

International Growth Week at LSE: daily briefing, Monday 19 September 2011

Top policy-makers and researchers from Africa and South Asia joined leading Western experts in London today to debate the latest ideas for stimulating economic growth in developing countries. Among the discussions at Growth Week 2011, which runs till Wednesday:

GLOBAL ECONOMIC CRISIS IS LIKE 'TITANIC HITTING THE ICEBERG', SAYS TOP INDIAN CENTRAL BANKER

The failure of economics to predict and prevent the global economic crisis is reminiscent of the failure of engineers to foresee the vulnerability of the Titanic were it to hit an iceberg. That was one of the observations by Subir Gokarn, deputy governor of the Reserve Bank of India, speaking at the International Growth Centre's Growth Week 2011.

At a session discussing the global monetary system, Mr Gokarn pointed out that the Titanic – the 'unsinkable' boat that famously sank on its maiden voyage – had in place several chambers that would automatically shut off from the rest of the vessel if one of these were to fill with water. These are similar to the buffers that policy-makers had put in place to prevent an international crisis affecting their economies – such as running budget surpluses and building up foreign currency reserves.

What economists failed to do was foresee the severity of the crisis, such that it overwhelmed their safeguards – in the same way that the iceberg cut through several of the chambers of the Titanic at once.

The designers of the Titanic also had in place action plans in the event of the ship sinking, but these were insufficient because the chances of the ship sinking were considered all but impossible – in the same way that the action plans of governments were ill-equipped to deal with a global financial crisis because the chances of it happening on that scale were considered small.

Professor Maurice Obstfeld of the University of California at Berkeley, pointed out, however, that the countries that have fared best during the economic crisis have been those that have been best prepared.

He praised several emerging market countries that avoided a credit-fuelled boom in the 2000s, reduced their dependence on borrowing from other countries and had in place a surplus at the time of the global economic crisis. Many developed countries, by contrast, had budget deficits and high levels of public and private debt that only made their problems worse.

'WE ARE IN POWER BUT WE DON'T HAVE POWER!', SAYS BIHAR'S DEPUTY CHIEF MINISTER

The biggest challenge for Bihar is electricity, according to Sushil Kumar Modi, deputy chief minister of the Indian state, which has a population of more than 100 million people. 'As a government, we are in power but we don't have power!', Mr Modi said at the International Growth Centre's Growth Week 2011.

The state has enjoyed high and sustained economic growth in recent years, but many challenges remain. In addition to energy concerns, the minister pointed to five in particular: flood management; industrialization; the need to increase agricultural productivity in a state where 'survival agriculture' remains the dominant form; the loss of skills through emigration; and how to implement programmes for the poor more effectively.

The IGC has an active programme of research and policy advice in Bihar, more details of which are available here:

<http://www.theigc.org/country/india%20-%20state%20of%20bihar>

ELECTRIFICATION PROJECTS BRING BIG DEVELOPMENT BENEFITS: EVIDENCE FROM BRAZIL

Investment in electricity infrastructure leads to large improvements in overall development, according to research on Brazil by Professor Mushfiq Mobarak of Yale University, presented at the International Growth Centre's Growth Week 2011.

His study finds significant gains in income and education (though not health), and these are equally large across sectors and across urban and rural areas. The explanation seems to be that electricity makes real, across the board improvements in labour productivity.

DELHI'S SLUM DWELLERS: NEW SURVEY EVIDENCE

Living conditions in the urban slums of poor countries are unacceptable yet political systems rarely face strong pressure to improve them. According to Professor Abhijit Banerjee of MIT, who has surveyed thousands of households in slum areas of Delhi, there is 'an equilibrium of low expectations', where residents don't expect much from the politicians that supposedly represent them – and so the politicians have few incentives to deliver for the poor.

Professor Banerjee presented his findings at the International Growth Centre's Growth Week 2011. As might be expected, he finds plenty of things that slum residents do complain about, but which they feel powerless to change through the democratic process. Top of the list are water, sewage and drainage, but residents are also vocal about their lack of access to healthcare facilities and problems of law and order, including theft, gambling, alcoholism and assault.

The evidence from Professor Banerjee's surveys indicates that Delhi slum dwellers are 'poor but settled': the average person has lived there for 17 years and typically only 6% of the population arrived in the slum within the last year. Most have an identity card and a ration card so they are recognized by the official system. But educational levels are surprisingly low by Indian standards: 40% of adult slum residents have no schooling.

IMPROVEMENTS IN URBAN INFRASTRUCTURE CAN HURT THE WORLD'S POOREST PEOPLE – EVIDENCE FROM CHINA

Public investment in urban infrastructure can attract complementary private sector initiatives to 'gentrify' depressed areas of cities in the developing world – but the resulting increases in house prices and improved accommodation and local amenities mean that the poor are likely to lose out.

These are among the conclusions of research by Professor Matthew Kahn of the University of California at Los Angeles, which examines the impact of Beijing's big investments in new subway lines and the Olympic village.

But his research also suggests that improved transport networks – for example, bullet trains linking China's superstar cities such as Beijing and Shanghai with second tier cities – can benefit the poor by connecting the unemployed to available jobs more effectively. He presented his research at the International Growth Centre's Growth Week 2011.

KENYAN FARMERS NEED CREDIT MORE THAN RAIN

New technology can provide the ability to harvest rainwater and reduce dependency on unpredictable rainfall – but many farmers are unable to access the money to invest in this new technology. That is one of the findings of research by Professor Tavneet Suri of MIT, presented at the International Growth Centre's Growth Week 2011.

Kenya has recently suffered its worst drought in living memory that has devastated farmland and livestock in several parts of the country. While not all of Kenya was affected, 96% of the country's cropland is rain-fed and this rainfall is unpredictable even in the more fertile areas.

The study is exploring why so few farmers are using the available technology to lower their exposure to fluctuations in rainfall. It looks at the dairy industry, which accounts for 3.6% of the country's GDP and employs around one million small-scale farmers. Focusing on farmers in central and north-west Kenya it finds that:

* While the technology is in high demand, the cost puts it out of reach for many farmers.

* Due to a lack of assets to put down as collateral , many of these farmers are unable to borrow money to invest in the technology.

* There is therefore an urgent need to provide new ways to finance small-scale farmers.

In the summer of 2010, East Africa was hit by the worst drought in 60 years, sparking a severe food crisis and high malnutrition rates. According to the United Nations, parts of Kenya and Somalia were close to a full-blown famine.

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For more information about Growth Week and to download the full agenda, visit: <https://registration.livegroup.co.uk/igc2011/>

To request interviews with any speakers, please contact Mazida Khatun at mazida.khatun@theigc.org

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