

Comments on Growth Diagnostics

LACEA-LAMES

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Outline

- ✚ GD method: what it is and what it is not
- ✚ GD method: potential pitfalls
- ✚ GD method: what after diagnosis?

GD method: what is it and what it is not

- ✚ A disciplined practical approach, not formal reasoning
 - ✦ Formal logic is not a prototype of “reasoning”
 - ✦ GD can be seen as a model of the more widely applicable non-formal reasoning, à la Toulmin (1958)
 - ✦ Hinges on “preponderance of evidence” rather than formal proofs
 - ✦ A degree of uncertainty is at the heart of GD “argumentation”
- ✚ Not a theory but a great complement to applied economics
 - ✦ GD not a growth theory but a method to diagnose lack of growth, regardless of the underlying theory
 - ✦ GD analogy: country doctors and good diagnoses – a well-trained doctor with ample experience and good judgment is required to “do no harm”
 - ✦ Quality of diagnoses depends on the competence of the doctor
 - ✦ There is no substitute for “experience” and “knowing the patient”
- ✚ Diagnosis not prescription

GD method: potential pitfalls

- ✚ Risk of confusing “correlates” of growth with binding constraints
 - ✦ “A lack of new export sectors appearing in Peru’s aggregate production function is therefore a key constraint to growth” (Hausmann et al., Perú Case Study, 2007)
 - ✦ Lack of new export sectors is not a constraint but an outcome—correlated with growth—that itself needs an explanation
- ✚ Risk of focusing unduly on constraints at the surface, thus ignoring:
 - ✦ *Layers of constraints* – e.g., poor infrastructure is the result of dysfunctional administrative and legal processes (Trejos, 2007)
 - ✦ *Constraint interaction* – e.g., why “self-discovery” not happening?
 - ✦ *Meta constraints* – e.g., bad contract rights can affect two branches of the GD tree (e.g. low appropriability/low return & high risk/high cost of finance)
 - ✦ *Latent constraints* – not binding now but can impair growth in the near future if not attended now
- ✚ Risk of downplaying growth sustainability (constraints shift over time)

GD method: what after diagnosis?

- ✚ GD helps to focus but no easy path to syndrome
 - ✦ “Cuadro clínico” (syndrome) may matter more for the prescription than identifying one binding constraint
 - ✦ “Cuadro clínico” requires a view on interactions, complementarities & joint effects of constraints and symptoms
- ✚ GD method is only a first step
 - ✦ It says nothing on how to assemble a prioritized and integrated reform agenda to deal with the BC(s) and associated syndrome
 - ✦ That requires new rounds of diagnoses
- ✚ Even if the BC is a clearly identified, the reform agenda is likely to be multidimensional and layered
 - ✦ Some general policies cannot be ignored (“good eating habits and exercise”)

END

