces Together

- *Dixit, Avinash (2007): "Evaluating Recipes for Development Success". *The World Bank Research Observer*, Vol. 22, No. 2, pp. 131-157.

Lecture # 24 A Policymaker's Worldview