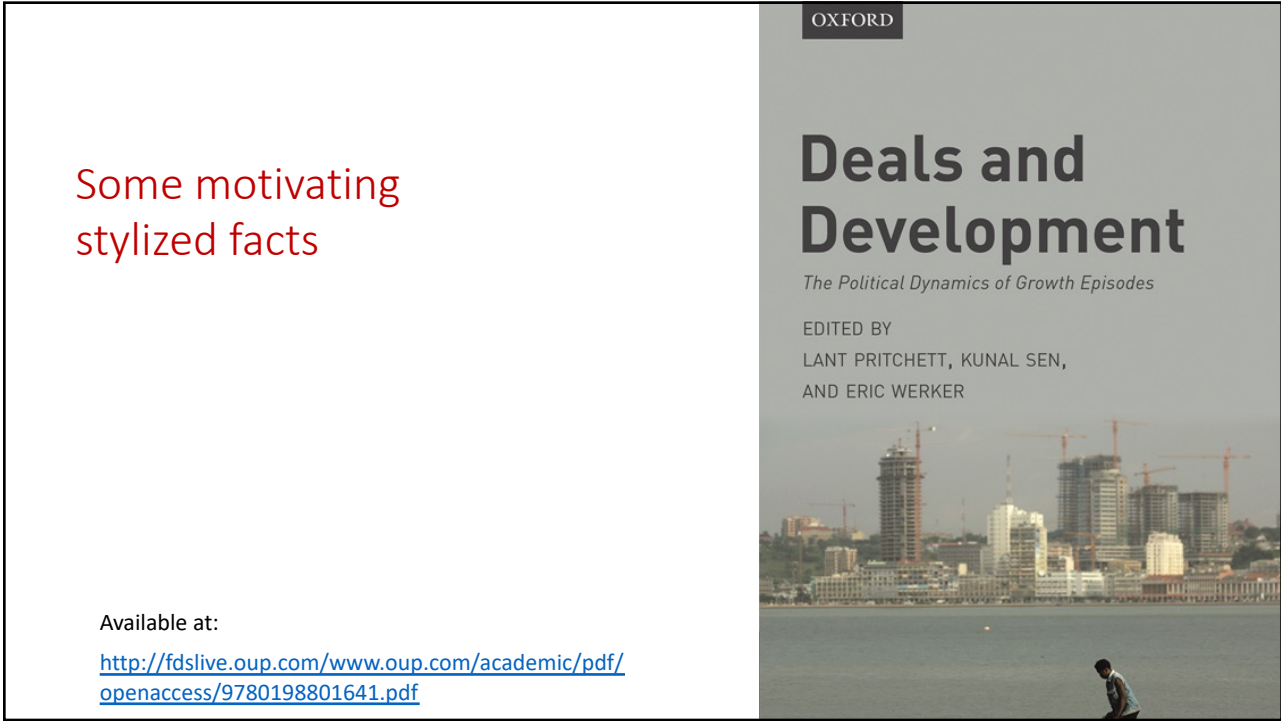




1



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Stable growth is an “OECD” phenomenon

3

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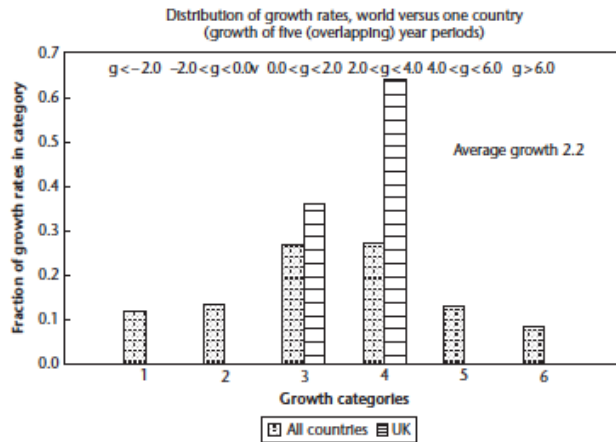


Figure 1.2. Steady growth—most growth concentrated in a narrow range
Source: Authors' calculations with PWT6.3 data (Heston et al., 2009).

3

Boom and bust growth is most common among developing countries

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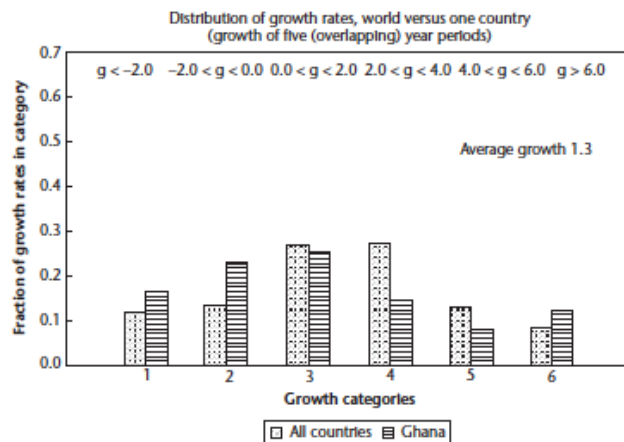


Figure 1.3. Unstable growth—episodes of boom and bust
Source: Authors' calculations with PWT6.3 data (Heston et al., 2009).

4

Institutions describe, not drive income

5

Fig 1.8: Correlation between institutions and GDP per capita

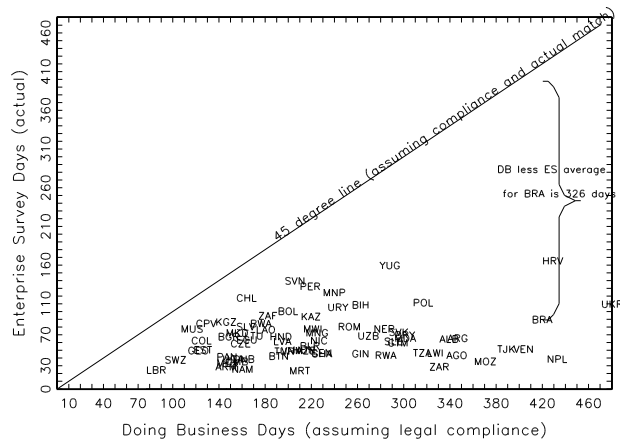
Dynamics:	Bureaucratic Quality	Corruption	Law and Order	Democratic Accountability	Average
R-Squared of regressing either level or growth in GDPPC 1985-2005 on the level or change in "institutions"					
Level of income on level of quality of 'institutions'	0.457	0.434	0.464	0.476	0.472
Growth of GDPPC on initial level of 'institutions'	0.094	0.064	0.077	0.058	0.074
Growth of GDPPC on changes in 'institutions'	0.027	0.001	0.014	0.016	0.016
Number of countries (non-oil)	92	92	89	89	
Initial Year	1985	1985	1985	1985	
Duration	20	20	20	20	

Source: GDPPC data from Penn World Tables 6.3, ICRG rankings for 'institutions'

5

Policies are only suggestive of outcomes

Doing Business and Enterprise Survey: Days to get a Construction Permit



Source: Hallward-Driemeier and Pritchett 2010

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So where does that leave us?

- The countries we care about do not experience steady growth
 - Growth episodes matter, especially negative ones
- Institutions can't drive growth in the medium run
 - Something else must explain episodic growth
- Policies do not imply implementation
 - Firms navigate a selectively enforced business environment

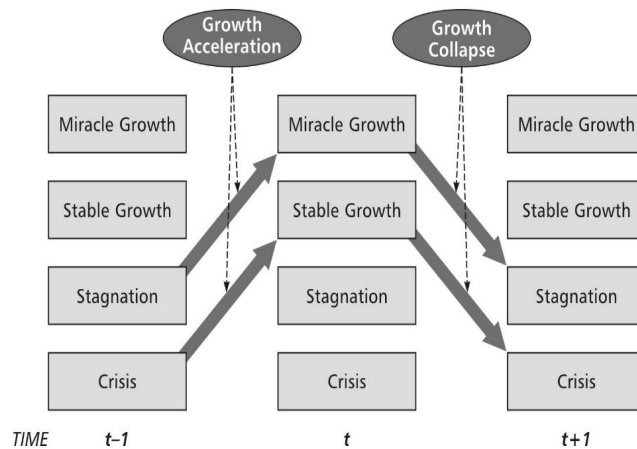


Construction in Baghdad (Al Jazeera)

7

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Goal: explaining episodic growth



8

Business environment: Deals not rules

Rules Capitalism

- What happens to the typical firm/investor is determined *primarily* by the neutral application of policies

Deals Capitalism

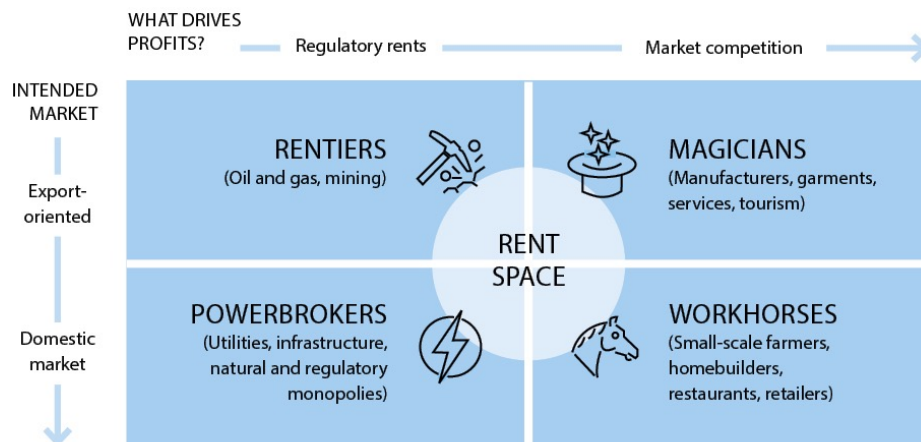
- What happens to the typical firm/investor has *little or nothing* to do with neutral application of policies but is a firm/investor specific “deal”

Typology of “deals” environments		
	Open	Closed
Ordered	Retail corruption (e.g. driver’s licenses in Delhi)	Cronyism (e.g. Russia under Putin)
Disordered	Informal sector in many countries	Fragile states

9

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Firms and the rent space



10

From rents to deals

- Business strategy is distinctly different in each market, so **firms in each market will have a very different demand of the state**

Table 1.1. Policy demands of firms, depending on their location in the rents space

	Transparent rules	Common infrastructure	Specialized infrastructure	Contract enforcement	Subsidies	Exclusivity
Magicians	x	x	x	x	x	
Workhoses	x	x		x		
Powerbrokers						x
Rentiers			x	x	x	x

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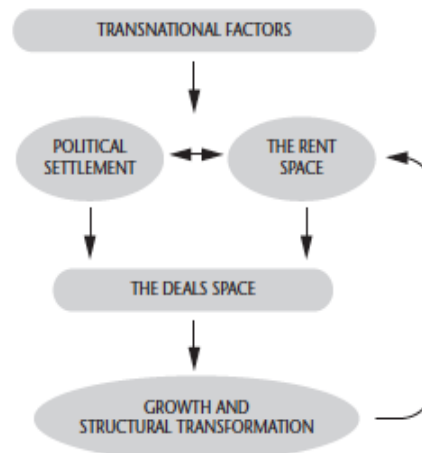
Political factors: the “political settlement”

- “the balance or distribution of power between contending social groups and social classes, on which any state is based” (De John and Putzel 2009)
- If the distribution of benefits by a particular institution is not accepted by groups who have high “holding power,” (Khan 2010) possible increase in political instability, even though the institution may be growth-enhancing
- Economic power may express itself as different holding power depending on the particular political settlement

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Predictions

- A growth acceleration occurs when deals move from disordered to ordered, and vice versa
- Growth maintenance—and structural transformation—is facilitated by open ordered deals
 - Structural transformation is accompanied by a growing presence of workhorses and magicians
- Growth is not a linear process from closed to open, disordered to ordered deals
- Closed deals are likely to result in negative feedback loops with the rent space and consolidate the political settlement, putting institutional development in decline



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Conclusions

- In emerging economies, economic growth is episodic and the business environment is defined by “deals” not “rules”
- Government policy responds to the economic logic of politically important constituents
- Middle-income countries maintain a dualistic structure whereby closed deals fund political settlements
 - Leads to stability in economic structure, and political and economic instability

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Further reading

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<https://hbr.org/2016/12/mapping-frontier-economies>



<https://www.sciencedirect.com/science/article/pii/S0305750X18302432>



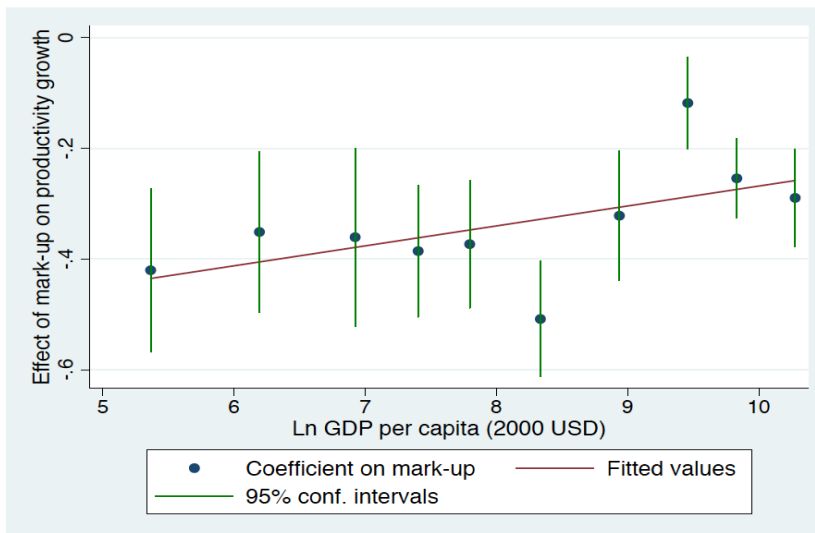
<https://www.wider.unu.edu/publication/deals-and-development-fragile-and-conflict-affected-states>

15

What's wrong with ordered deals alone?

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Figure 1: Marginal effect of mark-up on productivity growth by income



Source: Schwab and Werker (2018)

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